level, declines were greatest for families with children. Among very low-income families with children, homeownership rates dropped by nearly a fourth.[9]

In sum, the families with children who could most benefit from ownership were most adversely affected by declines in ownership. Between 1980 and 1991, the dip in the total ownership rate from 65.6 to 64.2 percent included a fall of seven percentage points among families with children, from 70.4 percent to 63.4 percent.

c. Obstacles to Homeownership

Insufficient income, high debt burdens, and limited savings are obstacles to homeownership for younger families. As home prices skyrocketed during the late 1970s and early 1980s, real incomes stagnated, with earnings growth particularly slow for blue collar and less educated workers. Through most of the 1980s, the combination of slow income growth and increasing rents made saving for home purchase more difficult and relatively high interest rates required larger fractions of family income for homeowner mortgage payments. Thus, fewer households had the financial resources to meet down payment requirements, closing costs, and monthly mortgage payments. One-fifth of first-time homeowners had to rely on their relatives for most of their down payment.[10] One-third of recent first-time homeowners relied on gifts and loans from parents.[11]

In addition to low income, high debts are a primary reason households cannot afford to purchase a home. Nearly 53 percent of renter families have both insufficient income and excessive debt problems that may cause difficulty in financing a home purchase.[12] High debt-to-income ratios frequently make potential borrowers ineligible for mortgages based on the underwriting criteria established in the conventional mortgage market.

d. Affordability Problems and Worst Case Housing Needs

Finding affordable housing is by far the most common housing problem for American families nationwide.[13] Between 1979 and 1991, shares of households paying more than 30 percent of their income for housing fluctuated around 42 percent among renters and rose from 17 percent to 20 percent among owners.[14] Over this period, the number of low-income renter households spending 50 percent or more of their income on housing rose from 4.3 million in 1978 to 6.0 million in 1991.[15] Poor homeowners also paid high proportions of their income for housing costs. Between 1978 and 1989, the share of poor homeowners spending over 60 percent of income on housing rose from 30.6 percent to 33.1 percent.[16]

Although affordability problems affect two-fifths of low-income renters and one-eighth of low-income owners, they are most frequent and severe among the very lowest income owners and renters. In 1991, when the average gross rent/income ratio for renters with incomes above area median income was 23 percent, this ratio was 72 percent for renters with incomes below 30 percent of area median income and 41 percent for renters with incomes between 30 and 49 percent of median.[17]

Priority problems—defined as paying more than half of income for rent and utilities, being displaced, or living in severely inadequate housing—were heavily concentrated among renters with incomes below 50 percent of area median. Half of renters with incomes below 30 percent of median, and one-fourth of those with incomes 31–50 percent of median, had these severe ‘‘worst case’’ housing needs.[18]

According to HUD's third Congressionally-mandated study of worst case needs, severe affordability problems were not only the overwhelming cause of worst case needs but often a family's only housing problem.[19] Fully 94 percent of the 5.3 million households with worst case needs reported severe rent burden as a problem, and for almost three-fourths, severe rent burden was their only problem.

The number of households with worst case needs increased by nearly 400,000 between 1989 and 1991, rising most rapidly among families with children. Large families were more likely than smaller ones to have priority problems and to need to move to another housing unit because of crowding or excessive rent burden. Between 1989 and 1991, worst case needs among very-low-income families with three or more children increased from 34.7 percent to 40.2 percent. Elderly households were the least likely to have worst case needs.

2. Economic, Housing, and Demographic Conditions

A number of economic, housing, and demographic considerations have influenced the Secretary's establishment of the Low- and Moderate-Income Housing Goals. Increasing income inequality and changes in household composition suggest that needs for housing affordable to very-low-income families will continue to be most acute, placing additional pressure on the inadequate stock of rental housing affordable to families with incomes below 30 percent of median income. Although volatile interest rates strongly influence both single-family starts and mortgage market activity, rates that are relatively low by historical standards have improved affordability for first-time homebuyers.

a. Underlying Demographic Conditions

(1) *Household Formations.* The demand for housing and mortgages depends heavily on household formations. During the 1970s, as the leading edge of the baby boom generation (born between 1946 and 1964) entered adulthood, household formation surged to an annual average of 1.7 million. Aided by rising incomes and low real interest rates, household heads aged 25–34 purchased homes in record numbers. During the 1980s, annual household growth fell slightly to an average of 1.5 million. Many in the ‘‘housing upgrade’’ group (aged 35–44) had benefitted from substantial increases in the prices of their first homes, and were able to afford bigger and higher quality homes during the 1980s. Household formation is expected to drop sharply during the 1990s. The

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[9] Kathryn Nelson and Jill Khadduri, ‘‘To Whom Should Limited Housing Resources Be Directed?'' *Housing Policy Debate,* Vol. 3, 1992, pp. 1–55, Table 3.

[10] National Association of Home Builders, *Profile of the New Home Buyer Survey,* 1991.

[11] National Association of Realtors, *Survey of Homeowners and Renters,* 1991.

[12] Howard Savage and Peter Fronczek, *Who Can Afford to Buy A House in 1991?,* U.S. Bureau of the Census, Current Housing Reports H121/93–3, July 1993, p. ix.

[13] ‘‘Affordable housing'' is generally interpreted as housing for which the homeowner or renter pays no more than 30 percent of family income for housing costs, including utilities.

[14] U.S. Departments of Housing and Urban Development and Commerce, *American Housing Survey for the United States in 1991,* April 1993.

[15] 1974–1979 figures from Nelson and Khadduri, ‘‘To Whom Should Limited Housing Resources Be Directed,'' 3 *Housing Policy Debate 1,* 16, 1992. 1991 figure from *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991.* HUD–1481–PDR, June 1994.

[16] Center on Budget and Policy Priorities and Low Income Housing Service, *A Place to Call Home,* April 1989; and U.S. Departments of Housing and Urban Development and Commerce, *American Housing Survey for the United States in 1989,* July 1991.

[17] Tabulations of U.S. Departments of Housing and Urban Development and Commerce, *American Housing Survey for the United States in 1991,* April 1993, performed by HUD Office of Policy Development and Research.

[18] Congress defines ‘‘worst case needs'' for housing assistance as unassisted renters with incomes below 50 percent of area median income who have priority problems.

[19] *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991,* HUD–1481–PDR, June 1994.