and helped to turn the housing market around. Single-family starts increased from less than 900,000 during the recessionary years of 1990 and 1991 to 1.03 million in 1992, 1.13 million in 1993, and 1.20 million in 1994. Volume in 1994 was 43 percent higher than 1991's recessionary low of 840,000.

(2) First-time Homebuyers have been the driving force in the recovery of the nation's housing market over the past several years. First-time homebuyers are typically people in the 25-34 year-old age group that purchase modestly priced houses. As the post-World War II baby boom generation ages, the percentage of Americans in this age group has shrunk, from 28.3 percent in 1980 to 25.4 percent in 1992.26 Nonetheless, firsttime homebuyers have bucked these demographic trends to increase their share of home sales. During the 1980s, first-time buyers accounted for about 40 percent of home sales; this figure rose to 45 percent in 1991, 48 percent in 1992, receding to 46 percent in 1993, and rebounding to 47 percent in 1994.27 The 1992 figure was the highest percentage for first-time buyers since the annual Home Buyers Survey was initiated in 1976.

Among the first-time buyers was a record number of single-individual households. The 1992 and 1993 Home Buyers Surveys found that approximately 30 percent of first-time buyers in these years were single, compared to 21 percent in 1991. The more affluent, move-up home buyers, on the other hand, have recently played a smaller role. A sluggish economy, uncertain outlooks for many whitecollar jobs, and slow house price appreciation have kept many trade-up buyers out of the housing market.

Reflecting these trends, the average income for recent home buyers has fallen. In 1991, one of every three buyers had a family income of \$50,000 or less; in 1993, those earning less than \$50,000 accounted for 44 percent of all home buyers. Apparently, two years of low interest rates induced many renters who had previously been priced out of the market to become homeowners. A strong pent-up demand to own a home is not surprising given the large reductions in homeownership rates experienced by several groups during the 1980s (see Section C.1.d above). A recent survey of renters by the National

Association of Realtors (NAR) indicated that only one-third prefer to remain renters for the foreseeable future.²⁸ Thus there are many potential home buyers among the 34 million households that are currently renting.

(3) Potential Homebuyers. As noted above, immigration is expected to be a major source of future homebuyers. Fannie Mae's 1995 National Housing Survey revealed that immigrant renter households are almost 3 times as likely as renter households in general to list home purchase as their "number-one priority." Immigrants as a group are currently more than one-and-two-thirds times as likely to be renters although they appear as financially capable as the population at large.²⁹ The Joint Center for Housing Studies estimates that if the homebuying potential of immigrant households were realized—i.e., they purchased with the same propensity as non-immigrants with similar characteristics-that the number of homeowners in the largest 40 metropolitan areas would increase by about 900,000. In addition, the Joint Center estimates that another 950,000 native-born minority households in the same metropolitan areas would become homeowners if their rate of homeownership matched that of their native-born white counterparts with similar income and demographic characteristics.30

As part of the process of revising the GSE rule, HUD sought information on two key questions: how large is the underserved potential homebuyer market and what are the default risks associated with expanded homeownership among lower-income, underserved households? To help answer these questions, the Urban Institute and HUD developed a logitbased analysis of households in the 1990 Survey of Income and Program Participation (SIPP). The probability of a renter making the transition to homeownership was then estimated directly by applying a logit regression to the mid-1992 sub-sample of white suburban renters and recentlytransitioned homeowners. These probabilities were then linked to all the remaining renter SIPP households to identify renters having relatively good prospects for transitioning to homeownership. Of the 20.3 million remaining renter households (i.e., 84 percent of all remaining renters) having

low or moderate incomes, roughly 16 percent had a probability of transitioning into homeownership which was greater than that for half of the renter households who actually did become homeowners over the sample period. When one also took into account their likelihood of defaulting relative to the average expected for those actually transitioned to homeownership, 13.4 percent of all remaining low- and moderate-income renters had betterthan-median probability of transitioning to homeownership and lower than average probability of default, assuming the purchase of a lower-cost home priced at the 10th percentile of area home prices. The proportion of highprobability, low-risk potential low- and moderate-income homebuyers declines to 10.6 percent if the purchase of homes priced at the median price for the area is assumed for these households.³¹ These results indicate the existence of a significant population of lower-risk, potential homebuyer households that might be reached with more aggressive outreach.

(4) Affordability. Potential homebuyers in 1992-1994 enjoyed the most affordable market in almost twenty years. The National Association of Realtors (NAR) tracks housing affordability by measuring the degree to which an average family can afford monthly mortgage payments on a typical house, assuming that the family has enough cash for a 20 percent down payment. Specifically, NAR's composite affordability index measures the ratio of median family income to the income required to qualify for a conventional loan on a median-priced house. After averaging slightly over 110 between 1986 and 1991, the index jumped to 125 in 1992 and 133 in 1993, before slipping to 130 in 1994. The 1994 figure indicates that the U.S median family income was 30 percent more than was needed to qualify for a mortgage on the nation's median priced house.32

In addition to its overall affordability index, NAR also estimates the ability of first-time home buyers to purchase modestly-priced homes. When this index equals 100, the typical first-time buyer can afford the typical starter home under existing financial conditions with a 10 percent down payment; a score

²⁶ U.S. Department of Commerce, Bureau of the Census, *Money Income of Households, Families, and Persons in the United States: 1992, Special* Studies Series P–60, No. 184, Table B–25, October 1993.

²⁷ Chicago Title and Trust Family of Insurers, *Who's Buying Homes in America*, 1992, 1993, 1994, and 1995.

²⁸ National Association of Realtors, *Survey of Homeowners and Renters*, 1991.

²⁹ Fannie Mae National Housing Survey 1995, pp. 3 and 5.

³⁰ State of the Nation's Housing, 1995, Joint Center for Housing Studies of Harvard University, p. 30, Table A–8.

³¹George Galster and others, ''Estimating the Size, Characteristics, and Risk Profile of Potential Homebuyers,'' (The Urban Institute, September 1995) mimeo.

³² The South and North Central census regions were the most affordable for homebuyers, with affordability indexes of 141 and 176, respectively, in 1993. Affordability remained much more of a problem in the Northeast and West, where NAR's indexes were 110–117.