Initial Housing Choices Made by Low-Income and Minority Homebuyers

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Abstract

This article presents information on the initial housing choices that low-income and minority first-time homebuyers made. These characteristics are of interest because they influence the extent to which the longrun financial and social benefits of homeownership are realized. Of particular interest are the millions of low-income and minority households that bought their first home during the homeownership boom that began in the early 1990s. Much of the information presented in this article is derived from tabulations from the American Housing Surveys (AHSs) from 1991 through 2003, with some information on housing costs and mortgage choices updated from the 2005 AHS. The AHS, a national survey conducted in every odd-numbered year, is a rich source of information on characteristics of the U.S. housing stock and is one of the few sources of information on first-time homebuyers.

Introduction

Aided by a favorable economic climate, concerted efforts by the public and private sectors have succeeded in significantly increasing homeownership rates for low-income and minority households nationwide since the early 1990s. In recent years, however, both housing advocates and the popular press have raised concerns that the emphasis on promoting homeownership may be luring households and individuals into buying homes when they would be better off renting. These critiques cite rising foreclosure rates, increases in the share of buyers shouldering substantial financial burdens, and accounts of buyers being trapped in poor-quality homes as evidence that moving to homeownership is, in many cases, not beneficial for the low-income and minority households that are the focus of these efforts. In short, the very success of efforts to increase homeownership has highlighted the need for policymakers to evaluate the extent to which new low-income and minority homeowners are reaping the expected benefits of homeownership, and, if not, what can be done to increase the chances that they will realize these benefits.

As described in more detail in Herbert and Belsky (2006), first-time homebuyers' initial housing choices can have important implications for the likelihood that these buyers will realize the long-run benefits of homeownership. These initial choices relate to the quality of the home and neighborhood, the housing-cost burden that the owners face, and the financial risks they are exposed to as a result of their mortgage choice. The purpose of this article is to present information about the initial housing choices that first-time homebuyers have made since the early 1990s to assess the extent to which homeownership is likely to benefit these groups. Although several recent reviews of the literature have assessed the empirical evidence on the benefits of homeownership, this study is unique in that it explicitly focuses on what is known about the homeownership experience of low-income and minority first-time homebuyers.

Data and Methodology

Much of the information presented in this article is derived from tabulations from the American Housing Surveys (AHSs) from 1991 through 2003, with some information on housing costs and mortgage choices updated from the 2005 AHS.[1] The AHS, a national survey conducted in every odd-numbered year, is a rich source of information on characteristics of the U.S. housing stock and is one of the few sources of information on first-time homebuyers. Information from the AHS is supplemented with a review of the existing literature where appropriate.

To place the housing choices of low-income and minority homebuyers in context, we also present information on the housing choices of several comparison groups. First, we use the housing choices of White first-time homebuyers, both moderate- and high-income buyers, to examine the extent to which the choices of minority and low-income buyers differ from these two groups. Second, we also use the housing choices of recent-mover low-income renter households to examine how the choices of homebuyers differ from those of renters. We use recent movers instead of all renters so that the choices reflect the renters' optimal housing choice subject to the constraints imposed by current market conditions. As a final point of reference, we also present information on the housing choices of all households.

The sample sizes for first-time homebuyers in specific income or racial/ethnic categories in any one survey can be fairly small; thus survey results are generally combined for all survey years since 1991 to provide more robust estimates of how the characteristics of first-time buyers and their housing choices differ across the income and racial/ethnic groups of interest. Because trends in first-time buyers over the course of the recent homeownership boom are of interest, we also compare results for two time periods: those corresponding to the 1991-through-1995 survey years with those from the 1997-through-2003 survey years for household and housing characteristics and those corresponding to the 1991-through-1997 survey years with those from the 1999-through-2005 survey years for mortgage characteristics and housing costs.

[1] This article is derived from Herbert and Belsky (2006). At the time of this earlier study, the 2005 AHS was not available.

Of course, important differences in the characteristics of the various comparison groups will contribute to the differences in the housing choices made. The first section of this article presents basic demographic information on these groups so that readers can bear these differences in mind when evaluating differences in housing choices. This section also presents information on trends in the number and characteristics of first-time homebuyers since 1991.

We discuss four main aspects of housing choices in the remaining sections of the article:

1. Housing characteristics.
2. Neighborhood characteristics.
3. Housing costs.
4. Mortgage finance characteristics.

An assessment of housing characteristics is used to assess whether low-income homebuyers, in fact, benefit from larger and higher quality housing, as is often assumed. Housing characteristics are also of interest because they influence the cost and effort associated with maintaining the home. Finally, structural qualities may influence the likelihood of future wealth accumulation. Manufactured housing, in particular, is of special interest because of its important role in increasing low-income homeownership, especially in the South, during the 1990s (Belsky and Duda, 2002). Manufactured housing poses special issues for two reasons. First, because about one-half of manufactured housing is placed on leased land, owners of these units do not share in appreciation of land values and are subject to increased costs passed on by owners of the land. Second, financing rates for these units are often more expensive than conventional mortgage rates. Specifically, the housing characteristics examined include the housing type (for example, single-family detached, manufactured, or condominium in multifamily structure); age; size of the home relative to household size; and quality (for example, number and type of housing problems).

A number of benefits associated with homeownership derive from neighborhood attributes, including the quality of public services and surrounding properties. To provide some indication of whether homeowners are more likely to live in higher quality neighborhoods, this article examines information from the AHS on the location of the home within a metropolitan area, measures of neighborhood quality, and the homeowner's satisfaction with the neighborhood. In this section, we also review the available literature on the characteristics of neighborhoods where low-income buyers have located.

Housing costs are of interest for determining whether the move to homeownership has placed an undue financial burden on these new owners. The discussion of housing costs focuses on measures of housing costs relative to household income.

Finally, because mortgage finance choices have important implications for housing costs (both initially and over time) and for buyers' exposure to economic risks such as interest rate and house value fluctuations, we also examine mortgage finance characteristics. An important issue to consider in this context is subprime lending, which increases the costs of mortgage finance and has been associated with predatory lending practices. The extensive literature that examines this latter topic is also briefly reviewed.

Trends in the Number and Characteristics of First-Time Homebuyers

Exhibit 1 provides information on trends in the annual number of low-income and minority first-time homebuyers by income as captured by the AHSs from 1991 through 2005.[2] The relatively small sample sizes of some subgroups of first-time homebuyers result in fairly sizeable sampling variations in the estimates, which may cloud information on trends in the number of buyers over time. Nonetheless, the annual estimates provide some indication of trends over time. During the early 1990s, the number of low-income first-time buyers rose from a little more than 500,000 a year to more than 750,000 a year by the 1995-to-1997 period, an increase of nearly 50 percent. These trends are consistent with the sharp rise in low-income homeownership that occurred over this period. After 1997, the number of low-income homebuyers moderated somewhat but remained above the levels that prevailed during the first years of the 1990s.[3]

The increase in minority first-time buyers was even more pronounced. Over the same periods from 1989 to 1991 and 1995 to 1997, the number of African-American first-time buyers doubled

Exhibit 1

Average Annual Number of Low-Income and Minority First-Time Homebuyers*

AHS Survey Years	Low-Income Homebuyers	African-American Homebuyers	Hispanic Homebuyers
1989 to 1991	514	128	88
1991 to 1993	578	96	120
1993 to 1995	594	180	152
1995 to 1997	761	252	196
1997 to 1999	693	228	200
1999 to 2001	643	192	219
1999 to 2001	690	156	230
2003 to 2005	730	196	254

AHS = American Housing Survey.

**Thousands of homebuyers.*

Note: The overlap in years reflects the fact that each AHS covers the 2-year period before the survey, which is conducted in the latter half of the year. For example, a survey completed in October 2005 would cover the period from October 2003 to October 2005.

Source: Tabulations from the 1991-through-2005 American Housing Surveys

[2] The AHS is conducted every other year and provides information on current occupants of the surveyed units, including whether they are first-time homebuyers and what year they obtained their home. Responses to these questions make it possible to identify first-time homebuyers who purchased their homes in the 2-year period between surveys. Because the AHS identifies the year of purchase, annual estimates are possible; but, because the sample size of first-time buyers is somewhat small for any single year, the number of homebuyers captured by the survey is divided by 2 to yield an estimate of the annual average number of first-time buyers to smooth out this sampling variation.

[3] A change occurred in the methodology used to assign the relevant area median income for each household in the AHS. As a result, the trends in the number of low-income first-time buyers between 1999 to 2001 and 2001 to 2003 must be interpreted with caution. Trends between the last 2 survey years of 2001 and 2003 suggest a very sharp falloff in the number of high-income buyers, a more moderate decline in moderate-income buyers, and a slight increase in low-income buyers. These trends may be related to the economic recession that occurred during the 2001-to-2003 period, but it seems likely that the methodology change in how the relevant area median incomes are assigned contributed to this trend.

while the number of Hispanic first-time buyers rose by 123 percent. As with low-income buyers, the number of African-American first-time buyers moderated after 1997 but still remained above the levels recorded at the start of the decade. In contrast, the number of Hispanic homebuyers continued to grow through the 2003-to-2005 period.

Exhibit 2 presents summary information about the age, household type, and racial composition of first-time buyers over the 1989-through-2003 survey years. In terms of age, in general, a fair amount of similarity exists in the age profile of the three categories of buyers; the single largest category, ages 25 to 34, is followed by the next largest category, ages 35 to 44. Low-income buyers are more likely to be both younger (under age 25) and older (age 45 or above) than either moderate- or high-income buyers. These two age groups may represent two distinct categories of low-income buyers: the younger buyers are more likely to be categorized only temporarily as low-income buyers because their incomes will increase with age, while the older buyers are more likely to be long-term low-income households that have needed more time to accumulate the savings needed to purchase a home.[4] In general, the earlier a householder becomes a homeowner, the greater chance he or she will have to reap the benefits of homeownership. The fact that low-income first-time buyers are more likely to be older means they will have less time to realize the benefits of homeownership; but the proportion of older households among low-income buyers (16 percent) is not substantially greater than it is among moderate-income (9 percent) or high-income (8 percent) households.

Exhibit 2 also shows the age distribution of recent-mover low-income renters. In general, as with the other demographic characteristics shown, low-income first-time buyers lie in between low-income renters and higher income owners in terms of age. Low-income renters have higher shares of both younger and older households than do low-income owners, who in turn have higher shares of these age groups than do higher income owners. The greater concentration of homebuyers in the 25-to-34-year-old category is consistent with the view that householders below age 25 have both greater expected mobility and less demand for housing and, therefore, are less likely to pursue homeownership. Low-income renters also have a higher share of householders who are age 45 and older, however. These householders may simply prefer to rent or they may not be able to amass the savings needed to purchase a suitable home.

More significant differences occur across the first-time buyer income categories by household type than by age. Specifically, low-income first-time buyers include a much lower share of married-couple households and a much higher share of single-earner households than do either moderate- or high-income buyers. Although married couples account for nearly two-thirds of moderate-income homebuyers and three-fourths of high-income buyers, they account for only 42 percent of low-income buyers. In contrast, single parents with children and single-person households account for 45 percent of low-income buyers, compared with only 11 percent of moderate-income buyers

[4] Because the AHS collects data from the same housing units each time, it can be used to give a sense of the degree to which households move between income categories over time. Of the low-income first-time homebuyers identified in the 1991 survey, 60 percent of those in the same housing unit at the time of the 1999 survey were still categorized as low income, while 18 percent were moderate income and 22 percent were high income. Although most households did not change their income category, nonetheless, a fair amount of upward mobility occurs. At the same time, a similar amount of downward mobility occurs. Of those households that were categorized as low income in the 1999 survey, 66 percent were also low income in 1991, while 20 percent started the period as moderate income and 14 percent started as high income.

Exhibit 2

Selected Demographic Characteristics of First-Time Homebuyers, 1989 Through 2003

Demographic Characteristic	First-Time Homebuyers			Recent-Mover, Low-Income Renters (%)	All Households (%)
	Low-Income Homebuyers (%)	Moderate-Income Homebuyers (%)	High-Income Homebuyers (%)		
Age of household head					
Younger than 25	18	11	6	26	5
25 to 34	43	56	62	35	19
35 to 44	23	24	24	19	23
45 or older	16	9	8	20	53
Household type					
Married, no children	14	26	36	9	28
Married with children	28	38	39	15	24
Single parent with children	16	7	4	22	9
Single person	29	4	4	37	25
Other	12	16	8	18	13
Race/ethnicity					
White	67	75	77	59	76
African-American	14	10	8	20	12
Hispanic	14	9	8	15	8
Other	5	6	6	6	4

Note: Low-, moderate-, and high-income homebuyers are defined as those buyers with incomes of less than 80 percent of the area median income (AMI), 80 to 119.9 percent of AMI, and 120 percent of AMI or higher, respectively.

Source: Tabulations from the 1991-through-2003 American Housing Surveys

and 9 percent of high-income buyers. The share of single-person households among low-income buyers is particularly large, at 29 percent, compared with only 4 percent of higher income buyers.

The high proportion of single-earner households among low-income buyers is not unexpected—it is to be expected that households with single earners will have lower incomes than those with two earners. This proportion also highlights an important challenge for this group; with only a single earner to rely on, a household will have less ability to respond to a crisis, such as the loss of a job or a health problem in the family. These households also have fewer adults in the household to share the burden of maintaining the home. For these reasons, in part, single-earner households are more likely to be found among renter households. Among recent low-income renter households, 59 percent were headed by a single adult and only 24 percent were headed by married couples.

In terms of race and ethnicity, low-income first-time homebuyers include a higher share of minorities than the upper income groups do. Non-Hispanic Whites account for about three-fourths of both moderate- and high-income buyers, compared with two-thirds of low-income buyers. African Americans and Hispanics each account for 14 percent of low-income buyers, compared with 10 percent or less of the other two income groups. Minorities account for a greater share of low-income first-time buyers than they do of all households, although they account for even higher shares of recent-mover low-income renters.

At other points in this article, we compare the housing choices of low-income first-time buyers with the choices of recent-mover low-income renters. The demographic differences between these two groups evident in exhibit 2—specifically, that renters are both younger and older, include fewer married-couple households, and include a higher share of minorities—account for some of the differences in housing choices made. Although both groups have income levels below 80 percent of area median incomes, renters also have lower incomes than owners do. Across the period studied, recent-mover low-income renters have an average income of 38 percent of area median income, and low-income first-time buyers have an average income of 49 percent of area median income. In short, low-income first-time buyers are not perfectly comparable with low-income renters. Nonetheless, some of the differences in housing choices between these groups reflect differences in the housing choices available in rental and homeowner markets.

Exhibit 3 presents further information on the characteristics of first-time homebuyers by race and ethnicity. One notable difference between minorities and Whites is that minority first-time buyers tend to be older than White first-time buyers. Although only 30 percent of White first-time buyers are age 35 or older, 52 percent of African Americans, 45 percent of Hispanics, and 48 percent of "other" minorities are in these older age categories. The fact that minorities enter homeownership at later ages than Whites do means that they have less time to accumulate wealth and realize the other benefits of homeownership.

Exhibit 3

Selected Demographic Characteristics of First-Time Homebuyers by Race/Ethnicity, 1989 Through 2003

	First-Time Homebuyers			
Demographic Characteristic	White Homebuyers (%)	African-American Homebuyers (%)	Hispanic Homebuyers (%)	Other Race/ Ethnicity Homebuyers (%)
Age of household head				
Younger than 25	13	6	11	9
25 to 34	56	42	44	44
35 to 44	20	34	30	33
45 or older	10	18	15	15
Household type				
Married, no children	27	14	18	23
Married with children	31	31	52	46
Single parent with children	8	23	11	8
Single person	21	18	9	10
Other	13	14	9	14
Income category				
Low	37	50	52	37
Moderate	28	25	23	27
High	35	25	25	36

Note: Low-, moderate-, and high-income homebuyers are defined as those buyers with incomes of less than 80 percent of the area median income (AMI), 80 to 119.9 percent of AMI, and 120 percent of AMI or higher, respectively.

Source: Tabulations from the 1991-through-2003 American Housing Surveys

Notable differences are also apparent in the distribution of household types by race/ethnicity. African-American first-time homebuyers are less likely to be married than are White first-time homebuyers (45 compared with 58 percent) and more likely than Whites are to be a single parent (41 compared with 28 percent). Thus, African-American first-time homebuyers are less likely to have two earners to support the household. In contrast, Hispanics and other minorities are more likely to be married couples with children than Whites are (52 and 46 percent, respectively, compared with 31 percent) and are less likely to be in single-person households (9 and 10 percent, respectively, compared with 21 percent). Although these minority groups are more likely to have two earners supporting the household, they are also more likely to have children, which increases nonhousing costs and may make it more difficult to meet unexpected financial demands.

Finally, exhibit 3 also presents information on the distribution of each racial/ethnic group by income. Both African Americans and Hispanics are more likely than Whites to be low-income homebuyers; about one-half of minority first-time buyers are in this category, compared with 37 percent of White first-time buyers. Other minorities have a similar income distribution to that of Whites.

Exhibit 4 shows trends in the characteristics of low-income first-time homebuyers before and after 1995 to examine the extent to which the increase in homeownership rates over this period was associated with changes in the characteristics of first-time buyers.[5] Exhibit 4 shows two notable trends in the data. First, a decrease in the share of married-couple households is evident as is a

Exhibit 4

Trends in Selected Demographic Characteristics of Low-Income First-Time Homebuyers, 1989 Through 2003

Demographic Characteristic	1989 Through 1995 (%)	1995 Through 2003 (%)
Age of household head		
Younger than 25	17	18
25 to 34	46	42
35 to 44	22	23
45 or older	15	17
Household type		
Married, no children	16	13
Married with children	34	25
Single parent with children	14	17
Single person	25	32
Other	11	13
Race/ethnicity		
White	71	64
African American	13	14
Hispanic	11	15
Other	5	6

Note: Low-income homebuyers are those defined as having incomes of less than 80 percent of the area median income.
Source: Tabulations from the 1991-through-2003 American Housing Surveys

[5] Grouping the AHS survey years together increases the sample of low-income first-time homebuyers to provide a more accurate depiction of trends.

concomitant increase in the share of single adults, either with or without children. In the 1989-through-1995 survey years, 50 percent of low-income homebuyers were married couples and 38 percent were single adults. By the 1995-through-2003 survey years, these shares had essentially reversed, with 38 percent of low-income homebuyers being married couples and 49 percent being single adults. Although moderate- and high-income buyers also experienced an increase in the share of single-adult households, the rise among these groups was only 3 to 4 percentage points. Thus, it is true that many more low-income first-time buyers consisted of households headed by a single adult.

A second notable trend was a higher share of minorities among low-income first-time buyers. During the 1989-through-1995 survey years, non-Hispanic Whites accounted for 71 percent of those buyers, but this share had declined to 64 percent since 1995. Much of the increase in the minority share resulted from a higher share of Hispanics among low-income first-time buyers, which increased from 11 percent during the 1989-through-1995 survey years to 15 percent by the 1995-through-2003 survey years.

Housing Choices of Low-Income Buyers

Exhibit 5 presents summary information on the housing units purchased by first-time homebuyers by income and racial/ethnic categories during the survey years from 1989 through 2003. Relatively little difference is evident in the choice of structure type by race/ethnicity, although African Americans are slightly more likely to live in single-family attached units and Hispanics are slightly less likely to live in manufactured housing. More significant differences are evident by income. Compared with both moderate- and high-income buyers, low-income households are less likely to purchase single-family detached homes and more likely to purchase manufactured housing. These trends parallel the findings of Belsky and Duda (2002), who found that manufactured housing played an important role in the boom in low- and moderate-income homeownership during the 1990s. Among low-income buyers, manufactured housing accounted for 23.8 percent of homes purchased, compared with 11.0 percent among moderate-income buyers and 3.5 percent among high-income buyers. One recent study found that low-income owners' satisfaction with the quality of manufactured housing is only slightly lower than that of owners of traditional homes. Because manufactured housing has much lower costs than traditional homes have, the authors conclude that manufactured housing represents a good value for low-income buyers (Boehm and Schlottmann, 2004). The study also notes, however, that the fact that a large share of these homes are on leased land greatly limits the potential for wealth accumulation from these types of units—an issue that Herbert and Belsky (2006) explore in more detail.

As noted in the introduction, a substantial difference exists in the types of housing units occupied by first-time homebuyers and renters. Low-income renters are nine times as likely to live in multifamily structures and one-third as likely to live in single-family detached housing compared with low-income buyers. Although some portion of these differences is undoubtedly related to differences in the desired quantity of housing between these groups, the differences are great enough that a portion of the disparity likely reflects the different opportunities available in the rental and owner-occupied housing markets. Low-income owners clearly are able to obtain a much greater amount of privacy than renters are.

Exhibit 5

Selected Housing Characteristics of First-Time Homebuyers by Income Category, 1989 Through 2003

Housing Characteristic	First-Time Homebuyers						Recent-Mover Low-Income Renters	All Households
	Low-Income Homebuyers	Moderate-Income Homebuyers	High-Income Homebuyers	White Homebuyers	African-American Homebuyers	Hispanic Homebuyers		
Structure type								
Single-family, detached	61.3%	73.6%	81.3%	71.8%	68.1%	73.9%	19.5%	62.7%
Single-family, attached	7.4%	8.0%	8.0%	7.4%	12.1%	7.0%	7.9%	6.1%
Multifamily	7.5%	7.4%	7.2%	7.8%	6.7%	8.5%	68.1%	24.8%
Manufactured	23.8%	11.0%	3.5%	13.0%	13.0%	10.6%	4.5%	6.4%
Median square feet per occupant	545	570	652	642	527	389	434	662
Units built in 1970 or earlier	49.7%	47.4%	40.2%	46.4%	45.3%	49.9%	53.3%	53.4%
Housing adequacy								
Moderately inadequate	4.8%	2.7%	2.3%	2.9%	4.5%	6.3%	7.9%	4.6%
Severely inadequate	2.0%	1.2%	1.1%	1.4%	2.0%	1.5%	3.0%	2.1%
Housing satisfaction*								
Average	8.1	8.3	8.4	8.3	8.6	8.4	7.4	8.1
Share rated 5 or lower	8.7%	4.6%	3.1%	5.6%	5.0%	6.3%	17.9%	9.3%

** Housing satisfaction is rated on a 10-point scale, with 10 being the best and 1 the worst.*

Source: Tabulations from the 1991-through-2003 American Housing Surveys

In terms of the amount of living space available per resident, low-income first-time buyers have less space than their higher income counterparts have. The median square feet per occupant for low-income buyers is 549. Although this figure is only slightly lower than the 560 square feet for moderate-income buyers, it is substantially less than the 653 square feet for high-income buyers. Nonetheless, low-income buyers have 26 percent more living space per occupant than do recent low-income renters, who have only 439 square feet per occupant.

Large differences exist in the amount of living space per resident by race/ethnicity. On average, White homebuyers have 642 square feet per occupant, but African-American buyers have only 527 square feet and Hispanic buyers have only 389. Although African-American homebuyers still have much more space on average than low-income renters do, Hispanic buyers actually have less space per occupant than low-income renters of all races generally have. The small amount of space per occupant among Hispanics primarily reflects the larger household sizes among Hispanic owners. Hispanic buyers' households average 3.7 people, while White buyers' households average 2.5 and African-American buyers' households average 3.1. The homes purchased by Hispanics are also about 10 percent smaller on average than homes purchased by Whites, but it is the larger household sizes that lower the space per occupant so much. Furthermore, Hispanic renters average only 313 square feet per occupant, so homeownership is associated with an increase in living space for Hispanics.

One concern cited about the emphasis on low-income homeownership is that too many buyers are purchasing inadequate housing, which increases housing costs, raises the risk of being subject to financial shocks from unexpected housing problems, and reduces the quality of the living environment enjoyed by residents. Exhibit 5 presents information on the share of buyers purchasing older housing that might be expected to need more maintenance and that, in general, might be of lower quality due to the age of the house. In terms of housing age, low-income buyers are more likely to purchase homes that were built in 1970 or earlier; 49.7 percent of low-income buyers' homes are in this age category, compared with 47.4 percent of moderate-income buyers' homes and 40.2 percent of high-income buyers' homes. Less variation exists in housing age by race/ethnicity. Hispanic first-time homebuyers have the highest share of older housing, at 49.9 percent, compared with 46.4 percent for White first-time buyers and 45.3 percent for African-American first-time buyers. The share of all households living in these older housing units is higher still, however, at 53.4 percent, which is essentially the same as the share of recent-mover low-income renters in older units. Thus, regardless of income or race/ethnicity, homebuyers tend to occupy somewhat newer units than do either all households or renters.

A more direct measure of housing quality is provided by AHS variables indicating whether a unit is moderately or severely structurally inadequate. It is true that low-income first-time buyers are more likely to live in moderately or severely inadequate units that have an inadequacy rate that is 75 percent higher than that of units purchased by moderate-income buyers and roughly twice that of units purchased by high-income buyers. Nonetheless, the share of low-income buyers in moderately or severely inadequate housing is fairly low, with 4.8 percent living in moderately inadequate housing and 2.0 percent living in severely inadequate housing. Minority homebuyers are more likely to live in inadequate housing than are Whites; 4.5 percent of African Americans and 6.3 percent of Hispanics live in moderately inadequate housing compared with 2.9 percent of

Whites. With the exception of Hispanic households, these inadequacy rates are either better than or about the same as the share of all households living in inadequate housing, which suggests that low-income and minority buyers are no worse off than other households in terms of housing condition. In addition, the level of structural inadequacy is higher among recent-mover low-income renters, with 7.9 percent living in moderately inadequate housing and 3.0 percent living in severely inadequate housing.

A similar pattern is evident with regard to housing satisfaction. As a measure of satisfaction, the AHS asks each respondent to rate his or her home as a place to live on a 10-point scale, with 10 being best and 1 being worst. Exhibit 5 shows both the average satisfaction rating and the share of households reporting a level of satisfaction of 5 or lower. Low-income buyers are found to have slightly lower average satisfaction ratings than moderate- or high-income buyers have, but they have similar levels of satisfaction compared with all households and higher levels of satisfaction compared with recent-mover low-income renters. In terms of the share with low satisfaction ratings, compared with moderate- and high-income buyers, low-income buyers are two to three times as likely to rate their satisfaction level as 5 or lower; however, the overall share of low-income buyers with low satisfaction ratings is fairly small (8.7 percent) compared with the share of either all households (9.3 percent) or recent-mover low-income renters (17.9 percent). Less difference exists in housing satisfaction by race/ethnicity, with African Americans and Hispanics actually having higher average satisfaction levels than Whites do and with similar shares of households rating their housing 5 or lower across these three groups.

Little evidence is apparent of any worsening of the quality of housing purchased by low-income buyers over the past decade. In terms of structural adequacy, among low-income buyers, the share of units that were either moderately or severely inadequate actually declined from 8.1 to 6.2 percent between the 1989-through-1995 and 1995-through-2003 survey years. Over the same time periods, the share of inadequate units among recent-mover low-income renters increased from 10.1 to 11.6 percent. A slight decline occurred in low-income buyers' satisfaction with their homes, but the changes were fairly small. The average satisfaction rating among low-income first-time buyers dropped from 8.3 to 8.1 percent, but the share of low-income buyers reporting a satisfaction rating of 5 or less rose from 8.4 to 8.9 percent. Similar changes also occurred in satisfaction levels among recent-mover low-income renters.

An obvious deficiency in these tabulations of the AHS data is that they do not account for all the differences in household characteristics among the groups being compared. Unfortunately, a very limited literature employs multivariate analysis to examine housing outcomes of low-income or minority homebuyers. Of the studies that exist, several examine the issue of how homeownership affects housing quality. The most recent of these studies is Friedman and Rosenbaum (2004), which uses the 2001 AHS to evaluate whether immigrants and racial/ethnic minorities who achieve homeownership are more likely to experience housing crowding or live in inadequate housing than Whites are. Although the study includes household income as an independent variable and finds that increases in income reduce the probability of experiencing crowding or inadequate housing problems, it does not present any estimates of the magnitude of differences between low-income and upper income households. Regarding race/ethnicity, Friedman and Rosenbaum find that African Americans and Hispanics are more likely to experience both crowding and inadequate housing than Whites are, regardless of tenure, and so conclude that a move to homeownership does not eliminate these problems for minorities. Although African-American and Hispanic owners are worse off in these dimensions compared with White owners, the study does not examine the question of whether a move to homeownership reduces the likelihood of minorities experiencing these problems; however, the descriptive statistics presented in the study suggest that such a reduction is the case.

An earlier study (Rosenbaum, 1996) examines a similar set of questions. Rosenbaum estimates a statistical model to predict the likelihood that a housing unit is structurally inadequate or has abandoned buildings nearby, based on the race/ethnicity and socioeconomic status of the occupant, including whether he or she owns or rents the unit. The analysis relies on data for the New York area from both the AHS and the New York City Housing and Vacancy Survey. The analysis finds that minorities and lower income households are more likely to experience both of these problems; however, one of the model's strongest results is that, all else being equal, owners are less likely than renters are to experience these problems. Because the study does not interact either race/ethnicity or income with tenure, however, it does not shed light on whether an owner's lower likelihood of experiencing these problems varies by either race/ethnicity or income.

Although the exhibits presented in this section show recent-mover low-income renter households to indicate whether a move to homeownership improves housing conditions for low-income homebuyers, because we do not control for the many differences between these two groups, it is not clear if this comparison is fair. A few studies have examined the factors associated with housing satisfaction, controlling for differences in housing and household characteristics. These studies consistently find that homeownership increases housing satisfaction even after controlling for these other factors (Danes and Morris, 1986; Kinsey and Lane, 1983; Lam, 1985). Although these studies include income as an explanatory variable, they do not attempt to evaluate whether the impact of homeownership on housing satisfaction varies with income. One study (Kinsey and Lane, 1983) has an explicit focus on differences between Whites and African Americans in the factors explaining housing satisfaction. This study finds that homeownership is associated with greater increases in housing satisfaction for African Americans.

Finally, one recent study provides some insight into the question of how housing consumption changes when low-income households become homeowners. Cummings, DiPasquale, and Kahn (2002) examine the premove and postmove housing characteristics of participants in homeownership programs run by the city of Philadelphia. The study's main focus is a program that was designed to promote neighborhood revitalization by constructing deeply subsidized housing units for owner occupants in severely distressed neighborhoods. Because the program provided homeowners with per-unit subsidies in the range of $50,000 to $100,000, it is not unexpected that this group experienced significant increases in housing quality after moving. The study also found, however, that participants in a program that provided a small subsidy ($1,000) to low-income buyers in the city of Philadelphia also experienced significant improvements in housing quality. The new units were larger and were more likely to have a garage and to be in single-family structures. Overall, 75 percent of survey respondents reported that the new home was better than their previous one. Thus, this study provides limited evidence that a move to homeownership is often associated with an improvement in housing quality.

Neighborhood Characteristics

Exhibit 6 summarizes the information available from the AHS on the neighborhood choices of first-time homebuyers. The top portion of the exhibit provides information on the prevalence of neighborhood conditions that are indicators of blight, a lack of public services, or property uses that are less well suited to residential areas.[6] In general, low-income and, to a greater extent, minority first-time buyers experience worse neighborhood conditions than higher income buyers do; however, the incidence of most of these conditions is somewhat rare. Low-income buyers are more likely than minority buyers to have abandoned or vandalized properties nearby and to have trash or junk on the street; but, with both groups, less than 3 percent of buyers experience these conditions. African Americans are more likely than all other groups to have abandoned or vandalized properties nearby; 5.7 percent are exposed to this condition. Bars on windows, an indicator of greater potential for theft, are evident in 6.4 percent of low-income buyers' neighborhoods, compared with about 4 percent of moderate- and high-income buyers' neighborhoods. This condition is much more common among minorities; 11.3 percent of African Americans and 15.7 percent of Hispanics are exposed to this condition, compared with only 2.4 percent of Whites.

The most common issue in low-income buyers' neighborhoods is the presence of commercial or industrial properties. These nonresidential property uses are evident in about one in five cases for low-income and African-American buyers and nearly one in four cases for Hispanic buyers. These mixed-use neighborhoods are also fairly common in neighborhoods where White (15.4 percent), moderate-income (16.8 percent) and high-income (14.6 percent) buyers are located. Again, low-income buyers fare better in all the dimensions compared with recent-mover low-income renters and have shares that are fairly similar to those experienced by all households.

In a question that is similar to the AHS question on housing satisfaction, the survey also asks respondents to rate their neighborhood on a scale of 1 to 10, with 10 being best and 1 the worst. Exhibit 6 shows the average neighborhood rating and the share of households reporting a neighborhood rating of 5 or lower. In terms of average ratings, very little difference is evident across the first-time buyer groups by either income or race/ethnicity, ranging from a low of only 8.0 on a 10-point scale among low-income buyers to a high of 8.2 among moderate- and high-income and African-American buyers. The average neighborhood rating, however, masks some variation evident in the share of households rating their neighborhood at 5 or lower. Among low-income buyers, 11.7 percent rated their neighborhood 5 or lower, compared with 7.7 percent of moderate-income and 6.2 percent of high-income buyers. Minorities also are more likely to give a low rating to their neighborhoods; 9.6 percent of African Americans and 10.3 percent of Hispanics provided a rating of 5 or lower compared with 8.5 percent of Whites. Once again, however, all buyer groups compare favorably with recent-mover low-income renters, who, on average, rate their neighborhoods at only 7.3, and 21.6 percent rate their neighborhoods at 5 or lower. Even compared with all households, recent buyers fare well; the average across all households is a rating of 8.0, and 12.3 percent of recent buyers rate their neighborhood at 5 or lower.

[6] These neighborhood characteristics are recorded by the field staff implementing the AHS. The questions ask whether the indicated characteristic is evident within 300 feet of the subject property.

Exhibit 6

Selected Neighborhood Characteristics of First-Time Homebuyers by Income Category, 1989 Through 2003

Housing Characteristic	First-Time Homebuyers						Recent-Mover Low-Income Renters	All Households
	Low-Income Homebuyers	Moderate-Income Homebuyers	High-Income Homebuyers	White Homebuyers	African-American Homebuyers	Hispanic Homebuyers		
Neighborhood blight within 300 feet								
Abandoned or vandalized properties	2.6%	1.5%	1.0%	1.3%	5.7%	1.7%	3.9%	1.8%
Bars on windows	6.4%	4.1%	4.2%	2.4%	11.3%	15.7%	9.7%	5.9%
Trash or junk on street	2.5%	1.2%	1.2%	1.4%	2.3%	2.9%	4.1%	2.1%
Commercial or industrial properties	20.2%	16.8%	14.6%	15.4%	21.9%	24.6%	37.7%	20.1%
Neighborhood satisfaction*								
Average	8.0	8.2	8.2	8.1	8.2	8.1	7.3	8.0
Share rated 5 or lower	11.7%	7.7%	6.2%	8.5%	9.6%	10.3%	21.6%	12.3%
Metropolitan location								
Central city	30.4%	27.1%	26.7%	24.5%	39.5%	40.6%	46.6%	30.6%
Suburb	45.9%	54.7%	55.6%	52.5%	43.8%	48.7%	36.6%	47.3%
Nonmetropolitan	23.8%	18.2%	17.7%	23.1%	16.6%	10.7%	16.7%	22.1%

** Neighborhood satisfaction is rated on a 10-point scale, with 10 being the best and 1 the worst.*

Source: Tabulations from the 1991-through-2003 American Housing Surveys

Finally, exhibit 6 also compares the distribution of these households among central cities, suburbs, and nonmetropolitan areas. Although great variation in neighborhood quality is evident within each of these geographic categories, in general, neighborhoods in central cities are considered to be more likely to have lower quality public services and more land uses that are less well suited for residential areas. Central cities also tend to have lower homeownership rates than suburban areas do, and so owners in these areas may be less likely to realize benefits from higher concentrations of owner-occupied households. As shown in exhibit 6, low-income buyers are less likely to live in suburban areas than either moderate- or high-income buyers (46 percent compared with 55 to 56 percent, respectively), but this difference is split between a greater propensity to live in both central cities and nonmetropolitan areas. Little difference is apparent between the geographic location of low-income buyers and all households. In contrast, low-income renters are much more likely than low-income buyers to live in central cities; 47 percent of low-income renters live in cities, but only 30 percent of low-income buyers live in those areas. Both African Americans and Hispanics are much more likely to buy in central cities than Whites are and are less likely to buy in nonmetropolitan areas. Nonetheless, the suburbs are still the most common destination for African-American and Hispanic first-time homebuyers; 44 percent of African Americans and 49 percent of Hispanics choose to buy in those areas.

A small number of studies have used Home Mortgage Disclosure Act (HMDA) data to identify the characteristics of neighborhoods where low-income and minority homebuyers are purchasing homes. It is not possible to identify first-time homebuyers from the HMDA data, but, because these data identify the census tract where homes were purchased, they provide more precise information on homebuyers' neighborhood choices than other data sources do. These studies shed light on the extent to which low-income and minority buyers are gaining access through homeownership to higher income neighborhoods and on whether the location choices of minorities are helping to reduce racial segregation.

Stuart (2000) examined home purchases in the Boston metropolitan area from 1993 through 1998 and observes that, although a significant share of African Americans and Hispanics purchased homes outside the city of Boston, these minorities were still much more likely to purchase in the central city. Although 91 percent of Whites bought in suburban areas, only 41 percent of African Americans and 61 percent of Hispanics did so. Importantly, one-half of the African Americans and Hispanics who moved to the suburbs were found in just seven communities. Although the reasons for such constrained choices are not clear—that is, whether the choices reflect discriminatory treatment, limits due to housing affordability, or preferences for specific communities—the result may be the re-creation of racially segregated living patterns in suburban areas. In considering low-income buyers' location choices, Stuart found that, although low-income buyers were distributed across communities of all income levels, they were more likely to purchase in low-income communities (60 percent) than middle-income (47 percent) or upper income (34 percent) buyers were. Furthermore, he found that in suburban areas low-income Whites were as segregated from upper income Whites as African Americans were from Whites.

Immergluck (1999) also uses HMDA data to examine home purchase patterns by African Americans in the Chicago area. He also finds that African-American homebuyers were concentrated in a relatively small number of census tracts. In the 1995-to-1996 period, 45 percent of African-American homebuyers located in areas that were 75 percent or more African American and 50 percent of all African-American homebuyers were concentrated in 5 percent of all census tracts. Thus, like Stuart, Immergluck finds that African-American homebuying choices seem to reinforce patterns of racial segregation. Immergluck and Smith (2001) also use HMDA data to examine patterns of home purchase by different income groups in the Chicago area. They find that significant growth occurred in homebuying activity by low-income households in suburban areas of Chicago between the 1993-through-1994 period and the 1999-through-2000 period. Although these suburban buyers were mostly concentrated in older suburbs near the core and outlying suburbs, nonetheless, a strong movement of low-income buyers to suburban areas occurred. At the same time, the number of upper income homebuyers increased rapidly in the city of Chicago, but, again, those buyers were concentrated in a few, specific neighborhoods. Nonetheless, Immergluck and Smith find some evidence of greater income mixing by homebuyers in the Chicago area during the 1990s.

Finally, Belsky and Duda (2002) also use HMDA data for the 1993-through-1999 period to examine home purchase activity by low-income and minority households in nine metropolitan areas. They also find that large shares of low-income and minority homebuyers are purchasing in the suburbs. Significant shares of low-income buyers were found to have purchased homes in moderate-income areas, leading the authors to conclude that homebuying activity was contributing to some income mixing, although these households tended to be concentrated closer to the urban core than upper income households were. Home purchases by African Americans were also more clustered near the urban core and tended to be concentrated in predominantly minority areas, leading the authors to conclude that homebuying by African Americans was not contributing materially to lowering levels of racial segregation.

In short, studies using HMDA data to examine home purchase activity present mixed conclusions regarding home purchases by low-income and minority households. Although buyers are gaining access to suburban areas, these buyers tend to locate in areas with greater concentrations of low-income and/or minority households. In short, as Belsky and Duda conclude, "whether the move to low-income homeownership has been associated with a move to opportunity remains an open question" (Belsky and Duda, 2002: 52).

Another study (Herbert and Kaul, 2005) that sheds some light on the types of neighborhoods where minorities are buying homes uses decennial census data at the census tract level for 1990 and 2000 to examine the characteristics of neighborhoods where minority homeownership rates increased the most during the 1990s. This study reaches conclusions similar to those studies using HMDA data. In general, Herbert and Kaul find that areas with the greatest gains in minority homeownership rates were more likely to be in suburban areas and were marked by higher incomes and house values and lower concentrations of minorities than areas where little change occurred in minority homeownership rates. These findings suggest that the movement to homeownership is associated with a move to areas of higher socioeconomic status and is supportive of greater racial integration. Still, the findings also indicate that minorities live in areas with lower incomes and house values and higher minority concentrations than the areas where Whites live.

Although cross-sectional comparisons may show that, on average, low-income and minority buyers reside in better neighborhoods than low-income renters do, this observation does not mean that individual buyers actually improved their neighborhood conditions as a result of their move to homeownership. It may be that, among low-income households, those who achieve homeownership already resided in somewhat better neighborhoods than other low-income renters did. A more informative way to evaluate whether a move to homeownership is associated with an improvement in neighborhood conditions is to compare the characteristics of neighborhoods where low-income buyers lived before buying their home with the area where they purchased. Several recent studies provide results from this type of analysis.

Reid (2004) analyzes data from the Panel Study of Income Dynamics (PSID) covering a period from 1976 to 1993, using a special version of these data that includes characteristics from the decennial censuses for 1980 and 1990 for the census tracts where respondents reside. The panel nature of the PSID enables her to identify when renters become homeowners and to then compare the characteristics of the neighborhoods where they lived before and after purchasing a home. The characteristics examined include those related to demographics, economic status, and housing market conditions. Reid groups buyers into three income groups (low, moderate, and high)[7] and two racial groups (non-Hispanic White and all minorities). Reid concludes that the move to homeownership results in essentially no change in neighborhood conditions for low-income Whites but fairly sizeable improvements for low-income minorities. Small positive changes also occur for moderate- and high-income Whites and minorities. For all groups except low-income Whites, the move to homeownership results in an increase in the neighborhood homeownership rate. Low-income minorities also experience declines in the shares of female-headed households, people in poverty, households with welfare income, and unemployed adults.

Tempering the positive finding that minorities of all income levels experience some improvement in neighborhood conditions when buying a home is the fact that, compared with Whites of the same income category, minorities live in areas with lower economic status, fewer homeowners, and lower property values. Thus, although a move to homeownership improves neighborhood conditions for minorities, it by no means results in the same level of economic status that Whites of similar income levels experience.

Another recent study that examines the neighborhoods of low-income homebuyers before and after they purchase their homes is Turnham et al. (2004). This study gathered data on 788 low-income homebuyers assisted through the HOME program in 33 jurisdictions around the country during the 1993-to-2003 period. All the homebuyers assisted through the HOME program have low incomes; 74 percent of participants have incomes between 50 and 80 percent of the AMI. With a 55-percent share, minorities account for a higher share of program participants than they do of all low-income buyers.

The study found that a large majority of buyers (70 percent) moved at least 1 mile from their previous residence and so were likely to have changed neighborhoods. Of these, 47 percent moved between 1 and 5 miles, and 24 percent moved more than 5 miles.

[7] Reid's income classification is unique. The low-income category includes renters whose income is less than 80 percent of the AMI in every year they are observed up through the time they purchase a home. Moderate-income renters are those whose income exceeds the 80-percent threshold in at least 1 year through the time when they purchase the home but whose income is not consistently above the AMI. High-income renters have incomes that exceed the AMI every year they are observed through the time they purchase their home.

This study found some indications of increases in the housing status of the postmove neighborhoods. Homeownership rates were slightly higher in the postmove neighborhoods than in the premove neighborhoods (58 compared with 54 percent), as were the share of housing in single-family units (52 compared with 48 percent). Despite these trends, a variety of other measures of housing conditions, including age, vacancy rates, and values, indicated that essentially no difference existed. Similarly, the premove and postmove neighborhoods were remarkably similar in a variety of economic and demographic characteristics, including poverty rates, share of households receiving public assistance, household incomes, and share of adults with some college education.

Turnham et al. (2004) also compare the characteristics of the neighborhoods with the broader jurisdiction (either city or county) where the neighborhoods are located. In general, neighborhoods where low-income buyers purchased are somewhat below average on a number of socioeconomic indicators. For example, the neighborhoods have lower household incomes, lower house values, and lower education levels than the broader jurisdictions do; however, the neighborhoods are by no means distressed. The authors also point out the average incomes in the neighborhood are much higher than the average income of the HOME-assisted buyers. Although the average buyer's income was about $29,000, the average neighborhood income was $42,000. The study concludes that, although the move to homeownership did not result in improved neighborhood conditions, the neighborhoods were, in general, decent places to live, marked by moderate-income levels, a high share of working families, little welfare dependence, and racial diversity.

Turnham et al. (2003) conducted a similar type of analysis on a small sample (84) of homebuyers participating in the Voucher Homeownership Program in 12 markets around the country and found very similar results. The profile of families assisted through the Voucher Homeownership Program is similar to those assisted by HOME. Typical buyers using housing vouchers had incomes of less than $35,000, one-half were minorities, and most were single-parent households. Similar to the results of the study using the HOME program participants, most housing voucher buyers (61 percent) were found to have moved at least 1 mile from their previous residence, and 21 percent moved 5 miles or more. One-half of the buyers who did not move more than 1 mile purchased the same unit they had rented, however—and so experienced no change in either housing or neighborhood as a result of the purchase. For the most part, the neighborhoods where they moved were similar to those where they started, with only slight improvement evident in various socioeconomic indicators. The new neighborhood, when compared with the old neighborhood, showed a slight increase in neighborhood homeownership rates (60 compared with 57 percent) and in the share of homes in single-family structures (54 compared with 51 percent). In addition, poverty rates were slightly lower (16 compared with 18 percent) as was the share of single female-headed households (10 compared with 11 percent).

The study also conducted a windshield assessment of 32 of the properties and their surrounding neighborhoods. For the most part, the houses purchased appeared to be in better shape than surrounding properties, exhibiting better exterior condition of the structures and surrounding grounds; however, the differences were not large. For example, all the purchased units were deemed to have good or excellent exterior maintenance evident, but 90 percent of surrounding properties were similarly rated. Overall, most of the neighborhoods where buyers had purchased were rated as excellent (38 percent) or good (47 percent). In short, as with the study of the HOME program, participants in the Voucher Homeownership Program were not found to have experienced a significant improvement in neighborhood conditions, but the areas where they bought were, in general, stable, good-quality neighborhoods.

Finally, Cummings, DiPasquale, and Kahn (2002) examine the premove and postmove neighborhood characteristics of participants in homeownership programs run by the city of Philadelphia. The main focus of their research is a program designed to promote neighborhood revitalization by constructing deeply subsidized housing units for owner occupants in severely distressed neighborhoods. The study found that this homebuyer group experienced significant declines in neighborhood quality after moving. The study also reports on the premove and postmove neighborhoods of participants in a program that provided a small subsidy ($1,000) to low-income buyers in the city of Philadelphia. The authors find that participants in this program experienced significant improvements in neighborhood characteristics in a number of dimensions, including household income, house values, and homeownership rates.

Taken as a whole, the literature that has examined the neighborhood choices of low-income and minority homebuyers paints a somewhat mixed picture. For the most part, a move to homeownership by low-income households is not associated with significant improvements in neighborhood conditions, nor does it show that low-income homebuyers are being relegated to distressed neighborhoods. For the most part, the areas with higher concentrations of low-income buyers are suburban areas with moderate incomes. On the other hand, some indications suggest that minority homebuyers may fare better than White low-income homebuyers; both the national analysis by Reid (2004) and the study of a Philadelphia homeownership program by Cummings, DiPasquale, and Kahn (2002) find that minorities realized much more substantial neighborhood improvements with a move to homeownership. The downside of this finding is that, even with these improvements, the socioeconomic status of neighborhoods where minority owners are locating is lower than that of neighborhoods where Whites with comparable incomes are locating.

Perhaps the most important concerns about the neighborhood choices of low-income and minority buyers are what implications these choices have for the likelihood of realizing the financial and social benefits associated with homeownership. Herbert and Belsky (2006) explore these issues.

Housing Costs

Exhibit 7 presents the distribution of housing cost burdens across first-time homebuyers and other household types. Housing cost burdens measure the share of income devoted to housing, including rent or mortgage payments, utilities, property insurance, and property taxes. Traditionally, housing is considered affordable if it accounts for less than 30 percent of a household's income. Housing cost burdens of between 30 and 50 percent are considered moderate, while those of 50 percent or more are severe. Exhibit 7 further breaks down those households with moderate cost burdens into those that pay between 30 and 39 percent of income for housing and those that pay between 40 and 49 percent. Housing cost burdens are shown for the 1991-through-1997 and 1999-through-2005 survey years to identify trends in cost burdens between these periods.

Exhibit 7

Trends in Housing Cost Burden for First-Time Homebuyers and Other Households*

Time Period/Housing Burden Category	First-Time Homebuyers						Recent-Mover Low-Income Renters	All Households
	Low-Income Homebuyers	Moderate-Income Homebuyers	High-Income Homebuyers	White Homebuyers	African-American Homebuyers	Hispanic Homebuyers		
1989 through 1997								
Less than 30%	51.5	82.8	94.7	76.9	69.4	58.9	42.3	72.4
30 to 39.9%	20.0	12.9	4.7	13.1	9.8	17.3	19.5	10.9
40 to 49.9%	12.1	3.3	0.5	5.0	8.7	10.1	11.0	5.3
50% or higher	16.3	1.0	0.1	5.1	12.1	13.8	27.2	11.4
1998 through 2005								
Less than 30%	44.3	75.5	90.7	71.6	66.1	52.7	41.6	70.2
30 to 39.9%	22.0	16.1	6.5	14.6	15.4	18.3	18.9	11.2
40 to 49.9%	12.2	5.2	1.7	5.9	6.8	11.5	10.7	5.5
50% or higher	21.5	3.2	1.1	7.9	11.7	17.4	28.7	13.1
Change								
Less than 30%	– 7.3	– 7.4	– 4.0	– 5.2	– 3.3	– 6.1	– 0.6	– 2.2
30 to 39.9%	2.0	3.2	1.8	1.5	5.6	1.0	– 0.5	0.3
40 to 49.9%	0.1	1.9	1.2	0.9	– 1.9	1.4	– 0.3	0.3
50% or higher	5.1	2.2	1.0	2.8	– 0.4	3.7	1.5	1.7

*Share of households spending given percent of income on housing.

Source: Tabulations from the 1991-through-2005 American Housing Surveys

As shown, in the first part of the 1990s, low-income buyers were much more likely to face both moderate and severe housing cost burdens than were either moderate- or high-income buyers. In the 1991-through-1995 survey years, 32.1 percent of low-income buyers experienced moderate payment burdens, compared with 16.2 percent of moderate-income buyers and 5.2 percent of high-income buyers. The differences in the shares of buyers with severe payment burdens were even starker. Although 16.3 percent of low-income buyers paid more than 50 percent of their income for housing, only 1.0 percent of moderate-income and no high-income buyers faced this degree of burden. Although not as extreme as the differences categorized by income, minorities, particularly Hispanics, were also more likely to face housing cost burdens than Whites were. During this period, 27.3 percent of Hispanic first-time buyers had moderate payment burdens compared with 18.5 percent of African Americans and 18.1 percent of Whites, while 13.8 percent of Hispanics and 12.1 percent of African Americans had severe payment burdens compared with 5.1 percent of Whites.

Importantly, the share of first-time buyers facing severe housing cost burdens increased considerably after 1997, particularly among low-income buyers. In the period after 1997, 21.5 percent of low-income buyers had a severe housing cost burden, a 5.1-percentage-point increase from the first part of the 1990s. Although the share of households facing moderate and severe payment burdens increased for both moderate- and high-income buyers over the period, the increases were much smaller. Among minorities, Hispanics experienced the largest increases in the share of households with both moderate (2.4 percent) and severe (3.7 percent) payment burdens. As a result, since the late 1990s, Hispanics had payment burdens that were nearly as high as those among low-income buyers. Whites also saw a jump in the share of households with severe payment burdens (2.8 percent), while African Americans had an increase in the share with moderate payment burdens (3.7 percent). African-American homebuyers, compared with White homebuyers, were somewhat more likely to face both moderate (22.2 compared with 20.5 percent) and severe (11.7 compared with 7.9 percent) payment burdens.

For the most part, low-income renters face higher payment burdens than owners do. In the period before 1997, recent-mover low-income renters were much more likely to face severe payment burdens; 27.2 percent of recent-mover low-income renters were in this category compared with only 16.3 percent of low-income buyers. Although the incidence of severe payment burdens was rising sharply for low-income buyers, however, only a small rise occurred for low-income renters. In addition, although the share of low-income buyers with moderate payment burdens increased by 2.1 percentage points, the share of low-income renters in this category declined by 0.8 percentage points. As a result, in the period after 1997, more low-income buyers than low-income renters faced moderate payment burdens (34.2 compared with 29.6 percent), while the difference in shares with severe payment burdens narrowed to just 7.2 percentage points (21.5 compared with 28.7 percent).

In short, the increase in low-income homeownership appears to have been associated with fairly sizeable increases in the incidence of severe payment burdens among first-time buyers. Among minorities, the share of buyers with high payment burdens is most evident among Hispanics. The relaxation of mortgage underwriting requirements, which has been credited with helping to fuel the rise in homeownership rates, may also have contributed to these increases in severe payment burdens. Although most mortgage products in the past required that housing costs (including the mortgage payment, property insurance, and taxes), in general, could not exceed about 30 percent of income, new products designed for low-income borrowers now commonly allow ratios in the upper 30s, while subprime products may allow even higher payment burdens. When the cost of utilities is added to other housing costs, these more flexible guidelines can result in total payment burdens of 50 percent of income or more. Whatever the cause, it is notable that more than one in five low-income first-time homebuyers and one in six Hispanic buyers were paying more than 50 percent of their income for housing in the period after 1997.

Mortgage Financing Choices

The mortgage terms homebuyers select can have important implications for their experience as owners both in terms of longrun mortgage costs and the degree of risk of being unable to meet future mortgage obligations. One of the most important mortgage characteristics is the interest rate. Higher interest rates raise the monthly costs of homeownership and also decrease the share of mortgage payments that go toward principal in the early years of the mortgage, in turn slowing equity accumulation. A notable characteristic of the mortgage market during the 1990s was the development of the subprime mortgage market, which gave borrowers who otherwise might not have qualified for a loan an opportunity to obtain mortgage credit—but at the cost of higher interest rates. Subprime lending has consistently been found to be disproportionately concentrated among minority and low-income borrowers and neighborhoods (see Apgar and Herbert, 2005, for a review of this literature).

As the market developed, most subprime loans were used to refinance existing mortgages. As a result, most studies of subprime lending patterns have focused on this segment of the market. The share of subprime mortgages for home purchase, however, has been growing steadily. In 1993, subprime loans accounted for a little more than 1 percent of all home purchase loans (Joint Center for Housing Studies, 2004). In contrast, according to HMDA data, by 2006 high-cost loans (a proxy for subprime loans in HMDA) had come to account for 25.3 percent of conventional first-lien home purchase loans (Avery, Brevoort, and Canner, 2007). As with refinance loans, subprime purchase loans, in general, are more common among minority borrowers. In 2006, high-cost loans accounted for 53.7 percent of first-lien conventional purchase mortgages for African Americans and 46.6 percent for Hispanics compared with 17.7 percent for non-Hispanic Whites.

The increase in subprime purchase lending to minorities and, to a lesser extent, to low-income borrowers, would be expected to be evident in the share of buyers obtaining high-interest-rate loans. The top portion of exhibit 8 presents information on average interest rates for first-time buyers by income and race/ethnicity for the periods before and after the 1997 survey.[8] In the period up through the 1997 survey, lower income buyers tended to face higher interest rates. The average interest rate for low-income buyers was 8.68 percent, compared with 8.38 percent for moderate-income buyers and 8.29 percent for high-income buyers. To put these differences in perspective,

[8] Recent first-time buyers in each survey are those who purchased their home since the previous AHS survey 2 years earlier. As a result, the interest rates reported by buyers in any one survey reflect rates prevailing during the previous 2-year period. For example, interest rates obtained by recent buyers in the 1991 AHS reflect interest rates from the 1989-to-1991 period.

Exhibit 8

Trends in Interest Rates by Income and Race/Ethnicity for First-Time Homebuyers, 1989 Through 2005

Income or Race/Ethnicity	1989 Through 2005 (%)	1989 Through 1997 (%)	1997 Through 2005 (%)	Change (%)
Average interest rates				
Low-income buyers	7.78	8.66	6.89	– 1.77
Moderate-income buyers	7.61	8.38	6.83	– 1.55
High-income buyers	7.51	8.29	6.72	– 1.57
White buyers	7.62	8.45	6.79	– 1.65
African-American buyers	7.76	8.60	6.91	– 1.69
Hispanic buyers	7.66	8.33	6.98	– 1.35
Share of buyers with high interest rates*				
Low-income buyers	11.3	11.7	10.8	– 0.9
Moderate-income buyers	8.2	7.4	9.0	1.7
High-income buyers	6.4	4.8	7.7	2.9
White buyers	8.6	8.3	8.8	0.5
African-American buyers	9.8	8.8	10.7	1.9
Hispanic buyers	10.9	9.2	12.0	2.8

** High interest rate is defined as a rate that is more than one standard deviation above the mean for the AHS period. A standard deviation ranges from 1.32 to 1.70 over the eight survey periods.*

Source: Tabulations from the 1991-through-2005 American Housing Surveys

assuming a $100,000 mortgage, the higher interest rates faced by low-income buyers is equivalent to paying about $26 more per month than higher income buyers pay. Smaller differences are evident in average interest rates by race; the average interest rate obtained by Whites was 8.45 percent compared with 8.60 percent for African Americans and 8.33 percent for Hispanics. Hispanics had the lowest average interest rates of the three racial/ethnic groups.

The most notable aspect of the trends in average interest rates is the general decline that occurred in the second half of the decade. For all groups, average interest rates declined by more than 1.5 percentage points. Average interest rates declined more among low-income buyers, helping to substantially narrow the difference in average rates between low-income and upper income buyers. This trend suggests that the expansion of affordable mortgage lending products contributed to a reduction in interest rates available to lower income buyers. African Americans also experienced a slightly larger decline in average interest rates than Whites did, narrowing the difference in average interest rates obtained by these groups to only 0.12 percentage point. Hispanics, however, experienced much smaller declines in average interest rates, but because they had started the period with lower average interest rates, in the second half of the decade there was little difference in the average rates obtained by Whites and Hispanics (6.79 compared with 6.98 percent).

Given the fact that subprime lending has expanded rapidly since 1997 and that this lending has been disproportionately concentrated among minority and low-income borrowers, it is somewhat unexpected that the trends in average interest rates did not indicate a widening of differences by income or race/ethnicity.[9] To examine whether trends in average interest rates may mask the extent to which the share of borrowers facing very high interest rates was rising, loans were identified as having "high" interest rates if the rate was more than one standard deviation above the mean interest rate for any survey period.[10] By this measure, only a slight increase occurred in the overall share of home purchase mortgages for first-time homebuyers that had high interest rates. During the 1989-through-1997 survey years, 8.3 percent of mortgages had high interest rates compared with 9.3 percent during the 1995-through-2003 survey years.

The bottom panel of exhibit 8 presents the share of first-time buyers with high-interest-rate loans. Although high-cost loans are more common among low-income buyers, both moderate- and high-income buyers experienced larger increases in the share of high-cost loans since 1997. Although a decline of 0.9 percentage point occurred in the share of low-income buyers using high-cost loans, moderate- and high-income buyers experienced increases of 1.7 and 2.9 percentage points, respectively. During the 1997-through-2005 survey years, roughly 1 in 10 of both low- and moderate-income first-time buyers used high-cost loans, and about 1 in 13 high-income buyers used these loans. One possible explanation for this pattern is that the expansion of conventional lending to low-income buyers offset the growth in subprime lending to lower the share of buyers obtaining high-cost loans. Because moderate- and high-income buyers would not have benefited as much from the expansion of affordable lending products, the growth of subprime lending may be more evident among these groups.

Among racial/ethnic groups, little difference was evident before 1997 in the share of buyers obtaining high-cost loans. Although the share of Whites obtaining high-cost loans increased only slightly after 1997 (rising by 0.5 percentage point), the share of African Americans and Hispanics with these loans increased by 1.9 and 2.8 percentage points, respectively. This result is in keeping with findings from the literature on subprime loan usage that minorities are much more likely than Whites are to borrow through subprime lenders, but the result is at odds with the literature in that subprime lending is more common among African Americans than among Hispanics.

The general conclusion from this analysis of AHS data—that there was not a significant tendency for low-income and minority homebuyers to face higher interest rates—seems at odds with the fact that subprime lenders' share of home purchase mortgages increased dramatically from the early 1990s through 2005.[11] This conclusion, however, is also consistent with two recent studies that

[9] The increase in subprime lending may not be evident from these data because higher borrowing costs result from both higher origination costs and higher interest rates. Because the AHS does not gather information on origination costs, we cannot assess whether differences exist among borrower groups in these costs.

[10] The variation in interest rates observed across borrowers in any survey period will reflect both variation in interest rates over the 2-year period covered by the survey and variation in rates across borrowers at any particular point in time. Unfortunately, the AHS does not capture the month when mortgages are originated and so it is not possible to standardize rates by comparing them with some prevailing benchmark for the month of origination. Across the eight survey periods covered in these data, the standard deviation of interest rates ranges from 1.32 to 1.70, with greater variation in the 1991 and 1993 survey years, when interest rates were falling more rapidly.

[11] Although this trend might be an indication that the AHS does not accurately capture interest rate information, a recent study by Lam and Kaul (2003) concluded that data from the AHS on interest rates is consistent with other data sources. In fact, a comparison of interest rates on nongovernmental loans found the AHS averages to be slightly higher, which the authors conclude may be due to the fact that the AHS includes subprime loans while the comparison data set did not.

have examined differences by race and ethnicity in the interest rates obtained by homeowners. Susin (2003) and Boehm, Thistle, and Schlottmann (2006) analyze data from the AHS and find that no significant difference exists in interest rates on home purchase mortgages by race and ethnicity after differences in other available risk factors are accounted for. These same studies, however, find that African Americans pay significantly higher interest rates when they refinance. These results suggest that the simple tabulations of the AHS showing little difference in home purchase interest rates by race and ethnicity may be a fair depiction of market experience. The fact that low-income and minority buyers have fared better in the purchase mortgage market than the refinance market may also be a reflection of the fact that the emphasis of affordable lending programs has been almost exclusively for home purchase. This trend may indicate that greater attention should focus on developing efforts aimed at assisting homeowners in the refinance market.

Another important characteristic of the initial mortgage terms is the loan-to-value (LTV) ratio. Although higher LTV ratios reduce the amount of savings buyers need to qualify for a mortgage, making it easier for low-income households to purchase a home, they also increase the risk that small fluctuations in home prices will erase the buyers' equity in the home. The greater prevalence of mortgage products that enable buyers to put down less than 5 percent of the purchase price has been cited as one of the factors contributing to the increase in low-income homeownership since the early 1990s. Exhibit 9 shows the distribution of LTV ratios among first-time homebuyers by income and racial/ethnic categories both for the 1989-through-2005 survey years and the change in the distribution between the period before 1997 and the years after 1997. As we expected, low-income buyers in general have higher LTV ratios than higher income buyers do. Over the entire survey period, 24.3 percent of low-income buyers had LTV ratios of more than 95 percent, compared with 21.3 percent of moderate-income and 15.3 percent of high-income buyers. Nonetheless, a fairly high share of low-income buyers had LTV ratios of 80 percent or less; 44.4 percent of low-income buyers were in this category, compared with 41.9 percent of moderate-income and 45.5 percent of high-income buyers.[12] When racial/ethnic groups are considered, minorities are found to have a higher proportion of high LTV loans than Whites have. Among African-American and Hispanic first-time buyers, 26.8 and 24.2 percent, respectively, had LTV ratios of more than 95 percent compared with 19.0 percent of Whites. In terms of changes over time in the distribution of mortgages by LTV, an increase was evident in the share of higher LTV loans among many categories of first-time buyers; the largest increases occurred among moderate-income buyers (5.9 percentage points) and Whites (4.2 percentage points). Low-income and African-American first-time buyers experienced slight declines in the share with LTV ratios of more than 95 percent (-0.1 and -0.2 percentage point, respectively). Nonetheless, more than one-fourth of low- and moderate-income and minority first-time buyers since 1997 have purchased homes with less than 5 percent down. These buyers would be most vulnerable to a loss of their equity.

Exhibit 10 presents information on other key mortgage characteristics. Because adjustable-rate mortgages (ARMs) often provide initially lower interest rates, this option can be attractive to homebuyers who are trying to stretch their initial buying power and expect their incomes to rise over the next few years to meet any increase in interest rates. Fixed-rate mortgages, on the other hand,

[12] One explanation for the fairly high share of first-time buyers with low LTV ratios could be that they are more likely to use second mortgages to supplement a smaller first mortgage. The LTV calculation was based on only the primary mortgage.

Exhibit 9

Trends in Loan-to-Value Ratio by Income and Race/Ethnicity for First-Time Homebuyers, 1989 Through 2005

Income or Race/Ethnicity LTV Category	1989 Through 2005 (%)	1989 Through 1997 (%)	1997 Through 2005 (%)	Change (%)
Low-income buyers*				
80% or less	44.4	45.9	43.1	– 2.8
80.1 to 90%	19.3	19.5	19.1	– 0.4
90.1 to 95%	12.1	10.2	13.5	3.3
Above 95%	24.3	24.3	24.2	– 0.1
Moderate-income buyers				
80% or less	41.9	43.4	40.4	– 3.0
80.1 to 90%	22.4	24.2	20.8	– 3.5
90.1 to 95%	14.4	14.1	14.7	0.6
Above 95%	21.3	18.3	24.1	5.9
High-income buyers				
80% or less	45.5	44.5	46.4	1.9
80.1 to 90%	26.0	28.6	23.9	– 4.7
90.1 to 95%	13.2	14.0	12.4	– 1.6
Above 95%	15.3	12.9	17.3	4.4
White buyers				
80% or less	44.4	45.1	43.0	– 2.1
80.1 to 90%	23.7	25.0	22.2	– 2.8
90.1 to 95%	13.0	12.7	13.4	0.7
Above 95%	19.0	17.2	21.4	4.2
African-American buyers				
80% or less	37.8	36.7	37.9	1.1
80.1 to 90%	19.9	20.1	20.4	0.3
90.1 to 95%	15.4	16.2	15.0	– 1.2
Above 95%	26.8	27.0	26.7	– 0.2
Hispanic buyers				
80% or less	40.5	42.1	41.0	– 1.0
80.1 to 90%	20.4	23.8	18.6	– 5.2
90.1 to 95%	14.9	11.6	15.3	3.7
Above 95%	24.2	22.5	25.0	2.5

LTV = loan-to-value.

** Low-income homebuyers are defined as those buyers whose incomes are less than 80 percent of the area median income.*

Source: Tabulations from the 1991-through-2005 American Housing Surveys

provide homeowners with protection against future increases in housing costs due to rising interest rates. The data shown in exhibit 10 indicate that little variation exists across income or racial/ethnic groups in the prevalence of fixed-rate financing. Over the entire survey period, 87.1 percent of low-income buyers used fixed-rate financing compared with 87.5 percent of moderate-income and 85.5 percent of high-income buyers. African Americans and Hispanics were actually more likely to use fixed-rate financing than Whites were. All groups increased their use of fixed-rate mortgages after 1997, reflecting the fact that interest rates in general were lower during this period so buyers were both more motivated to lock in these lower rates for the long term and had less need for an ARM product to lower initial interest rates. In the 1997-through-2005 survey years, about 89 percent of all first-time buyers used fixed-rate financing, with the shares slightly higher among African Americans and Hispanics.

Of note, the popular press in recent years has focused considerable attention on the growing use of ARMS, including a sizeable portion of these loans that are interest-only loans. As shown in exhibit 10, these trends were not yet evident in the AHS data through 2005.

Exhibit 10 also shows the share of mortgages with terms of 30 years or more. Longer term mortgages have the advantage of lowering the monthly payment, but they also build up equity more slowly. Low-income buyers have had a tendency to use shorter term financing than higher income buyers do. This trend likely reflects the fact that a relatively high share of low-income buyers chose manufactured housing, which is commonly financed with shorter term loans than site-built housing is. Over the entire period, 62.2 percent of low-income buyers chose 30-year terms or longer, compared with 77.8 percent of moderate-income buyers and 81.4 percent of high-income buyers. Less difference exists across racial/ethnic groups, although minorities tend to be more likely to use long-term financing than Whites do. Although 73.0 percent of Whites had loans with 30-year terms or longer, 73.2 percent of African Americans and 76.5 percent of Hispanics opted for loans with such long terms. All groups experienced an increase in the share of mortgages with these longer terms after 1997, with larger increases occurring among low-income and Hispanic buyers.

Exhibit 10

Trends in Selected Mortgage Characteristics of Low-Income First-Time Homebuyers, 1989 Through 2005

Mortgage Characteristic/ Income or Race/Ethnicity	1989 Through 2005 (%)	1989 Through 1997 (%)	1997 Through 2005 (%)	Change (%)
Share with fixed-rate mortgage				
Low-income buyers*	87.1	84.4	89.6	5.1
Moderate-income buyers	87.5	84.6	90.5	6.0
High-income buyers	85.5	82.1	88.5	6.3
White buyers	85.9	82.8	89.2	6.4
African-American buyers	91.0	90.0	91.9	2.0
Hispanic buyers	88.6	85.0	90.8	5.8
Share with 30-year term or longer				
Low-income buyers	62.2	57.2	67.1	9.9
Moderate-income buyers	77.8	74.3	81.4	7.1
High-income buyers	81.4	79.7	83.1	3.4
White buyers	73.0	70.0	75.9	5.9
African-American buyers	73.2	70.3	75.6	5.3
Hispanic buyers	76.5	73.9	78.0	4.1

** Low-income homebuyers are defined as those buyers with incomes of less than 80 percent of the area median income.*

Source: Tabulations from the 1991-through-2005 American Housing Surveys

Still, low-income buyers are more likely than higher income buyers to use shorter term mortgages and thus will tend to build up equity more quickly. Relatively little difference exists by race/ethnicity, although Hispanics are slightly more likely to use longer term mortgages and so will build up equity more slowly.

Summary

This article has made extensive use of information from the American Housing Survey from 1991 through 2005 to identify the characteristics of first-time homebuyers and their housing choices and to examine whether these characteristics have changed over time. In keeping with the well-documented rise in homeownership rates, the number of low-income and minority homebuyers rose rapidly beginning in the early 1990s. Between the 1989-to-1991 and 1995-to-1997 periods, the number of African-American and Hispanic first-time buyers roughly doubled, and the number of low-income buyers rose by nearly 50 percent. After 1997, the number of low-income and African-American homebuyers remained high, but increases moderated somewhat; however, the number of Hispanic buyers continued to increase. One notable change associated with the increase in low-income and African-American homebuyers over the decade was the greater proportion of single-parent and single-person households among first-time buyers. Although this trend is positive in that it indicates greater opportunities among these households that have historically had lower homeownership rates, it is also true that they may be exposed to greater risks from unexpected crises because the household includes just one wage earner.

Although the size and quality of housing purchased by low-income and minority homebuyers tend to be smaller and not quite as good as the housing that moderate- and high-income households buy, conditions are better for those buyers than for low-income renters and are at least as good as they are for the average U.S. household. Although concerns have been raised that low-income homebuyers may be much more likely to purchase housing in poor condition, the share of homes that are moderately or severely inadequate is only about 7 percent—no worse than the average for the United States, although slightly worse than the average for all homeowners. Overall, low-income homebuyers are satisfied with their homes; only 8.7 percent of those buyers rate their homes as 5 or lower on a 10-point scale. In comparison, 9.3 percent of all households and 17.9 percent of recent-mover low-income renters rate their homes as 5 or lower.

One notable difference between renters and owners is the share occupying single-family detached housing. Low-income and minority owners are much more likely to live in single-family detached homes than renters are, and so gain access to more living space and greater privacy; however, a fairly large share of low-income buyers (23.8 percent) purchased manufactured housing. Although evidence indicates that these homes provide good quality at an affordable price, concerns arise that, because a large share of these buyers do not own the land on which their units sit, they may not benefit from appreciation in land values.

Similar to the conclusions regarding housing quality, data from the AHS suggest that low-income buyers experience better neighborhood conditions and have higher satisfaction with their neighborhoods than low-income renters do and are similar to all U.S. households in both dimensions. Minority homebuyers are more likely than low-income buyers to buy in central cities, however, which is reflected in a slightly higher propensity to live near commercial or industrial properties or to have bars on the windows of nearby buildings. Nonetheless, minorities are slightly more satisfied with their neighborhoods than low-income buyers are.

One strand of existing research has used HMDA data to examine the location choices of low-income and minority homebuyers in a small number of metropolitan areas. Although these studies cannot identify first-time buyers, the findings are consistent with those from the AHS. Low-income households are found to be gaining access to suburban areas. Although these buyers tend to locate in closer in, lower income areas, they are also fairly likely to locate in moderate-income areas, which suggests that a move to homeownership supports some degree of income mixing. These studies also find that, although minorities are gaining access to the suburbs, these buyers, particularly African Americans, are often concentrated in a small number of areas with an above-average share of minorities. As a result, the move to homeownership does not seem to be fostering greater racial integration; however, this observation does not mean that these neighborhoods are not otherwise fine places to live.

A comparison of neighborhood characteristics of low-income buyers and renters is intended to shed light on the extent to which a move to homeownership is associated with an improvement in neighborhood conditions. Several studies provide more direct evidence on the change in neighborhood conditions associated with a move to homeownership through data gathered on premove and postmove neighborhoods for samples of homebuyers participating in subsidized homeownership programs. In general, these studies find that, for the most part, little change occurs in neighborhood conditions for these buyers, although there tends to be a small increase in homeownership rates and the share of households living in single-family units. One study of this type used a national panel study to examine premove and postmove neighborhood conditions and so may have broader applicability than the studies that examine participants in government programs. This study found that, although low-income Whites did not experience any real change in neighborhood conditions by purchasing a home, low-income minorities experienced fairly sizeable improvements and moderate- and high-income minorities experienced small positive changes. Nonetheless, the study also found that the areas where minorities purchased generally ranked lower on various socioeconomic dimensions than the areas where Whites purchased. In short, although these studies collectively suggest that moves to homeownership are generally not associated with substantial improvement in neighborhood conditions, they do not find that low-income or minority homebuyers are systematically being shunted into poor-quality neighborhoods. Instead, these buyers appear to be moving to low- or moderate-income areas with few signs of distress.

This article has also presented information on the mortgage terms obtained by low-income and minority homebuyers. It is generally believed that the sizeable increases in homeownership rates over the past decade have been supported by expansion in the availability of mortgage credit through more relaxed underwriting guidelines. This observation would suggest that borrowers may have had greater access to affordable mortgage products over the decade. At the same time, however, significant growth has occurred in subprime mortgage lending, which expands the supply of credit but at the cost of higher interest rates and fees. Evidence from the AHS on differences in interest rates across first-time buyers by income and race/ethnicity suggests that, on average, low-income and minority buyers pay only slightly higher interest rates compared with upper income and White buyers, and these differences tended to narrow over the course of the past decade. The growth of subprime lending was not yet evident in higher interest rates on purchase mortgages, at least as of 2005; however, the same cannot be said of refinance mortgages (see Herbert and Belsky, 2006).

Another important loan term is the ratio between the loan amount and the house value (LTV ratio). Although low-downpayment loans are important for addressing the lack of wealth that is the principal barrier to homeownership for most low-income and minority households, it also exposes buyers to greater risk of losing their investment due to fluctuations in home prices. Low-income and minority homebuyers are more likely to buy homes with little money down. Since 1997, about one-fourth of low-income and Hispanic homebuyers and 27 percent of African-American homebuyers have purchased homes with less than 5 percent down, compared with 21 percent of all White buyers. The shares of buyers using such high LTV loans has increased somewhat from the early 1990s, with increases of 4 percentage points for Whites and 2 percentage points for Hispanics. Although the availability of these loans has undoubtedly helped fuel the increases in homebuying, a fairly large share of buyers have little equity in their homes.

In terms of other mortgage characteristics, nothing indicates that low-income and minority first-time buyers are more likely to choose adjustable-rate mortgages and thus be exposed to interest-rate risk—at least as of 2005. Also, little difference is evident in the length of the mortgage term by income or race/ethnicity. Over the past year, however, numerous news accounts have documented the rapid growth in market share for various types of ARMS, including those with interest-only payments. Not evident from these reports, however, is the characteristics of homebuyers using these loans, particularly the extent to which the borrowers are low-income and minority first-time homebuyers.

Perhaps the most troubling aspect of the housing choices made by low-income and first-time buyers is the fairly large share facing significant housing cost burdens. In the period since 1997, a fairly significant increase in the share of low-income buyers having a severe payment burden has resulted in the need for these buyers to devote more than 50 percent of their income for housing costs. During the 1997-through-2005 survey years, 21.5 percent of low-income buyers faced such severe payment burdens, an increase of more than 30 percent from the 16.3 percent of buyers in this situation before 1997. Although African-American homebuyers are only slightly more likely to face moderate or significant payment burdens compared with Whites, Hispanics are much more likely to have significant payment burdens; 29.8 percent of Hispanics have moderate payment burdens (that is, they pay between 30 and 50 percent of income for housing) and 17.4 percent have severe payment burdens (they pay more than 50 percent of income for housing).

Overall, the evidence from the AHS and the literature paints a somewhat mixed picture of the initial housing conditions of low-income and minority homebuyers. On the one hand, for the most part, these buyers have obtained decent housing in decent neighborhoods. The houses and neighborhoods are of higher quality than those occupied by low-income renters and of similar quality to housing occupied by the average U.S. household. On the other hand, no strong evidence indicates that a move to homeownership has resulted in large increases in neighborhood quality for these buyers. Despite this observation, nothing indicates that a significant share of buyers is ending up in distressed neighborhoods.

Indications suggest that the number of buyers exposed to the risk of being unable to meet their mortgage obligations has increased. One example of this trend is the increased prevalence of high LTV loans; one-fourth or more of low-income and minority buyers have purchased their first homes with relatively little money down. Although this trend has undoubtedly helped fuel the increase in homeownership, these buyers are also more vulnerable to fluctuations in home prices. The significant increase in single-person and single-parent homebuyers also raises concerns about the ability of these households to respond to a financial crisis with only one earner to support the mortgage. Most importantly, a growing share of low-income first-time buyers are devoting more than one-half of their income to housing costs; one in five buyers has faced such a severe burden in recent years. These households clearly have little ability to adapt to any increases in housing expenses or decreases in income. On a positive note, low-income and minority buyers do not appear to face significantly higher interest rates at the time of purchase compared with other buyers.

This article has relied much less on a review of the existing literature and more on descriptive analyses of available data. In part, this focus reflects a desire to present a strong factual base about the recent low-income and minority homeownership boom to help inform the interpretation of studies about the experience of low-income and minority households as owners, which is the subject of Herbert and Belsky (2006). The focus of this article also reflects the fact that the literature examining initial housing choices is fairly thin. Several areas for further research stand out in particular. First, a need exists for multivariate analysis of the housing choices made by low-income and minority homebuyers to examine whether in fact homeownership is associated with greater housing quantity, quality, and satisfaction, taking into consideration important differences in the characteristics of renters and owners. Second, it would be very informative to make use of panel surveys of households to examine how a move to homeownership changes the quantity and quality of housing as well as its cost. Finally, further analysis of the mortgage choices made by low-income and minority homebuyers is needed given the importance of these choices in determining the financial benefits of homeownership.

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