

Methodology:

Qualifying income was calculated for each metro area studied. This qualifying income threshold was compared to the distribution of renter household incomes to determine the share of renter households that are income-qualified to purchase a home in each metro area. Metro areas were further filtered by the strength of the local economy which was proxied by job growth in the last year. Calculation details, assumptions, and data sources are below.

- Qualifying income = (monthly principal and interest payment)*12*4;
this yields an income for which the principal and interest payment is only 25 percent.
- A three percent down payment was used to calculate the qualifying income because a lower down payment creates the highest income threshold for qualifying and thus yields the most conservative estimate of qualified renters; renters are assumed to have savings for a 3% down payment and closing costs plus reserves.
- Loans are assumed to be fixed-rate, fully amortizing mortgages, and interest rate adjustments were made for the low down payment (3%): an annual mortgage insurance premium of 0.85% and 1.75% upfront mortgage insurance premium were added.
- Renters are assumed to have sufficient credit score to qualify¹.
- Since hazard insurance, taxes, and other housing fees were not included in the analysis, a conservative qualifying ratio of 25 percent was applied instead of the recommended 31 percent. It is assumed that renters non-housing debt payments do not disqualify them².
- 2014 ACS microdata was used to estimate the population of renters in 2015; 2015 incomes were conservatively projected by applying a 2% increase to 2014 household incomes.
- Median Household Income refers to the renters whose household income is above the qualifying income
- Data sources:
 - Population Distribution: American Community Survey (ACS) Public Use Microdata Sample (PUMS) data (2014) with NAR adjustments
 - Job Growth: U.S. Bureau of Labor Statistics
 - Price: Median Sales Price of Existing Single-Family Homes for Metropolitan Areas from the National Association of REALTORS® or local REALTOR® data source
 - Interest rates: Freddie Mac Primary Mortgage Market Survey

¹ Based on VantageScore 3.0 model, there are an estimated 30 to 50 million adults who are invisible in terms of not having any credit score.

VantageScore. 2013. "VantageScore 3.0: Better Predictive Ability Among Sought-After Borrowers." VantageScore White Paper Series. December. Available online at

http://www.vantagescore.com/images/resources/VantageScore3-0_WhitePaper.pdf

² Based on FHA:

a. The maximum ratio of total mortgage payment divided by the gross monthly income is 31%.

b. The maximum ratio of total mortgage payment and all recurring monthly revolving and installment debt divided by the gross monthly income is 43%.

See HUD's documentation for more details:

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>



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