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An Analysis Study of Affordable Housing in the United States

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Abstract

It is very interesting to learn that the affluent country such as United of America still have social welfare program such as affordable housing program. So, this article aimed to study the problem of the gap in affordable housing in the United States during the Clinton's administration. The data for study were based on James E. Wallace Abt Associates Inc. that indicated that the forms of federal financial support for affordable housing are roles of private, for-profit suppliers; local public housing agencies; and nonprofit, community-based developers in providing affordable housing. The primary U.S. vehicle for affordable housing production is currently the low-income housing tax credit. While this system has produced nearly 350,000 units of low-income housing, it has inherent inefficiencies relative to a direct capital grant and currently requires assembling mortgage financing from several sources. Congress and the Clinton administration have been reluctant to encourage much additional development by public housing agencies, and the capacity of nonprofit, community-based developers is still limited. Experiments are under way on a variety of credit enhancement and risk-sharing techniques. Also, the data for study from Harvard University Report on 2020 housing in the U.S.

Keywords: Affordability, Nonprofit sector, Program

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Introduction

This article concentrates on U.S. policies affecting the production, rehabilitation, or acquisition of rental and owner-occupied housing affordable to low-income target populations. At issue is the question of how best to reach those households needing some form of housing assistance to live decently at an affordable cost. It concentrates on the issue of the U.S. mechanisms for development of housing to be provided at costs affordable to low-income households. The current financing mechanisms, for both equity and mortgage financing, will be addressed, as will the matter of subsidy sources for lowering monthly costs to levels affordable by lower income households. Affordable housing in the U.S. refers to decent home in a suitable living environment for ever⁴

Affordable housing

What is “affordable” housing? “A decent home in a suitable living environment for every American family” was professed as a housing goal in the U.S. Housing Act of 1949 and reaffirmed in the 1990 National Affordable Housing Act, with the added condition that the housing should be affordable. The gap between this goal and the U.S. reality has been and remains large, however “affordable” is defined. Although affordable housing has no official definition, a widely accepted implicit definition is that monthly housing costs in adequate housing should be no more than 30 percent of household income. This is the rent payment standard currently used by the U.S. Department of Housing and Urban Development (HUD) for two of its major housing programs: public housing and the program called Section 8, which provides rental assistance. This implicit standard is by no means uniformly accepted. Michael Stone in his recent book, *Shelter Poverty: New Ideas on Housing Affordability*, argues that 30 percent of income is not an appropriate standard. He notes that, while other public programs have eligibility standards based on income, no other programs have an affordability standard⁵ (Stone, 1993). Stone uses the U.S. Bureau of Labor Statistics “Lower

⁴ Wallace, James E. 1994. *The Dilemma of the Disposition of Troubled FHA Insure Multi Family Rental Property Housing Policy Debate* 5(1):1-34

⁵ Stone, Michael. 1993. *Shelter Poverty: New Ideas on Housing Affordability*. Philadelphia: Temple University Press



Budgets" to define the cost of necessities other than housing as a function of household size and type. Once a household has paid housing costs, which typically are regarded as a preeminent item in the household budget, it is "shelter poor" if the remaining income is not enough to cover these basic, non-housing necessities. By this standard, one-third of the nation's people are shelter poor, including many homeowners. As Stone points out this analysis does not indicate a magnitude of the affordability problem appreciably different from the conventional standard of 25 or 30 percent of income, but it is distributed very differently, with more severe problems among lower income households and larger households and less severe problems among middle income and smaller households (Stone 1993). The income target for federal programs has varied over time. Currently, the term "low-income households" refers to those with incomes at or below 80 percent of local median income, adjusted for family size. "Very low-income households" are those with incomes at or below 50 percent of local median income. Most explicit rental subsidy programs in the United States are now directed toward the very low-income group. The term "extremely low-income households" has been used by some researchers to refer to those with 25 percent of median income or less. The Tax Reform Act of 1986 established still another income criterion, 60 percent of median income, for the low-income housing tax credit. The affordable housing gaps. By any measure of affordability or housing need, millions of low-income U.S. households lack decent and affordable housing. According to a report by HUD (1991)⁶, 11.6 million (58 percent) of the 20 million low-income renter households paid 30 percent or more of their income for housing in 1989. About 5.5 million (28 percent) paid more than 50 percent. For very low-income households the problem is, understandably, even more acute. Forty percent of very low-income families had rent burdens exceeding 50 percent of income. Households in decent housing but paying a large fraction of their income for monthly housing costs could be helped most directly by an income transfer or a direct rental subsidy, such as the Section 8 rental assistance program in the United States, which already provides tenant-based assistance to 1.4 million households. Even worse off are those who pay a large fraction of income for housing yet live in

⁶ U.S. Department of Housing and Urban Development. 1991. *Priority Housing Problems and "Worst Case" Needs in 1989: A Report to the Congress*. Washington, D.C.



substandard conditions. The Joint Center for Housing Studies of Harvard University (1993) used the 1991 American Housing Survey to estimate the number of low-income households in housing need. The center identified low-income renter households that received no federal assistance and had a priority housing problem. Such as physically inadequate housing or paying at least 50 percent of income for rent. The study indicated that of the 6,048,000 extremely low-income renter households, 2,266,000 or 37 percent were receiving federal housing assistance in 1991.

Concerning the affordable housing in the United States of American, Harvard University's State of the Nation's Housing 2020 report, sponsored by Habitat for Humanity⁷, arrives at an exceptional time for the U.S. The COVID-19 pandemic, outcry for racial justice and intensified storms and wildfires have seriously tested our nation, elevating housing insecurity, racial discrimination in housing and the critical link between health and home to front page news.

As a new Congress and administration prepare for 2021 and as housing providers plan for the coming year, Harvard's 2020 report provides a touchstone for developing a shared understanding of our nation's housing challenges and what it will take to solve them. Four key findings from the report are particularly relevant to Habitat's mission and advocacy efforts⁸

1. Persistent unaffordability

In 2019, 37.1 million households were “housing cost burdened,” spending 30% or more of their income on housing. This represented 30.2% of all households nationwide. One in 7 households — 17.6 million in total — were “severely cost burdened,” spending half or more of their income on housing.

Renters were more cost burdened than homeowners, with 46% of renters cost burdened compared to 21% of homeowners. Also, 24% of renters and 9% of homeowners were severely cost burdened. In total, though, homeowners made up 40% of all households with severe housing cost burdens, given the larger number of homeowners in the overall population. Cost burdens were greatest among lower-income households. For households earning less than \$30,000, 81% of renters and 64%

⁷ Habitat for Humanity

⁸ Harvard University's Joint Center for Housing Studies: 2020 State of the Nation's Housing report, sponsored by Habitat for Humanity. 2020



of homeowners were cost burdened. This includes 57% of renters and 43% of homeowners with severe cost burdens. For those earning between \$30,000 and \$45,000, 57% of renters and 36% of homeowners were cost burdened, including 15% of renters and 13% of homeowners with severe cost burdens.

High housing cost burdens were driven by persistently high housing costs relative to income. In 2019, the median sales price of existing single-family homes rose faster than median household income for an eighth straight year.

The report points to various reasons for the continued undersupply of affordable homes, including Low-density zoning restrictions, Excessive parking requirements and High development fees

These factors increase the cost of homebuilding for developers and restrict the availability of land for construction.

2. Growing racial disparities

The report documents the persistence and growth of significant racial disparities in housing. Chief among these is the racial gap in homeownership. The gap between households of color and white households continued to grow in 2019, especially between white and Black households. That gap is now more than 30%, the largest it's been since 1983. While white household homeownership increased slightly to 73.3% in 2019, the Black household homeownership rate remained virtually flat at 42.8%. The homeownership rate for Hispanic households was 46.3%, and for Asian households 57.3%.

Similarly, among homeowners earning less than \$25,000, homeowners of color were 5-10 percentage points more likely to have cost burdens than white homeowners.

The report also highlights the significantly higher rate at which households of color live in neighborhoods with concentrated poverty. Nearly two-thirds of low-income Black, Hispanic and Native American individuals live in high-poverty areas, compared to one-third of low-income white individuals.

3. Widespread housing insecurity

According to data highlighted from the Census Bureau's *Household Pulse Survey* in late September, 36% of all homeowners lost employment income between March and the end of September. Among homeowners, income loss was most common for those earning less than \$25,000 (44%), Hispanic homeowners (49%) and Black homeowners (41%).



As of late September, 18% of Hispanic homeowners, 17% of Black homeowners and 12% of Asian homeowners were behind on mortgage payments, compared to 7% of white homeowners. Among those earning less than \$25,000, 32% of Hispanic, 26% of Black, 18% of Asian and 15% of white homeowners were behind on payments. Homeowners of color earning between \$25,000 and \$50,000 were also disproportionately behind on mortgage payments.

Similarly, 23% of Black, 20% of Hispanic and 19% of Asian renters were late on their rents compared to 10% of white renters as of late September. For all renters earning less than \$25,000 a year, one in five were behind on rent.

4. Major barriers to homeownership

The same survey found nearly half of current renters believed lack of enough money for upfront costs, like the down payment, would be a major obstacle to buying a home.

Greater caution from lenders following the pandemic, depleted savings due to job cutbacks and reduced income overall pose major ongoing barriers to homeownership heading into 2021, especially for lower-income renters and household of color

Narrowing the gap of homeownership

In order to narrow the gap of homeownership, Government agency reorganized and make affordable homeownership programs the largest homeownership program oriented to construction of units for low-income households more effective. Also the rural homeownership program, which provides an interest subsidy to yield an effective interest rate of 1 percent on loans. This program initiated 25,700 loans in 1992 and has accumulated contractual commitments for 7,000 new units since its creation in 1990. Virtually all the HOME funds allocated to rental assistance are targeted to households with incomes under 60 percent of the median, consistent with the income targeting of the tax credit. Of HOME homeownership funds, 77 percent are targeted to households under 60 percent of the median. While the HOME program gives participating jurisdictions wide latitude in how they configure a homeownership program. The objectives of the program were to increase homeownership among low- and moderate-income households, improve neighborhoods by building at large scale, and increase employment in those neighborhoods. The program offered competitively selected nonprofit organizations federal funding of up to \$15,000 per unit to provide “soft second” mortgage loans to first-time low- and moderate-income buyers. Federal funds from the Community Development Block Grant program were also



used to cover acquisition and development costs. Local government and private sources were also used to cover part of the costs and lower the income level that could be reached. Funding was provided in 1989, 1990, and 1991, at which point the program was canceled. The Nehemiah program was one of several zeroed out in the National Affordable Housing Act of 1990, under the presumption that its purposes were better covered through the HOME program. Of the 1,321-income targeting information was provided to the author by the HUD Office of Affordable Housing. The following summary is adapted from the final report of the evaluation of the federal Nehemiah program (Phipps, Heintz, and Franke 1994). Financing Affordable Housing in the United States 803 units funded in 1989, only 392 had been completed and occupied as of August 1993 (Phipps, Heintz, and Franke 1994). Thus far, the purchasers of Nehemiah housing have incomes of 44 percent of the local median income. While several of the programs are producing ownership units at modest costs, the nonprofit sponsors in several cases have found it difficult to organize and implement the program planned. HUD has had various so-called urban homesteading programs, under which properties that had defaulted on their HUD insurance were recycled to low-income families. The current version is called HOPE (for “Home Ownership for People Everywhere”) and is a program for providing grants to help low- and moderate-income households purchase single-family houses that have been foreclosed and are owned by the government. Also, the government has to make affordable housing the real affordable by making low income housing a decent home in a suitable living environment for every American family. as professed as a housing goal in the U.S. Housing Act of 1949 and reaffirmed in the 1990. National Affordable Housing Act, with the added condition that the housing should be affordable. The gap between this goal and the U.S. reality has been and remains large, however “affordable” is defined. Although affordable housing has no official definition, a widely accepted implicit definition is that monthly housing costs in adequate housing should be no more than 30 percent of household income. This is the rent payment standard currently used by the U.S. Department of Housing and Urban Development (HUD) for two of its major housing programs: public housing and the program called Section 8, which provides rental assistance. This implicit standard is by no means uniformly accepted. Once a household has paid housing costs, which typically are regarded as a preeminent item in the household budget, it is “shelter poor” if the remaining income is not enough to cover these basic, non-housing necessities. By this standard, one-third of the nation’s people are shelter poor, including many homeowners. This analysis does not indicate a magnitude of the affordability problem appreciably different from the conventional standard of 25 or 30



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Conclusion

According to the four factors: Persistent unaffordability, growing racial disparities, Widespread housing insecurity and Major barriers to homeownership indicated by Harvard University’s study, that increase the cost of homebuilding for developers and restrict the availability of land for construction, the national housing policy should be re-envisioned as follows:

Remedying both the legacy and continuing presence of racial discrimination in housing markets.

Creating new sources of subsidy to support the development of affordable homes for lower-income households.

Using regulatory and tax incentives to promote more efficient, private production of housing.

Investing in the housing stock of distressed, high-poverty communities.

Expanding housing choice vouchers and other forms of rental assistance to meet the entire need of very low-income renters.

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