ever, depending on how many of these commitments currently go to low-income elderly renters. By contrast, commitments available to households with children present and to nonelderly childless households can serve at most roughly 38 percent and 19 percent, respectively, of those with very low incomes. Homeownership assistance is provided to roughly one in ten lower- and moderate-income homebuyers in any year, with nonelderly households receiving almost all of the assistance.

ISSUES AND OPTIONS

As is the case with all direct spending programs, the fundamental issue facing the Congress each year concerning housing programs is how much funding to devote to this type of assistance. This determination involves trade-offs among increasing funding for this activity versus decreasing funding of other government functions, raising taxes, or increasing the deficit. In addition, a host of decisions must be made regarding issues specific to housing policy, including:

- What form assistance might take;
- Who might receive it; and
- How large a subsidy might be provided and how many households might be aided.

While these issues can be considered separately, any final resolution involves trade-offs among them and with total annual program costs. For example, the proportion of eligible households served could be increased by enlarging the pool of available commitments, by restricting assistance to a smaller, poorer group of households, or by combining both approaches. To limit increases in federal expenditures generated by this decision, cheaper forms of assistance could be chosen, households' out-of-pocket expenditures could be increased, or these strategies could be combined.

A related issue of growing importance will also affect decisions on how to deal with these questions. This issue concerns the potential loss of housing assistance commitments resulting from impending expirations of many multiyear assistance contracts and opportunities for private owners of certain federally subsidized projects to opt out of the programs. Although specific approaches for keeping these units in the programs are not considered in this paper, the choices involve many of the same trade-offs as those for providing additional aid.

What Form of Assistance to Provide

In considering what type of aid to provide for newly assisted households, one basic decision involves the split between homeownership and rental assistance. Some argue that homeownership assistance should no longer be provided, because beneficiaries of those programs are often not in the poorest segment of the population. Proponents of direct homeownership subsidies argue that this type of aid provides lower-income households with a chance to gain financial equity in a home, giving them the same opportunities that higher-income households derive from tax expenditures for homeownership.

A decision to continue aid to homeowners could be carried out in several ways. The traditional approach has been to reduce mortgage payments for homebuyers through mortgage-interest subsidies in a manner that allows the size of the subsidy to vary over time in response to changes in the household's economic circumstances. The government, however, continues to be involved over the life of the mortgage, generating administrative costs. An alternative approach for helping homebuyers is to reduce the principal amount of the mortgage by providing grants or otherwise reducing the purchase price. This approach would limit the time the government was involved, but it would also eliminate the ability to adjust the size of the subsidy over time in response to changes in a household's income. A third strategy would be to offer subsidies to homeowners, both those who already own their homes as well as those purchasing one, through vouchers similar to those available to renters. Such aid would help prevent poor households from losing their homes because of difficulties in meeting their payments, but it would direct scarce federal resources to a group that may have substantial assets in the form of accumulated equity in their homes.

Debates on how to provide rental assistance typically focus on the mix between project-based new construction programs and household-based subsidies that use the existing private housing stock. Because subsidized new construction is relatively expensive to fund and slow to be put in place, this form of aid might be phased out completely. Moreover, subsidies provided solely through the existing-housing programs would respond to the predominant problem, which is not a shortage of rental units but the ability of households to afford their rents. On the other hand, new construction might be needed in areas where the private market fails to provide an adequate supply of units fulfilling the specific needs of certain types of households in the local lower-income population. Many elderly people, for example, need the support services that can be made available in projects; and many large families may have trouble finding housing units of the appropriate size.

Which Households to Serve

Each year, the federal government must determine what types of households should receive whatever additional aid is provided. This decision is primarily one of targeting--toward elderly households versus families with children or nonelderly households without children, toward households with greater housing needs, or toward the poorest of the households eligible for aid.

Given the uneven distribution of housing aid across demographic groups--specifically, the elderly are now served at much higher rates than are families with children--participation rates could be brought closer together. On the other hand, continuing to serve the elderly at relatively higher rates might be preferred because the economic status of a given poor elderly household is unlikely to improve much over time, while the financial position of nonelderly adults and their families might be helped more in the long run if they received federal aid to enhance their employment opportunities.

To move toward equalizing participation rates, most or all new aid could be designated for families with children, until their participation rate equaled that of the elderly. Given the current gap in coverage, however, this could require a moratorium of about nine years on new aid for the elderly, or a substantial reduction in funding (relative to current policy) for a longer period.

Alternatively, eligibility for housing aid could be restricted to households with housing problems, and aid could be distributed according to the frequency with which housing problems occur within demographic groups. Such a scheme would automatically increase the share of new assistance going to families with children, because they encounter housing problems more frequently than do the elderly--in part because they have been underserved in the past. This approach would, however, penalize frugal households and might create perverse incentives for households to undermaintain their units or to move to expensive ones in order to qualify for aid.

Another approach would be to change the income-eligibility limits and target aid toward the poorest segment of the population, thereby automatically raising the proportion of eligible households served. Such a scheme would lessen the necessity to ration aid and would reduce uneven treatment of households in similar economic circumstances. But it would impose hardships on many working poor people who would no longer be eligible for aid and could harm their chances to remain in their current units or obtain housing in the vicinity of their jobs. In addition, a more limited economic mix of households would make the living environments in assisted housing projects less desirable and, in many areas, defy the goals of racial integration.

Number of Households to Assist and the Size of the Subsidy

The number of households that the Congress chooses to assist and the amount of subsidy each household receives determine the ultimate cost of housing programs to the federal government. In the past, these questions have been considered separately. Decisions on the additional number of commitments have been made annually, while the size of the subsidy has been adjusted less frequently.

One option would be to make assistance available to all currently eligible households who wish to participate. This would eliminate the unevenness of current housing programs but would make control over future expenditures much more difficult, as is the case with all entitlement programs. It would also be extremely expensive, with federal costs depending on the size of the eligible population, household participation rates, and the type of assistance used. Assuming that only very-low-income renters were eligible, that 58 percent of them would very-low-income renters were eligible, that 58 percent of them would participate, and that vouchers were used for all new recipients, an entitlement program would increase outlays by roughly $11.1 billion per year (in 1990 dollars) over current levels and would assist a total of about 7 million households, once fully phased in.

Uneven treatment of households could also be eliminated by moving in the opposite direction and phasing out housing assistance programs as current contracts expired. Provision of general income supplements for all households that are currently eligible for housing assistance might be carried out simultaneously. For example, if outlays were kept at their 1990 level, an average of $1,260 per household would be available as an annual income supplement if restricted to very-low-income renters. The supplement would be roughly $680 per household if very-low-income homeowners were also included. However, because these transfer payments would be much smaller than the housing subsidies currently received by many participants, this strategy would probably force some currently assisted households to move from their units and would do little to improve housing conditions for those who preferred to spend their subsidies on other goods and services.

Alternative strategies to help more households without resorting to either extreme include continuing the gradual expansion of housing assistance commitments or, perhaps, combining that approach with a decrease in the average subsidy in order to limit the level of expenditures. The average subsidy could be reduced either by increasing households' out-of-pocket expenditures or by decreasing the maximum rent level that the government would subsidize.

One benchmark that could be used to expand program coverage would be to provide the 1989 level of funding--adjusted for inflation--for net additional commitments, which could assist around 94,000 new households under HUD programs and around 44,000 under FmHA programs in 1990. If current program guidelines remained the same, this addition would require $9.9 billion in new budget authority for fiscal year 1990 for HUD programs, including funds for public housing operating subsidies, and $1.9 billion in loan authority for FmHA.

Annual expenditures could be decreased if the average subsidy were lowered by requiring assisted households to contribute a larger share of their income for rent. If, for example, households had to pay 35 percent of their income, about $1.3 billion in annual savings could be realized by 1993, when 80 percent of such a change would be phased in. These savings could be used that year to assist up to 246,000 additional households or for other purposes. The fact that so many nonassisted poor households pay more than half of their income for rent supports this approach. Furthermore, a higher rent-to-income ratio would tend to make assisted housing less attractive to higher-income households and thus would target aid toward those most in need. It would, however, increase housing costs for current recipients by the same percentage, regardless of how low their incomes were.

Another strategy to reduce average subsidies would be to cut the maximum rent that would be subsidized. Compared with increasing tenants' contributions, this approach would not necessarily increase housing costs if tenants could find standard units within the new guidelines. On the other hand, unless landlords absorbed some or all of the decrease in allowable rents, more households with newly issued Section 8 certificates would be unable to find standard units, while some current participants would face a drop in services provided by the landlord or be forced to move from their units. Allowing households to pay more than 30 percent of their income to cover the lower government subsidy, as is the case in the voucher program, would avoid most of these effects but could substantially raise tenants' expenditures for housing.

CHAPTER I

INTRODUCTION

Federal policies specifically designed to improve the housing quality and to reduce the housing costs of lower-income people have evolved over half a century. During this period, the availability of housing assistance has greatly expanded, but it has never been provided as an entitlement. Thus, only a relatively small fraction of eligible households is now being helped. In recent years, housing assistance programs have been affected significantly by a series of cost-containment measures generated by budgetary pressures. These measures have included a dramatic slowdown in the rate at which assistance is expanding, virtual elimination of expensive types of assistance provided through new construction programs, increases in the out-of-pocket housing expenditures made by assisted households, and more explicit targeting of available resources toward a poorer segment of the population.

As with all direct spending programs, the fundamental issue facing the Congress each year concerning housing programs is how much funding to devote to this type of aid. This determination depends on national priorities and involves trade-offs among funding this activity versus other government functions, raising taxes, or increasing the deficit. In making this choice, a number of questions specific to housing policy must be considered, including the types of aid to be provided, the types of households to be served, the level of subsidy to be provided, and the total number of households to be aided.

These decisions may be affected by several related concerns. First, impending expirations of existing multiyear housing assistance contracts and opportunities for opting out of the programs by certain private owners of federally subsidized projects will decrease the pool of outstanding housing commitments over the next decade unless offsetting actions are taken. Second, the relative importance and nature of direct housing assistance will probably be reevaluated in view of the 1986 changes in the tax code. These changes have generated uncertainty regarding the level of the private sector's involvement in constructing new low-income units; they are also widely predicted to cause overall increases in rents some years from now. Finally, continued interest in comprehensive welfare reform may mean reassessing the role and nature of federal housing assistance among the broad range of programs that help provide for the basic needs of the poor.

The federal government addresses housing needs by providing assistance through a combination of direct spending programs and various indirect mechanisms, including housing-related provisions of the tax code and mortgage credit and insurance activities.[1] The rest of this chapter describes the overall scope of federal housing aid, and the remainder of the paper provides information particularly relevant to direct spending programs targeted toward lower-income households. Specific topics include the nature and extent of housing problems, the types of households that are likely to experience these problems, how currently available housing assistance addresses these problems, how much assistance is currently provided, and who receives it. The paper concludes by presenting a broad range of options that the Congress may want to consider in making recurring policy choices about providing housing assistance to lower-income households.

DIRECT SPENDING PROGRAMS

Most direct spending programs provide subsidies for lower-income households. These subsidies are intended to reduce the recipients' housing costs and to improve the quality of their housing. The largest programs are the rental assistance programs administered by the Department of Housing and Urban Development (HUD) and reduced-interest mortgages provided by the Farmers Home Administration (FmHA) for rural residents buying their own homes and for developers of rental housing projects in rural areas. In addition, each year the federal government helps pay for repairing some units that require

1. An additional source of housing aid is provided through the income maintenance programs administered jointly by the Department of Health and Human Services and state and local governments. Explicit or implicit shelter allowances provided through the Aid to Families with Dependent Children, Supplemental Security Income, and General Assistance programs are estimated to amount to more than $10 billion a year at present. For an analysis of shelter assistance through both housing assistance and income maintenance programs, see Sandra J. Newman and Ann B. Schnare, *Reassessing Shelter Assistance in America* (Washington, D.C.: Urban Institute, 1987).

rehabilitation. Most of this aid is provided directly through the public housing modernization program and through a recently enacted rental housing rehabilitation block grant, and indirectly through community development block grants to cities.

The major direct subsidy programs are generally funded through long-term contracts. The Congress appropriates funds each year to pay for some number of new commitments that expand the pool of available aid and also add to federal outlays for many years. Between 1977 and 1988 alone, about 2.2 million new rental commitments were made, and about 0.8 million new subsidized mortgages were provided for homebuyers. By the end of fiscal year 1988, the total number of outstanding commitments had risen to almost 5.7 million, about 80 percent of which were for rental assistance, with the remainder for subsidized mortgages. Federal expenditures for direct housing subsidies amounted to over $15 billion in 1987. Another $1.3 billion was spent for rehabilitation activities financed through community development programs.

Despite these high levels of activity and expenditures, only a relatively small proportion of all eligible households is served. Rental assistance commitments financed to date, for example, will probably serve only about one-third of the target group of renter households. The coverage differs among various types of households, however. The elderly receive a relatively large share of rental assistance, while families with children are served at a lower rate.

INDIRECT ASSISTANCE

Housing-related tax expenditures and credit assistance differ from direct spending for housing in two important ways. First, they offer general support for housing and, unlike direct federal spending programs, are not limited to lower-income groups. In fact, the bulk of this aid is received by middle- and upper-income households. Second, tax expenditures and credit assistance are available to all who meet basic eligibility requirements, but only a portion of those who are eligible for direct aid currently receive it.

Housing-Related Tax Benefits

A number of provisions in the federal tax code provide by far the largest source of housing subsidies. Most of these benefits go to moderate- or high-income homeowners, either by reducing the after-tax costs of homeownership or by lowering the capital gains liability when homes are sold for a profit. Because the Tax Reform Act of 1986 reduced personal income tax rates and increased the standard deduction, resulting in fewer persons itemizing deductions, the value of these provisions to homeowners and, hence, the annual cost to the government, has decreased recently. Nevertheless, together these homeownership provisions are estimated to reduce federal tax revenue by $53.6 billion in 1989.[2] Two provisions alone--the deductibility of payments for mortgage interest and for property taxes--are estimated to account for more than $38 billion in forgone revenue. Thus, the value of these tax expenditures will still greatly exceed direct spending for lower-income housing assistance.

For rental housing, tax benefits initially accrue to the property owners, but much or all of the tax savings may eventually be passed through to tenants in the form of reduced rents. Thus, these provisions tend to be more beneficial to households in lower-income brackets than are the homeownership provisions. Owners of rental properties can benefit from tax-exempt bond financing and, until passage of the Tax Reform Act of 1986, they could also benefit from accelerated depreciation rules and deduction of losses against other income. The 1986 tax act eliminated both accelerated depreciation provisions for real estate--except for some grandfathering provisions--and opportunities for many investors to offset losses in real estate against other income. Instead, owners of lower-income rental projects now can receive annual tax credits for a portion--up to 9 percent in 1987--of certain construction, rehabilitation, or acquisition expenditures for qualified rental units for each of the first 10 years following construction or purchase. These tax credits are subject to state-by-state ceilings. (Owners of rental properties also can claim mortgage interest, property taxes, and maintenance expenses as business

2. Adding estimated revenue losses or tax expenditures for individual provisions in the tax code may be misleading; that is, the revenue gain from eliminating a number of provisions simultaneously may be greater or smaller than the sum of the parts. See Congressional Budget Office, *The Effects of Tax Reform on Tax Expenditures* (March 1988).

expenditures to offset rental income.) Together, the rental housing provisions in the tax code are estimated to result in a 1989 revenue loss of about $2.3 billion.[3]

Mortgage Credit and Insurance Activities

The federal government provides significant support for housing finance through various mortgage insurance and guarantee programs and through its secondary mortgage activities. It also insures and supports private savings and loan associations, which--among all mortgage lenders--originate the largest share of all mortgage loans. These activities help expand credit sources for housing, and, in the case of insurance activity, help increase homeownership opportunities for households with moderate income. They also create contingent liabilities for the federal government.[4]

Mortgage insurance and guarantees are provided through a variety of programs administered by the Federal Housing Administration (FHA) and the Veterans Administration (VA). In fiscal year 1987, the FHA insured $93 billion in new loans covering more than 1.6 million units. At the end of that year, the total federal contingent liability for FHA's outstanding mortgage insurance amounted to almost $270 billion. The VA provided similar support for veterans, guaranteeing $35 billion in new mortgages covering 479,500 units in 1987, with the guarantee generally covering 40 percent to 50 percent of the loan's principal, up to a maximum of $36,000. The cumulative federal contingent liability for VA mortgages was more than $65 billion at the end of fiscal year 1987.

The federal government is involved in the secondary mortgage market directly through the Government National Mortgage Association (GNMA), an agency of HUD, and indirectly through the Federal National Mortgage Association (FNMA) and the Federal Home Loan

3. For an overview of the literature on and additional analysis of the implications of tax reform for rental housing, see Jane G. Gravelle, *Tax Policy and Rental Housing: An Economic Analysis* (Congressional Research Service, June 25, 1987).

4. For more information on federal participation in the secondary mortgage market, see Congressional Budget Office, *The Housing Finance System and Federal Policy: Recent Changes and Options for the Future* (October 1983).

Mortgage Corporation (FHLMC), both of which are federally chartered but privately owned agencies. GNMA guarantees the timely payment of interest and principal of privately issued securities backed by federally insured or guaranteed mortgages. In fiscal year 1987, GNMA guaranteed the sale to private investors of $115 billion in such securities, bringing the federal contingent liability for its outstanding guaranteed securities to $309 billion. In contrast, FNMA's and FHLMC's purchases of private mortgages, which are financed either by debt issued in the form of bonds or stocks or by securities backed by these mortgages, have no federal budgetary implications other than FNMA's $2.25 billion line of credit to the Treasury--which has never been used. During calendar year 1987, FNMA purchased mortgages valued at $20 billion, bringing the outstanding principal balances on secured or retained mortgages to $97 billion. FHLMC's comparable figures were $77 billion and $226 billion, respectively.

CHAPTER II

HOUSEHOLD CHARACTERISTICS AND HOUSING CONDITIONS OF THE TARGET POPULATION

This chapter examines the current nature, incidence, and distribution of housing problems in the United States. Housing problems are defined here along three dimensions: affordability, the physical condition of occupied dwelling units, and crowding.

Any measurement of housing problems depends on the particular standards used and is therefore arbitrary, in that stricter standards result in a higher incidence of the problems being measured. The standards used here are generally compatible with those of most housing programs. Thus, households are defined as having problems affording housing when they pay out of pocket more than 30 percent of their income for housing costs--roughly the tenant contribution toward rent in assisted housing set by statute.[1] Dwelling units are judged in need of rehabilitation or repair using a Congressional Budget Office (CBO) index that measures a host of structural defects--a standard that produces estimates comparable to those based on indices developed by the Department of Housing and Urban Development (HUD) and others cited in the literature.[2] Crowding is defined as more than two persons per bedroom--a standard similar to but somewhat less strict than the standard used in HUD housing programs. More complete definitions of these housing problems are given in Box 1.

1. Before 1981, subsidized tenants were required by law to contribute only 25 percent of their income after certain adjustments. The program standard was adjusted in 1981 to reflect overall increases in rent-to-income ratios--for example, the nationwide median had risen to 29 percent by 1983.

2. For a comparison of outcomes using nine indices, including the CBO index, see Sandra J. Newman and Ann B. Schnare, *Reassessing Shelter Assistance in America* (Washington, D.C.: Urban Institute, 1987).

BOX 1
DEFINITIONS OF HOUSING PROBLEMS

Affordability. Households are considered to have problems affording housing when they pay out of pocket more than 30 percent of their income for housing--roughly the tenant contribution toward rent in assisted housing set by statute. Housing costs for renters include tenant payments due to the landlord, utility costs not included in the rent payment, and renters' insurance. Housing costs for homeowners include mortgage payments, real estate taxes, property insurance, and utilities. Both measures of cost exclude federal subsidies. The income measure used is family income, except for groups of unrelated nonelderly adults, for which household income is used.

Housing costs for homeowners are computed without taking account of tax benefits and equity gains, both of which reduce the real cost of homeownership for many of these households. On the other hand, opportunity costs of capital tied up in the home are not included, which increases the real cost of homeownership. In addition, these housing costs exclude expenditures for maintenance and repairs, which also increase the cost of owning a home.

Physical Condition of Dwelling Units. Housing units are judged to be in need of rehabilitation according to an index developed by the Congressional Budget Office (CBO). Units in need of rehabilitation are defined here as those lacking complete plumbing or kitchen facilities, or with two or more of 11 different structural defects. These defects are: (1) three or more breakdowns of six or more hours each time in the heating system during the previous winter; (2) three or more times completely without water for six or more hours each time during the preceding 90 days; (3) three or more times completely without a flush toilet for six or more hours each time during the preceding 90 days; (4) leaking roof; (5) holes in interior floors; (6) open cracks or holes in interior walls or ceilings; (7) broken plaster or peeling paint over more than one square foot of interior walls or ceilings; (8) unconcealed wiring; (9) the absence of any working light in public hallways for multi-unit structures; (10) loose or no handrails in public hallways for multi-unit structures; and (11) loose, broken, or missing steps in public hallways for multi-unit structures.

Crowding. Crowded units are defined here as those with more than two persons per bedroom. This definition is similar to the standard used in federal housing assistance programs.

OVERVIEW OF CURRENT HOUSING CONDITIONS

In 1985, the most recent year for which detailed data exist, about one of every three households in the United States experienced one or more of the housing problems defined in this study (see Table 1). By

TABLE 1. HOUSING CONDITIONS OF ALL HOUSEHOLDS, BY INCOME, 1985

	Income[a]			
Housing Condition[b]	Very-Low-Income	Low-Income	Other	All
	Thousands of Households			
Housing Costs Exceed:[c]				
30 percent of income	13,900	4,370	4,040	22,300
50 percent of income	8,210	750	320	9,280
Living in Housing Requiring Rehabilitation	2,870	1,250	2,020	6,140
Living in Crowded Units	1,280	760	930	2,960
Experiencing One or More of These Conditions[c]	14,890	5,660	6,520	27,070
	As Percentage of Households in Income Category			
Housing Costs Exceed:[c]				
30 percent of income	69	31	9	28
50 percent of income	41	5	1	11
Living in Housing Requiring Rehabilitation	13	9	4	7
Living in Crowded Units	6	5	2	3
Experiencing One or More of These Conditions[c]	74	41	14	33

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Excludes renters who paid no cash rent.

a. The income classification corresponds approximately to the definitions used in federal housing assistance programs, which target aid primarily toward very-low-income households. Income categories are defined in Box 2.

b. Housing conditions are defined in Box 1.

c. Excludes households for which housing cost-to-income ratios are not computed because their housing costs are not available or because their income is zero or negative. The proportions of households with problems are calculated as a percentage of households for which these ratios are computed.

far the most frequent problem was housing costs that were high relative to income, with well over one-quarter of all households spending more than 30 percent of their incomes, and 11 percent spending more than half. By contrast, only about 7 percent of all households occupied units needing rehabilitation, and about 3 percent lived in crowded conditions.

Housing problems are concentrated among households with incomes low enough to qualify for federal housing assistance--that is, the 21.7 million households classified legislatively as very-low-income and, to a much lesser extent, the 14.5 million households classified as low-income (see Box 2 for a definition of these income categories).[3] In particular, almost three-quarters of all very-low-income households and over 40 percent of all low-income households faced one or more of these problems. Very-low-income households were especially likely to be paying large shares of their income for housing costs, with 41 percent spending more than half.

Several factors should be kept in mind when interpreting these findings. First, the same households do not necessarily experience these problems year after year. In particular, fluctuations in households' incomes cause substantial turnover each year in the very-low-income population. Second, even households that remain classified as very-low-income may at times have higher income that reduces the proportion of income spent for housing or enables them to move to units not in need of rehabilitation or with more space. Such shifts in the very-low-income population experiencing housing problems are probably greater among renters than homeowners, and greater among nonelderly households than elderly ones. Finally, available measures of housing conditions have shown that, over the years, an increasing proportion of households pay large shares of income for housing, but this trend has been accompanied by a decreasing proportion living in physically substandard or crowded dwellings.[4] Thus, for some households, paying a large share of their income for housing costs may reflect a choice to live in better, relatively more expensive housing.

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3. Households referred to as lower-income in this paper include both very-low- and low-income households.

4. For an overview of trends in housing conditions, see Congressional Budget Office, *Federal Housing Assistance: Alternative Approaches* (May 1982); and Iredia Irby, "Attaining the Housing Goal?" (unpublished paper, Department of Housing and Urban Development, July 1986).

The remainder of this chapter describes in greater detail the characteristics and housing problems of different types of households that are eligible for housing assistance and compares them with the rest of the population. The analysis provides information on groups that have received special federal attention, such as the elderly and large families. It also compares households in metropolitan and nonmetropolitan locations.

TYPES OF HOUSEHOLDS ELIGIBLE FOR HOUSING ASSISTANCE

Federal housing assistance is available to both renters and homeowners who meet the income-eligibility and other criteria established by statute. Although lower-income households are about evenly divided between renters and homeowners, these two groups differ substantially from each other, and, as a whole, lower-income households differ appreciably from those with higher incomes.

Renters

In 1985, around 54 percent of the 21.7 million very-low-income households and 42 percent of the 14.5 million low-income households rented the dwellings in which they lived. About 28 percent of the very-low-income renters and 15 percent of the low-income renters were households headed by elderly people without children present (see the top panel of Table 2). Approximately 30 percent to 40 percent of all lower-income renters were households headed by a nonelderly person and had no children present. Among very-low-income renters in the nonelderly group without children, 25 percent were families, 63 percent were individuals living alone, and 12 percent were groups of unrelated individuals. The remaining 43 percent of all lower-income rental households included children. Overall, 13 percent of all very-low-income and 9 percent of all low-income rental households had three or more children present. About four-fifths of all lower-income renters lived in metropolitan areas and the remainder in nonmetropolitan areas.

BOX 2
DEFINITIONS OF HOUSEHOLDS' INCOME, DEMOGRAPHIC, AND LOCATIONAL CHARACTERISTICS

INCOME CHARACTERISTICS

The income classification corresponds roughly to the definition used in federal housing assistance programs, which target aid primarily to very-low-income households. Those households, together with low-income households, are referred to here as lower-income households. The income measure employed for classifying most households is family income, which is used in determining eligibility for assistance. Groups of unrelated nonelderly adults, who are generally ineligible for housing assistance (see description of demographic classification below), are classified using household income, because it reflects more accurately the households' ability to pay their housing costs. Median area income corresponds to median area family income, excluding households with one person and groups of unrelated individuals.

Very-Low-Income. A four-person household is classified as very-low-income if its income is less than or equal to 50 percent of the area's median income. Threshold incomes are adjusted for family size. For example, for a one-person household, the threshold is 35 percent, and for an eight-person household it is 66 percent.

Low-Income. A four-person household is classified as low-income if its income ranges from 51 percent to 80 percent of the area's median income. For a one-person household, the range for low-income designation is between 36 percent and 56 percent, while for an eight-person household the range is between 67 percent and 100 percent.

Other. Households that are neither very-low-income or low-income are classified as other and are referred to in this paper as higher-income households.

DEMOGRAPHIC CHARACTERISTICS

The demographic classification stratifies households according to size and age of members. Of these household types, elderly households and large families have received special federal attention.

Elderly Households with No Children. This group consists of households headed by a person age 62 or older without children under the age of 18 present.