

How to Do a Paycheck to Paycheck Analysis for Your Community

THE PAYCHECK TO PAYCHECK ANALYSIS¹ developed by the Center for Housing Policy helps communities assess the affordability of workforce housing and make the case for taking action.

Step 1: Collect Data

Step 2: Calculate Homeownership Affordability

Step 3: Calculate Rental Affordability

Step 4: Create Charts

STEP 1: COLLECT DATA

The first step in an analysis is to collect data on the costs of buying or renting a home and on the salaries of workers in your community. Below are suggestions on sources for obtaining the needed information.

Homeownership

a. Home Purchase Prices: Use median or a range of prices

- Local REALTORS® for existing homes from the local multiple listing service
- Homebuilders for prices of new homes
- Advertised units in local papers

b. Interest Rates:

- Area lenders
- Go to the Federal Home Finance Agency website,² and click on Research and Analysis, then Market Data, and finally Mortgage Interest Rate Survey (MIRS) Data

Note: If the down payment is less than 20%, add 45 basis points to cover the costs of mortgage insurance.

c. Property Taxes and Property Insurance:

Express as monthly cost

- Tax rates from local assessor's office or local government website
- Insurance from local insurance reps OR
- Estimate monthly amount for both items by multiplying the home price by a number ranging from .0015 (low-cost area) to .0025 (high-cost area).

Rental Affordability

Rents: Add utility costs, if applicable

- Consult area landlords
- Advertised units in local papers
- HUD Fair Market Rents³

Salaries and Wages

Wages: Can be annual or hourly

- Chamber of commerce
- Individual local employers
- Advertised jobs in local papers
- Occupational Earnings and Wage Estimates by metro area⁴
- Commercial data by metro area and ZIP code⁵

STEP 2: CALCULATE HOMEOWNERSHIP AFFORDABILITY

Determining the affordability of homeownership involves a six-step process.

1. Determine the mortgage amount

Based on the data you have gathered, assume a home purchase price amount and down payment amount. Subtract the down payment from the home purchase price to determine the amount of mortgage needed.

How to Do a Paycheck to Paycheck Analysis for Your Community

Example: Assume a \$250,000 purchase price and 10% down payment. $\$250,000 - \$25,000 = \$225,000$ mortgage

2. Calculate monthly principal and interest (P&I)

Use the quoted interest rate and mortgage term (Paycheck analysis assumes a 30-year fixed mortgage) to obtain monthly principal and interest payments from:

- Printed mortgage tables OR
- Pocket calculator or spreadsheet OR
- Online calculator:
 - <http://www.bankrate.com>⁶
 - <http://www.hsh.com>⁷
 - Numerous bank websites

Example: P&I for \$225,000 mortgage = \$1,407/month.

Note: In this example the interest rate was 6.4%

3. Add monthly taxes and insurance to monthly principal and interest amount to come up with monthly homeownership costs (also known as PITI)

Example: Taxes + Insurance = \$450/month. $\$1,407 + \$450 = \$1,857$ total monthly homeownership cost

4. Annualize total housing costs

Multiply total monthly cost by 12 to get total annual housing cost.

Example: $\$1,857 \times 12 = \$22,284$

5. Calculate income needed to qualify for the loan

Assume housing costs should be no more than 28% of income. Divide total annual housing cost (Number 4) by .28

Example: $\$22,284/.28 = \$79,586$. You have to earn at least \$79,586 to qualify for a \$250,000 mortgage.

6. Compare the salaries of your selected occupations to determine if the salaries are sufficient

Use the local data on salaries that you gathered in Step 1.

Example: Assume a teacher makes \$49,000/year and a firefighter makes \$46,500/year (These are typical salaries nationwide). At these wages, persons with either occupation cannot afford a \$250,000 mortgage.

STEP 3: CALCULATE RENTAL AFFORDABILITY

Determining rental affordability involves a five-step process.

1. Determine annual rents for desired rental unit types

Suggested data sources were provided under Step One. Do separate calculations for each size unit. Multiply monthly rents by 12 to get annual rents. Add in utility costs not already included in the monthly rent.

*Example: 1BR @ \$500/month = \$6,000/year
2 BR @ \$750/month = \$9,000/year*



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2. Determine income needed for rent to be affordable

Divide annual rents by .30. This calculates the amount you need to earn annually so that rent is no more than 30 percent of income, a common rule of thumb for affordability.

Example: 1 BR @ \$6,000/.30 = \$20,000.

2 BR @ \$9,000/.30 = \$30,000.

3. Convert annual income to hourly wage needed for rent to be affordable

Divide annual rent (Number 2) by total number of hours typically worked in a year (2,080). This gives you what you need to earn per hour to afford estimated rent.

Example: 1 BR @ \$20,000/2,080 = \$ 9.62/hour.

2 BR @ \$30,000/2,080 = \$14.42/hour

4. Determine hourly wages of selected occupations

If wage data are annual, convert to hourly by dividing annual wages by 2,080 to get hourly wages.

Example: Assume a retail salesperson makes \$18,000/2,080 = \$ 8.65/hour. Assume a security guard makes \$23,000/2,080 = \$11.05/hour

5. Compare the salaries of your selected occupations with rents to determine if the salaries are sufficient

Example: At these wages, a retail salesperson cannot afford a one- or two-bedroom rental unit. A security guard can afford a one-bedroom but not a two-bedroom unit.

STEP 4: CREATE CHARTS

Paycheck to Paycheck data can tell a compelling story about housing affordability in your community. Consider creating charts to illustrate your findings.

1. Homeownership chart

Show the income needed to qualify for the median-priced home compared to what workers in selected occupations actually earn.

2. Rental chart

Show the amount per hour a worker needs to earn to afford to rent a one- or two-bedroom home if rent does not exceed 30 percent of income. Compare this to median hourly wages actually earned by workers in selected occupations.

For sample charts, go to the Paycheck to Paycheck Database.⁸

LINKS

¹ <http://www.nhc.org/chp/p2p>

² <http://www.fhfa.gov>

³ <http://www.huduser.org/datasets/fmr.html>

⁴ <http://www.bls.gov>

⁵ <http://www.salary.com>

⁶ <http://www.bankrate.com>

⁷ <http://www.hsh.com>

⁸ <http://www.nhc.org/chp/p2p>



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