Conducting Your Own *Paycheck to Paycheck* Analysis: Step-By-Step Instructions

STEP 1: COLLECT DATA

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

HOMEOWNERSHIP

1. **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
2. **Interest Rates:**
   - Area Lenders
   - Go to the Federal Home Finance Agency website www.fhfa.gov and click on Research and Analysis, then Market Data, and finally Mortgage Interest Rate Survey (MIRS) Data

   NOTE: If the downpayment is less than 20 percent, add 45 basis points to cover the costs of mortgage insurance.
3. **Property Taxes & 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
- Government's "Fair Market Rents" – found at www.huduser.org/datasets/fmr.html

SALARIES & WAGES

Wages: Can be annual or hourly

- Chamber of Commerce
- Individual local employers
- Advertised jobs in local papers
- Government's Occupational Earnings and Wage Estimates by metro area www.bls.gov
- Commercial data by metro area and zip code – www.salary.com

STEP 2: CALCULATE HOMEOWNERSHIP AFFORDABILITY

Determining the affordability of home ownership 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 down payment from the home purchase price to determine the amount of mortgage needed.
     - Example: Assume a $250,000 purchase price and 10% down payment
     - $250,000 - $25,000 = $225,000 mortgage
2. **Calculate Monthly Principal and Interest**
   - Use the quoted interest rate and mortgage term (Paycheck 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:
       www.bankrate.com
       www.hsh.com
       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 Payment
4. **Annualize Total Housing Costs**
   - Multiply total monthly payment by 12 to get total annual housing cost
   - Example: $1,857 x 12 = $22,284
5. **Calculate Income Needed to Qualify for the Loan**
   - Assume housing costs are no more than 28% of income. Divide total annual housing cost (Step 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 one.
   - 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 the affordability of rental affordability using hourly wages 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/yr
   - 2 BR @ $750/month = $9,000/yr
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 amount needed (Step 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 the 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: Retail Salesperson - $18,000/2,080 = $ 8.65/hour
   - Security Guard - $23,000/2,080 = $11.05/hour
5. **Compare the wages of your selected occupations to determine if the wages are sufficient.**
   - Example: Retail Salesperson @ $8.65/hour < 1BR @ $9.62; < 2 BR @ $14.42
   - Security Guard@ $11.05 < 2 BR @ $14.42

   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. **On the homeownership chart, show the income needed to qualify for the median-priced home as compared to what workers in selected occupations actually earn.**
2. **On the rental chart, show the amount per hour a worker needs to earn to afford to rent a one- or two-bedroom home—that is so 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.

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