Pricing in 1.42 million Households: Effects of a 25-Basis-Point Mortgage Rate Cut

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Housing affordability remains a critical issue, with 65% of U.S. households unable to afford a median-priced new home in 2026, according to NAHB's latest analysis. With a median price of $413,595 and a 30-year mortgage rate of 6%, this translates to around 88.2 million households priced out of the market, even before accounting for further increases in home prices or interest rates.

This analysis also highlights the effects of rising costs:

- A 25-basis point cut in the 30-year fixed mortgage rate (from 6.25% to 6%) would price approximately 1.42 million households into the market.
- A $1,000 increase in the median price of new homes would price an additional 156,405 households out of the market.

In addition to the national numbers, the article includes equivalent affordability and priced-out results for individual states and more than 300 metropolitan areas.

The Priced-Out Methodology and Data

The NAHB priced-out model uses the ability to qualify for a mortgage to measure housing affordability. This method is generally relevant because most home buyers finance their new home purchase with conventional loans, following widely recognized underwriting standards. The standard NAHB adopts for its priced-out estimates is that the sum of the mortgage payment (including the principal amount, loan interest, property tax, homeowners' property, and private mortgage insurance premiums (PITI)) is no more than 28 percent of monthly gross household income.

As a result, the number of households that qualify for mortgages for a certain priced home depends on the household income distribution in an area and the mortgage interest rate at that time. The most recent detailed household income distributions for all states and metro areas are from the 2024 American Community Survey (ACS). NAHB adjusts the income distributions to reflect the income and population changes that may happen from 2024 to 2026. The income distribution is adjusted for inflation using the 2025 median family income at the state[1] and metro[2] levels and then extrapolated into 2026. The number of households in 2026 is projected based on the growth rate of households from 2023 to 2024.

Other key assumptions in the NAHB's calculation include a standard 10% down payment and a 30-year fixed-rate mortgage at an interest rate of 6.5% with zero points. For a loan with this down payment, private mortgage insurance is required by lenders and thus included as part of PITI. The model assumes the annual private mortgage insurance premium is 73 basis points[3], based on the standard assumption of a national median credit score[4] of 738, a 10% down payment, and a 30-year fixed mortgage rate. Effective local property tax rates and homeowner insurance rates are derived from the 2024 American Community Survey (ACS)[5], with the U.S. average effective property tax rate being $8.9 per $1,000 of property value and average homeowner insurance at $3.56 per $1,000 of property value.

To calculate median new home prices across states and metropolitan areas, NAHB relies on data from the Census Bureau's Building Permits Survey and the Survey of Construction. Initially, we determine the average value of new home permits for each state and metro area using data from the 2024 Building Permits Survey. It is important to note that permit values typically represent construction costs only and exclude the cost of raw land, brokerage commissions, marketing, or financing costs. To convert average permit values to median new home prices, NAHB employs scaling markup ratios. These ratios are derived by comparing the median new home prices to the

[1] The state median family income is published by Department of Housing and Urban Development (HUD).
[2] The MSA median family income is calculated by HUD and published by Federal Financial Institutions Examination Council (FFIEC).
[3] Private mortgage insurance premium (PMI) is obtained from the PMI Cost Calculator(https://www.hsh.com/calc-pmionly.html)
[4] Median credit score information is shown in the article "Four ways today's high home prices affect the larger economy" October 2018 Urban Institute https://www.urban.org/urban-wire/four-ways-todays-high-home-prices-affect-larger-economy
[5] Producing metro level estimates from the ACS PUMS involves aggregating Public Use Microdata Area (PUMA) level data according to the latest definitions of metropolitan areas. Due to complexity of these procedures and since metro level insurance rates tend to remain stable over time, NAHB revises these estimates only periodically.

average permit values for each division, as estimated from the Survey of Construction. Furthermore, to manage the extreme estimates in median new home prices, NAHB implements a quantile-based flooring and capping method. This method identifies outliers by comparing the estimated median new home prices to the median values of newly built homes from the American Community Survey. The outliers are then adjusted by setting a cap at the 90th percentile value and establishing a floor at the 10th percentile value, making sure that the estimates reflect a more accurate and realistic range of new home prices. Finally, the median new home prices are projected forward to 2026 using the latest NAHB home price forecasts.

U.S. Priced-Out Estimates

Under the assumption of a 6% mortgage rate, the minimum income required to purchase a new median-priced home valued at $413,595 in 2026 is $121,674. At this income threshold, around 88.2 million U.S. households, or 65% of the total 135 million households, would be unable to afford this home, as shown in Table 1. A $1,000 increase in the home price increases the minimum income needed to $121,968, pricing out an additional 156,405 households. This calculation shows that even slight increases in housing prices can have a significant impact, pushing more households beyond the threshold of affordability.

Table 1. US Households Priced Out of the Market by Increases in House Prices, 2026

Area	Mortgage Rate	House Price	Monthly Mortgage Payment	Taxes and Insurance	Minimum Income Needed	Households Unable to Afford the Median Price	
						Number	Percent
United States	6.00%	$413,595	$2,409	$430	$121,674	88,180,275	65.0%
United States	6.00%	$414,595	$2,415	$431	$121,968	88,336,680	65.1%
Difference		$1,000	$6	$1	$294	156,405	0.1%

Calculations assume a 10% down payment and a 73 basis point fee for private mortgage insurance.
A Household Qualifies for a Mortgage if Mortgage Payments, Taxes, and Insurance are 28% of Income

US Household Income Distribution for 2026				
Income Range:			Households	Cumulative
$0	to	$10,587	6,959,690	6,959,690
$10,588	to	$15,881	4,413,389	11,373,080
$15,882	to	$21,175	3,743,332	15,116,411
$21,176	to	$26,469	4,374,186	19,490,597
$26,470	to	$31,763	4,049,921	23,540,518
$31,764	to	$37,057	4,504,402	28,044,920
$37,058	to	$42,351	4,347,355	32,392,275
$42,352	to	$47,645	4,743,799	37,136,074
$47,646	to	$52,939	4,312,314	41,448,388
$52,940	to	$63,527	8,711,884	50,160,272
$63,528	to	$79,410	12,488,432	62,648,704
$79,411	to	$105,880	17,134,848	79,783,552
$105,881	to	$132,350	14,072,936	93,856,488
$132,351	to	$158,820	10,004,254	103,860,742
$158,821	to	$211,760	13,107,963	116,968,704
$211,761	to	More	18,623,253	135,591,957

State and Metro Area Estimates

The 2026 priced-out estimates for all states and the District of Columbia are shown in Table 2. The table highlights the growing housing affordability challenges across the United States. In 39 states and the District of Columbia, over 65% of households are priced out of the median-priced new home market. This indicates a significant disconnect between higher new home prices, elevated mortgage rates, and household incomes.

New Hampshire stands out as the state with the highest share of households (83.4%) unable to afford the state's median new home price of $677,982. High-cost states such as Hawaii and Maine follow closely, with 83% and 82.7% of households, respectively, struggling to afford new homes. Even in states with relatively lower median new home prices, affordability remains a

major concern. For example, in Mississippi, where the median home price is $266,837, 61.1% of households still find these new homes out of reach. Meanwhile, Delaware, the state with better affordability in the analysis, has a median new home price of $373,666. However, around 56% of households in Delaware still struggle to afford a new home. Even modest price increases, such as an additional $1,000, could push thousands more households from affording these median priced new homes. For instance, in Texas, such an increase could price out over 14,365 households.

Table 3 shows the 2026 priced-out estimates for over 300 metropolitan statistical areas. The analysis estimates how many households in each metro area earn enough income to qualify for mortgages on median-priced new homes. In high-cost areas like the San Jose-Sunnyvale-Santa Clara, CA metro area, where new homes largely target high-income Silicon Valley residents, only 14% of all households meet the minimum income threshold of $407,659 required to qualify for a loan on a median-priced new home. In contrast, in more affordable metro areas like Rome, GA, where the median new home price is $107,567, more than three-quarters of households can afford a median-priced new home. While higher home prices generally result in higher monthly mortgage payments and higher income thresholds, the relationship between home prices and affordability is not always linear. Factors like property taxes and insurance payments can also significantly impact monthly housing costs, adding complexity to affordability calculations.

The affordability of new homes, together with the population size of a metro area, significantly influences the priced-out impact of a $1,000 increase in new home prices. In metro areas where new homes are already unaffordable to most households, the effect of such an increase tends to be small. For instance, in the San Jose-Sunnyvale-Santa Clara, CA metro area, an additional $1,000 increase to the home price affects only 273 households, as only 14% of all households could afford such expensive new homes in the first place. Here, the additional price increase only affects a narrow share of high- income households at the upper end of the income distribution, where affordability is already stretched.

In contrast, metro areas, where new homes are more broadly affordable, experience a larger priced-out effect. A $1,000 increase in the median new home price affects a larger share of households in the "thicker part" of the income distribution. For example, in the New York-Newark-Jersey City, NY-NJ Metro Area metro area, a $1,000 increase in new home price would

disqualify 4,028 households from affording a median-priced new home. This is the largest priced-out effect among all metro areas, driven by a substantial population base.

Interest Rates

The NAHB 2026 priced-out estimates also highlight the significant impact of mortgage interest rates on the number of households able to afford median-priced new homes. Changes in mortgage rates directly affect monthly payments and, in turn, the minimum household income required to qualify for a loan. Table 4 shows the sensitivity of affordability to 25 basis-point changes in the 30-year mortgage interest rates for a median-priced new home of $413,595.

At current rate levels, even modest declines in rates can meaningfully expand access to homeownership. In particular, a 25 basis-point rate reduction from 6.25% to 6% would lower the qualifying income threshold sufficiently to allow around 1.42 million additional households to afford a median-priced new home in 2026. This sizable affordability response reflects the underlying distribution of U.S. household incomes. Household incomes are heavily concentrated in the middle of the distribution, with many households near key affordability thresholds. Approximately 79.8 million households earn less than $105,880, and an additional 14 million households earn between $105,881 and $132,350. When mortgage rates decline, the qualifying minimum income shifts downward into these densely populated income ranges, bringing a substantial number of households into the market.

In contrast, an equivalent 25 basis point cut at higher interest rate levels has a smaller impact on affordability. For example, a decline from 7.75% to 7.5% would only price around 1 million households into the market. At higher rate levels, fewer households remain near the margin of qualification.

Overall, the estimates demonstrate that modest mortgage rate relief at current levels can translate into significant gains in housing affordability, highlighting the importance of mortgage interest rates for prospective homebuyers and the housing market.

Table 4. U.S. Households Priced Out of the Market by an Increase in Interest Rates, 2026

Mortgage Rate	Median New House Price	Monthly Mortgage Payment	Taxes and Insurance	Minimum Income Needed	Households That Can Afford House	Change in Households	Cumulative Change
3.25%	$413,595	$1,773	$430	$94,394	63,244,206		
3.50%	$413,595	$1,827	$430	$96,708	61,746,126	-1,498,080	-1,498,080
3.75%	$413,595	$1,882	$430	$99,058	60,225,207	-1,520,919	-3,018,999
4.00%	$413,595	$1,937	$430	$101,442	58,681,885	-1,543,322	-4,562,321
4.25%	$413,595	$1,994	$430	$103,860	57,116,606	-1,565,279	-6,127,600
4.50%	$413,595	$2,051	$430	$106,311	55,579,612	-1,536,994	-7,664,594
4.75%	$413,595	$2,109	$430	$108,795	54,259,119	-1,320,493	-8,985,087
5.00%	$413,595	$2,168	$430	$111,310	52,921,754	-1,337,365	-10,322,452
5.25%	$413,595	$2,227	$430	$113,857	51,567,918	-1,353,836	-11,676,288
5.50%	$413,595	$2,287	$430	$116,433	50,198,019	-1,369,899	-13,046,187
5.75%	$413,595	$2,348	$430	$119,040	48,812,469	-1,385,550	-14,431,737
6.00%	$413,595	$2,409	$430	$121,674	47,411,682	-1,400,787	-15,832,524
6.25%	$413,595	$2,471	$430	$124,337	45,996,077	-1,415,605	-17,248,129
6.50%	$413,595	$2,534	$430	$127,027	44,566,072	-1,430,005	-18,678,134
6.75%	$413,595	$2,598	$430	$129,743	43,122,086	-1,443,986	-20,122,120
7.00%	$413,595	$2,662	$430	$132,484	41,685,045	-1,437,041	-21,559,161
7.25%	$413,595	$2,726	$430	$135,251	40,639,550	-1,045,495	-22,604,656
7.50%	$413,595	$2,791	$430	$138,041	39,585,005	-1,054,545	-23,659,201
7.75%	$413,595	$2,857	$430	$140,854	38,521,704	-1,063,301	-24,722,502

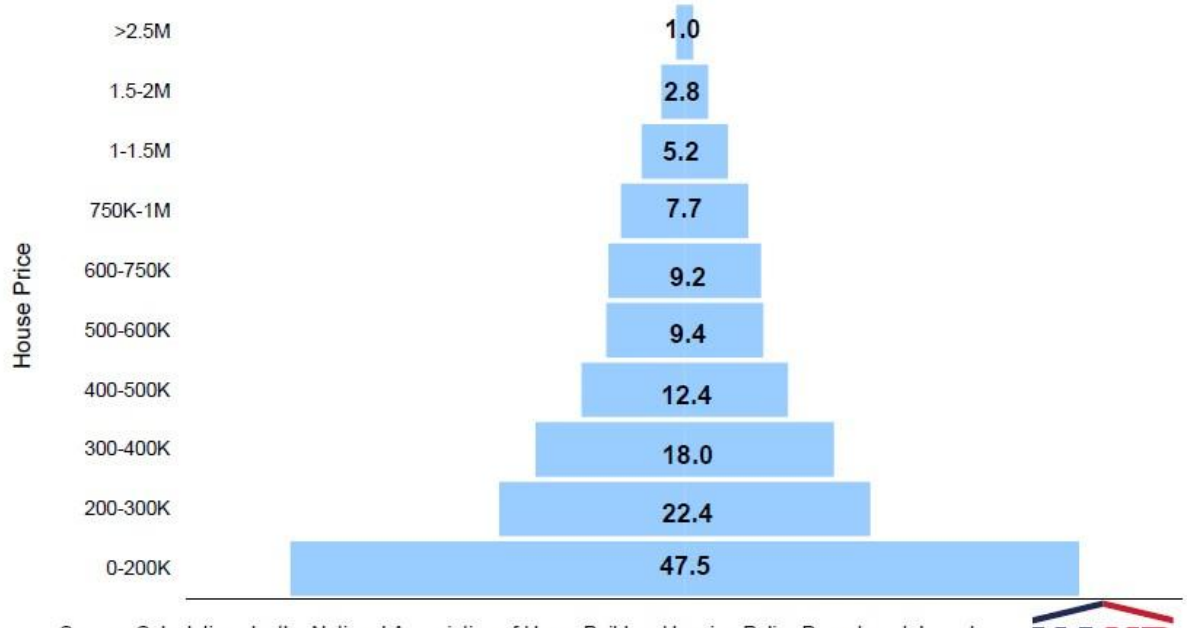
Housing Affordability Pyramid

The housing affordability pyramid illustrates the number of households able to purchase a home at various price steps. Each step represents the number of households that can only afford homes within that specific price range. The largest share of households falls within the first step, where homes are priced under $200,000. As home prices increase, fewer households can afford the next price level, with the highest-priced homes—those over $2.5 million—having the smallest number of potential buyers. Housing affordability remains a critical challenge for households with income at the lower end of the spectrum.

The pyramid is based on income thresholds and underwriting standards. Under these assumptions, the minimum income required to purchase a $200,000 home at the mortgage rate of 6% is $55,500. In 2026, about 47.5 million households in the U.S. are estimated to have incomes no more than that threshold and, therefore, can only afford to buy homes priced up to $200,000. These 47.5 million households form the bottom step of the pyramid. Of the remaining households that can afford a home priced at $200,000, 22.4 million can only afford to pay a top price of somewhere between $200,000 and $300,000. These households make up the second step

on the pyramid. Each subsequent step narrows further, reflecting the shrinking number of households that can afford increasingly expensive homes.

Figure 1. US Households (in Millions) by Highest Priced Home They Can Afford : 2026



Source: Calculations by the National Association of Home Builders Housing Policy Department, based on income data from the 2024 American Community Survey Public Use Microdata Sample File, U.S. Census Bureau

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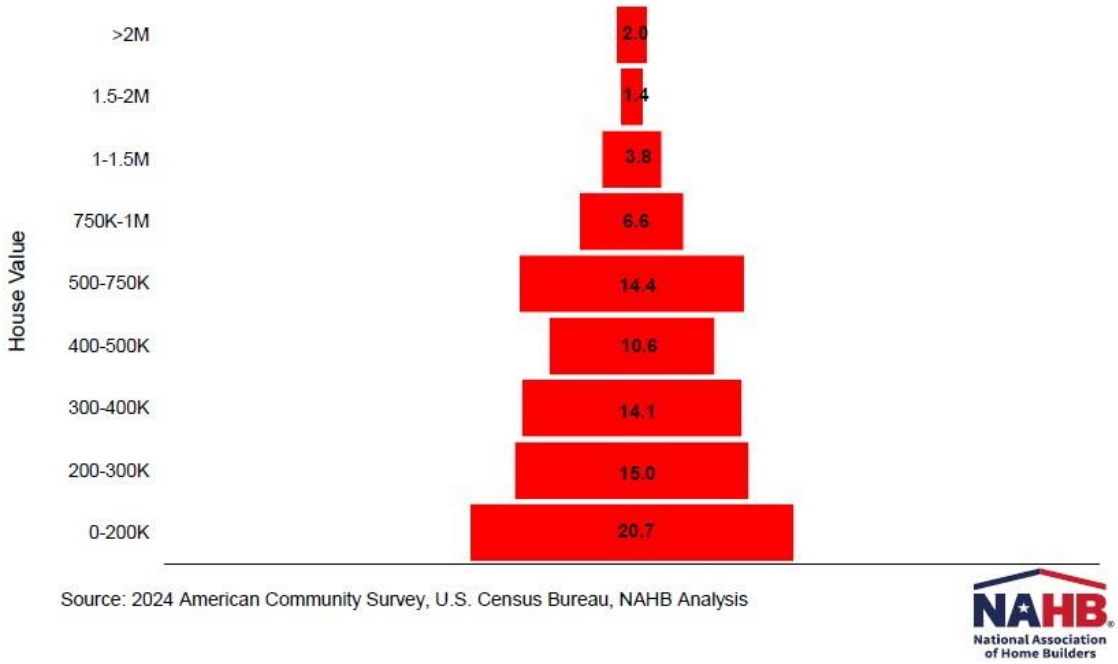
It is worthwhile to compare the number of households that can afford homes at various price levels and the number of owner-occupied homes available in those ranges, as shown in Figure 2. For example, while around 47.5 million households can afford a home priced at $200,000 or less, there are only 20.7 million owner-occupied homes valued in this price range. This trend continues in the $200,000 - $300,000 price range, where the number of households that can afford homes is much higher than the number of housing units in that range. These imbalances show a shortage of affordable housing.

Figure 2. How U.S. Housing Stock (in Millions) Varies by Value Range



Source: 2024 American Community Survey, U.S. Census Bureau, NAHB Analysis

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