Examining Increases in HUD Income Limits in Low-Income States

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Background

Eligibility for assistance by HUD programs is generally determined by the household's income. The relevant program administrator compares each family's income to the applicable "income limit" for the program and the area of the country. HUD calculates various levels of income limits. Statute defines these levels as specific percentages of an area's median family income.[1] However, HUD can also adjust income limits for specific areas above or below the actual percentage of area median family income specified by the limit. For example, since 1987, HUD has set income limits above 50 percent of the area median family income in areas where the local median family income is below the median family income for the combined non-metropolitan portion of the area's state. This was done pursuant to the 1987 Housing and Community Development Act, which directed HUD to impose a state non-metropolitan median floor.

In addition to determining eligibility, income limits determine maximum allowable rents in the HOME program, in properties developed using Low-Income Housing Tax Credits (LIHTC) or Housing Trust Funds, and affordable housing units overseen by the Federal Deposit Insurance Corporation. Therefore, changes in HUD's income limit methodology must be carefully considered to avoid unduly increasing rent burden for low-income families living in these properties. Additionally, changes to program eligibility without commensurate increases in rental assistance can exacerbate the problem of long waitlists for assistance. Nationally, 19.3 million households are eligible for federal housing assistance as very low-income families based on the current income limits methodology, but HUD serves only 4.3 million households through its main rental assistance programs.

This report examines the shares of households that are eligible for HUD assistance across various geographic areas using HUD's current methodology for calculating income limits. It also examines the potential impact on rent calculation of setting minimum income limits based on the higher of an area's state non-metropolitan median family income or the national non-metropolitan median family income.[2]

Shares of Households Eligible for Assistance

By setting the income limits as a percentage of median family income, the percentage of households that qualify for assistance will vary depending on the shape of the income distribution. If incomes are normally distributed around the median, then taking a percentage of that median would ensure a consistent portion of families qualify for assistance. If incomes in the bottom half of the distribution are tightly clustered around the median, however, then setting the income limit at a certain percentage of median family income may mean that very few families qualify for assistance.

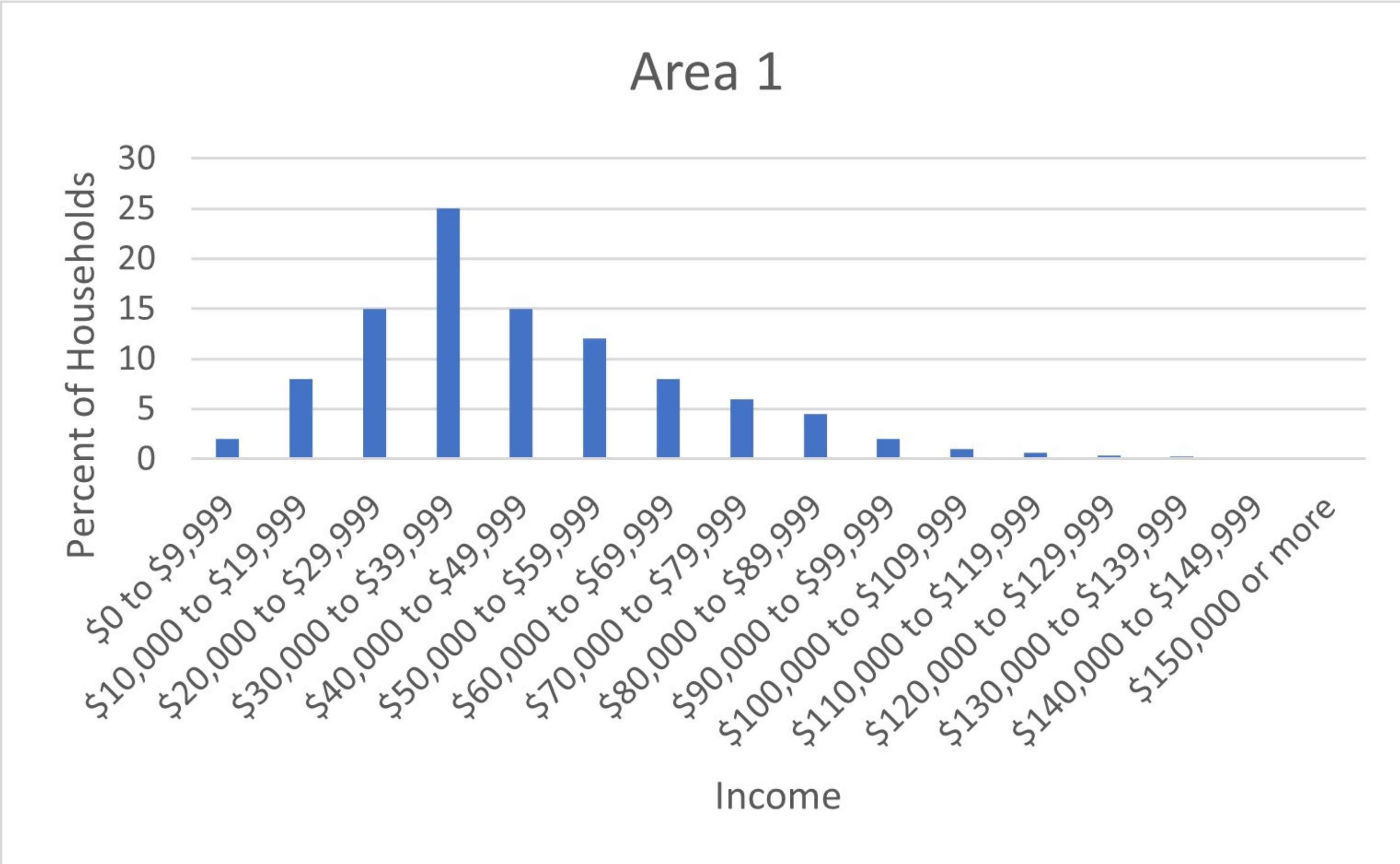
The following graphs show two hypothetical areas, each with the same median family income of $40,000. The "pure" 50% income limit, or 50% of the median without further adjustment, for each area would be $20,000. However, this amount would designate different shares of households as eligible for assistance, at 10% in Area 1 and 3% in Area 2. This phenomenon of low shares of households eligible for assistance would be more prevalent in areas with low median family income that is near a "minimum" income, representing a typical benefit amount or minimum wage. HUD policy

[1] For example, 42 U.S. Code § 1437a defines three levels of income limits at 30%, 50%, and 80% of area median family income.

[2] The Joint Explanatory Statement for Division L of the Transportation, Housing and Urban Development, and Related Agencies Appropriations Act, 2023 directs HUD to "report to the House and Senate Committees on Appropriations within 180 days of enactment of this act on how using a national AMI [area median income] for nonmetropolitan areas as a floor would impact rent calculations in and the administration of any programs using income limits to set rents." This report is in response to the explanatory statement.

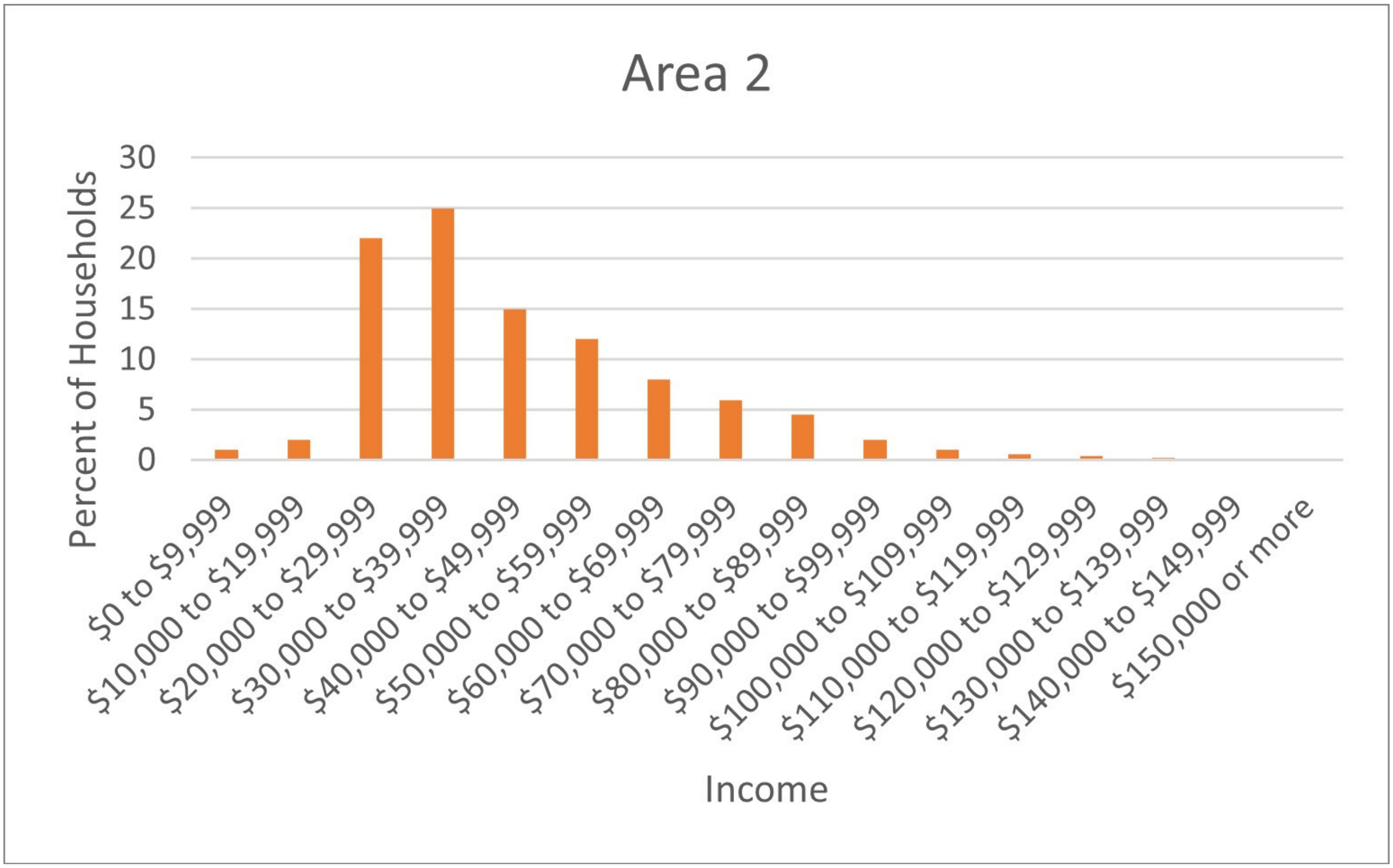
attempts to address this issue by setting the 50% income limit no lower than 50% of the median for each state's non-metropolitan portion and by raising the 50% income limit in places with high housing costs as determined by HUD's Fair Market Rent.[3]

Figure 1



[3] 42 USC 1437a (B) defines very low-income limits at 50% of area median family income, "...except that the Secretary may establish income ceilings higher or lower than 50 per centum of the median for the area on the basis of the Secretary's findings that such variations are necessary because of unusually high or low family incomes" which allows HUD to perform this high housing cost adjustment.

Figure 2



HUD annually calculates the shares of households who are eligible for assistance using special tabulations of the U.S. Census Bureau's American Community Survey. These tabulations are known as the Comprehensive Housing Affordability Strategy (CHAS) data. The data are available at a variety of geographies, including states, counties, metropolitan areas, and Census tracts. By examining this data, we can see to what extent the hypothetical differences in income distributions described above actually occur in the real world.

The following table presents the share of households by income category for the nation according to the 2015–2019 CHAS. Aggregating the shares, we see that about 44% of total households would be considered low income (at or below 80% of HUD Area Median Family Income [HAMFI]), and 27% would be considered very low income (at or below 50% of HUD Area Median Family Income).[4]

Income	**Total (Households)**	**Total (Share)**
Household Income ≤ 30% HAMFI	17,534,580	14.4%
Household Income >30% to ≤50% HAMFI	15,243,335	12.5%
Household Income >50% to ≤80% HAMFI	21,091,620	17.3%
Household Income >80% to ≤100% HAMFI	12,721,195	10.4%
Household Income >100% HAMFI	55,357,935	45.4%

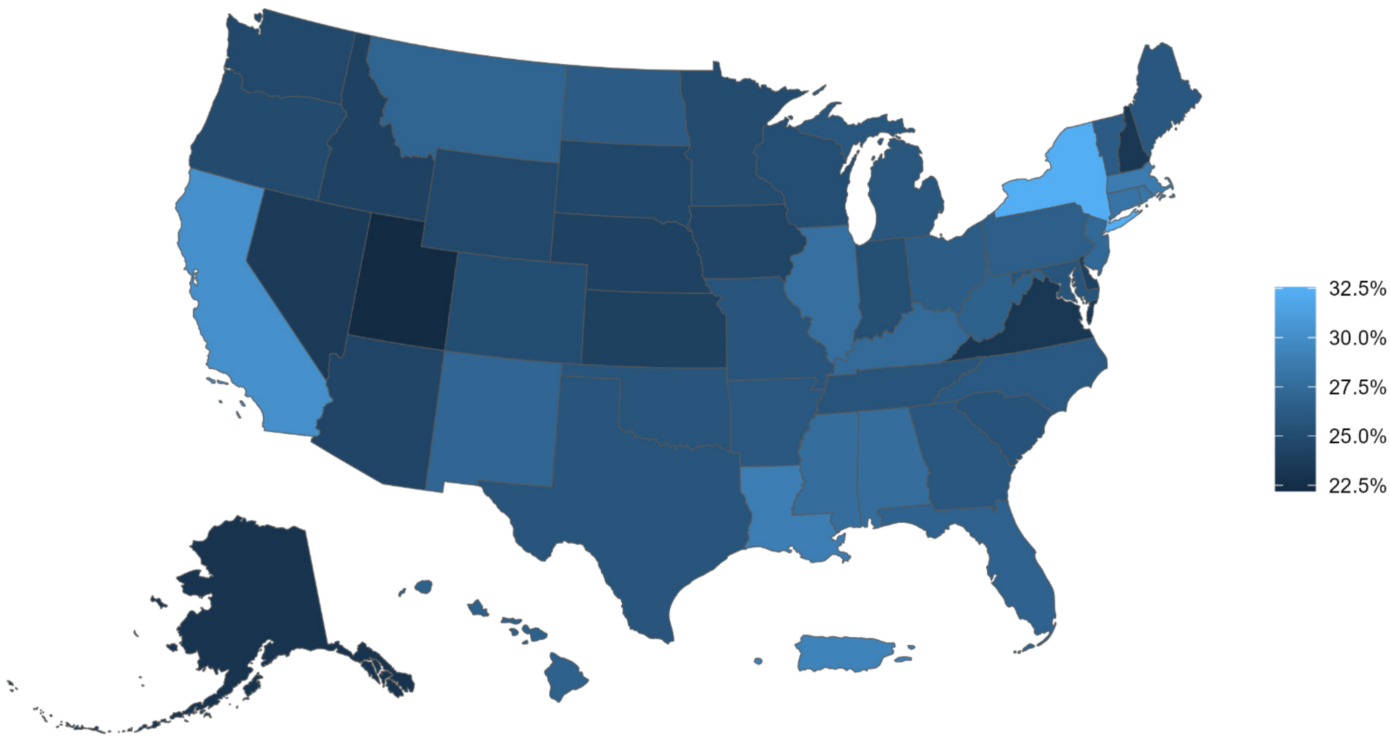
[4] Eligibility requirements vary across HUD programs. For example, in the Housing Choice Voucher program, households generally must be very low income, but public housing agencies are required to ensure a certain percentage of their vouchers goes to extremely low-income households.

Looking at the state data shows that the highest share of very low-income households is in the District of Columbia, at 33%, while the lowest is in Utah, at 22%. The following table lists the five states with the lowest and highest shares of very low-income households, and the following map shows these values for all states and for Puerto Rico but not for other territories where the data are not available.

State	Total Households ≤50% HAMFI	Share Households ≤50% HAMFI	State	Total Households ≤50% HAMFI	Share Households ≤50% HAMFI
Utah	216,940	22%	District of Columbia	92,585	33%
Alaska	58,225	23%	New York	2,374,380	32%
Virginia	734,570	23%	California	3,941,255	30%
New Hampshire	124,095	23%	Puerto Rico	348,710	29%
Nevada	259,450	24%	Louisiana	502,250	29%

Figure 3

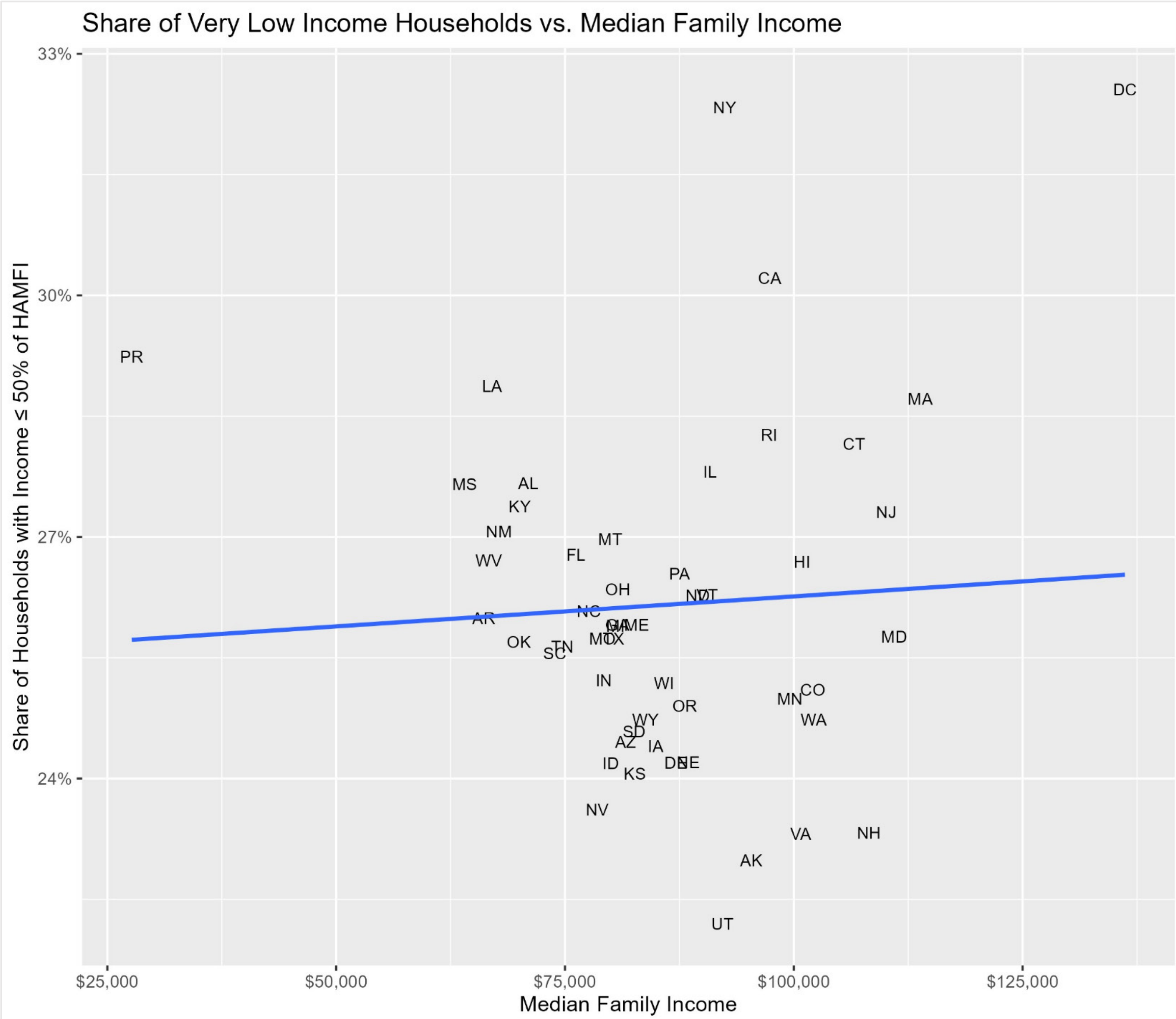
Share of Households with Income ≤ 50% of Median Family Income, by State



Source: HUD 2015-19 CHAS Data, Table 1

The following figure shows that there is little relationship between the income level of the state and the share of very low-income households. Unlike in the hypothetical examples, low-income states do not appear to have households tightly clustered around the median, which would lead to disproportionately low shares of households that are eligible for housing assistance. New York and California have the highest shares of very low-income households, but that is likely driven by the presence of large metropolitan areas in those states with high housing costs, as states with comparably high incomes like Utah and Virginia have some of the lowest shares of very low-income households. Areas with high housing costs relative to income (measured by the prevailing Fair Market Rent) receive a “high housing cost adjustment” to their income limit, raising the limit above the actual 50% of median family income.

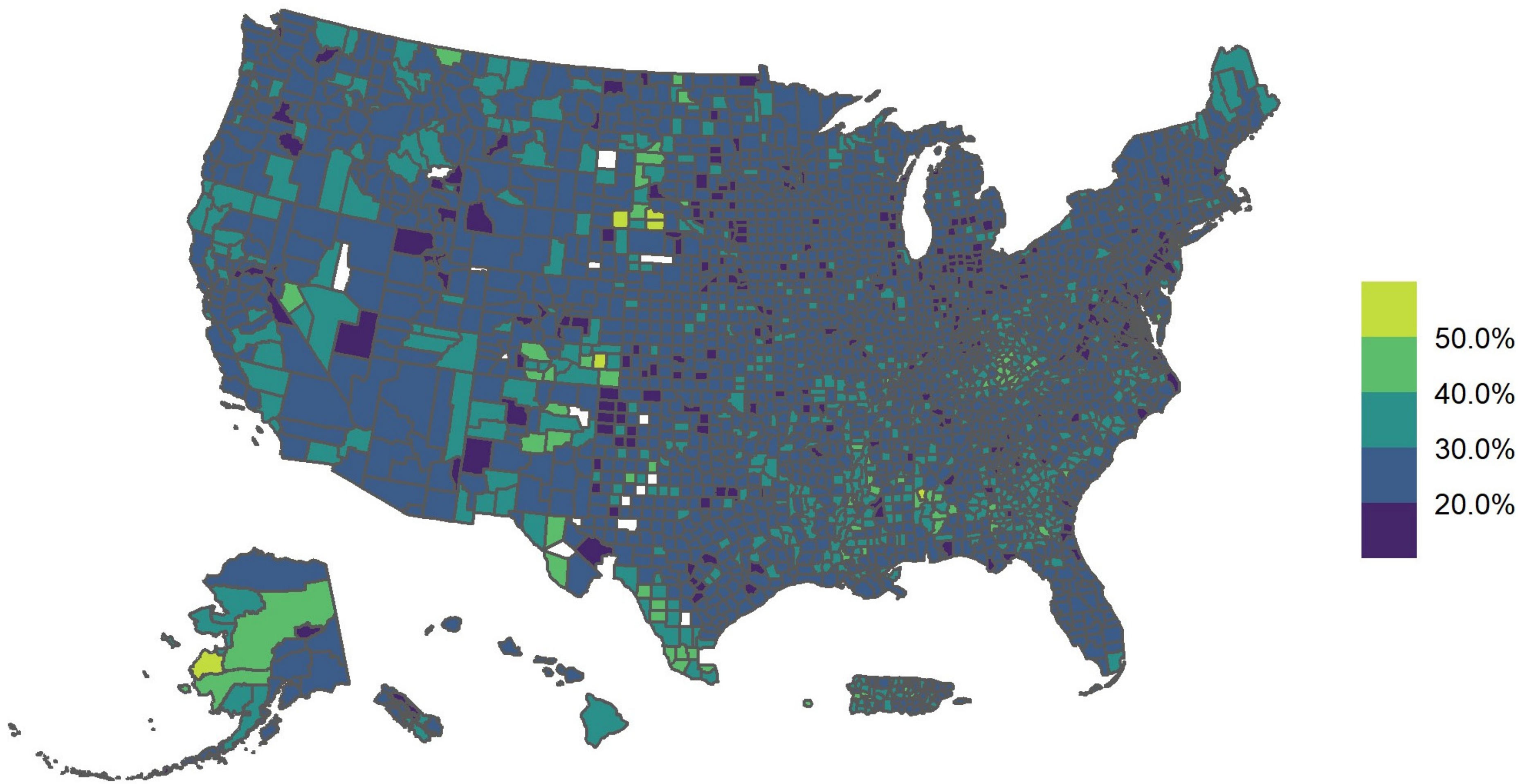
Figure 4



There is more variation in county-level shares of eligible households than at the state level. In some counties the share of very low-income households approaches and exceeds 50%. Figure 5 maps counties, showing there are pockets of high shares of very low-income households in the deep south, Appalachia, and South Dakota. (This analysis excludes counties where the margin of error of the median family income is greater than half the estimate.)

Figure 5

Share of Households with Income ≤ 50% of Median Family Income, by County



Source: HUD CHAS Data, Table 1

Unlike with states, at the county level, there is a clear *negative* relationship between the county median family income and the share of households who are very low income. This is likely due to the existing practice of raising the income limits in areas with a median family income that is less than the state non-metropolitan median family income.

Figure 6

We can examine different types of areas to see if there are important differences in the share of eligible households based on other characteristics of counties. For example, by grouping counties based on whether they are part of a metropolitan area, we see there are virtually no differences in the shares of households by income limit level.

Metro Status	Total Households	Total Households ≤ 30% HAMFI	Share of Households ≤ 30% HAMFI	Total Households ≤ 50% HAMFI	Share of Households ≤ 50% HAMFI	Total Households ≤ 80% HAMFI	Share of Households ≤ 80% HAMFI
Non-Metro	17,694,575	2,367,745	13.4%	4,713,989	26.6%	7,983,647	45.1%
Metro	104,242,970	15,165,977	14.5%	28,062,138	26.9%	45,881,435	44.0%

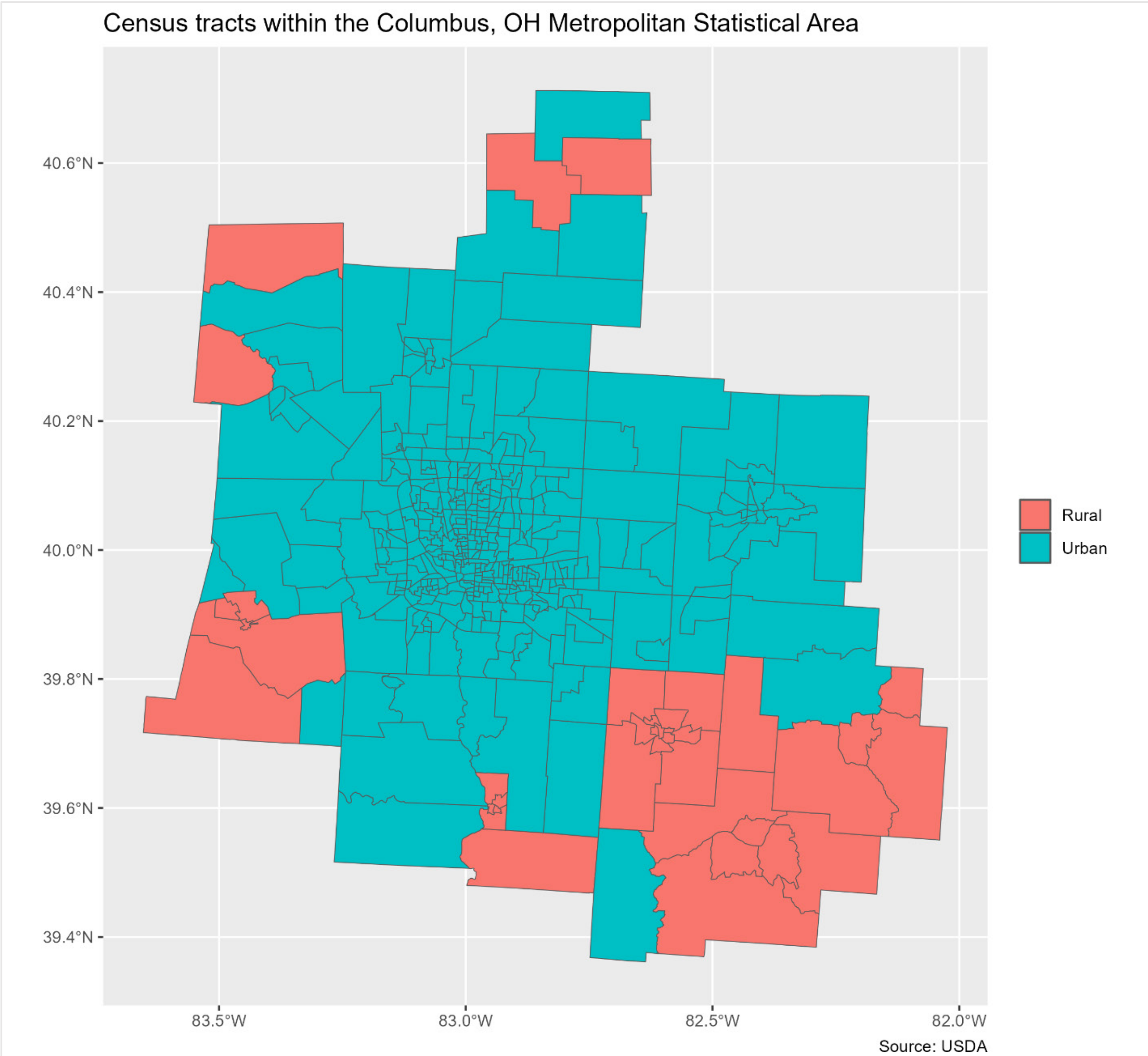
Although metropolitan status is often a reasonable proxy for urban status, we can examine differences between urban and rural areas more directly using the Census tract level CHAS data.[5] We classify tracts based on the U.S. Department of Agriculture Rural-Urban Commuting Area (RUCA) codes. These codes are as follows.

Code	**Classification description**
1	Metropolitan area core: primary flow within an urbanized area (UA)
2	Metropolitan area high commuting: primary flow 30% or more to a UA
3	Metropolitan area low commuting: primary flow 10% to 30% to a UA
4	Micropolitan area core: primary flow within an urban cluster (UC) of 10,000 to 49,999 (large UC)
5	Micropolitan high commuting: primary flow 30% or more to a large UC
6	Micropolitan low commuting: primary flow 10% to 30% to a large UC
7	Small town core: primary flow within an urban cluster of 2,500 to 9,999 (small UC)
8	Small town high commuting: primary flow 30% or more to a small UC
9	Small town low commuting: primary flow 10% to 30% to a small UC
10	Rural areas: primary flow to a tract outside a UA or UC
99	Not coded: Census tract has zero population and no rural-urban identifier information

A commonly used approach is to define RUCA codes 1–3 as "Urban" and 4–10 as "Rural." The following map shows tracts within the Columbus, OH Metropolitan Statistical Area based on this RUCA categorization. Even though the entire area is considered "metropolitan," the outlying tracts are designated as rural under the RUCA-based classification.

[5] There is no single federal standard for delineating urban and rural areas. The Census Bureau classifies urban and rural areas at the Census block group level, and the CHAS data are not available at that low level of geography.

Figure 7



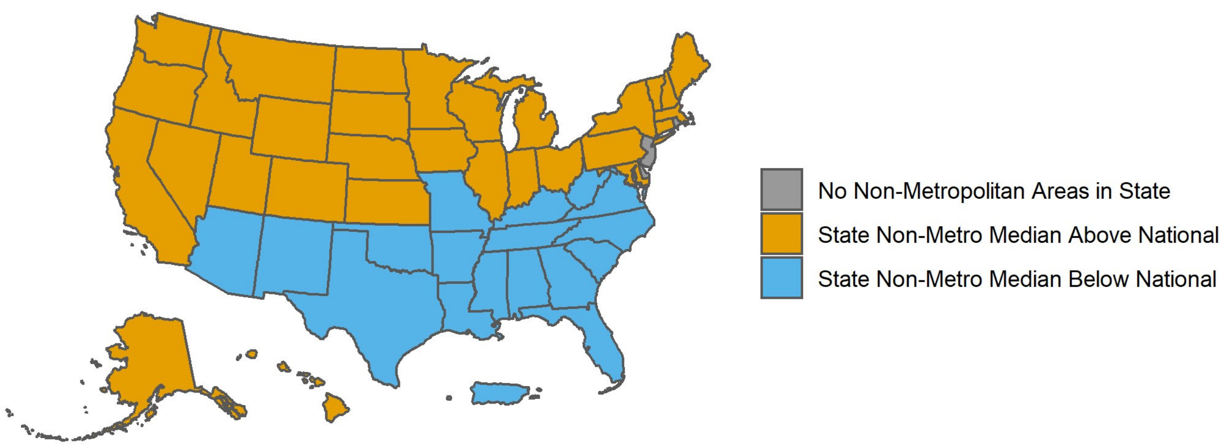
When aggregating tracts based on their urban/rural classification, we again observe very little difference in the share of households who are eligible for assistance at the three income limit thresholds.

Rural Status	Total Households	Total Households ≤ 30% HAMFI	Share of Households ≤ 30% HAMFI	Total Households ≤ 50% HAMFI	Share of Households ≤ 50% HAMFI	Total Households ≤ 80% HAMFI	Share of Households ≤ 80% HAMFI
Rural	19,679,110	2,720,097	13.8%	5,378,271	27.3%	9,060,236	46.0%
Urban	102,225,265	14,800,172	14.5%	27,374,167	26.8%	44,770,222	43.8%

Impact of a National Non-Metropolitan Floor on Rent Calculations

As described previously, HUD attempts to avoid setting income limits at unreasonably low levels by setting a floor in each state that is based on the respective state's non-metropolitan median family income. The floor is applied to the 50% very low-income limit[6] such that each area's limit cannot be less than 50% of the state non-metropolitan area median family income. For fiscal year (FY) 2023, the national non-metropolitan median family income is $76,800. Seventeen states plus Puerto Rico and the Pacific Island territories have state non-metropolitan median family incomes below this amount, as shown in the following map. The difference between the state non-metropolitan median and the national non-metropolitan median ranges from 33% in Louisiana to 4% in Virginia, with an average of 15% (this analysis excludes Puerto Rico where the non-metropolitan median is one-third of the U.S. non-metropolitan median).

Figure 8



The following table shows the percent increase in income limit between the state-based floor and the national floor (which would correspond to the percentage increase in maximum LIHTC rent and rent for any other program or property that directly uses HUD income limits to set rent) by state, along with the number of affected counties within each state, the number of LIHTC units in those areas, and the statewide median family income for households in LIHTC units. These rent increases would also apply to units funded by the Housing Trust Fund and in the Federal Deposit Insurance Corporation's Affordable Housing Program.

[6] HUD generally calculates other income limit levels based on the very low-income limit. For example, the low-income limit is calculated as 80/50 or 1.6 times the very low-income limits (with additional adjustments applied as dictated by statute).

State	50% of State Non-Metro Median	Median LIHTC Household Income[7]	1-Bedroom Maximum LIHTC Rent	1-Bedroom Maximum LIHTC Rent Under National Non-Metropolitan Median	Increase in Income Limit/Rent	1-Bedroom Maximum LIHTC Rent as Share of Median LIHTC Income	1-Bedroom Maximum LIHTC Rent Under National Non-Metropolitan Median as Share of Median LIHTC Income	Number of Counties Affected	Number of LIHTC Units in Affected Counties
Puerto Rico	$12,400	$7,466	$263	$816	210%	42%	131%	78	5,917
Louisiana	$28,950	$18,285	$615	$816	33%	40%	54%	46	9,445
Arizona	$31,550	$22,750	$670	$816	22%	35%	43%	11	8,032
Arkansas	$31,700	$16,422	$673	$816	21%	49%	60%	66	16,168
West Virginia	$32,100	$15,829	$682	$816	20%	52%	62%	44	7,396
Mississippi	$32,100	$16,579	$682	$816	20%	49%	59%	76	23,440
Kentucky	$32,450	$11,133	$689	$816	18%	74%	88%	90	9,459
South Carolina	$32,600	$19,200	$692	$816	18%	43%	51%	30	14,320
Alabama	$32,850	$19,767	$698	$816	17%	42%	50%	55	24,271
Florida	$32,900	$28,156	$699	$816	17%	30%	35%	28	12,046
New Mexico	$33,550	$20,841	$712	$816	14%	41%	47%	26	5,119
Oklahoma	$34,350	$17,067	$729	$816	12%	51%	57%	58	9,606
Georgia	$34,550	$19,613	$734	$816	11%	45%	50%	115	18,249
Tennessee	$34,750	DNR	$738	$816	11%	DNR	DNR	71	16,066
North Carolina	$35,200	$17,838	$748	$816	9%	50%	55%	68	34,014
Missouri	$35,500	$20,795	$754	$816	8%	44%	47%	85	16,686
Texas	$36,600	$24,601	$777	$816	5%	38%	40%	160	43,945
Virginia	$36,900	$26,847	$784	$816	4%	35%	36%	49	7,365

DNR = data not reported.

Sources: HUD FY2023 Median Family Incomes and Income Limits; HUD 2020 LIHTC Property Database; HUD 2019 LIHTC Tenant Data

[7] 2019 Income Values are inflated to 2023 using the Consumer Price Index.

Several factors would mitigate the percentage increases in rent in housing financed by a covered program if HUD were to adopt an income limits floor based on the national non-metropolitan median family income. For one, HUD limits the year-to-year increase in income limits, so for states that are far below the national non-metropolitan median, the increase would be phased in over time. Additionally, existing statute already allows for the use of the national non-metropolitan median in setting rents in certain rural areas.[8] Finally, in the HOME program, rents are set at the lower of the income limit-based rent or the local Fair Market Rent.[9]

Conclusion

Analysis of HUD's CHAS data shows that HUD's existing income limits calculation methodology designates consistent shares of households as eligible for assistance across low- and high-income states. Additionally, there are consistent shares of eligible households in both urban and rural areas across various definitions of urban and rural. If HUD were to adopt an income limits floor based on the national non-metropolitan median family income, the result would be disproportionately higher shares of eligible households in states that are below the national non-metropolitan median. Such an outcome may be desirable if income limits based on the national non-metropolitan median truly represent an absolute threshold below which households should be able to receive housing assistance. However, given that HUD's assistance programs are not entitlement programs, expanding eligibility in this way would not mean that any additional households would actually receive assistance. Rather, waitlists for existing programs would increase.

Finally, setting income limits no lower than those based on the national non-metropolitan floor would increase the maximum rents that could be charged to households in properties financed by LIHTC and other covered programs. In 13 states these cumulative rent increases would exceed 10%. There are additional state and local programs that set rents based on HUD's income limits and may be subject to rent increases as well.

[8] Section 3004 of the Housing and Economic Recovery Act (HERA) specifies that any project for residential rental property located in a rural area (as defined in section 520 of the Housing Act of 1949) use the maximum of the area median gross income or the national non-metropolitan median income.
[9] 24 CFR 92.252(a).

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EQUAL HOUSING OPPORTUNITY

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