

How Subsidized Rents are Set: Area Median Incomes and Fair Markets Rents

Many NMHC and NAA members own and/or operate apartment communities that provide affordable housing throughout the country using subsidy programs through the U.S. Department of Housing and Urban Development. The amount of rent payments from assisted residents to NMHC/NAA members are generally set via one of two benchmarks: area median incomes (AMIs) and fair market rents (FMRs). Area median incomes and fair market rents are two distinct things, but they are very much related.

The introduction of a more frequent data source than the decennial census (the American Community Survey) as well as the recent recession and changes to the AMI and FMR methodologies have caused NMHC/NAA members to experience changes to rent payments that they historically did not experience. This paper outlines the purposes and methodologies of both AMIs and FMRs. It also details recent changes that have likely had an impact on NMHC/NAA members, and outlines attempts NMHC/NAA have made on members' behalf to minimize those changes.

Decreases in Area Median Income Limits

Income limits are the benchmarks established by the U.S. Department of Housing and Urban Development (HUD) that set the income thresholds households must not exceed in order to qualify for HUD-assisted housing. These same income limits are also used as benchmarks for many programs in other Federal departments. How the income limits are used varies by program.

How the Program Works

HUD establishes income limits for assisted housing every fiscal year. These income limits are available by family size, and are defined as “extremely low income” (30% of area median income), “very low income” (50% of area median income) and “low-income” (80% of area median income). These are broken down at the county level and by metropolitan area. The income limits are based off of a geography's median income, which is calculated using data from the U.S. Census Bureau's American Community Survey.

Income limits are used to establish eligibility for the following HUD programs:

- **Public Housing** - Generally run by local housing authorities, there are approximately 1.2 million households living in public housing.¹
- **Section 8** - There are two different types of Section 8: project based and the Housing Choice Voucher program. Money for both programs is administered by the local housing authority. For the Housing Choice Voucher program, voucher holders are able to select a rental unit of their choosing, whether single-family or multifamily. In addition, 75% of voucher holders from a given housing authority must earn less than 30% of the area median income; the remainder cannot earn more than 50% of the area median income. Under the project-based program, the same income restrictions apply, but the vouchers are attached to the units themselves, and families must move into those units.
- **Section 202 Elderly and Section 811 Handicapped** - Under both programs, interest-free capital advances are provided for developers who will be providing affordable housing to either very low income (50% of area median income or less) elderly or very low income handicapped persons for decades. Under the Section 811 program, rental assistance can also be provided for extremely low-income (30% of area median income or less) handicapped households.
- **Section 236**
- **Section 221(2)(3)**
- **Community Planning and Development**
- **HOME Investment Partnerships Act of 1990**
- **Indian Housing**

Several other government agencies have renter-focused programs that use the income limits:

- **Rural Housing and Community Development Service** - Rental and ownership assistance programs
- **Treasury** - Multifamily tax subsidy projects; “difficult development area” designations (low-income housing tax credit); “qualified Census tract” (low-income housing tax credit program definition); “qualified Census tract” (mortgage revenue bond program)

¹ http://portal.hud.gov/hudportal/HUD?src=/topics/rental_assistance/phprog

- **Federal Deposit Insurance Corporation** - Disposition of multifamily housing to non-profit and public agencies; disposition of single-family housing
- **Federal Home Loan Banks** - Rental program funding priorities
- **Federal Housing Finance Agency** - Income-based housing goals of Fannie Mae and Freddie Mac
- **Uniform Relocation Act** - Reimbursement of households forced to relocate from their residence by a Federal agency
- **Department of Veterans Affairs** - Eligibility for disability income support payments to veterans

How Income Limits are Set

Income limits are set using data from the Census Bureau’s American Community Survey (1-year estimates where available, or 5-year estimates if 1-year estimates are not available). These data are published annually, and are available at geographies as small as zip codes and Census Tracts. There are a series of “checks” and calculations that are done to ensure that an accurate income limit is set:

- If the one-year estimates of the median household income from the American Community Survey (ACS) are available for the geography, HUD looks at the margin of error to determine if the data are statistically reliable. If not, the 5-year estimates are used.
- ACS data are generally about a year behind the fiscal year that HUD is trying to set income limits for, so the income numbers may be a little out-of-date (but are the best available). An inflation factor is calculated by comparing what the Congressional Budget Office’s forecast of the Consumer Price Index from the U.S. Bureau of Labor Statistics is to the actual Consumer Price Index for the time period when the ACS data were collected.

The area median income for the geography is then calculated by multiplying the ACS median household income and the CPI inflation factor.

How This has Changed and Impacts to Members

In the past, if there was a decrease in the geography’s income, HUD would leave the income unchanged from the previous year, under a “hold harmless” policy. Starting in FY 2010, HUD

decreased the AMI if the data showed a decrease. For other government agencies, such as the USDA, the “hold harmless” policy remains in effect. Therefore, apartment owners and managers who previously would not have seen a decrease in the area median income now do.

Changes to Fair Market Rents

In addition to the Area Median Income (AMI) limits, HUD also annually publishes Fair Market Rents (FMRs). FMRs are payment standards set by metropolitan area level (except in some cases where they are set by zip code — please see below for additional information about zip code-level FMRs). FMRs are applicable for all rental housing types participating in the relevant program (i.e. single-family houses, townhouse, duplexes and apartments).

How the Program Works

The goal of fair market rents is to set a rent “high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible.”² Fair Market Rents are used in several HUD programs:

- **Housing Choice Voucher (Section 8)** - The allowable rent (based on number of bedrooms) for households with a voucher seeking shelter
- **Project-Based Section 8 Properties** - The renewal rent amount for properties with expiring contracts
- **Moderate Rehabilitation Single Room Occupancy Program** - The initial renewal rents for housing assistance payments
- **HOME Program** - Sets the rent ceilings
- **Continuum of Care Grants** - Used to calculate the maximum award amounts

How Fair Market Rents are Set

FMRs are set at the 40th percentile of rents for a geography, meaning that 40 percent of the units in the geography are below the fair market rent, and could therefore be rented. Similar to AMIs, HUD goes through a set of calculations to set the Fair Market Rent for an area:

- The “adjusted standard quality gross rent” for each metropolitan area is obtained from the American Community Survey (ACS) 5-year estimates. This is called the “base rent”.

² http://www.huduser.org/portal/datasets/fmr/fmrover_071707R2.doc

- HUD then calculates a “recent mover adjustment factor” using the ACS. This is done because oftentimes asking rents for potential renters can be higher than rents for units that have been occupied by the same household for a prolonged period of time.
- The change in the Current Price Index (CPI) from the year the ACS was collected to the most recent annual CPI data available.
- A trending factor has also been developed to account for the lag from the most recent CPI data available to the fiscal year that the FMRs will be used.

These elements are then all multiplied together (the base rent times the recent mover adjustment factor times the CPI rate times the trending factor) to determine the fair market rent for each geography.

How This has Changed and Impacts to Members

Fair market rents have undergone many changes in recent years that have impacted NMHC/NAA members. Some of these changes are due to changes in methodology, and some are simply due to a lag in the data.

In the past, companies that felt the stated market rent for a given area was incorrect were able to request that HUD complete a market study of the area to determine if there were discrepancies. Due to budget constraints, HUD is no longer funding those studies. Members are permitted to fund their own market studies, but HUD ultimately determines whether or not the market study meets their methodology requirements, and whether or not the case made in the market study is sufficient to alter the fair market rent for a given area.

Data Lag Issues Related to Both Area Median Incomes and Fair Market Rents

Another reason for a noticeable changes, both in terms of the area median income, and also the fair market rent, may be the dataset that is being used. Starting in FY 2011, HUD began using data from the Census Bureau’s American Community Survey (ACS). The ACS is collected every year and replaces the “long-form” data collected once every ten years from the decennial Census. While the use of the ACS allows for more current data to be utilized, it also results in the capture of economic downturns and upturns (which rarely occurred with the decennial Census), but at a somewhat delayed rate. So the 2008 Recession, for example, was

likely not realized for a couple of years in the data. In some cases, the downturn may be captured in the data after the area has already begun to recover, and the fact that this economic recovery has been slower than many has most likely exacerbated this issue. The recently released FY 2015 AMI limits, however, show encouraging signs that the data have begun to reflect the recovery. The Los Angeles County AMI, for example, decreased from \$61,900 in FY 2013 to \$60,600 in FY2014. The FY 2015 AMI increased to \$63,000. This is not true for all jurisdictions, and members are encouraged to check all jurisdictions where they operate communities.

NMHC and NAA Actions to Attempt to Address the Situation

NMHC/NAA staff have met with HUD staff and made them aware of both issues. NMHC Research staff has also provided assistance in circumstances where a member of either NAA or NMHC has questions regarding an experienced decrease in one of their jurisdictions. NMHC/NAA have also requested that HUD reinstate its “hold harmless” policy.

Questions?

Both Fair Market Rents (FMRs) and Area Median Incomes (AMIs) have many rules and exceptions to the methodologies. In certain jurisdictions, for example, the 50th percentile of FMRs are able to be used instead of 40th percentile FMRs. For members who have questions about these details, please contact Caitlin Walter, Assistant Director of Research at cwalter@nmhc.org or 202/974-2343.