

HUD's Methodology for Calculating Area Median Income (AMI) Limits

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Prepared by Citizens' Housing and Planning Association

HUD calculates the Section 8 income limits annually based on the estimated area median family income (MFI)¹. However, in many areas, the final HUD 30%, 50% and 80% limits do not precisely equal the results one would get by multiplying the area MFI by 30%, 50% or 80%.

The differences reflect adjustments required by law as well as HUD methodological decisions:²

- By law, the very low income (50%) area limit can't exceed 80% of the national median family income (MFI) and the 80% limit can't exceed 100% of the national MFI *except* in areas with especially high housing costs relative to median incomes.
- HUD adjusts the limit in areas with especially high or low housing:
 - it decreases the limit if higher than needed to afford the FMR at 30% of income;
 - it increases the limit if it is below the income needed to afford 85% of the FMR at 35% of income.
- The area very low income limit can't be less than 50% of a state's non-metropolitan MFI.
- A new HUD policy, started in 2010, limits the annual decrease in area limits to 5% and limits the annual increase to 5% or twice the annual percentage change in the national median income if greater. This replaces its former "hold harmless" policy which prevented decreases in annual income limits.
- It rounds limits to the nearest \$50 increment.
- HUD calculates the 50% limit first, then calculates the 80% and 30% limits based on the 50% limit (i.e. multiplies the 50% limit by 1.6 or 0.6) and checks the results against the other statutory requirements.

Setting the Very Low Income (50%) Area Limit

The process for setting the income limits for the Boston-Cambridge-Quincy metro area illustrates the adjustments HUD uses. The estimated 2011 median family income for the Boston-Cambridge-Quincy area is \$96,500 and the FY2011 2-bedroom FMR is \$1,314. No adjustments are needed due to housing costs or the national median income but the final limit (\$48,150) is slightly below what one would calculate at 50% of 100% because of the 5% limit on the annual change.

1. HUD calculates 50% of \$96,500 MFI	\$48,250
2. Is line 1 >80% of the national MFI (\$64,200 x .8=\$51,360)	No
3. Is line 1 >the income needed to afford 2-BR FMR at 30% of income (\$52,560)	No
4. Is line 1 <income needed to afford 85% of 2-BR FMR at 35% of income (\$38,294)	No
5. Is line 1 below 50% of the non-metro state median income (\$88,300)	No
6. Is line 1 greater than 105% of the 2010 limit of \$45,900	Yes-reduce to \$48,195
7. Round line 6 to nearest \$50	\$48,150

Setting the 80% Limit

While multiplying the Boston-Cambridge-Quincy MFI by 80% yields \$77,200, the HUD 2011 limit is \$64,200 because of the "100% of the national median income" cap. In 2011, 46 of the nation's 535 metro areas had their 80% limit decreased because of the national median cap.

1. HUD multiplies the 50% limit by 1.6, rounds to nearest \$50 (48,150*1.6= 77,040)	\$77,050
2. Is line 1 >100% of the national MFI (\$64,200)	Yes – use 64,200

3. Is line 2 <income needed to afford 85% of 2-BR FMR at 35% of income*1.6 (\$61,270)	No
4 Is line 2 less than 95% or greater than 105% of the 2010 limit of \$64,400	No

Setting the 30% limit

Thirty percent (30%) of the median family income is \$28,950. The HUD limit is slightly lower (\$28,900) because HUD uses 60% of the final 50% limit. HUD increases the limit if necessary to ensure that the one-person limit is not less than the maximum SSI benefit for one person.

1. HUD multiplies the 50% limit by .6, rounds to nearest \$50 (48,150*.6= 28,890)	\$28,900
2. Is line 2 x .7 (one person limit=\$20,250) <the maximum potential SSI benefit (\$9,634)	No
3 Is line 2 less than 95% or greater than 105% of the 2010 limit of \$27,550)	No

National Impact of Adjustments

HUD's briefing materials show how many areas were affected by the various adjustments in 2011.

Summary of Income Limits Determinations for FY 2011 Very Low-income Limits

Type Income Limit Calculation	Non-metro Counties	Metro-politan Areas
1. Limits based on 50% of local median family income	534	358
2. Limits based on State non-metropolitan median family income level	1025	52
3. Limits increased to the amount at which 35% of 4-person family's income equals 85% of the 2-bedroom Section 8 FMR	9	25
4. Limits decreased to the greater of 80% of the U.S. median family income or the amount at which 30% of a 4-person family's income equals 100% of the 2-bedroom FMR	1	1
5. Limits increased if they were less than 95% of last year's limit	59	27
6. Limits decreased if they were otherwise more than 105% of last year's limit	409	72
7. TOTALS	2037	535

Summary of Income Limits Determinations for FY 2011 Low-income (80%) Limits

Type Income Limit Calculation	Non-metro Counties	Metro-politan Areas
1. Limits based on 80% of local median family income	525	317
2. Limits based on State nonmetropolitan median family income level	1009	49
3. Limits increased for high housing costs proportional to such increases for very low income limits (i.e., set at 80/50ths of the adjusted VLI limits)	12	36
4. Limits decreased because of unusually high incomes relative to housing costs	0	0
5. Four-person base limit capped at the higher of the U.S. median of \$64,200 or 80/50ths of the minimum 4-person very low income limit	14	46
6. Limits increased less than 95% of last year's limit	59	27
7. Limits decreased if more than 105% of last year's limit	418	60
8. Totals	2037	535

¹ HUD used the American Community Survey (ACS) data for 2009 and trended the figures upward at 3% a year to arrive at the mid-2011 estimate.

² See FY2011 HUD Income Limits Briefing Materials, available online at http://www.huduser.org/portal/datasets/il/il11/IncomeLimitsBriefingMaterial_FY11_v2.pdf