

# **Median Family Income (MFI) Analysis: A Case Study for Alternative Solutions**

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## **Executive Summary**

The Housing and Urban Development Administration (HUD) systematically inflates family median incomes in the United States by including geographic metrics of higher-income suburbs and municipalities. Therefore, the Family Median Income (MFI) calculation is a flawed mechanism that creates several disparities when implementing affordable housing programs. The two main issues characterized by a miscalculated MFI include - significant income gaps between extremely low-income groups sourced from HUD's Metropolitan Statistical Areas vs. extremely low-income groups derived from localized American Community Surveys. Second, low-income families become disenfranchised when applying to affordable housing units built by private developers under the Low-Income Housing Tax Credits (LIHTC) subsidy. Critics argue that changing the current MFI calculation will exclude low-income residents from wealthier and well-resourced cities. I oppose this claim because if congressional legislation treated the current MFI metric as a price ceiling, cities would be able to choose between a localized measure if the median income gaps are large, or continue to apply the metropolitan figures if the city is particularly higher-income. Overall, I am recommending Rep. Marie Newman introduce a bill under the framework of the American Jobs Plan to adopt a localized income formula for HUD when calculating MFIs each fiscal year. This intervention would not solve all the issues regarding affordable housing, but it will make the eligibility requirements and selection process more transparent for families that are financially struggling.

## **Background**

Although the United States is considered one of the wealthiest nations in the international community, millions of its residents experience deficiencies while acquiring long-term housing that is economically proportionate to their incomes. The lack of “affordable” housing, or

income-based housing, has created negative outcomes throughout many communities in the U.S. In return, this has led to long-lasting impacts that range from increased medical costs for individuals without stable shelter, to generational consequences related to education and employment obtainment. Affordable housing and the rise of homelessness, in general, is an issue that generates many spillover effects if not addressed accordingly. Hence it only increases the costs for states and the federal government when accounting for all the long-term externalities. A 2017 Point-In-Time (PIT) count and Housing Inventory Count (HIC) conducted by HUD found that approximately 553,742 people in the United States are experiencing homelessness on any given night.<sup>1</sup> This translates to a rate of roughly 17 people experiencing homelessness for every 10,000 people. And while this data showcases unprecedented amounts, it unfortunately reflects previous homelessness trends in the U.S. that began as early as the 1930s and onwards.

To increase the supply of low-income housing, the U.S. established the Housing Act of 1937 - a federal funding program for public housing passed during the New Deal era. This critical legislation formed the basis for current housing programs that HUD administers now - including Housing Choice Vouchers added through the Section 8 Program in 1974, and the Low-Income Housing Tax Credit passed under the Tax Reform Act of 1986.<sup>2</sup> Although these programs have successfully allocated thousands of affordable housing units to families, they are ultimately challenged with higher volumes of applications and waitlists that exceed the capacity of the affordable housing programs. A report done by the Public and Affordable Housing Research Corporation (PAHRC) titled Housing Agency Waiting Lists and the Demand for Housing Assistance has estimated that 1.6 million families are on Public Housing waiting lists,

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<sup>1</sup> "The State of Homelessness in America," National Alliance to End Homelessness, June 27, 2019, <https://endhomelessness.org/homelessness-in-america/homelessness-statistics/state-of-homelessness-report-legacy/>.

<sup>2</sup> "Introduction to the Housing Voucher Program," Center on Budget and Policy Priorities, May 15, 2009, <https://www.cbpp.org/research/introduction-to-the-housing-voucher-program>.

and more than 2.8 million families are on Housing Choice Voucher (HCV) waiting lists.<sup>3</sup> Community housing agencies have exhausted their logistical and funding limits and have proven that an affordable housing crisis exists in the U.S. For example, “Phoenix reopened its waiting list in August 2016 after being closed for 11 years. The city accepted an additional 10,000 applicants for just 6,800 total vouchers. Houston also received 68,000 applications for 30,000 open spots on the waitlist in October, and Chicago received 260,000 applications to a voucher waitlist capped at 45,000 names.”<sup>4</sup> This is a clear indication that the private housing sector in the U.S. has failed to provide adequate housing to working-class families, and now there is a heavy reliance on public and affordable housing programs to meet those demands. It would be a complete understatement to say that the affordable housing crisis could be solved in the next five years - given the complexity of this issue and the prolonged timeline surrounding electoral and bureaucratic actions. However, a simple intervention in the Family Median Income calculation could ensure that affordable housing units that become available are directed to individuals with extremely low incomes. Mitigating the number of folks who are at-risk of homelessness.

### **Policy Issue**

The Housing and Urban Development Administration uses a tool called the Family Median Income to determine income limits and fair market rents (FMRs) for several affordable housing programs such as the Low-Income Housing Tax Credit and the Section 8 Housing Choice Voucher program. Income limits and fair market rents are identical benchmarks that are set by percentages of the Family Median Income. The MFI is calculated using an internal HUD

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<sup>3</sup> “Millions of Families ON Voucher and Public Housing Waiting Lists,” National Low Income Housing Coalition, March 7, 2016,

<https://nlihc.org/resource/millions-families-voucher-and-public-housing-waiting-lists>.

<sup>4</sup> Alicia Mazzara, “Housing Vouchers Work: Huge Demand, Insufficient Funding for Housing Vouchers Means Long Waits,” Center on Budget and Policy Priorities, April 19, 2017,

<https://www.cbpp.org/blog/housing-vouchers-work-huge-demand-insufficient-funding-for-housing-vouchers-means-long-waits>.

metric that incorporates income statistics from the American Community Surveys of the Census Bureau and geographic boundary definitions from the Office of Management and Budget (OMB). This metric is problematic because the geographic boundaries utilized to calculate the Family Median Income are based on OMB's definition of a Metropolitan Statistical Area. These boundaries are associated with “at least one urbanized area that has a population of at least 50,000 or more, plus adjacent outlying counties that have a high degree of social and economic integration with the central county measured through commuting.” These areas are larger regional territories that frequently include higher-income suburbs surrounding an urbanized or concentrated city. To clarify, the issue is not how OMB defines a metropolitan area, it’s that HUD uses this definition to group counties and cities together to calculate a widespread median income. As a result, the median incomes tend to be inflated and larger, when compared to localized incomes in certain municipalities or cities.

Furthermore, this issue is only found in areas that are deemed metropolitan areas because HUD contrastingly applies a county-based calculation for MFIs in smaller or rural counties. Since 2018, HUD has applied a county-based income calculation for every new county added to a metropolitan area due to population growth. So, the issue of the MFI calculation is primarily experienced in designated metropolitan areas that were classified as such before 2018. As stated in HUD’s report, “all counties added to metropolitan areas will be an HMFA with rents and incomes based on their county data.” In this context, HMFAs stand for HUD Metro FMR Areas, and these are metropolitan areas that were scaled down from a larger OMB-defined metropolitan statistical area. In other words, most of the designated metropolitan areas that are used by HUD are slightly smaller than the actual OMB-defined area, but they continue to illustrate income discrepancies as well.

## Data

Based on a comparison analysis, I have found that the HUD MFI differentiates greatly compared to an MFI that was calculated using localized incomes. I analyzed the data in 4 major metropolitan areas and they have all shown different family median incomes when done through a metropolitan boundary vs. a local boundary. In the Chicago metro, the determined median income for one individual based on the metropolitan boundary was set at \$65,000 a year. HUD includes all the neighborhoods between Naperville and Joliet when calculating the MFI. However, income levels, employment type, education completion, and socioeconomic status differ extensively in suburbs like Naperville and Orland Park compared to underserved communities like Englewood or Ford Heights. Hence it was not shocking to see that the median income for one individual in Ford Heights (a low-income suburb near Chicago) was only \$20,109 based on statistics in the American Community Survey. The Section 8 Housing Choice Voucher program requires that public housing agencies (PHAs) set aside “75 percent of its vouchers to applicants whose incomes do not exceed 30 percent of the area median income.”<sup>5</sup> As determined by HUD, 30% of the MFI in the Chicago metro is \$19,600 which is still considered low-income. However, if we were to take 30% of the MFI in Ford Heights it only adds up to \$6,032. So based on HUD’s metro MFI for an individual who is extremely low income, someone making \$19,600 in Ford Heights will qualify for Section 8 housing even though they technically make more than 30% of the median income if it was based on Ford Heights alone. Table 1 showcases the income differences of the MFI for the New York, Detroit, and D.C. metro areas. All these metropolitan areas present major differences among the MFI

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<sup>5</sup> “Housing Choice Voucher PROGRAM Section 8: HUD.gov / U.S. Department of Housing and Urban Development (HUD),” Housing Choice Voucher Program Section 8 | HUD.gov / U.S. Department of Housing and Urban Development (HUD), accessed July 30, 2021, [https://www.hud.gov/topics/housing\\_choice\\_voucher\\_program\\_section\\_8](https://www.hud.gov/topics/housing_choice_voucher_program_section_8).

when conducted through HUD's calculation vs. a locality calculation. The largest gap seen was in New York's MFI. As explained in City & State, "New York City's AMI includes the median income from Westchester, Rockland and Putnam counties, which all have higher median incomes than the five boroughs. Meaning what the city may designate as affordable housing may not be affordable for many city residents – especially not for the residents of the neighborhood."<sup>6</sup>

Another issue exacerbated by the miscalculation of the MFI is the way developers exclude low-income groups when setting aside 50% of their units to families making below 60% of the AMI. Housing developers receive tax credits when they rent out units to low-income families. However, as I explained before, the median incomes established through a metropolitan boundary instead of a local boundary, create a contrast between family median incomes. Even though developers might reserve a portion of the rental units to low-income families, the existing income gap allows those rental units to go towards families that are not extremely low-income. When New York City council members re-zoned Inwood (a low-income neighborhood in upper Manhattan) to incentivize new development, community activists found that most of the affordable housing units actually "targeted income bands as high as 165 percent of the area median income (AMI)." Essentially, housing that was supposed to serve low-income families was rented out to middle-income families. Due to the function of the MFI however, these families were considered low income by metropolitan standards and were eligible to apply. Overall this problem creates a housing shortage for extremely low-income families. Greater Washington perfectly describes this situation by explaining how "the poorest families in these

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<sup>6</sup> Kay Dervishi, "Why AMI Are the Three Most Controversial Letters in New York Housing Policy," City & State NY (City & State New York, July 6, 2021), <https://www.cityandstateny.com/policy/2018/08/why-ami-are-the-three-most-controversial-letters-in-new-york-housing-policy/178202/>.

regions, who typically live in the city and earn substantially below 30% of the AMI, receive virtually no housing assistance designed for them.”<sup>7</sup>

Numerous critics argue that a change in the geographic boundaries to the MFI calculation might coerce higher-income communities to exclude affordable housing programs in their neighborhoods. This concern is valid and is considered when examining alternatives to the MFI calculation. However, in my perspective, the benefits of localizing the MFI calculation outweigh the possible repercussions that might arise - especially when congressional legislation addresses these loopholes in their policy proposals. Michael Stone - a professor at the University of Massachusetts, has advised that new MFI legislation be treated as a price ceiling. He states that “AMI should set a ceiling, not a floor. Meaning lower-income communities that use their local median as the reference are operating within federal and state income limits, but higher-income communities may not go above the federal or state limits.”<sup>8</sup> The important part to understand here is that any legislation that might occur should provide local housing agencies the option to use a localized measure if the income gap between the median incomes is substantial. However, if the local median income is instead larger than the metropolitan median income, then they are required to use the federal measurement. I also want to reiterate that HUD and its operating staff do not see an issue with the way the MFI is calculated, this is why congressional legislation is needed. Charles McNally, a spokesman for HUD’s regional office, stated that “there’s no formal mechanism for a city or county to challenge an AMI that seems out of step with reality, but he

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<sup>7</sup> Brian McCabe, “The Area Median Income (AMI), Explained,” Greater Greater Washington, September 1, 2016, <https://ggwash.org/view/42671/the-area-median-income-ami-explained>.

<sup>8</sup> Stone, Michael E., “Unaffordable “Affordable” Housing: Challenging the U.S. Department of Housing and Urban Development Area Median Income” (2009). Center for Social Policy Publications. Paper 36. [http://scholarworks.umb.edu/csp\\_pubs/36](http://scholarworks.umb.edu/csp_pubs/36)



suggests that a complaint based on data might get the agency's attention.”<sup>9</sup> In the next section, I will express possible pathways to create an alternative to how the MFI is currently calculated.

## **Recommendation**

Based on the evidence that has been outlined in this paper, I am recommending legislation that would allow HUD to adopt a more localized measure when calculating the Family Median Income. Even though this policy intervention does not increase the affordable housing supply, it does redistribute affordable housing units and programs to individuals and families that are severely low income. I have identified two pathways for Rep. Marie Newman to introduce this bill. The first, is a reauthorization bill of H.R. 4984, the Affordable Housing and Area Median Income Fairness Act of 2019. This bill was sponsored by Rep. Yvette Clark during the 116th Congress, where it originally received 22 co-sponsors. It was later referred to the Committee on Financial Services and the Committee on Ways and Means, but never received a vote in committee. The other option, and this is an option that I think would have more political leverage, is including this bill's language in the Neighborhood Homes Investment Act (NHIA) which is being pushed under the American Jobs Plan. President Biden is offering \$20 billion worth of NHIA tax credits over the next five years to help build or rehabilitate approximately 500,000 homes.<sup>10</sup> However, if we are not addressing how families qualify for these affordable homes, then we can not assure that they are truly going to severely low-income families. So when looking at what is most feasible, the best viable option would be including language requiring HUD to include a localized measure for the MFI in addition to the metropolitan MFI

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<sup>9</sup> Jarrett Murphy, "The Secret History of Area Median Income," Shelterforce, June 22, 2017, <https://shelterforce.org/2017/04/25/secret-history-area-median-income/>.

<sup>10</sup> "FACT Sheet: The American Jobs Plan," The White House (The United States Government, May 4, 2021), <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/>.

that is already created. The extent to how small of a locality should HUD include, I advocate for calculations to be made anywhere from a county-based to a city-based median income. The American Community Survey already gathers this data down to each Census tract - so there should be no issue in taking that data and inputting it in HUD's metric which only adjusts those incomes to account for inflation rates.

## Resources

- 1) <https://endhomelessness.org/homelessness-in-america/homelessness-statistics/state-of-homelessness-report-legacy/>
- 2) <https://www.cbpp.org/research/introduction-to-the-housing-voucher-program>
- 3) <https://nlihc.org/resource/millions-families-voucher-and-public-housing-waiting-lists>
- 4) <https://www.cbpp.org/blog/housing-vouchers-work-huge-demand-insufficient-funding-for-housing-vouchers-means-long-waits>
- 5) <https://www.govinfo.gov/content/pkg/FR-2010-06-28/pdf/2010-15605.pdf>
- 6) <https://www.huduser.gov/portal/datasets/il/il18/FAQs-18r.pdf>
- 7) [https://www.hud.gov/topics/housing\\_choice\\_voucher\\_program\\_section\\_8](https://www.hud.gov/topics/housing_choice_voucher_program_section_8)
- 8) <https://www.cityandstateny.com/policy/2018/08/why-ami-are-the-three-most-controversial-letters-in-new-york-housing-policy/178202/>
- 9) <https://www.cityandstateny.com/policy/2018/08/why-ami-are-the-three-most-controversial-letters-in-new-york-housing-policy/178202/>
- 10) <https://ggwash.org/view/42671/the-area-median-income-ami-explained>
- 11) Stone, Michael E., "Unaffordable "Affordable" Housing: Challenging the U.S. Department of Housing and Urban Development Area Median Income" (2009). Center for Social Policy Publications. Paper 36. [http://scholarworks.umb.edu/csp\\_pubs/36](http://scholarworks.umb.edu/csp_pubs/36)
- 12) <https://shelterforce.org/2017/04/25/secret-history-area-median-income/>
- 13) <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/>

**Table One**

	HUD Median Income for One Individual at 100% of the AMI	30% AMI (Extremely Low Income)	Localized Income for a city within the Metro	30% AMI of Localized Median Income (Extremely Low Income)
<b>Chicago-Joliet- Naperville, IL HUD Metro FMR Area</b>	\$65,000	\$19,600	Ford Heights Median Income for One Individual \$20,109 Based on ACS Survey	\$6,032
<b>Detroit-Warren -Livonia, MI HUD Metro FMR Area</b>	\$56,000	\$16,800	Detroit Median Income for One Individual \$19,798 Based on ACS Survey	\$5,939
<b>New York, NY HUD Metro FMR Area</b>	\$83,550	\$25,100	Bronx Median Income for One Individual \$22,232 Based on ACS Survey	\$6,670
<b>Washington-Ar lington-Alexan dria, DC-VA-MD HUD Metro FMR Area</b>	\$90,300	\$27,100	Capitol Heights Median Income for One Individual \$36,500 Based on ACS Survey	\$10,950

-District of Columbia

031-Cook, 043-DuPage, 089-Kane, 097-Lake, 111-McHenry, 197-Will

087-Lapeer, 099-Macomb, 125-Oakland, 147-St. Clair, 163-Wayne

005-Bronx, 047-Kings, 061-New York, 079-Putnam, 081-Queens, 085-Richmond