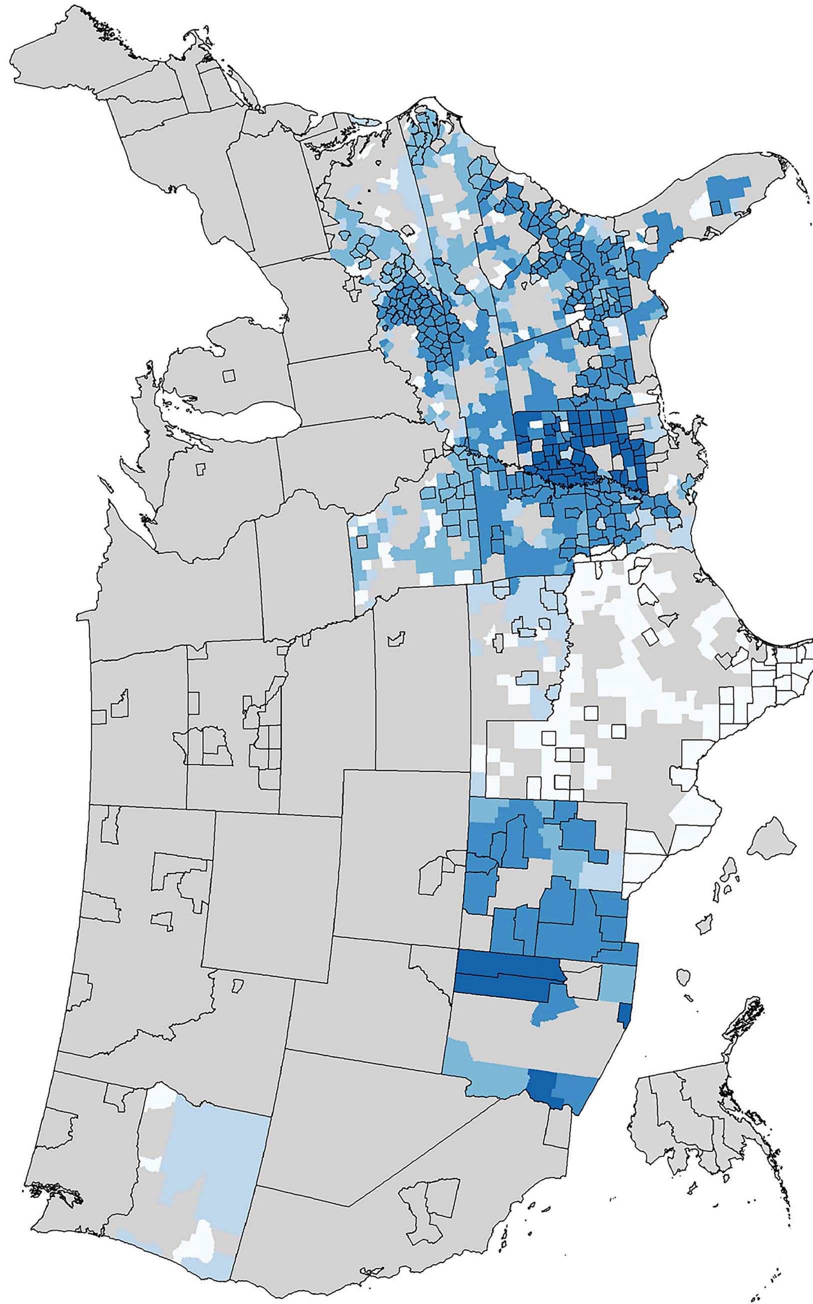
# Rural Income Limit Fairness: A National Floor Proposal

fahe

Strength in Numbers

# Rural Counties Affected by Artificially Low Income Limits



Cover Design: A non-exhaustive list of federal programs that use area median income to determine income limits. Programs are particularly affected in the Department of Housing and Urban Development, Department of Agriculture, Department of the Treasury, and the Department of Veterans Affairs. Not contained in the list are myriad state, local, and quasi-governmental funding sources that also use area median income to determine income limits.

## Providing housing for low-income families has long been a federal policy goal

The United States Housing Act of 1937 defined a low-income family as one "who cannot afford to pay enough to cause private enterprise in their locality or metropolitan area to build an adequate supply of decent, safe, and sanitary dwellings for their use." Since the passage of that Act, the US federal government has repeatedly recognized a need to supplement the private sector's production of housing units, especially to serve the lowest-income Americans.

However, despite decades of housing policy development, the difficulties facing low-income families, and particularly low-income families in rural areas, remain. In the communities discussed in this report, the original 1937 definition of a low-income family retains a special salience: there, local economies are not robust enough to cause the private sector to build an adequate supply of homes – not just for low-income families, but for the vast majority of community members. In fact, for many communities in Appalachia, the only new housing since the 2008 Great Recession has been built by nonprofit affordable housing developers like Fahe Members.

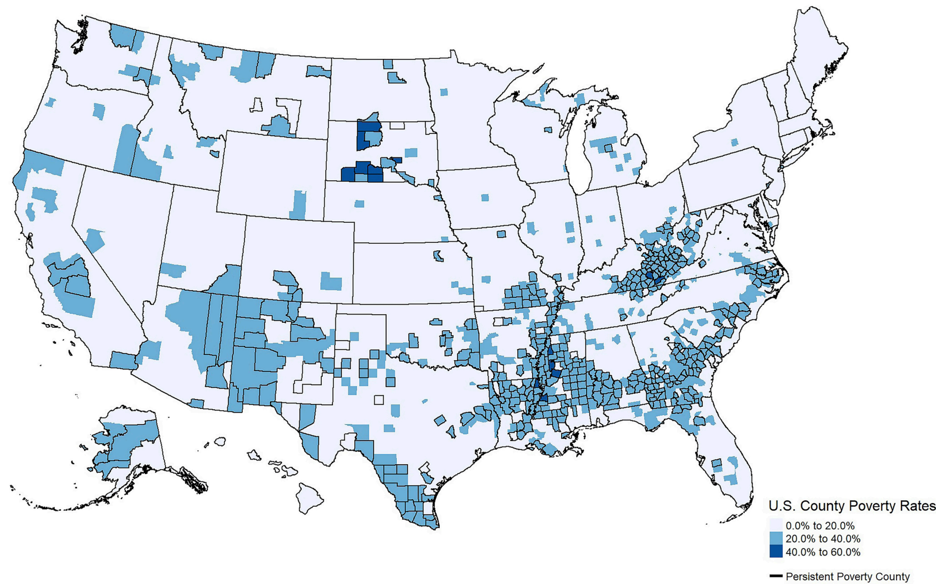
## Persistent poverty rural areas face challenges

Despite a complex network of programs across the government, housing challenges persist, particularly for low-income Americans living in rural areas. A Fahe report in 2019, "Summary of Issues Facing Rural Housing", found that lower incomes, higher energy costs, and a low supply of adequate housing units had created a rural housing crisis just as pernicious as the one facing rapidly growing urban areas. The Appalachian Regional Commission found that as of 2019, eleven years after the Great Recession, the construction and homebuilding industries in rural Appalachian counties still had not recovered the jobs lost in 2008.

These industries are suffering because it is simply not possible to make a profit as a housing developer in much of Appalachia, but that means the supply of housing that is both decent and affordable to residents of the region shrinks over time. A 2018 study by Fahe and the Virginia Center for Housing Research (VCHR) at Virginia Tech found that over 50% of homes in Appalachia will need major repairs in the next 5-15 years. Additionally, the Harvard Joint Center for Housing has found that home prices in rural areas rose faster than those in urban areas during the pandemic, exacerbating existing problems with affordability.

Housing challenges are particularly dire in Persistent Poverty Counties (PPCs), defined as those with poverty rates of at least 20% for at least the past 30 years. These counties are overwhelmingly rural and tend to be clustered in regions like the Colonias, the Mississippi Delta, and Appalachia.

## US persistent poverty counties and percentage of population living below the federal poverty level




## Federal housing programs are not reaching people they were intended to reach

Federal programs that are designed to help uplift communities like Persistent Poverty Counties and their residents are not reaching the people and places they were designed to reach. Targeting is flawed for a huge range of federal programs, including the HOME Investment Partnerships Program, the Supportive Services for Veteran Families program, the Community Development Block Grant program, the Low-Income Housing Tax Credit, and more. People qualify for these programs based on their family's income relative to their area's Median Family Income ('MFI', often referred to as Area Median Income, or 'AMI'). In other words, eligibility is determined by comparing a person to their neighbors.

For federal programs, rural "areas" are defined at the county level. But calculating median incomes at the county level can result in depressed income limits, disadvantaging people in low-income counties. For example, most eastern Kentucky and southern West Virginia counties are characterized by low populations and high rates of poverty. In these counties, there are lots of households with low incomes, but very few with higher incomes. This means the median county income is very low.

**Federal Program Definitions**

- Low-Income: household income does not exceed 80% of the Area Median Income (AMI)
- Very Low-Income: household income does not exceed 50% of the AMI
- Extremely Low-Income: household income does not exceed 30% of the AMI

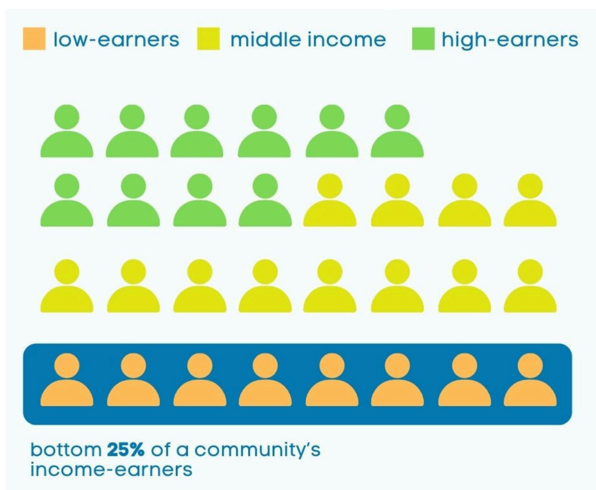
However, families can only get federal assistance if they earn below 80% of the median. Calculating AMI at only the county level would exclude many families throughout rural areas who earn too little to afford stable housing, but too much to qualify for assistance.

With the Community and Economic Development Act of 1987, lawmakers tried to account for the geographic inequality of economically depressed counties by creating a state floor mechanism. The state floor allows counties to determine eligibility for programs using either their own median family income or their statewide non-metropolitan median family income, whichever is higher. This should have ensured that specific counties would not have unreasonably low AMIs, by expanding the pool of incomes that make up the median to include other nearby rural counties. This system works well in states like California, Colorado, and New York, where there are relatively affluent non-metropolitan areas and only a few isolated counties with high poverty rates. In these States, there are enough rural households with higher incomes to bring up the statewide non-metropolitan median income, allowing low-income rural families to qualify for assistance at the correct rate.

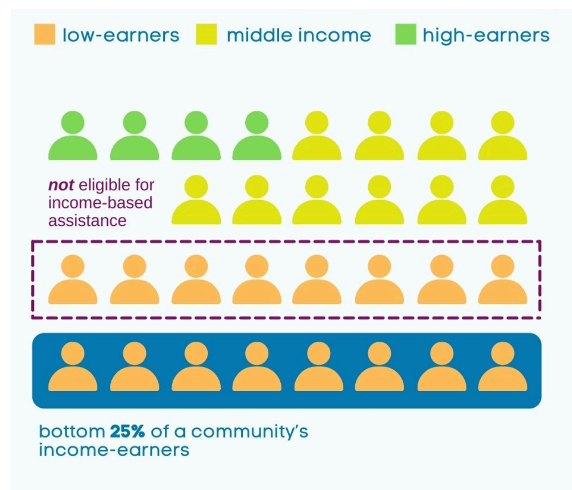
However, the system breaks down in states with large concentrations of rural poverty. Incomes are so low in so many households across different counties that it pulls down the state floor. This creates a situation where working families with low incomes, who do not earn enough money to afford stable housing, do not qualify for federal assistance because so many other families in their state are living below the poverty level. The result is that federal assistance is failing to reach the people it was designed to help – people in rural areas who make marginally more than others in their county, but nowhere near enough to make ends meet. These are families who would qualify for assistance if all else were held equal and they lived just a few miles away in a neighboring state with more affluent households but a similar cost of living.

## Illustrating the Gap: How Current Income Eligibility Calculations Disadvantage our Poorest Communities

### Distribution of Disadvantaged Households in an Average AMI County



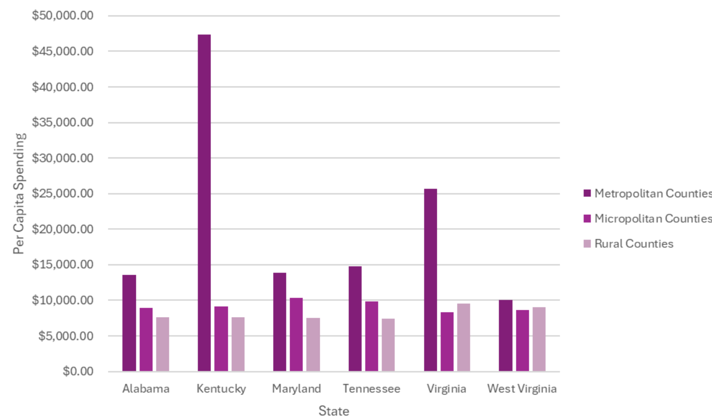

### Distribution of Disadvantaged Households in a Low AMI County



## Federal assistance goes disproportionately to families in cities, while rural families are left out

Federal spending data shows a disparity in where investment goes. In states across Appalachia, the federal government spends far more per-capita on Americans in cities than on Americans in rural areas.

### Federal spending disproportionately benefits people in metropolitan areas




The current method for determining income eligibility exacerbates this trend. The flaws of the current system mean that low-income families in metropolitan areas can get help, while similar but even poorer families in rural areas cannot. Cost of living differences are not stark enough to justify this: food staples, car repair and other transportation costs, and childcare and college tuition prices are broadly similar across the country.

Major metropolitan areas, like Washington, DC, have a high AMI. Calculating 80%, 50%, and 30% of the AMI figure creates income eligibility tiers with a lot of range in between them (see table for details). However, in small rural communities that have high poverty rates and low AMIs, the income limit brackets are right on top of each other. For example, in Perry County, KY, in 2019, the difference between a low-income family who qualified for assistance and a 'median' family who did not qualify was only $4,450/year. The closer these brackets are to each other, the more it indicates that the economy of a community is struggling, and the greater the disadvantage from the current system.

### Income brackets in Perry County are right on top of each other

| | Perry, KY | Randolph, WV | Washington, DC |
|---|---|---|---|
| Community AMI | $45,400 | $54,900 | $121,300 |
| Low-Income | $40,950 | $43,900 | $77,600 |
| Very Low-Income | $25,600 | $27,450 | $60,650 |
| Extremely Low-Income | $25,600 | $25,750 | $36,400 |
| Difference between 'average' and 'low-income' family | $4,450 | $11,000 | $43,700 |

Source: US Department of Housing and Urban Development, FY2019

In Perry County and communities like it, income limits for federal programs are so depressed as to be unreasonable. The income limits for very low- and extremely low-income families were both set at $25,600 for FY2019, a result of Congress setting a floor for those definitions at the federal poverty guideline. Prior to the addition of this floor in 2014, in Perry County, families only qualified for some programs if they were living below the federal poverty guideline. Federal programs are intended to help all low-income families, not just those living in abject poverty.

Even with the 2014 change, income limits for very low- and extremely low-income families remain unreasonably depressed in the communities discussed in this report. In areas with the lowest state floors, very low- and extremely low-income family income limits are set at the federal poverty guideline. Income limits this low create insurmountable challenges to the construction of new, and management of existing, affordable housing. HUD uses AMI in its calculations of Fair Market Rents (FMRs), which set payment levels for rental assistance and allowable rent. The broken AMI system means FMRs are also unreasonably low, which prevents potential housing projects breaking even, and therefore stops the possibility of new development. The unreasonably low income limits prevent nonprofit affordable housing developers from building housing for the lowest-income families in affected communities.

The flaws of the current method for determining income eligibility also become apparent when comparing the overall proportion of metropolitan and rural households who qualify for assistance. If income limits were determined correctly, then the proportion of the population considered "low-income" would be roughly the same in cities and rural communities. However, this is not the case. In 2019, 30.4% of the population in urban areas qualified as "low-income" and eligible for federal programs, while only 16.3% of the rural population qualified. However, poverty rates – a uniform measure, not a comparative one – indicate a consistently higher percentage of rural families living in poverty compared to urban families.

### A higher proportion of the urban population qualifies for federal programs compared to the rural population

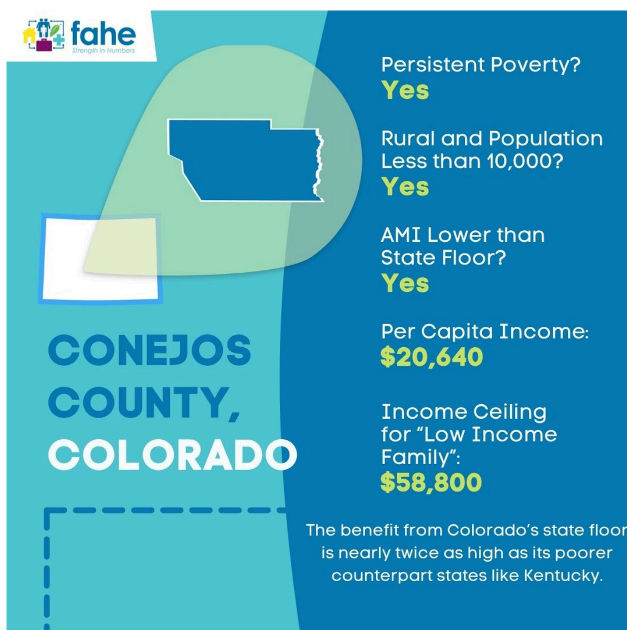
| Income Category | Rural Population | Urban Population | Sum | % Rural Population Included | % Urban Population Included |
|---|---|---|---|---|---|
| Very Low (<=50% AMI) | 477,671 | 21,163,298 | 21,640,969 | 1.0% | 7.7% |
| Low (<=80% AMI) | 7,510,186 | 83,675,008 | 91,185,194 | 16.3% | 30.4% |
| Moderate-Low 1 (<=90% AMI) | 14,553,852 | 110,128,163 | 124,682,015 | 31.6% | 40.1% |
| Moderate-Low 2 (<=100% AMI) | 24,122,586 | 138,720,683 | 162,843,269 | 52.3% | 50.5% |
| Moderate High (<=120% AMI) | 39,522,509 | 189,991,841 | 229,514,350 | 85.7% | 69.1% |

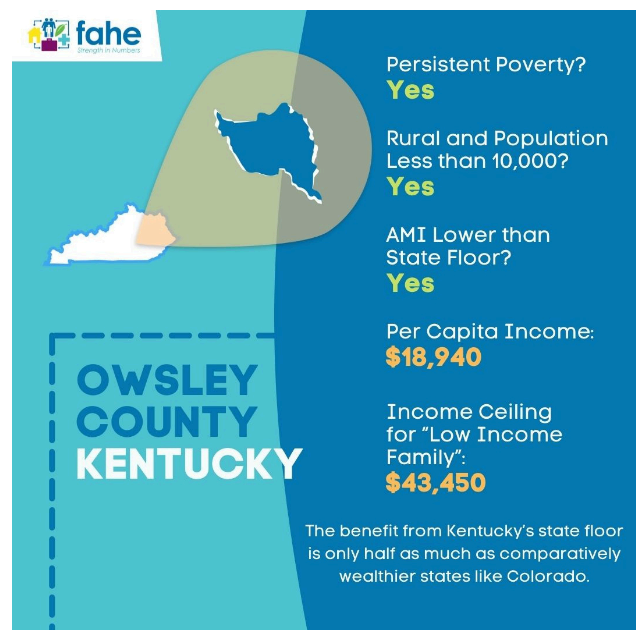
Source: OFN, 2019; US Census Bureau, 2019; PolicyMap, 2019

The US Department of Agriculture (USDA), for its Section 502 Homeownership Direct Loan Program, has recognized the lowering effects of concentrated persistent poverty on rural area median incomes, and implemented a policy it calls "income banding". USDA bases its income limits on HUD AMI figures, and therefore its programs suffer the same targeting failures as others discussed in this report. But USDA's income banding policy allows smaller families to qualify under the income limits of larger families, essentially expanding income limits within the data produced by HUD. Though welcome, this is a one-program "fix" that fails to address the root cause of USDA's acknowledged targeting failures – HUD data – and does not impact the income limits of any of the dozens of other federal programs with similar targeting failures.

The failures of the state floor mechanism become particularly evident when comparing two similar counties in different states, like Owsley County, Kentucky, and Conejos County, Colorado, which are both rural Persistent Poverty Counties. Owsley County, much like Perry County, experiences concentrated rural poverty and low household incomes. Owsley and Perry are two of the forty rural PPCs in Kentucky, which constitute a third of the State's counties. Concentrations of rural poverty on a state-wide level have depressed Kentucky's state-wide nonmetropolitan median income and lowered the state floor. In 2021, families in Owsley County only qualified for federal programs if their family income was below $43,450.

Conejos County, Colorado, is also a persistent poverty county with low household incomes and a low county-level AMI. However, because Colorado has affluent rural areas that bring up the state floor, families could earn up to $58,800 in 2021 and still qualify for assistance. A family earning $50,000 per year in Conejos County would meet income limits for federal programs like HOME, LIHTC, and USDA's Mutual Self-help Housing. The exact same family in Owsley County would not. This is despite the economies, employment, poverty rates, and per capita incomes of the two counties being similar. Only the state floor of Colorado allows Conejos County to not suffer unreasonably low income limits.



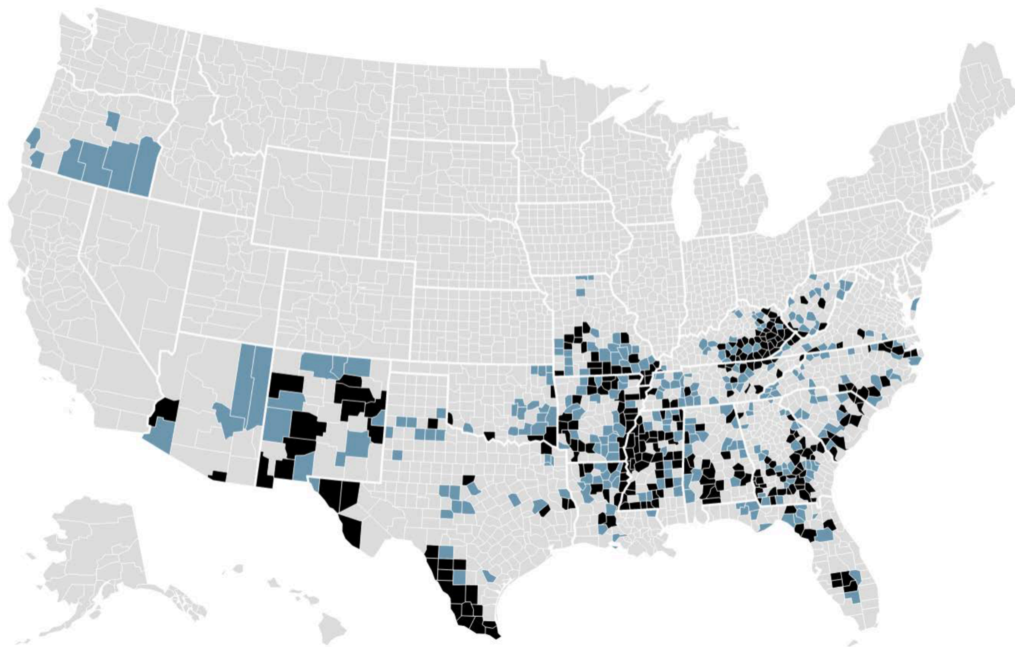

Source: Fahe and HUD, 2021

## Case study: Homeowner's Assistance Fund

Congress has tried to address this issue for some federal programs. The Homeowner's Assistance Fund (HAF), created by the 2021 American Rescue Plan Act, provided $9.961 billion to assist homeowners facing financial hardship caused by the COVID-19 pandemic. The program helped over 500,000 families keep their homes. Instead of determining program eligibility based on the typical income limits, Congress directed that the majority of HAF spending be targeted to households making less than 100% of the national median income of $78,500.

However, when implementing the HAF, the Treasury Department initially limited access to the program to homeowners making less than or equal to 150% of their local AMI. For 577 counties across 17 states, that figure was below the national median income. This meant that families with low incomes in those counties didn't qualify for the program, despite Congress's intended eligibility and targeting.

**In 577 counties, 150% of AMI is lower than 100% of the national median income**



*Black counties: $23,900-$46,700 AMI, Blue counties: $46,700-$52,300 AMI*

Treasury eventually changed their implementation guidance to allow communities to use the greater of 150% of their local AMI or 100% of the national median income ($78,500). This brought the HAF regulations into compliance with statute, but not Congress's intention. Treasury's new interpretation still perpetuated geographic disparities because the 577 counties which had been adversely affected by the initial guidance still ended up having the lowest income limits in the country. In practicality, this meant that a middle-income family in an affluent area could qualify for the HAF, but the same middle-income family in a poorer area could not.

Many working families were above the maximum income eligibility for HAF assistance, despite Congress's intentions to help them. Families with wage earners in crucial roles, like teachers, nurses, and HVAC technicians, were particularly adversely affected. Although salaries for several of those occupations were below the HAF income limits, a family of four with two wage-earners in those occupations in low-income areas, like Perry County, KY, did not qualify for the HAF because their combined income was above 100% of the national median income. However, an exactly equivalent family living in a more affluent area, like Montgomery County, MD, would qualify for the HAF under the 150% AMI eligibility provision and be able to save their home from foreclosure.

The cause of the geographic inequality in this instance is the same as it is for every other federal program affected by rural income limit unfairness – the Perry County family failed to qualify for assistance only because so many of their neighbors live in poverty. Individually, this is a personal tragedy for a family in crisis. But taken together, the denial of HAF eligibility and denial of access to other programming to all of the families affected by flawed income limit calculations constitutes a structural barrier to the flow of federal investment into deeply disadvantaged rural places. Families in communities already suffering economic distress were denied equal access to a program designed to prevent economic distress.

**Working families in Maryland qualified for the HAF, but equivalent working families in Kentucky did not**

| | Wage Earner #1: Teacher | Wage Earner #2: HVAC Technician | Family Income | Max. Eligibility for Area | Eligible for HAF? |
|---|---|---|---|---|---|
| Perry County, KY | $50,990 | $41,240 | $92,230 | $79,900 | No |
| Montgomery County, MD | $86,910 | $64,610 | $151,520 | $193,500 | Yes |

Source: Bureau of Labor Statistics, Treasury Department

## Instituting a national floor would correct this issue

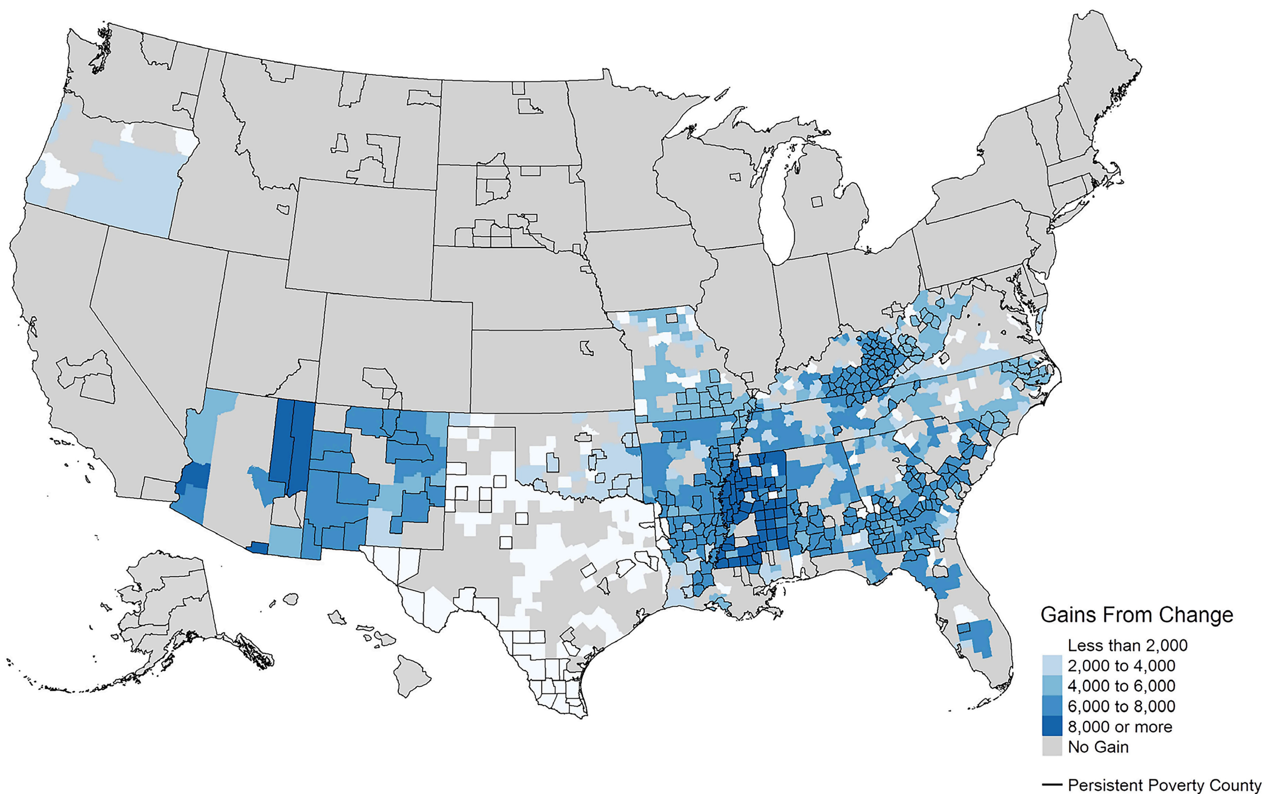
Congress could rectify the failures of the state floor mechanism by instituting a national floor mechanism which changes the way income limits are calculated. Currently, HUD must use the higher of either the county's AMI or the statewide non-metropolitan AMI, as discussed above. Congress could amend the Housing and Community Development Act of 1987 to add the national non-metropolitan median income into this list of considerations.

The national non-metropolitan median income was $71,300 in 2022. An unadjusted low-income limit for a family of four based on this figure would be $57,040.

Doing so would level the playing field for communities where the state floor is depressed by concentrations of rural poverty and would ensure that people in those communities would not be penalized because of where they live. It would remove the largest barrier to the development of rental housing for the lowest income families in rural America. And, it would solve the injustice of the current system without either privileging or disadvantaging the remainder of the country.

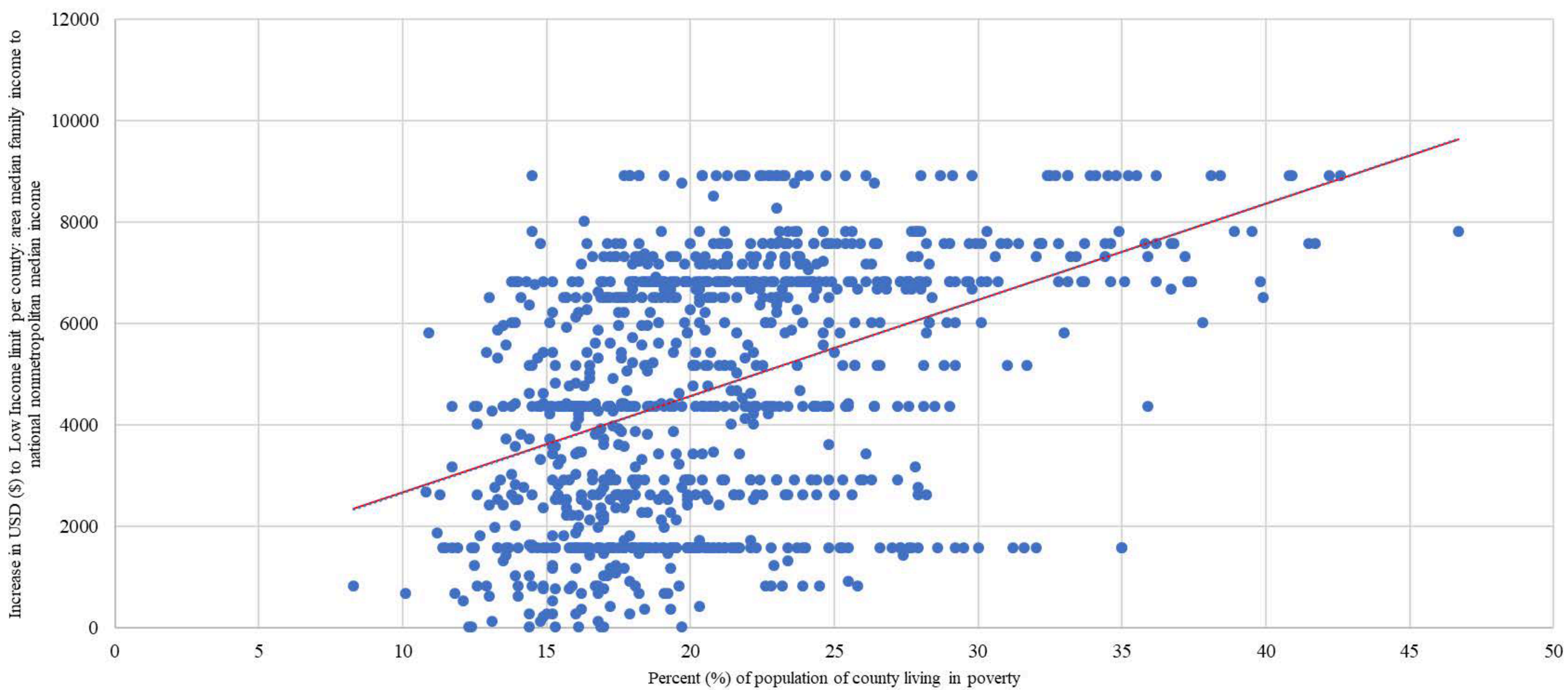
This proposal, in 2019, would have increased the income limits for 998 counties across the US, 245 of which are in Appalachia and 190 of which are in the Delta region of the Deep South. For a family of four, the largest increase in income limits that would have resulted from this proposal would have raised the amount of money a family could make and still qualify as "low income" by $8,928 in 2019. The smallest increase would have raised the same metric by $28. The unevenness of the effect reflects the existing inequality created by the current system for determining income eligibility. The counties that would see the largest increases are those which are currently most disadvantaged.

**Fahe's national floor proposal would correct the problems created by the current system and give people in low-income, rural areas the ability to access federal programs**




Increases to income limits would also be proportional to the percentage of the population living in poverty in a given county. The greater the percentage of the population below the poverty guideline, the greater the increase in income limits. This both reflects and corrects the existing inequality.

## Instituting a “National Nonmetropolitan Median Income” floor would deliver the most gains to counties with the highest poverty rates



## The national floor could be implemented with a small legislative change

Congress should return to its original legislation and insert language that causes income limit calculations to use the higher of the county AMI, the state non-metropolitan AMI, or the national non-metropolitan AMI. Proposed legislative language that would actualize this change is below.

> *Section 567 of the Housing and Community Development Act of 1987 (P.L. 100-242) is amended to strike at the end:*
>
> *"the State.",*
>
> *And insert "the State; or*
>
> *(3) the median income of the entire nonmetropolitan area of the Nation."*

## Questions? Contact us

For more information on this issue, including data on affected counties and states, please contact Joshua Stewart, Director of Federal Policy and Advocacy at Fahe, via email at jstewart@fahe.org or via phone at 859.986.2321 ext. 6261.

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## About Fahe

Fahe is a Network of 50+ diverse community-based nonprofits. Together, we are building thriving communities in Appalachia, working in Alabama, Kentucky, Maryland, Tennessee, Virginia, and West Virginia. We provide collective voice and access to capital for the creation of housing and promotion of community development. Since 1980, Fahe has invested $1.91 billion, generated $1.76 billion in finance, and changed the lives of over 941,707 people. Please visit www.fahe.org to learn more.

## Supporting Organizations

cdcb | come dream. come build., Coalition for Home Repair, Communities Unlimited, Inc., Hope Policy Institute, National NeighborWorks Association, Habitat for Humanity International, National Rural Housing Coalition, Opportunity Finance Network, Oweesta Corporation, Partners for Rural Transformation, and Rural Community Assistance Corporation.


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