

# AMI AND HOUSING AFFORDABILITY

## LOCAL PLANNING HANDBOOK

The Area Median Income (AMI) is the midpoint of a region’s income distribution – half of families in a region earn more than the median and half earn less than the median. For housing policy, income thresholds set relative to the area median income—such as 50% of the area median income—identify households eligible to live in income-restricted housing units and the affordability of housing units to low-income households.

### Low-income households and levels of affordability

Your housing element and implementation program must address affordable housing needs within three levels of affordability:

- At or below 30% AMI
- Between 31 and 50% AMI
- Between 51 and 80% AMI

The U.S. Department of Housing and Urban Development (HUD) defines and calculates different levels of AMI for geographic areas across the country by household size. For the Twin Cities region in 2017, HUD has defined the three levels of affordability as:<sup>1</sup>

Household Size:	Extremely Low Income (30% of AMI)	Very Low Income (50% of AMI)	Low Income (80% of AMI)
One-person	\$19,000	\$31,650	\$47,600
Two-person	\$21,700	\$36,200	\$54,400
Three-person	\$24,400	\$40,700	\$61,200
Four-person	\$27,100	\$45,200	\$68,000
Five-person	\$29,300	\$48,850	\$73,450
Six-person	\$32,960	\$52,450	\$78,900
Seven-person	\$37,140	\$56,050	\$84,350
Eight-person	\$41,320	\$59,700	\$89,800

Thinking about specific jobs helps make this more concrete. For a four-person household with only one wage-earner, positions as home health aides or funeral attendants would provide an income at 30% of AMI; positions as interior designers or bus drivers would provide an income at 50% of AMI; and positions as accountants or police officers would provide an income at 80% of AMI. For a more in depth look at how full-time jobs do not always mean there are affordable housing choices, visit the [Family Housing Fund’s](#) website.

Having an income below these thresholds makes households eligible for certain housing programs (other social programs use thresholds relative to the federal poverty guidelines). For example, to be eligible for a Housing Choice Voucher, household income must be at or below 50% of AMI; a three-person household with an income up to \$40,700 would be eligible for a voucher as would a five-person household with an income up to \$48,850.

### Translating incomes into affordable housing costs

These income levels are also a way to assess housing affordability. We say that a housing unit is “affordable at 80% of AMI” if a household whose income is at or below 80% of AMI can live there without spending more than 30% of their income on housing costs. What this means in practice differs for rental and ownership units.

Affordable rents for housing units vary by the number of bedrooms in the housing unit. This is because the income limits vary by household size, and the number of bedrooms affects how many people a unit can comfortably house.<sup>2</sup> Here are affordable monthly rents at the different income levels for 2017:

Number of bedrooms:	Affordable rent (including utilities) at 30% of AMI	Affordable rent (including utilities) at 50% of AMI	Affordable rent (including utilities) at 80% of AMI
Studio	\$474	\$791	\$1,265
1-BR	\$508	\$848	\$1,356
2-BR	\$610	\$1,017	\$1,627
3-BR	\$705	\$1,175	\$1,880
4-BR	\$786	\$1,311	\$2,097

Calculations of affordability for ownership units are more complicated because there are more variables in monthly housing costs – such as generalized assumptions<sup>3</sup> about down-payments and mortgage interest rates – and each homeowner will have a different experience. Each year, the Council develops affordability limits based on forecasting what those annual assumptions will be; these are used to inform development funded through the Livable Communities Act programs. While we can't predict what future home prices will be, we can look backward at the estimated market values for 2016; these are the basis of the Council-provided maps showing ownership units that are affordable to households at 80% of AMI.

Affordable purchase prices are provided for both 2015 and 2016 below. If your community chooses to develop a map with a different data source to satisfy this requirement, please contact Council staff to find out which affordability limit you should use.

	30% of AMI	50% of AMI	80% of AMI
Affordable purchase price (2017)	\$85,000	\$151,500	\$236,000
Affordable purchase price (2016)	\$85,500	\$153,500	\$243,500
Affordable purchase price (2015)	\$84,500	\$151,500	\$238,500

1. For a full explanation of how these amounts were calculated, see [HUD's website](#).
2. These rents assume that a household should pay no more than 30% of its monthly income on rent (including utilities), and (in keeping with IRS regulations) that a housing unit can comfortably hold 1.5 times as many people as the number of bedrooms it has.
3. For all years, in addition to the 29% housing debt to household income ratio, we assumed a 30-year fixed-interest mortgage, a 3.5% down-payment, a property tax rate of 1.25% of property sales price, and \$100 / month for hazard insurance. For 2017, we assumed a 4.375% interest rate and mortgage insurance premiums at 0.85% of unpaid principal. For 2016, we assumed a 3.60% interest rate (the average rate in the Midwest in 2016) and mortgage insurance premiums at 0.85% of unpaid principal. For 2015, we assumed a 3.84% interest rate (the average rate in the Midwest in 2015) and mortgage insurance premiums at 1.35% of unpaid principal.