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# Income Limits and Rents for USHA-Aided Projects

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REVISED DECEMBER 14, 1940

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Policies Governing the Establishment of Income  
Limits and Rents for USHA-Aided Projects



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## BULLETIN NO. 24 ON POLICY AND PROCEDURE

Revised December 14, 1940

(Substituted for Bulletin No. 24, dated June 30, 1939, and the Preliminary  
Revised Draft Thereof dated May 16, 1940)

### Income Limits and Rents for USHA-Aided Projects

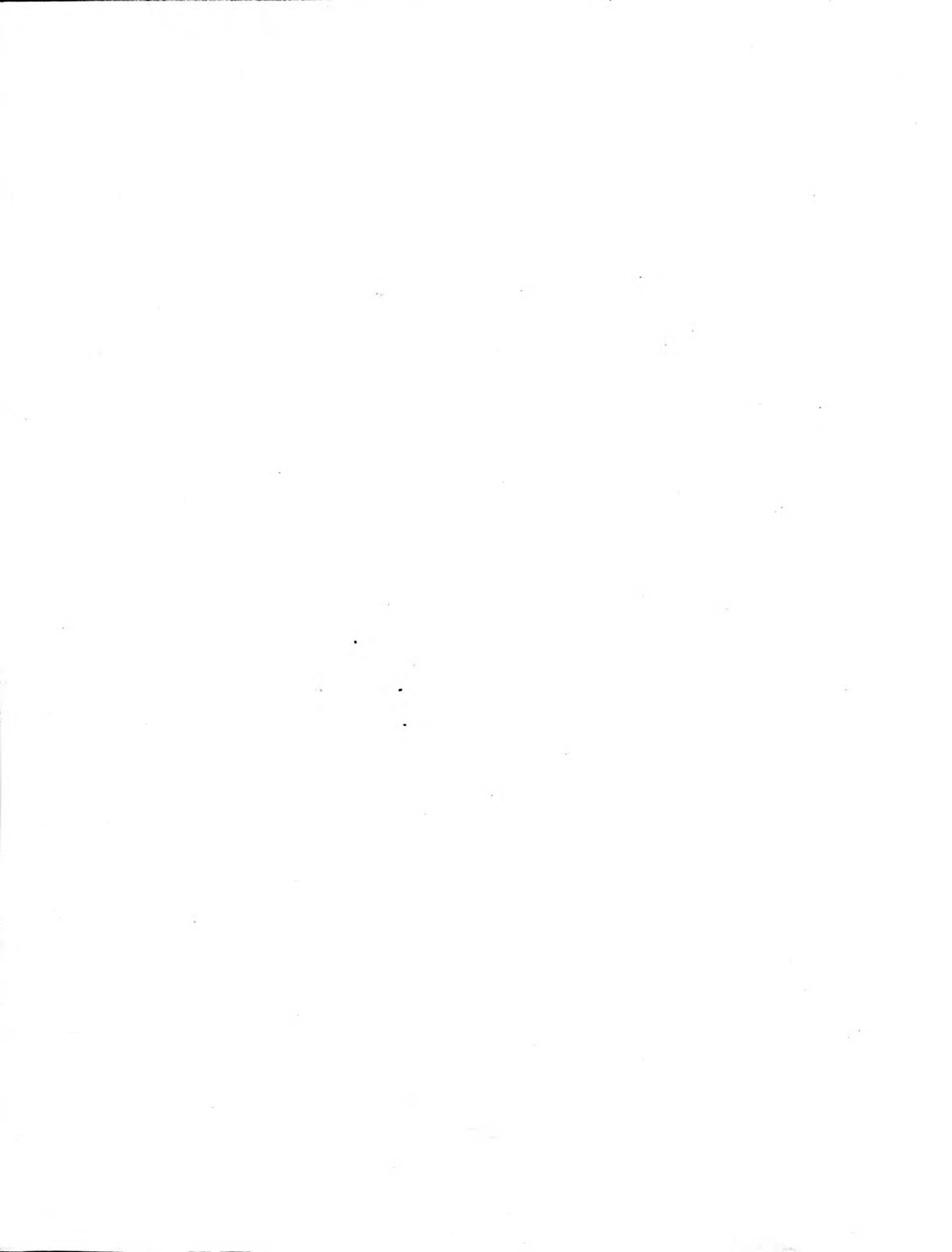
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As Local Housing Authorities know, Bulletin No. 24 was first issued on June 30, 1939. This initial issue of the Bulletin was revised and a preliminary revised draft, dated May 16, 1940, was sent out for comment and temporary use. The present Bulletin embodies the results of operating experience under these two preceding issues and also many valuable suggestions made by Local Housing Authorities.

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# INCOME LIMITS AND RENTS FOR USHA-AIDED PROJECTS

## SCOPE AND CONTENT.

This Bulletin describes the policy considerations involved in setting income limits and rents for USHA-aided projects. Thus, the Bulletin discusses (I) the general principles involved; (II) the market limits; (III) the division of the low-income group into grades; (IV) the setting of rents for various income grades; (V) income limits and rents for specific projects; (VI) the assignment of rents to specific dwelling units; and (VII) income limits after admission. In addition, Section VIII of the Bulletin sets forth a Table which illustrates how a three-grade rent schedule, established in accordance with the Bulletin, might work out for a specific project.

It is not intended to make the provisions of this Bulletin compulsorily retroactive. Any Local Housing Authority which has already set up rent schedules and income limits according to the system outlined on May 16, 1940, is free to continue operating under those provisions if it finds them satisfactory. Any system adopted must be subject to change as a result of experience, but unnecessary change is to be deprecated. A new system, once adopted, should be given a fair trial of a year at the least before changes are considered. Tenants once accepted should be able to feel secure in their tenure provided they fulfill their part of the agreement. And stability of system is almost equally important for the efficiency and morale of the staff.

The Bulletin is necessarily concerned primarily with policy. A Manual of Market Analysis is being issued to aid Local Authorities in putting into effect the policies outlined in the Bulletin.

## I. GENERAL PRINCIPLES.

The United States Housing Act limits the program to families in "the lowest income group." But the "lowest income group" includes families with a considerable diversity of income. Naturally, the first concern of most Local Authorities was to produce decent housing exclusively for families as near the bottom of the "lowest income group" as could be reached by using the maximum subsidy in every case. But Local Authorities have come to realize through experience that it is desir-

able to accommodate as soon as possible a cross section of all families "in the lowest income group" now obliged to live in substandard housing, rather than one restricted portion of these families. Toward these broader purposes, Local Authorities should formulate, as some already have, long-term housing programs. Each new project will thereafter fit into its place in the program considered as a whole.

Such a long-term program covering the entire lowest income group has the democratic advantages of not limiting tenancy to one excessively narrow segment of the population, of including many families not at the very bottom of the "lowest income group" who need decent housing and cannot afford it, and of reducing the average subsidy per family rehoused and thus helping more families for the same money.

## II. THE MARKET LIMITS.

In determining the size and income limits of the long-term program in any locality, there must be borne in mind at all times the three requirements: (a) That only families living under substandard housing conditions are to be rehoused; (b) that only families who cannot afford to pay enough to induce private enterprise to build an adequate supply of decent, safe, and sanitary housing are to be rehoused; and (c) that all families to be rehoused must be drawn from the "lowest income group." These three requirements will be discussed in order.

(a) Information in regard to the amount of occupied substandard housing in the locality, and primarily the amount of such housing occupied by tenants, should be the first concern of every Local Housing Authority. Although the rough generalization that a third of American housing is substandard has been widely accepted, it is unsafe to assume without investigation that this ratio is true of any particular community. Actual surveys have shown communities with less than 5 percent of substandard housing and other communities with more than 65 percent.

(b) Information in regard to existing vacancies and current construction by private enterprise of decent low rental housing, if any, is generally available from semi-public sources without special surveys.

(c) In complying with the requirement that only families "in the lowest income group" be rehoused, it is necessary to set standards which are not detailed in the law and which vary throughout the country according to time and place and circumstance. One convenient standard is that only families in the "lowest income third" be rehoused. This standard is convenient as a rough and ready approximation to the commonly accepted statistical fact that about one-third of the Nation is underprivileged and ill-housed. It has the further advantage of a convenient practical demarcation between the field for public housing and the fields that private enterprise can or should be able to serve with decent housing. But the precise application of this standard is sometimes impossible, and in some localities it would operate unfairly and unwisely even where possible. Therefore the USHA, while requiring general adherence to this standard, will permit deviations from it upon a proper showing that in a particular community it is not a fair measure of "the lowest income group."

A second standard for defining the "lowest income group" is based upon examining the incomes of families living in substandard housing in the locality. For, broadly speaking, and subject to exception, families live in slums only because their incomes are too low to afford decent housing.

In order to shut out borderline cases and families who could really afford adequate housing, it will usually be found advisable to set the upper limit of the market so as to exclude the top 15 or 20 percent of families living in substandard housing.

No fixed and definite lower income limit for admission can be set for the whole market.

In setting the lowest rents which are to be available in the long-term program, it must be recognized that it is impossible to set them sufficiently low to rehouse families at the very bottom of the income scale, who literally do not have an income sufficient to provide food and clothing, much less shelter, and who of necessity should have their incomes supplemented by public relief. The lowest rents to be available should be set, however, so that families who receive reasonably adequate relief will be able to afford them, although the Local Authority may wish to place some limita-

tions on the proportion of relief families admitted to projects.

In general, a Local Authority should not plan to establish any rents so low that they will require more than maximum USHA subsidy.<sup>1</sup>

In setting income limits for long-term programs, Local Authorities cannot rely exclusively on survey data, especially where such data are out of date or are believed to be inaccurate; but should consult with responsible welfare officials and other persons with an intimate knowledge of actual living conditions among the poorer families.

### III. THE DIVISION OF THE LOW-INCOME GROUP INTO GRADES.

The incomes of families to be served by the long-term program in any community will usually be found to have so large a range that no one rent scale can appropriately be fixed for all of them. For example, if the long-term program in a locality contemplates rehousing average size families with incomes from \$400 to \$1,000, a rent of \$20, which would require families at the top of the group to pay only 24 percent of their income for rent and utilities, would require families with incomes of \$400 to pay 60 percent of income for that purpose—a proportion which is obviously excessive. More than one rent scale must, therefore, be available in order to accommodate all families of low income at rents within their financial reach.

The most practicable way of achieving an adjustment of rent to income is to divide the range of incomes to be served by the long-term program into a number of grades, and to set a fixed schedule of rents for each grade. When families are admitted to a project the rents which they are to pay will be determined by the income grade in which they fall. Such income grades and the corresponding grades of rents may be distinguished as A, B, C, etc., beginning with the lowest.

Such a system of "graded rents" makes no pretense of precise and constantly adjusted equalization of the rent burden. As no real precision in respect to anything so complicated is humanly possible, this is an advantage. On the other hand, besides being more in accordance with the customs

<sup>1</sup> See end of Section IV.



of private enterprise, the upsetting of which should be avoided whenever possible, it has the great advantage of not requiring frequent and detailed check-ups on income. This saves administrative costs and avoids serious difficulties in tenant relations.<sup>2</sup>

The number of grades required in any local program will depend upon the range in incomes of the families to be served in the long-term program, and upon how wide a range can be accommodated in each grade without requiring families with incomes at the bottom of the grade to pay too large a proportion of their incomes for rent. It is strongly recommended that the number of grades be held to the minimum with which it is practicable to rehouse the whole cross section of the "lowest income group" included in the long-term program. It is important, however, to set up sufficient grades to cover the entire long-term program, although all grades may not be served in the first projects.

For each of the various grades maximum income limits will be set, and these will automatically serve as the minimum income limits for the next higher grade. For the lowest grade there will be no minimum income limit and families will be admitted no matter how low their income, provided they can pay the rent in the lowest grade.

The maximum income limits should be set for each grade for an average size family requiring two bedrooms. The maximum limits thus fixed can then be adjusted upward for large families and downward for small families.

Experience suggests that for average size families with incomes below \$1,000 a range of \$200 between the maximum of one grade and that of the next grade is appropriate, while above \$1,000 a range of \$300 is generally suitable.

It is logical to set higher income limits in each grade for large families than for average size families, because the necessary expenditures of large families for

food and clothing are greater. Conversely, it is logical to set lower limits in each grade for smaller families. After the maximum limits have been set in each grade for average size families requiring two bedrooms it will, therefore, generally be found advisable to reduce these limits by 10 percent to 20 percent for smaller families requiring one bedroom, and to raise them by 10 percent to 20 percent for larger families requiring three bedrooms, and to raise them by a further 10 percent to 20 percent for very large families requiring four bedrooms. Maximum income limits should be rounded out to the nearest \$50.

#### IV. SETTING RENTS FOR THE VARIOUS INCOME GRADES.

After the income grades have been determined, it is necessary to fix rents for each of the grades.

Families should not as a rule be expected to pay much more for shelter and utilities in public housing than the amount they have been accustomed to pay, since it could only be done by sacrificing other necessities. It is important, however, that they should pay as high rents as they reasonably can in order to hold the cost of subsidy to a minimum. In most cases these objects will be attained by setting rents in public housing at approximately the amounts paid by tenants in standard dwellings.

In certain communities, however, the families of extremely low income in substandard housing or certain racial or occupational groups are forced to pay unreasonably high proportions of their incomes for rent plus utilities. Such abnormalities should be corrected.

In setting rents for each income grade it will be most convenient to begin with a two-bedroom unit suitable for occupancy by an average size family. The amount thus fixed can then be adjusted upward for larger units and downward for smaller units in the grade.

It is suggested that for each income grade the average amount now being paid for shelter and utilities by families in that grade irrespective of family size be used as the statutory rental value for a two-bedroom unit. The percentages which such annual statutory rental values form of the corresponding maximum income

<sup>2</sup> Another method of serving the market, which, however, is not recommended by the USHA, is through the use of "proportional rents" or, as they have sometimes been called, "adjusted rents." Under this system the rent is fixed for each family according to its income and calculated needs. A frequent check is made on the income of the family and the rent is adjusted upward or downward to correspond to changes in income or family composition. The terms "graded rents" and "proportional rents" are used to avoid the confusion which has grown up, not only in the United States, but in Great Britain, the country of origin, in connection with the use of the terms "differential rents" and "differential rent relief."

limits in each grade should be computed. The statutory rental values should be adjusted if the percent in any grade is too low in relation to the percent established for other grades or is so high as to be unreasonable or extortionate.

A ratio of 30 percent for the maximum income in any grade (which may require families at the bottom of that grade to pay as much as 40 percent for rent plus utilities) should not in general be exceeded for two-bedroom units. Under the provisions of Sec. 2 (1) of the Act, a ratio of less than 20 percent to maximum income in any grade is precluded for a two-bedroom unit, since such a unit will in general be occupied by families with less than three minor dependents.

Large families in the lower income grades cannot afford substantially higher rents than small families since they must necessarily spend more for food, clothing, and other essentials. It therefore appears to be sound policy in public housing to set the rents for large units in any grade at only slightly more than for small units.

In general, it will be found advisable in each grade to reduce the statutory rental value of a two-bedroom unit by 5 percent to 10 percent for one-bedroom units, and to raise it by 5 percent to 10 percent for three-bedroom units, and by a further 3 percent to 5 percent for four-bedroom units.

As a practical rule of thumb, it is suggested in grades where the statutory rental value for a two-bedroom unit is less than \$20, that 75 cents be deducted from the monthly statutory rental value for a one-bedroom unit, and that 75 cents be added for a three-bedroom unit, and a further 50 cents for a four-bedroom unit. In grades where the statutory rental value for a two-bedroom unit is \$20 or over, it is suggested that \$1 be deducted from the monthly statutory rental value for a one-bedroom unit, and that \$1 be added for a three-bedroom unit, and a further 50 cents for a four-bedroom unit.

Monthly rents should be rounded out to the nearest 25 cents and weekly rents (if any) to 10 cents.

When a schedule has been completed the percentages which annual statutory rental values bear to maximum income limits should be computed for every grade and every size of unit, and any abnormality

should be corrected. Care must be taken that, in accord with Sec. 2 (1) of the Act, no unit to be occupied by a family with less than three minor dependents (in general one- or two-bedroom units) has a rent-income ratio of less than 20 percent, and that no unit to be occupied by a family with three or more minor dependents (in general three- or four-bedroom units) has a ratio of less than 16 $\frac{2}{3}$  percent. Where the ratio for a three- or four-bedroom unit is less than 20 percent, an additional income limit should be established in the amount of five times the statutory rental value for families with less than three minor dependents.

On every project the estimated average subsidy per unit to be paid in each grade should be determined by subtracting the average annual "shelter rent plus utilities" for that grade from the estimated average annual expense (including debt service) per unit of all units in the project.

While the subsidy in the lowest grade should not, in general, exceed the maximum possible USHA subsidy<sup>a</sup> and should be substantially less wherever possible, it is recognized that there may be unusual circumstances requiring exceptional treatment.

#### V. INCOME LIMITS AND RENTS FOR SPECIFIC PROJECTS.

The USHA recommends that each Local Authority set income limits and rents for the projects included in its immediate program so as to rehouse a typical cross-section of the entire market.

Insofar as possible units with rents at more than one grade should be available in each project. When a Local Authority has several projects this will permit families of any given income to have a choice of location in relation to their employment. This policy also avoids the segregation of families by income and makes for more representative communities in each project.

A variety of factors will influence the choice of the income grades to be provided in any specific project. Among such factors are the income groups which predominate in the neighborhood, and the wage

<sup>a</sup> The maximum USHA subsidy possible during the initial 10 years is obtained by subtracting the increased expense for Repairs, Maintenance, and Replacements expected after the initial 10 years from the amount of subsidy computed by multiplying the average development cost per unit by the maximum statutory contribution rate.

levels at places of employment most accessible to the project. As any local program develops over a period of years, there will arise differences in relative desirability between old and new projects. It seems reasonable that in selecting the grades to be served in various projects such differences should be recognized.

#### VI. THE ASSIGNMENT OF RENTS TO SPECIFIC DWELLING UNITS.

Two different policies are possible in connection with the assignment of rents:

- (a) It is possible to assign fixed rents to specific dwelling units. At the time of admission a family in any income grade would select its dwelling from among those assigned to that grade. If the income of the family changed sufficiently to put them in a different income grade they would have to move to a dwelling with higher or lower fixed rent, as the case might be, when a suitable vacancy occurred.
- (b) It is possible to make no assignment of rents to dwelling units. At the time of admission a family would be free to select any unit of suitable size among those then available for occupancy, and the rent paid would be determined by the income grade of the family. If the income of the family changed sufficiently to put them in a different income grade, they would remain where they were and the rent would be adjusted up or down as the case might be.

There are practical advantages and disadvantages in either procedure which Local Authorities are advised to weigh thoroughly before making their choice.

If fixed rents are to be assigned to specific dwelling units under the first plan, care should be taken to assign to the higher rent grades those units which are inherently more desirable because of outlook, exposure, plan, or other reason.

If rents are to be assigned to specific units attention should be given in the planning of the project to securing a certain amount of diversity in relative attractiveness between units of the same size.

#### VII. INCOME LIMITS AFTER ADMISSION

Discussion up to this point has been concerned exclusively with income limits at

the time of admission. Family incomes are, however, unstable, and in the course of a few years the incomes of many families in any project will have risen, while others will have fallen.

The question of income limits for continued occupancy is distinctly different from that of limits at the time of admission. This fact is recognized in Sec. 2 (1) of the Act which fixes outside income limits of five and six times the rental at the time of admission, but which fixes no such limits after admission.

It is of the utmost importance to give families in public housing a feeling of security of tenure. Families naturally wish to stay in a project long enough to raise their children, unless their incomes increase sufficiently to enable them to afford decent private housing. The securing of any high degree of tenant maintenance also depends on giving tenants some assurance of continued occupancy. Any feeling that they may be dispossessed through relatively small increases in income tends to militate against their ambition to better themselves, particularly if eviction will drive them back into the slums. The human and practical problems involved in evicting or even moving tenants because of a small increase in income are very considerable.

The USHA believes that families in the top income grade whose income increases beyond the maximum limit for admission to the top grade should be encouraged to leave the project and move into private housing if they can find decent quarters at suitable rents. Where such quarters are not available they should be allowed to remain in the project, but only up to the point where their incomes exceed the maximum limit at the top grade by not more than 20 percent.

An extra income grade (Grade X) should be established for such families who are allowed to remain in the project. The maximum income limits in Grade X for units of various sizes should be set at approximately 20 percent above the corresponding limits in the top regular income grade, but should be rounded to the nearest \$50. When the income of a family increases beyond the maximum limit for Grade X the family must be required to leave the project. Families in Grade X should be required to pay a somewhat higher proportion of income for rent than

those in the top regular income grade. Monthly statutory values (and, if necessary, "shelter rents plus utilities") should be set for units of various sizes in Grade X, and should be rounded down to the next nearest 25 cents (10 cents if weekly rents). It must be emphasized that Grade X is strictly reserved for families whose income after admission has increased above the maximum limit in the top grade. Under no circumstances may a family be accepted for original admission in Grade X.

When the income of a family in any grade other than the top grade increases beyond the maximum limit for that grade the USHA recommends that such family be assigned to the next higher grade and that its rent be correspondingly increased. In projects where rents are attached to specific units such family would be required to move into a unit in the next higher grade as soon as a vacancy occurred. Where the rent attaches to the family its rent would be increased without moving the family.

When the income of a family in any grade decreases below the maximum for the next lower grade the USHA recommends that such family be assigned to the next lower grade and that its rent be correspondingly decreased. In projects where

rents are attached to specific units such family would be permitted to move into a unit in the next lower grade as soon as a vacancy occurred. Where the rent attaches to the family its rent would be decreased without its moving. If, in an exceptional case, rents have been set in the lowest grade which require more than maximum subsidy, the number of families admitted to this grade must be restricted so as not to require more than maximum subsidy for the project as a whole.

In making any changes in the status of tenants as a result of increases or decreases in income after admission, it is always necessary to consider the probable permanency of the increase or decrease. Income after admission is to be determined on an annual basis and is to reflect the anticipated income for the coming year. It is proposed to determine income after admission only once each year, and necessary changes in grade should be made as quickly as possible after such determinations.

#### VIII. ILLUSTRATIVE TABLE


The following table will illustrate more clearly than a great deal of explanation how a three-grade rent schedule might work out for a specific project:

	1-Bedroom Unit	2-Bedroom Unit	3-Bedroom Unit	4-Bedroom Unit
<i>Grade A</i>				
Maximum Income_____	\$500.00	\$600.00	\$700.00	\$800.00
Statutory Rental Value_____	13.25	14.00	14.75	15.25
Ratio Rental Value to Maximum Income_____	31.8%	28.0%	25.3%	22.9%
<i>Grade B</i>				
Maximum Income_____	\$700.00	\$800.00	\$900.00	\$1,000.00
Statutory Rental Value_____	16.50	17.25	18.00	18.50
Ratio Rental Value to Maximum Income_____	28.3%	26.0%	24.0%	22.2%
<i>Grade C</i>				( <sup>1</sup> \$1,290.00)
Maximum Income_____	\$850.00	\$1,000.00	\$1,150.00	\$1,300.00
Statutory Rental Value_____	19.00	20.00	21.00	21.50
Ratio Rental Value to Maximum Income_____	26.8%	24.0%	21.9%	19.8%

<sup>1</sup> For families with less than three minor dependents.

For families who are allowed to remain in the project after their income increases beyond the maximum limit of the top grade, the following schedule of Grade X would be used:

<i>Grade X</i>				
Maximum Income_____	\$1,050.00	\$1,200.00	\$1,350.00	\$1,500.00
Statutory Rental Value_____	25.00	26.00	27.00	27.50
Ratio Rental Value to Maximum Income_____	28.6%	26.0%	24.0%	22.0%

  
NATHAN STRAUS,  
Administrator.

December 14, 1940.