

# PROPERTY COMPLIANCE REPORT

A MONTHLY PUBLICATION ON LOW-INCOME HOUSING TAX CREDIT COMPLIANCE

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## Exceptions to the Rule: Understanding the Significance of Re-Benchmarking HUD's Income Limit Data

By James R. Kroger, CPA and Alex Ruiz, Staff Writer, Novogradac & Company LLP

The U.S. Department of Housing and Urban Development (HUD) estimated U.S. median family income rose from \$54,400 in 2002 to \$56,500 for 2003, a 3.9 percent increase. However, HUD reported substantial number of increases and decreases in the figures presented in the fiscal year (FY) 2003 Median Family Income Estimates because the estimates were "re-benchmarked" with 2000 Census data.

HUD's income limits, which were released February 21, are available for all Metropolitan Statistical Areas (MSAs), Primary Metropolitan Statistical Areas (PMSAs), and non-metropolitan counties. Median family incomes are assessed from half the families earning incomes above the median level and half earning incomes below the median level. HUD's income estimates are calculated for metropolitan areas and non-metropolitan counties in the United States and its territories using the fair market rent (FMR) area definitions used in the Section 8 program. While income limits are generally based on HUD estimates of median family income, it is important to note that this is not always the case. The statute refers to 50 percent and 80 percent of area median family income, but then provides modifications so that the terms often have no relationship to arithmetic values.

### Exceptions Preventing Income Decreases

The very low-income limits (generally 50 percent of area median income) are used to compute maximum rents and maximum income limits for low-income housing tax credit (LIHTC) units in accordance with IRS Revenue Ruling 89-24 (See February 2003 *Property Compliance Report*). In 2003, as a result of a process HUD describes as "re-benchmarking," various areas in 13 states and the District of Columbia experienced decreases in median family income, but in some cases HUD froze at last year's levels the very-low income limits that otherwise would have decreased due to decreases in median family income; this is referred to by HUD as the "historical exception." Some of these areas avoid any decrease in income limits based on HUD's high housing cost methodology or its state median methodology. As a result of

these HUD methodologies, there were no decreases in the very low-income limits published by HUD between 2002 and 2003.

The three categories implemented by HUD that prevented income limits from decreasing can be summarized as follows:

- ♦ **Historical Exception:** Income limits were maintained at last year's level because they would have decreased as a result of census re-benchmarking. To minimize program management problems, income limits are not allowed to fall below previous year levels in areas where census re-benchmarking or FMR reductions would have resulted in lower income limits.

- ♦ **High Housing Cost:** Income limits were based on FMRs. HUD's high housing cost exception is due to the fact that 85 percent of FMR divided by 35 percent is greater than statistical income. For example, the four-person income limit is calculated as the amount of income required to afford a two-bedroom unit renting at 85 percent of the FMR if 35 percent of income is used for rent (this adjusts income limits upward for areas where rental housing costs are unusually high in relation to the median income).

- ♦ **State Median Based:** In no instance are income limits less than if based on the state non-metropolitan area median income.

Joseph P. Riley, director of HUD's economic market analysis division (EMAD), says the historical exception was employed in areas where income estimates decreased but HUD has frozen the income limits at last year's level. The historical exception is a temporary measure meant to avoid disturbance in certain programs, and Riley says he expects that in most areas the exception will last only a few years. He

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# Exceptions to the Rule

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says it is generally HUD's policy that income limits do not go down.

"There are contracts and programs that are tied to income levels that might not be economically viable with lower income limits," Riley says. "They're based on the assumption that income limits don't go down."

He also says the number of changes made to this year's limits is high because of the incorporation of the 2000 Census data, but that it was otherwise not surprising. "There was more variation from our estimates than I would have expected, but it was not unusual compared to the last census re-benchmarking," Riley admits.

## Estimating Future Income Increases

Because statistical income levels and FMRs may be significantly less in certain areas, it may be several years before they see increases. Future increases to income limits in areas affected by the three categories below can be summarized as follows:

- ♦ **Historical Exception:** Future increases depend on either the FMRs or area median income increasing; and any increases may take several years depending on the area. Areas with high FMRs are most likely to be affected by increases in FMRs, as opposed to statistical income limits, especially if FMRs are very close to breaking through the 2003 income limits. Statistical income limits may be further behind.
- ♦ **High Housing Cost:** Future increases are likely to be affected by FMR levels.
- ♦ **State Median Based:** Future increases are likely to be affected by state non-metropolitan area median income.

Attachment 4 from the "FY 2003 HUD Income Limits Briefing Material" has been modified and included here to show the variance between HUD's published very low income and the 50 percent median income and high housing cost income. This variance can be used to estimate, for those areas with historical exception income, how far below the 50 percent median income or the high housing cost income is from the 2003 historical exception income, and thereby estimate how many years it may be until the income changes in those areas. Column <G> was taken from HUD's "Fair Market Rents for the Housing Choice Voucher Program...Fiscal Year 2003." Column <E> is calculated using the HUD's high housing cost methodology; calculated as the amount of income required to afford a two-bedroom unit renting at 85 percent of the FMR if 35 percent of income is used for rent.

## Examples

New York and Miami are listed as historical exception areas, which means that the income limits were maintained at last year's level since they would have decreased due to census re-benchmarking. Future increases are most likely

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## **Exceptions to the Rule**

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to be affected by increases in FMRs as opposed to statistical income limits since FMRs are very close to breaking through the 2003 income limits, while the statistical income limits are further behind.

New York Published Very Low-Income \$31,400  
New York High Housing Income \$30,050  
New York 50 Percent Median Income \$25,950

Miami Published Very Low-Income \$24,100 Miami High Housing  
Income \$23,700  
Miami 50 Percent Median Income \$21,900

Los Angeles and San Francisco are listed as high housing cost areas, which means that the income levels were based on FMRs. Therefore any future increases are likely to be affected by FMR levels.

Los Angeles High Housing Income \$28,200  
Los Angeles 50 Percent Median Income \$25,150

San Francisco High Housing Income \$56,550  
San Francisco 50 Percent Median Income \$45,750

San Jose is not listed on Attachment 4 because 1) statistical income levels did not decrease as a result of the census, 2) FMR income level determinations are not greater than the area median income, and 3) the area median income is more than the state non-metropolitan area median income

San Jose Published Very Low-Income \$52,750  
San Jose FMR Very Low-Income \$51,300  
San Jose Statistical Very Low-Income \$52,750 ❖

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HUD ATTACHMENT 4  
AREAS WITH ADJUSTED FY 2003 VERY LOW INCOME (VLI) LIMITS

METROPOLITAN AREA	TYPE OF VLI ADJUSTMENT	<A>	<B>	<C>	<D>	<E>	<F>	<G>
		FY 2003 MEDIAN INCOME	99% MEDIAN INCOME	PUBLISHED VERY LOW INCOME	99% MEDIAN VARIANCE	HOURLY HOURLY INCOME	HOURLY HOURLY VARIANCE	PUBLISHED FMR FMR
Decatur, AL	Historical Exception	48,600	24,200	26,400	2,100	12,700	12,700	469
Huntsville, AL	Historical Exception	59,700	29,850	30,300	450	16,200	14,000	559
Montgomery, AL	Historical Exception	51,200	25,650	26,500	850	15,600	10,900	525
Tucson, AZ	Historical Exception	48,600	24,300	24,600	300	19,950	4,650	683
Yuma, AZ	State Median Based	38,600	19,200	20,000	700	18,550	1,450	636
Las Vegas, NV, AZ	Historical Exception	54,700	27,350	28,250	900	24,150	4,100	827
Memphis, TN, AR	Historical Exception	51,000	25,500	26,650	3,150	18,200	10,450	624
Eastfield, CA	State Median Based	42,800	21,400	22,700	1,300	16,800	5,900	575
Chico--Paradise, CA	State Median Based	43,900	21,950	22,700	750	18,600	4,100	637
Fresno, CA	State Median Based	41,700	20,850	22,700	1,850	17,000	5,700	582
Los Angeles--Long Beach, CA	High Housing Cost	50,200	25,150	28,200	3,050	28,200	0	967
Merced, CA	State Median Based	41,400	20,700	22,700	2,000	17,750	4,950	608
Oakland, CA	High Housing Cost	76,600	38,300	40,650	1,750	40,650	0	1,374
Orange County, CA	Historical Exception	70,000	35,000	37,800	2,800	33,700	4,100	1,155
Redding, CA	State Median Based	43,200	21,650	22,700	1,050	17,150	5,550	587
Salinas, CA	High Housing Cost	55,600	27,800	28,550	750	28,550	0	979
San Diego, CA	High Housing Cost	59,900	29,950	31,900	1,950	31,900	0	1,095
San Francisco, CA	High Housing Cost	91,500	45,750	56,550	10,800	56,550	0	1,940
Santa Cruz--Waterville, CA	High Housing Cost	74,600	37,200	37,850	550	37,850	0	1,298
Ventura, CA	Historical Exception	73,600	36,800	37,350	550	31,550	5,800	1,081
Visalia--Tulare, CA	State Median Based	39,100	19,550	22,700	3,150	16,700	6,000	572
Yolo, CA	Historical Exception	55,100	27,550	28,300	950	21,950	6,350	732
Yuba City, CA	State Median Based	42,200	21,100	22,700	1,600	16,100	6,600	551
Bozeman--Longmont, CO	Historical Exception	81,900	40,950	43,500	2,550	28,050	15,450	962
Denver, CO	Historical Exception	68,000	34,000	34,950	950	27,550	7,400	945
Grand Junction, CO	State Median Based	45,500	22,750	25,100	2,350	16,650	8,450	570
Pueblo, CO	State Median Based	42,400	21,200	25,100	3,900	17,450	7,650	598
Danbury, CT	Low Housing Cost	95,700	47,850	45,200	-2,650	30,450	14,750	1,044
New London--Norwich, CT	State Median Based	65,400	32,700	34,400	1,700	22,850	11,550	784
Stamford--Norwalk, CT	Historical Exception	110,500	55,250	55,300	100	41,850	13,300	1,436
Waterbury, CT	State Median Based	64,600	32,300	34,400	2,100	24,750	9,650	849
Dover, DE	Historical Exception	51,800	25,900	26,050	150	19,250	6,800	659
Wilmington--Newark, DE, MD	Historical Exception	70,000	35,000	37,950	2,950	21,950	16,000	732
Washington, DC, MD, VA	Historical Exception	84,800	42,400	43,500	1,100	33,650	9,850	1,154
Daytona Beach, FL	Historical Exception	46,600	23,200	23,250	50	18,250	5,100	626
Fort Lauderdale, FL	Historical Exception	56,400	28,200	30,100	1,900	23,300	6,800	798
Fort Myers--Cape Coral, FL	Historical Exception	51,700	25,850	26,050	200	18,200	7,850	623
Fort Pierce--Port St. Lucie, FL	Historical Exception	49,200	24,650	26,200	1,550	20,700	5,500	709
Jacksonville, FL	Historical Exception	54,900	27,450	27,800	350	19,650	8,150	673
Lakeland--Winter Haven, FL	Historical Exception	45,200	22,650	23,500	850	15,050	8,450	516
Miami, FL	Historical Exception	43,800	21,900	24,100	2,200	23,700	400	813
Naples, FL	Historical Exception	61,400	30,700	34,900	4,200	23,050	11,850	790
Orlando, FL	Historical Exception	40,600	20,200	20,800	500	15,750	5,050	540
Orlando, FL	Historical Exception	52,700	26,250	27,250	1,000	23,850	3,300	817
Sarasota--Bradenton, FL	Historical Exception	52,600	26,200	26,700	400	20,600	6,100	706
Tallahassee, FL	Historical Exception	54,500	27,250	28,600	1,350	18,950	9,650	650
Tampa--St. Petersburg, FL, FL	Historical Exception	49,700	24,850	25,250	400	21,750	3,500	745
West Palm Beach--Boca Raton, FL	Historical Exception	60,800	30,400	31,400	1,000	23,900	7,500	820
Atlanta, GA	Historical Exception	68,800	34,400	35,600	1,200	27,050	8,550	927
Chattanooga, TN, GA	Historical Exception	48,800	24,400	25,000	600	16,050	8,950	550
Evans City, ID	Historical Exception	33,600	26,800	27,250	450	16,950	10,300	380
Bozelle, ID	Historical Exception	45,600	22,800	23,450	650	14,250	9,200	488
Elmhurst--Normal, IL	Historical Exception	68,100	34,050	34,650	600	17,350	17,300	594
Champaign--Urbana, IL	Historical Exception	58,700	29,350	29,800	450	18,550	11,250	636
Chicago, IL	Historical Exception	68,700	34,250	37,700	3,350	27,050	10,650	928
Decatur, IL	Historical Exception	51,500	25,750	27,150	1,400	14,050	13,100	482
DeKalb County, IL	Historical Exception	64,000	32,000	33,950	1,950	21,400	12,550	733
Grundy County, IL	Historical Exception	67,800	33,900	34,750	850	19,400	15,350	665
Kankakee, IL	Historical Exception	54,600	27,200	27,700	400	18,500	9,200	634
Kendall County, IL	Historical Exception	73,200	36,600	43,500	6,900	24,050	19,450	825
Peoria--Pekin, IL	Historical Exception	56,900	28,450	28,900	450	17,400	11,500	596

\* Column <E> =  
<C> x 85% / 75% x 12

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HUD ATTACHMENT 4  
AREAS WITH ADJUSTED FY 2003 VERY LOW INCOME (VLI) LIMITS

METROPOLITAN AREA	TYPE OF VLI ADJUSTMENT	<A>	<B>	<C>	<D>	*<E>	<F>	<G>
		FY 2003 MEDIAN INCOME	50% MEDIAN INCOME	PUBLISHED VERY LOW INCOME	50% MEDIAN VARIANCE	HOUSING INCOME	HOUSING VARIANCE	PUBLISHED FMR 1EDR
Rockford, IL	Historical Exception	57,900	29,950	29,900	950	17,600	12,200	603
Springfield, IL	Historical Exception	58,500	29,250	30,450	2,200	16,100	16,250	551
Elkhart-Goshua, IN	Historical Exception	56,600	28,200	29,650	1,250	16,800	12,850	575
Fort Wayne, IN	Historical Exception	58,500	29,250	29,900	650	15,800	14,100	542
Indianapolis, IN	Historical Exception	62,900	31,450	32,050	600	17,150	14,900	588
Kokomo, IN	Historical Exception	60,000	30,000	30,950	950	16,550	14,400	567
Lafayette, IN	Historical Exception	58,500	29,250	29,400	150	18,400	11,000	630
Ohio County, IN	Historical Exception	59,100	29,550	30,650	1,100	13,550	17,100	464
Terre Haute, IN	State Median Based	47,500	23,750	26,000	2,250	12,500	12,300	462
Louisville, KY, IN	Historical Exception	56,200	28,100	28,150	50	17,000	11,150	581
Cincinnati, OH, KY, IN	Historical Exception	64,000	32,000	32,150	150	19,300	12,850	662
Central Rapids, IA	Historical Exception	65,700	32,850	33,550	700	15,500	18,050	531
Des Moines, IA	Historical Exception	63,900	31,950	33,450	1,500	18,950	14,500	649
Omaha, NE-IA	Historical Exception	63,300	31,650	32,200	550	18,100	14,100	621
Topeka, KS	Historical Exception	54,400	27,200	29,600	2,400	15,500	14,100	531
Wichita, KS	Historical Exception	54,600	27,200	29,300	2,200	17,350	12,150	594
Gallatin County, KY	Historical Exception	48,400	24,200	28,450	4,250	14,150	11,200	484
Grant County, KY	Historical Exception	48,200	24,100	24,500	250	13,200	11,200	455
Lexington, KY	Historical Exception	56,200	28,100	28,150	50	16,450	11,700	563
Fayette County, KY	Historical Exception	48,400	24,200	26,350	2,150	13,100	12,250	448
Clarksville-Hopkinsville, KY	Historical Exception	44,300	22,150	22,200	50	14,000	8,200	479
Cumberland, MD, WV	Historical Exception	43,100	21,550	27,400	5,850	15,600	11,800	535
Hagerstown, MD	Historical Exception	54,400	27,200	27,400	200	16,700	10,700	573
Barnstable-Yarmouth, MA	State Median Based	58,700	29,250	30,150	800	27,750	2,400	651
New Bedford, MA	State Median Based	52,700	26,250	30,150	3,800	22,800	7,250	781
Pittsfield, MA	State Median Based	56,000	28,000	30,150	2,150	17,700	12,450	607
Springfield, MA	State Median Based	56,800	28,400	30,150	1,750	19,650	10,500	674
Providence-Fall River, MA, RI	State Median Based	58,400	29,200	33,650	4,450	19,450	14,200	667
Benton Harbor, MI	Historical Exception	52,100	26,050	27,550	1,500	15,700	11,850	538
Detroit, MI	Historical Exception	66,700	33,250	34,950	1,600	22,500	12,450	771
Flint, MI	Historical Exception	53,200	27,600	27,300	200	17,050	10,750	584
Grand Rapids-Muskegon, MI	Historical Exception	60,900	30,450	30,650	200	18,450	12,200	632
Minneapolis-St. Paul, MN	Historical Exception	75,300	37,650	38,350	700	26,600	11,750	912
Rochester, MN	Historical Exception	68,200	34,600	37,150	2,550	20,700	16,450	709
Jackson, MS	Historical Exception	30,600	25,300	26,550	1,250	17,150	9,400	587
Lincoln, NE	Historical Exception	62,400	31,200	31,300	100	16,450	14,850	564
Reno, NV	Historical Exception	62,100	31,050	31,150	100	23,350	7,800	800
Bergen-Paterson, NJ	Historical Exception	78,800	39,400	39,450	50	31,600	7,650	1,090
Jersey City, NJ	Historical Exception	51,600	25,800	30,650	4,250	29,750	200	1,020
Middlesex-Somerset-Hertford, NJ	Historical Exception	86,900	43,450	43,500	50	32,650	10,850	1,120
Vineland-Millville-Bridgeton, NJ	Historical Exception	49,900	24,950	25,100	150	22,650	2,450	776
Santa Fe, NM	Historical Exception	61,800	30,900	31,550	650	23,200	8,350	795
Dutchess County, NY	Historical Exception	67,800	33,900	34,050	150	29,600	4,450	1,014
Jamestown, NY	State Median Based	43,600	21,800	23,650	1,850	14,800	8,850	907
New York, NY	Historical Exception	51,900	25,950	31,400	5,450	30,050	1,250	1,031
Westchester, NY	Historical Exception	50,100	25,050	45,700	650	36,200	9,300	1,242
Rockland County, NY	Historical Exception	86,600	43,200	43,300	200	39,050	13,450	1,031
Charlotte-Gastonia-Rock, NC	Historical Exception	61,800	30,900	32,650	1,150	20,200	11,750	695
Goldensboro, NC	Historical Exception	45,200	22,600	22,650	50	14,900	7,750	511
Greensboro-Winston-Salem, NC	Historical Exception	55,500	27,750	28,050	300	17,200	10,750	593
Hickory-Morganton-Lenoir, NC	Historical Exception	49,800	24,900	25,750	850	15,400	10,350	527
Jacksonville, NC	State Median Based	41,200	20,600	22,600	1,950	14,500	8,100	497
Raleigh-Durham-Chapel, NC	Historical Exception	69,800	34,900	35,650	750	23,200	12,450	796
Rocky Mount, NC	Historical Exception	46,200	23,100	24,400	1,300	13,500	10,900	462
Brown County, OH	Historical Exception	48,500	24,250	26,300	2,250	13,800	12,700	472
Cleveland-Lorain-Elyria, OH	Historical Exception	59,900	29,950	30,000	50	21,800	8,200	748
Dayton-Springfield, OH	Historical Exception	57,700	28,850	30,100	1,250	17,050	13,050	585
Steubenville-Weirton, OH	State Median Based	46,300	23,150	25,300	2,150	13,250	12,050	454
Youngstown-Warren, OH	State Median Based	49,600	24,800	25,300	500	15,500	9,800	531
Altoona, PA	State Median Based	46,200	23,100	23,700	600	13,500	10,200	463
Johnstown, PA	State Median Based	42,200	21,100	23,700	2,600	13,750	9,950	471

\* Column <E> =  
<C> x 80% / 75% x 12

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**HUD ATTACHMENT 4  
AREAS WITH ADJUSTED FY 2003 VERY LOW INCOME (VLI) LIMITS**

METROPOLITAN AREA	TYPE OF VLI ADJUSTMENT	<A>	<B>	<C>	<D>	<E>	<F>	<G>
		FY 2003 MEDIAN INCOME	10% MEDIAN INCOME <A> x 10%	PUBLISHED VERY LOW INCOME	20% MEDIAN VARIANCE <C> - <B>	HOUSING INCOME	HOUSING VARIANCE <C> - <E>	PUBLISHED FMR - EDR
Williamsport, PA	State Median Based	47,100	22,550	23,700	150	13,850	9,850	474
Sumter, SC	State Median Based	45,900	22,950	23,050	100	13,600	9,450	466
Jackson, TN	Historical Exception	47,400	23,700	24,600	900	14,550	10,050	499
Johnson City-Kingsport, TN	Historical Exception	42,200	21,100	21,300	200	14,150	7,150	484
Knoxville, TN	Historical Exception	49,200	24,600	26,000	1,350	14,750	11,250	505
Nashville, TN	Historical Exception	52,200	26,100	30,800	1,650	19,750	11,050	676
Aurora-San Marcos, TX	Historical Exception	66,900	33,450	35,550	2,100	26,550	9,000	911
Brownsville-Harlingen, TX	State Median Based	30,900	15,450	20,600	5,150	14,650	5,950	501
Dallas, TX	Historical Exception	65,000	32,500	33,250	750	24,800	8,450	830
El Paso, TX	State Median Based	37,000	18,500	20,600	2,100	16,550	4,050	567
Fort Worth-Arlington, TX	Historical Exception	60,300	30,150	30,650	500	21,600	9,000	741
Houston, TX	Historical Exception	59,100	29,550	29,800	250	21,800	8,000	747
Laredo, TX	State Median Based	32,700	16,350	20,600	4,250	15,200	5,400	521
McAllen-Edinburg, TX	State Median Based	28,700	14,350	20,600	6,250	13,150	7,450	450
San Angelo, TX	Historical Exception	43,600	21,800	22,200	400	13,700	8,500	470
Waco, TX	Historical Exception	45,200	22,600	23,150	500	15,550	7,600	533
Kern County, UT	State Median Based	47,300	23,650	24,200	550	15,200	9,000	521
Caloper County, VA	Historical Exception	58,600	29,300	30,700	1,400	21,500	9,200	737
Danville, VA	State Median Based	43,000	21,500	22,700	1,200	13,500	9,200	463
King George County, VA	Historical Exception	63,700	31,850	31,850	100	18,550	13,400	626
Lynchburg, VA	Historical Exception	49,200	24,600	25,000	350	13,800	11,200	473
Richmond - Petersburg, VA	Historical Exception	63,800	31,900	32,950	1,050	22,750	10,200	780
Roanoke, VA	Historical Exception	54,400	27,200	28,150	950	14,950	13,200	512
Seattle-Bellevue-Everett, WA	Historical Exception	71,900	35,950	35,950	2,000	26,200	12,750	899
Valdosta, WA	State Median Based	44,900	22,450	24,350	1,900	17,000	7,350	583
Appleton-Goshock-Neenah, WV	Historical Exception	61,700	30,850	30,950	100	15,650	15,300	536
Green Bay, WI	Historical Exception	61,500	30,750	30,950	200	16,700	14,250	572
Janesville-Beloit, WI	Historical Exception	52,100	26,050	29,850	800	17,150	12,700	588
Madison, WI	Historical Exception	71,100	35,550	35,650	100	20,750	14,900	711
Milwaukee-Waukesha, WI	Historical Exception	62,600	31,300	33,600	2,300	19,550	14,050	670
Racine, WI	Historical Exception	39,600	19,800	22,500	2,700	17,350	13,150	394
Sheboygan, WI	Historical Exception	59,400	29,700	31,350	1,650	14,950	16,400	512
Aguadilla, PR	High Housing Cost	15,500	7,750	9,550	1,800	9,550	0	328
Arcebo, PR	Historical Exception	16,700	8,350	13,700	5,350	10,200	3,500	349
Caguas, PR	High Housing Cost	20,100	10,050	11,850	1,800	11,850	0	406
Mayaguez, PR	High Housing Cost	17,500	8,750	11,350	2,600	11,350	0	389
Ponce, PR	Historical Exception	16,700	8,350	13,400	5,050	11,250	2,150	385
San Juan-Bayamon, PR	High Housing Cost	21,500	10,750	15,050	4,300	15,050	0	517

\* Column <E> =  
<C> x 82% / 33% x 12

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Modified by Novogradac & Company LLP  
5/21/2003