



United States
Department of
Agriculture

Rural
Development

WASHINGTON AN 938 (1930-C)

1835 Black Lake Blvd SW, Ste B
Olympia, WA 98512-5715
TTY: 360-704-7760
FAX: 360-704-7742
TEL: 360-704-7740

January 12, 2004

SUBJECT: Multi-Family Housing
Reserve Account Administration Policy

TO: Area Directors
Area Specialists
Civil Rights Program Manager
USDA Rural Development, Washington State

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide a consistent policy related to Reserve Accounts, provide a system for efficient handling of Reserve Account withdrawal requests and to revise procedures for obtaining bids for needed replacements when Reserve Account funds will be used.

COMPARISON WITH PREVIOUS AN:

This AN revises and replaces portions of Washington AN 855 (1930-C) that expired on July 31, 2002. Paragraphs 5 and 11 of that AN are revised and replaced. There is no previous AN on this subject for the other material in this AN.

IMPLEMENTATION RESPONSIBILITIES

The reserve account is a project account required by the Loan Agreement or Loan Resolution. Monthly payments to this account start the same month as the first loan payment due to Rural Development. Monthly deposits continue until the Fully Funded amount, as identified in the Loan Resolution or Loan Agreement, is reached. Monthly deposits resume when the amount on deposit decreases below the required level. Borrowers may be encouraged to use interest bearing accounts for these deposits. Reserve funds not immediately needed to pay the expenses of authorized purposes may be invested in readily marketable obligations of the United States Treasury or other authorized securities as described in Rural Development Instructions.

The primary use of the Reserve Account is to meet the major capital expense needs of the project. It should rarely be used to meet any noncapital expense item, except in unusual circumstances.

As projects age, the required reserve account level and monthly deposit amount may be adjusted to meet anticipated equipment and project life cycle needs. To provide a basis for adjusting the deposit and funding level, an analysis of replacement costs for project equipment and components and a cash flow analysis of the reserve account balance is needed. This type of analysis is typically called a capital needs assessment. There are various professional organizations that can develop and provide this assessment to the project borrower. The cost would be an allowable project expense.

EXPIRATION DATE:
01/31/2005

FILING INSTRUCTIONS
Preceding RD Instruction 1930-C

USDA, Rural Development is an Equal Opportunity Lender, Provider, and Employer
Complaints of discrimination should be sent to:
USDA, Director, Office of Civil Rights, Washington D.C. 20250-9410

DEPOSITS

The Loan Agreement or Loan Resolution for each property typically requires the annual/monthly deposit to the Reserve Account of a specified amount. This deposit should be made at the same time as the monthly payment on the USDA – Rural Development loan(s). If the required annual deposits are not made, appropriate follow-up action by the Area Office staff must be promptly taken. Failure to make the required deposit is a serious violation of the borrower's agreement with Rural Development.

Borrowers should be encouraged to periodically analyze the amounts in their Reserve Account and anticipated future replacement needs. This type of analysis is particularly important for buildings over twenty years in service. Owners may rely on their own knowledge of project physical condition, evaluations by management agents, other professionals, and physical inspection reports from USDA-RD or other governmental agencies in determining the Reserve Account needs of the project. A borrower may obtain a report, such as a Capital Needs Assessment, from a third party professional for use in evaluating and analyzing their reserve needs. Payment for the cost of this report may be approved from reserve funds.

When an increase in the annual deposit is warranted based on the owner's analysis of the Reserve Account, the owner should contact the Area Office and provide the appropriate analysis and their request for an increase. This request may be made in conjunction with rent increase requests to assure sufficient revenue will exist to make the increased deposits. The borrower's Loan Agreement or Loan Resolution will need to be appropriately modified to implement the increase.

WITHDRAWALS

Funds in the Reserve Account may be used for purposes discussed in RD Instruction 1930-C, Exhibit B, paragraph XIII. It is expected that annual budgets will include realistic routine income and expense levels to avoid the need to use the Reserve Account for routine expenses (e.g. operating shortfalls) not caused by emergencies or very unusual servicing situations.

Items typically considered eligible for releases from the Reserve Account include (but not limited to):

- Replacement of appliances in the dwelling units or common areas such as refrigerators, ranges, water heaters, and air conditioning units.
- Replacement of kitchen and bathroom sinks and counter tops, interior and exterior doors, bathroom tubs and water closets.
- Replacement of floor coverings such as carpet and vinyl.
- Major repair or entire replacement of roofing systems, including gutters, downspouts and soffits.
- Major replacement of siding.
- Repainting the complete exterior of buildings.
- Major plumbing and sanitary system repairs and replacements, including extensive replacement of exterior lawn sprinklers systems.
- Extensive repair or repaving, resurfacing or seal coating of parking lots, driveways or sidewalks.
- Extensive repairs or replacement of entire window systems
- Retrofitting of units to make them accessible to the physically handicapped.
- Other purposes which will promote the loan purposes, strengthen the security, or facilitate, improve, or maintain the project and the orderly collection of the loan without jeopardizing the loan or impairing the adequacy of the security.

Items typically considered ineligible for releases from the Reserve Account include maintenance items such as (but not limited to):

- Minor repairs of appliances such as ranges, refrigerators, and air conditioning units.
- Minor repairs to heating, plumbing, or electrical components.
- Minor repairs to roofs, parking lots, sidewalks.
- Purchase of maintenance tools and equipment (such as lawn mowers or snow blowers) or purchase of minor office equipment.
- Minor window and screen repairs
- Other items generally considered to be routine maintenance.

Reserve funds may, with USDA – RD approval, be used to meet payments on the loan obligations, shortfalls of current expenses (such as taxes), and pay a return on investment. Borrowers and management agents should be encouraged to realistically estimate the costs and uses of funds on the form RD-1930-7, Project Budget, to minimize the need for requests of these types not caused by unforeseen emergencies.

When requesting a draw from the Reserve Account of \$5,000 or more for a single component, three written bids should be obtained. If three written bids cannot be reasonably obtained, an explanation from the borrower or management agent should accompany the request for funds describing the circumstances. If the lowest bid is not accepted, an explanation should be provided describing the basis for selecting the service provider or equipment cost selected.

Requests for approval of releases from the Reserve account should include the following:

- A narrative description that sufficiently describes (i.e. unit number or location) the product replaced or work completed so that an inspection or verification can be done at a later date.
- The cost of the item(s)
- Copy of the Reserve Account Release-Certification. (attachment 1)
- Copy of Bids when individual component exceeds \$5,000.
- A check(s) ready for signature.

Borrowers and management agents should be encouraged to limit requests for releases from the Reserve Account to no more frequently than monthly. The Area Office will provide prompt response to requests for releases from the reserve account, typically within five working days.

MFIS UPDATE:

The MFIS record for each project must be properly coded with the amount of the annual deposit to assure the proper accrual in the Reserve Tracking feature. As withdrawals from the Reserve Account are approved, the release information should be recorded appropriately in MFIS. This information in MFIS will provide a reasonable basis to verify the balances described in the project audit report.

/s/

JACKIE J. GLEASON
State Director

Attachment