



United States Department of Agriculture
Rural Development
Richmond

VA AN 433 (1930-C)

May 10, 2004

SUBJECT: Multi-Family Housing Reserve Accounts

TO: Area Directors and Specialists

PURPOSE/INTENDED OUTCOME:

To provide additional guidance to field office personnel and establish consistency in the submission of requests for withdrawal of reserve account funds by project owners or their agents.

COMPARISON WITH PREVIOUS AN:

This AN replaces and updates Virginia AN No. 412 (1930-C) which expired on April 30, 2004.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 1930-C, Exhibit B, paragraph XIII 2c, provides the primary principles governing the use of reserve funds. Generally, reserve account funds should not have to be used to meet any non-capital expenses; however, these expenses may be approved when warranted.

Routine maintenance and repairs should be planned, budgeted and paid from the general operating account as maintenance and repair expenses.

A capital improvement plan must be prepared for all properties and reflected in the budget and reviewed annually by the owner and its management agent. The purpose of the assessment is to determine the current and future capital replacement needs while prioritizing them to determine the resources available for payment.

EXPIRATION DATE:
May 31, 2005

FILING INSTRUCTION:
Preceding RD Instruction 1930-C

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The following policies are effective with respect to the submission of requests to the Rural Development Servicing Office for funds to be withdrawn from the project reserve account by the borrower or its agent:

1. The purpose for the requested funds must comply with RD Instruction 1930-C, Exhibit B, paragraph XIII B 2 c(5). Price reasonableness will be certified in writing for requests in the amount of \$5,000 or less per item, or will require supplemental documentation to include at least three bids, proposals or estimates for comparable items exceeding \$5,000. For requests that involve recurring items to be obtained from the same supplier over a period of time, such as carpet replacement or appliances, a master competitive bid can be provided initially and referred to thereafter.
2. Reserve withdrawal requests should be submitted to the servicing office no more than once a month for each project unless there are extenuating circumstances or emergency situations requiring immediate submittals. When the frequent need for use of reserve funds adversely impacts the financial viability of a complex or funds are excessively used for operating expenses, the borrower will be required to develop a servicing workout plan to correct the situation.
3. The servicing official will normally process a reserve request within 5 business days of receiving the request. If a request is authorized, the servicing officer will provide the borrower or its agent with Exhibit B-9 of RD Instruction 1930-C (or equivalent form). The applicable language will be used in this notice of approval to indicate how the withdrawal will affect the future funding of the account, depending on the nature and purpose of the request.
4. Servicing officials must complete Exhibit B-10 of RD Instruction 1930-C, "Reserve Account Tally," or similar form to monitor the balance in the reserve account on at least an annual basis. Borrowers whose reserve accounts are not on schedule or who have other noncompliance issues outstanding will be encouraged to resolve them through use of a servicing workout plan.
5. In some cases, borrowers have loans from other sources that require deposits to a reserve account. In these cases, the borrower must provide evidence to the servicing official that shows that the total reserve required by the Loan Agreement has been collected by the other funding source or a combination of deposits to the other funding source and Rural Development has been made.

If you have any questions, please contact the Multi-Family Housing staff in the State Office.

/s/
JOSEPH W. NEWBILL
State Director