



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Multifamily West Region
San Francisco Regional Office
One Sansome Street, Suite 1200
San Francisco, CA 94104-4430

www.hud.gov

March 12, 2019

MEMORANDUM FOR: HUD Multifamily Industry Partners, Multifamily West Region

FROM:

A handwritten signature in blue ink, appearing to read "Angela Corcoran".

Angela Corcoran, Acting Regional Director, Multifamily West Region

SUBJECT:

Reserve for Replacement Procedures Guidance for Owners and Agents

PURPOSE

The Reserve for Replacement Account is intended to cover major repairs or capital items. Owners or their managers may either submit advance requests for work to be done, or reimbursement requests for work already completed.

HUD encourages all requests for appliance and other disbursements from Reserve for Replacements to exercise energy conservation whenever possible. This includes energy saving devices and Energy Star construction standards and appliances. This is particularly relevant for replacement requests from owners or agents managing properties that are obligated under the Rider to the Regulatory Agreement to maintain energy performance after initial achievement of the Mortgage Insurance Premium (MIP) Reduction program.

SUBMISSION of REQUESTS

All Reserve for Replacement requests should be submitted electronically to Den.Incoming@hud.gov or SF.Incoming@hud.gov, where applicable. Requests will be assigned to the appropriate Account Executive. Please do not send requests directly to HUD staff.

Requests should include the following documents:

1. Mortgagor Certification and Mortgagee Information (suggested format is attached).
2. A completed Reserve for Replacement worksheet that lists invoice numbers, dollar amounts, vendors, type of work, check numbers, and location of work (specific unit, for example). Owners/Agents should retain records which include enough details to permit inspection and verification by HUD upon request (component serial numbers, for example).

3. Submit a completed Form 9250, available on HUDCLIPS at:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/).

Failure to include this information may result in the request being delayed or denied. Please do not include expenses incurred more than one year prior to the submission. Unless there are special circumstances, these are considered ineligible for reimbursement.

Processing of reserve requests should generally be limited to one request per quarter. More frequent requests will be considered when the Owner demonstrates a financial need and provides supporting documentation.

REQUIRED DEPOSIT AND MINIMUM LEVEL TO THE RESERVE FOR REPLACEMENT ACCOUNT

The required monthly Reserve for Replacement deposit is property specific. The initial requirement was determined, for each property, when the initial contracts or business agreements were executed. The monthly Reserve for Replacement deposits for some properties, specifically for Section 8 projects, are automatically adjusted when rents are increased.

HUD Handbook 4350.1 (“the Handbook”), Chapter 4, recommends the Reserve for Replacement Account maintain a minimum threshold to have funds available for unforeseen contingencies. This minimum balance may be \$1,000 per unit, or another sum as calculated by your assigned Account Executive based on property characteristics. More details regarding the property characteristics that are considered may be found in the Handbook. Property owners and managers should work with HUD to determine, as a part of its management/planning process, a reasonable minimum account level to maintain for a property. The intent of the minimum balance is to plan for unanticipated costs and to trigger the owner’s and HUD’s mutual review when actual needs result in a remaining balance that falls below the planned threshold.

A minimum balance is established as means of planning for an adequate reserve. It is not intended as a limit on disbursements as and when repair and replacement needs actually occur.

To assist in determining the Reserve for Replacement Account has an adequate amount of available funding, owners and their managers are strongly encouraged to complete a reserve for replacement analysis that covers an extended period of years and includes those costs to replace eligible amenities and building systems at the property. The analysis should account for inflation and measurable increased monthly deposits to the reserves to keep the Reserve for Replacement Account viable. Upon completion of a Reserve for Replacement analysis, consult with the Account Executive to determine appropriate adjustments to the monthly deposits to the Reserve for Replacement Account. A form 9250 will be utilized to document adjustments to the monthly deposit.

ELIGIBLE USES

Items considered eligible for Reserve for Replacement draws include capital items and major repairs, including but not limited to:

INTERIOR

Ranges

Refrigerators

Dishwashers

Washers and Dryers

Laundry tubs

Garbage Disposals

Exhaust Fans

Air Conditioners

Toilets

Bathtubs – Bathroom sinks

Kitchen sinks

Carpeting *

Tile and/or linoleum

Toilets

Drapes, shades, and/or blinds

Cabinet replacement

Bedbug eradication and infestation management

EXTERIOR

Exterior doors/with integral screens where applicable

Windows/with integral screens where applicable

Exterior painting

BUILDING SYSTEMS

Gutters/downspouts – Complete replacement or extensive repairs

Sprinkler systems/irrigation systems – Complete replacement or extensive repairs

Exterior siding – Complete replacement or extensive repairs

Plumbing systems – Complete replacement or extensive repairs

Furnaces and boilers

Water heaters

Elevators – Complete replacement or extensive repairs

Roofs – Complete replacement or extensive repairs

Parking lots and driveways – Asphalt and concrete resurfacing

Swimming pools – Complete replacement or extensive repairs

Health and safety items (Smoke and/or fire alarm systems)

*The Handbook refers to carpet replacement as a non-traditional Reserve for Replacement item. The Department has traditionally considered carpet replacement to be an eligible Reserve for Replacement item and will continue to do so.

The listing above is provided as a guideline. If there is an item you wish to repair or replace that is not listed here, please contact your Account Executive to discuss the availability of options. These may include certain capital improvements that improve living conditions for the tenants, assist the property to comply with local, state or federal laws, or were included in the original financing. Reserve funds can also be used to protect the mortgaged security of a property. HUD will consider the loan of reserve funds to cover mortgage payments coming due. (For example, this can happen in the event of uneven cash flow, i.e., delayed receipt of Section 8 HAP payments, PRAC payments). Terms and conditions for the repayment of these funds must be first approved by HUD.

Another determination of Reserve for Replacement eligibility depends on whether the repair or replacement is routine maintenance.

There is frequently confusion regarding what items are normally considered repairs, and therefore not eligible for funds from the Reserve for Replacement Account. In general, the replacement of small individual items will be considered repairs.

However, if many individual items are replaced over a short period of time, it may be considered eligible. For example, HUD would normally consider the replacement of three kitchen faucets to be repairs. If all kitchen faucets are replaced throughout the property, we would consider this as eligible for reimbursement. If you are not certain, please contact your Account Executive for more information.

INELIGIBLE USES

Examples of ineligible expenses include, but are not limited to:

- Interior Painting
- Purchase of maintenance tools and equipment

- Replacement of range burners, controls or valves
- Minor repairs
- Purchase of office equipment or tools
- Office equipment

Routine maintenance and administrative costs should be included in the operating budget of a property and expensed accordingly.

TENANT CAUSED DAMAGES

Tenants are responsible for any damages that they or their guests cause to your property. They must take reasonable care of the premises or pay for repairs to damages caused by abuse or negligence. Please remember this prior to requesting reimbursement from the Reserve for Replacement Account.

ADVANCE REQUESTS FOR MAJOR REHABILITATION and/or CAPITAL REPAIR PROJECTS

Prior to undertaking any major rehabilitation or capital repair projects (new roof, windows, elevators, HVAC and electrical systems, updating/remodeling a significant number of units for example), properties must consult with HUD. In such cases HUD may require submission of an advance request with bids and/or invoices, which will be communicated in writing through an Account Executive and/or Branch Chief.

The Reserve for Replacement Account is intended to cover major repairs or capital items. Owners or their managers may either submit advance requests for work to be done, or reimbursement requests for work already completed.

HUD encourages all requests for appliance disbursement and other disbursements from Reserve for Replacements that can exercise energy conservation to use energy saving devices, including Energy Star construction standards and appliances.

RECORD KEEPING and MONITORING

The Internal Revenue Service has established some basic record-keeping rules for tax documents. Outside the IRS, there is little guidance about how long you should keep business paperwork. Many professional services recommend keeping original documents for at least seven years. As a rule of thumb, this is sufficient time for working through potential claims, when necessary. HUD strongly suggests you retain invoices, specifications and bids in the property's files for at least seven years and make them available to HUD staff for review upon request.

Attachment

Appendix A: Mortgagor Certification

RESERVE FOR REPLACEMENT REQUEST AND CERTIFICATION

Project Name: _____ **Date:** _____

Project Number: _____

Mortgagor/Agent: _____

Mortgagee (or Reserve Account Holder): _____

Mortgagee Loan No. _____ **Monthly Deposit:** _____

Mortgagee Address: _____

Mortgagee Phone: _____ **Mortgagee Fax:** _____

Mortgagee Email Address: _____

Loan Servicer: _____ **Loan Servicer Phone:** _____

Current Balance: _____ **As of (Date):** _____

We are requesting reimbursement/release of _____ from the Reserve for Replacement account of the subject property. A breakdown of the services or materials purchased is provided on the attached worksheet and on HUD form 9250.

MORTGAGOR CERTIFICATION

I, _____ certify to the following:

Funds expended or to be expended have been or will be used for the work indicated in this request. I have inspected/will inspect the work and have determined/will determine that the damaged area(s) or equipment have been restored to as good or better condition. No mechanic's or materialman's liens will be or have been attached to the property as a result of the repair. The repairs have been or will be completed in accordance with all applicable building codes and ordinances. All contract materials, supplies and services as applicable have been obtained at the most reasonable cost and on terms most advantageous to the property. All discounts, rebates or commissions have been credited to the property. Any expenditures that are determined by HUD to be ineligible, as a result of an inspection, will be repaid to the property's Reserve Fund. All goods and services purchased from individuals or companies with which the Owner or Managing Agent has an identity-of-interest were or will be purchased at costs not in excess of those that would be incurred in making arms-length purchases on the open market.

Under penalties and provisions of Title 18, United States Code, Chapter 47, Section 1001, the statements contained in this request have been examined by me and to the best of my knowledge and belief are true, correct, and complete.

Signature (Mortgagor/Agent) _____ **Date** _____

Title (Authorized Agent of Mortgagor) _____

