



July 24, 2022

**Rural Development**

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**TO:** All RHS MFH National Office Directors  
Field Office Staff  
Rural Development

**ATTN:** Leadership Designees  
Field Operations Division Program Staff  
Rural Development

**FROM:** Joaquin Altoro /s/ *Joaquin Altoro*  
Administrator  
Rural Housing Service

**SUBJECT:** Section 515 and Section 514 Multi-Family Housing  
Reserve Deposit Resizing

**PURPOSE**

The purpose of this Unnumbered Letter (UL) is to provide guidance to all Multi-Family Housing (MFH) program staff regarding the resizing of the reserve account deposits as it pertains to 7 CFR 3560.103(c) and 7 CFR 3560.306(j).

**BACKGROUND**

RD's MFH Borrowers are required to maintain a Reserve Account in accordance with 7 CFR 3560.306. The Reserve Account is used primarily to pay for capital improvements. Per Handbook 2-3560 Chapter 4 Paragraph 4.9, if these improvements are not made, the property loses value, becomes less attractive to tenants, and begins to deteriorate. The Agency's financial interest in the project is then at risk.

The reserve account is funded through contributions from the project's operating funds. These reserve deposit requirements are described in the Borrower's loan agreement/resolution. The Agency may approve adjustments to the annual reserve deposit based on an Agency approved Capital Needs Assessment (CNA). This will be documented by amending the loan agreement/resolution.

Per 7 CFR 3560.306(j), the approval to increase reserve account deposits will take into consideration the housing project's approved budget and ability to support increased reserve account deposits without causing basic rents to exceed Conventional Rents for Comparable Units (CRCU) in the area.

**EXPIRATION DATE:**  
July 31, 2023

**FILING INSTRUCTIONS:**  
Housing Programs

## **IMPLEMENTATION**

The Reserve Deposit Resizing Tool (RDRT) must be used to analyze a property's financial capability to fund increased deposits to the reserve account based on an Agency approved Final As-Is CNA. The RDRT provides the means to document the requirements per Handbook 2-3560 Chapter 4 Section 3.

To implement a resizing of a reserve account, the information contained in the Final As-Is CNA may need to be adjusted by RD to address financing and other programmatic issues. The Servicing Specialist will determine if revisions are necessary to meet the financial and physical needs of the property. Revisions may involve shifting individual repair line items reported in the CNA, moving work from year to year, or other adjustments that will improve cash flow.

The original CNA, prepared by the CNA Provider, will be maintained as an independent third-party record of the current condition of the property at the beginning of the 20-year cycle. Original CNAs will be maintained in the Electronic Customer File (ECF), clearly marked as the Approved or Original As-Is CNA.

The Revised As-Is CNA will be used to establish reserve funding schedules as well as operating budget preparation/analysis and will be maintained by RD as supporting documentation for the reserve resizing. This version of the CNA will be maintained in the RDRT and will be part of the Amendment to the Loan Agreement/Resolution.

### **Borrower requirements**

To begin the process, the Borrower must provide (1) an Agency approved Final As-Is CNA, (2) area market information (rents and square footage of similar properties) for establishing CRCU, and (3) current balances of the General Operating Account, Taxes and Insurance Account, Reserve Account, and current Accounts Payable and Accounts Receivable balances.

A borrower may request the resizing of the reserve account at any time throughout the year. If the request is submitted at proposed budget time, the RDRT will account for the newly submitted budget. The borrower may need to resubmit the proposed budget with Agency approved adjustments upon Agency approval of the reserve deposit resizing request. If the request is submitted midyear outside of the proposed budget season, the borrower will need to transmit a midyear budget with the new reserve deposit amount and any changes to the rent schedule upon Agency approval.

### **Agency processing**

Once the Borrower has submitted the necessary documents, the Servicing Specialist is required to use the RDRT to determine if it is feasible to resize the reserve account while keeping basic rent levels at or below CRCU.

The RDRT allows the Servicing Specialist to modify the replacement schedule, which may include shifting repair items to different years or spreading items out over several years, to allow for an adequate annual deposit to replacement reserves that will sustain the property over a 20-year period and keep rents below the maximum rents that are allowed.

There will be cases where resizing the reserve account is not feasible. This could be due to current financial issues at a property, immediate capital needs that cannot not be adjusted to future years, rent levels that exceed CRCU, etc. In these instances, the servicing specialist should refer the Borrower to the Preservation and Production Division to apply for funding.

## **RESOURCES**

The Standard Operating Procedures (SOP) provides detailed instructions for completing the RDRT. Included in the SOP are (1) the RDRT's Helpful Tips document, (2) Sample Approval Letter, (3) Sample Denial Letter, and (4) a fillable Attachment 4-B Loan Amendment from HB-2-3560 Chapter 4.

Training will be provided by Asset Management Division – Policy and Budget Branch. This training will be recorded and posted for future use by Field Operations Staff.

If you have any questions regarding the guidance in this UL, please contact Julie Felhofer or Deb Reed, Asset Management Division, Policy & Budget Branch at [Julie.felhofer@usda.gov](mailto:Julie.felhofer@usda.gov) or [Deb.Reed@usda.gov](mailto:Deb.Reed@usda.gov).

Attachments: Reserve Deposit Resizing Template (RDRT)