§ 3560.306 Reserve account.

(a) Purpose. To meet the major capital expense needs of a housing project, borrowers must establish and maintain a reserve account.

(b) Financial management of the reserve account. Borrower management of the reserve account is subject to the requirements of 7 CFR part 1902, subpart A regarding supervised bank accounts.

(c) Funding of the reserve account. Borrowers must make payments to the reserve account in the amount established in loan documents, beginning with the first loan payment or a date specified in loan documents.

(d) Transfer of surplus general operating account funds. (1) The general operating account will be deemed to contain surplus funds when the balance at the end of the housing project’s fiscal year, after all payables, exceeds 20 percent of the operating and maintenance expenses. If the borrower is escrowing taxes and insurance premiums, include the amount that should be escrowed by year end and subtract such tax and insurance premiums from operating and maintenance expenses. If the borrower is escrowing taxes and insurance premiums, include the amount that should be escrowed by year end and subtract such tax and insurance premiums from operating and maintenance expenses.

(2) If a housing project’s general operating account has surplus funds at the end of the housing project’s fiscal year, the Agency will require the borrower to use the surplus funds to address capital needs, make a deposit in the housing project’s reserve account, reduce the debt service on the borrower’s loan, or reduce rents in the following year. At the end of the borrower’s fiscal year, if the borrower is required to transfer surplus funds from the general operating account to the reserve account, the transfer does not change the future required contributions to the reserve account.

(e) Account requirements. Borrowers must establish and maintain the reserve account according to §3560.65, §3560.302(c)(5), and the following requirements:

(1) Reserve accounts must be deposited in interest-bearing accounts or securities; and

(2) Reserve accounts must be supervised accounts that require Agency countersignatures on all withdrawals.

(f) Funds invested in securities. In addition to the requirements specified in paragraph (e) of this section, the following requirements apply when reserve funds are invested in securities:

(1) The reserve account must be held either at a Federally insured domestic institution such as a bank, savings and loan association, credit union, or at a domestic institution authorized to sell securities.

(2) The borrower must record the price actually paid for the securities. When designated as a reserve deposit, the price paid must equal the required contribution to reserves.

(3) Borrowers must be knowledgeable about industry practices and consider the impact of typical fees and charges for purchases and sales and maintenance of an account when making investment decisions. Such fees may be paid for out of reserves, only with the consent of the Agency. Housing project funds may not be used to pay for a financial advisor.

(g) Use of the reserve account. (1) Borrowers must request Agency approval of reserve account withdrawals prior to the withdrawal. Borrowers must inform the Agency of planned uses of reserve accounts in their annual capital budget if known at budget planning time. Any item on the approved capital budget does not require additional pre-approval by the Agency.

(2) The Agency will indicate any conditions governing withdrawals from a reserve account at the time it approves the withdrawal.

(3) In emergency situations, the Agency may specify special procedures to provide an expedited approval process for the use of the reserve account.
(4) The Agency may approve the use of reserve funds for operating costs when circumstances that are deter-
mined by the Agency to be beyond the borrower’s control have resulted in a shortfall in the housing project’s gen-
eral operating account.

(b) Allowable uses. Allowable uses of reserve funds include the following:

(1) Major capital improvements and replacements.

(2) Housing project operating exp-
enses provided the requirement of paragraph (g)(4) of this section has been met, including:

(i) Payments due on the loan, or

(ii) Payment of a return on invest-
ment at the end of the borrower’s fiscal year if such payment comes from sur-
plus operating funds in the reserve ac-
count.

(3) With Agency approval, borrowers operating on a for-profit or a limited profit basis may make an annual with-
drawal from the reserve account, equal to no more than 25 percent of the inter-
est earned on a reserve account during the prior year.

(4) For other purposes, which in the judgment of the Agency will promote the loan purposes, strengthen the secu-
rity or facilitate, improve, or maintain the housing and the orderly collection of the loan without jeopardizing the loan or impairing the adequacy of the security.

(i) Records. Borrowers must maintain records documenting all expenses that were paid by withdrawals from the re-
serve account.

(j) Changes to reserve requirements. (1) As projects age, the required reserve account level may be adjusted to meet anticipated “life-cycle” needs, includ-
ing equipment and facility replacement costs, by amending the loan agreement/
resolution.

(2) The Agency may approve a change in the reserve account funding level based on the findings of an approved capital needs assessment. The approval to increase reserve account funding levels will take into consideration the housing project’s approved budget and the housing project’s ability to support increased reserve account deposits without causing basic rents to exceed conventional rents for comparable units in the area.

(k) Excess reserves. Amounts in the re-
serve account which exceed the total required by the loan or grant agree-
ment must be used, at the direction of the Agency, for any of the following:

(1) Pay for expenses specified in a long-term capital plan;

(2) Make payments and reamortize the Agency loan;

(3) Reduce rents by a transfer to the general operating account;

(4) Fund preservation incentives au-
thorized in subpart N of this part; or

(5) Cover other expenditures deter-
mined to be related to the purpose of the housing project and in the best in-
terest of the Federal Government.

(l) Procurement. The requirements of §3560.102(g), (j), and (k), and all other Agency requirements relating to pro-
curement, bidding, identity-of-interest, cost-reasonableness, and construction management apply to any work or services paid out of reserve funds. Structural repairs and other significant work on major building systems such as heating or air conditioning must be done in accordance with the requirements of 7 CFR part 1924, sub-
part A.

§ 3560.307 Reports.

(a) Required reports. Borrowers must submit required reports using Agency-
approved formats.

(b) Quarterly and monthly reports. The Agency may require quarterly or monthly reports to monitor financial progress when closer supervision is warranted.

§ 3560.308 Annual financial reports.

(a) General. Borrowers must submit annual financial reports that meet the requirements of this section. The an-
nual financial reports to be submitted are the Multi-Family Housing (MFH) Project Budget with actual expendi-
tures and the MFH Balance Sheet. An-
nual financial reports are due to the Agency within 90 days of the end of the borrower’s fiscal year.

(1) Borrowers with 16 or more units in their housing project must base their annual financial reports on an engage-
ment report completed according to procedures established by the Agency as specified in paragraph