

From: Polsinelli, Michael L
Sent: Thursday, October 15, 2009 5:57 PM
To: DET FHA LENDERS
Subject: Escalating Reserve for Replacement Deposits

On June 1, 2009, the Detroit Hub sent an e-mail to FHA lenders (copy attached) clarifying its policy on escalating reserve for replacement deposits. That policy still stands, with the following modifications:

1. Section 8 Properties: For projects with project-based Section 8 contracts, escalating reserve for replacement deposits will no longer be allowed. Applications for FHA-insurance on Section 8 properties must contain level annual deposits to the reserve for replacements account and balances must remain positive for the first half of the mortgage term.
2. For non Section 8 projects where there will be escalating reserve for replacement deposits, the amount (or percentage) of the escalating deposit must be noted in Paragraph 2(a) of the project's regulatory agreement, along with the amount of the initial monthly deposit. This will allow HUD's Asset Management staff to track the required deposits to be made to the reserve for replacements account for the term required by the FHA Commitment.

If you have any questions, please do not hesitate to contact me. Thank you for your interest in HUD's multifamily programs.

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From: Hammel, Kay
Sent: Monday, June 01, 2009 2:51 PM
To:
Subject: Escalating Reserve for Replacement Deposits

After careful consideration and extensive discussions between our office and HUD approved lenders on calculating Reserve for Replacement deposits, the Detroit Multifamily Hub is considering implementing the following guidelines:

Market Rate Properties:

- Increases in Reserve for Replacement deposits may be calculated using an annual or an incremental adjustment. (Lender's option). However, large lump sum increases that exceed realistically achievable levels will generally not be acceptable.
 1. Annual increases must realistically reflect the amount of possible market rent increases, (for example \$25 per unit per year) that individual properties can sustain without creating a negative impact on occupancy.
- Cost Inflation factors may be adjusted between 2.0 & 2.5 percent.
- Reserve for Replacement accounts should be targeted to remain positive through the first half of the mortgage. The Lender should address how later adjustments in the annual deposit will be made and the financial risk to HUD.

Section 8 Properties:

Annual Deposits to the Reserve for Replacement account for Section 8 properties will be calculated based on the average Operating Cost Adjustment Factor (OCAF) percentages for that property.

Please note: The OCAF is only applied to variable expenses, therefore, the higher the debt service on the property the lower the overall rent increase percentage. Our office can assist the lender by providing the actual OCAF increase percentage for a period of time.

We ask for any comments you may have by COB June 3, 2009. As previously stated, the above guidelines are targets, and we encourage lenders to come in early and discuss with us any deviations from the above.