



## U.S. Department of Housing and Urban Development

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November 17, 2009  
Issue

# Mortgagee Informational Bulletin #10

*The Michigan State Multifamily Hub has implemented this informational bulletin to keep mortgagees up to date with changes or news from our Hub relating to development issues. We're happy to cover any issues in the bulletin on which you have questions; the bulletins are issued on an as-needed basis.*

### **Security Deposit Accounts**

It is HUD policy that a separate security deposit account be funded for all FHA-insured loans. In the past, the Detroit Multifamily Hub has allowed a few deals to close by following Michigan law which allows for the posting of a surety bond in lieu of establishing a separate security deposit account. After consultation with the Department's Enforcement Center, the Detroit Multifamily Hub will no longer allow the posting of a bond instead of the establishment of a separate security deposit account. The reason for this decision is that the Michigan law conflicts with the requirements of HUD's Regulatory Agreement. The Regulatory Agreement requires that "any funds collected as security deposits shall be kept separate and apart from all other funds of the project in a trust account the amount of which shall at all times equal or exceed the aggregate of all outstanding obligations under said account." Owners who do not maintain a separate security deposit account risk a compliance finding on the review of their Annual Financial Statement. In order to minimize this risk, all future commitments issued by the Detroit Multifamily Hub will contain a special condition requiring the establishment of a separate, fully funded security deposit account.

### **Reserve for Replacements Schedules**

The reserve for replacements schedule submitted in the PCNAs is often reduced in size so that it fits on one page. The reduction makes the schedule extremely difficult to read and staff often has to resort to using a magnifying glass in order to read it. The Detroit MF Hub is asking that you submit the reserve schedules on larger pieces of paper or in the alternative, on three separate sheets of paper...one for the Near Term, one for the Long term and one for the Remainder.

In addition, now that the Detroit MF Hub is requiring ten year smoke detectors, these smoke detectors should be included in the reserve calculations. Though it may be argued that they be considered maintenance items, at \$25 each and as many as 5 per unit, it could prove to be a large expense that is more suited as a reserve for replacement item.