

# Reserve Requests

- Please note that the Process must be followed as it is written in HB-2-3560 Chapter 4, which follows the requirements of 7CFR Part 3560.306
- It is the MAs responsibility to insure that no violations of the Loan Agreement or Loan Resolution occurs through the unapproved use of Reserve funds
- The first step is obtaining authorization; the borrower submits Form RD 3560-12 to the Servicing Official to request the use of reserve funds
- Please do not enter into an arrangement that obligates Reserve funds prior to obtaining approval from the Servicing Office
- In emergency situations when the borrower can demonstrate an **imminent and serious threat to the health, safety, or physical security** of the project, the borrower may request the Agency to post-approve the use of reserves.

# Reserve Requests

- 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.
- Please don't submit multiple requests for less than \$3500 for what is basically the same project to avoid the bid process.
- We are working on a more streamlined process at the national level. Please bear with us and feel free to send ideas to your Servicing Official that might help solve the issue of timeliness for Reserve Requests.
- *Questions????*



# Servicing Workout Plans

## PRIORITIES IN MEETING EXPENDITURES

In developing work-out budgets for projects experiencing cash-flow difficulties, the following priorities will be used:

- **First priority** is to meet obligations to the prior lien holder, if any
- **Second priority** is for critical project operating and maintenance expenses, including taxes and insurance
- **Third priority** is for Agency debt payments
- **Fourth priority** is for reserves
- **Fifth priority** is for other project needs

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## **7 CFR Part 3560.453**

At a minimum, workout agreements must include the following:

- The name and address of the housing project, project number, borrower's tax I.D. number, and other information necessary to identify the housing project.
- A description of the potential or actual compliance violation or default situation, including an explanation of related causes, such as cash flow concerns, budget revisions, deferred maintenance, vacancies, or violations of statutes.
- A definition and description of the housing project's market area, including information on housing availability, rents, and vacancy rates in the market area.
- A description of the proposed actions to prevent or correct compliance violations or to cure defaults along with a date specific schedule indicating when interim and final actions will be taken to correct the compliance violation or cure the default.

# Servicing Workout Plans

- A description of financial and other resources necessary to prevent or correct the compliance violation or cure the default including an identification of the sources for such resources.
- Workout agreements shall be in effect for no longer than a 2-year time period, beginning on the date of Agency approval. If an approved workout agreement calls for actions that extend beyond a 2-year period, borrowers must submit an updated and, if necessary, revised workout agreement to the Agency for approval.
- The updated workout agreement must be submitted to the Agency, 30 days prior to the expiration of the workout agreement in effect.
- The Agency may cancel a workout agreement at any time if the borrower fails to comply with the terms of the agreement. The Agency will provide notice to the borrower upon cancellation of the workout agreement.

# Servicing Workout Plans

## Classification System of Operational Projects

- **Class D** - Projects in nonmonetary default having an unresolved violation for more than 60 days from the date of *Handbook Letter 301 (3560)*, *Servicing Letter #1*
- Projects in monetary default that are delinquent for more than 60 days
- **Class C** - Projects with an unresolved finding or violation not associated to a Workout Plan and/or Transition Plan; and Projects with an unresolved violation for less than 60 days from the date of *Handbook Letter 301 (3560)*.
- **Class B** - Projects with findings or violations associated to an approved workout plan and/or transition plan that is on schedule.
- **Class A** - Projects with no unresolved finding or violation.

# Servicing Workout Plans

## Servicing Options Available

- **Changes in Project Operations** - Rent changes and/or preparation of a new budget - Occupancy waivers - Temporary incentives to improve occupancy - Special note rents (SNRs) - Changing management agent or management plan - Changing project designation - Transfer of ownership - Substitution of partners
- **Changes to the Loan Account** - Loan reamortizations - • Loan adjustments (writedowns) **don't get all excited yet.** - Loan consolidation - Deferral of payments - Prepayment/compromise offer - Providing rental assistance (if available) - Recasting the entire loan (i.e., “starting fresh”)
- **We really are here to help. Success depends on the MA acting early and keeping RD Informed**
- ???????Questions????????
- **Thank you for your attention.**