

**ALABAMA HOUSING FINANCE AUTHORITY (AHFA)
HOME REPLACEMENT RESERVE ACCOUNT POLICY**

I. Introduction

The Home Investment Partnerships Program (HOME) is a federally funded housing program established in 1990, and the Alabama Housing Finance Authority (AHFA) is the designated administrator and designer of Alabama's HOME Program. AHFA has developed the HOME Program into a loan program for the production of new construction, residential rental housing for the low- to moderate-income families of Alabama. Under HOME regulations, all new construction projects funded with HOME must meet a 20-year affordability period.

AHFA has established specific requirements for the replacement reserve accounts to safeguard the availability of funds for capital needs as the project will require for maintaining a viable project throughout the 20-year affordability period. The replacement reserve account is established by the borrower(s) at the time of the HOME loan closing and must be maintained for the entire 20-year affordability period. AHFA will monitor all account balances from the time of the closing of the HOME loan to the end of the 20-year affordability period. All withdrawals from the replacement reserve account must be approved by AHFA.

Therefore, AHFA has also established specific guidelines for requesting and receiving approval of withdrawing funds from the replacement reserve account. These guidelines are not all inclusive and, therefore, may not address every situation requiring a request to withdraw funds. However, the procedures and general guidelines contained in this policy must be followed to obtain an approval from AHFA to withdraw funds from the replacement reserve account.

II. General Guidelines for Withdrawals

- A. No withdrawals may be requested within the first 60 months after the AHFA HOME loan has closed. (Note: Exceptions may be made in the event of health and safety issues, but will be reviewed on a case-by-case basis.)
- B. A request for withdrawal will be approved or denied by written notification to the owner or management company within 30 days of receipt of the request. If the request for withdrawal does not contain required information, it will be returned to the owner/management company with a request for the required information, and a new 30-day approval period will begin when all required information is received by AHFA.
- C. A request for withdrawal may not be made more than 120 days after the paid invoice date. A request for withdrawal must include a copy of a paid invoice from the vendor and a cancelled check or proof of payment. (Note: Exceptions may be made in the event of health and safety issues, but will be reviewed on a case-by-case basis.)
- D. A single withdrawal may not draw the reserve balance below a balance equal to 12 months of reserve deposits as specified in the HOME Commitment. (Note: Exceptions may be made in the event of health and safety issues, but will be reviewed on a case-by-case basis.)
- E. If the request exceeds \$5,000, a mandatory inspection will be done prior to the release of funds. AHFA, at all times, reserves the right to make an inspection at the owner's expense for any replacement reserve request, regardless of the dollar amount to ensure the workmanship and/or the replacement of the expenditure is necessary.

- F. The owner shall make all requests using the AHFA Replacement Reserve Withdrawal Request Form (Addendum A). The management company may prepare the form, but the form must contain the owner's original signature to be considered a complete form. A List of Reserve Request Documentation Requirements (Addendum B) specifies the documents that must be submitted for the request to be considered complete and ready for AHFA's review for approval.
- G. At least two bids must be provided for all materials and/or work performed, excluding the purchase of household appliances. An identity of interest between a contractor or bidder and the owner, management company or property manager must be disclosed in writing with the request. If an identity of interest does exist between the applicable parties, prior approval must be obtained from AHFA on any replacement reserve request exceeding \$2,500 prior to bidding or prior to entering into a contract.
- H. Documentation regarding a collected or uncollected security deposit from any tenant will need to be provided with any request that maintains tenant responsibility.
- I. If any withdrawals from the account are found to be incomplete, inadequate or excessive, the owner will be required to reimburse the reserve account.

An analysis of the replacement reserve account will be performed quarterly to assure the funds are adequate and in compliance, as specified in the HOME Commitment. Projects with underfunded reserve balances and/or failure to make the required payments specified in the HOME Commitment to the account may result in a request being delayed or denied. AHFA considers a replacement reserve account to be underfunded when the borrower(s) fails to make a monthly deposit into the replacement reserve account or fails repay an approved withdrawal in a timely manner (six-month period).

Beginning in 2012, all HOME loan borrower(s) must establish and maintain a written capital maintenance plan (CMP) for the project. At a minimum, the CMP must include the following components:

- A. Annual Physical Needs Summary: This summary shall provide an estimate of the repairs, replacements, and significant deferred and other maintenance items that will need to be addressed within 12 months.
- B. Long-Term Physical Needs Summary: This summary shall provide an estimate of the repairs and replacement items beyond the first year that are required to maintain the project's physical integrity over the term of the Loan, such as major structural systems and interior components that will need to be replaced during this period. Prior to the Loan closing, Borrower shall present to AHFA for review and approval a sample version of the capital maintenance tracking system that it will use over the term of the Loan.
- C. Analysis of Reserves for Replacement: This analysis will provide an estimate of the initial and monthly deposit to the Replacement Reserve Account needed to fund the project's long-term physical needs during the term of the Loan, accounting for inflation, the existing Replacement Reserve balance, and the Expected Useful Life (EUL) of major building systems. This analysis should include the cost of 12-month physical needs, but not any work items that would be treated as an operating expense.

If at any time the borrower(s) replacement reserve account balance is underfunded and has a request for a withdrawal from the account, the borrower(s) must establish and maintain a CMP. This requirement will apply to all HOME loan borrower(s). Failure to establish a CMP satisfactory to AHFA will automatically terminate any reserve request being considered for approval.

III. List of Eligible versus Ineligible Replacement Reserve Request Items

- A. Items generally deemed Eligible for Reimbursement from the Replacement Reserve Account (*but may not be limited to or always allowed*):
1. Replacement of refrigerators, ranges, and other major appliances in the dwelling unit.
 2. Flooring replacement over seven years (carpet) and 10 years (resilient) from the original installation.
 3. Extensive replacement of kitchen cabinets, counter tops, bathroom vanities, bathtubs, toilets, sinks, and doors (both interior and exterior).
 4. Major roof repairs, including roof replacements, major replacement of gutters, downspouts, and related eaves or soffit.
 5. Major plumbing and sanitary system repairs.
 6. Replacement or major overhaul of central air conditioning and heating systems.
 7. Replacement of water heaters.
 8. Overhaul of the elevator systems.
 9. Major repaving/resurfacing/seal coating/installation of sidewalks, parking lots, and driveways.
 10. Repainting of the entire building exterior.
 11. Extensive replacement of siding and/or other façade work.
 12. Extensive replacement of the exterior (lawn) sprinkler systems
 13. Replacement of or major repairs to common project amenities.
 14. Items necessary to comply with changes in local, state, or federal laws.
 15. Extensive electrical work.
 16. The replacement of mailboxes (complete component replacement required).
 17. Complete window unit replacement.
 18. Extensive replacement of smoke detectors and carbon monoxide detectors.
 19. A capital improvement that would result in enhancing the mortgage security (*This item must have AHFA's pre-approval before any work is done*).
- B. Items generally deemed Ineligible for Reimbursement from the Reserve Fund for Replacement Account (*but is not limited to*):
1. Repainting of interior areas of the project (painting after move-out or before move-in).
 2. Flooring replacement less than seven years (carpet) and 10 years (resilient) from the original installation.
 3. Replacement of range burners, bibs, oven elements, controls, valves, wiring, etc.
 4. Minor repairs to central air conditioning and heating systems such as valves replacements, cleaning, annual inspections and testing.
 5. Minor roof repairs, including minor repairs to gutters and downspouts.
 6. Minor paving repairs.
 7. Caulking and sealing.
 8. Window (broken/cracked panes), screen repairs and window treatments.
 9. Purchase of maintenance tools and equipment such as lawn mowers, weed eaters and hedge trimmers.
 10. Purchase of office equipment, computers, software, furniture, painting, and decorations.
 11. Inspection/recharging/replacement of fire extinguishers
 12. Other items generally considered to be routine maintenance (i.e. minor repairs)
 13. Pest control or infestation of insects (including bed bugs) or vermin.
 14. Supplies (i.e. janitorial, office, etc.).
 15. Any repair or replacement of items due to poor management or lack of adhering to good management practices, procedures, or policies.
 16. Any replacement item not included as part of the project's exterior or interior when it was placed in service.