

# NAVIGATING RESERVE FOR REPLACEMENT (R4R) REQUESTS IN PBRA

---

M. JASON SPENCER

EXECUTIVE DIRECTOR

TENNESSEE VALLEY REGIONAL HOUSING AUTHORITY



# GOALS OF THIS CLASS

---

- Understand where and how to find the resources/forms to learn about R4R requests.
- Discuss the purpose of Reserve for Replacements (R4R) requests in a historical multifamily context.
- Discuss the purpose of R4R requests in a historical PIH or public agency context.
- Discuss the approval process for R4R requests.
- Discuss long term investment growth of R4R funds



# TVRHA HISTORICAL BACKGROUND

---

- Regional PHA located in Northeast Mississippi managing 1245 units over a large 10 county geographical area.
- Approximately 88% of TVRHA's housing units were built in 1972/1973 as single-family brick homes under the Turnkey 3 Homeownership program.
- Have been performing ongoing capital improvements since the early 1980's under CIAP.
- Loser under asset management in 2005.
- Demonstrated stop loss in 2006.
- Operated using the multifamily model from 2006 through 2014.
- Operated in PBRA since 2014.



# R4R RESOURCES

---

- 4350.1 Asset Management Handbook-Chapter 4- Reserve for Replacements



4350.1.4.PDF

- HUD form 9250



9250.pdf

- Mortgagor Certification 4



MORTGACERT\_DESCRIPT (2).pdf

- Bid documents-Bid tab, Statement of Values, Warranty documents

- Bank Statements or copies of checks



# R4R REQUESTS IN A TRADITIONAL PBRA CONTEXT

---

- PBRA approaches asset management from a different perspective than a public agency. There is no thought of preservation of the asset in traditional PBRA. The mortgagor allows the condition of the property to deteriorate to the point that the property can either be sold off or torn down and a new building constructed.
- Per the 4350.1 Asset Management Handbook (AMH) “It was not the original purpose of this Reserve Fund to provide for a complete, dollar for dollar, capability of replacing all the building structural components and equipment as these wear out but rather to provide a readily available source of capital that will help defray these costs in the latter years of amortization of the mortgage note.”



## R4R REQUESTS IN A TRADITIONAL PBRA CONTEXT

---

- The R4R fund was originally designed to help the property to make it to the end of the mortgage. Then the property can be torn down and rebuilt or sold off by the owner.
- Per the 4350.1 AMH “The useful life of a building has come to an end when the building is incapable of producing an annual income sufficient to offset the expense of operation and maintenance, insurance, and taxes, and to produce returns upon the value of the land or provide the service of shelter for the intended occupants in the case of non-profit owners.”
- Per the 4350.1 AMH ” The Reserve for Replacements will not always be adequate to meet the future capital needs to a project, nor is it expected to do so.”



# R4R REQUESTS IN A TRADITIONAL PBRA CONTEXT

---

- The owner makes the decision of what to do with the property at the end of the mortgage or useful life. ***This is one of the fundamental differences between PBRA and PIH.***
- Your role as the owner of the property in PBRA will play a significant role in getting the R4R request approved. There is a difference in the mentality of HUD PBRA staff. You are on a level playing field with them. You are a partner in the process. Your opinion matters.



## R4R REQUESTS IN A TRADITIONAL PIH CONTEXT

---

- The traditional PHA is accountable to the community that it serves through their board of commissioners. PHA's cannot allow the condition of their property to fall to the point that it no longer has a useful life. The community, through the board of commissioners, will not allow the condition of the property to fall that far. Preservation of the asset is essential.
- PHA's have had ongoing capital improvement programs operational since the early 1980's with the CIAP (*capital improvement assistance program*), the CGP (*comp grant program*), or the CFP program.
- Prior to 2008, the CFP program allowed for reserve for replacement. Small PHA's used this as a tool to amass enough CFP funds to provide economies of scale when contracting renovations.



## R4R REQUESTS IN A TRADITIONAL PIH CONTEXT

---

- If a renovation using CFP funds is estimated to be more than 90% of Total Development Costs, then the PHA must pursue HUD approval for demolition/disposition. They do not have an option. ***This is one of the fundamental differences between PBRA and PIH.*** The PHA is not the owner in PIH, HUD is the owner. The PHA must have HUD approval prior to demolition.



# WHAT CAPITAL ITEMS ARE ELIGIBLE FOR AN R4R WITHDRAWAL?

---

- Replacement of refrigerators/appliances
- Extensive replacement of kitchen & bathroom sinks, counter tops, tubs, and water closets.
- Extensive replacement of doors (exterior & interior)
- Major roof repairs, replacement of siding, gutters, & downspouts.
- Major plumbing & sanitary system replacement.
- Replacement of HVAC
- Elevator Rennovation
- Major repaving/resurfacing of sidewalks, parking lots & driveways
- Replacement of sprinkler systems



# ITEMS NOT ELIGIBLE FOR R4R REQUEST

---

- Minor HVAC repairs
- Caulking & Sealing
- Window & Screen Repairs
- Replacement of Range Parts
- Purchase of maintenance tools
- Fire extinguisher replacement



# APPROVAL PROCESS FOR R4R REQUESTS

---





# APPROVAL PROCESS FOR R4R REQUESTS

---

- This is the one few areas in PBRA that you do have to have HUD approval PRIOR to withdrawing R4R account funds.
- If you have multiple projects, then you can have multiple account executives approving your R4R requests. This can become an issue if you have renovation projects that span multiple project groupings.
- Each account executive has their own idiosyncrasies when it comes to R4R requests. Some are very easy to deal with, others can be somewhat difficult.
- If you run into trouble getting a R4R request approved, don't hesitate to go over the account executive's head to the branch chief, the division director or even the regional center director. That's what they are there for. Also, remember you are the owner of the property.



# APPROVAL PROCESS FOR R4R REQUESTS

---

- The approval can be handled one of two ways:
  - Pre-approval prior to work being done
    - Requires 3 formal bids or informal bids with a copy of the bid specification.
    - If the lowest bid is not selected, the owner must explain why it was not selected.
    - Owner submits copies of bid tab, specification and drawings from the bid documents
    - Can make quarterly withdrawals
  - Post-approval after the work has been done & paid for from operating funds
    - Owner submits documentation of 3 bids.
    - Owner submits a narrative request for the release of funds.
    - Owner submits a mortgagor certification.
    - Owner submits copies of checks, bid documents, copies of warranties for equipment and any other requested closing documentation.
    - Request must be submitted within 60 days of the last payment to the contractor.



## APPROVAL PROCESS FOR R4R REQUESTS

---

- If withdrawing greater than 20% of the fund balance, HUD prefers that you do a pre-approval. You can also request an advance if necessary to get a contract started.
- **How much can you request to withdraw?** The 4350.1 AMH states that HUD strongly recommends that owners target a minimum amount to be held in the Reserve Fund that would equal or exceed the greater of:
  - The initially established monthly deposit times 144 (12 years worth of deposits); or
  - At least \$1,000.00 per unit.



# APPROVAL PROCESS FOR R4R REQUESTS

---



MS26RD00006 reserve for replacement request.pdf



# LONG TERM INVESTMENT GROWTH OF R4R FUNDS

---

- Generally, R4R funds must be invested in U.S. Government backed securities whose deposits are insured by the FDIC under the following conditions:
  - Institutions must have a rating consistent with minimally acceptable ratings published by the GNMA.
  - Owners must monitor the institution's ratings no less than a quarterly basis & change institutions if necessary.
  - The owner is held responsible for replacing any lost funds as a result of the institution no longer meeting the GNMA minimal rating.
- HUD really doesn't like for you to invest in CD's. However, you can receive a waiver to do so and as mentioned above, if there are fees as a result of having to cash the CD before it matures, the owner must cover the fees.
- All interest earned must remain in the reserve account and cannot be distributed to the owner.



# QUESTIONS/DISCUSSION

---

