

## CHFA ASSET MANAGEMENT ESCROW DISBURSEMENT POLICY

CHFA's policy for requesting releases from the Reserve for Replacement Escrow, Residual Receipts Escrow, General Operating Reserve Escrow, Loan Draws or other CHFA-held Escrow accounts pursuant to mortgage and regulatory requirements is outlined in this Escrow Policy. All CHFA's escrow disbursement forms listed herein, as well as this document, can be found on our website [here](#), under Replacement Reserves

If the anticipated escrow release will be for capital improvements or repair/replacement work, the work must be completed in accordance with all applicable Building Codes, State Regulations and the CHFA Multifamily Design, Construction and Sustainability Standards (Standards). Levels of CHFA review will be determined by the type of work proposed.

### **Capital Improvement/Repair/Replacement Guidelines**

CHFA's Technical Services department updates the CHFA Standards every year. These Standards define the design process and the specific construction requirements for multifamily housing financed through the Authority. It is the intent of the Standards to ensure that housing financed through CHFA's multifamily lending programs best serves the needs of its residents with as much quality, safety, energy efficiency, durability, comfort, air quality and environmental sustainability as the marketplace, resources and need will permit. The current Standards may be found on the CHFA website [here](#).

CHFA Construction Guidelines: Technical Services / Asset Management (TSAM) and Capital Improvement Guide (Guidelines) has been developed for various repair, replacement and capital improvement projects. These Guidelines include "Questions to consider" – suggested related issues and conditions to be examined when replacing or installing additional individual building materials, components, fabrications, and equipment.

### **Technical Services Review:** CHFA Capital Improvement Project

Classifications for Repairs/Replacements/Installations of the CHFA Standards outlines the level of required certification to CHFA Standards along with outlining the instances where CHFA requires that Technical Services staff review plans and scope of work prior to an Owner soliciting quotations. The Appendix is broken down into four (4) classifications of work, A, B.1, B.2 & C. However, Asset Management reserves the right to require Technical Services' review on any escrow project.

In instances where CHFA has no involvement related to the State-Sponsored Housing Portfolio (SSHP) and/or Restrictive Covenant properties' replacement reserve accounts, (ie CHFA does not hold the property reserves), the property owner is recommended to review the CHFA guidelines for potential implications related to the work proposed. Technical Services would not need to review this proposed work, since CHFA would not be releasing funding.

## **Classification A, B.1, B.2 & C**

Please see the current Construction Guidelines: Technical Services/Asset Management (TSAM) and Capital Improvement Guide (CIG) on our website [here](#).

### **Capital Improvement Schedule (CIS)**

Owners must provide a Capital Improvement Schedule (CIS) [CHFA Form HM 6-12\(d\)](#) with each annual operating budget submission. Beginning with budgets that are effective 07/01/2012 or later, this form will be part of the Multifamily Housing Financial Reporting Forms ([CHFA HM 6-10, 6-12, 6-12\(a\)](#)). The CIS is a CHFA form that will be used by the Owner/Agent and CHFA to approximate when work will be completed throughout a fiscal year, and the costs associated with the work. The work will be classified by codes (the Replacement Reserve Descriptive Codes), since it is expected that the cost of these items will be requested from the Replacement Reserve Escrow. The CIS form is not necessary for Critical Needs Applications.

### **Capital Needs Assessment (CNA)**

A Capital Needs Assessment (CNA) may be required to assess the long-term capital needs of the development in order to extend the physical life of the asset. CHFA, at its discretion, may require the Owner or Agent to commission a study by a qualified independent inspection firm, on behalf of the project. Best practices indicate that a new CNA should be solicited every five (5) years.

The CNA must include a long-term capital needs/life cycle cost analysis schedule and an annual distribution schedule delineating the minimum reserve for replacement balance and annual contribution required to fund the anticipated capital needs. CHFA has a list of approved Capital Needs Consultants. In addition, CHFA provides a Comprehensive Fiscal Needs Assessment and Schedule Requirements Excel workbook. This workbook provides instructions along with a spreadsheet that is required for CNA's that will be provided to CHFA for review and can be accessed on our website [here](#). Asset Management will transmit CNAs to Technical Services for review.

The cost of the CNA is considered a development expense and paid from the operating account. In some cases the cost of the CNA will be allowed to be paid from an escrow account.

### **Reserve for Replacement Escrow Reimbursement**

The Reserve for Replacement Escrow Account was established to help ensure that the physical life of the buildings and structures would extend through the economic life of the development. All mortgagors should utilize their Reserve for Replacement Escrow Account for capital improvements and major repairs/replacements that are listed on the Replacement Reserve Descriptive Codes ([CHFA Form HM 6-22](#)). Your operating account should be used as interim funding, pending a request for reimbursement from the Reserve for Replacement Escrow Account. However, if the property's cash flow is insufficient to fund the work up-front or the scope and cost of the project is more than the operating account can support, releases prior to work completion may be authorized, however, pre-approval is required prior to the start of the repair / replacement. In the case of an emergency, contact your Asset Manager as soon as possible for pre-approval. Disbursement from the Reserve for Replacement Escrow Account will

be subject to CHFA's discretion and approved in Asset Management.

This policy is compatible with the HUD Handbook 4350.1 REV-1. CHFA reserves the right to reduce or deny reimbursement for any request due to:

- Illegible, incomplete or inconsistent documentation;
- Questionable payees;
- Invoices greater than 12 months old at the time the request is received at CHFA;
- Unnecessary or excessive improvements, or work that was not pre-approved and was supposed to be;
- Encroachment on required minimum per unit reserve balance;
- Items or situations that may be construed as inconsistent with CHFA or HUD policies;
- Other reasoning is the sole discretion of CHFA.

Releases from the Reserve for Replacement Escrow Account require the signature of the Asset Manager, Director, Multifamily and Managing Director (if applicable). If loan documents specifically state the release requires the approval of the Executive Director, approval and signature authority has been delegated to the Managing Director.

### **Replacement Reserve Balance Guidelines**

CHFA requires the following minimum balances for Replacement Reserve Escrows:

- \$1,500 per unit for family developments
- \$1,000 per unit for elderly developments
- \$500 per unit for Small Unit Rental Properties (SURP) and Cooperatives (Co-Op)
- Or such balances as may be reflected in a capital needs distribution schedule

Reserve for replacement release requests may be denied or reduced if the request brings the balance in the escrow equal to or below the required minimum balance. However, for emergencies or health and safety issues, and with the prior approval of a Director, Multifamily, the required minimum balance policy may be temporarily waived. In cases where the request is granted and brings the reserve to below the minimum level, the owner may be required to increase deposits on a schedule set by CHFA to bring the level of reserves back to the minimum.

Newly built or substantially rehabilitated developments are generally not eligible for withdrawals within the first five (5) years following initial occupancy. However, for emergencies or health and safety issues, and with the prior approval of Director, Multifamily, this may be temporarily waived.

For under-funded Reserve for Replacement Escrow Accounts, the Asset Manager may increase escrow deposits until the recommended minimum balance or the capital needs distribution balance established by CHFA is achieved.

For over-funded Reserve for Replacement Escrow Accounts, the Asset Manager may decrease or suspend escrow deposits for a defined term or so long as a defined balance is maintained in the escrow account. Monthly deposits may be resumed at any time at the discretion of CHFA.

If a property is in default, either monetary or non-monetary, no releases from escrow will be allowed until the default is cured or unless approved by a CHFA Director.

HUD-Insured Developments must follow HUD policies and procedures pertaining to minimum balances and reimbursements or such balances as approved in writing by HUD in the case of emergency or special conditions.

### **Quote Process and Pre-Approval**

All requests for purchases or contracts in excess of \$10,000 which are expected to be reimbursed through a CHFA-held escrow must be pre-approved by the Asset Manager. Also, any request less than \$10,000 that cannot be categorized from the Replacement Reserve Descriptive Codes lists ([CHFA Form HM 6-22](#)) will require pre-approval. Asset Management reserves the right to require pre-approval for purchases or contracts less than \$10,000 for any reason. Each request must be accompanied by:

1. Comparable quotations, generally three (3), from third-party contractors;
2. Scope of work;
3. Project Classification (A, B, or C);
4. The descriptive code from [CHFA Form HM 6-22](#);
5. Recommended vendor with justification if the lowest bidder is not suggested;
6. Payment schedule;
7. An anticipated time schedule for completion;
8. Cost not to exceed with a breakdown of hard and soft costs;
9. Owner/Agent signature; and
10. Building Design/Construction Professional signature, if applicable

The Escrow Release Pre-Approval form ([CHFA Form HM 6-21](#)) was created to assist in this requirement. The form must be completed by the Owner/Agent and forwarded to your Asset Manager for approval and signature. All quotes must accompany the [CHFA Form HM 6-21](#) so they may be reviewed. The three (3) quote requirement may be waived by the Asset Manager for emergency, or health and safety repairs, or due to documented difficulty in obtaining quotes.

#### ***Please Note:***

- Mortgagors will be mindful of energy and environmental considerations.
- Mortgagors will be sensitive to issues involving handicapped/disabled persons when improvements are made or items replaced.

**For HUD-Insured Developments** - HUD ([Form 9250](#)) approval is required in advance of obtaining CHFA's pre-approval, and CHFA must be copied on any request for approval sent to HUD. Receipt of HUD 9250 will be acceptable verification that HUD has reviewed and inspected the work, and for CHFA to give approval for the release of funds from the Replacement Reserve Escrow Account.

### **Contracts**

Any structural or large-scale mechanical repairs or improvements require a contract to be

executed with the contractor providing the services. If Technical Services' review is required for the scope, and they determine that a contract is required, it will be indicated on the CHFA Technical Services Review & Approval form ([CHFA Form HM 6-21TS](#)). The purchase of goods, such as refrigerators and flooring, will not require an executed contract. Consult with Asset Management if there is any question as to whether a contract is necessary. CHFA reserves the right to require an American Institute of Architects (AIA) contract.

### **Replacement Reserve Descriptive Codes (CHFA Form HM 6-22)**

CHFA has assigned "codes" for items that are generally considered to be capital items and eligible for reimbursement from the Reserve for Replacement Escrow account. The codes are compatible with HUD Handbook 4350.1 REV-1, and are listed on the Replacement Reserve Descriptive Codes form ([CHFA Form HM 6-22](#)).

**Please Note:** A Capital Improvement Schedule ([CHFA Form HM 6-12\(d\)](#)) (described above) should be on file in order to be reimbursed for "extensive replacement" of items designated under codes A-2, A-9 and A-10 on CHFA Form HM 6-22. If a Capital Improvement Schedule is not on file the Asset Manager can authorize the payment of items under these codes based on their review of the budget. Extensive replacement is defined as >10% of the units. The Capital Improvement Schedule is required to be submitted annually with the Projected Annual Operating Budget. The plan should be developed using a CNA if available.

### **Request to Release Escrow Funds (CHFA Form HM 6-24)**

**Requests to withdraw Reserve for Replacement funds from escrow shall be limited to a maximum of four (4) times per year and a minimum of two (2) times per year.** Additional draws may be allowed for cash flow, emergency, health or safety conditions, and periodic contract payments, as determined by CHFA Asset Management (see [Extraordinary Circumstances](#)). Request to Release Escrow Funds ([CHFA Form HM 6-24](#)) must be used and electronic submission is preferred.

Please follow these instructions to submit a complete request:

- Complete Request to Release Escrow Funds ([CHFA Form HM 6-24](#)) and attach invoices and cancelled checks for all items.
- Please complete Development and Contact information completely. **The Contact Name, Email and Phone number are critical to efficient processing of the request.**
- **Item Code** – From the drop-down menu provided please enter a code for each item you submit for reimbursement. Refer to Replacement Reserve Descriptive Codes ([CHFA Form HM 6-22](#)) for valid codes. **Please list all items in numerical sequence by their code (i.e. list all the A-1s first followed by the A-2s, etc.).**
- **Invoice Date** - Enter the actual date of the invoice submitted. If invoice is greater than 12 months old, CHFA will deny the invoice.
- **Invoice Number** - Enter the actual number of the invoice paid. Invoice must include the Development Name and location of the work.

- **Description of Work Performed/Item Replaced** - From the drop-down menu provided please indicate the work performed or item replaced.
- **Location (i.e. Unit, Bldg. #, etc.)** - List unit and / or building number(s) where work was performed or item installed.
- **Vendor** - Enter name of vendor providing services or goods.
- **Identity-of-Interest** - Check this box if vendor has an identity-of-interest with the Owner or Management Agent. All goods and services purchased from individuals or companies with which Owner or Management Agent has an identity-of-interest must be purchased at costs not in excess of those that would have been incurred in making arms-length purchases on the open market. (All identity-of-interest transactions must be specifically identified in the project's annual financial statements.)
- **Age of Replaced Items** - Enter age of item that was replaced.
- **Amount** - Enter amount of the invoice.
- **Check Number** - Enter the check number used to pay the invoice.
- **CHFA Pre-Approval Date** - Indicate date of Pre-Approval. See Quote Process and Pre-Approval above for pre-approval requirements.
- **HUD Approval Attached - for HUD-Insured Development only** – check if applicable and attach HUD [Form 9250](#).
- **Contract Attached** - Check, if applicable, and attach contract.
- **Signature** - Owner/Agent must sign and date the form. The Building Design Professional must sign for requests that include projects in Classification B that are >\$20,000, or Classification C.
- **Attach any items necessary for payment as indicated on the CHFA Technical Services Review & Approval form (if applicable)** (i.e. progress photos, lien waivers, contract, etc.).
- Electronic requests (preferred) must be sent to [rrdraws@chfa.org](mailto:rrdraws@chfa.org) **and** your asset manager. Paper requests may be sent to CHFA, Attention: Finance Department, 999 West Street, Rocky Hill, CT 06067. Electronic signature copies are acceptable.

### **Observation of Work**

Observations will occur as determined by scope of work and may include one or more observations by a Building Design Professional (Classification B) and / or Technical Services (Classification C). Asset Management will observe a sampling of the work completed or items purchased at the next scheduled site visit. However, Asset Management reserves the right to require observations prior to release of funds for any reason. If HUD-Insured property, HUD's inspection will satisfy this requirement.

## **Residual Receipts Escrow Reimbursement**

If Owner/Agent would like to request a release of funds from the Residual Receipts Escrow Account, a request must be made in writing to the appropriate Asset Manager outlining the need and proposed use of the funds. The Asset Manager will review the request and prepare a memo to the Executive Director. The memo must be reviewed by the Director and Managing Director of Multifamily. If the release is for a property that has a "Pre-1981" HAP contract or is a non-HUD property, the memo must also be reviewed by the Chief Financial Officer.

The Asset Manager will request the release of these funds through the Authorization to Release Escrow form ([CHFA Form HM 6-20](#)) which must be signed by the Director and a Managing Director of Multifamily. A copy of the approval memo that has been signed by the Executive Director must be attached.

All requests for release of Residual Receipts for HUD-Insured Developments must be accompanied by HUD [Form 9250](#), Funds Authorization for the Use of Residual Receipts.

If the use of the funds is for repair/replacement or capital improvements, the same review, approval and release process that is used for Reserve for Replacement Escrow reimbursement will be followed.

## **General Operating Reserve Releases (Co-ops)**

The General Operating Reserve (GOR) releases must be requested in writing and must be in accordance with the CHFA loan and/or escrow documents.

The Asset Manager will request the release of these funds through the Authorization to Release Escrow form (CHFA Form HM 6-20). Authorization must be signed by the Director and a Managing Director. If loan documents specifically state the release requires the approval of the Executive Director, approval and signature authority has been delegated to the Managing Director, Multifamily Housing.

If the use of the funds is for repair/replacement or capital improvements, the same review, approval and release process that is used for Reserve for Replacement Escrow reimbursement will be followed.

## **Operating Reserve Releases**

Operating Reserve releases must be requested in writing and must be in accordance with the CHFA loan and/or escrow documents.

The Asset Manager will request the release of these funds through the Authorization to Release Escrow form ([CHFA Form HM 6-20](#)). Authorization must be signed by the Director and Managing Director (if applicable). If loan documents specifically state the release requires the approval of the Executive Director, approval and signature authority has been delegated to the Managing Director.

If the use of the funds is for repair/replacement or capital improvements, the same review, approval and release process that is used for Reserve for Replacement Escrow reimbursement will be followed.

## **Residual Receipts & General Operating Descriptive Codes**

CHFA has assigned “codes” for items that are generally considered to be eligible conditions for reimbursement from the Residual Receipts Escrow Account or the General Operating Escrow Account. The codes are compatible with HUD Handbook 4350.1 REV-1, and are listed on the Residual Receipts & General Operating Descriptive Codes form ([CHFA Form HM 6-23](#)).

## **Extraordinary Circumstances or Waivers**

An exception to the CHFA Asset Management Escrow Disbursement policy may be considered if a development experiences a limited cash flow or may have encountered an emergency, health or safety condition. Asset Managers will consider all extraordinary circumstances on a case-by-case basis.

Waivers of any requirements may be considered as requested and may be approved by a Multifamily Director.

### Referenced Forms / Guidelines:

- Multifamily Design, Construction and Sustainability Standards (Standards)
- Construction Guidelines: Technical Services/Asset Management (TSAM) and Capital Improvement Guide (CIG)
- Escrow Reserve Pre-Approval form (CHFA Form HM 6-2 1)
- Request to Release Escrow Funds (CHFA HM 6-24)
- Authorization to Release Escrow (CHFA HM 6-20)
- CHFA Technical Services Review & Approval form (CHFA Form HM 6-2 1TS)
- Capital Improvement Schedule (CIS) (CHFA Form HM 6-12(d))
- Capital Needs Consultants
- Comprehensive Fiscal Needs Assessment and Schedule Requirements
- Replacement Reserve Descriptive Codes (CHFA Form HM 6-22)
- HUD Handbook 4350.1 REV-1
- HUD Form 9250
- Residual Receipts & General Operating Descriptive Codes (CHFA Form HM 6-23)

### Please note:

Classification A, B, and C for the Replacement Reserve process identifies the different types of building design professionals that may certify for the different type of work. Some of the professionals are self-explanatory; however, to locate a HUD-approved inspector or an insured FHA 203K Compliance Consultant, the following HUD website may be utilized:

[https://www.hud.gov/program\\_offices/housing/sfh/insp](https://www.hud.gov/program_offices/housing/sfh/insp)

Also, the various HM Forms that pertain to Escrow Disbursements are no longer stand-alone documents. They are all included in the Escrow Disbursement Forms Workbook. All of the CHFA forms that pertain to an Escrow Disbursement can be found at this [link](#).