

TSAHC Replacement Reserve Guidelines

The guidelines below are intended to provide a framework for the administration of any replacement reserve accounts (“Replacement Reserve”) held by the Texas State Affordable Housing Corporation (“TSAHC”) in conjunction with loans provided by TSAHC. The Replacement Reserve for a multifamily housing development is intended to pay the cost of major repair and replacement of building systems and components over a considerable number of years. These guidelines are intended to work in conjunction with any Replacement Reserve agreements in effect for any particular loan transaction, and if any conflict arises, the applicable agreement would govern.

The Replacement Reserve for multifamily rental developments is intended to pay for major repairs or the replacement of building systems. The Replacement Reserve will be held and administered by TSAHC. The Replacement Reserve consists of deposits made, in accordance with a borrower’s loan agreement, and interest accrued on the outstanding balance of the account. TSAHC has discretion to determine what activities qualify as eligible, and is providing these guidelines to help clarify both the expectations that borrower’s should have regarding eligible activities and the process for approval for requests to utilize the Replacement Reserve.

Eligible Replacements

- Schedule A sets forth the eligible replacements, such as replacing a large number of appliances, re-roofing buildings, residing buildings, replacing gutters, painting buildings, or resurfacing parking lots (together, known as a “Program for Replacement”). Individual repairs will not be considered, but rather a Program for Replacement of a number of appliances or a major replacement, such as replacing the roof of a building, will be eligible.

Ineligible Repairs

- Routine maintenance and repairs should be anticipated and included in yearly operating budgets and will not be considered for withdrawal from Replacement Reserve.
- The repair and replacement of individual items on Schedule A, such as making repairs to a few dishwashers, replacing a few microwave ovens, or replacing parts on an air conditioning system, are considered routine maintenance items and are thus not eligible for withdrawals from Replacement Reserve.

Requests for Withdrawal

Requests for withdrawal must be submitted to the Manager of Asset Oversight and Compliance. Requests require approximately 30 days to review and approve. The request must include a detailed description of the Borrower’s Program for Replacement, including approximate labor costs, supply costs, start and end dates, along with other important benchmarks for completion of work, and bids.

TSAHC will generally consider two types of requests for withdrawals from the Replacement Reserve—**Program for Replacement** and **Emergency**.

(1) Program for Replacement Withdrawals

- Withdrawal requests for Programs for Replacement must be made in advance of the anticipated replacement (please allow 30 days for TSAHC to review the request) and before contracts are signed contemplating the use of Replacement Reserve funds.
- Requests for pre-approval of funds from the Replacement Reserve should be as specific as possible, including a detailed description of the anticipated replacement work, specific estimated costs, specific amounts of money for labor and materials, and the exact location for the intended replacement, including building number and unit number.
- Once approved and work completed, requests for reimbursement must be accompanied by paid invoices for all the approved, completed replacement work and must include the detailed work description, specific amounts of money for labor and materials, the exact location of the replacement, including building number and unit number, release of lien for contractor, if any, and other documentation required by the Borrower's loan agreement.

(2) Emergency Withdrawals

- Withdrawal requests from the Replacement Reserve should be submitted for pre-approval. However, in the case of an emergency, such as roof damage, water damage, and other instances that adversely affect the physical condition of the property or the health and safety of residents, major repair costs may be reimbursed from the Replacement Reserve without pre-approval.
- For emergency repairs, the request for withdrawal from the Replacement Reserve must include a description of the emergency event and its consequences and a copy of the paid invoice, which should be as specific as possible, including a detailed work description, specific amounts of money for labor and materials, and the exact location of the replacement, including building number and unit number.
- For emergency repairs, requests related to items more than one year old will not be considered.

Physical Needs Assessment

- The owner must have a physical needs assessment performed by an engineering firm on the property every ten years if not specified in the loan documents, or per the loan documents, at the expense of the owner. The owner may pay for the physical needs assessment out of the Replacement Reserve.

Inspections

At the discretion of TSAHC, an inspection may be performed before and/or after the release of funds. If during any inspection it is found that repairs are unnecessary, incomplete, inadequate, or excessive, the owner may be denied funds or may be responsible for reimbursing the Reserve.

Limits on Requests

The Corporation requires that all requests exceeding 50% of the balance of Replacement Reserves held in the account be approved by the Corporation's Board of Directors. This may increase the review time beyond 30 days.

Denial Process

TSAHC has sole discretion of what Programs for Replacement will be approved. In the instance that a Program for Replacement is not TSAHC will send a notice to the Borrower describing why the Program for Replacement was denied.

Appeals Process

If TSAHC has denied a Replacement Reserve request the Borrower may appeal the denial with the Corporation's Board of Directors. The Borrower must submit a notice for appeal to the Manager of Asset Oversight and Compliance within 30 days of the denial.

Schedule A

Appliances:

Ranges
Refrigerators
Dishwashers
Washer and Dryers
Garbage Disposals
Exhaust Fans
Air Conditioners

Interior:

Carpet
Flooring (tile/vinyl)
Blinds
Cabinet Replacement

Exterior:

Doors
Windows
Roof Replacements
Gutter/Downspout Replacement
Full Exterior Paint
Irrigation Replacement
Siding Replacement

Balconies
Stair Wells

Plumbing Systems:

Toilets
Bathtubs
Sinks and Fixtures
Kitchen Sinks and Fixtures
Laundry Tubs and Fixtures
Water Heaters
Furnaces
Boilers

Miscellaneous:

Elevator Replacement/Repair
Seal Coating Asphalt
Resurfacing Asphalt
Concrete Work
Swimming Pool Repair
Office Computers
Health and Safety Items (Smoke Alarms,
Fire Alarms, Call Systems)