

.03 RESERVE FOR REPLACEMENTS

For underwriting purposes, AHFC requires the inclusion of a reserve for replacements in the estimate of operating expenses. In all cases, the loan agreement must contain specific language providing for the funding of the reserve for replacement. If an initial deposit is required, it may be funded by the borrower and/or loan proceeds at the time of closing. In any event, the borrower's monthly payment will include funds for deposit to the replacement reserve. The reserve is to be controlled by the Seller/Servicer. It is the responsibility of the Seller/Servicer to counsel the borrower on the purpose and use of the replacement reserve deposits.

A. Calculation of Reserves

The calculation of the deposit to the replacement reserve will be a fixed annual amount (funded monthly) as determined by the Seller/Servicer and AHFC after review of the recommendation of the appraiser (or other property reports) which consider the remaining economic life of the appropriate elements of the property. Any initial deposit must be adequate to cover the lapsed economic life of these elements. AHFC may require an increase in the monthly payments to the Replacement Reserve at any time that it deems appropriate.

B. Suspension of Reserve Payment

At such times as the amount held in the Replacement Reserve Account equals or exceeds five times the annual Replacement Reserve Account requirement, monthly payments may be temporarily discontinued. However, monthly payments to the Replacement Reserve Account shall resume at any time the disbursements from the account reduce the account balance below such five-year cap amount or if the annual reserve requirement is increased by the Corporation as described in the preceding paragraph and the amount in the account is less than five times the new annual reserve requirement.

C. Payment of Principal

Amounts in the Replacement Reserve shall not be pledged to or available to pay principal or interest unless AHFC determines there has been a default in payments of any amounts owed under the loan agreement, and elects to apply amounts in the Replacement Reserve to the payment of any such amounts remaining.

D. Loan Participation/Reserve Release

If a Seller/Servicer has participated in a loan, funds shall be released by the Seller/Servicer from the reserve upon presentation of invoices or paid bills by the borrower, and an inspection by the Seller/Servicer to assure the work has been completed. AHFC's approval will be required for reserve disbursements after the Seller/Servicer's participating interest has been paid off, and if a

Seller/Servicer has not participated, at any time, in a loan. (Refer to the [Servicing Guide, Section 11001.05](#) for additional information)