

NEW REGULATION RESIDUAL RECEIPT RESERVE (NR4) POLICY

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Purpose of New Regulation Residual Receipt Reserve (NR4)

This policy provides guidance regarding the management and distribution of funds from the following accounts:

- New Regulation Residual Receipt Reserve (NR4).
- Retained Balance - New Regulation Residual Receipts Reserve (Retained Balance – NR4).

The **NR4** accounts are established to hold excess income, or residual receipts, generated by a New Regulation Section 8 Development. Residual receipts may be used to offset the Housing Assistance Payments (HAP) payable by HUD under a HAP Contract for the development.

The **Retained Balance – NR4** account is established to hold a portion of development's residual receipts equivalent to the calculated threshold amount of \$250 per unit, or the "Retained Balance", as set forth in HUD Notice H-2012-14, section V, Programmatic Summary. As set forth in 24 CFR Part 883.306(e), surplus project funds may be used for project purposes, with the Authority's approval, and per the Notice H-2012-14, HUD's approval is also required. The **NR4** account is established to hold residual receipts that exceed the Retained Balance amount.

Deposits to the NR4 Accounts

The development owner/agent shall deposit that portion of operating cash that is required to be submitted, based on the annual certified audit conducted in accordance with the Audit Guide Policy, into the NR4 and Retained Balance – NR4 accounts within

120 days after the end of the calendar year. Deposits are based on the audit schedule (1P) calculations that replicate the U.S. Department of Housing and Urban Development's (HUD) "Computation of Surplus Cash Distributions and Residual Receipts" (HUD-93486) form and on Notice H-2012-14. The calculation of the Retained Balance amount will be made either annually or semi-annually¹ depending on the Regulatory Agreement.

To the extent that funds already on deposit in the Retained Balance-NR4 account do not equal the Retained Balance amount, funds will be deposited in the Retained Balance – NR4 account until the Retained Balance amount is reached. Any funds in excess of the Retained Balance will be deposited in the NR4 account.

Funds on deposit in the NR4 and Retained Balance – NR4 accounts are invested by the Authority's Finance Division and remain under the control of the Authority until disbursement. Interest earned on the NR4 and Retained Balance – NR4 account funds will accumulate in the respective accounts and is treated in the same manner as other NR4 and Retained Balance – NR4 account funds.

Eligible Expenses

NR4 Account

As established in Notice H-2012-14, NR4 account funds must be used to *offset Section 8 HAP payments* up to the full amount of the monthly subsidy request.

Retained Balance – NR4 Account

With HUD approval, Retained Balance – NR4 funds may be used for project purposes such as the payment of development operating expenses in the priority set forth in the Management Agreement under Section 5 – Expense Management. Eligible expenses include:

- Reducing operating deficits when legitimate cash flow deficits exist, i.e., offset increased operating expenses not covered by rental income.
- Making mortgage payments when a mortgage default is actual or imminent.
- Making repairs to the property not covered by the Replacement Reserve funds.
- Providing additional amenities such as energy saving devices. For Section 202 projects, the amenities must conform to the program's cost containment provisions.
- Paying accrued, allowable distributions where insufficient surplus cash is available provided there are no outstanding:
 - Violations of the Regulatory Agreement,
 - Finding from Management Reviews, or
 - Physical Inspection issues.

¹ HUD Handbook 4350.1, Rev-1, Section 25-3

Other expenses may be eligible as approved by HUD.²

Requests for Disbursement of Funds

NR4 Account

Review Notice H-2012-14 for further details on the process for drawing these funds to supplement the reduced monthly HAP payments.

Retained Balance – NR4

The owner/agent must submit a written request for the use of Retained Balance – NR4 funds to the Authority-assigned Asset Manager on the Retained Balance - NR4 Request (MSHDA Mgmt. 506A) form with an explanation of the intended use of the funds. The assigned Asset Manager will review the request for Authority pre-approval and forward the request on to HUD for final approval.

Mortgage Loan Pay-Off

Upon payment in full of a development's mortgage loans, the release of funds in the NR4 and the Retained Balance – NR4 accounts is governed by Notice H-2012-14 or another applicable directive from HUD. Upon termination of the HAP Contract, any remaining funds in these accounts must be remitted to HUD.

Forms, Attachments, and References

506A – Retained Balance - NR4 Request Form

HUD Notice H-2012-14

HUD Handbook 4350.1, Rev-1, Sections 25-3 and 25-9

HUD-93486 – Computation of Surplus Cash Distributions and Residual Receipts

² HUD Handbook 4350.1, Rev-1, Section 25-9