



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

OFFICE OF AFFORDABLE HOUSING
PRESERVATION

To: All REAs, PAEs, and OAHP Staff
(broadcast via Resource Desk and the REAs Mailing List)

PURPOSE

OAHP has approved new options for the titling of rehab escrow accounts and for investment of the funds effective immediately. These options are being implemented to ensure that REAs meet the primary objectives of perfecting HUD's security interest in the rehab escrow funds and in ensuring the funds are protected against loss of principal. Please review the new options now available to REAs and follow the implementation requirements discussed below.

ACCOUNT TITLING

HUD's objective is to perfect a security interest in the rehab escrow funds. The Rehabilitation Escrow Deposit Agreement (REDA) requires that accounts be established in the name of the Secretary of HUD for the benefit of the property. Many banks have refused to establish accounts in this manner and doing so conflicted with Ginnie Mae requirements for its lenders. OAHP broadcast a new option for Ginnie Mae lenders on May 26, 2006, allowing them to follow Ginnie Mae 5500.3 Rev 1. The two additional options below are being implemented immediately:

- 1) Accounts may be established in the name of the REA for the benefit of the property.
- 2) A Deposit Control Agreement may be designed for use in specific locales (any such Agreement must be submitted through your OAHP closing coordinator for review and approval by OGC prior to its use).

IMPLEMENTATION:

REAs must establish rehab escrow accounts from this date forward using one of the four options approved by OAHP. REAs are not required to correct the titling on existing accounts that are compliant with the Funds Investment guidelines below.

FUNDS INVESTMENT

HUD's objective is that funds be invested in such a way as to protect the principal and earn interest. The REDA requires that funds be invested "... solely in obligations of, or fully guaranteed as to principal by, the United States of America." REAs have invested funds in a variety of ways, and the Ginnie Mae lenders faced conflicting guidance between the REDA and Ginnie Mae requirements. OAHP broadened its procedures by officially allowing Ginnie Mae lenders to follow Ginnie Mae 5500.3 Rev 1 in the same Resource Desk broadcast mentioned

above on May 26, 2006. Now OAHP is offering a similar option for investing funds to all its REAs. The following list summarizes the conforming escrow account investment options:

- (1) Direct obligations of the Federal Government Backed by the Full Faith and Credit of the United States. These include U.S. Treasury Bills, Notes, and Bonds.
- (2) Obligations of Federal Government Agencies. These include, for example, GinnieMae Mortgage-Backed Securities, GinnieMae Participation Bonds, and Farm Credit Administration issues. Specifically, AAA-Rated GNMA Collateralized Tax-Exempt Bonds and AAA-Rated Pre-Refunded Bonds are authorized.
- (3) Demand and Savings Deposits. Demand and savings deposits at commercial banks, mutual savings banks, savings and loan association, and credit unions are permitted, provided that the entire deposit is insured by the FDIC or National Credit Union Share Insurance Fund.
- (4) Insured Money Market Deposit Accounts. Investment in money market accounts is permitted, provided that the account is insured by one of the Federal agencies identified in #3 above.
- (5) Deposits at a financial institution in excess of \$100,000. Deposits at a financial institution pursuant to (3) and/or (4) above are permitted to exceed \$100,000, provided
 - The financial institution has an acceptable rating pursuant to the standards promulgated by GinnieMae in its handbook 5500.3 Rev.1, as those standards may change from time to time; and
 - The financial institution's GinnieMae rating must be monitored and documented quarterly; and
 - A separate deposit account must be established and maintained for each individual rehab escrow.

Acceptable ratings by GNMA are defined as:

- (1) *Thompson Bankwatch, C or better*
- (2) *Moody's, P-3 or better (short-term bank deposits)*
- (3) *Standard & Poor's, A-3 or better (short-term CDs)*
- (4) *If bank is rated by all 3, at least 2 of the ratings must be acceptable; if bank is rated by 2, then both of the ratings must be acceptable.*

If the financial institution is not rated by any of the agencies listed above, it must meet the minimally acceptable ratings from one of the following agencies:

- (5) *LACE Financial Corporation, C or Better*
- (6) *Cates Bank Rating Service, 3.5 or better*
- (7) *IDC Financial Publishing, 75 or better (Rank of Financial Ratio)*
- (8) *Highline Rating Service, 47 or better*

IMPLEMENTATION:

REAs must establish rehab escrow accounts from this date forward in accordance with this guidance. In addition, REAs must bring all active escrow accounts into compliance within thirty

(30) days of this notice. The account titling requirements provided above are applicable to any account being re-established to satisfy the investment requirements.

REAS electing to maintain deposit accounts in excess of \$ 100,000 must create and maintain permanent records certifying the acceptable rating of their depository institution, updated not less than quarterly, and evidence of which shall be provided to OAHP upon request.

NOTE: The REDA and applicable OPG sections have been updated to incorporate these new options and those revised documents are now in clearance. They will be published at the earliest possible date, however this policy is effective immediately.

Please contact Richard Daugherty with any questions, by email at [Richard P. Daugherty@HUD.GOV](mailto:Richard_P_Daugherty@HUD.GOV), or by phone at 212-542-7665.