
CHAPTER 26. GENERAL OPERATING RESERVE

SECTION 1. GENERAL

- 26-1. INTRODUCTION. The establishment and maintenance of a general operating reserve (GOR) fund is a program requirement applicable to cooperative housing projects insured by HUD. A cooperative housing project may have been insured under Section 213, which was authorized in 1950 under the National Housing Act, or, in later years, more commonly insured as a 221(d)(3), both market rate and BMIR, or 236 project.
- a. Purpose of the general operating reserve account: this accumulative reserve is intended to provide a measure of financial stability and may be used to finance the sale of memberships, to meet deficiencies arising from time to time as a result of delinquent payment by individual cooperators and other contingencies, and to provide funds for repurchase of membership of withdrawing members, etc.
 - b. The requirement for GOR funding for cooperative housing projects is separate and apart from other project-related financial obligations, including reserve fund for replacements. Though they are both considered funded reserves, the two serve very different purposes.
 - c. Please note that the general operating reserve is listed as a separate line item under "Reserves and Escrows" on the Management Review Questionnaire, form HUD-9834. See Chapter 6, entitled Project monitoring.

NOTE. HUD Handbook 4550.1, entitled Basic Cooperative Housing Insurance Handbook (1973), is a cross-reference guide to this Chapter. The reader should keep a copy of this manual handy in case there is a need for more detailed information, further technical direction, or if primary source materials, such as important legal documents and forms which outline specific obligations and requirements, incorporated in the Handbook as appendices, need to be reviewed.

26-2. ELIGIBILITY OF MORTGAGORS. The GOR funding requirement is imposed upon cooperative mortgagors of Section 213, Section 221 and Section 236 projects. For Section 213 eligible mortgagors must be a public or private mortgagor of: (1) a management project; (2) a sales project; (3) an investor project; or (4) an existing construction project. For sections 221 and 236 mortgagor entities must be a non-profit cooperative ownership housing corporation.

26-3. BACKGROUND INFORMATION.

- a. Residents are referred to as "members" (or subscribers) under a cooperative corporation ownership model, and they sign occupancy agreements instead of leases.
- b. An elected board of directors for the corporation has the prime responsibility of adopting an annual budget. Each member pays a proportionate share of the budget, which is an estimate by the board of the annual cost to operate the corporation.
- c. The assigned fees that members pay to the corporation under the operating budget are referred to in technical terms as "carrying charges" and are paid monthly. Carrying charges include but are not limited to:
 - o the amount of principal, interest, mortgage insurance premiums, if any, and other required payments on the insured mortgage (i.e., debt service payments);
 - o the amount of any taxes and assessments levied against the project;
 - o the cost of fire and extended coverage insurance on the project;
 - o the cost of furnishing water, electricity, heat, air conditioning, gas, garbage and trash collection and other utilities, if furnished by the corporation;
 - o all reserves set up by the board of directors, including the general operating reserve and reserve for replacements;

- o the estimated cost of repairs, maintenance and replacements of the project property;
 - o the cost of all operating expenses of the project and services furnished;
 - o the cost of necessary management and administration.
- d. The above breakdown should prove useful for general informational purposes. This way, when the GOR funding requirement, set at a flat percentage rate of carrying charges, is defined below in Section 2, the reader will have a better understanding of what costs are actually represented in the calculation.

SECTION 2. TECHNICAL REQUIREMENTS.

26-4. FUNDING REQUIREMENT. The Regulatory Agreement requires that, commencing with occupancy, monthly deposits must be made to the general operating reserve, in an amount equal to not less than 3 percent of the monthly amount otherwise chargeable to the regular members pursuant to their occupancy agreements. When the GOR account reaches 15 percent of the annual carrying charges, the monthly accrual rate may be reduced to 2 percent (provided that monthly deposits will be immediately restored to 3 percent in the event withdrawals from the account reduce it below the 15 percent accrual); and when the GOR account equals 25 percent of annual carrying charges, such monthly accruals may be discontinued until the account is reduced below 25 percent.

For example:

- a. If the annual carrying charges are \$2,000,000 as estimated by the board,
- b. then this amount divided by 12 gives the monthly total (sum of all individual members' contributions) of \$166,666.
- c. Thus, the funding requirement is set, initially, at 3 percent of the sum of monthly carrying charges for all members, so in this case monthly

deposits to the fund must be made in an amount of \$5,000 (.03 X \$166,666) until the accumulated reserve exceeds the thresholds specified above, in which case deposits may then be scaled back.

- 26-5. REPLACEMENT OF WITHDRAWALS. Disbursements totaling not in excess of 20 percent of the total balance in the reserve as of the close of the preceding annual period may be made by the cooperative without the approval of the Housing Management Division Director. Any disbursement in excess of this amount may be made only following approval of the Housing Management Division Director.

Provision must be made for replacing withdrawals with deposits during the next fiscal year (or in accordance with a previously approved repayment plan).

- a. Funds withdrawn from the reserve to meet cash deficits caused by delinquent carrying charges, or to finance the purchase of memberships or stock, shall be repaid on collection of the delinquencies or resale of the memberships or stock. The schedule of carrying charges for the next fiscal year must provide sufficient funds to replace all withdrawals for which reimbursement has not been made.
- b. However, when the reserve funds are used for capital improvements, the amount may be replenished by augmented monthly payments over a reasonable period of years.

- 26-6. ACCOUNT MAINTENANCE AND INVESTMENT. The general operating reserve will be maintained in a special account and may be in the form of a cash deposit or invested in the same manner as replacement reserve funds, except that the GOR account will be under the control of the mortgagor. HUD investment requirements for funded reserves and applicable conditions are discussed in Handbook 4350.4 entitled Insured Multifamily Mortgagee Servicing and Field Office Remote Monitoring, and Chapter 4 of this Handbook.