

**Multifamily Housing Family Self-Sufficiency Program**

**Webinar 4**

**A Deep Dive into Escrow Account Administration Roles &  
Responsibilities**

Chelsea Pennucci: Hi, everyone. We are going to get started. Can I just get a quick couple affirmations in the chat that you all can hear me okay? Great. Thanks, everybody. So hi, everyone. My name is Chelsea Pennucci. I think many of you know me. I work at Compass Working Capital. We hope that you all are doing as well as possible during what we realize remains a really difficult time for everyone right now, both personally and professionally.

We want to acknowledge that the COVID-19 pandemic, of course, remains at the forefront of everyone's lives. And also, just want to acknowledge the collective pain that I think we're all feeling as a nation right now with the racial injustice and violence currently taking place in our country. So we hope you all are finding ways to take care of yourself.

So after some delay, we are grateful to be with you all today on our fourth webinar, which is A Deep Dive Into Escrow Account Administration Roles and Responsibilities. Here with me today is my colleague Sandra Suarez. We also have Carissa Janis from HUD. And then, from Abt Associates, we have Lesley Freiman and Jeff Lubell, who will be presenting the presentation today. They will also be your technical assistance contacts specifically for ongoing support for your escrow-related TA questions.

So just a couple of housekeeping items before we get going. We have suggested some best practices for today's meeting to mitigate and prevent any audio issues. So please join the meeting usually the Call Me feature, and join the sessions individually rather than as a group, although I'm guessing that's probably not an issue right now since many folks are working remotely. And if you do have any issues, you can contact Jeanne Goodman, whose e-mail is on the slide.

During the webinar, everyone will be muted. So if you have a question, please use the Q&A box or the raise your hand button to get our attention, and we will make sure we get your question answered. We'll also pause at a few different points during the webinar to respond to questions that we receive.

So we also just want to say welcome back. So before we dive in, we're happy to be with you all again. It's been quite a while since we've been together on a webinar. And as we formally restart technical assistance, we just want to remind you of a few details and changes that we also shared via e-mail.

So as a reminder, we've updated our webinar schedule. Today's webinar is the fourth in our six-part series, of course, about escrow administration. And then, we have two other webinars, one on June 25th about preparing to launch, which will be focused on marketing and outreach, program policies, kind of really getting into the nitty-gritty of what you need to put in place to actually start enrolling folks. And then, the last webinar, on July 16th, will be focused on the actual FSS enrollment process and appointments.

As a reminder, we've also extended the technical assistance period through September 30th. This was originally only through the end of August. But because we were delayed for several weeks because of the pandemic, we've extended TA by a month. As you can imagine, we've also made the decision for site visits to now be virtual and as needed. So we will, of course, be in touch with you all and kind of checking in about how we can adapt these to continue to support you as

your launch your programs or prepare to launch your programs, but also, keeping everybody safe by not traveling.

And then, finally, as a reminder, individual TA really remains the same, and it's the primary way that Sandra and I will continue to engage with you all over the next few months. You also have this link, and we will continue to send it to you via e-mail. But this link that we've added to this slide is where you can book technical assistance sessions with the Compass team. That goes right to our calendar, and then we have our session with you. So just a reminder that that's available as well.

I'd also like to just bring us back to this slide that we've seen a few times before. We are on the fourth webinar, as I mentioned, of a six-session series. And you likely have already made a great deal of progress in Compass's online course. And I think every cohort member has had some level of one-on-one technical assistance with Compass.

So as we relaunch with you all, the majority of you are still working on your action plans. And as we get going again, that will really be a main focus of our work together. After this webinar, we also hope, of course, that you'll spend a good portion of your time setting up your escrow system. So those are kind of the two big pieces that we'll be pushing you on and talking about as we get going again.

Before I turn it over to Lesley, I just want to do a quick walk through the agenda as well. So in this webinar, we will talk first about just responsibilities for FSS escrow tracking disbursement and reporting. We'll also talk about the data you need to record at FSS program enrollment; actually how to calculate escrow, when and how; how to bill HUD for escrow funds; processing disbursements; auditing your escrow accounts; and then quarterly reporting to HUD. So that'll kind of round out our session today. So now, I am going to turn it over to Lesley to get us started.

Lesley Freiman: Thanks, Chelsea, and hello, everyone. Well, as you saw, we have plenty to discuss today. Before we get started, we want to understand a bit more about where everyone is coming from. Does anyone want to say a few words about what concerns you have about implementing escrow if you haven't done it before?

What challenges you've had if you've done this before in some context? And what you most hope to get from this and the other TA around escrow. So just raise your hands, and we'll unmute you if you're willing to speak on what your experiences or hopes are here. Or worries. Give it one more moment. Okay. If no one wants to share, that's fine too. There'll be plenty of opportunities to ask questions throughout the session. Thanks.

So Section 4E of the HUD notice 2608 covers the FSS escrow account. Here, we provide an overview of the responsibilities related to calculating and disbursing escrow. While we have divided these responsibilities into three categories corresponding to the responsibilities of FSS program operations, property management, and accounting, some owners or agents may allocate the responsibilities differently, so we realize that.

As I'm walking through these, try to think about what staff members you would have taken on these roles and what it would mean for them to take these roles alongside existing workloads or other tasks you have planned for them. We'll talk about FSS coordinator roles and property management roles first and then discuss accounting roles and combined roles in the next slide.

So roughly, we see FSS program operation roles, which might be completed by the FSS coordinator or supervisor as enrolling participants in FSS and setting up contracts of participation. Approving interim withdrawals if your FSS program allows these. And determining when a participant graduates and becomes entitled to the final escrow disbursement.

It is best practice for FSS program coordinators to discuss current escrow balances with participants regularly as they receive updates from accounting or management. The FSS coordinator will also likely be the one to explain how the escrow account works, in their first meeting with the participant. We have a few materials that have been uploaded to the TA portal. Among these, we have a participant-facing FAQ that your FSS coordinators or property staff can use to help explain how the account works to people who might be interested in the program and help make sure they understand it once they've joined.

For property management department responsibilities, these may include verifying program eligibility for interested residents, signing the contract of participating, annual and interim recertifications of income and calculating new total tenant payments, or TTP. Calculating the escrow amount at each interim and annual recertification. For this last one, calculating escrow, some owners may ask the accounting department to handle this.

It just depends a bit on how your organization is staffed and where this feels most comfortable. Management may generate and send regular reports on escrow accumulation and totals to participants, or this may be an accounting role. Note that the property must provide participants with these statements of their escrow totals at least annually. But it's best practice to do this quarterly or monthly to keep participants informed and motivated as they potentially gain escrow.

So accounting roles relating to FSS escrow management are a bit more extensive and will usually include the following. Making deposits of FSS escrow that accrues monthly into a single depository account that includes the escrow funds of all FSS participants. Tracking each resident's escrow balance. And listen, until your property management software can do this, we recommend keeping an escrow ledger that tracks the dates and amounts of all deposits in escrow depository accounts tied to household ID. This should enable you to calculate the escrow balance of each household. You also must prorate interest at least once a year.

Accounting conducts billing for escrow to HUD through owner/agent adjustment requests, or OARQ adjustments, including both project adjustments for the upcoming month and corrections to past OARQ adjustments using retroactive adjustments. Processing escrow withdrawals and disbursements from the accounts and escrow closeouts are also a responsibility of accounting.

For FSS participants, graduates, the escrow account close-out will coincide with the final disbursement, that final check. If they leave the program without graduating, under present rules, it will mean withdrawing the participant's forfeited escrow credit from the escrow bank account

and returning the funds to HUD via a negative OARQ adjustment. And we'll talk more about OARQ adjustments soon.

So there are also a few responsibilities that combine or cross over departmental roles. These include preparing quarterly reports to HUD and regular audits or reconciliations to make sure that your escrow amounts and billing are correct. Communication between staff, it's also part of this. To make accurate escrow deposits and accurate monthly escrow credits to each household, you'll need a process or a mechanism to routinely notify the person or people with these accounting roles when property management does a recertification with an FSS participant. So just making sure everyone stays informed if they have any place in this. This will allow you to make sure that monthly escrow accrual amount is updated if there have been any changes in monthly TTP or annual earned income.

Here are a few important considerations and best practices to keep in mind when managing the process. Each owner, property, or management group may have a different staffing arrangement. When the staff member implementing one step is not the same person who would record information or take an action on the next step, add a step to your process to notify the person who conducts the next action. For example, for the FSS escrow accounting process to work well, you must have a way for staff to enroll families in FSS and who do recertifications to communicate to accounting staff members that the family is in FSS and that there has been a recertification.

To do this, multiple staff members need to know who's in FSS. Written procedures can be particularly helpful. They will ensure that the roles of each person are clear at each step and will allow you to check that there are no gaps in responsibilities or communication from one step of the process to the next. And initial discussion and training for all staff members and occasional refreshers will increase your chances of a smooth, clear process where everyone knows their roles and responsibilities and how they relate to everyone else's.

Finally, it's a best practice to designate a single staff member with ultimate responsibility for tracking and reconciling FSS escrow and component information on a regular basis. Ideally, that would be monthly, but it's going to vary by the organization and how you're set up. This can help prevent errors and confusion where information would otherwise be lost. The staff member or team would be informed of all escrow-related actions by the people processing them. Now, Chelsea and Jeff will say a few words about the Yardi module, the beta module. I know folks may be interested in it as well if they're using Yardi.

Chelsea Pennucci: Great. Thanks, Lesley. We just wanted to say a quick word about Yardi's FSS module since many of you are Yardi users. As most of you know, I believe Yardi has an FSS module that they are currently willing to make available to members of this cohort upon request. So how does this module help you? This FSS module currently in Yardi enables you to track enrollment information and FSS participation directly within the property management software. It also lets you track monthly escrow credits within the software and makes it a bit easier to post the OARQ adjustment to the voucher each month.

What it doesn't do is actually calculate escrow for you. So unfortunately, that still needs to be done in an Excel spreadsheet right now. And that is available in the suite of materials that Lesley mentioned that's on the TA portal that Abt Associates runs for the cohort. So just another quick note on the Yardi module, that there is also a more updated version of this module that's quite a bit more robust than what exists currently, but it hasn't been released yet. It's being held up in a larger update of Yardi's 2.0.3.A system. And we're not quite sure when that's going to come out. It's been delayed a couple of times. But once it's released, Yardi users will have an even more complete way to track FSS information and calculate escrow within this property management software.

So I think we would just encourage you, if you haven't already and you are interested in using this module to track enrollment and escrow, reach out to your contact at Yardi. We can also talk through that on a TA call if you need some support there. But that's just a little bit on what the current Yardi FSS module does and how it might be helpful to you.

Jeff Lubell: This is Jeff Lubell. Just a little bit more about this. I spoke with Dave Kessler at Yardi about this. I know some people had tried to get access to the module and had trouble. And basically, the message I heard was that, in general, they would prefer that people wait until the new software becomes available.

The module will be more robust, and you won't have challenges copying over information from the old module to the new one. But given all of the delays that have gone on in terms of finalizing the 50059 specs that they really need to make that module available, he did say that he's willing to make the module available currently. But he would want to talk with you all first, just to make sure it's crystal clear about what it can do and what it can't do.

And he did emphasize that unless your systems are set up exactly the way POA does, it's going to be hard to copy over the information to the new module. And that they don't have the bandwidth right now to come up with a customization process for each individual PHA that might have a slightly different way of storing the information. So it's there. It's available. But you'd want to talk with Dave first before moving forward, and I'm happy to put you in touch with him if you don't have access to his information.

Lesley Freiman: Thank you, Jeff and Chelsea. If there are any questions at this point in the presentation, we're happy to take those now. There'll be other opportunities later if things come up as you're speaking. And I see that one question already came in on the chat. Vanessa East is concerned about finding a way to waive interest on the account for participants who cannot accept it for religious reasons.

Jeffrey Lubell: I think Vanessa asked specifically if there's a creative way to waive interest. Let me give you my thoughts about this. So I think it's important for a number of reasons to understand that the accrual of escrow on the books and records of the owner is not an asset of the resident. That money does not vest in the resident until it's disbursed.

And if they don't qualify for the disbursement, they don't get access to that money. So my view, at least, would be that if you all are accounting for interest payments on your books and records and

accruing it to that family, it's not awarding them any interest payment at that time because they have no vested interest. It's not an asset of theirs. It doesn't count for any federal programs until it's disbursed.

So the problem, I would argue, is at the time of disbursement rather than at the time of accrual. And I would say that one creative thing to do would be to simply say if somebody doesn't want to accept the interest payments, they could designate a charity and you could disburse to them 100 percent of their escrow, but do it -- give them a check for everything but the interest and give the interest to a charity of their choice.

Now, perhaps I'm wrong and it might be useful. Carissa, if you have a different view, we can unmute you. But that would be one way that I would suggest dealing with it.

Carissa Janis: I think what Jeff mentioned is a good solution.

Lesley Freiman: Great. Please raise hands or chime in on chat if that doesn't answer the question. I also see that Ruby Ramirez has written in to point out that their property does not use Yardi; they use RealPage. To our knowledge, at the moment, there's no other software that's providing an enhanced module like this or has one directly in the works.

Jeffrey Lubell: When the new specs go into effect, the new 50059 standards, I would imagine that all of the groups would have an FSS module. So the problem has been that it's taken a long time to get those specifications completed. And then, there's a lag after the specs are completed and before the software is available.

So I don't know if anyone has an update on whether the 50059 specs have been finalized, but even after they've been finalized, there's three to six months to kind of get the application together and get it out and get it tested and into play in all of the different housing authorities. But I would imagine eventually that RealPage would have a module as well.

Lesley Freiman: I'm not seeing any more questions. As you said, folks will have the opportunity to ask more questions. Later, at any point during questions, feel free to raise your hand to be unmuted to say them verbally. I'm now going to hand it over to my colleague Jeff to talk about the next piece.

Jeffrey Lubell: I'm going to talk now about the process of calculating escrow. The first thing that will be important will be to make sure that you are recording the baseline information on the contract of participation. There are three items that you're required to list on the contract. One is the total tenant payment. A second is the annual earning. And the third is the annual income. And the first two are part of the calculation for FSS escrow. So once the CoP is completed, you'll want to, in addition, update the books and records that you have in your system, so whether that's through using a module that's automated or, if not, hopefully you have an Excel system that is supporting you. You'd want to note their FSS enrollment status, the effective date of enrollment, and the TTP and annual earned income as of the date of FSS enrollment. And I'll walk through in a second just how that plays into the calculation.

For those who have escrow, the credit accrues monthly. But you only need to calculate the amount of the credit once there's been a recertification. So there is no escrow credit that accrues once somebody signs up. There's no credit until there is an increase in both the TTP and the annual earned income that is recognized as part of an annual or interim recertification. So you won't need to calculate it right away, but you will need to calculate it once they come in for an interim or interim recertification.

Now, it's a best practice to calculate a new escrow worksheet every time someone comes in for a recertification. And the reason is that basically regularizes the process so that every time someone is an FSS participant, they come in, there's a recertification, I make them do an escrow worksheet.

You don't have to sort of decide when do you do it, when do you not do it. But in terms of what's required, you need to calculate a new escrow worksheet whenever there's been a change in their annual adjusted income or their earnings. Because both of those things could adjust the escrow credit. So I'd recommend you follow the best practice and just prepare one of these worksheets every time someone on FSS has a recertification.

Now, a couple things you'll need to calculate the monthly escrow credit. You'll need that information that we talked about on the contract of participation. That's their TTP and annual earned income as of enrollment. And just to remind you, you don't have to go and do a new recertification of income once somebody signs up for FSS.

What you're doing is pulling the information from the most recent 50059 that's on file. So then, in order to calculate the escrow, you'll need the new information from the new form 50059, including the TTP, the annual earned income and annual adjusted income amount, the effective date of their recertification, and also the low-income and very low-income limits for the household size.

So I'm going to walk through an example here, pull up the escrow calculator, but this just gives you a general sense. The example, this is an individual, Jane, who started with annual earned income of \$10,000 and now as a annual earning of \$25,000. So there's been an increase in earned income and her TTP has also increased. So now, we need to figure out what is the right amount of the escrow for that person. So I'm just going to share this and see if I can make this work here. It's not Clara. It's Jane. We have the two pieces of information from the contract of participation.

So her baseline TTP was \$300 and her annual earned income was \$10,000 a year. Now, her current monthly TTP is \$800, so there's been a \$500 increase in her TTP. And there's been a \$15,000 a year increase in her annual earned income. She's now making \$25,000. She does have some income that is not earned, so her current adjusted annual income is \$32,000. The low-income limit, that's the 80 percent of AMI, is \$80,000. The very low-income limit, that's 50 percent of AMI, is \$50,000. And the current gross rent is \$900 for that unit.

So you put that information in and the spreadsheet will calculate this at the bottom here. So we see, as we mentioned, her rent has gone up by \$500. Her earned income has gone up by \$15,000 a year. And 30 percent of that on a monthly basis is \$375. And basically, as a general rule, the

credit is the lower of A or C. So it's the lower of \$500 or \$375. And that, you see in row D, it calculates the preliminary escrow credit at \$375.

Now, there is a check here, which is to say that the monthly escrow credit cannot exceed the gross rent minus the baseline monthly rent. That should basically never go into effect because, in most cases, I believe somebody in that situation would no longer be eligible for project-based Section 8 assistance. But it's there just to make sure that we don't give them more than they're entitled to.

And there's also if your income exceeds 50 percent of the AMI, there's an adjustment that's made, and that adjustment is made in this column F. And if you're above 80 percent of AMI, you're not eligible for any escrow at all. And so, if you were above that limit, this would say no, and then that would be zero. But since neither F or G apply, the final escrow credit is the lower of the \$375 or the \$500, or \$375. So that's basically how it works.

We recommend that you save this spreadsheet each time you calculate it so you have a record in your files of that calculation. And also, next time, it will save you the trouble of having to reenter some of the information, such as the baseline information, when you next have to update that household.

So that's the spreadsheet. And we are now at the point where I would be happy to take any questions that you post to the chat box. Or if you'd like to be unmuted and you want to raise your hand, please do so. Questions? Jeanne, there are a number of people who have exclamation points next to their names. Is that different from their hand being up?

Lesley Freiman: That's different.

Jeanne Goodman: That is different.

Jeffrey Lubell: Great. Last chance. If you have any questions, you can always just put them in a chat box, and we'll get around to answering them when we pause again.

Chelsea Pennucci: We have Erik and you're unmuted.

Erik Rodriguez-Palacios: Hi, there. I have a question. So I currently work for a public housing authority where we do the traditional FSS program for public housing authorities. And we've partnered with one of the multifamily agencies to run the program. So I have a question to see how it applies to multifamily FSS. If the client, say for example, had an interim calculation June 1st and they signed up to join today, which is June 4th, and they had their annual certification July 1st, what baseline information would you use? Would you use what's effective June 1st or July 1st?

Jeffrey Lubell: Just to be clear. They had their recert on June 1st? It's not effective until July 1st; is that right?

Erik Rodriguez-Palacios: No. It's possible to have an interim June 1st with a specific income calculation that is specific to June, but then, they have their annual July 1st. If they sign their contract today, the contract would be effective July 1st; correct? Based on the information we use. So if they signed the contract today, on June 4th, we would use the June 1st information. And say for example, their income was higher July 1st than it is June 1st, would they accrue escrow July 1, or no?

Jeffrey Lubell: I'm going to have to defer to one of my colleagues here. But in general, my understanding is it can't accrue escrow right away. That you have to experience an increase above the baseline. But is an interesting question about that particular situation. Carissa or Chelsea, do you have an answer?

Chelsea Pennucci: My understanding is that in that situation, you would need to use the July 1st annual recertification on the contract. Which would mean that then, they would need to have an additional increase to raise their income over that baseline level to start escrowing. If, for example, someone signed the contract on May 25th, you could use the June 1st interim recertification information on the contract. And then, if they had a recertification July 1st, they would start escrowing the next month.

But Jeff is right that you can't escrow the first month during the program, but the second month, you can, once you've had another recertification.

Erik Rodriguez-Palacios: Perfect. Yeah. That's what I was looking for.

Jeffrey Lubell: We should amend the guidance to make it clear that the information on the baseline is the information that is effective as of the date of the effective date of the contract, which, as we talked about in prior webinars, is always the first of the month after it's signed. Any other questions? I'm going to pass, then, the baton back to Lesley here.

Lesley Freiman: Thank you. We've talked a little bit about calculating the escrow accrued. To fund the escrow account, you'll need to bill the escrow credit amount to HUD. So to do this, you'll submit an owner/agent request, or as I said, an OARQ adjustment, to your HAP voucher. This will reimburse you for deposits to escrow accounts. So you must submit an adjustment for each FSS participant who is accruing any FSS escrow savings during the billing month.

Note that OARQ adjustments will not always equal the amount deposited in escrow each month. For example, because of adjustments to later payments and maybe not correspond to total escrow amounts, for example because of interim withdrawals or interest, you'll want to track escrow deposits and withdrawals separately in the FSS escrow ledger, just so you know what's happening when and what's ingoing and outgoing for the family. You'll need to update the monthly OARQ adjustment every time the participant's escrow changes. And depending on your procedures in place, may need to proactively check each month to make sure that the TPP and annual earned income haven't changed.

After the recertification for an FSS escrow account, escrow participants update their escrow amount, and document this new amount in your system so that you can keep track of monthly

escrow accruals in your escrow ledger and make sure the monthly OARQ adjustment is accurate. Processing increases and decreases in monthly escrow credit for OARQ adjustments when participant's earnings increases or decreases can look a bit different. Increases in escrow are prospective. They require 30 days' notice. So you will usually have enough time to modify the OARQ adjustment for the first effective month. Decreases in escrow are a bit different since there's no requirement for notice before a rent decrease goes into effect. You may, therefore, already have submitted the OARQ adjustment for the first effective month. In which case, you may need to submit a retrospective OARQ adjustment for that month.

You will want to double check to make sure the escrow ledger and deposit to the bank account accurately reflected new amounts as well if there's been a change. Depending on the timing of when you make escrow deposits, you may need to make retroactive changes to the month's deposits as well to ensure the account has the correct amount of funds with associated changes to the escrow ledger.

In addition to the amount, there's specific information that needs to be included in all OARQ adjustments submitted to HUD. So this is all FSS OARQ adjustments must indicate the voucher month and year for the escrow credit, the unit number, head of household last name, and the words FSS participant in the comment section so that they know that's what the adjustment's for.

OARQ adjustments can be positive or negative, as I said. Positive OARQ adjustment is an additional cost applied to the bill, such as a deposit into the escrow account on behalf of the participating family. And negative adjustment usually used either as correction, where the escrow amount should have been lower than what was submitted for the previous month's adjustment, or to return funds to HUD when a household exits the program without graduating and forfeits escrow and savings.

Also, we discussed a bit on the last slide OARQ adjustments can be prospective or retroactive. Prospective adjustments are what you will have most of the time. These are adjustments made prospectively corresponding to the upcoming billing month for the HAP voucher. Retroactive adjustments applies specifically to changes or fixes in adjustments. If you make an OARQ adjustment that turns out to be inaccurate, you'll need to make a retroactive adjustment to fix it. If you have a prospective and retrospective adjustment for the same household, you'll file two separate adjustments.

So here's an example. A household participating in FSS started FSS with an earned income of \$500 a month. But at the last recert, the head of household got a better job with more hours and their earned income shot up to \$1,500 a month. They've been accruing \$300 per month in escrow and you've already filed a \$300 OARQ adjustment for the upcoming month. The household then comes in for a recert, and you determine that they are now earning a little bit less, \$1,250 per month, rather than \$1,500.

So the rent and escrow amount will now be lower. You calculate the new escrow amount as \$225 per month, which you could do using the calculation sheet. You'll need to file a retroactive adjustment in the next month's filing for negative \$75 to adjust the March FSS escrow balance, plus a separate prospective adjustment for \$225 for their April escrow balance. So they still will

be earning escrow in the coming month, it will just be less. Separate OARQ adjustments will allow HUD to see clearly what amount applies each month and may make it easier for your staff to track as well.

A few things to consider in that example. Negative retroactive adjustments are probably the most common place where an error is introduced. To prevent errors, make sure there are procedures in place to ensure that the right amount is deposited in the escrow account for the month with the excess OARQ adjustment, in this case, \$225. Or if the higher amount, \$300, has already been deposited for that month, withdraw the excess amount of \$75 and update the escrow ledger immediately so that you are tracking the correct amount of escrow deposited for that household. Then, to be sure to update the OARQ adjustment amount and escrow deposit amounts in your system going forward. So just make sure the old numbers aren't going forward, the new numbers are.

And tracking both of these is particularly important, just because you need to track them for your own accounting and billing reasons, but also, participants are understandably interested in how much they're earning. And it's better to have a correct amount to maintain trust and motivation. At this point, are there any questions on HUD billing? Please, just raise your hand or type comments if there are.

Anne Vinick: Hi. This is Anne from The Community Builders. We actually have an FSS program right now, and the escrow calculator is extremely important in helping to determine what the escrow amount is. Sometimes what we struggle with is trying to explain how escrow works to participants or potential participants. And I'm wondering if there's any tools or language out there, maybe in the portal, that could help us with that's not related to the billing.

Lesley Freiman: Not related to the billing but related just to explaining it to participants?

Anne Vinick: Yeah.

Lesley Freiman: We have a one-page participant-facing FAQ up on the portal now. And that, hopefully, will help explain some of the more common things that come up with participants. Of course, feel free to give us any feedback on that if think about it, but we're hoping that's helpful.

Anne Vinick: Thank you.

Chelsea Pennucci: This is Chelsea and I also just want to jump in – Anne, I know we worked together on the launch of your first FSS program. And, of course, as you probably remember, this is something that encompasses also thinking about constantly how do we better explain escrow to families? I think that's a place where we can also be helpful in some of our individual TA with you all, is just continuing to share what we're learning on our end and how our coaches are approaching it. And then, also just brainstorming ideas for how to explain how the escrow mechanism works because it is a little bit tricky. But I agree with Lesley. This other document that Abt created might also be helpful in making progress on that.

Anne Vinick: Great.

Lesley Freiman: Any other questions? Give it one more minute to see if there are any questions on billing. And if not, we'll move on. And of course, you'll have time to ask questions at the end as well. Erik Rodriguez-Palacios, you still have a raised hand and I don't know if that's raised from before or if that's new. I think it was from before. In that case, we'll move on for the moment. Processing disbursement is one part of the escrow management process as well. In addition to final disbursements, when participants graduate, multifamily FSS programs may also allow interim disbursements to help participants meet their goals.

For example, by paying to get a car fixed to get to a job or money to help start or boost a business. My colleagues have already talked a bit about why you may want to allow interim disbursements, in previous webinars. So here, we'll just be talking about how to process them. And of course, if you want to talk about how to make an appropriate interim disbursement process and why they're helpful, TA discussions can also help with that.

For the FSS, first, the FSS coordinator receives the request for an interim disbursement, reviews the request, and makes a recommendation of whether to approve it as part of this process. You'll need to verify the available escrow balance for the family making the request to make sure there's enough in the account.

If the property allows the FSS coordinator to approve the request on his or her own, then the request is forwarded to the property management or accounting department for processing. If the property requires approval of the request by the FSS supervisor or someone else, that would need to happen first. The account manager then withdraws the disbursement amount from the escrow bank account and notes the withdrawal as a negative amount in the escrow ledger.

The ledger should show which family withdrawal is for and should ideally identify whether the withdrawal is an interim or a final withdrawal. Accounting then issues a check to the tenant in line with your interim disbursement policy. You do not need to file an OARQ adjustment for interim disbursements, but you will need to note the interim disbursement in quarterly reporting to HUD. So more on that reporting in a moment.

Once the accounting staff receives confirmation that the FSS participant is graduating, they will start processing the final disbursement of all remaining funds in the FSS escrow account attributable to the graduating participant. At this final disbursement, HUD allows but does not require owners to deduct money owed to the property. This is only allowed at the final disbursement, not during program participation. So money can't be deducted from the escrow ... point, but there, if needed, it can. It's in your policy it can.

To prepare for the final withdrawal and closing the FSS participant's record in the ledger, the accounting department will reconcile or audit the account to ensure that the amount in the ledger is accurate. More on audits in a moment as well. The accounting department will withdraw the final disbursement amount from the escrow account, issuing a check to the participant, and mark on the ledger that the participant has graduated and is not accumulating any more escrow or interest. Accounting will notify appropriate staff members that the participant has graduated and

mark the participant as graduated from FSS in any system where it is noted that the participant is participating in FSS.

The manager should also ensure that no more OARQ adjustments or escrow account deposits are made for the graduating household. FSS programs will also need to close out ledger entries in FSS escrow accounting for households that exit the FSS program without graduating.

Sometimes, a household will withdraw or be terminated from FSS without graduating and will have accumulated the escrow savings. Households who leave FSS without graduating forfeit their escrow funds. Instead of withdrawing the final balance of the escrow account and providing it to the participant, the owner must return the non-graduating participants' escrowed funds to HUD through a negative OARQ adjustment on the monthly HAP voucher.

The adjustment must equal the total escrow balance as reported in the most recent quarterly report, plus any escrow accumulated since then. This is under current rules. Once HUD implements legislative changes that have been made into the programs, owners will be able to use forfeited escrow for programming that benefits existing FSS participants, but that's not in the current rules that have been implemented.

In some ways, the rest of the process is similar to processing graduation disbursements. The accounting department will withdraw the final amount covered by the OARQ adjustment from the escrow account and mark on the ledger that the participant has left the FSS program and is not accumulating any more escrow or interest.

Accounting will notify appropriate staff members that the participant has left the program and mark the participant as exited from FSS in any system where it's noted that they were participating. Accounting should also ensure that no more OARQ adjustments or escrow account deposits are made for the exited household, as they're no longer in the program.

A bit on auditing escrow accounts. Why is it important to reconcile accounts? This process has a lot of moving parts, and it's easy to lose track of a billing or escrow transaction or have an incorrect idea of how much escrow a participant has earned. Regular reconciling helps ensure that escrow account deposits in billing to HUD are accurate and up to date and that staff are prepared for a HUD audit of records and documents.

Accurate reconciled information on escrow balances will help build participant trust and understanding and allow the program to use escrow accumulation as a way to keep participants' goals top of mind and continue to work towards maintaining and increasing earnings. Inaccurate escrow calculations can erode trust and keep the participants from understanding FSS as a legitimate and consistent program.

So this is particularly important. As Anne mentioned, participants can be a little bit confused about how the escrow accumulates, so this is a common point of confusion. It will ensure that the program is able to efficiently close out ledgers when participants graduate and distribute their funds.

So when to do it. We recommend at least quarterly to ensure that quarterly reporting to HUD is accurate. More frequent auditing and reconciliation, for example monthly, can help ensure that information provided to participants on their escrow account balance is up to date and can limit the need for corrections and OARQ adjustments but may increase administrative burden, depending on the property's accounting processes. There should be a leader for this process of auditing, like in reconciliation, likely a staff member in accounting.

Accounting may be able to conduct most auditing itself, given access to recertification records. The process will mean checking the transactions and totals to make sure there are no discrepancies and find out and correct any errors. In cases where the balances, they find, don't match what other departments are sharing with participants, accounting will have to work through records together with property management and/or the FSS coordinator to find the discrepancy.

So owners must file a quarterly report to HUD for review and approval for each calendar year of the quarter in which they are operating the FSS program within 30 days after the quarter ends. The quarterly report spreadsheet must include information on all FSS families with an active FSS contract of participation, FSS families who have graduated and have completed contracts of participation and FSS families that have a terminated contract of participation. For each family, the owner must include household and contract of participation information and FSS status, employment and benefits, public and private services provided, and escrow data including monthly escrow accruals and total escrow amounts.

You'll submit this through the Excel-based HUD FSS reporting tool, which is in Attachment D of the notice. We'll go through the full form in a moment, just to give you a sense of it. In addition to quarterly reporting, HUD will also monitor progress of the FSS program through submission of data collected by the owner from the participants at required income reexaminations.

Those form 5059 recertifications. HUD also requires the owner retains certain documents for HUD. These include an approved action plan for the term of an active FSS program plus three years, executed contracts of participation for both current and former participants for the term of tenancy plus three years, and up to date FSS participant tenant files with current income and escrow data.

Owners must retain all supporting tenant documentation related to FSS participation for the term of tenancy plus three years. You'll also need to retain comparable salary information and current payroll records for FSS program coordinators paid with residual receipts, for three years. And these records can be electronic; they don't have to be original paper versions.

Now, we'll walk through the FSS reporting tool quickly, just to give you a sense of it. And this is available on the website as Attachment D of the notice 2016-08. So this is what the form looks like. I don't know how many of you have gotten a chance to look at it before. So it has the information for each household, including unit number, head of household, and some information about their status in the program and their experiences in the program.

But for escrow, it has outcomes information, information on whether the contract participation was terminated and if so the reasons, but then also, up to date escrow information, which includes the escrow accrued month and then the corresponding voucher month. The corresponding voucher months will be the same for each participant. It'll just be how it works in your system, and it'll be a drop-down of the month there.

So you have that for all of the applicable months. You put in, here as well, and any comments you have. The reporting tool also has an instructions tab and it will produce a summary of the information in the final tab automatically. So that's the tool itself, and you submit that every quarter.

Now, we've come to the end of the webinar-presented material. We'll now take any questions on processing escrow accounts, auditing, and quarterly reporter, or anything that we haven't gotten to and questions from earlier topics. So, please, I see that there are a couple of questions in the comment box, but also, please raise your hands if you have a question, or feel free to type additional questions in the comment box.

Looks like Kristen Lucas has asked, "What are some reasons why the property could deduct money from a participant's account?" And this is referring to when they're making the final escrow disbursement, if the participant owes money to the property, they could deduct it from that at that point. I'm not sure if any of my colleagues want to take this one.

Chelsea Pennucci: There aren't very many. So it's broadly if the participant owes money to the property. It doesn't happen all that often. But for example, if the participant owes a little bit of back rent or maybe there's some property damage that they're also paying off or they're in a repayment agreement or something like that, that could be something that you could take out of escrow before you issue the final disbursement.

Lesley Freiman: Any more questions? As a reminder, to raise your hand, click on the participants icon, person with three lines on the shoulder. In the bottom right corner of the pane is a hand icon, and you click on the hand there if you want to speak. Okay. There are no more questions at this moment. And of course, there'll be opportunities to ask questions throughout TA. I'll go on to what the materials and resources available are.

There's several resources available that may help. For one thing, these slides may be a reference that you can use, and these will be posted to the TA portal. In addition, we posted on the TA portal several escrow materials specific for multifamily properties. So these include a multifamily escrow resource guide, which describes the materials available, including ones beyond the ones we've produced. Escrow accounting and reporting basis primer. An OARQ adjustments basics primer, to get a sense of that. Monthly escrow calculation worksheet, which you saw an example of that on the TA portal. Sample escrow tracker template that you can use to track enrollment and escrow accrual. Participant-facing escrow FAQ, which is that document that Anne asked about. Common challenges in escrow accounting, because there are several challenges that have come up as people have run this program, and that document is an example of some of those challenges and how to avoid them. And if you encounter them, how to address them.

In addition, we've provided an FSS escrow case study, which we'll just walk you through some of the examples of how the escrow can work, including some that are not quite as straightforward. In addition, there's the notice itself, and that Attachment D is the FSS reporting tool here. So those are the materials available. And I see we have a question.

So Lynn Walsh asks, "If a resident does not graduate and they lose their escrow, they technically are not out of any money; correct?" They're just making sure they're not risking anything. I'm not sure I understand it. That money in the escrow account is money that's accrued on their behalf. So they may feel like they are losing it. They're losing the chance to keep that savings. But it's not cash-in-hand. They haven't lost something that they had on hand.

Jeff Lubell: Just to be clear, the family is not paying any different rent when they're in FSS than they were before. So if they were not in FSS, that money would not have accrued, and they would have paid the same rent. So if that's what you're asking, is that they certainly have not paid any extra rent that they are now losing. It's just they're losing the benefit of the ability to get the benefit of the escrow.

Chelsea Pennucci: I'll also just add there, sometimes we get a question about when a family takes an interim disbursement during the program and then leaves the program for whatever reason, whether or not they have to pay that money back. And the answer's no. That's in the HUD regulations. That's actually not something that you can decide. So if someone takes interim disbursement and for whatever reason they don't graduate, whatever is the remainder of their escrow balance will get remitted back to HUD, but they don't owe anything to the property.

Lesley Freiman: I think, hold on, I am going to we're going to actually pass this back to Chelsea for the final slide.

Chelsea Pennucci: Great. Thanks, Lesley. We're going to talk a little bit about just next steps and homework. So please take some time to review the escrow materials on the TA portal. Lesley just went over them, and as you can see, there are a lot of resources that we hope will be really helpful to you. And then, get back in touch with Compass to schedule your next TA meeting. We shared the link earlier in the webinar and hopefully you have it. We'll also follow up via e-mail about TA meetings in the coming weeks.

But we want to reconnect with you and continue to work on your action plans or progress even further if that's already something you've done. And then, of course, this next point, continue or complete your action plan. If it hasn't already been submitted to HUD, that's really the next big step for a lot of folks.

If you do have specific questions related to escrow account administration, you can be in touch with Jeff, and his e-mail address is here on this slide. And then, we just encourage you to generally, as you sink back into the FSS world after several weeks out of it and continue to make progress on launching your program, we just recommend that you keep reviewing the FSS resources that we have on the TA portal. Maybe go back and watch webinar three again.

That's where we do a deep dive into FSS rules and regulations. And just be on the HUD Exchange building your program knowledge. And continue to ask us questions about the program, of course, but the more you can kind of learn before you launch the program, I think the better the program will be for you and for your participants. So that's the next steps we have in mind, and we can hang on for a couple more seconds if anyone wants to throw a last question in the chat. But otherwise, we'll wrap up.

Okay. Great. Well, thanks, everyone, for joining today. We're really looking forward to reconnecting with you, and we hope you all stay safe and well. Have a good one.

Jeffery Lubell: Thank you.

(END)