

**Escrow Agreement  
For Operating Deficits**

**U.S. Department of Housing  
and Urban Development**  
Office of Housing

OMB Approval No. 0000-0000  
(Exp. 00/00/00)

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**This ESCROW AGREEMENT FOR OPERATING DEFICITS** made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between \_\_\_\_\_, (**Lender**), whose principal address is \_\_\_\_\_, and \_\_\_\_\_, (**Borrower**), whose principal address is \_\_\_\_\_, [and if applicable, \_\_\_\_\_ (**Depository Institution**), whose principal address is \_\_\_\_\_,] (**Agreement**), in connection with HUD Project No. \_\_\_\_\_, located in the City/County of \_\_\_\_\_, State of \_\_\_\_\_, which Project [has been, is being, or will be] [constructed, rehabilitated, purchased or refinanced] from the proceeds of a Loan insured by HUD and made by Lender. (The definition of any capitalized term or word used herein can be found in this Escrow Agreement for Operating Deficits, the Regulatory Agreement between Borrower and HUD, the Note, and/or the Security Instrument.)

**RECITALS:**

- A. HUD has issued a firm commitment to insure said Loan pursuant to § \_\_\_\_\_ of the National Housing Act, as amended, and Program Obligations, on which mortgage insurance Borrower is relying for financing of the Project.
- B. The HUD firm commitment is conditioned upon assurance that additional funds be made available for Project purposes, primarily for the absorption of any deficits resulting from the operation of the Project during the initial period of occupancy.

**AGREEMENT:**

In consideration of the mutual promises and undertakings contained herein, and for the purpose of inducing the Lender to make and HUD to insure said Loan, the parties acknowledge and agree as follows:

1. At or before initial endorsement of the Note by HUD for mortgage insurance, in accordance with Program Obligations Borrower shall deposit, or has caused to be deposited with Lender or subject to the control and order of Lender with a depository

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institution satisfactory to Lender, the sum of \$\_\_\_\_\_ (Escrow). If the Project is insured pursuant to § 223(f) of the National Housing Act, and if Program Obligations so require, the amount of the Escrow shall include a debt service reserve in the amount \$\_\_\_\_\_, equal to four (4) months principal, interest, and mortgage insurance premium (**Debt Service Reserve**).

2. It is agreed that the Lender at all times shall control the Escrow, and that the funds in the Escrow may be released or allocated for the purposes indicated in this Agreement and for no other purpose without the prior written approval of HUD. The Escrow shall take the form of [*specify as applicable*]:

- cash, and/or
- one or more unconditional, irrevocable letter(s) of credit issued to Lender by a banking institution, attached hereto as Exhibit "A". The rating of the issuing banking institution and the duration of such letter(s) of credit shall comply with Program Obligations.

3. Disbursements from the Escrow may be authorized monthly with written HUD approval to meet any Cash Deficit in the operation of the Project for the time frame set forth in the following paragraph. The term "**Cash Deficit**" means the shortfall between Rents and Reasonable Operating Expenses.

4. Any unused balance remaining in the Escrow will be released at Lender's request and returned to Borrower at the later of twelve (12) months after final endorsement or when the Project has demonstrated to HUD's satisfaction that the Project has achieved six (6) consecutive months of Break-Even Occupancy; except unused funds in the Escrow attributable to the Debt Service Reserve, if applicable, will be released once the Project has achieved six (6) consecutive months of Break-Even Occupancy. Break-Even Occupancy is defined as 1.0 debt service coverage, based on all sources of Project income including ancillary income.

5. The Escrow, when in the form of cash, shall be held by Lender or a depository institution satisfactory to the Lender and in accordance with Program Obligations, in an account that is fully insured by the United States of America. Lender may, for purposes of this Agreement, draw upon any letter of credit included in the Escrow and convert the same to cash, which cash shall then be held and disbursed pursuant to the terms of this Agreement. Any interest earned on the Escrow shall accrue to the account of Borrower.

6. The Escrow shall, at HUD's direction, be subject to immediate application to the Indebtedness in the Event of Default by Borrower under the Security Instrument at any time.

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Each signatory below hereby certifies that each of their statements and representations contained in this Agreement and all their supporting documentation thereto are true, accurate, and complete. This Agreement has been made, presented, and delivered for the purpose of influencing an official action of HUD in insuring the Loan, and may be relied upon by HUD as a true statement of the facts contained therein.

IN WITNESS WHEREOF, the parties have duly executed this Escrow Agreement for Operating Deficits as of the day and year first above written.

BORROWER:

LENDER:

\_\_\_\_\_

\_\_\_\_\_

By \_\_\_\_\_

By \_\_\_\_\_

\_\_\_\_\_  
Name and Title

\_\_\_\_\_  
Name and Title

DEPOSITORY INSTITUTION:

\_\_\_\_\_

By \_\_\_\_\_

\_\_\_\_\_  
Name and Title

Attachment: Exhibit "A"

**Warning:**

**Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of the U.S. Department of Housing and Urban Development is subject to criminal penalties, civil liability, and administrative sanctions.**

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EXHIBIT "A"

Form of Letter of Credit

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