

MORTGAGE RESERVE FUND AGREEMENT

This MORTGAGE RESERVE FUND AGREEMENT (this “**Agreement**”) to provide reserve funds, entered into as of this ___ day of _____ 2007, between **XYZ HOSPITAL** whose address is [Street, City, State, Zip], (hereinafter referred to as “**Mortgagor**”), and the **UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (“HUD”)**.

The terms of this Agreement are based on that certain Regulatory Agreement of even date herewith between Mortgagor and HUD requiring the establishment of reserve funds and are as follows:

1. Mortgagor shall establish a Mortgage Reserve Fund (“**MRF**”) as a trust fund with the Mortgagee (defined below) or a banking institution acceptable to HUD (the “**Trustee**”) in accordance with the attached MRF schedule dated [Month, Day, Year] (the “**MRF Schedule**”). The trust account shall contain the following wording: "The Mortgage Reserve Fund for [XYZ Hospital] in Trust for the Department of Housing and Urban Development." In addition, the MRF Trust Fund Agreement (the “**MRF Trust Fund Agreement**”) shall be entered into by Mortgagor, the Trustee, and HUD, and shall reference this Agreement and shall specifically include the following requirements:
 - a. The MRF Trust Fund Agreement shall not permit cancellation or termination nor may monies and securities in the MRF be transferred to another account or entity without the prior written consent of HUD.
 - b. In the event of a deterioration in performance of Mortgagor, monies and securities held under the MRF Trust Fund Agreement may be directed by HUD to supplement or fully satisfy the payment of a management consultant(s) to prevent a default with respect to the Mortgage Loan (as defined in the MRF Trust Fund Agreement) or to implement a turnaround plan with respect to the Mortgagor.
 - c. In the event Mortgagor is unable to make a payment on that certain [Mortgage] [Deed of Trust] Note of even date herewith (the “**Note**”), given by Mortgagor, payable to [NAME OF MORTGAGEE] (the “**Mortgagee**”) and insured by HUD, HUD is authorized to instruct the Mortgagee to order the Trustee to withdraw funds from the MRF to be applied to the payment due on the Note in order to prevent or cure a financial default on the Note. In addition, in the event of a default in the terms of the Mortgage that secured the Note (the “**Mortgage**”), pursuant to which the Mortgage and the Note have been assigned to HUD, HUD may apply or authorize the application of the balance in the MRF as a recovery against insurance benefits paid by HUD.
 - d. HUD shall be a signatory to the MRF Trust Fund Agreement.
 - e. The Trustee for the MRF Trust fund Agreement will notify HUD, Mortgagee, and Mortgagor within 30 days of the close of each fiscal year of Mortgagor if

the MRF is not in compliance with the MRF Schedule. Valuation of the MRF shall be at market.

- f. Mortgagor shall make no withdrawals that reduce the MRF balance below the amount shown in the MRF Schedule without prior approval of HUD.
2. At Initial Endorsement of the Note by HUD, Mortgagor shall place the MRF in the trust. The terms of both the MRF and the MRF Trust Fund Agreement shall be approved by HUD. Such trust shall be held by the Mortgagee or a banking institution acceptable to HUD.
3. Funding of the MRF shall begin in accordance with the MRF Schedule. Deposits to the MRF shall be made [quarterly] [or monthly]¹ on a pro rata basis (including any agreed-upon arrearage) in order to achieve the fiscal year-end balances reflected in the MRF Schedule.
4. If the MRF fund balance is less than the required amount at the end of any fiscal year, because the actual interest earned on the MRF is less than that projected in the MRF Schedule or because of market fluctuations in the value of the investments, Mortgagor shall bring the fund balance current within 60 days of the end of the fiscal year by not withdrawing investment income and, if needed, by making a supplemental contribution to the MRF.
5. Monies deposited by Mortgagor to the credit of the MRF account must be invested in: 1) interest bearing securities insured by an Agency of the United States Government or in direct obligations of the United States Government, or in obligations for which the principal and interest are guaranteed by the United States Government, or instruments of United States Government agencies such as the Federal Home Loan Bank or the Federal Farm Credit Bank, or (2) mutual funds that invest solely in U.S. Treasury obligations or short term securities that are fully insured or guaranteed by the U. S. Government or its agencies.
6. The weighted average maturity of all securities held directly by the Trustee or by a bond or money market fund shall be ten years or less.
7. All revisions to the MRF Schedule shall be approved by HUD.

(Signature of Authorized Official
for HUD)

(Signature of Authorized Official
for Mortgagor)

Attachment: MRF Schedule

¹ Critical Access Hospitals and others as determined by the Secretary

Program Management Group Policy Recommendation
Adopted June 14, 2007 for Recommendation to the Director, OIHCF subject to OGC review.

Approved for use:

Roger E. Miller, Director
Office of Insured Health Care Facilities

Date