



Supplement 23-04: Property Condition Assessment (PCA) Underwriting Guidance

Effective: 10/18/23

Summary of Changes

HIGHLIGHTS

Effective as of October 18, 2023, additional underwriting guidance is provided to address the increase in Properties with deferred maintenance and/or critical life safety issues

- not properly identified, and
- impacting the
 - Mortgage Loan application,
 - Commitment, and
 - Sponsor's ability to do business with Fannie Mae.

Property Condition Assessment (PCA) Underwriting Guidance

This guidance:

- is not exhaustive; and
- supplements the
 - Guide, and
 - Instructions on Performing a Multifamily Property Condition Assessment ([Form 4099](#)).

You should:

- appropriately exercise your delegated authority;
- provide appropriate
 - training, and
 - vendor feedback;
- prudently underwrite and assess the



- Mortgage Loan, and
 - collateral; and
- understand your failure to perform proper due diligence may result in corrective action including
- reduced delegation,
 - increased loss sharing, or
 - Mortgage Loan repurchase.

| Employee Property Condition Training | | |
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| Purpose | Guide Requirements | You should... |
| A robust training program ensures the Property's: <ul style="list-style-type: none">• condition is accurately assessed when<ul style="list-style-type: none">- inspecting the site, and- reviewing the PCA; and• expenses are better understood. | Comply with Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment (PCA) . | Develop a sustainable employee training plan including: <ul style="list-style-type: none">• on the job instruction;• inspection shadowing for less-experienced employees;• in-house training by experienced staff;• other acceptable training (e.g., MBA's School of Multifamily Property Inspections); and• PCA review and evaluation. |

| Screening | | |
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| Purpose | Guide Requirements | You should... |



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| <p>Effective early screening enables you to</p> <ul style="list-style-type: none">• identify physical condition issues, and• mitigate concerns during quoting and underwriting. | <p>Comply with Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment (PCA).</p> | <ul style="list-style-type: none">• Understand your Sponsor's:<ul style="list-style-type: none">- overall and market-specific multifamily experience;- proposed business plan for the Property, including<ul style="list-style-type: none">▪ acquisition/rehab,▪ repositioning,▪ improving operations, and▪ optimizing staff across properties;- history of owning or managing assets of similar<ul style="list-style-type: none">▪ size,▪ vintage,▪ location,▪ class, and▪ product type;- plan to:<ul style="list-style-type: none">▪ manage any out-of-state assets;▪ conduct regular on-site visits;▪ appropriately maintain the Property; and▪ hire an appropriate third-party management firm with relevant market experience; and- ownership organization, including<ul style="list-style-type: none">▪ capital structure, and▪ ability to issue capital calls.• Virtually walk the neighborhood and Property assessing its<ul style="list-style-type: none">- current condition, and- surrounding uses.• Perform online searches for adverse action against the Principals.• Confirm sufficient estimated expenses for<ul style="list-style-type: none">- repairs/maintenance, and- payroll. |
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| Property Condition Assessment (PCA) Ordering | | |
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| Purpose | Guide Requirements | You should... |



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| <p>Effective internal quality controls</p> <ul style="list-style-type: none">• ensure independence, and• limit external influences. | <p>Per Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment (PCA) and Form 4099, you must:</p> <ul style="list-style-type: none">• order the PCA, not external deal participants (e.g., Borrower, broker, correspondent); and• have an annual quality control program to review<ul style="list-style-type: none">- the quality of the PCAs performed by your PCA Consultant, and- your compliance with<ul style="list-style-type: none">▪ the Guide, and▪ Form 4099. | <p>Establish and maintain processes for ordering PCAs, including:</p> <ul style="list-style-type: none">• reviewing and vetting the PCA Consultant;• ensuring the PCA scope includes confirmation of any recent value-add capital improvements relied on to mitigate risk; and• ensuring the credentials and quality of the PCAs and individual field engineers/assessors (who may be independent contractors working for multiple PCA Consultants) through<ul style="list-style-type: none">- controls,- calibration, and- feedback. |
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| Underwriting Inspection | | |
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| Purpose | Guide Requirements | You should... |



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| <p>A thorough underwriting inspection:</p> <ul style="list-style-type: none"> • provides a baseline assessment highlighting actual Property conditions; • serves as a quality control of the third-party underwriting reports; and • reflects whether the Property: <ul style="list-style-type: none"> - is proactively maintained; or - has <ul style="list-style-type: none"> ▪ Deferred Maintenance, ▪ Life Safety concerns, or ▪ components past their useful life. | <p>Per Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit:</p> <ul style="list-style-type: none"> • you must randomly select units for inspection; • photos must include any observed <ul style="list-style-type: none"> - Immediate Repairs, - Deferred Maintenance, or - Replacement of Capital Items; and • the inspection must be performed by a qualified individual with experience inspecting similar property types (e.g., Seniors, Students, conventional). | <ul style="list-style-type: none"> • Ensure the Overall Property Rating reflects the actual asset condition at the time of the inspection, without considering risk mitigants such as <ul style="list-style-type: none"> - to-be-completed repairs, - Net Worth/Liquidity, - previous experience, or - insurance proceeds. • Use best efforts to inspect the Property before Rate Lock, particularly for a <ul style="list-style-type: none"> - cash-out refinance, or - Supplemental Mortgage Loan. • Ensure the MBA Standard Inspection Form (MBA Form) is completed, including <ul style="list-style-type: none"> - commentary, and - photos, including <ul style="list-style-type: none"> ▪ detailed, ▪ close-up, and ▪ overall components from a distance. • Reconcile the Overall Property Rating for consistency with sub-ratings (e.g., Overall Property Rating is 2, but Life Safety is 3, and Deferred Maintenance is 3). • Obtain the Borrower's action plan to remediate or improve: <ul style="list-style-type: none"> - anything identified as "Declining" on the Physical Condition & DM tab of the MBA Form; and - an overall Property Rating of 3 to a 1 or 2. |
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| Property Condition Assessment Review | | |
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| Purpose | Guide Requirements | You should... |



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| <p>Effective internal quality controls</p> <ul style="list-style-type: none">• ensure independence, and• limit external influences. | <p>Per Part II, Chapter 4: Inspections and Reserves and the Form 4099, you must ensure:</p> <ul style="list-style-type: none">• the Overall Property Rating and assessment reflects the actual asset condition at the time of inspection, without consideration of risk mitigants including<ul style="list-style-type: none">- to-be-completed repairs,- Net Worth/Liquidity,- previous experience, and- insurance proceeds;• if available, the PCA Report includes a summary of major capital expenditures over the prior 3 years, including<ul style="list-style-type: none">- improvement name,- brief description,- timing of improvement, and- cost;• the PCA includes all relevant information about any work<ul style="list-style-type: none">- under contract, or- observed underway during the site visit; and• you address, via Immediate Repairs, any Deferred Maintenance and Life Safety concerns. | <ul style="list-style-type: none">• Ensure alignment among the<ul style="list-style-type: none">- underwriting inspection,- PCA Report,- Loan Documents, and- associated<ul style="list-style-type: none">▪ photos,▪ captions/comments, and▪ component ratings.• Ensure the Replacement Reserve amount and Schedule 6 to the Multifamily Loan Agreement - Required Repairs Schedule are determined by the Property needs and remaining useful life, regardless of the Mortgage Loan size or structure.• Confirm that the PCA addresses completion of previously identified Deferred Maintenance and Life Safety concerns for a<ul style="list-style-type: none">- refinance, or- Supplemental Mortgage Loan.• Ensure, if previously identified required work is incomplete at the time of a Supplemental Mortgage Loan underwriting, the original timeframe remains in place.• After your review:<ul style="list-style-type: none">- discuss material issues or misalignment in conclusions with the vendor; and- elevate unresolved issues to your senior management. |
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Questions



Please contact the Fannie Mae Deal Team with any questions.