Fannie Mae®

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		
Purpose	Guide Requirements	You should...
A robust training program ensures the Property's: • condition is accurately assessed when - inspecting the site, and - reviewing the PCA; and • expenses are better understood.	Comply with Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 404: Property Condition Assessment (PCA).	Develop a sustainable employee training plan including: • 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		
Purpose	Guide Requirements	You should...

Effective early screening enables you to • identify physical condition issues, and • mitigate concerns during quoting and underwriting.	Comply with Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 404: Property Condition Assessment (PCA).	• Understand your Sponsor's: - overall and market-specific multifamily experience; - proposed business plan for the Property, including ▪ acquisition/rehab, ▪ repositioning, ▪ improving operations, and ▪ optimizing staff across properties; - history of owning or managing assets of similar ▪ size, ▪ vintage, ▪ location, ▪ class, and ▪ product type; - plan to: ▪ 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 ▪ capital structure, and ▪ ability to issue capital calls. • Virtually walk the neighborhood and Property assessing its - current condition, and - surrounding uses. • Perform online searches for adverse action against the Principals. • Confirm sufficient estimated expenses for - repairs/maintenance, and - payroll.

Property Condition Assessment (PCA) Ordering		
Purpose	Guide Requirements	You should...
Effective internal quality controls • ensure independence, and • limit external influences.	Per Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 404: Property Condition Assessment (PCA) and Form 4099, you must: • order the PCA, not external deal participants (e.g., Borrower, broker, correspondent); and • have an annual quality control program to review - the quality of the PCAs performed by your PCA Consultant, and - your compliance with ▪ the Guide, and ▪ Form 4099.	Establish and maintain processes for ordering PCAs, including: • 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 - controls, - calibration, and - feedback.

Underwriting Inspection		
Purpose	Guide Requirements	You should...



A thorough underwriting inspection: • provides a baseline assessment highlighting actual Property conditions; • serves as a quality control of the third-party underwriting reports; and • reflects whether the Property: - is proactively maintained; or - has ▪ Deferred Maintenance, ▪ Life Safety concerns, or ▪ components past their useful life.	Per Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 401: Lease Audit: • you must randomly select units for inspection; • photos must include any observed - 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).	• Ensure the Overall Property Rating reflects the actual asset condition at the time of the inspection, without considering risk mitigants such as - 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 - cash-out refinance, or - Supplemental Mortgage Loan. • Ensure the MBA Standard Inspection Form (MBA Form) is completed, including - commentary, and - photos, including ▪ 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: - 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.

Property Condition Assessment Review		
Purpose	Guide Requirements	You should...

Effective internal quality controls • ensure independence, and • limit external influences.	Per Part II, Chapter 4: Lease Audits, Inspections, and Reserves and the Form 4099, you must ensure: • the Overall Property Rating and assessment reflects the actual asset condition at the time of inspection, without consideration of risk mitigants including - 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 - improvement name, - brief description, - timing of improvement, and - cost; • the PCA includes all relevant information about any work - under contract, or - observed underway during the site visit; and • you address, via Immediate Repairs, any Deferred Maintenance and Life Safety concerns.	• Ensure alignment among the - underwriting inspection, - PCA Report, - Loan Documents, and - associated ▪ 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 - 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: - discuss material issues or misalignment in conclusions with the vendor; and - elevate unresolved issues to your senior management.

Questions



Please contact the Fannie Mae Deal Team with any questions.