



# 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.

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

<b>Screening</b>		
Purpose	Guide Requirements	You should...



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



<p>Effective internal quality controls</p> <ul style="list-style-type: none"> <li>• ensure independence, and</li> <li>• limit external influences.</li> </ul>	<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"> <li>• order the PCA, not external deal participants (e.g., Borrower, broker, correspondent); and</li> <li>• have an annual quality control program to review             <ul style="list-style-type: none"> <li>- the quality of the PCAs performed by your PCA Consultant, and</li> <li>- your compliance with                 <ul style="list-style-type: none"> <li>▪ the Guide, and</li> <li>▪ Form 4099.</li> </ul> </li> </ul> </li> </ul>	<p>Establish and maintain processes for ordering PCAs, including:</p> <ul style="list-style-type: none"> <li>• reviewing and vetting the PCA Consultant;</li> <li>• ensuring the PCA scope includes confirmation of any recent value-add capital improvements relied on to mitigate risk; and</li> <li>• 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"> <li>- controls,</li> <li>- calibration, and</li> <li>- feedback.</li> </ul> </li> </ul>
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<b>Underwriting Inspection</b>		
Purpose	Guide Requirements	You should...



<p>A thorough underwriting inspection:</p> <ul style="list-style-type: none"> <li>• provides a baseline assessment highlighting actual Property conditions;</li> <li>• serves as a quality control of the third-party underwriting reports; and</li> <li>• reflects whether the Property:             <ul style="list-style-type: none"> <li>- is proactively maintained; or</li> <li>- has                 <ul style="list-style-type: none"> <li>▪ Deferred Maintenance,</li> <li>▪ Life Safety concerns, or</li> <li>▪ components past their useful life.</li> </ul> </li> </ul> </li> </ul>	<p>Per Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit:</p> <ul style="list-style-type: none"> <li>• you must randomly select units for inspection;</li> <li>• photos must include any observed             <ul style="list-style-type: none"> <li>- Immediate Repairs,</li> <li>- Deferred Maintenance, or</li> <li>- Replacement of Capital Items; and</li> </ul> </li> <li>• the inspection must be performed by a qualified individual with experience inspecting similar property types (e.g., Seniors, Students, conventional).</li> </ul>	<ul style="list-style-type: none"> <li>• 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"> <li>- to-be-completed repairs,</li> <li>- Net Worth/Liquidity,</li> <li>- previous experience, or</li> <li>- insurance proceeds.</li> </ul> </li> <li>• Use best efforts to inspect the Property before Rate Lock, particularly for a             <ul style="list-style-type: none"> <li>- cash-out refinance, or</li> <li>- Supplemental Mortgage Loan.</li> </ul> </li> <li>• Ensure the MBA Standard Inspection Form (MBA Form) is completed, including             <ul style="list-style-type: none"> <li>- commentary, and</li> <li>- photos, including                 <ul style="list-style-type: none"> <li>▪ detailed,</li> <li>▪ close-up, and</li> <li>▪ overall components from a distance.</li> </ul> </li> </ul> </li> <li>• 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).</li> <li>• Obtain the Borrower's action plan to remediate or improve:             <ul style="list-style-type: none"> <li>- anything identified as "Declining" on the Physical Condition &amp; DM tab of the MBA Form; and</li> <li>- an overall Property Rating of 3 to a 1 or 2.</li> </ul> </li> </ul>
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<b>Property Condition Assessment Review</b>		
Purpose	Guide Requirements	You should...



<p>Effective internal quality controls</p> <ul style="list-style-type: none"> <li>• ensure independence, and</li> <li>• limit external influences.</li> </ul>	<p>Per <a href="#">Part II, Chapter 4: Inspections and Reserves</a> and the <a href="#">Form 4099</a>, you must ensure:</p> <ul style="list-style-type: none"> <li>• 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"> <li>- to-be-completed repairs,</li> <li>- Net Worth/Liquidity,</li> <li>- previous experience, and</li> <li>- insurance proceeds;</li> </ul> </li> <li>• if available, the PCA Report includes a summary of major capital expenditures over the prior 3 years, including <ul style="list-style-type: none"> <li>- improvement name,</li> <li>- brief description,</li> <li>- timing of improvement, and</li> <li>- cost;</li> </ul> </li> <li>• the PCA includes all relevant information about any work <ul style="list-style-type: none"> <li>- under contract, or</li> <li>- observed underway during the site visit; and</li> </ul> </li> <li>• you address, via Immediate Repairs, any Deferred Maintenance and Life Safety concerns.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure alignment among the <ul style="list-style-type: none"> <li>- underwriting inspection,</li> <li>- PCA Report,</li> <li>- Loan Documents, and</li> <li>- associated <ul style="list-style-type: none"> <li>▪ photos,</li> <li>▪ captions/comments, and</li> <li>▪ component ratings.</li> </ul> </li> </ul> </li> <li>• 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.</li> <li>• Confirm that the PCA addresses completion of previously identified Deferred Maintenance and Life Safety concerns for a <ul style="list-style-type: none"> <li>- refinance, or</li> <li>- Supplemental Mortgage Loan.</li> </ul> </li> <li>• Ensure, if previously identified required work is incomplete at the time of a Supplemental Mortgage Loan underwriting, the original timeframe remains in place.</li> <li>• After your review: <ul style="list-style-type: none"> <li>- discuss material issues or misalignment in conclusions with the vendor; and</li> <li>- elevate unresolved issues to your senior management.</li> </ul> </li> </ul>
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## Questions



Please contact the Fannie Mae Deal Team with any questions.