



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: <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: Lease Audits, Inspections, and Reserves, Section 404: 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		
Purpose	Guide Requirements	You should...



<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: Lease Audits, Inspections, and Reserves, Section 404: 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

Purpose	Guide Requirements	You should...
<p>Effective internal quality controls</p> <ul style="list-style-type: none">• ensure independence, and• limit external influences.	<p>Per Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 404: 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.

Underwriting Inspection

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: Lease Audits, Inspections, and Reserves, Section 401: 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		
Purpose	Guide Requirements	You should...



<p>Effective internal quality controls</p> <ul style="list-style-type: none"> • ensure independence, and • limit external influences. 	<p>Per Part II, Chapter 4: Lease Audits, 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.