

# Frequently Asked Questions (FAQ): Property Condition Assessment Reports

## Planned Capital Expenditures

Q1. If the Borrower has planned capital expenditures (CAPEX) that would overlap with Immediate Repairs or Replacement of Capital Items identified as needed by the PCA Consultant, can the Borrower's planned CAPEX be removed from the Cost Estimate Schedules for Immediate Repairs or Replacement of Capital Items? What if the cost of the CAPEX items is being escrowed by the Lender?

- A1. Regardless of the Borrower's planned CAPEX, all Immediate Repairs, including Life Safety Items, Critical Repair Items, and Deferred Maintenance must be included by the:**
- **PCA Consultant on the Cost Estimate Schedule: Immediate Repairs in Section 2 of the PCA Report; and**
  - **Lender on the Required Repair Schedule (Schedule 6) to the Multifamily Loan Agreement.**

**All Capital Items requiring replacement during the Mortgage Loan term, plus 2 years, regardless of the Borrower's planned CAPEX, must be included by the:**

- **PCA Consultant on the Cost Estimate Schedule: Replacement of Capital Items in Section 2 of the PCA Report; and**
- **Lender on the Replacement Reserve Schedule (Schedule 5) to the Multifamily Loan Agreement.**

**The PCA Consultant's Cost Estimate Schedules for Immediate Repairs and Replacement of Capital Items must be based on the date of the PCA Consultant's Property inspection and not include any of the Borrower's planned subsequent capital expenditures.**

## Life Safety

Q1. What is considered a minor Life Safety Item?

- A1. Fannie Mae does not define life safety. The MBA describes a Life Safety Item as a visually obvious construction or design defect or deferred maintenance condition that creates a potential hazard, increasing the possibility of personal injury or death. In addition, information received from a credible source as to a potential life safety issue, which is not visually obvious, should be investigated and reported. Life safety issues are, by their nature, not "minor", and require immediate action.**

## Property Ratings

Q2. Can the PCA Consultant average the component ratings to determine the overall Property Rating?

- A2. PCA Consultants should avoid a simple averaging of the various components to arrive at the overall Property Rating. Refer to the MBA inspection rating definitions if you have questions.**



- Q3. Does a Property Condition Rating of 3 put a Property on Fannie Mae's Watchlist?
- A3. A Property Condition Rating (PCR) of 3 does not put a Property on the Watchlist; however, the Lender should ensure a plan is in place to bring the PCR to a 2 or better, which should include escrowing for items placed on the Required Repair Schedule (Schedule 6) to the Multifamily Loan Agreement which would need to be completed to attain a PCR of 2 or better.**
- Q4. Does Fannie Mae have a general range for Replacement Reserves per unit that corresponds with the Property Rating (i.e., Property Rating 2 = \$200 - \$250/unit), etc.?
- A4. With the exception of Small Mortgage Loans underwritten under Chapter 9, Fannie Mae does not specify a Replacement Reserve range. However, if a Property is older and has not had any significant renovation or replaced major Property components, higher on-going Replacement Reserves are warranted.**
- Q5. If the Borrower completes Immediate Repairs before Mortgage Loan closing, should the PCR be updated to reflect the completed work?
- A5. If the PCA Consultant reinspects the Property upon completion of the Immediate Repairs, the PCA Consultant may update the PCR. Otherwise, the Borrower should discuss the completed repairs with the Lender and should be prepared to provide receipts demonstrating completion of the repairs and/or deferred maintenance. The Lender may, at its discretion, document the completed repairs in the Transaction Approval Memo and exclude them from the Repairs Escrow Account. If the Property is not able to be re-inspected by the PCA Consultant, the Lender should list the Immediate Repairs on the Required Repair Schedule (Schedule 6) to the Multifamily Loan Agreement, but need not escrow for these items if the Lender can confirm completion of work and payment in full before originating the Mortgage Loan. If appropriate, the PCR will be updated at the next required site inspection. The Lender must follow the servicing standard.**

## Property Inspections

- Q6. What is Fannie Mae's expectation when the PCA Consultant is not provided a Property rent roll before the site inspection?
- A6. The PCA Consultant should request the rent roll from the Lender well in advance of the planned site inspection. If the rent roll is not provided before the site inspection, the PCA Consultant should document in the PCA Report that the rent roll was requested from the Lender, but not provided.**
- Q7. What is Fannie Mae's expectation when the Property manager/owner does not notify all the tenants about a pending inspection?
- A7. The PCA Report should document the lack of cooperation by the Property manager/owner, identify which specific units were requested for inspection but were unavailable, and consider whether a lack of unit access should result in a more conservative Replacement Reserve estimate.**
- Q8. What is Fannie Mae's expectation when the Property manager/owner is not transparent regarding down units?



- A8. The Field Observer/Property inspector should refer to the current rent roll, days vacant report, and move-out report when choosing which vacant units to inspect. The expectation is that this information will be provided by the Lender before the Property inspection. The Field Observer/Property inspector should also interview the maintenance manager, as they may be more forthcoming. The PCA Report should document the number of down units reported by the Property manager/owner, or if no down units were identified.**
- Q9. What is Fannie Mae's expectation of the Field Observer/Property inspector when snow cover limits the inspection of roofs, walkways, parking, and/or roadways during the inspection?
- A9. The PCA Report should identify snow as a field limitation, including which specific items were unobservable due to snow cover (i.e., roofs, roadways, and/or parking areas). The Property inspector should review online aerials and Google Street View images of the Property, and determine whether the images are current, before the site inspection. The Property inspector should then interview management about the condition of snow-covered areas, and discuss the system maintenance schedule, system age, and recent capital improvements that may have been implemented since the date of the aerial and Google Street View images. Walkways and roadways should be cleared promptly, or within a reasonable amount of time after snowfall.**
- Q10. What is Fannie Mae's expectation for inspecting flat roofs when the roof is inaccessible due to the lack of availability of a ladder?
- A10. The maintenance staff should have access to all building systems at the Property, including roofs. If the flat roof cannot be observed, document and identify which roofs were visible and which were not visible in the PCA Report. A lack of roof access should result in a more conservative Replacement Reserve estimate.**
- Q11. If a flat roof is inaccessible, is drone coverage acceptable?
- A11. Yes, but not required.**
- Q12. If the Property manager/owner provides photos of Immediate Repair items that were completed/installed after the site inspection and provides invoices for these Immediate Repairs, is it acceptable for the PCA Consultant to remove those items from the Cost Estimate Schedules for Immediate Repairs?
- A12. The PCA Report should reflect the Property condition at the time of the site visit. If the PCA Consultant reinspects the Property and confirms the Immediate Repairs and/or Deferred Maintenance work was completed in a satisfactory workmanship manner, the PCA Report should be updated. If the PCA Consultant does not reinspect the Property, the Lender should be consulted. The Lender is delegated to exclude the completed work listed by the PCA Consultant on Cost Estimate Schedules for Immediate Repairs from the Required Repairs Schedule (Schedule 6) to the Multifamily Loan Agreement and exclude the cost of these items from the Completion/Repair escrow if the Lender can confirm the work has been done and fully paid; this should be noted in the Lender's final Transaction Approval Memo. This is a potential Lender adjustment to the Required Repair Schedule (Schedule 6) to the Multifamily Loan Agreement only, and not an adjustment made by the PCA Consultant to the Cost Estimate Schedules for Immediate Repairs in Section 2 of the PCA Report.**



## Guide and Form Updates

Q13. A central listing of updates would be helpful to those of us who may be very active and serving multiple clients. Just a place to go for quick updates.

**A13. Form 4099 and other associated forms are publicly available online at <https://mfguide.fanniemae.com>.**

## Miscellaneous

Q14. Does Fannie Mae ever ban an inspector from doing further Fannie Mae work when the quality of work is considered poor?

**A14. Fannie Mae does not currently maintain a list of banned inspectors or consultants. However, Fannie Mae is now more actively monitoring PCA Consultants and Property inspectors, which may result in future program changes.**

Q15. When is it appropriate for the PCA Consultant to adjust the Replacement Reserve upon the Lender's request?

**A15. The PCA Consultant may adjust the Replacement Reserve downward at the Lender's request only if specific items are moved by the:**

- **PCA Consultant from the Cost Estimate Schedule for Replacement of Capital Items to the Cost Estimate Schedule for Immediate Repairs; and**
- **Lender from the Replacement Reserve Schedule (Schedule 5) to the Multifamily Loan Agreement to the Required Repair Schedule (Schedule 6) to the Multifamily Loan Agreement.**

**Major systems should be appropriately included on the Cost Estimate Schedule for Replacement of Capital Items based on the remaining useful life of the system.**

Q16. Will Fannie Mae provide direct feedback to a PCA Consultant when the PCA Report does not meet Fannie Mae's expectation?

**A16. Fannie Mae is monitoring PCA Consultant performance. Some PCA Consultants may have already been contacted, but ideally the PCA Consultant should receive regular feedback from the Lender who engaged them.**