

Inspection Update FAQs

October 2024

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With our renewed focus on property condition in 2023, Freddie Mac implemented multiple updates to the *Multifamily Seller/Service Guide* (Guide) and adopted the new industry-standard Mortgage Bankers Association (MBA) rating scale. We understand the significance of these changes and recognize that adapting to new procedures isn't always a simple ask. We created this FAQ document to provide clarity and guidance to commonly asked questions, ensuring that you have the information needed for a successful transition. If your question is not answered, please send it to the [Multifamily Surveillance mailbox](#) so we can address it for you and add it to the FAQ.

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FAQs on the Rating Scale Change

What is the difference between the v3.03 and v3.1 inspection forms?

Version 3.03 was adopted in 2019 and contains two different rating scales for the evaluation of physical condition: the MBA rating scale and the Fannie Mae rating scale. Version 3.1 was updated to reflect a single rating scale across the industry. The Fannie Mae rating scale tab was renamed MBA rating scale, and the previous MBA rating scale tab was removed. Any references to the Fannie Mae rating scale have been removed, including the ability to select it as part of the rating scale dropdown.

When do we need to start using the v3.1 inspection form?

Freddie Mac requires servicers to adopt the updated v3.1 form beginning with inspections for the 2024 submission period. These inspections can be identified in your Property Reporting System (PRS) due queue by filtering for “2024” under the “Submission Period” column. Any inspections for the 2023 submission period, even if they are uploaded in 2024, can still utilize v3.03 and the old MBA rating scale.

What if we completed a 2024 inspection in 2023, before the updated MBA form was published?

If you completed a 2024 inspection in November or December 2023 on v3.03 using the MBA rating scale, we are offering you the flexibility to submit it as-is for the 1Q24 inspection. This is in lieu of re-evaluating the inspection to reflect the new scale. For the small number of loans where this would apply, please note in the comments on the General Info tab that the old rating scale was used due to the timing of the inspection and form release.

For how long can I submit inspections using v3.03?

We would like servicers to transition to v3.1 for all 2024 submission period inspections; however, if you experience technical delays with form adoption, please note that v3.03 will be accepted at least through 3/31/2024. If you are submitting a 2024 inspection on v3.03 after the official release of the new form, you will need to utilize the Fannie Mae rating scale for the analysis. Please make a note on the General Info tab if this applies to a given inspection.

If a 2023 inspection is reviewed by our team in 2024 and then returned for update or correction, it will be able to be resubmitted on the same form without converting to v3.1.

Do you have any recommendations for understanding the new rating scale?

The new rating scale offers a more objective approach to the assessment of physical condition. As you can see in the table below, the old rating scale incorporated comparative adjectives which implies the property is being compared to something other than itself. When assessing physical condition, it is

important to compare the property to itself. The new rating scale makes it easier to accomplish this with more definitive qualifiers.

	Old Rating Scale	New Rating Scale
Rating 1	New or Like New / Superior	Excellent
Rating 2	Above-Average	Very Good/Good
Rating 3	Average/Normal	Fair/Declining
Rating 4	Below-Average/Deteriorating	Deteriorated Conditions
Rating 5	Inferior/Poor	Unacceptable Conditions

To distinguish in more detail between Ratings 2, 3, and 4 of the new rating scale, please refer to the following table (emphasis added in bold):

	Rating 2	Rating 3	Rating 4
Overall Condition	Very Good to Good	Fair/Declining	Deteriorated
Life Safety	None or limited, minor issues	Some life safety issues requiring immediate attention	Immediate attention and possible Capex
Deferred Maintenance	Isolated or minor DM, which can be addressed in-house or at a limited expense.	Pervasive and is a heightened concern; likely unable to be addressed in house.	Substantial and affecting major areas/systems, requiring significant funds
Routine Maintenance	Proactive	Reactive	Reactive
Capital Needs	Are being addressed and property performance does not appear to be impacted	Addressed as needed, but additional capital is required to maintain the asset quality and systems	Not being addressed, performance negatively impacted
Major Systems & Components	In good condition and will likely exceed the loan term	In average condition and may not meet or exceed the loan term	Very likely will not meet or exceed the loan term

The Fannie Mae Assessment Addendum within the Annual Inspection Form (AIF) requires inspectors to rate the above components (Life Safety, DM, RM, etc.) individually. We encourage inspectors to complete this Addendum to help determine an appropriate overall property rating. If you are initially thinking a property looks like a “2”, but several of the above components receive a rating other than “2”, then it may need to be rated an overall “3.” We will require this addendum in the future, and we are working to rename the information in the next MBA Inspection Form release (v4.0).

Further, if you have any team members who have experience working on Fannie Mae inspections, we also encourage you to leverage their knowledge of the rating scale.

Does the presence of any major or imminent life safety issue preclude an MBA Rating of 2?

No, life safety issues should be evaluated for pervasiveness and severity. If an imminent life safety issue is not pervasive or severe, and all other rating components are reflective of a 2 or higher rating, it is reasonable to not drop the rating to a 3 solely due to the presence of the life safety issue(s).

Do you have different expectations than Fannie?

The benefit of using a singular rating scale is consistency across the industry. We don't want to use the same scale and have a completely different outlook on it as that would negate the benefit. The one place where we differ from Fannie Mae as it relates to rating determination is with **hazard losses**. Freddie Mac will not necessitate use of a "4" or "5" rating for a property with hazard loss damage. If the insurance covers the repairs, repair plans are in-place, and/or work is actively being done, the property condition rating may not warrant a 4 or 5, barring other factors. If hazard loss damage is being ignored with no plans to repair, then dropping the rating to a "4" or "5" should be considered.

How should we report Routine Maintenance?

Routine maintenance items should not be added to the DM grid, provided they are actively being done. Routine maintenance items can easily become deferred maintenance and it is essential to recognize when the routines are being ignored and leading to deteriorating conditions. Any photos of routine maintenance can be labeled as such on the Photos tab.

What happens if a 2023 inspection is returned in PRS for correction?

If a 2023 inspection is returned in PRS for correction in 2024, you will be able to resubmit it using the same form without converting to v3.1.

I'd like to learn more about filling out the form correctly. What are the available resources?

For more information on completing the inspection form, please refer to the [PRS Annual Inspection Form \(AIF\) Desk Reference](#) and the [Assessments Completion Best Practices](#) documents, both of which are on the [Freddie Mac Asset Management](#) website.

If I'd like to discuss an inspection before I submit it into PRS, who should I contact?

We are more than happy to discuss an inspection with you if you have any concerns prior to submission. Please contact the [Multifamily Surveillance mailbox](#) and your email will be redirected to the appropriate team member.

FAQs on Guide Updates

How do we know if an inspection requires an Exempt Inspector?

Exempt inspector requirements are set forth in Guide Section 40.13. In short, an exempt inspector is required to inspect certain kinds of properties at least every other year. Those properties are defined as TAH loan originations, loans with HUD involvement, and properties older than 40 years. The population of loans will adjust slightly each year to account for the age and HUD involvement changes. To help you

easily determine which of your loans require an Exempt Inspector at least every other year, we have added an “Exempt Req’d” field in the PRS Inspection Due Queue to flag those loans requiring an Exempt Inspector. This field should be populated for all 2024 inspections in PRS by 12/31/2023 if not before.

For those properties that underwent significant rehab per the Guide requirements, thereby reducing the effective age to less than 40 years, Freddie Mac will not identify them before the end of 2023. We recommend the servicer go through the rehab requirements in the Guide and indicate how the property passes (effective age < 40 years) and what year it will no longer have a pass (effective age > 40 years), so that we can update our records. Completing this exercise at the onset will prevent all of us from having to go through the request and approval process on an annual basis. Please contact the [Multifamily Asset Performance mailbox](#) with your list of 40+ year-old properties that pass the exempt inspector requirement due to rehab, or for any questions/concerns related to the Exempt Inspector flag in PRS.

Do we need to complete all our exempt inspections in 2024?

No, you may split up your exempt inspections over the course of 2024 and 2025. The split is up to you.

How will the Exempt Inspector requirement be tracked?

The servicer must maintain information used to determine each inspector's history (like a resume). The Counterparty Risk & Compliance team will review those files to confirm exempt inspectors were used when required. Since the requirement is at least every other year, there won't be findings in the first year but there may be observations related to not having satisfactory resume/information for half of the inspectors, etc. Surveillance won't actively be involved in validating the level of inspector but retains the right to ask for qualifications if there's a quality issue with the report.

What if an applicable loan fails to have an inspection completed by an Exempt Inspector at least every other year as required?

Beginning with the review of 2025 inspections, the Counterparty Risk & Compliance team will issue a finding to the servicer if it has been determined that an Exempt Inspector wasn't used when required at least once over the prior two years (2024 and 2025 inspections). The Counterparty & Compliance team will work with the servicer to determine a remediation plan within the allotted time. The remediation plan would involve scheduling an updated inspection performed by an Exempt Inspector.

Are the inspections performed by the different defined types of Inspectors all following the same scope?

Yes, the scope of the AIF/inspection is the same whether or not it requires an Exempt Inspector. The properties requiring Exempt Inspections every other year are those that have a higher level of innate risk and would benefit from being inspected by someone with sufficient industry experience.

Why do we need to look at HUD REAC or NSPIRE inspections?

We liken the HUD REAC/NSPIRE inspections to agency inspections for seniors housing. It is pertinent to our assessment of seniors housing communities to understand if they have any code violations or

deficiencies that are concerning to their governing body. Reviewing a HUD inspection prior to going on an inspection allows the inspector to address issues or concerns with management/maintenance when they are on-site and allows for a more comprehensive review. While the scope is different and it's possible to have a failing REAC and "passing" MBA inspection (or vice versa), the additional data points can help us detect early warning signs of risk.

Do inspections need to include at least one photo of each unit type at the property?

No. The guidance related to photos and unit inspection requirements has not changed. Per the Multifamily Seller/Service Guide Section 40.7(a), inspectors are required to visit a cross-section of unit types and locations that make up a representative sample. Per Section 40.7(b), the photographs must include samples of interiors of typical unit types. Inspectors are not required to upload photos of every different unit type that was inspected, provided a representative sample is uploaded, including any photos displaying deteriorating conditions.

If Mobile Home Communities (MHC) have very few rental homes available at the property and these units cannot be accessed, what do we do?

For MHCs only, we typically expect that if the property has few rental homes, they may be difficult to inspect. We ask that best efforts are made to inspect our requested minimum. When that is not possible, we ask the inspector to inspect the surrounding area(s) and pad(s). They should also indicate the number of rental homes available and why they weren't available for inspection in the General Comments box on the General Info tab.

If we received approval for a due date change request, how will this impact future annual inspection due dates?

As detailed in the Multifamily Seller/Service Guide Section 40.8, Freddie Mac will adjust future inspection due dates to the same quarter in which the previous inspection was submitted; i.e., the mortgage was originated in the second quarter so the annual inspections have always been completed in the second quarter, until this year when it had to be deferred to third quarter. The next annual inspection will be due in the third quarter. The intent is to make sure that the timing between inspections is maintained at approximately 12 months.

Are Servicers fully responsible for third-party inspections?

Yes. A Servicer may submit a third-party inspection that was properly QC'ed with the information provided, but if it is later found that information related to deteriorating conditions was withheld or missed, the Servicer is ultimately responsible. Per the Multifamily Seller/Service Guide Section 40.14(a), "the Servicer is ultimately responsible for the accuracy of all information included in the inspection, whether or not the Servicer performed the inspection directly." We recommend updating your contracts with your third-party inspection companies to hold them accountable if a situation like this arises.

How will Freddie Mac determine a submitted inspection is unacceptable?

Not following Guide requirements is unacceptable. Please ensure to follow the Guide requirements set forth in Chapter 40. Please refer to the next question for details on what to do if Guide requirements cannot be met.

If the ratings, narrative, and/or photos in the report are not in alignment with the final condition rating, this would not automatically yield an “unacceptable assessment” fine. What makes an inspection unacceptable is when the property condition is materially misrepresented in the report, i.e., a property is rated 2 (“good”) but comments and photos indicate it is in poor condition; or a property has well-known significant maintenance issues that were excluded from the report. Provided you are taking the time to compare the condition to the rating descriptions and have quality control processes in-place, we would not expect you to submit an unacceptable assessment.

For example, an inspector’s review of a property is subjective and there are slight nuances between a 4 and a 5. Both of those ratings are telling us the property is not in good condition (they are “gradations of bad”). Submitting one over the other is likely not an “egregious miss,” barring other factors. The main concern arises when the inspection is telling us the property is in good condition when it’s not.

If you have questions about a potential property rating before submitting the report, we are happy to discuss with you. Please contact the [Multifamily Surveillance mailbox](#) to be directed to the appropriate team member.

How can I obtain a waiver if a Guide requirement can’t be met?

There may be instances when Guide requirements cannot be met; for example, not all commercial units are accessible or down units are roped off for security reasons. In order to avoid an unacceptable assessment, it is necessary to obtain a waiver from Freddie Mac for the Guide requirement.

The Servicer should email mf_surveillance@FreddieMac.com to discuss the situation and waiver request. If granted, the Servicer needs to include who approved the waiver in the General Comments box on the General Info tab.

Will there be late fees on A-CREFC or Q-CREFC assessments like there are for Inspections?

No, the Late Assessment Fee does not apply to financials, but Freddie Mac does require you to add and continue to update comments in the Late Assessment page to inform us of your contact with the borrower and rationale for the outstanding information.

How and when will the late fees on Inspections be communicated?

We will communicate with the Chief Servicing Officer (CSO) each quarter to indicate fees being charged and how to submit. If a servicer doesn’t have any fees for a given quarter, no communication will be sent to the CSO.