

# Moderate Rehab Best Practices: Property Condition Due Diligence

The purpose of this document is to provide seller/servicers and third-party consultants of Moderate Rehabilitation Loans best practices and guidance to ensure successful loan submission and processing. This document is not all-inclusive of all details required. Please refer to the Freddie Mac *Multifamily Seller/Servicer Guide* (Guide), particularly chapters 61, 62 and 63. [Chapter 63](#) outlines report requirements for construction loans, including Moderate Rehabilitation loans (applicable sections are specified in this document).

Moderate Rehabilitation Loans require a Pre-Construction Analysis Report (Chapter 63.3) that details property deficiencies and analyzes the feasibility of the proposed rehabilitation project.

## Third-Party Consultant Roles, Responsibilities and Reports

**Architectural Consultant** is tasked with preparing the Pre-Construction Analysis Report.

- The Architectural Consultant needs to be experienced in the construction/rehabilitation process and documentation in order to provide insight into adequacy of the rehabilitation scope, budget and plan. In addition, the Architectural Consultant must be qualified to monitor the renovation's progress.
  - See Chapter 63.2(a) of the Guide for specific requirements and qualifications for the Architectural Consultant.
- ❖ **BEST PRACTICE:** Post-closing, ongoing renovation monitoring is required (See [Moderate Rehabilitation Best Practices: Servicing, Renovation Monitoring and Draws](#)). It is highly recommended that the same Architectural Consultant who prepares the Pre-Construction Analysis Report also prepare the ongoing Construction Monitoring Reports so that they are familiar with the scope of the project and the property. **Seller/Servicers should consider this as they engage third parties.**

**Pre-Construction Analysis Report** is prepared by the Architectural Consultant.

- The Pre-Construction Analysis Report must provide an analysis of the current property conditions (per the requirements of [Chapter 62](#)) as well as the planned renovations. It incorporates all information that would be included in a Property Condition Report (PCA) in addition to providing a plan and cost review. An analysis of the required renovation documentation (see list below) must focus on scope, detail and feasibility. The Pre-Construction Analysis Report must identify any issues not addressed in the renovation plans and specifications that warrant additional investigation, such as, but not limited to, structural, roof, or electrical work.
  - **Replacement Reserve Tables**
    - Two Replacement Reserve Tables are required, an As-Is Replacement Reserve Table, AND an As-Stabilized Replacement Reserve Table (this is unique to Moderate Rehabilitation Loans).
    - The Replacement Reserve Schedule length will be total term plus two additional years. For example, a 3-year renovation (Interim Phase) and 7-year permanent (Permanent Phase) will require 12-year reserve tables (3+7+2 years).
      - Note: Loan terms longer than 10 years will require an updated PCA Report at year 10.

- ❖ **BEST PRACTICE:** If the seller has already obtained a PCA, a second report will need to be prepared by a qualified Architectural Consultant. The Architectural Consultant can rely on the findings of the completed PCA, in which case an additional inspection is not required. However, in that case, the Pre-Construction Analysis Report must clearly incorporate the findings of the completed PCA. The Pre-Construction Analysis Report will then also be required to review and analyze the required renovation documentation (see list below). Both reports must meet the age requirements of the Guide.

#### **Renovation Documentation to be provided to Architectural Consultant and Freddie Mac:**

1. Construction Budget provides the hard costs and material quantities. The Architectural Consultant must analyze these costs.
2. Development Budget provides the total project costs, including soft costs, financing costs, land acquisition expenses and hard costs. The Architectural Consultant must analyze this budget.
3. Construction Schedule laying out the timeline for major construction activities.
4. Lease up Schedule laying out the timeline for the lease up.
5. Final Plans and Specifications detailed enough to provide a clear picture of the property's appearance and new features post-renovation. Plans and specifications are considered final when they are stamped and sealed by the associated professional.
6. Construction Contract between the Borrower and General Contractor for the completion of all planned renovations.
7. Development Team's Qualifications in the form of key staff resumes and summary of experience with similar projects and years in business. Members of the renovation team to include the sponsor, architect, general contractor and management company.
8. Servicing Team's Qualifications in the form of staff resumes and summary of experience with similar projects. Members of the servicing team to include individuals responsible for administration and those responsible for physical inspections. It is encouraged that the Architectural Consultant who provided the Pre-Construction Analysis Report conducts the physical inspections for the ongoing renovations.

#### **Work in Progress**

If renovation work commenced before underwriting, additional information is required:

- Sponsor Certification regarding all work completed and costs expended
- All executed Change Orders to date
- All Construction Monitoring Reports to date.

#### **New Construction**

For any new construction (i.e., new residential or amenity building), a more detailed breakout within the budget, schedule, and plans/specs will be required. If not already provided, final plans/specs required.

- ❖ **BEST PRACTICE:** Seller/Servicer must concurrently send the renovation documentation (see above list) to Freddie Mac and the Architectural Consultant. Freddie Mac will also review the documents to ensure appropriate level of detail for underwriting, as well as future renovation monitoring, and draws.

- ❖ **BEST PRACTICE:** Construction Contract between owner and general contractor must be provided to Freddie Mac as soon as possible. If the fully executed contract with attachments is not available, submit a draft copy and submit the fully executed contract with attachments as soon as possible. If the final executed contract is unavailable during full underwriting, a draft will be acceptable, with the final contract due prior to funding.

#### **Environmental Consultant**

No added responsibilities for a Moderate Rehabilitation Loan. Standard requirements of Guide [Chapter 61](#) apply.

See [Moderate Rehab Best Practices: Servicing, Renovation Monitoring and Draws](#) for servicing requirements during the rehabilitation period.