

# Multifamily Seller/Servicer Guide

## Chapter 62

### Property Condition Report Requirements

#### 62.1 Property condition reports (05/05/17)

Unless Freddie Mac otherwise requires, SBL Seller/Servicers must refer to Chapter 62SBL, SBL Physical Risk Report Requirements, to obtain the requirements for evaluating the physical risk of Property secured by an SBL Mortgage.

Seller/Servicers of MHC Mortgages must refer to the specific property condition requirements for Manufactured Housing Communities found in Section 22.6 in addition to the requirements stated in this Chapter.

For Forward Commitments and Mod Rehab Mortgages at Interim Phase underwriting, the pre-construction analysis report replaces the property condition report. See Section 63.3 for requirements for the pre-construction analysis report.

This chapter sets forth the requirements, duties and responsibilities of the Seller/Servicer and the property condition consultant to evaluate the physical condition of the Property, identify deficiencies and provide recommendations to Freddie Mac.

Freddie Mac requires the Seller/Servicer to submit a property condition report (also commonly referred to as an engineering report) meeting the requirements of Section 62.3 before Freddie Mac will issue a Letter of Commitment or accept the early rate-lock application to purchase a Mortgage.

##### a. Purpose of the property condition report (01/01/13)

The purpose of the property condition report is to

- Provide a brief description of all major building components and their condition
- Identify all deferred maintenance that is currently affecting building components or will negatively impact building components in the future
- Identify Critical and Priority Repairs needed and provide cost estimates for those items
- Identify Operational Repairs to be addressed by the Borrower prior to the first annual inspection
- Identify the capital needs over the term of the Mortgage and establish the appropriate amount of Replacement Reserves
- Identify any current or past water intrusion, potentially damaging leaks or organic growth issues (Mold) and identify the source(s) of all water and Mold

- Identify problematic materials, equipment or systems as defined in Section 62.5(c)
- Identify all readily observable issues related to non-compliance with applicable codes, including handicapped accessibility requirements, and all issues that could negatively affect the health and safety of the tenants

**b. Information to be provided with the property condition report (01/01/13)**

The property condition report must include the following:

- All information the consultant reviewed, including all data and records provided by the Borrower and documentation reviewed in accordance with Section 62.4 (Key documents, such as renovation scope of work and budgets, should be included in the report appendix.)
- Sufficient standard-size color photographs as are necessary to illustrate the conditions discussed in the report (The consultant must determine the number of photographs that will be necessary and include the photographs in Section VI, with a narrative describing each photograph.)
- A site plan(s) to adequately locate the Property and provide an indication of the site layout
- The resume of the individual who performed the on-site inspection
- The resume of the individual who reviewed the report, if different from the individual who performed the inspection

**62.2 Specific Seller/Service duties and responsibilities (03/03/17)**

The Seller/Service must exercise due diligence when evaluating a Property and must make appropriate inspections and inquiries to assess structural, mechanical or other property conditions and determine the Property's true condition.

The Seller/Service's responsibilities are to

- Retain and direct the property condition consultant

The Seller must review and verify the property condition consultant's credentials, licensing, certifications, memberships and affiliations. For new consultants, the Seller must check at least three references from lenders who have retained or employed the property condition consultant to sufficiently evaluate the consultant's capabilities and performance. The Seller must maintain a separate property condition consultant file for Freddie Mac's use that includes the Seller's ongoing evaluations of each consultant's performance, as well as the consultant's current resume, required references and current certificate(s) of liability insurance in accordance with the requirements of Section 11.5.

The Borrower must not retain or direct the property condition consultant. However, the Borrower may be responsible for paying the costs of all property condition consultant services.

Provide to the consultant all information pertaining to the maintenance, repair and replacement of major building components or systems before the consultant physically inspects the Property

- Obtain a property condition report for the Property
  - Review the property condition report to ensure that it complies with Freddie Mac's requirements and to verify that conclusive recommendations are provided for all identified issues
  - Obtain additional analysis as necessary to resolve any issues with respect to which the consultant was unable to reach a conclusion
- In accordance with Section 8.17 or 8SBL.17, as applicable,
  - Report Critical Repair findings to Freddie Mac, and follow up to ensure timely completion of Critical Repairs
  - Prepare Loan Documents which include the applicable Rider to the Loan Agreement with funded Reserves for all Priority Repairs
  - For non-SBL Mortgages, prepare a Repair Letter for all Operational Repairs identified by the property condition consultant
- When problematic materials, equipment and systems are identified, as described in Section 62.5(c)
  - Obtain certification from the appraiser that the problematic materials, equipment and systems were considered in the evaluation of the Property
  - Provide evidence that there is no exclusion in the hazard insurance policy for damage caused by the problematic materials, equipment and systems

## 62.3 Property condition report requirements

### a. General requirements for property condition reports (01/01/13)

Each property condition report must

- Be prepared by a consultant who meets the qualifications and requirements stated in Section 62.8
- Include information disclosed by a comprehensive inspection of the Property
- Meet the requirements of Sections 62.4 and 62.5
- Indicate the appropriate category described below for each repair item except Routine Repairs and Maintenance

- For every Critical and Priority Repair that is identified, provide a suggested remedy and a cost for repair or replacement
- If a cost for repair or replacement of any item cannot be identified without further analysis, recommend a scope for the analysis and the estimated cost of such analysis

The property condition consultant must review pertinent information and records in accordance with Section 62.5.

#### **b. Repair categories (06/27/19)**

The repair categories are as follows:

- Critical Repairs – Repairs and replacements that significantly impact habitability, value, income or marketability and that must be corrected before Freddie Mac will proceed with the transaction
- Priority Repairs – Repairs and replacements that are significant and must be addressed as soon as possible. Priority Repairs consist of:
  - All Life Safety Hazards
  - Violations of any federal, State or local law, ordinance or code relating to zoning, subdivision and use, building and housing accessibility (including the Americans with Disabilities and Fair Housing Acts), health matters, fire safety or energy-related requirements
  - Material Deficiencies – Unresolved problems that cannot reasonably be addressed by normal operations or Routine Maintenance and which include:
    - Deficiencies which, if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year
    - Deficiencies that will likely result in a significant escalation of remedial cost related to any material building components that are approaching, have reached or exceeded their typical expected useful life or whose remaining useful life should not be relied upon in view of actual or effective age, abuse, excessive wear and tear, poor maintenance and exposure to the elements
      - Any Mold, water intrusions or potentially damaging leaks
      - Significant Deferred Maintenance – The postponement of normal maintenance, which cannot reasonably be resolved by normal operations or Routine Maintenance and which may result in any of the following:
        - Advanced physical deterioration
        - Lack of full operation or efficiency

- Increased operating costs
- Decline in property value

Any Priority Repair that represents an imminent Life Safety Hazard to tenants or any uncorrected Priority Repair that is the cause of ongoing substantive damage to the asset must be identified on Form 1105, Property Condition Assessment, as a PR-90 repair, indicating that the consultant recommends that this work be completed as soon as possible. PR-90 Repairs must be targeted for completion within 90 days after the Origination Date; all other Priority Repairs must be targeted for completion within 365 days after the Origination Date.

- Operational Repairs – Repairs and replacements that consist of Minor Deficiencies, Minor Deferred Maintenance and Handicap Accessibility Enhancements that are expected to be completed by the Borrower as part of a repairs and maintenance budget and that are not typically resolved by Routine Maintenance
  - Minor Deficiencies – Unresolved problems including:
    - Deficiencies that are not included in Critical or Priority Repairs
    - Deficiencies that do not warrant immediate attention, but require repairs or replacements that should be undertaken within the next 12 months
    - Deficiencies that cannot be reasonably addressed by Routine Repairs and Maintenance, and have a cost per repair item of more than \$3000
  - Minor Deferred Maintenance – The postponement of normal maintenance that may result in minor deterioration, lack of efficiency, and/or minor increase in the operating budget and that has a cost of more than \$3000.
  - Handicap Accessibility Enhancements – For properties built prior to the enactment of the Fair Housing Act and the Americans with Disabilities Act, repairs and/or renovations that pursuant to the applicable federal, State and local laws, statutes and regulations are "readily achievable" and/or qualify as "reasonable accommodations" which will increase accessibility for disabled tenants and visitors to the property in accordance with the applicable laws, statutes and regulations.
- Routine Repairs and Maintenance – Repairs and maintenance that are expected to be completed by the Borrower in the normal course of business and are nominal in cost. These repairs are not considered to be Critical, Priority or Operational Repairs and include work that is:
  - Often preventative in nature
  - Accomplished within the Property's normal operating budget
  - Typically completed by on-site staff

- Focused on keeping the Property fully functioning and serviceable
- Minor Deficiencies with a cost of \$3000 or less per repair item

The property condition consultant is not expected to identify in the property condition report Routine Repairs and Maintenance that are part of a current standard property operating procedure so long as these items appear to have been repaired or maintained regularly.

See Section 62.6(d) for the requirement to identify capital needs over the term of the Mortgage (Replacement Reserves).

**c. Specific requirements for property condition reports (10/14/16)**

Form 1105, Property Condition Assessment, must be completed and submitted as described in Section 62.6.

The property condition report must:

- Clearly state any limiting conditions and the intended purpose of the report
- Identify deviations from the Guide requirements and the most recent version of ASTM standard E2018
- Be dated within six months prior to the date on which the full underwriting package is delivered to Freddie Mac

At initial submission of the full underwriting package to Freddie Mac, the site inspection supporting the property condition report must be dated within 30 days prior to the date of the property condition report.

In addition, the Seller/Servicer must direct the property condition consultant to include the following language in the property condition report:

“This report is for the use and benefit of, and may be relied upon by

- a. the Seller/Servicer, Freddie Mac and any successors and assigns (“Lender”);
- b. independent auditors, accountants, attorneys and other professionals acting on behalf of Lender;
- c. governmental agencies having regulatory authority over Lender;
- d. designated persons pursuant to an order or legal process of any court or governmental agency;
- e. prospective purchasers of the Mortgage; and
- f. with respect to any debt (or portion thereof) and/or securities secured, directly or indirectly, by the Property which is the subject of this report, the following parties and their respective

successors and assigns:

- any placement agent or broker/dealer and any of their respective affiliates, agents and advisors;
- any initial purchaser or subsequent holder of such debt and/or securities;
- any Servicer or other agent acting on behalf of the holders of such debt and/or securities;
- any indenture trustee;
- any rating agency; and
- any institutional provider from time to time of any liquidity facility or credit support for such financings.

In addition, this report, or a reference to this report, may be included or quoted in any offering circular, information circular, offering memorandum, registration statement, private placement memorandum, prospectus or sales brochure (in either electronic or hard copy format) in connection with a securitization or transaction involving such debt (or portion thereof) and/or securities.”

Freddie Mac may require that the property condition report be updated if the property condition report is dated more than six months prior to the date that the Letter of Commitment or adjustment letter for an early rate-lock application is issued.

Freddie Mac may require other specialized reports to address specific issues, when needed.

#### **62.4 Data collection and records inquiry for the property condition report (06/29/18)**

The property condition consultant must

- Review information pertaining to the maintenance, repair and replacement of major building components or systems
- Review all significant maintenance reports, repair receipts and replacement items completed within the past 12 months, as well as elevator, boiler and safety inspection records and certificates
- Review available information related to planned capital improvements, inclusive of renovation/rehabilitation scope of work, and/or such work in progress
- Determine if any deficiencies identified in the inspection are included in the Borrower’s scope of work, and if deficiencies noted are part of planned or ongoing improvements, analyze the Borrower’s budget associated with this work to determine the adequacy of the budget
- Note readily observable deficiencies and/or violations of any federal, State or local laws, ordinances or codes that remain open for the Property, including any violations related to

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zoning, subdivision and use, building and housing accessibility (including the Americans with Disabilities and Fair Housing Acts), health matters, fire safety or energy-related requirements

- Make appropriate inquiry through publicly available sources to determine if any federal, State or local law, ordinance or code violations remain open for the Property, including any violations related to zoning, subdivision and use, building and housing accessibility (including the Americans with Disabilities and Fair Housing Acts), health matters, fire safety or energy-related requirements
- For a Property located in an Elevated Seismic Hazard Region, as defined in Section 64.2(a), evaluate the seismic risk factors found in Section I of Form 1105, Property Condition Assessment.

The property condition report must identify the information the consultant reviewed and the contacts that the consultant made.

## **62.5 Inspection requirements for the property condition report (03/31/11)**

The property condition consultant must perform a complete inspection of the exterior and interior of the Property's components. This inspection must document the types of materials, systems and equipment observed and must include an evaluation of the installation and the age and condition.

### **a. Property grounds and buildings (09/25/15)**

A review of the property grounds and buildings must consist of an inspection of at least the following:

1. Site work (for example, drainage, paving, flatwork, accessibility, lighting, landscaping, irrigation, signage, refuse containment, garages and carports, fencing and retaining walls)
2. Roofing (for example, material condition and age, parapets, scuppers, drains, gutters and downspouts, flashing and coping, skylights)
3. Building facades (for example, building materials, condition, and water penetration; windows; doors, sealants)
4. Structure (for example, foundations, framing systems, balconies and exterior stairs)
5. Heating, ventilation and air conditioning (HVAC) systems (for example, manufacturer and capacity)
6. Plumbing systems (for example, fixtures, piping materials used, supply system, waste system and vent system)
7. Electrical system (for example, capacity, fixtures, distribution system and emergency power)
8. Elevators (for example, cab, controls and equipment and inspection certifications)



9. Amenities (for example, pool, sports courts, playground)
10. Safety and warning devices (for example fire protection and security systems)
11. Water and seepage conditions
12. Septic/well systems
13. If the Property is located in an Elevated Seismic Hazard Region, as defined in Section 64.2(a), the high-risk seismic factors found in Section I of Form 1105, Property Condition Assessment.

**b. Dwelling units, commercial units and building interior (01/31/14)**

A review of the interiors of the dwelling units, commercial units and all building common areas must include the inspection of at least the following:

1. Interior spaces (for example, cabinets, appliances, fixtures with finishes described, conditions noted and accessibility evaluated)
2. Common space (for example, lobbies, corridors, stairs, offices, laundry, garage, etc. with finishes described, conditions noted and accessibility evaluated)
3. Flooring materials and condition (for example, subfloor and finishes such as wood, carpet, vinyl or other mastic tiles)
4. Wallboard and ceiling coverings (for example, gypsum, paneling or other types of coverings for walls and acoustic panels, gypsum or other for ceilings)
5. Fixtures (for example, wiring devices and plumbing and electrical fixtures)
6. Windows (for example, hardware, treatments, screens and storm windows)
7. Doors (for example, hardware, locks and security devices)
8. Intercoms and other security and safety devices (for example, smoke detectors)
9. Kitchen appliances and cabinets/countertops
10. Bathroom fixtures and plumbing
11. Fireplaces
12. Washers/dryers and/or hookups
13. Fire/safety protection devices (for example, smoke detectors, alarms, sprinklers, fire extinguishers, security devices)

The consultant must inspect sufficient units to accurately evaluate the condition of each building and its systems. The consultant must select the units to be inspected and ensure that

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all buildings and unit types are reviewed. The minimum number of units to be inspected is:

- 100 percent of all commercial units
- Overall, at least 10 percent of all residential units, as follows:
  - At least 50 percent of vacant units, and
  - At least 50 percent of Down Units; if the conditions in the Down Units vary considerably, the consultant must inspect additional units to adequately identify the costs to make the Down Units rent-ready

**c. Problematic materials, equipment and systems (06/27/19)**

For a Mortgage secured by an MHC Property, see Section 22.6(b) in addition to the requirements of this Section 62.5(c).

As part of the inspection of the Property, the consultant must evaluate any potentially problematic materials, equipment or systems. Problematic building components include those that historically have performed poorly and those subject to recalls and/or class action lawsuits.

In particular, consultants should evaluate the following items:

1. Electrical capacity, overload protection and aluminum wiring

The minimum amperage acceptable to each unit is 60 amperes. If service levels less than 60 amperes are encountered or reported, the consultant must

- Perform a load calculation for each unit type affected based on the most current guidelines described in National Electric Code (NEC) Article 220, Sections I-III, or review the results of a load calculation similarly prepared by a licensed electrician or electrical engineer
- Make corrective recommendations as appropriate

If the power supply is found to be inadequate, then corrective measures must be made before the Origination Date or a Repair Reserve with a completion date satisfactory to Freddie Mac must be established to correct the inadequate power supply. Regardless of the service level or the results of a load calculation, the Property must meet the minimum requirements of the NEC and all local building codes.

Overload protection for all apartments must, at a minimum, be provided by circuit breakers or tamper-proof (S-type) fuses. If S-type fuses are present, the consultant must determine the adequacy of the installation and associated components, and whether an upgrade to circuit breakers is warranted. Any overload protection devices that are not tamper-proof must be replaced prior to the Origination Date.

If aluminum wiring is present, all branch wiring terminations must have safe, code-compliant connections that are rated to accept aluminum wiring, or corrective, code-compliant repairs must be made before the Origination Date.

## 2. Private wells

For any property with a private well(s), the consultant must inspect all visible components and describe the system, including its intended uses, historical operations and adequacy. Additionally, the consultant must:

- a. Verify that access to equipment is restricted to authorized personnel
- b. Provide costs for connecting to the municipal water system if one is readily available
- c. Identify any backup water source in the event the system becomes unusable – if no source is in place, provide recommendations and costs for providing one
- d. Confirm historical operations of the system, including any violations
- e. Identify reserves needed to maintain the system
- f. Determine if private wells are common to the market
- g. Confirm any required license or authorization to operate the system is in place
- h. Confirm that the Borrower is the only party using or authorized to use the private well(s) servicing the property (i.e., no third-party has the right to tie-in to the Borrower's private well(s) and the Borrower's license or authorization to operate the private well(s) is not conditioned on providing private well services to another property).
- i. Confirm professional third-party maintenance
- j. Confirm that the private well(s) meet or exceed applicable federal, state, and local requirements
- k. Confirm that wells are neither owned nor maintained by residents

## 3. Private wastewater treatment system(s) (including septic and lift systems)

For any property with a private septic/waste treatment system (including lift system), the consultant must inspect all visible components and describe the system, including its historical operations and adequacy. Additionally, the consultant must:

- a. Verify that access to the system is restricted to authorized personnel
- b. Provide costs necessary to link into the municipal waste system if one is readily available

- c. Describe the leach field and distance to surrounding bodies of water that could be impacted by the effluent
- d. Confirm that no buildings or structures are located on top of the leach field
- e. Confirm historical operations of the system, including any violations
- f. Identify reserves needed to maintain the system and leach field
- g. Determine if private waste treatment systems are common to the market
- h. Confirm any required license or authorization to operate the system is in place
- i. Confirm that the Borrower is the only party using or authorized to use the private waste treatment system or private waste system network servicing the property (i.e., no third-party has the right to tie-in to the Borrower's private waste treatment system and the Borrower's license or authorization to operate the private waste treatment system is not conditioned on providing private waste treatment services to another property).
- j. Confirm professional third-party maintenance
- k. Confirm that the waste treatment system meets or exceeds applicable federal, state, and local requirements
- l. Confirm that waste treatment systems are neither owned nor maintained by residents

**d. Moisture or Mold issues (02/28/18)**

The consultant must identify any Mold problems for all areas observed by completing the following tasks:

14. Search for visual or olfactory evidence of moisture or Mold issues in all areas required to be inspected as set forth in Sections 62.5(a) and 62.5(b)
15. Make inquiries of the Property owner, manager or other knowledgeable Property staff regarding past and current water intrusion, potentially damaging leaks or any known Mold issues
16. Make inquiries of the Property owner, manager or other knowledgeable Property staff about whether there have been any tenant complaints regarding health problems, musty odors, water intrusion or potentially damaging leaks
17. Inspect areas where water intrusion or leaks were reported
18. Inspect all building components or areas most typically associated with water intrusion or potentially damaging leaks
19. Identify any defective building condition that would likely lead to future water intrusion or leaks

Other than minor Mold due to poor housekeeping, the consultant must identify the cause of any Mold problem.

If the property condition report indicates that there are moisture or Mold issues, the sources of all identified water intrusion or potentially damaging leaks must be corrected and all Mold issues must be corrected in accordance with Environmental Protection Agency (EPA) guidelines for clean-up and remediation prior to the Origination Date. If the moisture or Mold issues are not corrected prior to the Origination Date, Freddie Mac will require the Borrower to establish a Repair Reserve for correction, clean-up and remediation.

If required, prior to the Origination Date, the Borrower must establish a Moisture Management Plan in accordance with the requirements set forth in Section 8.3(a) or Section 8SBL.3(a), as applicable.

Any Property where Mold issues have been identified will be subject to

- The Increased Scrutiny for Moisture or Mold Issues requirements set forth in Section 8.3(b) or Section 8SBL.3(b), as applicable
- The Special Moisture or Mold Issues Inspection requirements set forth in Section 8.3(c) or Section 8SBL.3(c), as applicable

#### e. Wood-damaging insects (12/15/16)

During the inspection, the consultant must comment on observable evidence of wood-damaging insects (e.g., termites, powderpost beetles, carpenter ants, etc.) and/or deterioration due to wood-damaging insects in all areas required to be inspected in Sections 62.5(a) and 62.5(b). The consultant must also ask the Property owner, manager or other staff knowledgeable about the Property about past wood-damaging insect issues and current evidence of wood-damaging insects and/or wood-damaging insect deterioration, and inspect those areas.

Freddie Mac will require a Repair Reserve for the costs to repair any areas damaged by wood-damaging insects.

For a non-SBL Mortgage, the Seller must provide the documentation described in Section 8.2(e) for any building with a structure or significant components that could be subject to damage by wood-damaging insects.

## 62.6 Form 1105, Property Condition Assessment (09/30/20)

The consultant must complete Form 1105, Property Condition Assessment. Property Condition Assessments using Form 1105 with an inspection date on or after October 17th, 2020, must be delivered with the following files:

- Property Condition Assessment Report (PDF Format, including form 1105)
- Form 1105 Data Supplement (JSON Format, and in compliance with the standards on FreddieMac.com)

The following chart lists the sections of Form 1105.

Section number	Section name
Section I	Summary
Section II	Property Inspection and Evaluation
Section III	Repairs and Cost Estimates
Section IV	Private Wells, Wastewater Treatment Systems, and Lift Stations
Section V	Manufactured Housing Communities
Section VI	Capital Needs Over the Loan Term
Section VII	Repair Categories

**a. Summary (09/25/15)**

In Section I, the consultant must

- Provide general information on the consultant and the Property
- Summarize the building and material characteristics for the Property
- List the units inspected
- For a Property located in an Elevated Seismic Hazard Region, as defined in Section 64.2(a), evaluate the high risk seismic factors
- Provide the required certification for the Form 1105 and the attached narrative

The consultant must complete Section I of Form 1105 in its entirety and sign the form.

**b. Property inspection and evaluation (01/01/13)**

In Section II, the consultant must

- Provide a summary describing the general condition, useful life, quality and adequacy of each of the Property components as required in Section 62.5.
- Estimate the useful life of each of the Property components based on industry standards
- Estimate the remaining useful life of each of the Property components based on time of actual usage, quality, condition, maintenance, exposure to weather and other factors that may impact the remaining useful life
- Provide the costs for repair or replacement for any components that are identified with useful lives that will expire within the Mortgage term or shortly thereafter

- In the Comments columns, note any Life Safety Hazards, deficiencies, deferred maintenance, problematic materials, Mold or evidence of wood-damaging insect infestation observed at the Property
- List all findings of the inspection, research and information collected as part of the assessment
- Note any Critical Repairs, Priority Repairs and Operational Repairs (The report is not expected to identify Routine Repairs and Maintenance that are part of the current operating standards so long as these items appear to have been repaired or maintained regularly.)
- Offer a recommended remedy that is appropriate to the particular problem and to the Property for each deficiency identified on this form (In case of serious problems that may involve considerable time and cost to cure, the consultant must also offer alternative solutions that can provide a temporary or partial remedy.)

**c. Repairs and cost estimates (06/29/18)**

In Section III, the consultant must

- Identify the Critical Repairs, Priority Repairs, and Operational Repairs
- Identify Priority Repairs that need to be completed as soon as possible with the PR-90 designation defined in Section 62.3(b), indicating that these repairs should be completed within 90 days after the Origination Date
- Estimate the costs of such repairs (the unit of measure and quantity of the specific items to be repaired or replaced, the per-item costs and the estimated total cost to repair or replace the items)
- Provide the location of the items and repairs identified

**d. Private Wells, Wastewater Treatment Systems, and Lift Stations (06/29/18)**

In Section IV, the consultant must

- Identify which private systems are at the Property or confirm that none are present
- Answer all applicable questions and provide requested detail

**e. Manufactured Housing Communities (06/29/18)**

In Section V, the consultant must

- State if the subject is a Manufactured Housing Community or if Manufactured Housing units are present at the Property
- Answer all applicable questions and provide requested detail

**f. Capital Needs Over the Loan Term (Replacement Reserves) (06/29/18)**

In Section VI, the consultant must

- Identify the items needing repair or replacement that are beyond the scope of regular maintenance but are necessary to maintain the overall condition of the Property
- Provide an assessment of the Property that:
  - Projects the need for replacements and repairs for the term of the Mortgage plus two years, to a maximum of 12 years
  - Identifies and quantifies the needs and the annual costs after accounting for the inflation factor as indicated in Section IV of the Form

Freddie Mac will review the consultant's assessment and determine the actual Replacement Reserve amount. For a Mortgage with a term of more than 10 years, see Section 39.6(f) for additional Replacement Reserve requirements.

For Seniors Housing Mortgages, see additional requirements for the Replacement Reserve analysis in Section 21.16(e).

For Manufactured Housing Communities Mortgages, see additional requirements for the Replacement Reserve analysis in Section 22.2(i).

**g. Repair Categories (06/29/18)**

Section VII provides brief definitions of Operational, Priority and Critical Repairs.

**h. Additional Information (06/29/18)**

Photographs, data collected and records inquiries compiled as part of the investigation must be attached to the report.

**62.7 Acceptability of the property condition report (07/01/14)**

The property condition report and the condition of the Property must be acceptable to Freddie Mac. The property condition report must specify an appropriate solution for each deficiency identified. The consultant must identify the scope and estimated cost for all Critical and Priority repairs. Upon Freddie Mac's review of the completed property condition report, Freddie Mac may impose additional requirements.



## 62.8 Property condition consultant qualifications and requirements (03/31/11)

Consultants who conduct the on-site inspections and complete the property condition reports must meet the qualifications and requirements specified in this section.

Because Freddie Mac does not approve property condition consultants, the Seller/Servicer must not consider any representation that a consultant is approved or qualified by Freddie Mac to prepare property condition reports. The Seller/Servicer is responsible for selecting the consultant and is solely accountable for the consultant's performance. The Seller/Servicer must ensure that the consultant is qualified to perform the required work.

### a. General requirements (09/08/04)

Consultants' qualifications may vary with the needs of the specific assignment: general inspection services or specific technical analysis may be required. The consultant must be able to analyze building systems and site conditions professionally, identify deficiencies and recommend remedial responses with cost estimates.

### b. References and experience (02/28/18)

A consultant performing inspections and preparing property condition reports must have all of the following qualifications:

- A bachelor's or graduate degree in architecture and/or a related engineering field from an accredited institution
- Five or more years of experience in one or more of the following disciplines: architecture, engineering (structural, mechanical or civil) and/or construction/cost estimating
- Three or more years of experience performing multifamily property inspections
- Two or more years of experience conducting similar work for financial institutions

The Seller/Servicer must check at least three client references from the consultant's previous lenders to determine whether the projects were

- Similar in scope and purpose to the Property
- Completed on time
- Of sufficient quality

The Seller/Servicer must review the consultant's licensing and other certifications (in States where they are applicable), as well as listings of affiliations or memberships in professional organizations. The Seller/Servicer must also maintain in its file for review by Freddie Mac a current resume for the consultant, a current insurance certificate and the required references.

**c. Conflicts of interest/provision of related services (03/31/11)**

The consultant may not be affiliated with the Borrower, the Seller/Servicer, a buyer or seller of the proposed Property, or engaged in any business that might present a conflict of interest. The consultant may not be engaged to perform any repair or remedial work specified in the property condition report.

**d. Insurance (06/30/16)**

The consultant must provide to the Seller/Servicer an original certificate(s) of insurance that indicates that the consultant is, at its own expense, covered by insurance meeting the requirements of Section 11.5.

The Seller/Servicer must retain the original certificate(s) of liability insurance in its files.

**e. Unacceptable consultants (02/29/12)**

The Seller/Servicer must send written notification immediately to the Applicable Freddie Mac Multifamily Regional Office if the Seller/Servicer, for cause, discontinues the use of a consultant who has completed property condition reports within the past 12 months for Mortgages purchased or credit enhanced by Freddie Mac. The TAH Seller/Servicer must send written notification immediately to the Multifamily TAH Underwriter.

In addition, Freddie Mac reserves the right to refuse to accept property condition reports completed by any specific consultant. Freddie Mac will maintain, on FreddieMac.com, the [Multifamily Restricted Vendor List](#). If a property condition consultant appears on the Multifamily Restricted Vendor List, the Seller/Servicer may not use that consultant to inspect a Property until notified otherwise by Freddie Mac. The decision to place a third-party vendor on the Multifamily Restricted Vendor List is solely within Freddie Mac's discretion.

The Multifamily Restricted Vendor List is made available to Seller/Servicers for the sole purpose of ensuring that unacceptable property condition consultants do not prepare reports for Multifamily and will constitute "Confidential Information" as defined in Section 2.8.

**62.9 Coordination with Appraisal (03/31/11)**

The Seller/Servicer must provide copies of the completed property condition report to the appraiser so that the property's physical condition may be considered in the Appraisal.

**62.10 Representations and warranties (09/28/18)**

The Seller/Servicer is deemed to make the warranties regarding the property condition consultant and property condition report set forth in Section 5.4.