

Multifamily Seller/Servicer Guide

Chapter 62SBL

SBL Physical Risk Report Requirements

62SBL.1 SBL Physical Risk Reports (10/12/17)

Unless otherwise required by Freddie Mac, this Chapter applies to loans purchased under the SBL Purchase Product.

This Chapter sets forth the requirements, duties and responsibilities of the Seller/Servicer, the Borrower and the physical risk consultant to evaluate the property condition and the environmental hazards associated with the Property and report this information to Freddie Mac. The consultant must provide resolution and costs for any deficiencies and any hazards identified at the Property.

Freddie Mac requires the Seller/Servicer to submit an SBL Physical Risk Report – Form 1104 (SBL Physical Risk Report) meeting the requirements of Section 62SBL.3 before Freddie Mac will issue a Letter of Commitment to purchase a Mortgage.

a. Purpose of the SBL Physical Risk Report (09/30/20)

The purpose of the SBL Physical Risk 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 is expected to have a negative impact on building components
- Identify Critical and Priority Repairs (as defined in Guide Section 62SBL.3(b)) needed and provide cost estimates for those items
- Identify Operational Repairs (as defined in Guide Section 62SBL.3(b))
- Identify the capital needs over the term of the Mortgage and establish the appropriate amount of Replacement Reserve
- Review the evidence of capital expenditures or construction work provided by the Seller, determine whether the related costs are generally reasonable for the completed work, and if visually ascertainable, identify whether the improvements generally align with the documentation.
- 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 62SBL.5(c)
- Identify all readily observable issues related to non-compliance with applicable codes, including handicapped accessibility requirements, and all issues that could negatively

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affect the health and safety of the tenants

- For a property in an Elevated Seismic Hazard Region, evaluate the seismic risk factors identified in Section 64SBL.2(c)
- Identify any recognized environmental conditions at the subject property and on adjacent properties

b. Information to be provided with the SBL Physical Risk Report (09/30/20)

The completed SBL Physical Risk Report which conveys information about the property features, conditions, recognized environmental conditions and all recommended remedies must be submitted to Freddie Mac along with copies of:

- All information the consultant reviewed, including all data and records provided by the Borrower as well as test results and data reviewed in accordance with Section 62SBL.4 (Key documents, such as test results, environmental databases and 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, including completed capital improvements (if visually ascertainable) or construction. (The consultant must determine the number of photographs that will be necessary and include the photographs, with a description for 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(s) of the individual(s) who reviewed the report, if different from the individual who performed the inspection

62SBL.2 Specific Seller/Service duties and responsibilities (03/03/17)

The Seller/Service must exercise due diligence when evaluating a Property, make appropriate inspections and inquiries to learn its true condition and take responsible actions to manage the risk of loss from property condition deficiencies and environmental hazards.

The Seller/Service's responsibilities are to

- Retain and direct the physical risk consultant

The Seller must review and verify the physical risk 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 physical risk consultant to sufficiently evaluate the consultant's capabilities and performance. The Seller must maintain a separate physical risk 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 physical risk consultant; however, the Borrower may be responsible for paying the costs of all physical risk consultant services.

- Disclose if the State where the Property is located has a law that would allow environmental authorities to place a first priority lien on the Property (an "environmental superlien law")

Because an environmental superlien could take precedence over the Mortgage, the Seller/Servicer must highlight the existence of the superlien law when the Seller/Servicer brings to Freddie Mac's attention any conditions that could result in such a lien being imposed on the Property.

- Disclose to the *Multifamily Small Balance Loan Team* any knowledge of actual or suspected environmental problems, knowledge of Mold problems affecting the Property and knowledge of any physical deficiencies
- Keep abreast of local health, safety accessibility and environmental laws governing the Property
- Provide to the consultant any previously completed SBL Physical Risk Report, property condition report or environmental report and all information pertaining to the maintenance, repair and replacement of major building components or systems before the consultant physically inspects the Property as required in Section 62SBL.4
- Determine if an operations and maintenance (O&M) program is required and obtain an O&M program that is acceptable to Freddie Mac
- Assess the Borrower's ability to successfully execute an O&M program
- Obtain the SBL Physical Risk Report for the Property
 - Review the SBL Physical Risk 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.
- Ensure the appropriate risk management actions have been undertaken for identified environmental hazards
- Provide a copy of the completed SBL Physical Risk Report to the appraiser so that the appraiser can appropriately incorporate the issues identified into the economic evaluation of the Property
- Provide a copy of the completed SBL Physical Risk Report to the Borrower so that the Borrower can understand their obligations to complete the identified Priority Repairs (including PR-90 Repairs) and Operational Repairs as specified in the Loan Documents

- In accordance with Section 8SBL.17
 - Report Critical Repair findings to Freddie Mac, and follow up to ensure timely completion of Critical Repairs
 - Include funded Reserves in the Loan Documents, if applicable
 - Prepare Loan Documents which include the applicable Rider to the Loan Agreement with funded Reserves for all Priority Repairs
- When problematic materials, equipment and systems are identified, as described in Section 62SBL.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

62SBL.3 SBL Physical Risk Report requirements

a. General requirements for SBL Physical Risk Reports (12/14/17)

Each SBL Physical Risk Report must

- Be completed by a consultant who meets the qualifications and requirements stated in Section 62SBL.17
- Document information disclosed by a comprehensive inspection of the Property to analyze all property conditions and environmental hazards
- Meet the inspection requirements of Sections 62SBL.5 through 62SBL.15
- Indicate the appropriate category described below for each repair item except Routine Repairs and Maintenance
- For every Critical Repair, Priority Repair and recognized environmental condition that is identified, provide a suggested remedy and a cost for repair, replacement or remediation
- Include any environmental sampling results
- Reference any environmental O&M programs that are recommended
- 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 physical risk consultant must review pertinent information and records in accordance with Section 62SBL.5.

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Sections of Chapter 62SBL refer to environmental provisions in Chapter 61 to avoid duplication. For the purposes of this Chapter 62SBL, all references to the environmental report in the referenced sections of Chapter 61 are to be understood as referring to the SBL Physical Risk Report, and any references to the environmental consultant are to be understood as referring to the physical risk consultant.

b. Repair categories (10/14/16)

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

- PR-90 Repairs – all Priority Repairs that represent 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 1104, SBL Physical Risk Report, as a PR-90 repair, indicating that the consultant recommends that this work be completed as soon as possible.
- 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 physical risk consultant is not expected to identify in the SBL Physical Risk 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.

c. Capital needs over the term of the Mortgage (Replacement Reserves) (06/30/16)

To accommodate items needing repair or replacement that are beyond the scope of regular maintenance but are necessary to maintain the overall condition of the Property, the consultant must provide an assessment of the overall property condition that will be used in underwriting to determine a replacement reserve requirement.

Based on the information reviewed and the conditions observed, the consultant must select from the following overall property ratings:

- **Excellent:** the property/component is new or maintained in like new condition with proactive maintenance practices, thus exhibiting no deferred maintenance or Life Safety Hazard/code issues.
- **Above Average:** the property/component is fully functional, well maintained, exhibits minimal wear and tear and no deferred maintenance or Life Safety Hazard/code issues. Any identified repairs are due to recent events (e.g., a wind storm or a burst pipe) or are very limited in scope (routine maintenance). Low reserves are required.
- **Average:** the property/condition is fully functional and generally well maintained. It may exhibit customary wear and tear based on age and may have minimal deferred maintenance. Any Life Safety Hazard/code issues can be readily corrected as part of the operating budget and are isolated in nature. Moderate reserves are required.
- **Below Average:** the property/condition exhibits pervasive wear and tear, some limits in functionality and deferred maintenance issues. Life Safety Hazard/code issues are significant and/or numerous and involve substantial cost. High reserves are required.
- **Inferior:** the property/component exhibits inferior/deteriorating conditions and some limits in functionality. Deferred maintenance is pervasive and will be costly to cure. Multiple Life Safety Hazard/code issues are identified and involve significant cost. Extensive repairs are required.

Freddie Mac will review the consultant's assessment and determine the actual Replacement Reserve amount.

d. Remediation and retesting (06/30/16)

Refer to Section 61.4(b).

e. Operations and maintenance (O&M) program (06/30/16)

Refer to Section 61.4(c).

f. Specific requirements for the SBL Physical Risk Report (10/14/16)

The SBL Physical Risk Report must be completed and 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 SBL Physical Risk Report, and the supporting environmental database report, must be dated within 30 days prior to the date of the SBL Physical Risk Report.

The SBL Physical Risk Report must be certified by the physical risk consultant and clearly

- Identify all conditions present during the inspection
- Identify all parties contacted for data or information required for the report
- State any limiting conditions and the intended purpose of the report
- Identify deviations from the Guide requirements and the most recent version of ASTM standards E2018 and E1527 as well as applicable environmental regulations established by the Environmental Protection Agency (EPA).

62SBL.4 Data collection and records inquiry for the SBL Physical Risk Report (09/30/20)

The physical risk 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
- Review evidence of completed capital expenditures or construction costs
- 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 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
- Review all appropriate environmental records, including previous environmental assessment reports, past test results, information on historical use of the subject property and neighboring properties and governmental environmental database records
- Make appropriate inquiry regarding the use and ownership of potentially hazardous equipment at the subject property
- Conduct any required environmental testing in conformance with applicable local, State and federal regulations and licensing requirements

The SBL Physical Risk Report must identify the information the consultant reviewed and the contacts that the consultant made.

62SBL.5 Inspection requirements for the SBL Physical Risk Report (06/30/16)

The physical risk 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, equipment and recognized hazardous conditions observed.

a. Property grounds and buildings (06/30/16)

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

b. Dwelling units, commercial units and building interior (06/30/16)

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 and in no case may inspect fewer than three units.

In addition, the consultant must select the units to be inspected and ensure that all

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buildings and unit types are reviewed and that all of the following are inspected:

- 100 percent of all commercial units
- At least 10 percent of all residential units, to include:
 - 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 (06/29/18)

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, except that 40 amperes is the minimum allowable service level acceptable in an SBL Top Market without a load analysis, provided all of the following conditions are met:
 - No washing machines or clothes dryers are located in the units
 - No heating systems, stovetops, stovetop appliances, and water heaters are powered by electricity
 - No air conditioning units of any type are used unless serviced by a separate dedicated circuit
 - No atypical equipment with high electricity demands (e.g., whirlpool tubs, freezer units, etc.) is located in the units
 - No units are over 750 square feet

If service levels less than the minimum allowable service levels (60 or 40 amperes, as applicable) are encountered or reported, the consultant must

- Perform a load analysis for each unit type affected based on the most current NEC guidelines or review the results of a load analysis similarly prepared by a licensed electrician or electrical engineer
- Make corrective recommendations as appropriate

If the power supply is found to be inadequate, then the Borrower must take corrective measures before the Origination Date or correcting the inadequate power supply must be identified in the SBL Physical Risk Report as a Priority Repair. Regardless of the service level or the results of a load analysis, the Property must meet the minimum requirements of the National Electric Code 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.

d. Moisture or Mold issues (10/14/16)

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

1. Search for visual or olfactory evidence of moisture or Mold issues in all areas required to be inspected as set forth in Sections 62SBL.5(a) and 62SBL.5(b)
2. 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
3. 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
4. Inspect areas where water intrusion or leaks were reported
5. Inspect all building components or areas most typically associated with water intrusion or potentially damaging leaks
6. 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 SBL Physical Risk 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, correction, clean-up and remediation must be identified in the SBL Physical Risk Report as a Priority Repair.

In addition, prior to the Origination Date, the Borrower must establish a Moisture Management Plan in accordance with the requirements set forth in Section 8SBL.3(a).

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 8SBL.3(b)
- The Special Moisture or Mold Issues Inspection requirements set forth in Section 8SBL.3(c)

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 62SBL.5(a) and 62SBL.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.

Repair of any damage by wood-damaging insects must be identified in the SBL Physical Risk Report as a Priority Repair.

f. Environmental issues to be evaluated (06/30/16)

Each SBL Physical Risk Report must include an evaluation of the following potential environmental hazards or issues using the methodology described in this Chapter:

1. Asbestos
2. Hazardous materials
3. Storage tanks
4. Lead-based paint (LBP)
5. Drinking water quality
6. Polychlorinated biphenyls (PCBs)
7. Prior use
8. Neighborhood hazardous waste activity
9. Superlien status

62SBL.6 Asbestos-containing materials (ACM)

a. Refer to Section 61.6(a) and Sections 61.6(c) through 61.6(f) (06/30/16)

Any reference to the environmental report in 61.6(a), and 61.6(e) and 61.6(f) is to be replaced by the SBL Physical Risk Report for this section.

b. ACM — environmental assessment protocol (09/01/16)

The physical risk consultant must identify all observed potential ACMs. Testing is not required. For any suspect ACM identified, the consultant must indicate:

- If the material is friable or non-friable
- If the material is encapsulated or not
- If the material is damaged or not

If the environmental consultant determines that remediation is necessary, the requirements of Section 61.4(b) apply.

c. ACM — issue resolution by physical risk consultant (06/30/16)

As the date of construction is not a meaningful indicator relative to the presence of asbestos, the consultant must recommend an Operations and Maintenance program for all properties unless a comprehensive asbestos inventory was conducted and/or evidence is provided indicating that all ACMs were removed from the property and the documentation is satisfactory to the consultant.

If damaged suspect friable ACM is identified in the interior of the building, the consultant must specifically state:

- Whether an ACM inventory is needed
- Which materials must be removed and the cost of such removal
- Which materials must be repaired and the cost of such repairs
- Which materials must be covered by an O&M program and cost of the program development.

If previous ACM abatement work was performed improperly, the physical risk consultant must identify any resultant contamination.

d. ACM—issue resolution by Borrower (10/14/16)

Freddie Mac requires that the Borrower institute an O&M plan for any suspect ACMs identified by the consultant in accordance with EPA guidance, *Managing Asbestos in Place: A Building Owner's Guide to Operations and Maintenance Programs for Asbestos-Containing Materials* and as found on the EPA website:

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<http://www2.epa.gov/asbestos/how-develop-and-maintain-building-asbestos-operations-and-maintenance-om-program>.

The Borrower must remove all documented friable ACM. Damaged suspect friable materials identified by the consultant which are located in residential units or interior spaces accessible to tenants must either be removed or tested to confirm that the material is non ACM. A qualified professional must analyze the samples utilizing polarized light microscopy and dispersion staining. The number and quantity of samples must be sufficient to provide meaningful results for the area tested.

Undamaged friable ACM may remain in place only if all of the conditions identified above, as well as the following conditions, exist:

- The concentration or amount of asbestos in the material must be less than 10 percent by weight.
- The friable ACM must be in good condition as determined by the physical risk consultant.
- The friable ACM must be sufficiently covered with paint or other material to help prevent the future release of asbestos into the air.
- The Borrower must institute an O&M program developed by the physical risk consultant and acceptable to Freddie Mac.

Undamaged non-friable ACM and undamaged, fully encapsulated wall and ceiling joint compound that is assumed to contain asbestos may remain in place, subject to an acceptable abbreviated O&M program as set forth in Section 61.6(f).

Under most circumstances, before the Origination Date, the Borrower must remove all ACM that is required to be removed. Freddie Mac will consider agreeing to removal of the ACM after the Origination Date only under certain circumstances, such as if the extent or location of the ACM in the building does not present a Life Safety Hazard or if a qualified ACM abatement/removal firm is not immediately available to remove the ACM.

In order for the ACM removal to be performed after the Origination Date, the conditions in Section 61.4(b)(2) must be met. In addition, Freddie Mac will require the following:

1. A binding, fixed-fee ACM-removal contract from a qualified ACM abatement/removal firm that provides for the firm to remove the ACM within 90 days after the Origination Date (or within a timeframe agreeable to Freddie Mac), in strict accordance with prudent industry standard practices and all federal, State and local requirements governing the removal, transport and disposition of ACM
2. Removal of the ACM must be identified in the SBL Physical Risk Report as a PR-90 Repair
3. Before funds are released to the Borrower from any applicable Reserve, proper evidence provided by the Borrower to the Seller/Service that the ACM removal was performed by properly trained individuals in accordance with prudent industry standard

practices and complied with all federal, State and local requirements governing the removal, transport and disposition of ACM

62SBL.7 Hazardous material (12/14/17)

The physical risk consultant must complete a transaction screen questionnaire substantially similar to the current ASTM E1528 standard to initially evaluate this risk. If any responses to the questionnaire are “unknown”, the consultant must explain why this data gap is not a problem or an environmental assessment must be conducted. If any responses to the questionnaire are “yes”, an environmental assessment must be conducted.

If an environmental assessment is warranted, refer to Sections 61.7(a) through 61.7(e).

62SBL.8 Storage tanks (12/14/17)

Based on a property inspection and input sought from knowledgeable property sources, the physical risk consultant must complete a transaction screen questionnaire substantially similar to the current ASTM E1528 standard to initially evaluate this risk. If any responses to the questionnaire are “unknown”, the consultant must explain why this data gap is not a problem or an environmental assessment must be conducted. If any responses to the questionnaire are “yes”, an environmental assessment must be conducted.

If an environmental assessment is warranted, refer to Sections 61.8(a) through 61.8(f).

62SBL.9 Lead-based paint (06/30/16)

Refer to Sections 61.9(a) through 61.9(f).

62SBL.10 Drinking water quality (12/14/17)

The physical risk consultant must complete a transaction screen questionnaire substantially similar to the current ASTM E1528 standard to initially evaluate this risk. If any responses to the questionnaire are “unknown”, the consultant must explain why this data gap is not a problem or an environmental assessment must be conducted. If any responses to the questionnaire are “yes”, then an environmental assessment must be conducted.

If an environmental assessment is warranted, refer to Sections 61.10(a) through 61.10(e).

62SBL.11 Polychlorinated biphenyls (PCBs) (12/14/17)

The physical risk consultant must complete a transaction screen questionnaire substantially similar to the current ASTM E1528 standard to initially evaluate this risk. If any responses to the questionnaire are “unknown”, the consultant must explain why this data gap is not a problem or an environmental assessment must be conducted. If any responses to the questionnaire are “yes”, an environmental assessment must be conducted.

If an environmental assessment is warranted, refer to Sections 61.11(a) through 61.11(e).

62SBL.12 Prior use/historical sources inquiry (12/14/17)

The consultant is to determine whether any past uses of the subject property indicate the potential for contamination to be present due to releases of hazardous materials or petroleum. One of three sources of historical information is to be analyzed:

- Fire insurance maps
- Aerial photographs
- Local street directories

If a single source does not provide sufficient historical information back to 1940, additional sources must be analyzed.

The physical risk consultant must complete a transaction screen questionnaire substantially similar to the current ASTM E1528 standard to initially evaluate this risk. If any responses to the questionnaire are “unknown”, the consultant must explain why this data gap is not a problem or an environmental assessment must be conducted. If any responses to the questionnaire are “yes”, an environmental assessment must be conducted.

If an environmental assessment is warranted, refer to Sections 61.12(a) through 61.12(e).

62SBL.13 Neighborhood hazardous waste activity (06/30/16)

Refer to Sections 61.13(a) through 61.13(d).

62SBL.14 Radon (06/30/16)

SBL Properties are not required to be tested for the presence of radon gas.

62SBL.15 Superlien status (06/30/16)

Refer to Section 61.15.

62SBL.16 Acceptability of the SBL Physical Risk Report (06/30/16)

The SBL Physical Risk Report and the condition of the Property must be acceptable to Freddie Mac. The SBL Physical Risk 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 and all recognized environmental conditions. Upon Freddie Mac's review of the completed SBL Physical Risk Report, Freddie Mac may impose additional requirements.

62SBL.17 Physical risk consultant qualifications and requirements (06/30/16)

Consultants who conduct the on-site inspections and complete the SBL Physical Risk Reports must meet the qualifications and requirements specified in this section.

Because Freddie Mac does not approve physical risk consultants, the Seller/Service must not consider any representation that a consultant is approved or qualified by Freddie Mac to

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prepare SBL Physical Risk Reports. The Seller/Service is responsible for selecting the consultant and is solely accountable for the consultant's performance. The Seller/Service must ensure that the consultant is qualified to perform the required work.

a. General requirements (06/30/16)

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, site conditions, and environmental issues professionally, identify deficiencies and recommend remedial responses with cost estimates.

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

A consultant performing inspections and preparing SBL Physical Risk Reports must have all of the following qualifications:

- A bachelor's or graduate degree in architecture 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

Personnel directly involved with analyzing the environmental information and data for the SBL Physical Risk Report must also have expertise in at least the following relevant areas:

1. Soil and/or ground water contamination
2. Soil and/or ground water sampling
3. Asbestos identification and abatement
4. PCB contamination
5. UST identification, abandonment and removal supervision
6. LBP identification and abatement design and supervision
7. Familiarity with applicable federal, State and local environmental and public health laws and regulations
8. Development of O&M programs

For LBP and asbestos work, some States and municipalities require a license or certificate. The environmental consulting firm must have a sufficient number of properly licensed or certified employees to complete the project.

Additional training must include a 24-hour asbestos inspection course and an annual refresher course that, at a minimum, meets the EPA Guidelines for Asbestos Model Accreditation Plan Annual Refresher Training. Subsurface soil service providers must also complete the 40-hour Health and Safety Training for Hazardous Waste Operations course, with annual 8-hour refresher courses.

The Seller/Service provider 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/Service provider 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/Service provider 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.

Freddie Mac will not accept an SBL Physical Risk Report from an individual or firm that has been excluded from EPA-assisted programs. The Seller/Service provider must check the Excluded Parties List System (EPLS) at <https://www.epls.gov> for the names of individuals and firms that are excluded by Federal government agencies from receiving

- Federal contracts
- Federally approved subcontracts
- Certain types of financial and non-financial assistance and benefits

c. Conflicts of interest/provision of related services (06/30/16)

The consultant may not be affiliated with the Borrower, the Seller/Service provider, 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 SBL Physical Risk Report.

d. Insurance (06/30/16)

1. The consultant must provide to the Seller/Service provider an original certificate(s) of insurance that indicates that the consultant is, at its own expense, covered by insurance adequate to the work to be performed, using, as a basis, the standards for coverage outlined in Section 11.5.

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

2. Recommended insurance standards for use when evaluating adequacy of insurance coverage for third-party consultants, including environmental consultants, physical risk consultants, seismic risk consultants, and appraisers:
 - Commercial General Liability (CGL) insurance with limits of at least \$1 million per occurrence and \$2 million aggregate with a maximum deductible amount of \$35,000
 - Professional Liability insurance with limits of \$1 million per claim and \$2 million aggregate with a maximum deductible amount of \$100,000

Policies to be issued by an insurance carrier rated either Standard & Poor's Insurer Solvency Review "BBB" or better, or AM Best A-, VI, or higher (i.e., A-, X; A, VI, etc.).

Consultants should also have appropriate insurance coverage in place while traveling to and from and conducting work at the Property. The following guidelines for the types and levels of insurance coverage, should be considered:

- Worker's Compensation insurance as required by law
- Automobile liability insurance for all owned (if any), non-owned and hired vehicles of \$1 million per accident

e. Unacceptable consultants (06/30/16)

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 SBL Physical Risk Reports within the past 12 months for Mortgages purchased or credit enhanced by Freddie Mac.

In addition, Freddie Mac reserves the right to refuse to accept SBL Physical Risk Reports completed by any specific consultant. Freddie Mac will maintain, on FreddieMac.com, the [Multifamily Restricted Vendor List](#). If a physical risk 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 physical risk consultants do not prepare reports for Multifamily and will constitute "Confidential Information" as defined in Section 2.8.

62SBL.18 Mortgage Servicing for SBL Mortgages (10/14/16)

Using either the Freddie Mac Annual Inspection Form (AIF) (for pre-securitized loans) or the MBA Inspection Form (for securitized loans), as applicable, the Seller/Servicer must confirm at the first annual inspection whether the items identified as Priority Repairs or PR-90 Repairs on Form 1104, SBL Physical Risk Report, have been completed by the Borrower. All incomplete Priority Repair or PR-90 Repair items must be noted in the applicable inspection form. See Chapter 40 for additional information on submitting the AIF or the MBA Inspection Form.

In addition, when submitting the applicable inspection form, the Seller/Servicer must confirm that the Borrower is maintaining the Property according to any applicable O&M program, environmental law or regulation. The Seller/Servicer is not expected to obtain an environmental report along with the assessment inspection. However, the Seller/Servicer must make an on-site inspection prior to advising Freddie Mac of the property condition and the environmental status of the Property. The Seller/Servicer must inspect the buildings and grounds and review the activities of the Borrower, tenants, sublessors, their agents and any other third parties. These confirmations must specifically address the continuing effectiveness and adequacy of all current remedial and maintenance actions.

In addition, the Seller/Servicer must complete the applicable inspection form immediately following the occurrence of any event that might reasonably be expected to impact the physical or environmental condition of the Property or the adequacy of prescribed remedial or maintenance actions. Such events would include fire, flood, building construction or rehabilitation, spills or leaks of hazardous wastes or materials, unusual or intense use of property facilities, or significant changes in custodial or management personnel.

The Borrower must comply fully with all applicable building and environmental laws and report any violations of such laws to the Seller/Servicer and the appropriate federal, State or local authority.

The Seller/Servicer must require that the Borrower take all necessary actions to ensure that all violations are promptly corrected and that the Property is brought back to and maintained in full compliance with all appropriate environmental statutes and good management practices.

62SBL.19 Representations and warranties (09/28/18)

The Seller/Servicer is deemed to make the warranties regarding the SBL Physical Risk Report and the physical risk consultant set forth in Section 5.4.