

Priority Repair and Escrow Guidance

Guide Update – New Guidance on Priority Repairs

Freddie Mac has updated Priority Repair guidance based on the December 2024 Guide updates to focus on physical asset condition. These updates introduce new requirements for transactions with Priority Repairs.

Transition Period and Effective Dates for Physical Risk Reports and Form 1104:

- Use of the revised Form 1104 is required for Physical Risk Reports completed after 12/31/2024, regardless of loan application date.
- The December 12, 2024, Guide Bulletin set forth the requirements that any PRR not completed prior to 12/31/2024 would need to use the new forms. As such, if a PRR was completed prior to 12/31/2024, irrespective of the date of loan application, we will accept this report.

New Priority Repair Escrow Requirements:

For Small Balance Loans, the minimum percentage of collected escrows has increased from 100% to 125% for all loans requiring a funded escrow.

Priority Repair escrow requirements vary by transaction type (acquisition or refinance):

Escrow Requirement	Acquisition	Refinance
When a PR escrow must be collected at 125% of the total repair costs.	<p>The total cost of the Priority Repairs per the PRR \geq \$25,000; or</p> <p>The engineer assigns a property condition rating of “Below Average” or “Inferior”; or</p> <p>The Freddie Mac or Seller/Service inspector assigns a rating of “Deteriorated” or “Unacceptable”; or</p> <p>The PRR indicates there are Priority Repairs likely to impact habitability as described in 8SBL.17(4) regardless of the estimated cost to remediate</p>	<p>The total cost of the Priority Repairs per the PRR \geq \$25,000; or</p> <p>The engineer assigns a property condition rating of “Below Average” or “Inferior”; or</p> <p>The Freddie Mac or Seller/Service inspector assigns a rating of “Deteriorated” or “Unacceptable”</p>
When a PR escrow must be collected at 175% of the total repair costs.	<p>Acquisition loans will not be required to escrow more than 125% regardless of the total amount of the Priority Repairs or the type of repairs.</p>	<p>The total cost of the Priority Repairs per the PRR \geq \$75,000 (See Note 1); or</p> <p>The PRR indicates there are Priority Repairs more likely to impact habitability as described in 8SBL.17(4) regardless of the estimated cost to remediate</p>
Priority Repair Remediation Plan* is required when:	<p>Loans with Priority Repairs more likely to impact habitability as described in 8SBL.17(4)</p>	<p>Transactions requiring an escrow funded at 175%</p>

*More information on the [Priority Repair Remediation Plan](#)

Priority Repairs Likely to Impact Habitability:

December 12, 2024

A Property is considered to have Priority Repairs likely to impact habitability if the following unit concentrations are met, unless specifically noted within each category below.

- For Properties with 15 or fewer total units, at least 50% of units have been identified in the PRR to have the same prevalent adverse condition;
- For Properties with more than 15 total units, at least 25% of units have been identified in the PRR to have the same prevalent adverse condition; *or*
- Based upon the discretion of the Underwriter, the same prevalent adverse condition occurs, but the threshold of impacted units is not met.

#	Category	Description
1	Structural Repairs	Any Priority Repair resulting from a structural engineer/expert evaluation related to foundation/building slabs, stairs, walkways, balconies, decks, and fire escapes.
2	Moisture and Mold Issues and Remediation	<ul style="list-style-type: none">• Priority Repairs related to moisture and mold issues requiring the use of a mold remediation professional (typically for large areas of mold, i.e. >100 sq ft that are beyond typical housekeeping); <i>or</i>• Priority Repairs where a major building system is identified as the source of moisture
3	Major Building Systems	Properties identified to have Priority Repairs where the habitability of a building is compromised due one or more of these major building systems: <ul style="list-style-type: none">• Electrical (excludes fixture replacement such as GFCI outlets, smoke detectors); <i>or</i>• HVAC (excludes replacement of in-kind unit systems); <i>or</i>• Plumbing (excludes fixture replacement); <i>or</i>• 1 or more down elevator

Operational and Other Repair Category Updates:

- The Operational Repairs category has been removed from the Seller/Service Guide and Form 1104.
- Repairs costing over \$3,000 that were previously classified as Operational Repairs are now considered Priority Repairs if attributed to deferred maintenance.
- The Freddie Mac Guide (Sections 8SBL.17, 62SBL.1- 62SBL.3) and Form 1104 have been updated to reflect these changes.

For questions or exceptions during this transition, please contact your regional Freddie Mac SBL Production and Credit Teams. *Note 1 - Only 25 SBL loans, or less than 1%, funded between 01/2022 and 10/2024 would've been impacted with repairs > \$75k.*