

Property Condition and Environmental Reports

Best Practices

High-quality property condition and environmental reports help prevent credit losses. Use this guide to:

- Evaluate Property Condition and Environmental reports
- Find opportunities for improvement
- Select the best consultants and manage the engagement

Property Condition

Problematic Materials	The consultant should not just identify problematic materials but should also evaluate the potential risk. To complete the risk assessment, the consultant needs to understand how long the material has been on the property, the common pitfalls with the material/installation of the vintage that has been identified (many materials that have a history of problems are modified over time so that each vintage has unique characteristics), and the maintenance experience at the subject property. Then the consultant can make a recommendation with associated costs.
Further Investigation	In some instances, further study may be required before a final recommendation can be made. For example, it may be impossible for the consultant to identify the specific resolution for an observation, such as building settlement, without further investigation. The consultant must note costs for any recommended further investigation and any additional investigation must be completed as soon as possible with the results provided back to the consultant for incorporation into the report.
Reserve Tables	The reserve analysis should not be manipulated merely to produce a number that works with the underwriting analysis. The reserve analysis for non-routine capital costs should reflect the consultant's opinion regarding the remaining useful life of major building components. As such, the amount to be reserved for each component must reflect the remaining useful life of that component and not its expected useful life.
Management Provided Information	The consultant should not just repeat information that is provided by management without any supporting information. Along with any management provided information, the consultant should also provide their observations or other evidence of the management provided information being accurate. For example, a management provided roof age should also be accompanied by the consultant's observations of the roof or other information to support the roof age.

Environmental

<u>Scope Issues</u>	<p>Hazardous materials, storage tanks, PCBs, prior use, and neighborhood hazardous waste activity must be evaluated in accordance with ASTM E1527-21. For storage tanks and PCBs, the environmental consultant should also evaluate if testing or O&M plans are needed.</p> <p>For all identified environmental hazards, the consultant must provide a suggested remedy with associated costs. If further analysis is needed, the consultant must identify the scope of the analysis recommended as well as the estimated cost of such analysis.</p>
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Non-scope Issues

Asbestos	Asbestos is still being produced and imported into this country, so the consultant should never dismiss asbestos risk based on the date of construction. Unless building specifications can be reviewed or the architect of record or contractor certifies that asbestos products were not used in the building construction, most buildings will have suspect asbestos materials. The consultant must note if any suspect materials are friable. Suspect friable materials must be tested. Freddie Mac does not allow damaged friable materials or friable materials with concentrations above 10% to remain in place. An O&M plan is required for all friable materials in good condition, tested to be below a 10% concentration, and fully encapsulated, that remain in place.
Lead-based paint (LBP)	LBP testing is not required for properties built in 1978 or later. For properties built before 1978, the Borrower may choose to test for LBP or to presume LBP is present and implement an O&M program to manage the hazard in place.
Mold	The consultant must investigate for mold and water intrusion and if found, must make a professional judgement if a Moisture Management Plan (MMP) is required to address potential ongoing water and mold issues. A Freddie Mac Moisture Management Plan Handbook is available to Optigo lenders (available at https://mf.freddiemac.com/lenders/uw#references-tools).
Radon	<p>Subject to certain exemptions set forth in Section 61.14(a) of the Guide, radon testing must be conducted pursuant to the Multifamily Radon Testing Requirements outlined in Exhibit 11, (Radon Testing and Mitigation Standards) except that for Properties taken under application on or prior to June 30, 2023:</p> <ol style="list-style-type: none"> a. A minimum of 10 percent of ground-contact units at the Property must be subject to the initial round of radon testing, with no fewer than one radon test per each building having ground-contact units, and b. Follow-up radon testing is only required to occur in each unit that tested at 4.0 pico Curies per liter of air (pCi/L) or greater during the initial round of testing <p>All radon testing must be managed by the environmental consultant, who must be an “Environmental Professional” as that term is defined in 40 CFR § 312.10, and who must ensure compliance with state and local requirements governing radon testing and mitigation.</p> <p>If radon mitigation is required pursuant to Exhibit 11, Radon Testing and Mitigation Standards or is otherwise recommended by the environmental consultant, the environmental consultant must include in the environmental report a description of what mitigation methods will be used. The environmental consultant must review any mitigation contract(s) and comment on the appropriateness of the scope, cost, and schedule for the required work.</p>
<u>Further Testing</u>	In certain cases, potential hazards cannot be fully evaluated without testing. For example, issues such as underground tanks with no historical test information or a dry cleaner with a documented spill, will likely require on-site testing to adequately evaluate the environmental risk before the report is issued. Generally, additional testing must be completed prior to closing.

Selecting the Best Consultants

- Evaluate and select consultants based on qualifications and quality of work — not strictly based on price or turnaround time
 - Qualify new consultants per the *Multifamily Seller/Service Guide* (Guide) requirements
 - Ensure consultants are qualified, including on site inspectors and report writers, and require that their resumes be included in the report appendix

- Understand if sub-contractors are to be utilized to perform the site inspection and, if so, how quality control is maintained.
- If the site inspector or report writer does not meet all qualifications requirements as specified in the Guide, but the Optigo Lender has determined they have equivalent experience and expertise, an “Equivalent Experience and Expertise Certificate” (available at <https://mf.freddie.mac.com/lenders/uw#property-condition-and-environmental-site>) must be completed and included with the applicable report. Valid justifications must be provided indicating the site inspector or report writer has equivalent experience and expertise for any of the required qualifications that are not met.
- Ensure the consultant clearly understands the scope of work
 - If a new consultant, ensure they are familiar with the Guide chapter(s) that describes work scope
 - The consultant should state the required scope of work in the report

Managing the Engagement

Optigo Lenders should be interactive with consultants:

- Convey Freddie Mac’s requirements and your requirements and any unique aspects of the transaction to the consultant
- Advise consultants of Guide changes
- Follow up with the consultant on any pending information identified in the report; this information must be submitted to Freddie Mac
- Give feedback (positive and negative) to consultants in a timely manner
- Encourage borrowers to provide historical property information including recent repairs and capital improvements, planned improvements, and any past third-party reports.
- Keep track of consultant performance, aggregate results from multiple report reviewers, and share performance issues across your organization

Consultants should be interactive with the Optigo Lender:

- Understand who on the Optigo Lender’s team is using their reports and communicate directly with those individuals
- Convey any unique aspects of the property
- Convey industry trends

Evaluating Reports

- As required by the representations and warranties, fully review reports to confirm scope and verify issue resolution before submitting to Freddie Mac.
- Ensure all issues are resolved before closing deals
- Generally, it is not appropriate to require testing or further investigation after closing as problems (and required costs) could significantly exceed expectations
- All property conditions should be fully described (e.g., some consultants describe only the problem areas and do not note the conditions of all major property components/systems)
- All identified issues should have a recommendation and an associated cost; if the borrower provides cost information, the consultant must comment on its adequacy
- Freddie Mac Forms 1103 and 1105 must be completed and certified by the consultant
- Reliance for report information must be provided to Freddie Mac as well as to the Optigo Lender per standard language as provided in the Guide