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Fannie Mae's Property Guidelines Adjustment

The GSE has extensively revised its Property Condition Assessment rules

By Drew McCreery, Partner Engineering and Science Inc.

Across the commercial real estate industry, we're seeing more discipline in today's post-recession regulatory and financial environment. However, as the market continues to heat up, lenders may also be tempted to let underwriting standards slip in an effort to keep up with the influx of activity. Balancing better risk-management practices with competitive pressures is key to the long-term sustainability of the rebounding commercial real estate industry. The agency space is no different.

Over the past two years, Fannie Mae has refined underwriting requirements in its "Multifamily Selling and Servicing Guide" in an effort to provide greater clarity and improve internal efficiencies to better compete with Freddie Mac and the industry at large. Specifically, the agency has made two extensive revisions to the Property Condition Assessment (PCA) guidelines that went into effect on Feb. 3, 2014 (known as Fannie 1.0) and more recently on Jan. 1, 2015 (known as Fannie 2.0). Fannie Mae's intent behind these revisions is to better align with industry standards and practices, create consistency across templates and reports, and to improve their data collection process.

Fannie Mae – streamlining processes

Through the changes, Fannie has upgraded its guidance as it relates to the PCA arena from 17 pages in 1991, to the more than 100 page guidance document it references today known as Fannie Mae 4099. This document includes nine separate sections including standardized cost tables (4099E), standardized useful life tables (4099F), and strict guidance on problematic materials (4099G). The new guide is mandatory for all loans that are to receive Fannie Mae commitment after Dec. 31, 2014. The full updated 4099 document can be found here. Below are the three most significant changes associated with Fannie Mae 4099:

1. Standardization of formats

Fannie's new "Instructions for Performing Multifamily Property Condition Assessments" include detailed and clear guidance along with report standardizations intended to relieve pressures on the due diligence process and “loosen up constricted lending standards to make mortgages more affordable.”

Standardization of formats will help to streamline processes, maintain a level of consistency and improve the review process. Part of Fannie’s goal is to generate the 4099E tables in a live format that can be fed directly into Fannie’s database and enable more efficient data extraction and delivery by both the servicer and Fannie Mae. Due diligence providers must streamline their data collection and entry processes to ensure any increases in labor and/or time requirements are not passed on to the servicer. For the end-user, standardization ensures a greater level of regularity and consistency across vendors and across reports that will make the review process easier.

2. Clarification of language

Fannie Mae’s multifamily credit and underwriting teams solicited extensive industry feedback during the development of the changes, which highlighted a concern regarding the complexity and inconsistency of language used in the standard. In response, Fannie decided to simplify, clarify and standardize the language to more closely mirror terminology used throughout industry standards for Property Condition Assessments such as ASTM E2018-08. Case in point: the Fannie report previously known as the Physical Needs Assessment (PNA) will now be called a Property Condition Assessment (‘PCA’) report as it is across most of the industry.

3. Greater emphasis on third party vendor management

In the most recent round of changes, requirements for the PCA consultant and field observer were clarified to broaden the pool of qualified assessors after they were significantly restricted by requirements placed on qualifications for firms, field assessors and report reviewers in Fannie 1.0.

Fannie 2.0 places greater emphasis on lenders’ careful management of third party relationships including the PCA consultants experience, education and credentials while emphasizing the need for qualified consultants to “use professional judgment within the outlined scope of work.”

What this means for lenders

Through the revisions, Fannie Mae is making some important steps towards ensuring a level of assessor quality typical to the industry at large, enabling lenders to remain competitive while better managing risks. The extent to which Fannie’s updated underwriting standards will impact individual agency lenders depends on their existing lending practices and risk tolerances. Overall, the changes are expected to improve time and cost- efficiency across the due diligence process, possibly enabling lenders to comfortably take on higher loan concentrations. This likely isn’t the last change we’ve seen from Fannie Mae: already there are plans in the pipeline to modify seismic and environmental due diligence requirements to be clearer on scope – stay tuned!

Drew H. McCreery serves as technical director of agency services at Partner Engineering and Science, Inc., where he is responsible for ensuring the quality and consistency of due diligence services required for Freddie Mac and Fannie Mae loans. One of the fastest-growing private companies in the United States, Partner Engineering and Science Inc. (Partner) is a national engineering, environmental and energy consulting firm serving the commercial real estate industry. Partner's services include: Environmental Due Diligence; Subsurface Investigations and Remediation;Industrial Hygiene; Property Condition Assessments; Seismic Risk Assessments /Probable Maximum Loss; Engineering Design; Energy Audits; Building Commissioning; Sustainability Consulting; Land Development; Land Surveying; andConstruction Risk Management. Based in Torrance, Calif., Partner has over 400 employees in 25 offices nationwide.