

Commercial

Reference Guide for Commercial and Multifamily Property Inspection Reports

By Property Inspection Review and Revision Working Group

*Commercial Real Estate/Multifamily Finance Board of
Governors Servicing Committee*

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PREFACE

Property inspections are a critical component of the Servicer's responsibility for proactive asset management of the Subject Property. The inspection is an opportunity to gain first hand information about the current physical condition and operations of the Subject Property, to identify the future improvements at the Subject Property, and to identify trends and potential risks that may negatively impact the ongoing income potential of the asset.

This Reference Guide augments the 2008 revision to the MBA Property Inspection Form. The Guide is intended to offer expanded information on how to complete due diligence for property inspections, properly fill out the inspection form report, and offer some helpful tips on how to complete the inspection and review the final report. The Guide is not intended to be used for instructional purposes for casualty losses (manmade or natural), repair/replacement disbursement requests, condemnations, origination, due diligence, or special servicing/workout situations, however much of the information contained herein may also apply to those circumstances.

The Reference Guide is addressed to the servicing industry audience, however, please refer to applicable contractual agreements and your Company's policies and procedures for specific requirements in all situations. It does not make any conclusions or recommendations as to the final outcome of the property inspection or inspection reporting process. The outcome and final conclusion of any issues or non-compliance after such a review should be determined on a case by case basis, taking into account, among other things, the specific property, the loan documents, any transaction or servicing agreements, the market, the company profile and the Lender or trust associated with the transaction.

Property Inspection Review and Revision Working Group
Commercial Real Estate/Multifamily Finance Board of Governors'
Servicing Committee
Mortgage Bankers Association

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1. INSPECTION OVERVIEW AND DEFINITIONS

a. A Brief History of the Inspection Form

The MBA released the first commercial real estate industry accepted property inspection form in June 2000. This form provided the industry the tool to complete inspections for all the various property types: Office, Retail, Multifamily, Healthcare, Lodging, Industrial, etc. on one form. The form was formally accepted and approved by the Commercial Mortgage Securities Association (“CMSA”) for CMBS Securitizations.

Over the last few years, the complexity of commercial mortgage loans and increasing amount of leverage available to Borrowers has raised the level of scrutiny and review by Servicers and Stakeholders on the underlying collateral. At the same time, consolidation in the commercial mortgage servicing industry has resulted in a smaller number of Servicers with larger portfolios. Since the servicing portfolios of these large Servicers are so much more geographically disbursed than their business operations, performing inspections on these large portfolios is not always cost effective from a central servicing office.

As a result of the increased level of commercial real estate monitoring, as well as specific data and information required for various property types, the MBA established a committee in January 2006 to enhance the inspection form. This committee consisted of members from various Servicers, Lenders, Correspondents, and Mortgage Bankers and has considered over 300 proposed changes to the form. In addition, the MBA obtained feedback from its members, CMSA, Fannie Mae and Freddie Mac, and incorporated many of their comments into the revised form. A MBA MISMO Working Group representative was invited to join the group on an auditing basis, to ensure the inspection form takes into account the MISMO data dictionary and has been included on distributions of the evolving draft forms¹.

The goal of the Guide is to have full industry adoption of the new Property Form in its entirety, without modification.

b. What is an inspection?

- Inspection- a checking or testing of an individual property against established standards. A property inspection is a monitoring tool completed by or for the Servicer on behalf of the Stakeholder to ensure the collateral for the commercial real estate loan is being properly maintained by the Borrower and its affiliates, as well as to assess the status of the Subject Property from damage due to natural or manmade significant events. Inspections are completed by Servicer staff, or by an Inspection Company engaged by the Servicer.

c. Who are the parties involved in an inspection?

- Borrower - The person/entity that received mortgage loan funds who has made a promise to repay those funds on terms defined within the loan documents and whose Property serves as collateral for the applicable loan. Also commonly referred to as debtor, maker or mortgagor in the loan documents.

¹ The Mortgage Industry Standards Maintenance Organization's mission is to develop, promote, and maintain voluntary electronic commerce standards for the mortgage industry. Established in 1999 by the Mortgage Bankers Association, MISMO encourages participation from all sectors of the industry.

- Inspector – A member of the Servicer’s staff or an Inspection Company representative who performs the on-site examination and review of the Subject Property.
- Inspection Company – A third party company engaged by the Servicer to inspect and report on Properties.
- Investor – Any person or entity that invests in mortgage loans or mortgage-backed securities. There may be more than one Investor in a transaction.
- Lender – The Company providing the mortgage loan funds and as referenced herein, has and retains the financial risk on its corporate balance sheet. Also commonly referred to as mortgagee or payee in the loan documents.
- Subject Property – The real estate and other collateral involved in the operations of the real estate which serves as collateral for the applicable loan. Other collateral can and may include furniture, fixtures, machinery, equipment, etc.
- Property Manager – The person or entity charged with daily operating and maintenance of the Subject Property, whose duties may include tenanting (leasing), evicting, collection of rents, repairing/contracting for repair of the Subject Property, cleaning, landscaping, maintenance, snow removal, etc. on behalf of the Borrower. The Property Manager may or may not be affiliated with the Borrower.
- Servicer – The liaison between the Borrower and investing side (Lender or Investor) of the real estate finance industry with a contractual responsibility to the Lender and Investor. Servicing is the role of loan management. It includes the enforcement of the loan document requirements; oversight of the Subject Property; administration of protective measures and mitigation of any potential losses; and periodic reporting to Lender or Investor as to the Subject Property’s performance throughout the life of the loan. A correspondent is a type of Servicer
- Stakeholder – Any party that has either a direct (e.g. lender, a trust or investor) or indirect (e.g. another servicer, Rating Agency, Trustee) interest in the loan.

d. What governs the requirements of an inspection?

- The Lender establishes the Borrower’s obligations regarding property inspections in the original loan documents. In addition to the loan documents, the general requirements between the Stakeholders and the Servicer are spelled out in the applicable servicing agreement. Those documents, coupled with the Servicer’s internal policies and procedures, provide the road map to Servicers in fulfilling the inspection obligations while servicing the loan.

Note – all of this is more fully addressed in Section 2.

e. Why is the inspection and inspection report important in commercial real estate?

- All properties experience natural and manmade deterioration. Maintenance is part of the ongoing process for preserving the Subject Property’s value. Property preservation is critical to the real estate finance industry because most mortgage loans are non-recourse, in other words, the Subject Property is typically the only

collateral securing the mortgage loan and there is limited ability to collect personally from the Borrower on the loan².

- The Property inspection can be considered an early warning indicator for the Servicer as the Inspector may observe indications of deferred maintenance, vacancy increase, rent concessions or a declining neighborhood. It also allows the Servicer to monitor the physical condition of the Subject Property and the surrounding neighborhood throughout the life of the loan. The Servicer must ensure that the collateral is being maintained so that the Subject Property will be able to retain its value.
- Many Servicers rely on third party Inspectors and their asset managers to capture information about the Subject Property. The Servicer in turn will review their work and relay the completed inspection report to various Stakeholders, including Lenders and Investors. The inspection report becomes a key information tool for giving those recipients periodic updates on the performance of their assets.
- For all parties involved, the use of a standard industry inspection report format will result in more effective inspections by facilitating:
 1. clear comparisons across inspections and properties in portfolios, which leads to greater accuracy in analysis and record keeping.
 2. proactive asset management following best practices.
 3. standardization of both the procedures for conducting inspections and the criteria for completing reports. This uniformity creates efficiencies, such as data automation, that lead to more accurate reporting, which ultimately leads to better inspections and decreases Inspector liability. The use of one form results in less manual input of data with one technology system for reports and more accurate reporting, since all information is based on the same criteria and definitions.

² The loan may incorporate language for “bad boy” carve outs and/or personal guarantee(s) that can lead to borrower being held personally liable.

2. OVERVIEW OF THE INSPECTION PROCESS

a. Servicer Pre-Inspection Process and Review

- i. A review of the Borrower's mortgage loan documents, applicable servicing agreement(s) and internal company policies and procedures should be undertaken to insure contractual and policy adherence. Including, but not limited to:
 1. Mortgage Loan Documents
 - Borrower's requirements to provide access and information during the inspection process.
 - Any special restrictions and inspection cost reimbursement requirements.
 - Any remediation or immediate repair needs agreed to.
 2. Applicable servicing agreement(s)
 - Requirements regarding frequency, timing of inspection, and reporting of inspection results.
 - Inspection cost reimbursement requirements.
 3. Company's corporate policy/procedure compliance regarding
 - timing
 - inspection cost reimbursement
 - contracting
 - travel
 - interaction with borrowers (clients)
 - writing reports
 - equipment use (camera other)
- ii. The prior inspection should be reviewed to determine if any deferred maintenance or other issues were noted as necessary property maintenance.
- iii. A review of the Servicer's system of record, contact notes and correspondence should be performed to determine if there are any other issues of note (e.g., natural/manmade significant events; construction/rehabilitation/conversion; condemnation or other taking; zoning, licensing, franchise issues).
- iv. Borrower financial and rent roll information should be reviewed and applicable commentary (e.g., dark spaces tenant rollover concerns, build outs, declining/increasing occupancy, repairs and maintenance expenditures, capital improvement expenditures) should be noted.
- v. A review of the Servicer's loan file should be undertaken to note any special restrictions (e.g., governmental, research & development), limitations or hazards at the Subject Property (e.g., restricted access), clothing restrictions or recommendations (e.g., boots, coats, etc.), health issues (e.g., no elevator

access, microwave use, chemicals), and/or safety issues (e.g., structure is damaged or compromised, etc.).

- vi. Any and all Operation and Maintenance Plan(s) (O&M Plan), if applicable, should be reviewed to note any requirements and conditions of the plans. Provide the appropriate contracts, servicing information, contact and scope (e.g., timing, special requirements) to the Inspector.

b. Inspector Pre-Inspection Process and Review

- i. Receipt of applicable inspection information from the Servicer.
- ii. Review of contractual requirements (e.g., experience requirements, timing requirements, special instructions), including any O&M Plan.
- iii. Contact the appropriate Borrower parties for scheduling the inspection and requesting of any pre-inspection or on-site information. When scheduling the property inspection, request that the on-site contact has a minimum of 6 months tenure with the Subject Property and request that all tenants are put on notice as to the inspection date. The Borrower's on-site contact that is responsible for the property inspection will vary; it may be the borrower himself, a property manager or another designated on-site contact (maintenance, leasing team, etc.).
- iv. Forward the inspection form/questionnaire prior to the on-site visit to the appropriate Borrower parties, as applicable. [e.g., MF questionnaire – Number of units/buildings, request rent roll, prior/in-process/planned improvements; Shopping Center – request rent roll, prior, current and budgeted capital improvements, year of construction, # units/buildings] this may include the management interview, review the Stakeholder's preference on how to conduct the possible management interview.
- v. Prepare the correct materials and instruments to take to the on-site visit, including but not limited to, hard copy or electronic copy of the Inspection Form, note taking instruments (pen, pencil, tape recorder, computer, notebook, etc.) a camera, any special clothing items, health/safety items, etc.
- vi. Confirmation with applicable Borrower parties of inspection date and time just prior to inspection.

c. Inspector On-site Inspection Process, Review and Reporting

As soon as the Inspector lands or drives into the city or town where the Subject Property is located, the inspection actually begins. The Inspector should note observations concerning the state of the market, commercial/retail/recreational facilities, and properties considered comparable to the Subject Property.

- i. Arrive with sufficient time to
 - 1. Drive the neighborhood and the Subject Property and note
 - a. Traffic patterns
 - b. What is the accessibility of the Subject Property?

- c. What is the condition, accessibility, traffic flow, etc. of other properties?
 - d. What is the condition and effectiveness of the signage at the Subject Property?
 - e. Is there new construction?
 - f. Are the surrounding homes well maintained?
 - g. Does the Subject Property fit the neighborhood?
 2. Walk partial Subject Property exterior (general first impressions of the Subject Property)
- ii. Meet with on-site Borrower contact (if applicable) and
 1. Verify information previously received or collect any additional information needed to complete the inspection process.
 2. Conduct and/or complete follow up on the Management Interview questions if applicable to the scope of the inspection.
 3. Review the inspection process with the on-site Borrower contact.
 4. Discuss units to be inspected, the final units to be inspected should be determined by the Inspector.
 5. Inquire regarding any special conditions identified by the Servicer or noticed prior to or while meeting with on-site contact (e.g., comparable development, deferred maintenance/ construction issues).
- iii. Tour Subject Property with Borrower on-site contact (or individually, if applicable)
 1. Tour units chosen by the Inspector.
 2. Inquire regarding any resolution timing and any costs associated with issues discovered during walk through (if accompanied).
 3. Obtain an understanding of the Borrower's commitment to Subject Property (e.g., on-site contact, maintenance staff or tenants concerns regarding needed improvements).
 4. Obtain an understanding of on-site contact's and if possible property management's knowledge and management of the Subject Property. Give the on-site contact a verbal summary of the inspection, if appropriate and within the scope of your agreement with the Servicer. The on-site Contact should not be surprised by your report.
- iv. Document everything in writing and with corresponding photos, as appropriate.
- v. Complete tour with on-site contact (if applicable)
 1. Address any issues not previously addressed.
 2. Exchange business cards.
 3. Understand and confirm any follow up procedure for questions or gaps the Inspector may have in information for the final report.

d. Inspector Report and Follow Up

- i. Address any Servicer questions by adding comments to the form where appropriate.
- ii. Complete the property inspection report, including any follow up with the borrower or borrower on-site contact.
- iii. Sign/Certify to the veracity of the inspection report, as required by any Servicer or Stakeholder.
- iv. Send the Inspection to the Servicer in the required format (e.g., electronic Excel, hard copy, MIMSO XML).
- v. Ensure that the Servicer has Inspection Company contact information for any follow up questions.

e. Servicer Post-Inspection Process and Review

- i. Review received inspection information, for
 1. Compliance with vendor contract (if applicable), Stakeholder contract and internal requirements.
 2. Compliance with loan documents (including any O&M Plan) and any servicing agreement(s).
 3. Completeness, i.e. ensure that the Inspector has addressed information and/or issues provided by the Servicer prior to the inspection.
 4. Identification of deferred maintenance and other issues, including proper documentation of issues with photos where appropriate.
- ii. Contact the Inspector for any unaddressed issues/clarification.
- iii. Borrower contact, if applicable
 1. Contact the borrower to discuss issues detailed in the inspection, as applicable, to address issues of concern not addressed from prior inspection/loan document timetables (e.g., immediate repair agreements, new dark tenant space).
 2. Forward appropriate correspondence and, if applicable, agreements, to document required/negotiated issues to be addressed, with applicable timelines for completion.
 3. Follow-up and/or schedule periodic inspections to ensure completion of required repairs based on mortgage loan documents and servicing agreements.
- iv. Servicer system update
 1. Make necessary commentary regarding issues and document discussions with the borrower.
 2. Update applicable files to ensure accurate reporting (e.g., update of monthly files, internal/external watchlist).

3. Create appropriate ticklers for monitoring progress of required corrections and for scheduling of updated inspections, as required.
- v. Correspondent/Servicer reporting and filing
1. Forward a copy of the inspection report to required parties, as applicable, in servicing agreements (e.g., Stakeholders, Lenders, Investors, Trustees, Rating Agencies, Master Servicers, other Noteholders).
 2. Save and file inspection information in appropriate locations (e.g., electronically, Servicing File).
- vi. Additional servicing responsibilities
1. If applicable and appropriate, the results of the inspection report may facilitate the transfer of the loan to an appropriate party for additional monitoring and/or servicing (e.g., Special Servicer, workout, Note holder).
 2. If applicable and appropriate, enforcing loan document requirements (e.g., springing lockboxes, initiating/increasing required repair reserve payments, calculation of default interest, increasing Borrower financial reporting requirements).
 3. If there are defaults or contract violations, refer to the loan documents, applicable servicing agreement(s) and internal process for next steps.

3. INSPECTION FORM

The MBA form was designed to allow the Commercial Mortgage Industry to utilize a single all-purpose form to properly capture inspection data. The form can be used as a whole, or in part, depending on the Servicer's requirements, depth of inspection and property type.

The form layout is as follows (in the order of the actual worksheet tabs):

- Definitions of Descriptors
- General Information
- Physical Condition / Deferred Maintenance
- Management Interview
- Multifamily
- Healthcare
- Rent Roll
- Maps
- Photos
- Comprehensive Assessment Addendum

TOOLS

Spell Check Macro

The Tools tab has a spell check command button that will allow the Inspector to spell check the entire MBA Inspection Form. Once initiated, the spellchecker will utilize the native spell checking functionality of Excel. Because of limitations in Excel, the spellchecker does not highlight the word in the spreadsheet that is being checked nor does it skip to the tab that is being checked.

Print Macro

The Tools tab has a print command button that will invoke a print dialogue box. From within the print dialogue the Inspector has the ability to select the tabs that they desire to print. Once the tabs are selected the Inspector will select Print. The print areas for the Rent Roll and Maps tabs need to be set manually, all other print areas will be set automatically by the spreadsheet.

Insert Logo Macro

The Tools tab has insert logo command button designed to allow the Lender to insert a company logo into the MBA Inspection Form. The following procedures should be followed to properly insert a company logo.

- 1) Select a logo that will reasonably fit in the logo space on the General Information Tab.
- 2) Unprotect the Tools Tab with the password "MBA1"
- 3) Click Insert Logo
- 4) Select the File to be used for the logo image.
- 5) Click Open or Insert

- 6) If the logo will not exactly fit into the space on the provided, check “Size to fit” after the logo has been inserted and the logo will be resized to fit within the allowable logo area.
- 7) Protect the Tools Tab with the password “MBA1”

General tips for using the MBA Inspection Form:

1. Excel 2003 Compliant – the MBA Inspection form is Excel 2003 compliant. If an Inspector is utilizing an older version than Excel 2003 some of the special features may not work properly. If an Inspector is utilizing Excel 2007 they should either open the form while in the “Compatibility” mode or when saving, “Save As” an Excel 2003 file.
2. Security Settings – it is important that each Inspector sets their Excel security setting to Medium to allow the use of Macros. To adjust your Excel security settings (Excel 2003) from the menu bar choose Tools, Macro, Security, Security Level Tab, and then select Medium. This will allow the Inspector to select whether or not to enable the Macros in a spreadsheet. It is important that the Macros be enabled each time the Inspector opens the MBA Inspection Form. If the Macros are not enabled the form will not function properly.
3. Tabbing – the form is formatted to allow the Inspector to tab from input field to input field, thus reducing the amount of mouse movements.
4. Drop Down Auto-fill – the drop down menus have been formatted to allow the Inspector to start typing a selection from the drop down list and the closest selection will appear in the input box. This is useful once the Inspector has become accustomed to the selection choices in each drop down box. Alternatively, once in an input field that has a drop down list, the Inspector can use the key strokes Alt + Arrow Down to invoke the drop down list.
5. Blue Fields – the blue fields throughout the form will be auto populated from other inputs in the form. As the blue fields are populated the blue shading will be removed. This does not mean that the value can be changed in the field, it must be changed in the original input field. Once the form is completely filled out, all these fields will be populated.
6. Fonts & Font Sizes – it should be noted that all the fonts and font sizes throughout the form have been locked and cannot be changed by the Inspector.

RATINGS

The descriptors are to be used throughout the inspection report.

The definitions are provided separately as a page attached to the inspection report for easy use and reference while conducting the inspection and later completing the report. The ratings are broken out into a scoring system based on 1-5, reflecting best to worst condition, not applicable and not accessible. The ratings definitions are as follows:

- a. **Rating 1** - New or like new condition. All major building components are new or like new. All vacant units/space are rent ready & reflect the highest current market

- standards. No deferred maintenance items (only routine maintenance). No life safety or code violations exist. Positive impact to marketability. Deferred maintenance and life safety – no actions are required.
- b. **Rating 2** - Above average condition for the property's age and market, minimal wear and tear. All major building components in functional condition. All vacant units/space are rent ready or in the process of being made rent ready. No deferred maintenance items (only routine maintenance). No life safety or code violations exist. No impact to marketability. Deferred maintenance and life safety – no actions are required.
 - c. **Rating 3** - Normal condition for the property's age and market, general wear and tear. All major building components in functional condition. Most vacant units or space are rent ready or in the process of being made rent ready. Minimal deferred maintenance and routine maintenance items with costs that can be funded by normal operations. No/minor life safety or code violations exist. No impact to marketability. Deferred maintenance and life safety - appropriate actions are planned or in progress.
 - d. **Rating 4** - Deteriorating condition for the property's age and market. A building component is not in fully functional condition. Few rent-ready units or space. Limited major deferred maintenance &/or numerous minor deferred maintenance items. Some life safety or code violations exist. Negative impact to marketability. Deferred maintenance and life safety - actions are not addressed as quickly as required and/or further action is necessary, additional monitoring may be appropriate.
 - e. **Rating 5** - Inferior conditions. Multiple building components non-functional. Vacant units or space are in poor to down condition. Severe deferred maintenance items. Multiple life safety or code violations exist. Negative impact to marketability. Deferred maintenance and life safety – no action taken and/or further action is necessary and additional monitoring is appropriate.
 - f. **Not Applicable** - No components exist (therefore, no rating is possible).
 - g. **Not Accessible** - No component was visible due to inability to view the condition based on access, life safety, weather conditions or other blockages. Deferred maintenance items cannot be determined based on lack of access. Further action or review may be required.

GENERAL INFORMATION PAGE

Header

The header is filled out on the General Info tab and will be automatically populated throughout the form.

- a. **Inspection Date** – The date on which the physical property inspection was performed.

- b. **Time** – Time of day at which the property inspection of the Subject Property was begun.
- c. **Loan Number** – The reference number assigned to the Subject Property by the servicer completing or ordering the property inspection for the Subject Property.
- d. **Property Name** – The name of the Subject Property, if it has been named.
- e. **Property City** - The city in which the Subject Property is located.
- f. **Property State/Country** – The State in which the Subject Property is located. The MBA form will automatically populate the Country code for the selected state. Selections have been provided for the USA, Canada, Mexico, Caribbean Islands, and other various regions.
- g. **Overall Property Rating** - Overall rating of the Subject Property’s physical condition expressed as a rating of 1 - 5, with each rating carrying a specific definition per the MBA (see Definitions of Descriptors). The overall property rating identifier reflects the general condition of the Subject Property, by a score of 1-5 reflecting best to worst condition. The value of this field is that it provides a snap shot of the Subject Property’s condition, taking into account each individual component of the Subject Property. This rating is not a formula, rather a guide for the Inspector to provide his judgment of the Subject Property.

Servicer, Loan and Contact Information

This section is an overview of information necessary for the Servicer to identify the Subject Property being inspected. This section should be provided by the Servicer, please do not ask the property contact for any of the information contained in this section.

- a. **Servicer Name** – Name of company servicing the loan.
- b. **Lender/Investor** – Owner of the loan.
- c. **Investor Number** – Investor or lender reference number from their system of record or loan documents.
- d. **Investor Loan Number** – The reference number assigned to the Subject Property by the investor or owner of the loan.
- e. **Property ID** - Reference ID - Especially to Denote Multiple Properties at the same address or multiple buildings at the same address. Definition may also include Negotiated Transaction reference number.
- f. **Original Loan Amount** – The amount of the subject loan at the time of loan funding.
- g. **Loan Balance** – Current unpaid principal balance (UPB) - the actual balance (not the scheduled balance).
- h. **Loan Balance as of Date** – The “as of” date the UPB represents.

- i. **Contact Company** – Mortgagor's or Property Manager's Name from Servicer system of record or the loan documents.
- j. **Contact Name** – A person who is the contact for the Borrower, or may be someone from the management company. The name should be input as a separate First Name and Last Name in the fields provided (i.e. First Name / Last Name).
- k. **Contact Phone** – Telephone number of the Borrower contact, may be the management company.
- l. **Contact Email** - Email of the Borrower contact, may be the management company.
- m. **Edit Label – Addt'l ID #1** – A second Servicer or lender loan number reference OR this field can be used for additional property sequencing information. Additional ID's are provided by Servicer or lender for further identification such as an inspector ID, FNMA, FHLMC property ID's, etc. Inspectors please note that data will vary Servicer to Servicer. It is intended that the label "Edit Label – Addt'l ID #1" will be typed over with a label that clearly defines the value represented (i.e. Inspection Company ID).
- n. **Edit Label – Addt'l ID #2** – A second Servicer or lender loan number reference OR this field can be used for additional property sequencing information. Additional ID's are provided by Servicer or lender for further identification such as an inspector ID, FNMA, FHLMC property ID's, etc. Inspectors please note that data will vary Servicer to Servicer. It is intended that the label "Edit Label – Addt'l ID #2" will be typed over with a label that clearly defines the value represented (i.e. Inspection Company ID).
- o. **O&M Plan for Property** – Select from choices:
 Yes, Specified Below
 No
 Unknown

 Servicer should indicate if an O&M Plan or Plans is applicable. Includes ALL Plans (such as, but not limited to, Operations & Maintenance, Lead Based Paint, Moisture Management and Environmental Remediation)
- p. **Report Reviewed By** – Name of the individual who reviews the final report (typically someone from the Servicer's company). The name should be input as a separate First Name and Last Name in the fields provided (i.e. First Name / Last Name).

Property and Inspector Information

The Property and Inspector Information portion of the report is where the Subject Property to be inspected should be identified, along with information on who performed the inspection (Inspector).

- a. **Property Name** - This information automatically populates when placed in the Header.
- b. **Property Address** - The street address of the Subject Property.

- c. **Property City** - This information automatically populates when placed in the Header.
- d. **Property State** - This information automatically populates when placed in the Header.
- e. **Property Zip** - The Postal Code Designated by the US Postal Office for the physical address for the Subject Property.
- f. **Primary Property Type** - Select from choices:
 Healthcare
 Industrial
 Lodging
 Multifamily
 Mobile Home Park
 Mixed Use
 Office
 Other
 Retail
 Self Storage
- g. **Secondary Property Type** – A Secondary Property Type list will be presented based on the Primary Type chosen. The Primary Property Type must be selected in order for the dropdown selections for the Secondary Property Type to populate.
- h. **Inspection Company** - Name of inspecting company.
- i. **Inspection Co. Phone** - Phone number of Inspection Company.
- j. **Inspector's Name** - Name of individual performing the inspection. The name should be input as a separate First Name and Last Name in the fields provided (i.e. First Name / Last Name).
- k. **Inspector's ID** – The Inspection Company's assigned Inspector ID for the individual performing the inspection.
- l. **Lender's or Servicer's General Comments or Instructions to Inspector for Subject Property:** - Free Text Space for the Servicer to give additional information or instructions on the Subject Property or the review process to the Property Inspector. Servicers have the ability to provide comments or instructions to the Inspector for assistance in better defining the scope of work and Subject Property. If any attachments are provided, the Servicer may include a brief description on how to utilize them along with the inspection. Examples of attachments may be a capital repair reserve agreement, a map or rent roll.
- m. **Property Inspector's General Comments or Suggestions to Lender or Servicer on the Subject Property:** - Free Text Space for the Property Inspector to respond to the Servicer instructions/comments and to give additional information or suggestions on the Subject Property or the review process. The Inspector may speak to specific concerns after viewing the Subject Property or provide details not covered in other sections of the form. A Subject Property for sale or a significant amount of dark,

vacant space or going-out-of-business signs may be examples of information the Inspector may wish to disclose.

Overview of Property Information

This section represents the Inspector's initial overview of the Subject Property details including vacancy/occupancy, franchise information and repairs or capital improvements. If instructed by the Servicer, Inspector should edit the information if actual varies with the information provided by the Servicer. The Servicer will use this current information for comparison with historical underwriting, documents and inspections.

- a. **Number of Buildings** – The number of buildings at the Subject Property.
- b. **Number of Floors** – The number of floors in the buildings. If there is more than one building with various heights, input the building with the highest # of floors.
- c. **Number of Elevators** – The total number of elevators at the Subject Property.
- d. **Number of Parking Spaces** – The total number of parking space at the Subject Property.
- e. **Number of Units / Rooms / Beds** – The total number of units, rooms or beds at the Subject Property.
- f. **Rent Roll Obtained at Inspection?** – This question addresses whether the Subject Property inspector received a copy of the rent roll during the inspection process. Not all inspections require the collection of a rent roll. Select from these choices:
Yes
No
Not Applicable

If the collection of a rent roll is a requirement in the scope of the inspection and one was not obtained by the inspector then No should be selected. In addition, the Rent Roll tab of the MBA Property Inspection Form should be filled out with a selection of the reason why the rent roll was not obtained.

- g. **Total Number of Down Units / Rooms / Beds** – The total number of down units, rooms or beds at the Subject Property. "Down unit" is defined as any unit, room or bed that that cannot be made rent ready with routine maintenance.
- h. **Unit of Measurement Used** – Input the unit of measurement used for the property type of the Subject Property (i.e. Multifamily uses Units). Select from these choices:
Units
Rooms
Beds
Sq. Feet
- i. **Year Built** – The year in which the structure on the Subject Property was completed. If the Subject Property was completed in phases, input the year in which the last phase of the Subject Property was completed.

- j. **Total Square Feet (Gross)** – A number that represents the gross rentable square footage of the Subject Property.
- k. **Total Sq. Feet (Net / Rentable)** – A number that represents the net rentable square footage of the Subject Property.
- l. **Occupied Space** – Amount of occupied space at the Subject Property. Input as Unit, Beds, Rooms, or Square Feet.
- m. **Vacant Space** – Amount of vacant space at the Subject Property. Input as Unit, Beds, Rooms, or Square Feet.
- n. **Total Percent Occupied** – A calculation of the percent of space occupied at the time of the visit. In order for the Total Percent Occupied field to calculate, the Unit of Measurement Used field must be selected and all the related fields to the unit of measurement selected must be input. Example, if Sq. Feet is selected in the Unit of Measurement Field then Total Sq. Feet (Net/Rentable), Occupied Space, and Vacant Space must be input in order for Total Percent Occupied to calculate. In addition, the sum of Occupied Space and Vacant Space must equal Total Sq. Feet (Net/Rentable), if not it will result in an error of “sum<>parts”. These same rules apply to the related Units/Rooms/Beds fields when they are selected.
- o. **Annual Occupancy** – The total average occupancy of the Subject Property expressed as a percentage. Annual Occupancy is most commonly used for hospitality properties.
- p. **Annual Turn Over** – The actual number of units, rooms or beds vacated at the Subject Property for the last 12 months, expressed as a percentage of the total number of units. For example, if there are 100 units and 70 units were vacated or turned over during the last 12 months, there would be 70% turnover reported.
- q. **Property Offers Rental Concessions?** – The rental concession section provides the Inspector a forum to elaborate on any discounts offered by management. Select from these choices:
 Yes
 No
 Not Applicable
 Unknown

If yes, please describe concessions: – The Inspector may provide clarification as to why concessions are being offered at the Subject Property. This information provides an indication to the Servicer as to how management is responding to the market.
- r. **Franchise Name** – The name of the franchisor if the Subject Property is associated with a franchise. Most commonly used for hospitality properties.
- s. **Franchise change since last inspection?** – Has the franchise operated at the Subject Property changed since the date of the last inspection. Select from these choices:

Yes
No
Not Applicable
Unknown

- t. **Number of Occupied Units Inspected** – Input the total number of occupied units or beds inspected during the site visit.
- u. **Number of Vacant Units Inspected** – Input the total number of vacant unit or beds inspected during the site visit.
- v. **Is there any dark space?** – “Dark Space” is considered a space that is physically vacant, but the tenant is still listed on the rent roll and paying rent. Select from these choices:
Yes
No
- u. **Describe (Dark Space)** - Relating to any dark spaces, the Inspector should note in the report the details of any tenant and/or unit number that went dark. The Inspector should state the length of time the unit has been vacant, if ascertainable.
- v. **Is there any down space?** – “Down Space” is defined as any space that cannot be made rent ready with routine maintenance. Select from these choices:
Yes
No
- w. **Describe (Down Space):** – If there is Down Space at the Subject Property the inspector should specify the space that is dark and length of time it has been dark. If additional space is needed to provide a proper description the inspector should continue the comments in the Additional Collateral Description Information
- x. **Capital Expenditures** – The Capital Expenditures question should include a detailed description of the required repairs. The description should provide the location of such repairs and estimated size of the area affected. Estimated costs associated with the repair should be provided if known. This information may be derived from a myriad of sources, based upon any actual knowledge, but should not be a presumption or a guess on the Inspector’s part. If repairs or improvements are currently underway the percentage complete should be reported. Describe in detail Repairs, Replacements or Capital Improvements. Identify the Status of the repairs by selecting from the drop down menu.

Neighborhood and Site Comparison Data

The Inspector should observe the area immediately surrounding the Subject Property and surrounding neighborhoods. The answers compare the Subject Property to the general area (typically 1-3 mile radius).

- a. **Is the area declining or distressed?** Examples of an area that may be declining or distressed are excessive properties for sale in the immediate area, multiple dark buildings or excessive vacancies. Properties in surrounding areas that are not being

maintained and show evident deferred maintenance issues are another indication the area is declining or in a downward transition. Select from these choices:

Yes - Described Below

No

- b. **Is there any new construction in the area?** Observed evidence of construction of new buildings in the areas or cleared sites in preparation of construction should be noted by the Inspector. New roads or other signs of improvement should be noted. Select from these choices:

Yes - Described Below

No

- c. **Top 2 Major Competitors – Name** – The Inspector’s observations of similar property types to the Subject Property that could be construed as direct competition are disclosed in this section. Newly constructed comparable properties that may be more appealing to the public are an example of potential competition to a hotel, multifamily property or a retail establishment. Retail properties with contenders for sales of similar products as are for sale by tenants of the Subject Property in the immediate area should be noted. The best source of this information may be provided by management or by Inspector’s knowledge of the surrounding vicinity. Name major competition located near the Subject Property, and include the name.

- d. **Top 2 Major Competitors – Location** - Describe the location of the major competition, based on where it is located in relation to the Subject Property (N, S, E, W).

- e. **Present Use %** - Choose a percentage in increments of 5% based on the defined property types:

Single Family

Multifamily

Commercial (including office and retail)

Industrial

Undeveloped

The percentages should not exceed 100% (the Undeveloped category will turn to a RED NEGATIVE value if 100% has been exceeded).

- f. **Describe the area and surrounding land use (include location in relation to subject property - N, S, E, W):** - Free text space for the Property Inspector to explain any potential changes in the area and describe the other properties within the vicinity of the Subject Property, include the location in relation to the Subject Property (N, S, E, W).

Management Company Information

This section provides the Servicer with the basic information on the property management contact.

- a. **Management Company Name** – record the name of the management company.

- b. **Phone Number** – record the phone number of the management company onsite contact.
- c. **Onsite Contact** – record the name of the individual that was the inspector’s onsite contact. The name should be input as a separate First Name and Last Name in the fields provided (i.e. First Name / Last Name).
- d. **Mgmt Interview** – Select from these choices:
 Yes, Onsite
 Yes, Prior to Visit
 Yes, Prior to and onsite
 No, Not Required.
- e. **Role or Title of Contact** – record the role or the title of the Onsite Contact.
- f. **Length of time at property** – select the length of the time (from the drop down menu) that the Onsite Contact has been assigned to the Subject Property. If the Manager has been at the Subject Property for less than 6 months, please provide an explanation of why the last manager left the Subject Property. This comment should be included in the Additional Collateral Description Information comment box.
- g. **Management Affiliation** – select the management company’s affiliation with the Borrower from the drop down menu. Drop down selections:
 Affiliated with the Borrower
 Nonaffiliated, Third Party.
- h. **Change since last inspection** – select Yes or No from the drop down menu to indicate if the Management Company has changed since the last inspection. This is not if the person managing the Subject Property is different; only indicate yes if the company/entity has changed.

Other Information

Additional Collateral Description Information – The Servicer may provide additional insight into the Subject Property. The Inspector may also want to provide additional insight regarding the Subject Property, the manager, how the inspection went in general, etc. This is a free form text box for any additional comments.

PHYSICAL CONDITION AND DEFERRED MAINTENANCE

Overall Ratings

The overall ratings are provided on the Ratings Tab of the Standard Property Inspection Form. This inspection report uses a rating scale of **one to five** with one being an item in excellent or like new condition and five being an item in poor condition and indicating serious deferred maintenance and/or life safety issues (see Definitions of Descriptors). The numbers progress higher to signify more complex and critical issues with deferred maintenance and/or life safety issues. The Inspector should carefully consider each rating to choose the one that most accurately reflects the condition of the component.

Not Applicable means no components exist.

Not Accessible means the components were not visible due to inability to view the condition based on access, life safety, weather conditions or other blockages.

Trend

The Stakeholders will be interested in ascertaining the trends of the physical condition of each property. Does it appear that the Borrower is spending the necessary funds to properly maintain the Subject Property? Does it appear that the Borrower is allocating appropriate funds to address deferred maintenance?³ The Inspector should compare the inspection reports from the previous year(s). Servicers should consider sending previous year's inspection reports to their third-party vendor as part of their engagement package as this helps the Inspector to have a comparison or baseline. Trends are an important part of the reporting process on the MBA report and are requested for each physical condition listed. The Inspector should consider whether the condition has improved, declined, or remained stable since the last inspection. If the inspector did not perform the previous year's inspection or does not have access to the report, the inspector may not be able to determine the trend and would select **Unknown** from the drop down menu.

Physical Condition

- a. **Curb Appeal** – What is the first impression of the Subject Property when a prospective tenant enters the Subject Property? Is the signage well maintained? Is the landscaping near the entrance and leasing office attractive and inviting?
- b. **Site** – What is the condition of the grounds of the Subject Property including fences, retaining walls, driveways, parking lots, and landscaping? Is routine maintenance being addressed?
- c. **Building/Mechanical** – This section refers to the components that make the buildings livable/useable including hot water heaters, air conditioners, boilers, cooling towers, electrical, and plumbing. What is the condition of the various components? If centrally located, is the floor clean and dry around the boilers? Are the pipes color coded? Is the area relatively clean or are there spare parts and debris scattered about or too close to boilers or electrical panels?
- d. **Building Exteriors** – What is the condition of the façade of the building? Have the exteriors deteriorated beyond the ability of routine maintenance to return the exterior to a good condition?
- e. **Building Roofs** – Note the type of roof and the condition. Is the roof visible or accessible? Is there debris on the roof? If a flat roof with mechanical equipment on it, are there designated paths to the equipment with protective materials to keep foot traffic from damaging the roof? Are roof leaks visible on the ceilings of the top floor of the interior space?

³ Note: While a third-party inspector would probably not have this information, in-house reviewers or inspectors should consider whether or not the level of maintenance indicated by the financial statements corresponds to that indicated by the physical inspections.

- f. **Occupied Unit/Space** – Are the existing tenants properly maintaining the space? If the inspector had the opportunity to interview any tenants, are they reporting needed repairs? Is their lack of housekeeping causing pest or health issues?
- g. **Vacant Units/Space/Rooms** – Are the vacant spaces rent ready? How long does a typical turn take? Is vacant space clean, with prior tenant items removed?
- h. **Down Units** – What is the cause for the down unit? Does the borrower have a plan to repair the unit? How long has the unit been down? When will the unit be restored to rent readiness?
- i. **Interior Common Areas** – This component includes interior hallways, entry ways, interior stairways, lobbies etc. Is the flooring in the interior hallway clean and without trip hazards? Is the reception area attractive and inviting? Is the kitchen satisfactorily clean? Is the Pharmacy/Medication Storage area locked and secured?
- j. **Amenities** – This component includes swimming pools, tennis courts, playgrounds, etc. Is the fence around the swimming pool secure enough to keep children and pets safe? Is the laundry area/room clean and safe for tenants? Is the restaurant/bar clean and attractive?
- k. **Management Competence** - The annual inspection gives the opportunity to evaluate the management team at the Subject Property. What is their level of professionalism? Are they able to respond to your questions with insightful answers? Are they knowledgeable of the Subject Property, neighborhood and market? Were they prepared for the inspection including having all requested paperwork ready and notifying all tenants?

Comments

The Inspector is the eyes and ears for the Servicer (if a third party) and Stakeholders. Their report will be used to make vital decisions regarding the Subject Property. Although the inspection form will supply useful information, it is important that the Inspector include comments on the inspection report. When appropriate, the Inspector should ask open-ended questions of the manager and/or maintenance supervisor. The comments given often provide additional, useful information and/or color to the Inspector's findings. The ratings and trends will give the Stakeholders some information, but comments provide color and facts necessary to clarify and fully understand the situation at the Subject Property. The report will be considered incomplete without specific comments for each of the components that have significant changes either positive or negative. If there are not significant changes either positive or negative the comment box should be left blank if not otherwise instructed by the Servicer or Stakeholder.

Deferred Maintenance Items Grid

The grid consists of the following:

- a. **Identify Item and Describe Condition (including location)** – On the worksheet there is an area for describing the deferred maintenance items. Each item or area where there is a deferred maintenance concern should be listed, including enough of a description of the location for it to be located by a third party. Make any further comments to help clarify the issue and better inform the reader.

- b. **Rating** – The Rating is a drop down box where one can choose whether it is a Major or Minor issue.⁴
- c. **Photo #** – Insert the appropriate photo number from the Photos tab of the inspection workbook to ensure the Servicer can match up the item to the photograph (an additional description or more detailed location information can be put into the caption of the photo). Best practice is to take at least one photograph for each deferred maintenance item listed.
- d. **Life Safety** – Use the drop down box to indicate whether or not an item is a Life Safety issue (Yes or No). If yes, please contact the borrower, or your client (if you are a third party inspector) immediately.
- e. **Estimated Cost** – Identify the cost of repairing the item, based upon any actual knowledge, which may include the Inspector’s experience and/or any information provided by the on-site contact. This should not be a guess or estimate without some concrete information.

Deferred Maintenance vs. Routine Maintenance

It is the intention of the Deferred Maintenance section that the Inspector describes only deferred maintenance items and not routine maintenance. To assist, below are general definitions of both:

- **Routine Maintenance** – Items needing maintenance that an inspector would reasonably expect to be remedied as a part of a Subject Property’s ongoing maintenance program based on his overall assessment of the Subject Property condition. A routine maintenance item can become deferred maintenance if not addressed within an adequate time period.
- **Deferred Maintenance** – Is defined as inadequate or postponed performance of repairs, maintenance or rehabilitation that, as a result, requires immediate repair or replacement of physical items to an acceptable condition relative to the age of the system or Subject Property. Maintenance items that if not immediately repaired may result in further degradation to the system or Subject Property. Items that are actively being repaired are not deferred maintenance but repairs in process. Repairs in process should be noted in the Capital Expenditures section of the General Info tab.

Rating – Major vs. Minor Deferred Maintenance

In the Deferred Maintenance grid, the Inspection has to determine whether the condition he viewed constitutes a “major” or a “minor” deferred maintenance item. To assist, below are general characteristics of both:

- **Minor** – Generally, this type of deferred maintenance will not result in further short term deterioration of the Subject Property, nor be severe enough to interfere with the tenant’s use or habitability of the subject property. However, it should be remedied

⁴ Major Deferred Maintenance Items have to be disclosed by the Servicer on the CMSA Reports and other Lender or Investor Reports.

within a reasonable timeframe to prevent long term deterioration of the Subject Property. This level of deferred maintenance may not be immediately apparent to the public or affect their opinion of the subject property but would be apparent to a trained inspector. This should not present a potential life safety hazard. Examples include: overgrown landscaping, minor paint peeling, minimal wood rot in a corner of one building, missing downspout at the rear of the property, cracking in the asphalt, sidewalks or building façade.

- Major – Generally, this type of deferred maintenance will result in further deterioration to the Subject Property if not immediately remedied, and could interfere with the tenant's use or habitability of the subject property. This level of deferred maintenance often will affect the public's opinion of the Subject Property and includes certain types of issues, which, if allowed to further deteriorate, could lead to substantial damage and/or life safety hazards. If the Inspector observes a life safety issue, it should always be noted as a major deferred maintenance. It may also include components or systems that are functionally impaired. If minor deferred maintenance is pervasive about the Subject Property, it can be considered major deferred maintenance. General examples include: structural damage, building damage that would permit water intrusion, particularly roof damage or major ponding of water on the roof, major building systems not functioning, wide spread alligating of the parking lot surface, wood rot, significant trash accumulation, or failure to maintain landscaping.

The inspector should include descriptive comments as to why he chose major or minor if he is in doubt as to which drop down to select.

Life Safety

Life Safety items may be described as a visually obvious construction or design defect or deferred maintenance condition that creates a potential hazard that increases the possibility of personal injury or death. In addition, information received from a credible source as to a potential life safety issue, which is not visually obvious, should be reported. Life safety issues require immediate action. The Borrower or Client (for third-party vendors) should be contacted without delay.

Tips

- For multifamily, use the internet to check apartment rental websites for comments from current and past tenants about the Subject Property before your visit. Most managers monitor these sites and are more than willing to address shortcomings or negative comments that are posted.
- Drive or walk the complex before going to the office to meet the manager. This will give you an opportunity to form a first impression of the Subject Property. If you note deferred maintenance, you will be able to ask questions about the issues during the interview section of the inspection or during your walk through (if accompanied).
- The best case scenario is to interview the manager and walk the Subject Property with the maintenance supervisor. The Inspector will receive a different perspective on the Subject Property from the maintenance supervisor. The maintenance supervisor and his

team are the people performing the work at the Subject Property and typically will be proud to show off their work or inform the Inspector of work that should be done.

- If part of the scope of the inspection and if the information is provided to the Inspector, the Inspector should confirm that repairs reimbursed from the repair account or replacement reserve account were completed in a good and workmanlike manner.
- Does the owner have a plan to repair the deferred maintenance? If so, is the plan realistic? Do they have the funds to complete the plan? Do they have the staff to complete the plan?
- If part of the scope of the inspection and if the information is provided to the Inspector, confirm that the Borrower has completed the repairs needed according to the last inspection report (or engineer's report for first inspections).
- Ask the maintenance supervisor if she/he faces any particular challenges in maintaining the Subject Property. Ask the manager or maintenance supervisor if she/he is aware of any deferred or otherwise unaddressed maintenance issues.
- Listen carefully to what the maintenance supervisor says and/or doesn't say. Maintenance supervisors can be one of the best sources for property level information.
- Pay particular attention to properties that are self-managed by the Borrower. Typically, these owners tend to replace carpets, fixtures, appliances, etc. later than Stakeholders prefer. Borrowers who self-manage properties tend to perform some or much of the maintenance work themselves.
- Down Units:
 - Check to see if the down unit is being cannibalized (appliances and/or fixtures being removed from the down unit to be used in another unit).
 - Down units are clear indicators of management problems including a lack of owner commitment, and cash flow strain. As a result, the Subject Property may suffer from lack of market appeal, potential reputation problems, increased vandalism potential, and are cause for further deterioration.
- The Inspector should select the units, rooms, and/or bays to be walked. Prior to the inspection, Management should be told that all tenants should be notified of the coming inspection. That way, the Inspector can select any unit, room, and/or bay on the Subject Property including any unit, room, or bay that appears to have physical issues or concerns.
- When selecting the units, room, or bay to inspect, the Inspector might consider last year's vacant and down units, this year's vacant and down units, random sampling of occupied units, including all unit types, and units in any area the manager seems to be directing you away from. An inspection of ceilings in top floor units, rooms or bays can reveal whether or not there are roof leaks.
- Carefully document your observations of the Subject Property conditions with photographs and notes. Establish a consistent method of taking detailed notes.
- Gauge the level of tenant complaints while walking the Subject Property. Talk to tenants when given the opportunity. Note the familiarity between manager or maintenance supervisor and tenants.

- If appropriate and within the policies and procedures of the servicer, share your findings with the manager and/or maintenance supervisor before departing the Subject Property. Do not surprise the property staff with your findings. If possible, discuss any deferred maintenance with the person escorting you around the Subject Property when you note the problem. Ask for plans on repairing the problem and ask if funds are available to complete the project. Be sure to take photographs of all deferred maintenance noted. Frame the photographs to give the viewer the best perspective of the situation, i.e., is there a small mildew problem or is the room overrun with mold.
- Ask follow-up questions to understand the situation at the Subject Property.
- Check camera periodically during the inspection, to assure you actually have photographs, that they are in focus and that the pictures tell the story before leaving the Subject Property.
- The designated party will write a follow-up letter to the borrower about deferred maintenance items. Ask for a written response outlining plans for correcting the deferred maintenance and/or life safety issues and the time table for completing the projects. Give the borrower a deadline for the receipt of a response. If the response is not received by the deadline either send another letter or make telephone calls to the borrower. If the issues are serious enough, consider revisiting the Subject Property. Include in the comments to the Servicer the fact that you have addressed the issues with the Borrower in a follow-up letter. Third-party inspectors should provide enough detail in their comments so that the Borrower can be given detailed information that can be tracked, i.e., if there is a sagging gutter/pot hole/heaved sidewalk include the location in your comments or photo caption. Even if there is an endemic problem, cite location(s) of example(s).
- Allow enough time to thoroughly inspect the Subject Property. Walk all common areas including amenities. Carefully follow investor requirements for inspecting the Subject Property.
- Do not allow the manager/maintenance supervisor to steer you around the Subject Property. The Inspector should insist upon going into the areas she/he has chosen for the inspection. If the manager's key will not open a unit you requested to see, then make any reasonable attempts to view the unit/area while at the Subject Property. If you are unable to gain access after a reasonable attempt, make a note in the inspection report about the lack of access; be as specific as possible about the location of the blocked unit/area and the attempt to gain entry.

MANAGEMENT INFORMATION AND INTERVIEW

In general, this component is to be completed based on responses given by the Borrower or the property manager and are not the opinions of the Inspector. It is recommended that this interview be conducted either prior to the inspection (reviewed by the Servicer and Inspector) or at the time of the site inspection. Understand that you may get different responses based on the timing of the interview. Sending the management interview prior to the inspection should lead to full answers and any necessary back up materials for each question, which will allow the Servicer to review the materials prior to the inspection and perhaps offer additional instructions. Asking the questions on-site gives you another layer of information about the competence of the management on-site, including how knowledgeable and prepared the

Subject Property site contact is to discuss the Subject Property. Know what your ultimate goal is with the interview and the preferences of your investor before deciding how to conduct the management interview. The management interview consists of:

- a. **Management Company Name** – Record the name of the management company.
- b. **Phone Number** – Record the phone number of the individual with whom the interview was conducted (interviewee) or the name of the property management representative that filled out the interview form.
- c. **Name of Information Source** – Record the name of the individual with whom the interview was conducted (interviewee) or the name of the property management representative that filled out the interview form. The name should be input as a separate First Name and Last Name in the fields provided (i.e. First Name / Last Name).
- d. **Email Address** – Record the email address of the individual with whom the interview was conducted (interviewee) or the name of the property management representative that filled out the interview form.
- e. **Role or Title of Information Source** – Record the role or Title of the individual with whom the interview was conducted (interviewee) or the name of the property management representative that filled out the interview form.
- f. **Length of time at property** – Select the length of the time (from the drop down menu) that the individual with whom the interview was conducted (interviewee) or the name of the property management representative that filled out the interview form has been at the Subject Property.
- g. **Management Affiliation** – Select the management company's affiliation with the Borrower from the drop down menu. Drop down selections are Affiliated with the Borrower or Nonaffiliated, Third Party.
- h. **Management change since last inspection** –Select Yes or No from the drop down menu to indicate if the Management Company has changed since the last inspection. This is not if the person managing the Subject Property is different, only indicate yes if the company/entity has changed.
- i. **In your opinion, how does the property perform compared to similar properties in the area?** - This question is to be answered by the interviewee or the person completing the interview form. The answer to this question will be selected from a drop down menu including: Superior, Average, Below Average.
- j. **In your opinion, what is the average percentage of vacancy in similar properties in the area?** - This question is to be answered by the interviewee or the person completing the interview form. The answer to this question should be expressed as a percentage. Do not provide a range but a single percentage.
- k. **Based on market survey, what is the current average rent paid in the area (\$ per square foot/units/beds)?** - This question is to be answered by the interviewee or the person completing the interview form. The answer to this question should be expressed as a dollar amount only, without the notation of square foot/units/beds. Do not provide a range but a single dollar amount.
- l. **In your opinion, explain the reason for any variance on vacancy & rents between the market and the subject property:** This question is to be answered by

the interviewee or the person completing the interview form. This may be answered in a short paragraph format.

- m. **In the past 12 months, have there been any fires, floods or other property damage?** This question is to be answered by the interviewee or the person completing the interview form. The answer to this question is selected from a drop down menu - Yes, No, Unknown.
- n. **If yes, explain the location on the property, costs associated, any insurance claims submitted, resolution & leaseability:** This question is to be answered by the interviewee or the person completing the interview form. This comment box corresponds with the question concerning fires, floods, or other property damage. This may be answered in a short paragraph format. Please have the responder provide details as to the location, scope, cost associated, claims submitted, resolution and leaseability of affected area.
- o. **In the past 12 months, to the best of your knowledge, have any code violations been received?** This question is to be answered by the interviewee or the person completing the interview form. The answer to this question is selected from a drop down menu including - Yes, No, Unknown.
- p. **If yes, please describe the violation, the costs associated and any resolution or outstanding issues:** This question is to be answered by the interviewee or the person completing the interview form. This comment box corresponds with the question concerning code violations. This may be answered in a short paragraph format. Have the responder provide details as to the location, scope, cost associated, resolution and outstanding issues.
- q. **Is the property undergoing any significant rehab/construction?** This question is to be answered by the interviewee or the person completing the interview form. The answer to this question is selected from a drop down menu including - Yes or No.
- r. **If yes, explain the location, size and estimated costs:** This question is to be answered by the interviewee or the person completing the interview form. This comment box corresponds with the question concerning rehab/construction. This may be answered in a short paragraph format. Please have the responder provide details as to the location, scope, cost associated and time to complete.
- s. **Is the property in compliance with all Operations & Maintenance Plan(s)?** This question is to be answered by the interviewee or the person completing the interview form. The answer to this question is selected from a drop down menu - Yes, No, Not Applicable, Unknown.
- t. **If no, please explain which plan(s), the requirements, noncompliance items and estimated costs:** This question is to be answered by the interviewee or the person completing the interview form. This comment box corresponds with the question concerning O&M Plans. This may be answered in a short paragraph format. Have the responder provide details as to which plans are not in compliance, compliance requirements, and noncompliance items and estimated costs to remedy.
- u. **Any change or violations of a Franchise Agreement or License(s) at the property?** This question is to be answered by the interviewee or the person completing the interview form. The answer to this question is selected from a drop down menu - Yes, No, Not Applicable, Unknown.

- v. **If yes, please explain any change or violation, costs & any resolution or outstanding issues:** This question is to be answered by the interviewee or the person completing the interview form. This comment box corresponds with the question concerning Franchise Agreements or Licenses. This may be answered in a short paragraph format. Have the responder provide details as to any changes or violations, costs and any resolution or outstanding issues.
- w. **To the best of your knowledge, are there any lawsuits pending that may negatively impact the property?** This question is to be answered by the interviewee or the person completing the interview form. The answer to this question is selected from a drop down menu - Yes, No, Unknown.
- x. **If yes, please explain:** This question is to be answered by the interviewee or the person completing the interview form. This comment box corresponds with the question concerning lawsuits. This may be answered in a short paragraph format. Please have the responder provide details as to the nature of the lawsuit and how it will potentially impact the Subject Property.
- y. **Other Information or Comments:** This comment box is to be used for either comments from the interviewee or the person completing the interview form or comments that the Inspector may have concerning the interview process. This comment box may also be used to supplement any of the above comment boxes that may not have offered adequate space for a full answer (if it is to be used for this purpose please specify which comment is being continued).

Tips for In Person Management Interview

- Management Interview
 - Find out the experience level of the other Subject Property personnel and their knowledge about the Subject Property.
 - Build a rapport, but keep control of the interview.
- Learn about the management's viewpoint of the asset and operations
 - Rent roll / Vacancies
 - Concessions
- Discuss the resolution of issues identified in the previous reports.
- Discuss plans for future repairs and capital projects.
- Discuss Subject Property and market trends.
- Discuss competitive properties.
- Discuss any construction in the area.
- Define current challenges in the market and at the Subject Property.
- Evaluate Management Performance – be sure to consider the following:
 - Has management demonstrated knowledge of the market and the submarket?
 - Is management in touch with the tenants' preferences and concerns?
 - Is the manager organized and professional?

- How does the manager define his/her role?
- What additional responsibilities does the manager have? (e.g., managing additional properties)
- Does the manager know what needs to be done at the Subject Property and have a plan to assure it is accomplished?
- Is the Subject Property owner-managed?
- Does management know if there is an O&M Plan?
- Can they show you the O&M Plan?
- Can they demonstrate compliance with the O&M Plan?
- Look for signs of concern based on the management's responses.
 - Does the owner lack commitment to the Subject Property?
 - Are there any cash flow strains (maintenance or repairs) on the Subject Property?
 - Is there any lack of market appeal or potential reputation problems?
 - Any recent increase in vandalism or potential for increased vandalism?
- In-Person Interview Skills to remember:
 - Ask questions in a friendly manner – remember, it's not an interrogation.
 - If you don't feel like you're getting a straight or complete answer, put a check mark by the question and come back to it later or ask it from a different angle.
 - Ask open-ended questions, such as "What repairs would you like to see made at the Subject Property?" to give the manager an opportunity to discuss issues or concerns.
 - How well does the manager know the market and the immediate neighborhood?
 - Ask if the manager faces any particular challenges managing the Subject Property. What is causing the challenges – general market conditions, inadequate staffing, funding problems?
 - Ask follow-up questions – don't just complete the form. Understand the situation at the Subject Property.

MULTIFAMILY, MANUFACTURED HOME/MOBILE HOME COMMUNITIES, COOPERATIVE HOUSING, STUDENT HOUSING PROPERTIES

There are various types of multi-unit rental housing, including Multifamily, Manufactured Home/Mobile Home Communities, Cooperative Housing (also referred to as Co-Ops) and Student Housing. Below are the definitions of each:

- **Multifamily** – Rental housing with five or more residential units. A multifamily property may consist of a single building or multiple buildings. Subtypes include mid to high-rise buildings and garden apartments. A building under 10 stories is generally considered mid-rise while a building over 10 stories is considered high-rise, each type having at least one elevator. Mid and high-rise buildings may stand alone or form a single complex of multiple buildings some of which may contain

commercial spaces. Garden style apartments may be defined as a one to three story development, with one or more buildings, built in a garden or park-like setting. Seniors apartments (also termed Independent Living) or retirement communities are multifamily developments that target senior residents who are able to function independently. These residences are typically age-restricted to residents 55 and older (or 62 and older). Seniors apartments may provide some social and recreational amenities, but do not provide any health care services.

- **Manufactured Home/Mobile Home Communities** - A manufactured home is a factory-assembled residence consisting of one or more modules in which a chassis and wheels are an integral part of the structure, and which can be readied for occupancy without removing the chassis and/or the wheels. Manufactured homes come in one or two modules, with the two module type often referred to as a “double-wide”. The term “Mobile Home” refers to manufactured homes built prior to June 15, 1976, when the HUD code that now regulates manufactured housing went into effect. The owners of these mobile or manufactured homes lease lots in a community or development that provides utility services and other common amenities. The community may own some of the homes and rent out the home and lot together.
- **Cooperative Housing (or Co-Ops)** – A type of multiple ownership in which the residents of a multi-unit housing complex own shares in the cooperative corporation that owns the entire Subject Property, giving each resident the right to occupy a specific apartment or unit.
- **Student Housing** – Multi-unit housing not owned by any school affiliate, but due to its proximity to a university, college, or trade school, has a resident profile that is primarily, if not solely, made up of students.

The Multifamily page is useful when inspecting any type of multifamily property as defined above. The answers to these questions provide a finer level of detail that helps to explain the Subject Property’s position in its marketplace and how it directly relates to its competitors. While the cost of utilities or the presence of a military base may not influence a hotel guest or office tenant, these factors definitely impact the tenant base of a neighborhood. The information on this page also helps a servicer to determine the rent and cash flow potential of the Subject Property. The servicer/investor analyzes this information to help identify and assess trends as well as any risk factors that may be present.

Property Information

This section is asking for specific property information that may impact occupancy as well as the financial performance of the Subject Property.

- a. **Heat at the Property** – Use the drop down box to select Paid by Tenant or Paid by Owner to enter information regarding who is responsible for providing heat.
- b. **Gas at the Property** – Use the drop down box to select Paid by Tenant, Paid by Owner, or Not Applicable to enter information regarding who is responsible for providing gas service. If the Subject Property does not have gas service enter Not Applicable.
- c. **Water at the Property** – Use the drop down box to select Paid by Tenant or Paid by Owner to enter information regarding who is responsible for providing water service.

- d. **Trash at the Property** – Use the drop down box to select Paid by Tenant, or Paid by Owner to enter information regarding who is responsible for providing trash service.
- e. **Electric at the Property** – Use the drop down box to select Paid by Tenant or Paid by Owner to enter information regarding who is responsible for providing electric service.
- f. **Cable at the Property** – Use the drop down box to select Paid by Tenant, Paid by Owner, or Not Applicable to enter information regarding who is responsible for providing cable service. If the Subject Property does not have cable service enter Not Applicable.
- g. **Change to Major Employer** – Select Yes, No, or Unknown from the drop down box to indicate if there has been a change to a major employer in the submarket. Has a major employer of area residents significantly increased or decreased their workforce? Open or closed? Been impacted by a significant event? If the answer is “yes”, comment on the significant change or event that has taken place and how this event has impacted/may impact occupancy at the Subject Property.
- h. **Change to Commercial/Retail** – Select Yes, No, or Unknown from the drop down box to indicate if there has been a change to commercial/retail operations in the submarket. Have any of the surrounding commercial/retail businesses significantly expanded, contracted, opened or closed (i.e. anchor tenants leaving a shopping mall)? Been impacted by a significant event? If the answer is “yes”, comment on the significant change or event that has taken place and how this event has impacted/may impact occupancy at the Subject Property.

Unit Breakdown

The inspector identifies each type of unit within the Subject Property. If any units have a commercial use, i.e. a convenience store, it should be noted in the comment box at the end of the General Information section.

- a. **# of Bedrooms** - Enter the total number of bedrooms.
- b. **# of Baths** - Enter the total number of full and half bathrooms (i.e., 1.5).
- c. **# of Units** - Enter the total number of units of each type/size.
- d. **Avg. Sq. Ft./Unit** - Enter the average net rentable square footage of each type/size.
- e. **Monthly Rent** - Enter the average rent per month for each type/size.
- f. **# Occupied** – Enter the total number of occupied units.
- g. **# Vacant** - Enter the total number of vacant units, not including down units.
- h. **# Down** - Enter the total number of down units.
- i. **# Inspected** - Enter the total number of units observed by the inspector.
- j. **Totals** are self-calculating.

Tenant Profile

The inspector reports any concentration of residents with ties to a single employer, partial year residency, or who are over 55. Select the appropriate percentage in increments of 5% from the

drop down box. The percentages should not exceed 100% (the Undeveloped category will turn to a RED NEGATIVE value if 100% has been exceeded).

- a. **Corporate** - Units leased to a business, i.e. service, retail, or manufacturer.
- b. **Military** - Residents who are enlisted in or employed by any branch of the military.
- c. **Seasonal** - Residents with leases corresponding to certain parts of the year, i.e. snowbirds in Florida in the winter months.
- d. **Seniors** - Residents who are over the age of 55.
- e. **Students** - Residents who are students, i.e. college, graduate, or trade school.
- f. **Other** - Remaining residents who do not fit any of the above profiles.

Subsidized Units – the form does not have a specific place to identify any possible subsidies at the Subject Property, but the type, amount of units designated and the percentages occupied are information that should be provided in the comment box.

Property Condition

The detailed unit inspection report will generally not be a requirement for most multifamily inspections. Exceptions may be properties that are on a watchlist, undergoing substantial repairs or rehabilitation, and/or suffering from fire, flood, or other hazard loss. If asked to complete this part of the form, the inspector reports on the status and overall condition of individual units observed.

- a. **Unit #** - Identify the specific unit number of the space inspected.
- b. **# of Bedrooms** - Enter the total number of bedrooms.
- c. **# of Baths** - Enter the total number of full and half bathrooms (i.e., 1.5).
- d. **Square Feet** – Enter the total net rentable square feet.
- e. **Asking Rent** – Enter the actual rent, if it is occupied, or the market rent, if it is vacant.
- f. **Current Use** – Select the appropriate choice from the drop down box based on the occupancy, readiness, and furnished status of the unit:
 - Occupied Unfurnished – Unit is occupied/leased; resident supplies the furniture; the unit is leased without furniture.
 - Occupied Furnished – Unit is occupied/leased; owner supplies the furniture; the unit is leased with furniture.
 - Down Unit – “Down unit” is defined as any unit that that cannot be made rent ready with routine maintenance.
 - Vacant Unfurnished Ready – Unit is not occupied (it may be pre-leased); resident supplies the furniture; the unit is leased without furniture; the unit is in move-in condition.
 - Vacant Unfurnished – Unit is not occupied (it may be pre-leased); resident supplies the furniture; the unit is leased without furniture; the unit can be made ready with routine maintenance.

- Vacant Furnished Ready – Unit is not occupied (it may be pre-leased); owner supplies the furniture; the unit is leased with furniture; the unit is in move-in condition.
 - Vacant Furnished – Unit is not occupied (it may be pre-leased); owner supplies the furniture; the unit is leased with furniture; the unit can be made ready with routine maintenance.
 - Non-revenue – A unit from which the owner derives no income; it may be occupied by an employee of the Subject Property or it may have an alternate use such as a model, storage, or service unit.
 - Owner Occupied – A unit occupied by the owner of the Subject Property.
 - Commercial Unit – A unit leased for a business, as opposed to residential, purpose such as a convenience store, salon, or office.
 - Parking Spaces – Open – Uncovered parking spaces for use by tenants of the Subject Property.
 - Parking Spaces – Garage – Parking spaces located in a garage for use by tenants of the building.
 - Parking Spaces – Covered – Parking spaces generally referred to as carports for use tenants of the Subject Property.
- g. **Overall Condition** – Select the most appropriate overall condition rating from the drop down box for the unit according to the Rating Definitions provided at the beginning of this chapter. The choices are 1-5, Not Applicable or Not Accessible, with 1 representing the best condition and 5 the worst. A down unit would always be rated “5”.

Comments

Any comments regarding units inspected or any other part of the Multifamily page may be inserted in the “Other Information” comment box at the end of the General Information page.

Tips

- Utilities
 - Utility costs are a major property related expense and it is important for the servicer to know who is responsible for paying these costs when analyzing cash flow. This information allows servicers/investors to accurately estimate utility expenses at the Subject Property and directly compare it to competing properties. A property may appear to have lower rents than its competitors, but if the tenant has to pay all of the utilities, the combined rent plus utilities may actually be higher at the subject than at the competitors. Therefore, when comparing the Subject Property to competitors, adjustments may need to be made to account for the difference in utility billing.
 - Many renters prefer to have all or most of the utilities paid by the owner and a property that charges the resident for all utilities may be at a competitive disadvantage, even if its combined rent plus utilities is the same or slightly lower than the rent of properties where the owner pays the utilities.
- Major Employer/Commercial/Retail Change

- If a major employer in the area sharply increases or decreases its workforce, occupancy at the Subject Property could be positively or negatively affected. Having this information allows a servicer to explain current changes or prepare for future changes in occupancy. Similarly, a change in a large commercial/retail development may explain changes in occupancy and/or desirability of the immediate neighborhood. If for example, a retail mall closes, a number of nearby renters may lose their jobs, causing them to move out, and prospective renters may want to avoid living in a neighborhood that could be perceived as deteriorating.
- Unit Breakdown
 - Verify that the owner has not made any changes to the unit configuration such as demolish units or combine units. These actions require lender approval and may be indicative of other issues, such as a large insurance loss or major rehabilitation effort, issues that also require lender approval.
 - The number of vacant, occupied and down units at the time of the inspection should correspond to the rent roll provided. Many Stakeholders have specific requirements concerning the number of each type of unit that must be inspected.
 - Compare the asking rent for each type of unit to the rents quoted at the time of previous inspections, as well as to the rents at competing properties.
- Tenant Profile
 - If a property has a significant concentration of residents related to a single employer, school or other partial year leasing schedule, or are over 55, the servicer can conclude that any major change in the marketplace affecting that sub-group will have a direct impact on the subject's occupancy. For example, if the Subject Property is located near a large military base and has a tenant profile that is 25% military, and that base closes, the Subject Property will more than likely lose up to 25% of its tenant base.
 - Keep in mind that the servicer will calculate the annual cash flow of a property that has large seasonal swings in occupancy differently than that of a property that typically has 12 month leases.
- If completing the Detailed Report of Units Inspected:
 - Choose a representative sample of unit types on different floors, in different buildings, and in various locations throughout the Subject Property.
 - If this part of the report was completed at the time of the last inspection, it can be used as a reference to choose which units to inspect this time. For example, are the down units from last year still down?
 - Are the vacant units ready to rent? This is a factor to consider in rating the condition of the unit as well as the overall Subject Property. A lack of rent ready vacant units may indicate a cash flow problem at the Subject Property, poor management practices, or an inadequate maintenance staff.
 - Look for practices and trends such as the extent and quality of unit turns (clean and paint vs. upgrades), changes in the number of rent ready vacant units as compared to previous inspections, and if the unit is not rent ready, has it at least been trashed out?

HEALTHCARE, NURSING HOME, HOSPITALS PROPERTIES

Properties that fall under this classification are as follows:

- Healthcare
- Nursing Home
- Hospital

Property Information

General Information

- a. **Total Number of Beds** – This field will automatically be populated by taking the sum of the Total # of beds from the Level of Care Breakdown section.
- b. **New Patients Currently Being Accepted** - Record in this area whether or not the facility is accepting new patients. This would only be applicable to Assisted Living, Skilled Nursing or Alzheimer's Facilities. Select from these choices:
 - Yes
 - No (describe below)
- c. **Number of Beds Occupied** – This will automatically calculate based on the data entered in the level of care breakdown section.
- d. **% Occupied** – This will automatically calculate based on the data entered in the level of care breakdown section.
- e. **Admission Waiting Period** – Select from these choices:
 - Yes, 1-15 days
 - Yes, 16-30 days
 - Yes, 31-60 days
 - Yes, 61-120 days
 - Yes, 121+ days
 - No waiting period
- f. **Proximity to a Hospital** – Select from these choices:
 - On site
 - Less than 1 mile
 - 1 to < 5 miles
 - 5 to < 10 miles
 - 10 or more miles

Level of Care Breakdown

There are different levels and stages of care found in the following property types including:

- **Congregate Care** – A facility that utilizes a home health-care service provided by in-house staff or an outside agency.
- **Assisted Living**- A supportive housing facility designed for those who need extra help in their day-to-day lives but who do not require the 24-hour skilled nursing care found in traditional nursing homes.
- **Nursing Home, Skilled**- An establishment with three or more beds that provides skilled nursing care that must be given by a registered nurse, or a licensed practical (vocational) nurse under the supervision of a registered nurse, to be

safe and effective. These services are provided to the older population, infirm, or chronically ill.

- **Nursing Home, Unskilled**-An establishment that assists with daily living, which includes bathing, eating, dressing, and other routine activities. Special training or medical skills are not required. It is provided by unskilled nursing assistants in nursing homes, day care centers, and at home. It is often called personal care.
 - **Specialty Healthcare (Alzheimer's / Memory Care)**- Communities specifically designed for residents with identified loss of mental ability severe enough to interfere with normal activities of daily living. As Alzheimer's disease is usually characterized by the decline in cognitive functions, these communities almost always offer increasing levels of care.
 - **Hospital** - An institution that provides medical, surgical, or psychiatric care and treatment for the sick or the injured
- a. **Unit Type** – Select from these choices:
Congregate Care /Assisted Living
Hospital
Nursing Home, Unskilled
Nursing Home, Skilled
Specialty (Alzheimer's / Memory Care)
- b. **Total # of Beds** – Enter the total number of beds for each level of care currently offered by the community.
- c. **Total # of Beds Occupied** – Enter the total number of beds occupied for each different level of care.
- d. **Total # of Units** – Enter the total number of units for each level of care. In most circumstances, the total number of units should not exceed the total number of beds.
- e. **Total # of Units Occupied** – Enter the total number of units occupied for each level of care. All units should be considered occupied unless they are 100% physically vacant (i.e. all beds are physically vacant in the unit).
- f. **Avg S.F./Unit** – Enter the average square footage for units, depending on the level of care.
- g. **Monthly Rent** – Enter the monthly rent for units, broken down by each specific level of care.
- h. **# Beds Vacant** – This field will be automatically populated after entering the Total # of Beds and Total # of Beds Occupied.
- i. **Totals** – These fields should automatically populate based on the information input into the above fields.
- j. **Administrator's Name** – Enter into this field the name of the Property Administrator. The Administrator may also be titled as the Property Manager or Executive Director. The name should be input as a separate First Name and Last Name in the fields provided (i.e. First Name / Last Name).
- k. **Length of Time at Property** – Select from these choices:
< 6 mos
6m to < 1yr

- 1 to < 3 yrs
- 3 to < 5 yrs
- 5 yrs or longer

- l. **Director of Nursing's Name** – Enter into this field the name of Community's Director of Nursing. The name should be input as a separate First Name and Last Name in the fields provided (i.e. First Name / Last Name).
- m. **Length of Time at Property** – Select the length of time the Director of Nursing has been with the community. Select from these choices:
 - < 6 mos
 - 6m to < 1yr
 - 1 to < 3 yrs
 - 3 to < 5 yrs
 - 5 yrs or longer
- n. **Direct Care Staff Numbers:** Enter information into these fields to indicate the number of onsite RN's, LPN's, Other Direct and Non Direct Care Personnel on site at the community during the Day (e.g. 7am-3pm), Evening (e.g. 3pm-11pm) and Night (e.g. 11pm-7am). If there are any part time employees, please explain details in the comment box. Additional information and explanations can be added in each appropriate comment box. *Note-If there are Nurse Practitioners at the facility, please record in the "RN" section.
- o. **Nurses - RNs (Day-Evening-Night)** – Enter the number of Registered Nurses on staff at the community during the Day, Evening and Night. *Note-If there are Nurse Practitioners at the facility, please record in the "RN" section.
- p. **Comments** – Enter any additional comments or explanations necessary regarding Registered Nurse staffing at the community.
- q. **Nurses - LPN's (Day-Evening-Night)** – Enter the number of Licensed Practical Nurses on staff at the community during the Day, Evening and Night.
- r. **Comments** – Enter any additional comments or explanations necessary regarding Licensed Practical Nurse staffing at the community.
- s. **Other Direct Care (Day-Evening-Night)** – Enter the number of Other Direct Care Givers on staff at the community during the Day, Evening and Night. Examples of Other Direct Care Givers could include Certified Nursing Assistants and Physical Therapists/Rehabilitation employees.
- t. **Comments** – Enter any additional comments or explanations necessary regarding staffing at the community.
- u. **Non Direct Care Personnel (Day-Evening-Night)** – Enter the number of Non Direct Care Personnel on staff at the community during the Day, Evening and Night. Examples of Non Direct Care Personnel could include housekeeping, kitchen staff, administration, bookkeeping and maintenance.
- v. **Comments** – Enter any additional comments or explanations necessary regarding staffing at the community.
- w. **Total Staff** – These fields should automatically populate based on the information input into the above fields.

Regulatory/Licensing Agency Information

The fields in this section relate to the community's Regulatory/Licensing Agency compliance. Information regarding the community licenses as well as Medicare and Medicaid inspections and certification should be input in this section. A comment box is provided at the end of this section to allow a full description of any violations, costs associated with violations (if applicable), resolution or outstanding issues.

- a. **Name of Agency** – Enter the name of the Regulatory/Licensing Agency that conducts the annual compliance survey for the community.
- b. **Contact Person** – Enter the name of the designated contact person for the Regulatory / Licensing Agency that conducts the annual compliance survey and ensures compliance. The name should be input as a separate First Name and Last Name in the fields provided (i.e. First Name / Last Name).
- c. **Expiration Date of Operating License** – Enter the expiration date of the community's operating license. If the contact is unsure of the date, the Operating License is normally displayed in the lobbies of most healthcare communities.
- d. **All Licenses Current**– Select from these choices:
Yes
No
- e. **Date of Last Medicare Inspection**– Enter the date of the community's last Medicare Inspection. The State conducts inspections of each nursing home that participates in Medicare, on average, once a year. If the nursing home is performing poorly, however, the State Inspectors may visit more frequently. The State also investigates complaints about nursing home care.
- f. **Property Medicare Certified**– Select from these choices:
Yes
No
- g. **Date of Last Medicaid Inspection**– Enter the date of the community's last Medicaid Inspection. The State conducts inspections of each nursing home that participates in Medicaid, on average, once a year. If the nursing home is performing poorly, however, the State Inspectors may visit more frequently. The State also investigates complaints about nursing home care.
- h. **Property Medicaid Certified**– Select from these choices:
Yes
No
- i. **Comment Box**– A comment box is provided at the end of this section to allow a full description of any violations, costs associated with violations (if applicable), resolution or outstanding issues.

Property Condition

The fields in this section relate to the community's compliance with safety requirements including handrails in hallways, exit signs, grab bars in restrooms, intercom systems and generator operation. In addition, the Inspector needs to evaluate how the staff interacts with residents and if the community presents a clean/inviting appearance with no odors detected. A comment box is provided at the end of this section to allow a full description of any violations or concerns noted with the community appearance.

- j. **Handrails in the Halls** – Record whether the community has handrails in the common area hallways, which are designed to assist residents with mobility. Select from these choices:
 Yes
 No, Describe Below
 Not Applicable
- k. **Exits Clearly Marked** – All means of egress from the community should be clearly marked and easily identifiable to residents and staff. If the exits are not clearly marked, indicate No and add a complete explanation. Select from these choices:
 Yes
 No, Describe Below
- l. **Grab Bars Present in Rest Rooms** – Indicate whether grab bars, designed to assist residents, are present in both community and inspected unit rest rooms. If grab bars are required but are not present, indicate No and add a complete explanation. If grab bars are not required, indicate Not Applicable. Select from these choices:
 Yes
 No, Describe Below
 Not Applicable (example below).
- m. **Intercom System** – Indicate whether the community has an Intercom or communication system. Intercom systems could include bedside or pull cord handset systems and nurse station monitored call systems. If there is no intercom system at the community, indicate No and add a complete explanation. Select from these choices:
 Working
 Not Working, Describe Below
 Not Present
- n. **Staff Interacts Well with Residents** – Record in this field whether the staff was found to interact well with community residents. If any concerns or issues were observed, indicate Yes and add a complete explanation. If there is no staff interaction at the facility, then the question should be answered as Not Applicable. Select from these choices:
 Yes
 No, Describe Below
- o. **Generator Function** – This field requires the Inspector to indicate whether, in an emergency, the community generator is required to supply the entire electric load to the community or if it supplies power to life safety systems only. Select from these choices:
 Entire electric load
 Life safety only
 None
- p. **Facility Looks and Smells Clean** – The community should appear clean and inviting. No odors should be detected. If there are any issues with appearance or odors are detected, indicate No and add a complete explanation. Select from these choices:
 Yes
 No, Describe Below

- q. **Comment Box** – A comment box is provided at the end of this section to allow additional descriptions of any safety or deficiency issues observed.

Units or Beds Inspected

Down Units Inspected (List the unit #) – Enter all down units inspected. Inspector is also required to list out the specific unit numbers in the adjacent text box (example below).

Detailed Report of Units Inspected:

A detailed report of the units inspected is located in this section and requires the Inspector to input the unit number, number of bedrooms, number of baths, square footage, asking rents, current use and overall condition.

- a. **Unit #** – Enter the number of the unit inspected into this field.
- b. **# of Bedrooms** – Enter the number of bedrooms of each inspected unit in this field.
- c. **# of Baths** – Enter the number of bathrooms of each inspected unit into this field.
- d. **Square Feet** – Enter the square footage for each inspected unit into this field.
- e. **Asking Rent** – Enter the current asking rent for each inspected unit into this field.
- f. **Current use** – Select from these choices:
 - Occupied Unfurnished – Unit is occupied/leased; resident supplies the furniture; the unit is leased without furniture.
 - Occupied Furnished – Unit is occupied/leased; owner supplies the furniture; the unit is leased with furniture.
 - Down Unit – “Down unit” is defined as any unit that that cannot be made rent ready with routine maintenance.
 - Vacant Unfurnished Ready – Unit is not occupied (it may be pre-leased); resident supplies the furniture; the unit is leased without furniture; the unit is in move-in condition.
 - Vacant Unfurnished – Unit is not occupied (it may be pre-leased); resident supplies the furniture; the unit is leased without furniture; the unit can be made ready with routine maintenance.
 - Vacant Furnished Ready – Unit is not occupied (it may be pre-leased); owner supplies the furniture; the unit is leased with furniture; the unit is in move-in condition.
 - Vacant Furnished – Unit is not occupied (it may be pre-leased); owner supplies the furniture; the unit is leased with furniture; the unit can be made ready with routine maintenance.
 - Non-revenue – A unit from which the owner derives no income; it may be occupied by an employee of the Subject Property or it may have an alternate use such as a model, storage, or service unit.

- Owner Occupied – A unit occupied by the owner of the Subject Property.
 - Commercial Unit – A unit leased for a business, as opposed to residential, purpose such as a convenience store, salon, or office.
 - Parking Spaces – Open – Uncovered parking spaces for use by tenants of the Subject Property.
 - Parking Spaces – Garage – Parking spaces located in a garage for use by tenants of the building.
 - Parking Spaces – Covered – Parking spaces generally referred to as carports for use tenants of the Subject Property.
- g. **Overall Condition** – Select the most appropriate overall condition rating from the drop down box for the unit according to the Rating Definitions provided at the beginning of this chapter. The choices are 1-5, Not Applicable or Not Accessible, with 1 representing the best condition and 5 the worst. A down unit would always be rated “5”.

Tips for the Inspection and Reporting

- Inspecting Healthcare properties requires a keen eye for detail and thorough documentation. Issues impacting tenants in a multifamily, office or retail facility are dramatically different from those impacting people housed within a healthcare facility. For example, the absence of handrails in an area might be a small risk in a multifamily property but pose a significant life safety issue in a healthcare facility due to the frailty of the health/condition of these particular residents.
- The key driver for the income stream in the healthcare field is the number of occupied beds and/or units. Therefore, accurate bed counts must be observed and documented. This simple data can reveal many issues if you can tie a few pieces of information together. For example, an assisted care facility that has 100 beds total, 70 occupied and 30 vacant, yet shows a waiting period of greater than 30 days should raise a red flag. Why is there such a long wait if there are so many empty beds? You can look at many factors to answer the question: (1) Is the condition of the Subject Property, or, a significant component the issue? (2) Is it because there is so much deferred maintenance? (3) Is the facility adequately staffed? (4) Is it poor management? As you inspect more of these types of facilities, this skill will become sharper.
- Licensing is also a critical component to healthcare. The Subject Property must meet any federal, state and local licensing board requirements to remain open for business. A loss of a license can sometimes lead very quickly to the Subject Property closing down, all patients leaving the facility and a significant drop in the revenue income stream. That is why a proactive review and inspection can give insight into minor infractions that could lead to larger violations.
- Of course, we know Inspectors are not doctors, nor are they experts on the level of medical care that is being provided. What is generally observed might not be true in all cases, rather simply an isolated incident. The recommendation would be to perform a thorough inspection as if you were putting your loved one in the facility. Although you are inspecting the *physical* condition of the Subject Property, these additional factors come into play with healthcare.

- Accurate documentation cannot be stressed enough when inspecting this type of facility. The audience reading the inspection needs to be able to make sound business decisions based on your data. The more detail, the more the overall picture of the Subject Property's condition will be apparent.
- The Inspection form is useless with the accompanying pictorial support. Besides the standard photographs (Signage, ingress, egress, parking lot, etc.) any item of significant concern should be photographed. Again, this in concert with the physical form itself, paints the total picture for the reader.

All these items will add up to a successful inspection.

RENT ROLL

- Rent Roll Attached** – Indicate Yes or No if a rent roll is scanned into the rent roll tab. If the rent roll is not attached select No and select a reason as to why it is not attached to the right. The selections are Hard Copy to Follow, Requested but not provided, and Requested but declined.
- Rent roll Summary Attached** – Indicate Yes or No if a Rent Roll Summary is scanned into the rent roll tab.
- Single Tenant Property** – Indicate Yes or No if the building is occupied by a single tenant. In some cases a rent roll will not be available for single tenant buildings.
- Lease Expires** – For single tenant buildings indicate the date the lease expires.
- Hospitality Property** – Indicate Yes or No if the Subject Property is a hospitality property.
- YTD ADR:** Indicate the Year-To-Date Average Daily Rate at the subject hospitality property.
- Rev PAR:** Indicate the Year-To-Date Revenue Per Available Room at the subject hospitality property.
- ADO:** Indicate the Year-To-Date Average Daily Occupancy at the subject hospitality property.
- Rent Roll** – The area bellow the dropdown boxes is unprotected and allows the Inspector to scan or insert a rent roll of any length into this area. It is typical that if a rent roll is larger than 6 pages that it would be forwarded to the Servicer via an alternate method.

MAPS

Regional & Neighborhood Map – Inserting the map:

Option #1 – Use a mapping program or a web service to locate the Subject Property. Size the map to the appropriate Regional or Neighborhood perspective.

Copy the map to your operating systems clipboard by either right clicking and selecting copy or using the program's edit menu to copy the map. Once the map is copied to the operating system's clipboard return to the Map Tab in the MBA Inspection Form and click either "Paste Regional Map" or "Paste Neighborhood Map." The map can then be manually resized.

Option #2 - The upper left cell in each of the map frames is unprotected, which will allow the Inspector to insert a map file at that location using the native Excel insert function.

PHOTO PAGE

Data Points:

Category: Classification of the Subject Property represented in the adjacent, embedded photo. Available classifications are: Exterior, Interior, DM/Life Safety and Neighborhood.

Caption Box: Provide a caption describing the Subject Property represented in the adjacent, embedded photo.

Photo Page Usage Instructions

Macros are used in the Photos page to properly size and frame the photos inserted. The Inspector should ensure that macros have been enabled upon opening the inspection form.

Prior to inserting photos in the MBA Property Inspection form it is highly recommended that the photos are resized (reduced) using a photo resizing program. Vista has a resizing program native to the operating system that can be invoke within a file folder by right clicking on the photo(s) that you want to resize and selecting "VSO Image Resizer." Microsoft has also written an add-on image resizer for Windows XP that can be downloaded from the Microsoft website. The functionality is very similar to the Vista image resizer. In addition, the photos in the MBA Property Inspection Form have been left unlocked to allow the user to utilize the image compression utilities native to Excel 2003 & Excel 2007, please see help in the respective programs for use of the compression utilities.

Photo Addition

Photos are inserted into the report and framed by clicking on the command button labeled "Add Photo", in the center of the worksheet. Once clicked, the Inspector is presented with a dialog box from where he can navigate to the appropriate directory and locate the desired photo. When located, the Inspector should click on the desired photo and then click "Insert" on the lower right hand corner of the dialog box. The macro will size and frame the inserted photo and then transfer focus to the photo caption box where a caption can be written.

Once the photo insertion and caption have been written, the Inspector can tab to the Category to choose from the drop down menu to classify the photos into one of the following categories: Exterior, Interior, DM / Life Safety and Neighborhood. DM represents 'deferred maintenance.'

Additional frames may be added to the form by clicking on the command button labeled "Add Photo." Each time the "Add Photo" command button is clicked the

Inspector will have an additional slot in which to insert the next photo. The form allows for the insertion of up to 50 photos.

Photo Replacement

An inserted photo may be replaced in a selected frame by clicking the “Change Photo *n*” command button, where *n* represents the photo number, immediately to the right of the appropriate frame (column AK).

Photo Deletion

An inserted photo, frame, category, and caption may be deleted by clicking on the command button labeled “Delete Photo *n*” located directly below the “Change Photo *n*” command button. The remaining photos will be renumbered appropriately.

Tips:

- The primary purpose of the inspection photos is to give the reader an encompassing, general idea of the exterior and interior condition of the Subject Property, to support the Inspector’s findings, and to emphasize any deferred maintenance issues.
- Typically 10 to 15 photos are usually adequate but this is dependent on the servicer’s scope of the inspection. If the Subject Property is exceptionally large, or if there are numerous deferred maintenance issues, a sufficient amount of photos needs to be included to adequately depict the Subject Property condition and the maintenance issues.
- When photographing a Subject Property, the Inspector should start with the approach, including signage, street views, and entrances; then include the grounds (parking/landscaping/ lighting), building exterior (front, sides and rear) and interior units or spaces, followed by any deferred maintenance issues. The last photos should include any major properties within a 2 or 3 block radius that impact the Subject Property.
- Orientation is important when captioning photographs in the report. Inspectors should identify the various elevations of the Subject Property as well as locations of Subject Property features.

Recommended Photos for Inspection Reports

- a. **Property signage** - If possible, show the Subject Property signage in relation to the street and/or to the Subject Property.
- b. **Street scenes** - One or two directional photos are usually sufficient to show the makeup of the neighborhood and the type of street and traffic volume. Also include photos of surrounding properties (within a block or two) that would have a major impact on the Subject Property (i.e. a regional mall, hospital, etc.). The street scene should also show any traffic lights, median cuts, or center turn lanes that would affect ingress/egress at the main Subject Property entrance. Your photo captions

should identify the direction in which you are facing (i.e. “Street view of Elm Street looking north”).

- c. **Entrance** - If possible the main entrance photo should be taken in relation to either one or both of Items a. and b. above. Again captions should identify directions.
- d. **Overview** - Try to take a general overview of the Subject Property from the entrance drive or from across the street to show the building, parking and landscaping. If a Subject Property is quite large (regional or community shopping center with pad sites, etc.) a comprehensive general view is not always possible, but generally an overview is possible from across the street or at a 45 degree angle from an extreme corner of the parking lot.
- e. **Exterior Structure** - These photographs should include walls, roofs, doors and exterior Subject Property amenities.
- f. **Interior** - Interior photographs should contain lobbies, hallways, stairs, elevators, mechanical rooms, ceilings, floor coverings and resident or tenant unit interiors.
- g. **Deferred Maintenance** - The Inspector should photograph each deferred maintenance item identified in the report. The location of the item must be identified in the photo caption.
 - For instance, if the Inspector encounters water damaged ceiling tiles, the specific location must be identified, i.e. “Stained ceiling tiles at the northwest corner of the tenant leased space (unit b).” Or, “Damaged fascia at the southeast corner of the north, in-line building”.
 - It is not necessary to take photos of multiple deficiencies of the same type. If paint is peeling throughout, or there is damaged fascia throughout, the Inspector should take a few representative photos of the deficiencies, indicate the specific location of those photos, then indicate on the caption that this is the typical condition throughout.

COMPREHENSIVE ASSESSMENT ADDENDUM

Some Investors may require the Comprehensive Assessment Addendum. As a historical note, the Comprehensive Assessment Addendum came from suggested questions from the Fannie Mae form 4260. The addendum assists Investors to ascertain a global reference as to how the Subject Property is performing in relation to Life Safety, Deferred Maintenance, Routine Maintenance, Capital Needs, and the Level/Volume of issues noted and appropriate follow up.

Limitations of Field Assessment

Did you experience any limiting situations at the Subject Property? The Investor will want to know of any issues you encountered while at the Subject Property. These six questions should be answered Yes or No using the drop down menu.

- **Management unavailable for the interview or management experience on the property is less than six months.** - Many Investors require that the person answering the interview questions have more than six months of experience at the Subject Property. The inspector should make this requirement known when setting up the inspection.
- **Occupied units were unavailable for assessment, or the total number of units available (occupied or unoccupied) was insufficient.** - The inspector should know the requirements of the number of units to be inspected. If the Subject Property representative is not cooperative and the inspector has made a reasonable attempt to change the situation, then the inspector should not argue, but let the Investor know that management was not cooperative. The Servicer and/or the Investor can then decide if another inspection is required.
- **Snow was covering most exterior areas (parking lots, roofs, landscape areas).**
- **Other** - If any additional issues were encountered at the Subject Property, then Other should be marked true. Explain the situation in the comment box below.
- **None** - If the inspection was routine with no issues encountered, then None should be marked true. No comments will be required.

The component has five questions from the inspection report that it specifically highlights. Based upon the answers received, this information will trigger additional responses from the Investor. Comment boxes are provided for each of the five questions (the comment boxes can be resized after inputting text by clicking the command button at the bottom of the tab entitled "Resize Comment Boxes"). As much information and color should be provided in the comments. When in doubt, comments should be written.

Comprehensive Property Assessment Ratings

Life Safety

Select the choice from the drop down menu that most closely applies to the Subject Property:

- No issues observed
- Very minor and/or limited issues observed
- Some issues observed that require immediate attention; however do not require capital expenditures
- Issues observed that require immediate attention and possible capital expenditure

The life safety issues are of highest importance. If an inspector notes life safety issues, then their manager or the Servicer should be notified immediately. Do not wait to write the report to notify management of life safety issues. Several photographs should be taken of the life safety issues.

Deferred Maintenance

Select the choice from the drop down menu that most closely applies to the Subject Property:

- No observable or reported signs of deferred maintenance
- Isolated issues or minor items that can be addressed by in-house maintenance staff and/or limited expense
- Some concerns that cannot be addressed by in-house maintenance staff, but do not appear to affect capital expenditures
- Issues affecting major system or several components of different systems that will materially affect capital expenditures
- Excessive deferred maintenance that will materially affect capital improvement expenditures on an immediate and long term basis.

Tenants pay rent for the ability to live in their unit. The Property Owners use the rent collected from their Tenants to make the monthly mortgage payments. A well maintained property will attract more Tenants willing to pay higher rents. The Investor and the Servicer need to know whether or not a Borrower is maintaining the security adequately so the appropriate action can be taken. The Inspector should give an honest response to these questions without being too critical of minor issues. However, ignoring or downplaying deferred maintenance creates bigger problems for both the Borrower and the Investor in the long term.

Routine Maintenance

Select the choice from the drop down menu that most closely applies to the Subject Property:

- *Superior practices appear to be extending the estimated useful life of the property systems as a whole.*
- *Practices appear to be addressing issues on a proactive basis ensuring good overall property performance*
- *Practices appear to be a combination of proactive and reactive practices, with some limited number of components requiring attention.*
- *Practices appear to be reactive and/or not addressing condition concerns in a timely manner*
- *Inadequate practices that do not ensure reasonable functionality of the property systems or collateral value*

As stated above, the condition of the Subject Property is important to the financial success of the loan. The routine maintenance of the Subject Property should be seriously considered. The Inspector should give honest feedback without being too critical of minor issues.

Capital Needs

Select the choice from the drop down menu that most closely applies to the Subject Property:

- All capital needs are being addressed

- Majority of capital needs are being addressed, and property performance does not appear to be impacted by minor issues
- Critical capital needs are being addressed as needed, but more capital expenditures will be required to maintain asset quality
- Some critical capital needs are not being addressed and property performance could be impacted during the near term
- Not addressing critical capital needs and property performance is being impacted

Every property will need capital improvements over its useful life. If the repairs are made in a proactive manner then the useful life of the Subject Property can be extended and financial success of the property should also continue. The Inspector should judge how well the Borrower is addressing the capital needs of the Subject Property.

Level/Volume of issues noted and appropriate follow-up recommends:

Select the choice from the drop down menu that most closely applies to the Subject Property:

- No substantial concerns observed. No further action required
- Some minor issues noted. Limited Servicer follow-up required
- Substantial and/or critical issues are noted. Documented follow-up required
- Overall condition showing signs of deterioration. Documented follow-up required
- Overall condition showing signs of deterioration. Documented follow-up required with possible action plan. Property should be placed on Servicer Watchlist.
- Severe deferred maintenance observed. Follow-up and substantial action plan required. Property should be placed on Servicer and Investor Watchlist.

The Inspector and/or Servicer will be advising the Investor on how much action is required after the inspection. Comments should be given with special attention to the more serious the concerns.

Overall Rating and Additional Comments

Provide the overall rating for the Subject Property based on the Overall Rating Scale as provided on the Comprehensive Addendum. The Inspector should take special note that this rating scale differs from the rating scale used the rest of the MBA Inspection Form. If there are any questions concerning the meaning of the rating scale please contact the Investor. A comment box is provided. Detailed comments should be given to provide information and color to the selection. The higher numbers will require more comments.

Inspector Information

Inspector Information is the Seller/Service Certification. This section should be completed by the appropriate person in the Service shop.

CONCLUSION

Servicing commercial real estate loans is a demanding business. It requires sound business practices and procedures to ensure the underlying collateral is properly managed, maintained and preserved for the full life of the loan, as the Subject Property is typically the only collateral.

The Reference Guide provides the foundation for an Inspector to successfully utilize the inspection form as a risk monitoring tool. The Guide identifies best practices associated with preparing for, conducting, and reporting on property inspections. The procedures for performing inspections and the criteria for completing the form are standardized, leading to more accurate assessments and more effective asset management by the Servicers.

FINAL TIPS FOR INSPECTIONS:

- Try to give borrower advance notice of the inspection.
- Request the on-site contact to be the individual(s) with the most knowledge of the property condition and operations.
- Be realistic with the number of inspections scheduled in a day
 1. Allow adequate time for the management interview as well as the property inspection.
 2. Review forms questions before inspection
- Before the site visit
 1. Find the Subject Property
 2. Drive the neighborhood
 3. Make notes of questions to ask regarding submarket
 4. Drive the Subject Property
 5. Go to the office
- Management Interview (for an In Person Interview)
 1. Build a rapport, but keep control of the interview
 2. Learn about management's viewpoint of the asset and operations
 3. Evaluate Management Performance
 4. Ask questions in a friendly manner – remember, it's not an interrogation
 5. Ask follow-up questions – don't just complete the form. Understand the situation at the Subject Property.
- Are there any “down” units or bays?
 1. “Down” unit or bay – any unit or bay that cannot be made rent ready with routine maintenance.
 2. Down” units or bays are obvious indicators of problems.
 - Lack of owner commitment
 - Cash flow strain
 - Lack of market appeal; potential reputation problems
 - Increase vandalism potential
 - Cause for further deterioration
 3. Are units being “cannibalized”?
- Share your findings with the manager before departing the Subject Property
- Before leaving the site, check your camera to assure you have pictures and write quick notes.
- Drive the neighborhood again to test your initial impressions

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