

November 27, 2017

TO: State Directors  
Rural Development

ATTN: Program Directors, Coordinators, Specialists,  
State Architects and Construction Analysts  
Multi-Family Housing

FROM: Richard A. Davis /s/ *Cathy Glover* for  
Acting Administrator  
Rural Housing Service

SUBJECT: Guidance on the Capital Needs Assessment Process

This Unnumbered Letter (UL) provides updated clarification and guidance on the Rural Development (RD) Capital Needs Assessment (CNA) process. A CNA provides a repair schedule for the property in its present condition, indicating repairs and replacements necessary for a property to function properly and efficiently over a span of 20 years. This UL includes general instructions used in completing CNA reports, specific instructions on how to use the expected useful life tables, and a set of applicable forms including the Terms of Reference form; Systems and Conditions forms; and Evaluator's Summary forms.

It is comprised of nine main sections: 1) Definitions; 2) Contract Addendum; 3) Requirements and Statement of Work (SOW) for a CNA; 4) The CNA Review Process; 5) Guidance for the Multi-Family Housing (MFH) CNA Recipient Regarding Contracting for a CNA; 6) Revising an Accepted CNA During Underwriting; 7) Updating a CNA; 8) Incorporating a Property's Rehabilitation into a CNA; and 9) Repair and Replacement Schedule. There are also six attachments to this UL identified as Attachments, A, B, C, D, E, and F. This UL should be made available to RD MFH property owners, applicants and CNA Providers who are or are planning to submit transactions using the Multifamily Preservation and Revitalization (MPR) Demonstration program, or any other RD Rural Rental Housing (RRH) or Farm Labor Housing (FLH) program loan making or servicing officials.

EXPIRATION DATE:  
November 30, 2018

FILING INSTRUCTIONS:  
Housing Programs

## 1. Definitions

The following definitions are provided to clarify terms used in conjunction with the CNA process:

**CNA Recipient:** This will be who enters into the contract with the CNA Provider. The Recipient can be either the property owner or applicant/transferee.

**“As-Is” CNA:** This type of CNA is prepared for an existing MFH property and reports the physical condition including all Section 504 Accessibility and Health and Safety items of the property based on that moment in time. This CNA can be useful for many program purposes other than the MPR Demonstration program such as: an ownership transfer, determining whether to offer pre-payment aversion incentive and evaluating or resizing the reserve account. The “as-is” report will include all major repairs and likely some minor repairs that are typically associated with the major work: each major component, system, equipment item, etc. inside and outside; building(s); property; access and amenities in their present condition. A schedule of those items showing the anticipated repair or replacement timeframe and the associated hard costs for the ensuing 20-year term of the CNA serves as the basis or starting point in evaluating the underwriting that will be necessary to determine the feasibility and future viability of the property to continue serving the needs of eligible tenants.

**“Post Rehabilitation” CNA:** This type of CNA builds on the findings of the accepted “as-is” CNA and is typically prepared for a project that will be funded for major rehabilitation. The Post Rehabilitation CNA is adjusted to reflect the work intended to be performed during the rehabilitation. The assessment must be developed from the rehabilitation project plans and any construction contract documents to reflect the full extent of the planned rehabilitation.

**Life Cycle Cost Analysis (LCCA):** A LCCA is an expanded version of a CNA and is defined at 7 C.F.R. Section 3560.11. The LCCA will determine the initial purchase cost, the operation and maintenance cost, the “estimated useful life”, and the replacement cost of an item selected for the project. The LCCA provides the borrower with the information on repair or replacement costs and timeframes over a 20-year period. It also provides information that will assist with a more informed component selection and can provide the borrower with a more complete financial plan based on the predictive maintenance needs associated with those components. If the newly constructed project has already been completed without any previous LCCA requirements, either an “as-is” CNA or LCCA can be provided to establish program mandated reserve deposits. An Architect or Engineer is the best qualified person(s) to prepare this report.

**Consolidation:** In some circumstances, RD may permit two or more properties to be consolidated as defined in 7 CFR 3560, §3560.410 when it is in the best interests of the Government. The CNA Recipient must consult with the RD loan official before engaging the CNA Provider in any case where the CNA intends to encompass more than a single (one) existing RD property to determine if a consolidated CNA may be acceptable for RD underwriting.

## 2. Contract Addendum

RD uses a Contract Addendum to supplement the basic CNA Agreement or “Contract”, between the CNA Recipient and CNA Provider, with additional details and conditions. It can be found in [Attachment A, Addendum to Capital Needs Assessment Contract](#) and must accompany all contracts executed between the CNA Recipient and CNA Provider for CNAs used in RD transactions. If any conflicts arise between the “Contract” and “Contract Addendum”, the “Contract Addendum” will supersede.

The Contract Addendum identifies the responsibilities and requirements for both the CNA Recipient and the CNA Provider. To assure proper completion of the contract documents the following key provisions must be completed:

- a. The Contract Addendum will include the contract base amount for the CNA Provider’s cost for services on page A-2, and provisions for additional services to establish the total price for the CNA.
- b. Item I e, will require an itemized listing for any additional anticipated services and their unit costs including future updates and revisions that may be required before the CNA is accepted by RD. *Note: Any cost for updating a CNA must be included, in the “additional services” subpart, of the original CNA Contract.*
- c. The selection criteria boxes in II a, will identify the type of CNA being provided.
- d. In III a, the required language for the blank on “report format” is: “[USDA RD CNA Template](#), current RD version, in Microsoft Excel format”. This format will import directly into the RD underwriting template for loan underwriting purposes.

## 3. Requirements and Statement of Work (SOW) for a CNA

Minimum requirements for a CNA acceptable to RD can be found in [Attachment B, Capital Needs Assessment Statement of Work](#). This is supplemented by [Attachment C, Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator](#). To resolve any inconsistency in the two documents, Attachment B, the CNA SOW, will in all cases prevail over [Attachment C, Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator](#). (For example, on page C-2 of Attachment C, Fannie Mae defines the “term” as “term of the mortgage and two years beyond”. For USDA, the “term” will be 20 years, as defined in the CNA SOW.)

Attachment B includes the required qualifications for the CNA Provider, the required SOW for a CNA assignment, and general distribution and review instructions to the CNA Provider. The CNA Providers must be able to report the current physical condition of the property and **not** base their findings on the financial condition of either the property or the CNA Recipient.

Attachment C is a three-part document RD has permission to use as reference to the CNA process throughout the RD MFH program efforts. The three key components of this Attachment are: 1) guidance to the property evaluator; 2) expected useful life tables; and 3) a set of forms.

An acceptable CNA must appropriately address within the report and narrative all Accessibility Laws and Requirements that apply to Section 515 and Sections 514/516 MFH properties. The CNA Provider must assess how the property meets the requirements of accessibility to persons with disabilities in accordance the Uniform Federal Accessibility Standards (UFAS) and Section 504 Accessibility Requirements. It is the responsibility of the Provider to inspect and verify whether all accessibility features are compliant.

#### 4. The CNA Review Process

A CNA used by RD will be reviewed by the designated RD CNA Reviewer with experience in construction, rehabilitation, and repair of MFH properties, especially as it relates to repair and replacement.

A CNA report must be obtained by the CNA Recipient from an *independent third-party CNA Provider that has no identity of interest* with the property owner, management agent, applicant/transferee or any other principle or affiliate defined in 7 CFR Part 3560, §3560.11. The CNA Recipient will contract with the CNA Provider and is therefore the client of the provider. However, the CNA Recipient must consult with RD, before contracting with a CNA Provider to review Guidance Regarding Contracting for a CNA. The RD CNA Reviewer will evaluate a proposed agreement or engagement letter between the CNA Recipient and the CNA Provider using Attachment D, Capital Needs Assessment Guidance to the Reviewer, prior to reviewing any CNA report. Unacceptable CNA proposals, contracts or reports will be returned to the CNA Recipient for appropriate corrections before they will be used for any underwriting determinations.

The CNA Reviewer will also review the cost of the CNA contract. The proposed fee for the CNA must be approved as an eligible housing project expense under 7 CFR 3560.103 (c) for the agreement to be acceptable and paid using project funds. In most cases, the CNA service contract amount has not exceeded \$3,500 based on the Agency's most recent cost analysis. Borrowers and applicants are encouraged to obtain multiple bids in all cases. However, there is no Agency requirement to select the "low bidder" under this UL and the CNA Recipient may select a CNA Provider that will provide the best value, based on qualifications, as well as price after reviewing references and past work.

If the CNA is funded by the property's reserve account, a minimum of two bids is required if the CNA service contract amount is estimated to exceed \$5,000 as specified in HB-2-3560, Chapter 4, Paragraph 4.17 B. If the CNA contract under this UL is funded by another source, or will be under \$5,000, a single bid is acceptable.

If the proposed agreement is acceptable, the reviewer will advise the appropriate RD servicing official, who will in turn inform the CNA Recipient. If the proposed agreement is unacceptable, the reviewer will notify the servicing official, who will notify the CNA Recipient and the CNA Provider in writing and identify actions necessary to make the proposed CNA agreement acceptable to RD. Upon receipt of a satisfactory agreement, the RD CNA Reviewer should advise the appropriate RD servicing official or underwriting official to accept the proposal.

The CNA Reviewer will review the preliminary CNA report submits to RD by the CNA Provider using Attachment D, and write the preliminary CNA review report. During the CNA review process, the CNA Reviewer and underwriter will consult with the servicing field office most familiar with the property for their input and knowledge of the property. Any differences of opinion that exist regarding the findings must be mutually addressed by RD staff. If corrections are needed, the loan official will notify the CNA Recipient, in writing, of any revisions necessary to make the CNA report acceptable to RD. The CNA Reviewer will review the final CNA report and deliver it to the loan official. The final report must be signed by both the CNA Reviewer and the loan official (underwriter). Upon signature by both, this report becomes the “accepted” CNA indicating the actual condition of the property at the time of the CNA inspection – a “snapshot” in time – and will be marked “Current Property Condition” for indefinite retention in the borrower case file.

A CNA Provider should be fully aware of the intended use for the CNA because it can impact the calculations necessary to perform adequate accessibility assessments, and can impact the acceptability of the report by RD. Unacceptable reports will not be used for any RD underwriting purposes even though they may otherwise be acceptable to the CNA Recipient or another third-party lender or participant in the transaction being proposed.

## **5. Guidance Regarding Contracting for a CNA**

CNA Recipients are responsible for choosing the CNA Provider they wish to contract with, and for delivering an acceptable CNA to Rural Development. **RD in no way guarantees the performance any Provider nor the acceptability of the Provider’s work.**

CNA Recipients are advised to request an information package from several CNA Providers and to evaluate the information before selecting a provider. At a minimum, the information package should include a list of qualifications, a list of references, a client list, and a sample CNA report. However, the CNA Recipient may request any additional information they feel necessary to evaluate potential candidates and select a suitable provider for this service. Consideration for the type of CNA required should be part of the CNA Recipient’s selection criteria and inserted into the contract language as well. The necessary skill set to perform the “as-is” versus the Post Rehabilitation CNA or a LCCA needs to be considered carefully. Knowledge of the accessibility laws and standards and the ability to read and understand plans and specifications should also be among the critical skill elements to consider.

[Attachment A, Contract Addendum](#) must be submitted to RD with the contract, and signed by the CNA Recipient and CNA Provider. The proposed agreement with the CNA Recipient and CNA Provider must meet RD’s qualification requirements for both the provider and the CNA SOW, as specified in [Attachment B, Capital Needs Assessment Statement of Work](#). RD must review the proposed agreement between the CNA Recipient and the CNA Provider, and concur only if all of the RD requirements and conditions are met. (See the previous Section 3 of this UL, [The CNA Review Process](#).)

***Please note:*** It is in the CNA Recipient’s best interest to furnish the CNA Provider with the most current and up-to-date property information for a more comprehensive and thorough CNA

report. RD recommends that the CNA Recipient conduct a pre-inspection meeting with the Owner, Property Manager, maintenance persons familiar with the property, CNA Provider, and Agency Representatives at the site. This meeting will allow a forum to discuss specific details about the property that may not be readily apparent to all parties involved during the review process, as well as making some physical observations on-site. Certain issues that may not be evident to the CNA Provider due to weather conditions at the time of review should also be discussed and included in the report. Additionally, other issues that may need to be addressed include environmental hazards, structural defects, and complex accessibility issues. It is imperative that the Agency be fully aware of the current physical condition of the property at the time the CNA is prepared. An Agency representative must make every effort to attend the CNA Providers on-site inspection of the property unless the Agency has performed a physical inspection of the property within the previous 12 months.

This pre-inspection meeting also allows the CNA Provider to discuss with the CNA Recipient total number of units to be inspected, as well as identifying any specific units that will be inspected in detail. The minimum number of inspected units required by the Agency for an acceptable CNA is 50 percent. However, inspecting a larger number of units generally provides more accurate information to identify the specific line items to be addressed over the “term” being covered by the CNA report. CNA Recipients are encouraged to negotiate with the CNA Provider to achieve inspection of all units whenever possible. The ultimate goal for the CNA Recipient and CNA Provider, as well as the Agency, is to produce the most accurate “baseline or snapshot” of current physical property conditions for use as a tool in projecting future reserve account needs.

#### **6. Revising an Accepted CNA During Underwriting (applies to RD actions)**

During transaction underwriting and analysis, presentation of the information contained in the “accepted” CNA may need to be revised by RD to address financing and other programmatic issues. The loan underwriter and the CNA Reviewer will work together to determine if revisions are necessary to meet the financial and physical needs of the property, and established RD underwriting or servicing standards and principals. These may involve shifting individual repair line items reported in the CNA, moving work from year to year, or other adjustments that will improve cash flow. The revised underwriting CNA will be used to establish reserve funding schedules as well as operating budget preparation and analysis, and will be maintained by RD as supporting documentation for the loan underwriting.

The initial CNA, prepared by the CNA Provider, will be maintained as an independent third-party record of the current condition of the property at the beginning of the 20-year cycle. Original CNAs will be maintained in the case file, clearly marked as either “Current Property Condition” (“As-is”), “Post Rehabilitation Condition”, or “Revised Underwriting/Replacement Schedule”, as applicable. **Note:** The CNA Provider is not the appropriate party to “revise” a CNA which has already been approved by the CNA Recipient and concurred with by the Agency. The CNA Provider’s independent opinion was the basis of the “As is” or “Post Rehabilitation” CNA. The CNA developed for underwriting may **only** be revised by RD staff during the underwriting process or as part of a post-closing servicing action.

## **7. Updating a CNA (applies to “As-is” and “Post-Rehabilitation” that have *not* been accepted by RD)**

A completed CNA more than a year old at the time of the RD CNA review and approval must be “updated” prior to RD approval. Likewise, if at the time of underwriting the CNA is more than a year old (but less than two years old), it must be updated before the transaction can be approved.

To update a CNA, the CNA Provider must review property changes (repairs, improvements, or failures) that have occurred since the date of the original CNA site visit with the CNA Recipient, review costs and quantities, and submit an updated CNA for approval. However, if the site visit for the CNA occurred more than two years prior to the loan underwriting, the CNA Provider should perform a new site visit to verify the current project condition.

Once the CNA has been updated, the CNA Provider will include a statement noting “This is an updated CNA of the earlier CNA dated \_\_\_\_\_,” at the beginning of the CNA’s Narrative section. The CNA Provider should reprint the CNA with a new date for the updated CNA, and provide a new electronic copy to the CNA Recipient and RD.

If the CNA age exceeds 2 years at the time of the RD CNA review and approval, the CNA Provider will need to repeat the site visit process to re-evaluate the condition of the property. The original report can remain the basis of the findings.

## **8. Incorporating a Property’s Rehabilitation into a CNA**

A CNA provides a repair schedule for the property in its present condition, indicating repairs and replacements necessary for a property to function properly and efficiently over a span of 20 years. It is not an estimate of existing rehabilitation needs, or an estimate of rehabilitation costs. If any rehabilitation of a MFH development is planned as part of the proposed transaction, a rehabilitation repair list (also called a “Scope of Work”) must be developed independently based on the CNA repair schedule. This rehabilitation repair list may be developed by the CNA Recipient, a project Architect, or an outside party (such as the CNA Provider, when qualified) hired by the CNA Recipient.

The CNA Recipient must not use repair line item costs taken from the CNA to develop the rehabilitation cost estimates for the rehabilitation loan, as these costs will not be accurate. The repair costs in a CNA are based on estimated costs for the property. Typically, these costs include the labor, materials, overhead and profit, but do not include applicable “soft costs”. For example, for CNA purposes, the probable cost is to send a repairman out, remove an appliance, and put a new one in its place. For rehabilitation cost estimates, the CNA Recipient typically intends to hire a general contractor to oversee and supervise the rehabilitation work, which is then considered a “soft cost”. The cost of rehabilitation includes the costs for that general contractor, the general contractor’s requirements, the cost of a project Architect (if one is used), tenant relocation (if needed), and interim financing (if used), which are considered “soft costs” attributed to the rehabilitation costs for the project.

If a “Post Rehabilitation” CNA is required and authorized by RD, a copy of the rehabilitation repair list or SOW must be provided to the CNA Provider. The CNA Provider will prepare a

“Post Rehabilitation” CNA indicating what repairs are planned for the property in the coming 20 years based on conditions after the rehabilitation is completed. Items to be replaced during rehabilitation that will need to be replaced again within the 20 years, such as appliances, will be included in the “Post Rehabilitation” CNA. Items that will not need replacement during the coming 20 years, such as a new roof, will not need to be calculated in the “Post Rehabilitation” CNA. The line item should not be removed from the CNA, but the cost data should be zeroed out. Appropriate comments should be included in the CNA report to acknowledge the SOW or rehabilitation/repairs that were considered.

## **9. Repair and Replacement Schedule**

A CNA is not a formal repair and replacement schedule, and cannot be used as an exact replacement schedule. A CNA is an estimate of the anticipated replacement needs for the property over time, and the associated replacement costs. The goal of a CNA is to estimate the replacement times based on the Expected Useful Life (EUL) to assure funds are available to replace equipment as it is needed. Hopefully, materials will be well maintained and last longer than estimated in the CNA. However, the CNA cannot be used to mandate replacement times for the identified building components. The RD underwriter may find it necessary to adjust the proposed replacement schedule during the course of the underwriting to allow for an adequate Annual Deposit to Replacement Reserves (ADRR) payment that will sustain the property over a 20-year period and keep rents below the maximum rents that are allowed.

## **Conclusion**

An Unnumbered Letter incorporating guidance on the “Rehabilitation of Properties in the Multi-Family Housing Section 515 Rural Rental Housing and Section 514/516 Farm Labor Housing Programs” is planned. Handbook procedures regarding the CNA process will be revised over time as RD continues to improve the process for using the CNA in underwriting and servicing.

Any suggestions, comments, or questions on the current RD underwriting CNA guidelines should be directed to Dean Greenwalt, Special Projects Coordinator with the Preservation and Direct Loan Division at (314) 457-5933 or [dean.greenwalt@wdc.usda.gov](mailto:dean.greenwalt@wdc.usda.gov). Any technical information or questions related to Uniform Federal Accessibility Standards (UFAS) or Section 504 Accessibility Requirements should be directed to William Downs or Michel Mitias, Architects with the Program Support Staff: William Downs, at (202) 720-1499 or [william.downs@wdc.usda.gov](mailto:william.downs@wdc.usda.gov), Michel Mitias, at (202) 236-3203 or [michel.mitias@wdc.usda.gov](mailto:michel.mitias@wdc.usda.gov).



**ADDENDUM TO THE CAPITAL NEEDS ASSESSMENT CONTRACT**  
**(Between CNA Recipient and CNA Provider)**

This ADDENDUM to the CAPITAL NEEDS ASSESSMENT (CNA) CONTRACT between \_\_\_\_\_ (CNA Provider) and (CNA Recipient) is entered into this \_\_\_ day of \_\_\_\_\_, 20\_\_ (the Effective Date) for the property known as \_\_\_\_\_ (Property).

**DEFINITIONS**

“**Acceptance**” means the act of an authorized representative of the United States Department of Agriculture (USDA), Rural Development by which the representative approves the Agreement and this Addendum.

“**Agreement**” means the contract entered into between the CNA Recipient and the CNA Provider to provide a CNA of the property. It includes the original document entered into between the parties, this Addendum, and any other document incorporated by the Agreement.

“**CNA Report**” means a report in general conformance with the *Statement of Work* that is attached hereto and the *Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator*.

“**CNA Reviewer**” means a person assigned to review the CNA report on behalf of USDA, Rural Development program.

“**CNA Provider**” means the person or entity entering into the Agreement with the CNA Recipient to perform all work required to provide a CNA of the property.

“**CNA Recipient**” means the person or persons who have or will have legal title and/or ownership of a property participating under USDA, Rural Development programs.

“**Program**” means any MH program authorized by Section 515 of the Housing Act of 1949, as amended and administered by USDA, Rural Development.

“**Property**” means any structure(s), dwelling(s) and/or land that is the subject of any Multi-family Housing program administered by the U.S. Department of Agriculture, Rural Development, and for which a CNA is required by U.S. Department of Agriculture, Rural Development.

“**USDA RD**” means the United States Department of Agriculture, Rural Development.

“**Work**” means the *CNA Statement of Work* as attached hereto.

**RECITALS**

**WHEREAS**, the property known as \_\_\_\_\_ **Property** is included in the program being administered by **USDA RD**.

**WHEREAS**, as a condition of participating in the program, the CNA Recipient is required to obtain a CNA for the Property, which has been prepared in accordance with the Statement of Work; CNA Recipient and CNA Provider must agree to a Contract to prepare a CNA for the Property.

**WHEREAS**, CNA Provider and CNA Recipient are parties to that certain CNA Contract, dated \_\_\_\_\_, 20\_\_, **Agreement**, pursuant to which the CNA Recipient has retained the services of CNA Provider to provide a CNA for the Property for the base Contract amount of \$\_\_\_\_\_ and for itemized “Additional

Services” as follows: (see listing inspection i.e. below,) in the amount of \$ \_\_\_\_\_ per item or service. The total Contract amount is \$ \_\_\_\_\_.

**WHEREAS**, the parties hereby wish to incorporate into the **Agreement** and its Exhibits certain additional provisions as set forth below.

**NOW, THEREFORE**, in consideration of the promises and mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree to the following additional terms and conditions as follows:

**ADDITIONS TO THE AGREEMENT**  
**(Between CNA Recipient and CNA Provider)**

**I. CNA RECIPIENTS OBLIGATIONS**

**a. SUBMISSION OF CONTRACT FOR CONCURRENCE BY USDA RD**

CNA Recipient will promptly submit to **USDA RD** for review and concurrence a copy of the executed **Agreement** and this Addendum.

**b. NOTIFICATION OF CONCURRENCE OF AGREEMENT BY USDA RD**

Upon receiving notification from USDA RD of its concurrence of the Agreement, CNA Recipient will promptly furnish CNA Provider with evidence of this acceptance.

**c. ACCESS TO THE PROPERTY**

Owner must allow CNA Provider, CNA Recipient and; if requested, the CNA Reviewer, complete, timely and unconditional access to the Property and its premises for the purpose of conducting the inspections that are required for preparing the CNA.

**d. FURNISHING PROPERTY INFORMATION**

At least \_\_\_\_\_ (number) day(s) prior to the commencement of the CNA inspection, CNA Recipient must furnish to the CNA Provider all information on any recent and/or immediate planned capital improvements to the Property, any recent and/or scheduled repairs, finalized maintenance schedules, and information on the existence of any known environmental hazards at the property. In addition, Owners must provide any available information on any current “Transition Plan” and “Self -Evaluation” addressing proposals for complying with all applicable Federal accessibility requirements, and other matters relevant to the CNA Statement of Work.

Specific items the CNA Recipient should provide the CNA Provider include:

1. Contact information for the Owner’s representative at **USDA RD** (Name, address, telephone number, e-mail address, etc.).
2. Building-by-building breakdown of units by bedroom count and type (i.e. garden, townhouse, fully accessible) to aid in selection of units at time of

- inspection.
3. Any available plans or blueprints of development (as-built drawings preferred).
  4. Listing of capital expenditures for the Property over the past three to five years and maintenance expenditures over the last 12 months.
  5. Maintenance logs to help identify any significant or systemic areas of concern.
  6. Copies of invoices for any recently completed capital improvements and/or copies of quotes for any pending/planned capital improvements.
  7. A valid/current Section 504 Accessibility Self Evaluation/Transition Plan (no more than three years old).
  8. Any available capital/physical needs assessments (CNAs/PNAs) that were previously completed.
  9. Any available structural or engineering studies that were previously completed.
  10. Any available reports related to lead-based paint testing or other environmental hazards (i.e. asbestos, mold, underground storage tanks, etc.) that were previously completed and/or related certifications if environmental remediation has been completed.
  11. Reports including, but not limited to: local Health Department inspections, soils analysis, USDA's last compliance review, or USDA's last security inspection.
  12. If the CNA Recipient certifies below that (a) third-party funds have been committed for use in the transaction for which the CNA is required; and (b) **USDA RD** has communicated its acceptance or acknowledgement of the availability of these funds (whether by an award of points in a portfolio revitalization program or otherwise); and (c) these funds are to be used towards a rehabilitation program at the Property, the CNA Recipient will provide the CNA Provider with a copy of the proposed rehabilitation scope and budget.

**e. ADDITIONAL SERVICES**

**When a CNA exceeds the one-year duration beyond the original acceptance date of the document, the report is required to be updated. The Contract should designate anticipated tasks and costs that would be necessary to update the CNA after the one-year or two-year time frames have been exceeded. The Contract should include, at a minimum:**

1. Identify Property where update is required.
2. Itemized list of possible tasks to be performed to accomplish the update:
  - Time and materials
  - Interviews
  - Document reviews (photos, construction documents, contracts, etc.).
  - Additional site visit as required (travel).
3. Associated unit costs for each task required for the CNA Update.

**II. CNA RECIPIENT'S CERTIFICATIONS – CNA Recipient hereby certifies as follows:**

**a. STATUS OF PROPOSED CNA (check correct box):**

- CNA Recipient **has** received a **commitment** for third-party funding for the revitalization transaction for which application was made. **The CNA Provider will create the CNA based on existing conditions “as is”**. CNA Recipient is responsible for the Scope of Work and budget for the proposed rehabilitation of the Property (typically obtained from a project Architect), incorporating any requirements of the third-party lender. The CNA Provider will then revise their CNA based on the anticipated conditions “post rehabilitation” of the Property after the rehabilitation. Both CNAs will be provided to Rural Development.
- CNA Recipient **has requested or will request** third-party funds but has no commitment. If CNA Recipient does not have a commitment of third-party funds, CNA Reviewer agrees that it is within USDA RD’s sole discretion to determine whether the CNA Provider should consider any rehabilitation Scope of Work and budget for a “post rehabilitation” CNA after conducting a CNA based on the Property’s “as is” condition. USDA RD will make such a determination on the likelihood of third-party funds being made available. CNA Provider should verify this decision with Rural Development prior to performing a “post rehabilitation” CNA.
- CNA Recipient does not anticipate third-party funds being utilized, or does not anticipate a rehabilitation at this time. In this case, the CNA Provider will conduct a normal review of the Property, not including/anticipating any rehabilitation, and base the CNA on the existing conditions at the Property.

***NOTE: The CNA Recipient will not instruct the CNA Provider to perform a “post rehabilitation” CNA without approval from Rural Development.***

#### **b. COMPLIANCE WITH STATEMENT OF WORK**

CNA Recipient must allow the CNA Provider to comply with the Statement of Work in creating and developing a CNA report that will incorporate and meet all terms, conditions and requirements as set forth in the attached Statement of Work. CNA Recipient must not impede or attempt to influence the CNA Provider’s impartiality in applying the CNA requirements and guidelines established by Rural Development in describing the physical condition and needs of the Property.

#### **c. AVAILABILITY**

CNA Recipient must be available to promptly discuss any draft or preliminary CNA report with the CNA Provider and must address in writing to the CNA Reviewer any desired revisions, corrections, comments or concerns the CNA Recipient may have relating to such report.

#### **d. ADDRESSING DEFICIENCIES**

CNA Recipient must promptly furnish to the CNA Provider USDA RD’s CNA Review report. CNA Recipient will discuss any deficiencies observed by the CNA Reviewer and request that the deficiencies be addressed within five (5) working days. Should deficiencies not be addressed within five (5) working days, CNA Recipient may order the CNA Provider in writing to suspend, delay, or interrupt all or any part of the work under the Agreement that remains to be performed for such period of time

until deficiencies identified by the CNA Reviewer have been satisfied.

**e. PAYMENT**

The CNA Recipient must pay the CNA Provider 50 percent of the negotiated contract amount for the base CNA Contract once the Contract for CNA services has been executed. If the CNA Recipient chooses to include and pay for additional services from the CNA Provider exceeding the negotiated base CNA Contract amount, then these services must be listed and the payment method addressed in the Contract between the CNA Recipient and CNA Provider. If funds for additional services will be withdrawn from the reserve account, then 50 percent of the base Contract amount along with the additional services will be paid once the contract for CNA services has been executed.

Upon concurrence by the CNA Reviewer of the CNA Provider's final report (signature of Reviewer and Underwriter required), the CNA Recipient will promptly satisfy and pay the remaining 50 percent balance of the base Contract amount and additional services if they are paid for out of the reserve account. Any remaining fees and/or dues owed to the CNA Provider pursuant to the terms of the Agreement will also be due upon the CNA Reviewer's concurrence of the CNA Provider's final report. Other payments must be subject to the schedule identified in the Agreement.

**III. CNA PROVIDER'S OBLIGATIONS – (applies to “as-is” “updates” and “post rehabilitation”)**

**a. CNA PROVIDER'S RESPONSIBILITY FOR WORK**

The CNA Provider must furnish all necessary labor, materials, tools, equipment, and transportation necessary for performance of the work as described in the Statement of Work, which is attached hereto. The format utilized for this report must be \_\_\_\_\_. (Write in “USDA RD CNA Template in Microsoft Excel Format” or similar electronic format.)

**b. COMPLIANCE WITH STATEMENT OF WORK**

CNA Provider will comply with the Statement of Work by creating and developing a CNA report that will incorporate and meet all terms, conditions and requirements as set forth in the attached Statement of Work.

**c. DELIVERY OF PRELIMINARY CNA REPORT**

CNA Provider must promptly provide to the CNA Recipient and USDA RD a preliminary CNA report.

**d. AVAILABILITY TO DISCUSS CNA REPORT FINDINGS**

CNA Provider must take any reasonable measures to be readily available to discuss and respond to any findings, concerns, comments, or revisions the CNA Reviewer may have regarding the preliminary CNA report.

**e. SUBMISSION OF FINAL CNA REPORT**

After receipt of the CNA Reviewer's report, the CNA Provider must promptly provide the CNA Recipient and USDA RD with a finalized CNA report. The finalized report will incorporate observations, comments and/or changes identified by the CNA Reviewer.

**IV. CNA PROVIDER'S CERTIFICATIONS CNA Provider hereby certifies as follows:**

**a. LICENSING AND COMPLIANCE**

CNA Provider possesses valid and current licenses and certifications necessary to comply with the Statement of Work and as regulated by all applicable State, county, and/or local laws and/or ordinances.

**b. CONFLICTS OF INTEREST**

CNA Provider has no identity of interest as defined in 7 CFR part 3560 with CNA Recipient or Owner's Property or the management agency/company for the Property.

**c. PROPERLY TRAINED**

CNA Provider and any Provider personnel who will have actual responsibility for the Property inspection and preparation of the CNA are properly trained and experienced in evaluating site and building systems, health and safety conditions, physical and structural conditions, environmental and accessibility conditions, and estimating costs for repairing, replacing and improving site and building components.

**d. PROFESSIONALLY EXPERIENCED**

CNA Provider and any Provider personnel who will have actual responsibility for the Property inspection and preparation of the CNA are professionally experienced in preparing and providing CNA's for multifamily housing properties that are similar in scope and operation to those typically financed in USDA RD's Multi-Family Housing program.

**e. KNOWLEDGEABLE OF CODES**

CNA Provider and any Provider personnel who will have actual responsibility for the Property inspection and preparation of the CNA are knowledgeable about applicable site and building standards and codes, including Federal, State and local requirements on environmental and accessibility issues.

**f. DEBARMENT AND SUSPENSION**

CNA Provider is not debarred or suspended from participating in Federally assisted programs and will comply with the requirements of 7 C.F.R. part 3017 and 2 C.F.R. part 417 or any successor regulation, pertaining to debarment or suspension of a person from participating in a Federal program or activity.

**g. SIGNED CERTIFICATION**

Include a written and signed certification by the CNA Provider that it meets all of the above qualifications for the proposed Agreement with the CNA Recipient for CNA services. [The CNA Provider's execution of this Addendum will constitute its "written and signed certification" that it meets these qualifications.]

**V. MISCELLANEOUS**

**a. USDA RURAL DEVELOPMENT PROVISIONS**

Upon request of the CNA Provider or CNA Recipient, USDA RD will make available pertinent project data such as the reserve replacements for the last 2-3 years, budget summary of the last two years, and copies of Physical Inspections and Supervisory Visits for the Property, if available.

**b. ASSIGNMENT OF CONTRACT**

CNA Provider must not assign or transfer any interest in or performance of this Contract, without written authorization from the CNA Recipient and a USDA RD representative.

**c. ENTIRE AGREEMENT**

If there are inconsistencies between any provision in this Addendum and any provision in the Agreement, the provision in this Addendum must govern. No oral statements or representations or prior written matter contradicting this instrument must have any force and effect.

**d. GOVERNING LAW**

All matters pertaining to this Addendum (including its interpretation, application, validity, performance and breach) in whatever jurisdiction action may be brought, must be governed by, construed and enforced in accordance with the laws of the State of \_\_\_\_\_.  
(Location of the Property)

**e. HEADINGS**

This Addendum must be governed by and interpreted as part of the Agreement and its general terms and conditions.

**f. TERMS AND CONDITIONS**

Except as expressly stated herein, all other terms and conditions of the Agreement must remain in full force and effect.

**IN WITNESS WHEREOF**, the undersigned who are duly authorized to execute and enter into this Addendum, intending to be legally bound hereby, have executed this Addendum as of the date first written above.

Project: \_\_\_\_\_

Project Location: \_\_\_\_\_

\_\_\_\_\_  
CNA Recipient

\_\_\_\_\_  
CNA Provider

By its: \_\_\_\_\_  
(Title/Position)

By its: \_\_\_\_\_  
(Title/Position)

Concurred by:

The United States Department of Agriculture, Rural Development

\_\_\_\_\_  
Rural Development Representative

\_\_\_\_\_  
Title/Position



## CAPITAL NEEDS ASSESSMENT STATEMENT OF WORK

### **Nature of the Work**

A Capital Needs Assessment (CNA) is a systematic assessment to determine a Property's physical capital needs over the next 20 years based upon the observed current physical conditions of a Property. The CNA report provides a year-by-year estimate of capital replacement costs over this 20-year period for use by the CNA Recipient and the U.S. Department of Agriculture (USDA) Rural Development (RD) personnel in planning the reserve account for replacements and other funding to cover these costs.

*Note: RD will use the CNA report as a key source of information about expected capital needs at the Property and the timing of these needs. However, the CNA report is only an estimate of these needs and their timing. It should **not** be viewed as the formal schedule for actual replacement of capital items. Replacement of capital items should occur when components reach the end of their actual useful life, which may occur earlier or later than estimated in the CNA report.*

### **Payment**

The CNA Recipient must pay the CNA Provider 50 percent of the negotiated Contract amount for the base CNA Contract amount once the Contract for CNA services has been executed. If the CNA Recipient chooses to include and pay for additional services from the CNA Provider exceeding the negotiated base CNA Contract amount, then these services must be listed and the payment method addressed in the Contract between the CNA Recipient and CNA Provider. If funds for additional services will be withdrawn from the reserve account, then 50 percent of the base Contract amount along with the additional services will be paid once the Contract for CNA services has been executed.

Upon concurrence by the CNA Reviewer of the CNA Provider's final report (signature of Reviewer and Underwriter required), the CNA Recipient will promptly satisfy and pay the remaining 50 percent balance of the base Contract amount and additional services if they are paid for out of the reserve account. Any remaining fees and/or dues owed to the CNA Provider pursuant to the terms of the Agreement will also be due upon the CNA Reviewer's concurrence of the CNA Provider's final report. Other payments must be subject to the schedule identified in the Agreement.

### **Qualifications**

#### **The CNA Provider must:**

1. Possess valid and current licenses and certifications necessary to comply with the Statement of Work and as regulated by all applicable State, county and/or local laws and/or ordinances.
2. Have no identity of interest as defined in [7 C.F.R. part 3560](#), with CNA Recipient or owner's Property, or management agent. An architectural firm performing a CNA which is also involved in the rehabilitation of the Property would be considered an Identity of Interest. For example: the Architect that performs the CNA assessment could overstate the conditions of the Property in order to inflate the rehabilitation scope, resulting in an

increase to the Architect's compensation which is typically a percentage of the construction costs.

3. Be properly trained and experienced in evaluating site and building systems, health and safety conditions, physical and structural conditions, environmental and accessibility conditions, and estimating costs for repairing, replacing, and improving site and building components. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA.)
4. Be professionally experienced in preparing and providing CNAs for Multi-Family Housing properties that are similar in scope and operation to those typically financed in USDA RD's Section 515 program. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the Property inspection and preparation of the CNA.)
5. Be knowledgeable about applicable site and building standards and codes including Federal, State and local requirements on environmental and accessibility issues. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the Property inspection and preparation of the CNA.)
6. Not be debarred or suspended from participating in Federally assisted programs and will comply with the requirements of 2 C.F.R. parts 417 and 180 or any successor regulation, pertaining to debarment or suspension of a person from participating in a Federal program or activity.

### **Statement of Work**

#### **The CNA Provider must:**

1. Perform a CNA in general conformance with the document: "Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator," except as modified herein.
2. Inspect the property. A minimum of **50 percent** (50 percent if less than 50 units) (45 percent if Property includes 50 – 99 units, 40 percent if the Property contains 100 or more units) of all dwelling units must be inspected in a non-intrusive manner. Consideration must be given to inspecting at least one unit per floor, per building, and per unit type (one-bedroom, two-bedroom, etc.) up to the threshold percentage. CNA Providers must ultimately be responsible for appropriate unit sampling but are encouraged to consult with site representatives to gather adequate information. This will help ensure that unit samples represent a cross-section of unit types and current physical conditions at the Property and are reflective of substantive immediate physical condition concerns. All site improvements, common facilities (every central mechanical room, every laundry etc.), and building exteriors must be inspected. (ASTM guidelines, allowing for "representative observations" of major elements are not adequate in this regard. Although inspections are "non-intrusive", CNA Providers must include an inspection of crawlspaces and attics (when these spaces can be reasonably and safely accessed) in a number sufficient to formulate an opinion of the condition of those spaces and any work necessary). All units designated as fully accessible for the handicapped must be inspected. The inspection must include interviews with the CNA Recipient, applicant/transferee, management staff, and tenants as needed. It must also include consideration of all relevant Property information provided by the CNA Recipient, including:

- Contact information for the client’s representative at Rural Development (Name, address, telephone number, e-mail address, etc.).
  - Building-by-building breakdown of units by bedroom count and type (i.e. garden, townhouse, handicap accessible) to aid in selection of units at time of inspection.
  - Any available plans or blueprints of development (as-built drawings preferred).
  - Listing of capital expenditures for the Property over the past three to five years and maintenance expenditures over the last 12 months.
  - Maintenance logs to help identify any significant or systemic areas of concern.
  - Copies of invoices for any recently completed capital improvements and/or copies of quotes for any pending/planned capital improvements.
  - A valid/current Section 504 Accessibility Self-Evaluation/Transition Plan (**no more than three years old**).
  - Any available capital/physical needs assessments (CNAs/PNAs) that were previously completed.
  - Any available structural or engineering studies that were previously completed.
  - Any available reports related to lead-based paint testing or other environmental hazards (i.e. asbestos, mold, underground storage tanks, etc.) that were previously completed and/or related certifications if environmental remediation has been completed.
  - Reports including but not limited to: local Health Department inspections, soils analysis, USDA’s last Civil Rights compliance review, USDA’s last security inspection.
  - If the CNA Recipient certifies that: (a) third-party funds have been committed for use in the transaction for which the CNA is required; and (b) USDA RD has communicated its acceptance or acknowledgement of the availability of these funds (whether by an award of points in a portfolio revitalization program or otherwise); and (c) these funds are to be used towards a rehabilitation at the Property, the CNA Recipient will provide the CNA Provider with a copy of the proposed rehabilitation scope and budget. Attachment J provides more rehabilitation requirements.
3. Prepare a report using forms developed by Rural Development or other similar documents. The report must be on an electronic worksheet in excel format commonly used in the industry, or as prescribed elsewhere herein. The report must contain the following components, at a minimum:
- a. Project Summary. Identification of the CNA Provider and CNA Recipient, and a brief description of the project, including the name, location, occupancy type (family/elderly) and unit mix.
  - b. Narrative. A detailed narrative description of the Property, including year the property was constructed or rehabilitated (of each phase if work completed in multiple phases), interior and exterior characteristics, conditions, materials and equipment, architectural and structural components, mechanical systems, etc. It must also include:

- i. Number, types, and identification of dwelling units inspected and used as a basis for the findings and conclusions in the report;
- ii. An assessment of how the Property meets the requirements for accessibility to persons with disabilities;
  - a) The report must include any actions and estimated costs necessary to correct deficiencies in order for the Property to comply with applicable Federal, State, and local laws and requirements on Section 504 accessibility. The report must also include an opinion on the adequacy of any existing and approved Transition Plans for the Property in accordance with USDA RD requirements. CNA Providers must not assume that a Property built in accordance with accessibility standards prevailing at the time of original construction is “grandfathered” on accessibility requirements.
  - b) The CNA Provider must include in the final report an accessibility evaluation in accordance with all applicable Federal accessibility requirements and standards. CNA Providers are strongly encouraged to review Appendix 5 to [HB-2-3560](#).
- iii. An assessment of observed or potential on-site environmental hazards (e.g., above or below ground fuel storage tanks, leaking electrical transformers);

*Note: The narrative portion of the report must address and include any existing testing results for the presence of radon, lead in water, lead-based paint, and other environmental concerns. CNA Providers are not expected to conduct or commission any testing themselves. However, where test results provided by the CNA Recipient affirmatively point to hazards, the CNA Provider must inquire about subsequent remediation steps and include cost allowances for any identified hazards not yet remediated.*

- iv. Recommendations for any additional professional reports as deemed necessary by the CNA Provider, such as additional investigations on potential structural defects or environmental hazards;

*Note: The narrative portion of the report must address each study or report necessary; why, and what expertise is needed so that the CNA Recipient can alleviate that issue, including estimates for repairs, prior to underwriting. It is not the CNA Provider’s responsibility to estimate the cost of the study or repairs/ remediation necessary.*

- v. Needs of the Property funded or to be funded from a third-party (if any), such as tax credits, including a brief description of the work, the source of funding, the year(s) the work is planned to be completed, and the total estimated costs in current dollars; and:

*Note: For projects where the CNA Recipient advises the CNA Provider that third-*

*party funding for rehabilitation is committed and the work will begin within 12 months, the CNA must address the existing conditions at the Property, **and** the “post-rehabilitation” needs at the Property. An example would be a CNA Recipient who has submitted a pre-application to Rural Development for the Multifamily Preservation and Revitalization (MPR) Demonstration Program where Rural Development has awarded points to the application for third-party funding, and it has committed third-party funding. Under the MPR, a CNA Recipient who has applied for third-party funding for rehabilitation but does not have a commitment for this funding must have the CNA prepared based on conditions at the Property “as is,” not “post rehabilitation”. In these cases, consult with Rural Development as to whether a “post rehabilitation” CNA should be done. When a CNA Recipient receives the funding commitment, and rehabilitation is planned within the next 12 months, the CNA Contract must be renegotiated to indicate that rehabilitation is planned and specify that a “post rehabilitation” CNA should be prepared.*

*In preparing CNAs for these properties, the CNA Provider should undertake the CNA on the basis that the third-party funded rehabilitation will occur as described in the Scope of Work for the rehabilitation project provided by the CNA Recipient and determine the Property’s “post-rehabilitation” capital needs over the next 20 years. In these cases, the CNA Provider is expected to review and understand the Scope of Work for planned rehabilitation funded from third-party sources, but aside from apparent substantive omissions is not required to comment on the planned rehabilitation.*

*If there is no evidence that third-party funding for rehabilitation has been committed (e.g., if rehabilitation is not indicated in the Rural Development MPR pre-application and/or Rural Development has not awarded points for it), then the CNA Provider must verify with the Rural Development contact prior to performing a “post rehabilitation” CNA. If no funds are committed, and Rural Development does not agree to a “post-rehabilitation” CNA, the CNA Provider may note the CNA Recipients rehabilitation proposal in the CNA but the report must be undertaken as though there will be no immediate rehabilitation. In these cases, the CNA must be based on the CNA Provider’s independent professional opinion of current and future needs at the Property. (For example, if the CNA Recipient wishes for a rehabilitation, but has no funds allocated to perform one.)*

- vi. Acknowledgments (names and addresses of persons who: performed the inspection, prepared the report, and were interviewed during, or as part of the inspection).
- c. Materials and Conditions. This component must be reported on a Microsoft Office Excel © worksheet. The following major system groups must be assessed in the report: Site; Architectural; Mechanical and Electrical; and Dwelling Units. **ALL** materials and systems in the major groups must be assessed (not every specific material used in the construction of the Property), including the following items:

- i. Item Description;
  - ii. Expected Useful Life (EUL). Data entries must be based on the EUL Table included in the “Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator”, unless otherwise explained in the report based upon the installation or most recent replacement date, quality, warranty, degree of maintenance or any other reasonable and documentable basis. Any EUL entry that varies from the Table must include an explanation in the “Comments” column. Any EUL that varies from the table by 25 percent or more must be adequately supported separately from spreadsheet (for example, provide the documentation or explanation in the Narrative section);
  - iii. Age. The actual age of the material or system;
  - iv. Remaining Useful Life (RUL). Any RUL entry that varies from the difference between the EUL and age must be explained in the “Comments” column. Any RUL entry that varies 2 years or more must be adequately supported separately from the spreadsheet (for example, provide the documentation or explanation in the “Narrative” section). Variances of more than 25 percent will not be accepted;
  - v. Condition. The current physical condition (excellent – good – fair – poor) of the material or system;
  - vi. Description of action needed (repair – replace – maintain construct – none); and,
  - vii. Comments or field notes that are relevant to the report.
- d. Capital Needs. This component must be reported on a Microsoft Office Excel © worksheet. This component identifies all materials and systems for each of the four major system groups to be repaired, replaced, or specially maintained. It must include the following items for such materials or systems:
- i. Year or years when action is needed;
  - ii. Number of years to complete the needed action (duration of the repair work);
  - iii. Quantity and Unit of Measure. Any data entry that is not from a physical Property measurement or observation during the inspection must be explained in the report (contrary to ASTM guidance, lump sum allowances must be used only for capital projects, such as landscaping, that cannot readily be quantified); and,
  - iv. Estimated repair, replacement, or special maintenance unit cost and total cost in current (un-inflated) dollars for each line item. The report must identify the source(s) used for the cost data. Entries must include estimated costs for materials, labor (union or non-union wages, as appropriate), overhead & profit. Consultant fees, and other associated costs may be incurred by the CNA Recipient when repair or replacement work involves extensive capital activities (e.g., a major landscaping or site drainage project). These activities are likely to include design costs, or the involvement of general contractors, with associated overhead and profit considerations. If the CNA Provider anticipates work will be affected by these cost factors, notes should be added to the CNA spreadsheet/report to explain the cost logic. Discussions with the CNA Recipient and the Agency will be necessary to confirm the proposed cost of these capital

activities. CNA Providers using such standard cost sources must use cost allocations that include overhead and profit.

*Note: An estimated unit cost that is significantly different from an industry standard cost, such as R.S. Means or equivalent, must be adequately supported.*

Generally, replacement actions must involve “in-kind” materials, unless a different material is more appropriate, approved by the State Historic Preservation Office, if applicable, and explained in the report. Exceptions must be made for components that are seen as inadequate (e.g. twenty gallon water heaters, prompting resident complaints) or below contemporary design/ construction standards (e.g. single-glazed windows in temperate climates). Rural Development also encourages the consideration of alternative technology and materials that offer the promise of reduced future capital and/or operating costs (more durable and/or less expensive to maintain over time, reduce utility expenses, etc.). CNA Providers are not expected to conduct quantitative cost-benefit analyses but must use sound professional judgment in this regard.

In addition to the exceptions described in the paragraph above, Rural Development may consider the inclusion of market-comparable amenities/upgrades (e.g. air conditioning in warm climates) proposed by the CNA Recipient when such features are essential to the successful operational and financial performance of the Property. Such items should be identified specifically in the CNA report as “CNA Recipient - recommended upgrades” and include an explanation of why these upgrades are necessary in supporting the financial and operational performance of the Property. Where included, CNA Provider comments on the feasibility and appropriateness of the upgrade are required.

- v. The capital needs must be presented in two time frames:
  - a) Immediate Capital Needs. All critical health and safety deficiencies (e.g. inoperative elevator or central fire alarm system, missing/unsecured railings, blocked/inadequate fire egress, property-wide pest infestation) requiring corrective action in the immediate calendar year. Separately, the CNA Recipient must provide any repairs, replacements, and improvements currently being accomplished in a rehabilitation project, regardless of funding source, and anticipated to be completed within 12 months. The CNA Recipient will include the budget for any planned rehabilitation (e.g., rehabilitation proposed in the CNA Recipients pre-application to the MPR). CNA Provider can, but is not required, to offer comments about the rehabilitation budget. The CNA must not include minor, inexpensive repairs or replacements that are part of a prudent CNA Recipients operating budget. (If the aggregate cost for a material line item is less than \$1,000, then the line item must not be included in the CNA. An aggregate cost for a line item is an item which needs to be replaced in any given year, the cost exceeds the \$1,000, and the item should be replaced in the one-year duration. **Applying a duration that exceeds one-year may decrease the aggregate amount below the \$1,000 threshold, thus circumventing the intent of the threshold to include a particular item in the CNA.**

Where immediate rehabilitation is proposed by the CNA Recipient using third-party funds, the CNA Provider must note the current condition and remaining effective useful lives of affected systems and components in an “as is” CNA.

b) Capital Needs over the Term. Such capital needs include significant maintenance, repairs, and replacement items required during subsequent twenty calendar years to maintain the Property’s physical integrity and long term marketability. It must include repairs, replacements, and significant deferred maintenance items currently being planned and anticipated to be completed after the immediate calendar year and corrections for violations of applicable standards on environmental and accessibility issues. It must also include the needs described in paragraph 3.b.v. above in the appropriate year(s), if any, if these will not be completed within 12 months from the closing of the program revitalization transaction. The CNA must **not** include minor, inexpensive repairs or replacements that are part of a prudent Property owner’s operating budget. (If the aggregate cost for a material line item is less than \$1,000, then the line item must not be included in the CNA. An aggregate cost for a line item is an item which needs to be replaced in any given year, the cost exceeds the \$1,000, and the item should be replaced in the one-year duration. Applying a duration that exceeds one-year may decrease the aggregate amount below the \$1,000 threshold, thus circumventing the intent of the threshold to include a particular item in the CNA.

**Exceptions to these exclusions may be appropriate for very small properties, and/or for low cost items that may affect resident health and safety (e.g., a damaged or misaligned boiler flue). For example, in small projects (total of 12 units or less), items exempted would be for material line items less than \$250, not \$1,000. The report must be realistic and based on due diligence and consideration of the Property’s condition, welfare of the tenants, and logical construction methods and techniques. The estimated unit costs and total costs to remedy the detailed needs must be provided in current (un-inflated) dollars.**

Capital Needs over the term must be based on the actual remaining useful lives of the components and systems at hand. Aside from formal work that is accounted for in the “Immediate Capital Needs” section, capital activities must not be “front-loaded.”

*Note: New components or upgrades addressed in a Property’s rehabilitation may have long-term capital needs implications as well. Those items with expected useful lives of less than twenty years (e.g. air conditioners) also will need to be accounted for in Capital Needs over the Term.*

- e. Executive Summary. This component must be reported on a Microsoft Office Excel © worksheet. It must include:



- i. Summary of Immediate Capital Needs – the grand total cost of all major system groups (in current dollars);
    - ii. Summary of Capital Needs Over the Term – the annual costs and grand total cost of all major system groups (in current and inflated dollars). The inflation rate must be 3 percent; and,
    - iii. Summary of All Capital Needs – the grand total costs for the immediate and over the term capital needs (in current and inflated dollars). The grand total costs (in current and inflated dollars) per dwelling unit must also be included.
  - f. Appendices. This component must include a minimum 25 color digital photographs that describe: the Property’s buildings (interior and exterior) and other facilities, specific material or system deficiencies, and the bathrooms and kitchens in the units accessible for the handicapped. Include a Property location map and other documents as appropriate to describe the Property and support the findings and summaries in the report. The CNA Provider must provide some sort of visual documentation for each line item that cannot be clearly identified by a written description alone. For instance, if an entrance needs to become handicap accessible, a picture of the entrance will help the CNA Recipient understand where the construction should take place. The CNA Recipient needs to be able to associate reserve account funds with the correct line items during the life of the CNA during the underwriting process.
4. Deliver the following:
    - a. A minimum of one electronic copy of the report must be delivered on a compact disk, or other acceptable electronic media, e.g. e-mail, to both the CNA Recipient and USDA RD for their review and written acceptance. To the greatest extent possible, delivery must be made within 15 business days of execution of the Agreement with the CNA Recipient.
    - b. If the report is not acceptable, the CNA Provider must make the appropriate changes in accordance with the review comments. A minimum of one electronic Excel copy of the revised report must be delivered on a compact disk or via e-mail to both the CNA Recipient and USDA RD for their review and written acceptance. The delivery must be made within 5 business days of receiving the review comments.
    - c. If the revised report is still not acceptable, additional revisions will be made and electronic Excel copies delivered on compact disks or via e-mail to the CNA Recipient and USDA RD until the report is acceptable.
  5. Be available for consultation with the CNA Recipient or USDA RD after written acceptance of the report on any of its contents.
  6. The CNA Provider must **NOT** analyze the adequacy of the Property’s existing or proposed replacement reserve account nor its deposits as a result of the capital needs described in the report.

**FANNIE MAE PHYSICAL NEEDS ASSESSMENT  
GUIDANCE TO THE PROPERTY EVALUATOR**

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with the Implementation of Rural Development's Rural Rental Housing Program or  
Intended Uses within the Rural Rental Housing and Farm Labor Housing Programs Related to:**

- 1. Transfer of Project Ownership;**
- 2. Loan Reamortization;**
- 3. Loan Write-Down; or**
- 4. Development of an Equity Loan Incentive or Equity  
Loan for a Sale to a Non-Profit Sponsor.**
- 5. Facility Rehabilitation, including MPR**
- 6. New Construction**

## Introduction

While many factors affect the soundness of a mortgage loan over time, one of the most significant is the physical condition of the Property – past, present and future. A prudent lender must be concerned with the past maintenance and improvements because they may indicate owner and management practices as well as expenses to be incurred in the future. The lender must be concerned with the condition of the Property at the time the loan is made, and over the term of the loan, because Property conditions may directly impact marketability to prospective tenants and the need for major expenditures may impact the economic soundness and value of the Property. The lender must also be concerned with the condition of the Property at the end of the loan term. If the Property has deteriorated, the owner may not be able to secure sufficient financing to pay off the loan at maturity.

Most lenders have always given some attention to physical conditions and needs of properties in their underwriting. However, the amount of attention, the data secured, the quality and analysis of that data, and the impact of this information on underwriting has varied widely. Indeed, many properties and the loans that they secure are now in trouble because of inadequate consideration of physical needs in the underwriting coupled with inadequate attention to Property maintenance which has diminished the marketability and overall value of the Property.

The guidance and forms in this package, together with the guidance provided to our lenders in our Delegated Underwriting and Servicing (DUS) and Multifamily Guides, is based upon a desire to see a more standardized approach to assessing the physical needs of properties that will be securing our loans. These documents attempt to respond to stated desires on the part of our lenders for a “level playing field” among competing lenders who may otherwise have different notions of the level of data and analysis required to assess a Property’s physical condition. They also attempt to respond to the needs of Property evaluators who, desiring to produce the quantity and quality of information deemed necessary, need specific guidance to avoid the appearance of glossing over problems or providing material which is too detailed or complex to be usable by the underwriters.

These documents are meant to provide useful guidance and tools to the evaluators. They cannot cover all situations and are not meant to be inflexible. They are designed to elicit the judgment of the evaluator (in a format which is useful to the underwriter), not to substitute for it. We welcome comments from evaluators in the field offices, as we did in developing this package, on improving either our forms or guidance so that this package can best serve the needs of both the evaluators and our lenders. If you have such comments, please contact:

April LeClair  
Director of Multifamily Product Management  
3900 Wisconsin Avenue, N.W.  
Washington, D.C. 20016  
(202) 752-7439.

## Specific Guidance to the Property Evaluator

### Purpose

The purpose of the Physical Needs Assessment is to identify and provide cost estimates for the following key items:

- Immediate Physical Needs - repairs, replacements and significant maintenance items which should be done immediately.
- Physical Needs Over the Term - repairs, replacements and significant maintenance items which will be needed over the term of the mortgage and two years beyond.

As part of the process, instances of deferred maintenance are also identified.

The assessment is based on the evaluator's judgment of the actual condition of the improvements and the expected useful life of those improvements. It is understood that the conclusions presented are based upon the evaluator's professional judgment and that the actual performance of individual components may vary from a reasonably expected standard and will be affected by circumstances which occur after the date of the evaluation.

This package explains how to use the set of forms provided by Fannie Mae. It is important to recognize that the forms are intended to help the evaluator conduct a comprehensive and accurate assessment. They also present the results of that assessment in a relatively standard format which will be useful to the lender in making underwriting decisions. However, the forms should not constrain the evaluator from fully presenting his or her concerns and findings. The forms should be used and supplemented in ways which facilitate the preparation and presentation of information useful to the lender regarding the physical needs of the Property.

The Systems and Conditions forms may be altered and/or computerized to serve the evaluators' needs so long as information is provided on the condition and Effective Remaining Life (ERL) of all components and the ERL is compared to the standard Expected Useful Life (EUL). The Summary forms may also be extended or computerized so long as the basic format is maintained.

## Terms of Reference Form

The lender completes this form for the evaluator. It serves as a reference point for the assessment and provides the evaluator with basic information about the property and the term of the loan. Four additional topics are covered:

- *Sampling Expectations* - The lender's expectations about the number and/or percentage of dwelling units, buildings and specialized systems to evaluate may be stated. If there is no stated expectation, the evaluator should inspect sufficient units, buildings, and numbers of specialized systems to state *with confidence* the present and probable future condition of each system at the Property. The evaluator should provide a separate statement indicating the sampling systems used to ensure a determination of conditions and costs with acceptable accuracy. If a sampling Expectation is provided by the lender which is not adequate to achieve the requisite level of confidence, the evaluator should so advise the lender.

Considerations in determining an adequate sample size are age and number of buildings (especially if the Property was developed in phases), total number of units, and variations in size, type and occupancy of units. Effective sampling is based on observing a sufficient number of each significant category. Using the above criteria, categories could include *buildings by age of each building* (e.g. inspect buildings in the 8-year old phase and in the 11-year old phase), *buildings by type* (e.g. rowhouse, L-shaped rowhouse, walkup, elevator) and/or *buildings by construction materials* (e.g. inspect the garden/flat roof/brick walls section and the garden/pitched roof/clapboard walls section). Dwelling units are separate categories from buildings. At a minimum, sampling is by unit size (0/1/2/3/4 bedrooms). There may be further categories if units are differently configured or equipped, or have different occupants (especially family or elderly). Generally, we would expect the percentage of units inspected to decrease as the total number of units increases. Systems which are not unit specific, such as boilers, compactors, elevators and roofs, will often have a 100 percent sample.

The overriding objective: SEE ENOUGH OF EACH UNIT TYPE AND SYSTEM TO BE ABLE TO STATE WITH CONFIDENCE THE PRESENT AND PROBABLE FUTURE CONDITON.

- *Market Issues* - In certain instances, market conditions may necessitate action on certain systems. Examples are early appliance replacement or re-carpeting, new entry paving, special plantings, and redecorated lobbies. If the owner or lender has identified such an action, the evaluator should include a cost estimation for such action and indicate what, if any, other costs would be eliminated by such action.
- *Work In Progress* - In some instances, work may be underway (which can be observed) or under contract. When known by the lender, this will be noted. For purposes of the report, such work should be assumed to be complete, unless observed to be unacceptable in quality or scope.
- *Management-Reported Replacements* - In some instances, the Property ownership or management will provide the lender with information about prior repairs or replacements which have been completed in recent years. The lender may provide this information to the evaluator to assist in the assessment of these components. The evaluator should

include enough units, buildings, or systems in the sample to reasonably verify the reported repairs or replacements.

### **Systems and Conditions Forms**

It is the responsibility of the evaluator to assess the condition of every system which is present at a Property. All conditions, except as noted below, requiring action during the life of the loan must be addressed regardless of whether the action anticipated is a capital or operating expense.

To assist evaluators in reviewing all systems at a Property, four Systems and Conditions Forms are provided. Each lists a group of systems typically related by trade and/or location. The four forms are Site, Architectural, Mechanical and Electrical, and Dwelling Units. While the forms have several columns in which information may be recorded, *in many instances only the first three columns will be completed*. If the condition of a system is acceptable, the ERL exceeds the term of the mortgage by two years, and no action is required, no other columns need to be completed.

The report is not expected to identify minor, inexpensive repairs or other maintenance items which are clearly part of the Property owner's current operating pattern and budget so long as these items appear to be taken care of on a regular basis. Examples of such minor operating items are occasional window glazing replacement and/or caulking, modest plumbing repairs, and annual boiler servicing. However, the evaluator *should* comment on such items in the report if they do not appear to be routinely addressed or are in need of immediate repair.

The report is expected to address infrequently occurring "big ticket" maintenance items, such as exterior painting, all deferred maintenance of any kind, and repairs or replacements which normally involve significant expense or outside contracting. While the evaluator should note any environmental hazards seen in the course of the inspection, environment-related actions, such as removal of lead-based paint, will be addressed in a separate report prepared by an environmental consultant.

### **Using the Systems and Conditions Forms**

#### *Purpose*

The forms can be used both to record actual observations at a specific location and for an overall summary. For example, the Architectural form can be used for a specific building (or group or identical buildings) as well as for summarizing all information for buildings at a Property. The same is true for the Dwelling Unit form. An unlabeled form is included which can be used as a second page for any of the Systems and Conditions Forms.

In some instances, the evaluator will note components which, while they may continue to be functional, may reduce marketability of the Property. For example, single-door refrigerators or appliances in outmoded colors may have such an impact in some properties. The evaluator should note these items, discuss them with the lender, and provide separate estimates of the

cost to replace such items if requested.

### **Items EUL**

Each of the four forms has a number of frequently-occurring systems and components listed. This list represents only the most frequently observed and is not meant to be all inclusive. *Every system present at the Property must be observed and recorded.* Any system not listed on the form may be included in the spaces labeled “Other”. Note that the assessment includes the systems and components in both residential and non-residential structures. Thus, garages, community buildings, management and maintenance offices, cabanas, pools, commercial space, and other non-residential buildings and areas are included.

The EUL figure which appears in parentheses after the “Item” is taken from the “Expected Useful Life Table” provided. This table provides standard useful lives of many components typically found in apartment complexes. Where the parentheses do not contain a number, it is because there are various types of similar components with differing economic lives. The evaluator should turn to the “Expected Useful Life Table” and select, and insert, the appropriate EUL number. If the EUL will, without question, far exceed the term of the mortgage plus two years, the EUL number need not be inserted.

Note: It is recognized that the “Expected Useful Life Table” represents only one possible judgment of the expected life of the various components. If we receive substantial material to the effect that one or more of the estimates are inappropriate, we will make adjustments. Until such changes are made, the Tables provide a useful and consistent standard for all evaluators to use. They avoid debate on what the appropriate expected life is and permit focus on the evaluator’s judgment of the effective remaining life of the actual component in place, as discussed below.

### **Age**

The evaluator should insert the actual Age of the component or may insert “OR” for original. If the actual age is unknown, an estimate is acceptable. If there is a range in Age (for example, components replaced over time), the evaluator may note the range (i.e., 5-7 years) or may use several lines for the same system, putting a different Age of that system on each line.

### **Condition**

This space is provided to indicate the Condition of the component, generally excellent, good, fair, or poor, or a similar and *consistent* qualitative evaluation.

### **Effective Remaining Life**

This space is provided for the evaluator to indicate the remaining life of the component as is. For standard components with standard maintenance, the “Expected Useful Life Table” provided by the lender could be used to determine ERL by deducting the Age from EUL. However, this should not be done automatically. A component with unusually good original quality or exceptional maintenance could have a longer life. On the other hand, if the

component has been poorly maintained or was of below standard original quality, the useful life could be shorter than expected. *The evaluator applies his or her professional judgment in making a determination of the ERL.*

*If the ERL is longer than the term of the loan plus two years, no deferred maintenance exists, and no action needs to be taken during the life of the loan, no other columns need to be filled out.* The only exception may be Diff? (Difference), as discussed below. This should be noted when the evaluator's estimate of the ERL varies by more than two years from the standard estimate.

### **Diff? (Difference)**

The Age of the component should be deducted from the EUL in parentheses and the answer compared to the ERL estimated by the evaluator. Where there is a difference of over two years, the evaluator should insert a footnote number in the DIFF? (Difference) column and supply, in an attached list of footnotes, a brief statement of why, in his or her judgment, the ERL of the component varies from the standard estimate. This approach provides consistency among evaluators while making best of the evaluators' professional judgment.

### **Action**

If any Action is required - immediately, over the life of the loan or within two years thereafter - the Action should be recorded as repair, replacer or maintain. Repair is used when only a part of an item requires action, such as the hydraulics and/or controls of a compactor. Replace is used when the entire item is replaced. Maintain is used where special, non-routine maintenance is required, such as the sandblasting of a swimming pool. In cases where a repair or maintenance may be needed now, and replacement or further maintenance may be needed later, separate lines may be used to identify the separate actions and timing.

### **Now?**

If the item involves a threat to the immediate health and safety of the residents, clearly affects curb appeal, will result in more serious problems if not corrected, or should otherwise be accomplished as part of an immediate repair, maintenance or replacement program, this space should be checked. Replacements which may be needed in year one, but do not require immediate attention, need not be checked.

### **Deferred Maintenance (DM)**

The DM space is marked in any instances where current management practice is clearly inadequate and the owner's attention should be called to the item, even if no major expenditure or significant labor may be required.

### **Quantity**

For items requiring action, the evaluator should note the "Quantity" of the system, with the applicable unit of measure entered (each, unit, square feet, square yards, linear feet, lump sum, etc.).



## Field Notes

This space, as well as attachments may be used to record the type of component (16cf, fros. free, Hotpoint), the problem (valves leaking) or other information (consider replacement for marketing purposes, replace 30 percent per year, work in progress, etc.) that the evaluator will need to complete the “Evaluator’s Summary”.

## Sample Form

The following example from the Dwelling Unit Systems and Conditions form illustrates how this form is properly used. The example presumes an 11 story building containing 1 and 2 bedroom units. There are 100 units. The age of the building is 9 years. The term of the proposed loan is 7 years.

ITEM (EUL)	AGE	COND	ERL	DIFF?	ACTION	NOW?	DM?	QUANTITY	NOTES
Countertop/ Sinks (10)	9	EX	10+	1	-	-	-	- ea.	Corian Stainless Steel
Refrigerator (15)	9	Good	6	-	REPL	-	-	100ea	Hot point 16cf. ff 20%/yr @ YR 5
Disposal (5)	0-9	Good	0-5	-	REPL	-	-	100ea	20%/yr. @ YR 1 OPTE
Bath Fixtures (20)	9	Good	11+	-	-	-	-	-	Dated Looking Repair - Now
Ceiling 04 Stack ( )	9	Hater Damage	-	-	Repair	Yes	-	10ea	Plumbing Leak

*Countertop/Sinks* are 9 years old. (The entry could also be “OR”). Condition is excellent, with an ERL of 10 years. This is significantly different from the anticipated ERL of 1 (a EUL of 10 years minus an Age of 9 years). Therefore, there is a footnote entry “1” in the Diff? (Difference) column. The footnote will indicate that this item is made of an exceptionally durable material (Corian), along with a top quality stainless steel sink. The evaluator’s estimate of an ERL of 10 years + is beyond the term of +2. No capital need would be reported.

*Refrigerators* are also original, reported as 16 cf frost free Hotpoint. Replacement is expected around the ERL, noted as 20 percent annually and beginning in the fifth year of the loan when the refrigerators are 14 years old.

*Disposals* range from new to original (Age = 0-9). Twenty percent per year replacements will be needed starting in year 1. The evaluator notes that disposals appear to be replaced as part of the project’s normal operations.

*Bath fixtures* are original, and in good condition. No replacement is expected to

be required during the term +2 years. The Notes indicates that they are “dated looking,” which may prompt a market consideration for replacement.

*Ceiling* is a special entry. The “04” stack of units has experienced water damage to ceiling from major plumbing leak. This is noted for repair NOW. As this apparently occurs in all 10 units in this stack and; therefore, is likely to have more than a modest cost, this action would be reported on the Immediate Physical Needs summary form.

### **Evaluator’s Summary Forms**

Two separate forms are used to summarize the evaluator’s conclusions from the Systems and Conditions Forms. One summarizes Immediate Physical Needs and the other summarizes the Physical Needs Over The Term +2 years.

#### **Evaluator’s Summary: Immediate Physical Needs**

All of the items for which NOW? is checked are transferred to this form. This form provides for the listing of Items, Quantity, Unit Cost and Total Cost of each. The Item and Quantity are transferred directly from the Systems and Conditions form.

*Unit Cost* - This is the cost per unit (sf, ea, lf, etc.) in current dollars to implement the required action. The source of the cost estimate should be listed in a separate attachment. The sources may include a third-party estimation service (e.g., R.S. Means: *Repair and Remodeling Cost Data*), actual bid or Contract prices for the property, estimates from contractors or vendors, the evaluator’s own cost files, or published supplier sources.

*Total Cost* - This is the result of multiplying the quantity times the unit cost. It is expressed in current year dollars.

*Deferred Maintenance (DM)* - If the item evidences deferred maintenance, this column is checked.

*Comments* - the comments column, or an attachment, should clearly provide information on the location and the nature of problem being addressed for each item. The information should be adequate for the owner to begin to implement the action.

#### **Evaluator’s Summary: Physical Needs Over the Term**

Those items not listed on the Immediate Physical Needs form, but for which action is anticipated during the term of the loan plus two years, are listed on the form. The item and Quantity are transferred directly from the Systems and Conditions form. The Unit Cost is calculated in the same manner as on the Immediate Physical Needs form. An attachment should be provided which gives any necessary information on the location of action items and the problem being addressed for each item. The information should be adequate for the owner to begin to implement the action.

*Cost by Year* - the result of multiplying the quantity times the unit cost, in current dollars, is inserted in the column for the year in which the action is expected to take place. Generally, the ERL estimate provided by the evaluator on the Systems and Conditions will indicate the Action year. For example, if the evaluator has indicated that the ERL of the parking lot paving is 4 years, the cost, in current dollars, is inserted in Year 4. If the items are likely to be done over a number of years, the costs, in current dollars should be spread over the appropriate period. For example, if the ERL of the refrigerators is estimated to be 4 years, or 3-5 years, one third of the cost of replacing the refrigerators may appear in each of years 3, 4, and 5.

*Total Uninflated* - After inserting all of the appropriate action items, the evaluator should total the items for each year.

*Total Inflated* - The evaluator should multiply the Total Uninflated times the factor provided to produce the Total Inflated.

*Total Inflated All Pages* - On the last sheet, the evaluator should include the Total Inflated Dollars for that page and all prior pages.

*Cumulative Total All Pages* - On the last sheet, the evaluator should insert the Total Inflated Dollars of that year and all prior years.

### **Special Repair and Replacement Requirements**

While performing a Property Inspection, the evaluator must be aware that certain building materials and construction practices may cause properties to experience (or to develop in a short time period) problems that can be corrected only with major repairs or replacements. The following identifies some specific construction related problems; however, the evaluator must be aware that other construction related problems may be found in any Property and should be identified. If any of the following requirements are not met or if the evaluator determines that the following conditions (or others) are present, *the evaluator must contact the lender immediately to discuss the timing as well as the cost of the repairs or replacements.* The evaluator should ensure that any of these conditions are thoroughly addressed in the Physical Needs Assessment.

*Minimum Electrical Capacity* - Each apartment unit must have sufficient electrical capacity (amperage) to handle the number of electrical circuits and their use within an apartment. Therefore, the evaluator must determine, based on referencing the National Electric Code as well as local building codes, what is the minimum electrical service needed. In any event, that service must not be less than 60 amperes.

*Electrical Circuit Overload Protection* - All apartment unit circuits, as well as electrical circuits elsewhere in an apartment complex, must have circuit breakers as opposed to fuses as circuit overload protection.

*Aluminum Wiring* - In all cases, where aluminum wiring runs from the panel to the outlets of a

unit, the evaluator's inspection should ascertain that the aluminum wiring connections (outlets, switches, appliances, etc.) are made to receptacles rated to accept aluminum wiring or that corrective repairs can be done immediately by the owner.

*Fire Retardant Treated Plywood* - While performing the roof inspection, the evaluator should investigate whether there is any indication that fire-retardant treated plywood was used in the construction of the roof (primarily roof sheathing). This inspection should focus on sections of the roof that are subjected to the greatest amount of heat (e.g., areas that are not shaded or that are poorly ventilated) and; if possible, to inspect the attic for signs of deteriorating fire-retardant treated plywood or plywood that is stamped with a fire rating.

Our concern is that certain types of fire-retardant treated plywood rapidly deteriorates when exposed to excessive heat and humidity or may cause nails or other metal fasteners to corrode. Common signs of this condition include a darkening of the wood and the presence of a powder-like substance, warping of the roof and the curling of the shingles. Fire-retardant treated plywood is most likely to be in townhouse properties or other properties with pitched, shingled roofs that were constructed after 1981 and that are located in States east of the Mississippi River and some southwestern States.

### **Narrative Conclusion and Attachments**

A complete narrative summary of the Property and its components is not required. However, the evaluator should supply a concise summary of the conclusions reached concerning the overall condition of the Property, its future prospects, and the quality of the current maintenance programs. *Any items affecting the health and safety of residents should be clearly flagged.*

The summary should include a discussion of the sampling approach used, discussed above, and any market issues which the evaluator believes it may be appropriate to address or which were noted by the lender.

The narrative, the forms use and the attachments (footnotes explaining Differences, information regarding sources of costs, and, if necessary, information needed to identify the location and type of problem addressed in the Evaluator's Summary: Physical Needs Over the Term) should be supplied.

**CNA e-Tool  
Estimated Useful Life Table**

This table lists the recommended average useful life of the categories of assets that should be considered in a Capital Needs Assessment. If an observed item is not listed, it should be assigned to the most closely related category. The Standard EUL for a component type is fixed. The user may estimate the Remaining Useful Life of any existing component independent of the Standard EUL by entering the assessed RUL in the appropriate space on the Components tab of the Excel Assessment Tool and by justifying the assessed RUL in the adjacent comment box. When identifying an alternative to an existing component the user may specify an EUL for the alternative which differs from the Standard EUL for that component type but must enter an explanation in the Notes space on the Alternatives tab of the Tool. Each specific component assessed is given a free-form description by the needs assessor and this description is the "component ID" or component name which may be more specific than the "Component Type", e.g (a particular kind, size, etc of refrigerator, not just any refrigerator.)

Numbering by ASTM 2018-08 Outline								
	System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type
3					<b>System Description and Observations</b>			
	3.1				<b>Overall General Description</b>			
	3.2				<b>Site Systems</b>			Need Category
		3.2.1			<b>Topography</b>			
		3.2.2			<b>Storm Water Drainage</b>			Need Item
			3.2.2.1		Catch basins, inlets, culverts	50	50	All items not color coded are "Component Type" names.
			3.2.2.2		Marine or stormwater bulkhead	35	35	
			3.2.2.3		Earthwork, swales, drainways, erosion controls	50	50	
			3.2.2.4		Storm drain lines	50	50	
			3.2.2.5		Stormwater mgmt ponds	50	50	
			3.2.2.6		Fountains, pond aerators	15	15	
		3.2.3			<b>Access and Egress</b>			Need Item
			3.2.3.1		Security gate - lift arm	10	10	
			3.2.3.2		Security gate - rolling gate	15	15	
		3.2.4			<b>Paving, Curbing and Parking</b>			Need Item
			3.2.4.1		Asphalt Pavement	25	25	
			3.2.4.2		Asphalt Seal Coat	5	5	
			3.2.4.3		Concrete Pavement	50	50	
			3.2.4.4		Curbing, Asphalt	25	25	
			3.2.4.5		Curbing, Concrete	50	50	
			3.2.4.6		Parking, Gravel Surfaced	15	15	
			3.2.4.7		Permeable Paving Systems (brick, concrete pavers)	30	30	
			3.2.4.8		Striping and Marking	15	15	
			3.2.4.9		Signage, Roadway / Parking	15	15	

## CNA e-Tool Estimated Useful Life Table

This table lists the recommended average useful life of the categories of assets that should be considered in a Capital Needs Assessment. If an observed item is not listed, it should be assigned to the most closely related category. The Standard EUL for a component type is fixed. The user may estimate the Remaining Useful Life of any existing component independent of the Standard EUL by entering the assessed RUL in the appropriate space on the Components tab of the Excel Assessment Tool and by justifying the assessed RUL in the adjacent comment box. When identifying an alternative to an existing component the user may specify an EUL for the alternative which differs from the Standard EUL for that component type but must enter an explanation in the Notes space on the Alternatives tab of the Tool. Each specific component assessed is given a free-form description by the needs assessor and this description is the "component ID" or component name which may be more specific than the "Component Type", e.g (a particular kind, size, etc of refrigerator, not just any refrigerator.)

Numbering by ASTM 2018-08 Outline								
System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type	
		3.2.4.10		Carports, wood frame	30	30		
		3.2.4.11		Carports, metal frame	40	40		
	3.2.5			<b>Flatwork (walks, plazas, terraces, patios)</b>				Need Item
		3.2.5.1		Asphalt	25	25		
		3.2.5.2		Concrete	50	50		
		3.2.5.3		Gravel	15	15		
		3.2.5.4		Permeable Paving (brick, concrete pavers)	30	30		
	3.2.6			<b>Landscaping and Appurtenances</b>				Need Item
		3.2.6.1		Fencing, chain-link	40	40		
		3.2.6.2		Fencing, wood picket	15	20		
		3.2.6.3		Fencing, wood board (=>1"x 6")	20	25		
		3.2.6.4		Fencing, wrought Iron	60	60		
		3.2.6.5		Fencing, steel or aluminum	20	25		
		3.2.6.6		Fencing, concrete Masonry unit (CMU)	30	30		
		3.2.6.7		Fencing, PVC	15	20		
		3.2.6.8		Signage, Entrance/Monument	25	25		
		3.2.6.9		Mail Kiosk	15	20		
		3.2.6.10		Retaining Walls, heavy block (50-80 lb)	60	60		
		3.2.6.11		Retaining Walls, reinforced concrete masonry unit (CMU)	40	40		
		3.2.6.12		Retaining Walls, treated timber	25	25		
		3.2.6.13		Storage sheds	30	30		
	3.2.7			<b>Recreational Facilities</b>				Need Item
		3.2.7.1		Sport Court- asphalt	25	25		
		3.2.7.2		Sport Court- synthetic	15	20		

**CNA e-Tool  
Estimated Useful Life Table**

This table lists the recommended average useful life of the categories of assets that should be considered in a Capital Needs Assessment. If an observed item is not listed, it should be assigned to the most closely related category. The Standard EUL for a component type is fixed. The user may estimate the Remaining Useful Life of any existing component independent of the Standard EUL by entering the assessed RUL in the appropriate space on the Components tab of the Excel Assessment Tool and by justifying the assessed RUL in the adjacent comment box. When identifying an alternative to an existing component the user may specify an EUL for the alternative which differs from the Standard EUL for that component type but must enter an explanation in the Notes space on the Alternatives tab of the Tool. Each specific component assessed is given a free-form description by the needs assessor and this description is the "component ID" or component name which may be more specific than the "Component Type", e.g (a particular kind, size, etc of refrigerator, not just any refrigerator.)

Numbering by ASTM 2018-08 Outline									
System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type		
		3.2.7.3		Sport Court-hardwood	50	50			
		3.2.7.4		Tot Lot (playground equipment)	10	15			
		3.2.7.5		Tot Lot- lose ground cover	3	5			
		3.2.7.6		Pool Deck	15	15			
		3.2.7.7		Pool/Spa Plastic Liner	8	8			
		3.2.7.8		Pool/Spa pumps and equipment	10	10			
		3.2.7.9		Decks-treated lumber	20	20			
		3.2.7.10		Decks-composite	50	50			
	3.2.8			<b>Site Utilities</b>					
		3.2.8.1		<b>Site Utilities-Water</b>					Need Item
			3.2.8.1.1	Water Mains/Valves	50	50			
			3.2.8.1.2	Water Tower	50	50			
			3.2.8.1.3	Irrigation System	25	25			
		3.2.8.2		<b>Site Utilities-Electric</b>					Need Item
			3.2.8.2.1	Electric distribution center	40	40			
			3.2.8.2.2	Electric distribution lines	40	40			
			3.2.8.2.3	Transformer	30	30			
			3.2.8.2.4	Emergency Generator	25	25			
			3.2.8.2.5	Solar Photovoltaic panels	15	15			
			3.2.8.2.6	Photovoltaic Inverters	10	10			
			3.2.8.2.7	Pole mounted lights	25	25			
			3.2.8.2.8	Ground lighting	10	10			
			3.2.8.2.9	Building Mounted Lighting	10	10			
			3.2.8.2.10	Building Mounted High Intensity Discharge (HID) Lighting	10	20			

**CNA e-Tool  
Estimated Useful Life Table**

This table lists the recommended average useful life of the categories of assets that should be considered in a Capital Needs Assessment. If an observed item is not listed, it should be assigned to the most closely related category. The Standard EUL for a component type is fixed. The user may estimate the Remaining Useful Life of any existing component independent of the Standard EUL by entering the assessed RUL in the appropriate space on the Components tab of the Excel Assessment Tool and by justifying the assessed RUL in the adjacent comment box. When identifying an alternative to an existing component the user may specify an EUL for the alternative which differs from the Standard EUL for that component type but must enter an explanation in the Notes space on the Alternatives tab of the Tool. Each specific component assessed is given a free-form description by the needs assessor and this description is the "component ID" or component name which may be more specific than the "Component Type", e.g (a particular kind, size, etc of refrigerator, not just any refrigerator.)

Numbering by ASTM 2018-08 Outline								
	System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type
			3.2.8.3		<b>Site Utilities-Gas</b>			Need Item
				3.2.8.3.1	Gas Main	40	40	
				3.2.8.3.2	Gas Supply Lines	40	40	
				3.2.8.3.3	Site Propane, Storage & Distribution	35	35	
				3.2.8.3.4	Gas lights/fire pits	20	20	
			3.2.8.4		<b>Site Utilities-Sewer</b>			Need Item
				3.2.8.4.1	Sanitary Sewer lines	50	50	
				3.2.8.4.2	Sanitary waste treatment system	40	40	
				3.2.8.4.3	Lift Station	50	50	
			3.2.8.5		<b>Site Utilities-Trash</b>			Need Item
				3.2.8.5.1	Dumpsters	15	15	
				3.2.8.5.2	Compactors (exterior, commercial grade)	20	20	
				3.2.8.5.3	Recycling containers/equipment	15	15	
				3.2.8.5.4	Composting, organic recycling equipment	10	10	
	3.3				<b>Building Frame &amp; Envelope</b>			Need Category
		3.3.1			<b>Foundation</b>			Need Item
			3.3.1.1		Slab, reinforced concrete	100	100	
			3.3.1.2		Slab, post tensioned	100	100	
			3.3.1.3		Continuous reinforced concrete footer and CMU stem wall	100	100	
			3.3.1.4		Piers, reinforced concrete footer and CMU pier	100	100	
			3.3.1.5		Piers, treated timber post/pole	40	40	
			3.3.1.6		Foundation Waterproofing	40	40	
			3.3.1.7		Foundation suction, drainage, groundwater, radon gas controls, pumps, sumps, equip. failure alarms	10	10	



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System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type	
	3.3.2			<b>Building Frame</b>				
		3.3.2.1		<b>Framing System, Floors &amp; Walls</b>				Need Item
			3.3.2.1.1	Wood, timbers, dimensioned lumber, laminated beams, trusses	100	100		
			3.3.2.1.2	Tie downs, clips, braces, straps, hangers, shear walls/panels	75	75		
			3.3.2.1.3	Steel, beams, trusses	100	100		
			3.3.2.1.4	Reinforced concrete	100	100		
			3.3.2.1.5	Reinforced masonry, concrete masonry units (CMUs)	100	100		
			3.3.2.1.6	Solid Masonry (obsolete)	100	100		
		3.3.2.2		<b>Crawl Spaces, Envelope Penetrations</b>				Need Item
			3.3.2.2.1	Sealed crawl space system	40	40		
			3.3.2.2.2	Vents, screens, covers	30	30		
			3.3.2.2.3	Vapor Barrier (VDR) ground or underfloor	30	30		
			3.3.2.2.4	Penetrations, caulking/sealing	15	15		
			3.3.2.2.5	Crawl space, (de)pressurization, fans, pumps, sumps, equipment failure alarms	10	10		
		3.3.2.3		<b>Roof Frame &amp; Sheathing</b>				Need Item
			3.3.2.3.1	Wood frame and board or plywood sheathing	75	75		
			3.3.2.3.2	Tie downs, clips, braces, straps, hangers	75	75		
			3.3.2.3.3	Steel frame and sheet metal or insulated panel sheathing	100	100		
			3.3.2.3.4	Reinforced concrete deck	100	100		
		3.3.2.4		<b>Flashing &amp; Moisture Protection</b>				Need Item
			3.3.2.4.1	Caulking and Sealing	15	15		
			3.3.2.4.2	Concrete/Masonry Sealants	10	10		
			3.3.2.4.3	Wood waterproofing and sealants	10	10		

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			3.3.2.4.4	Building wraps & moisture resistant barriers	50	50		
			3.3.2.4.5	Paints and stains, exterior	8	8		
		<b>3.3.2.5</b>		<b>Attics &amp; Eaves</b>				Need Item
			3.3.2.5.1	Screened gable end or soffit Vents	30	30		
			3.3.2.5.2	Roof vents, passive	40	40		
			3.3.2.5.3	Roof Vents, powered	20	20		
		<b>3.2.2.6</b>		<b>Insulation</b>				Need Item
			3.3.2.6.1	Loose fill, fiber glass, cellulose, mineral wool	50	50		
			3.3.2.6.2	Batts, blankets, rolls, fiber glass or mineral wool	60	60		
			3.3.2.6.3	Rigid foam board	60	60		
			3.3.2.6.4	Sprayed foam	60	60		
		<b>3.3.2.7</b>		<b>Exterior Stairs, Rails, Balconies/Porches, Canopies</b>				Need Item
			3.3.2.7.1	Exterior Stairs, wood frame/stringer	30	30		
			3.3.2.7.2	Exterior Stair Tread-wood	15	15		
			3.3.2.7.3	Exterior Stairs-steel frame/stringer	40	40		
			3.3.2.7.4	Exterior Stair Tread-metal, concrete filled	20	20		
			3.3.2.7.5	Exterior Stairs, Concrete	50	50		
			3.3.2.7.6	Fire escapes, metal	50	50		
			3.3.2.7.7	Balcony/Porch, wood frame	25	25		
			3.3.2.7.8	Balcony/Porch, steel frame or concrete	40	40		
			3.3.2.7.9	Balcony/Porch, wood decking	20	20		
			3.3.2.7.10	Balcony/Porch, composite decking	50	50		
			3.3.2.7.11	Railings, wood	20	20		
			3.3.2.7.12	Railings, metal	50	50		

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			3.3.2.7.13	Railings, composite	50	50		
			3.3.2.7.14	Canopy, Concrete	50	50		
			3.3.2.7.15	Canopy, Wood/Metal	40	40		
		<b>3.3.2.8</b>		<b>Exterior Doors &amp; Entry Systems</b>				Need Item
			3.3.2.8.1	Unit Entry Door, Exterior, solid wood/metal clad	25	30		
			3.3.2.8.2	Common Exterior Door, aluminum and glass	30	30		
			3.3.2.8.3	Common Exterior Door, solid wood /metal clad	25	25		
			3.3.2.8.4	Storm/Screen Doors	5	10		
			3.3.2.8.5	Sliding Glass Doors	25	30		
			3.3.2.8.6	French or Atrium Doors, wood/metal clad	25	30		
			3.3.2.8.7	Automatic Entry Doors	30	30		
			3.3.2.8.8	Commercial Entry Systems	50	50		
			3.3.2.8.9	Overhead Door	30	30		
			3.3.2.8.10	Automatic Opener, overhead door	20	20		
	<b>3.3.3</b>			<b>Façades or Curtainwall</b>				
		<b>3.3.3.1</b>		<b>Sidewall System</b>				Need Item
			3.3.3.1.1	Aluminum Siding	40	40		
			3.3.3.1.2	Vinyl Siding	25	25		
			3.3.3.1.3	Cement Board Siding	45	45		
			3.3.3.1.4	Plywood/Laminated Panels	20	20		
			3.3.3.1.5	Exterior Insulation Finishing System (EIFS)	30	30		
			3.3.3.1.6	Stucco, over wire mesh/lath	50	50		
			3.3.3.1.7	Metal/Glass Curtain Wall	40	40		
			3.3.3.1.8	Precast Concrete Panel (tilt-up)	60	60		

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				3.3.3.1.9	Brick/block veneer	60	60		
				3.3.3.1.10	Stone Veneer	50	50		
				3.3.3.1.11	Glass Block	50	50		
				3.3.3.1.12	Cedar/Redwood shakes, clapboard	50	50		
				3.3.3.1.13	Pine board, clapboard	50	50		
			3.3.3.2		<b>Windows</b>				Need Item
				3.3.3.2.1	Wood, (dbl, sgl hung, casement, awning, sliders)	35	45		
				3.3.3.2.2	Wood, fixed pane, picture	40	45		
				3.3.3.2.3	Aluminum	35	40		
				3.3.3.2.4	Vinyl	30	30		
				3.3.3.2.5	Vinyl/Alum Clad Wood	50	50		
				3.3.3.2.6	Storm/Screen Windows	7	15		
		3.3.4			<b>Roofing and Roof Drainage</b>				
			3.3.4.1		<b>Sloped Roofs</b>				Need Item
				3.3.4.1.1	Asphalt Shingle	20	20		
				3.3.4.1.2	Metal	50	50		
				3.3.4.1.3	Slate shingle	75	75		
				3.3.4.1.4	Clay/cementitious barrel tile	60	60		
				3.3.4.1.5	Wood Shingle, Cedar Shakes/Shingles	25	25		
			3.3.4.2		<b>Low Slope/Flat Roofs</b>				Need Item
				3.3.4.2.1	Low slope-Built-up Roof, with gravel finish	20	20		
				3.3.4.2.2	Low slope-Built-up Roof, no mineral or gravel finish	10	10		
				3.3.4.2.3	Low slope-Adhered rubber membrane, (EPDM)	15	15		
				3.3.4.2.4	Low slope-Thermoplastic membrane, (TPO, vinyl)	15	15		

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				3.3.4.2.5	Low slope-Rubberized/elastomeric white/cool roof	15	15	
			3.3.4.3		<b>Roof Drainage, Trim &amp; Accessories</b>			Need Item
				3.3.4.3.1	Gutters/Downspouts, aluminum	20	20	
				3.3.4.3.2	Gutters/Downspouts, copper	50	50	
				3.3.4.3.3	Low slope-roof drains, scuppers	30	30	
				3.3.4.3.4	Soffits, Wood, Vinyl, Metal	20	20	
				3.3.4.3.5	Fascia, Wood, Vinyl	20	20	
				3.3.4.3.6	Roof Hatch	30	30	
				3.3.4.3.7	Service Door	30	30	
				3.3.4.3.8	Roof Skylight	30	30	
	3.4				<b>Mech.-Elect.-Plumbing</b>			Need Category
		3.4.1			<b>Plumbing</b>			
			3.4.1.1		<b>Water Supply and Waste Piping</b>			Need Item
				3.4.1.1.1	PVC/CPVC pipe, supply and waste	75	75	
				3.4.1.1.2	Copper/brass hard pipe, supply	75	75	
				3.4.1.1.3	Copper Tube, supply	50	50	
				3.4.1.1.4	Galvanized pipe, supply	40	40	
				3.4.1.1.5	Cast iron sanitary waste	75	75	
				3.4.1.1.6	Domestic Cold Water Pumps	20	20	
				3.4.1.1.7	Sewage Ejectors	50	50	
				3.4.1.1.8	Commercial Sump Pump	20	20	
				3.4.1.1.9	Residential Sump Pump	15	15	
				3.4.1.1.10	Water Softener/Filtration	15	15	
			3.4.1.2		<b>Domestic Water Heating</b>			Need Item

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			3.4.1.2.1	DHW circulating pumps	15	15		
			3.4.1.2.2	DHW storage tanks	15	15		
			3.4.1.2.3	Exchanger, in tank or boiler	15	15		
			3.4.1.2.4	External tankless heater, gas or electric	20	20		
			3.4.1.2.5	Solar hot water	20	20		
			3.4.1.2.6	Residential hot water heater, gas or electric	12	15		
			3.4.1.2.7	Flue, gas water heaters	35	35		
			3.4.1.2.8	Boilers, Oil Fired, Sectional	25	25		
			3.4.1.2.9	Boilers, Gas Fired, Sectional	25	25		
			3.4.1.2.10	Boilers, Oil/ Gas/ Dual Fuel, Low MBH	30	30		
			3.4.1.2.11	Boilers, Oil/ Gas/ Dual Fuel, High MBH	40	40		
			3.4.1.2.12	Boilers, Gas Fired Atmospheric	25	25		
			3.4.1.2.13	Boilers, Electric	20	20		
			3.4.1.2.14	Boiler Blowdown and Water Treatment	25	25		
			3.4.1.2.15	Boiler Room Pipe Insulation	25	25		
			3.4.1.2.16	Boiler Room Piping	50	50		
			3.4.1.2.17	Boiler Room Valves	25	25		
			3.4.1.2.18	Boiler Temperature Controls	15	15		
			3.4.1.2.19	Heat Exchanger	35	35		
		3.4.1.3		<b>Fixtures</b>				Need Item
			3.4.1.3.1	Faucets & valves	15	20		
			3.4.1.3.2	Bath tubs & sinks, cast iron	75	75		
			3.4.1.3.3	Bubs tubs & sinks, enameled or stainless steel, fiberglass	40	40		
			3.4.1.3.4	Bath tubs & sinks, porcelain	50	50		

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			3.4.1.3.5	Toilets/bidets/urinals	40	40		
			3.4.1.3.6	Flush valves	10	15		
			3.4.1.3.7	Tub/shower units or integrated assemblies	30	30		
	3.4.2			<b>Centralized HVAC Systems</b>				
		3.4.2.1		<b>Centralized Heating/Cooling Equipment</b>			Need Item	
			3.4.2.1.1	Boilers, Oil Fired, Sectional - Centralized	25	25		
			3.4.2.1.2	Boilers, Gas Fired, Sectional - Centralized	25	25		
			3.4.2.1.3	Boilers, Oil/ Gas/ Dual Fuel, Low MBH - Centralized	30	30		
			3.4.2.1.4	Boilers, Oil/ Gas/ Dual Fuel, High MBH - Centralized	40	40		
			3.4.2.1.5	Boilers, Gas Fired Atmospheric - Centralized	25	25		
			3.4.2.1.6	Boilers, Electric - Centralized	20	20		
			3.4.2.1.7	Boiler Blowdown and Water Treatment - Centralized	25	25		
			3.4.2.1.8	Boiler Room Pipe Insulation - Centralized	25	25		
			3.4.2.1.9	Boiler Room Piping - Centralized	50	50		
			3.4.2.1.10	Boiler Room Valves - Centralized	25	25		
			3.4.2.1.11	Boiler Temperature Controls - Centralized	15	15		
			3.4.2.1.12	Heat Exchanger - Centralized	35	35		
			3.4.2.1.13	Combustion Air, Duct with Fixed Louvers	30	30		
			3.4.2.1.14	Combustion Air, Motor Louvers and Duct	25	25		
			3.4.2.1.15	Combustion Waste Flue	40	40		
			3.4.2.1.16	Cooling tower	25	25		
			3.4.2.1.17	Chilling plant	20	20		
			3.4.2.1.18	Steam supply station	50	50		
			3.4.2.1.19	Free standing chimney	50	50		

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		3.4.2.2		<b>Centralized Heat/Air/Fuel Distribution</b>				Need Item
			3.4.2.2.1	Fuel oil/propane storage tanks	40	40		
			3.4.2.2.2	Remediate/remove abandoned tanks/fuel lines	100	100		
			3.4.2.2.3	Fuel transfer system	25	25		
			3.4.2.2.4	Gas/oil distribution lines	50	50		
			3.4.2.2.5	Gas meter	40	40		
			3.4.2.2.6	2 pipe/4 pipe hydronic distribution-above grade	50	50		
			3.4.2.2.7	2 pipe/4 pipe hydronic distribution-in ground	25	25		
			3.4.2.2.8	Hydronic/Water Circulating Pumps	20	20		
			3.4.2.2.9	Hydronic/Water Controller	20	20		
			3.4.2.2.10	Radiation-steam/hydronic (baseboard or freestanding radiator)	50	50		
			3.4.2.2.11	Fan Coil Unit, Hydronic	30	30		
			3.4.2.2.12	Central exhaust fans/blowers	20	20		
	3.4.3			<b>Decentralized and Split HVAC Systems</b>				
		3.4.3.1		<b>Dwelling/Common Area HVAC Equipment</b>				Need Item
			3.4.3.1.1	Electric heat pump, condenser, pad or rooftop	15	15		
			3.4.3.1.2	Electric AC condenser, pad or rooftop	15	15		
			3.4.3.1.3	Electric furnace/air handler	20	20		
			3.4.3.1.4	Gas furnace/air handler	20	20		
			3.4.3.1.5	Hydronic heat/electric AC air handler	25	25		
			3.4.3.1.6	Hydronic feed electric heat pump/air handler	25	25		
			3.4.3.1.7	Wall mounted electric/gas heater	25	25		
			3.4.3.1.8	Electric baseboard heater	30	30		
			3.4.3.1.9	PTAC Thruwall (packaged terminal air conditioning)	15	15		



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Numbering by ASTM 2018-08 Outline								
System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type	
			3.4.3.1.10	Window or thru-wall air conditioners	10	10		
			3.4.3.1.11	Package HVAC roof top	15	15		
			3.4.3.1.12	Air filtration/humidity control devices (humidifiers, HRV's)	20	20		
			3.4.3.1.13	Duct, rigid sheet metal, insulated if not in conditioned space	35	35		
			3.4.3.1.14	Duct, flexible, insulated	20	20		
			3.4.3.1.15	Duct, sealing-mastic or UL 181A or 181B tape.	20	20		
			3.4.3.1.16	Diffusers, registers	20	20		
			3.4.3.1.17	Fireplace, masonry & firebrick, masonry chimney	75	75		
			3.4.3.1.18	Fireplace, factory assembled	35	35		
			3.4.3.1.19	Fireplace insert, stove	50	50		
			3.4.3.1.20	Chimneys, metal, and chimney covers	35	35		
			3.4.3.2	<b>HVAC Controls</b>				Need Item
			3.4.3.2.1	Dwelling/common area thermostat	15	20		
			3.4.3.2.2	Heat sensors	15	15		
			3.4.3.2.3	Outdoor temperature sensor	10	10		
	3.4.4			<b>Electrical</b>				
			3.4.4.1	<b>Electric Service &amp; Metering</b>				Need Item
			3.4.4.1.1	Building service panel	50	50		
			3.4.4.1.2	Building meter	40	40		
			3.4.4.1.3	Tenant meters, meter panel	40	40		
			3.4.4.2	<b>Electrical Distribution</b>				Need Item
			3.4.4.2.1	Tenant electrical panel	50	50		
			3.4.4.2.2	Unit/building wiring	50	50		
			3.4.4.3	<b>Electric Lighting &amp; Fixtures</b>				Need Item

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Numbering by ASTM 2018-08 Outline									
	System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type	
				3.4.4.3.1	Switches & outlets	35	35		
				3.4.4.3.2	Lighting - exterior entry	15	20		
				3.4.4.3.3	Lighting- interior common space	25	30		
				3.4.4.3.4	Lighting - Tenant Spaces	20	25		
				3.4.4.3.5	Door bells, chimes	20	25		
			3.4.4.4		<b>Telecommunications Equipment</b>				Need Item
				3.4.4.4.1	Satellite dishes/antennae	20	20		
				3.4.4.4.2	Telecom panels & controls	20	20		
				3.4.4.4.3	Telecom cabling & outlets	20	20		
	3.5				<b>Vertical Transportation</b>				Need Category
		3.5.1			<b>Elevators/Escalators</b>				Need Item
			3.5.1.1		Electrical switchgear	50	50		
			3.5.1.2		Electrical wiring	30	30		
			3.5.1.3		Elevator controller, call, dispatch, emergency	10	20		
			3.5.1.4		Elevator cab, interior finish	10	20		
			3.5.1.5		Elevator cab, frame	35	50		
			3.5.1.6		Elevator, machinery	20	30		
			3.5.1.7		Elevator, shaftway doors	10	20		
			3.5.1.8		Elevator, shaftway hoist rails, cables, traveling	20	25		
			3.5.1.9		Elevator, shaftway hydraulic piston and leveling	20	25		
			3.5.1.10		Escalators	50	50		
	3.6				<b>Life Safety/Fire Protection</b>				Need Category
		3.6.1			<b>Sprinklers and Standpipes</b>				Need Item
			3.6.1.1		Building fire suppression sprinklers, standpipes	50	50		

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Numbering by ASTM 2018-08 Outline								
System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type	
		3.6.1.2		Fire pumps	20	20		
		3.6.1.3		Fire hose stations	50	50		
		3.6.1.4		Fire extinguishers	10	15		
	3.6.2			<b>Alarm, Security &amp; Emergency Systems</b>				Need Item
		3.6.2.1		Tenant space alarm systems	10	15		
		3.6.2.2		Residential smoke detectors	5	7		
		3.6.2.3		Call station	10	15		
		3.6.2.4		Emergency/auxiliary generator	25	25		
		3.6.2.5		Emergency/auxiliary fuel storage tank	25	25		
		3.6.2.6		Emergency lights, illuminated signs	5	10		
		3.6.2.7		Smoke and fire detection system, central panel	15	15		
		3.6.2.8		Buzzer/intercom, central panel	20	20		
		3.6.2.9		Tenant buzzer / intercom /secured entry system	20	20		
	3.6.3			<b>Other Systems</b>				Need Item
		3.6.3.1		Pneumatic Lines and Controls	30	30		
		3.6.3.2		Auto-securing doors/entries/lock down	30	30		
3.7				<b>Interior Elements</b>				
	3.7.1			<b>Interiors-Common Areas</b>				Need Category
		3.7.1.1		<b>Finished walls, ceilings, floors</b>				Need Item
			3.7.1.1.1	Drywall - Common	35	40		
			3.7.1.1.2	Plaster - Common	50	50		
			3.7.1.1.3	Paints, stains, clear finishes, interior - Common	15	20		
			3.7.1.1.4	Wallpapers - Common	15	20		
			3.7.1.1.5	Wall tile, ceramic, glass, natural stone - Common	35	50		

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Numbering by ASTM 2018-08 Outline								
System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type	
			3.7.1.1.6	Floor tile, ceramic, natural stone - Common	40	50		
			3.7.1.1.7	Concrete/Masonry/Terrazzo - Common	75	75		
			3.7.1.1.8	Hardwood floor (3/4" strip or parquet) - Common	50	50		
			3.7.1.1.9	Wood floor, laminated/veneered - Common	20	25		
			3.7.1.1.10	Resilient tile or sheet floor (vinyl, linoleum) - Common	15	20		
			3.7.1.1.11	Carpet - Common	6	10		
			3.7.1.1.12	Acoustic tile/drop ceiling - Common	15	20		
		3.7.1.2		<b>Millwork (doors, trim, cabinets, tops)</b>				Need Item
			3.7.1.2.1	Interior, hollow core doors - Common	20	25		
			3.7.1.2.2	Interior doors, solid core, wood, metal clad, fire rated	30	35		
			3.7.1.2.3	Door trim - Common	20	30		
			3.7.1.2.4	Wall trim (base, chair rail, crown moldings) - Common	30	35		
			3.7.1.2.5	Passage & lock sets - Common	15	20		
			3.7.1.2.6	Bifold & sliding doors - Common	15	20		
			3.7.1.2.7	Cabinets & vanities - Common	20	25		
			3.7.1.2.8	Tops, granite, natural stone, engineered stone - Common	50	50		
			3.7.1.2.9	Tops, solid surface, stainless steel - Common	40	50		
			3.7.1.2.10	Tops, plastic laminates, wood - Common	15	25		
			3.7.1.2.11	Vanity tops, cultured marble, molded acrylic, fiber glass - Common	25	35		
		3.7.1.3		<b>Appliances</b>				Need Item
			3.7.1.3.1	Refrigerator/freezer - Common	15	15		
			3.7.1.3.2	Range, cook top, wall oven - Common	20	25		
			3.7.1.3.3	Range hood - Common	20	25		
			3.7.1.3.4	Microwave - Common	10	10		

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Numbering by ASTM 2018-08 Outline								
System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type	
			3.7.1.3.5	Disposal (food waste) - Common	7	10		
			3.7.1.3.6	Compactors (interior, residential grade) - Common	7	10		
			3.7.1.3.7	Dishwasher - Common	10	15		
			3.7.1.3.8	Clothes washer/dryer - Common	10	15		
		3.7.1.4		<b>Specialties</b>				Need Item
			3.7.1.4.1	Interior Mail Facility	20	25		
			3.7.1.4.2	Common area bath accessories (towel bars, grab bars, toilet stalls, etc.)	7	12		
			3.7.1.4.3	Mirrors & medicine cabinets - Common	20	25		
			3.7.1.4.4	Closet/storage specialties, shelving - Common	20	25		
			3.7.1.4.5	Common area interior stairs	50	50		
			3.7.1.4.6	Common area railings	15	25		
			3.7.1.4.7	Bath/kitchen vent/exhaust fans - Common	15	15		
			3.7.1.4.8	Ceiling fans - Common	15	15		
			3.7.1.4.9	Window treatments, drapery rods, shades, blinds, etc. - Common	15	25		
			3.7.1.4.10	Indoor recreation and fitness equipment	10	15		
			3.7.1.4.11	Entertainment centers, theatre projection and seating	15	25		
	3.7.2			<b>Interiors-Dwelling Units</b>				Need Category
		3.7.2.1		<b>Finished walls, ceilings, floors</b>				Need Item
			3.7.2.1.1	Drywall	35	40		
			3.7.2.1.2	Plaster	50	50		
			3.7.2.1.3	Paints, stains, clear finishes, interior	10	15		
			3.7.2.1.4	Wallpapers	10	15		
			3.7.2.1.5	Wall tile, ceramic, glass, natural stone	30	40		
			3.7.2.1.6	Floor tile, ceramic, natural stone	40	50		

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	System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type
				3.7.2.1.7	Concrete/Masonry/Terrazzo	75	75	
				3.7.2.1.8	Hardwood floor (3/4" strip or parquet)	50	50	
				3.7.2.1.9	Wood floor, laminated/veneered	15	20	
				3.7.2.1.10	Resilient tile or sheet floor (vinyl, linoleum)	15	20	
				3.7.2.1.11	Carpet	6	10	
				3.7.2.1.12	Acoustic tile/drop ceiling	15	20	
			3.7.2.2		<b>Millwork (doors, trim, cabinets, tops)</b>			Need Item
				3.7.2.2.1	Interior, hollow core doors	20	25	
				3.7.2.2.2	Interior doors, solid core, wood, metal clad	30	35	
				3.7.2.2.3	Door trim	20	30	
				3.7.2.2.4	Wall trim (base, chair rail, crown moldings)	25	35	
				3.7.2.2.5	Passage & lock sets	12	20	
				3.7.2.2.6	Bifold & sliding doors	12	20	
				3.7.2.2.7	Cabinets & vanities	20	25	
				3.7.2.2.8	Tops, granite, natural stone, engineered stone	50	50	
				3.7.2.2.9	Tops, solid surface, stainless steel	40	50	
				3.7.2.2.10	Tops, plastic laminates, wood	15	25	
				3.7.2.2.11	Vanity tops, cultured marble, molded acrylic, fiber glass	25	35	
			3.7.2.3		<b>Appliances</b>			Need Item
				3.7.2.3.1	Refrigerator/freezer	12	15	
				3.7.2.3.2	Range, cook top, wall oven	15	25	
				3.7.2.3.3	Range hood	15	25	
				3.7.2.3.4	Microwave	10	10	
				3.7.2.3.5	Disposal (food waste)	7	10	

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	System Description	Overall General Description	Component	Sub-Component	Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type
				3.7.2.3.6	Compactors (interior, residential grade)	7	10	
				3.7.2.3.7	Dishwasher	10	15	
				3.7.2.3.8	Clothes washer/dryer	10	15	
			3.7.2.4		<b>Specialties</b>			Need Item
				3.7.2.4.1	Bath accessories (towel bars, grab bars, etc.)	7	12	
				3.7.2.4.2	Mirrors & medicine cabinets	15	25	
				3.7.2.4.3	Closet/storage specialties, shelving	15	25	
				3.7.2.4.4	Interior stairs	50	50	
				3.7.2.4.5	Stair and loft railings	20	25	
				3.7.2.4.6	Bath/kitchen vent/exhaust fans	15	15	
				3.7.2.4.7	Ceiling fans	10	15	
				3.7.2.4.8	Window treatments, drapery rods, shades, blinds, etc.	10	20	
4					<b>Additional Considerations</b>			Need Category
	4.1				<b>Environmental Items (not elsewhere defined)</b>			Need Item
		4.1.1			Environmental remediation alarms	5	5	
		4.1.2			Environmental remediation pumps & equipment	5	5	
		4.1.3			Mold-treat-remediate	100	100	
		4.1.4			Pest Control/Integrated Pest Management Plan	1	1	
	4.2				<b>Lead based paint (LBP), asbestos</b>			Need Item
		4.2.1			LBP inspection	100	100	
		4.2.2			<b>Lead based paint abatement</b>			
			4.2.2.1		LBP encapsulation (abatement)	20	20	
			4.2.2.2		LBP removal	100	100	
		4.2.3			<b>Lead based paint interim controls</b>			

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Numbering by ASTM 2018-08 Outline					Component Description	Family	Elderly	3 tiers of categorization: Need Category, Need Item, Component Type
System Description	Overall General Description	Component	Sub-Component					
		4.2.3.1		LBP hazard interim control	6	6		
		4.2.3.2		LBP Encapsulation (interim control)	6	6		
	4.2.4			<b>Asbestos</b>				
		4.2.4.1		Asbestos encapsulation (abatement)	10	10		
		4.2.4.2		Asbestos Removal	100	100		
4.3				<b>Commercial Tenant Improvements</b>				Need Item
	4.3.1			Owner provided item(s) (specify)	5	5		
	4.3.2			Owner provided \$ allowance (specify)	5	5		



**CAPITAL NEEDS ASSESSMENT REPORT**

	<b>GENERAL NOTES:</b>
A	Reviews of preliminary Capital Needs Assessment (CNA) reports should be based on: 1. The Statement of Work referenced in the written Agreement with the Provider. 2. Rural Development case file, such as property records and inspection reports. 3. Latest available cost data published by RS Means. 4. Rural Development guidelines. 5. Fannie Mae guidelines.
B	The reviewer should give special attention to the line items with the highest total costs.
C	The reviewer should be careful to note whether all systems or components that should be included have indeed been included in the report.
D	If all review items are answered “YES”, the Provider should be advised to finalize the CNA with no or only a few minor changes.
E	Any review items answered “NO” should be explained in writing to the Provider in sufficient detail for clarity and appropriate actions taken.
F	The final report should be reviewed to verify that any minor changes and items answered with a “NO” in the first review have been satisfactorily addressed or corrected.
G	When item “D” is completed, the CNA Reviewer should advise the appropriate Rural Development official that the CNA should be accepted as the final report.

	<b>REVIEW ITEMS:</b>	<b>PRIMARY BASIS *</b>	<b>YES</b>	<b>NO</b>
1	Is the report in the required format?	1		
2	Does the report fully describe the property?	1		
3	Are photographs provided to generally describe the property’s buildings and other facilities?	1		
4	Does the report identify who performed the on-site inspection?	1		
5	Does the report identify who prepared the report?	1		
6	Was an adequate number of dwelling units inspected?	1		
7	Is the length of the study period adequate?	1		
8	Is the list of property components complete?	5		
9	Is the list divided into the appropriate major system groups?	1		
10	Are the existing property components accurately described?	2		
11	Are the expected useful lifetimes of the components reasonably accurate?	5		
12	Are the reported ages of the components reasonably accurate?	2		
13	Is the current condition of each component accurately noted?	2		
14	Are the effective remaining lifetimes of components correctly calculated?	5		
15	Are proposed corrective actions appropriately identified?	1		
16	Are critical immediate repairs appropriately identified?	1		

17	Are items being replaced with “in-kind” materials when appropriate?	1		
18	Are the component quantities reasonably accurate?	2		
19	Are photographs provided to describe deficiencies?	1		
	REVIEW ITEMS:	PRIMARY BASIS *	YES	NO
20	Does the report adequately address environmental hazards and other relevant environmental issues?	1		
21	Does the report adequately address accessibility issues?	1		
22	Does the report address any existing accessibility transition plans and their adequacy?	1		
23	Are photographs provided to describe existing kitchens and bathrooms in the fully accessible units?	1		
24	Are the proposed years for repair or replacement reasonable?	5		
25	Are the repair/replacement durations appropriate and reasonable?	5		
26	Are the detailed estimated repair and replacement costs calculated in current dollars?	1		
27	Are the estimated repair and replacement costs reasonable?	3		
28	Are the sources for cost data explained in the report?	1		
29	Is the projected inflation rate appropriate?	1		
30	Have the costs in current and inflated dollars been totaled for each year?	1		
31	Have the costs for each year and grand totals been correctly calculated?	5		
32	Does the data in the report narrative and summary charts match?	5		
33	Does the report exclude routine maintenance, operation, and low cost expenses?	4		
34	Does the report include all deficiencies known to Rural Development?	2		
35	Does the report include all other relevant data or information known to Rural Development?	2		

\* see General

Note "A" COMMENTS:

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## SAMPLE CAPITAL NEEDS ASSESSMENT REVIEW REPORT

### [Review of Preliminary/Final CNA Report]

**Property Name and Location: CNA Provider:**

**CNA Reviewer:**

**Date of Preliminary / Final CNA Report: Date of Review:**

**Reviewer's Comments:**

- 
- 
- 

**Purpose / Intended Use / Intended User of Review:**

- The purpose of this CNA review assignment is to render an opinion as to the completeness, adequacy, relevance, appropriateness, and reasonableness of the work under review relative to the requirements of Rural Development.
- The intended use of the review report is to help meet Rural Development loan underwriting requirements for permanent financing under the Section 515 MPR demonstration program. The review is not intended for any other use.
- The intended user of the review is only Rural Development.

**Scope of Review:**

**The scope of the CNA review process involved the following procedures:**

- The review included a reading/analysis of the following components from the CNA report and the additional due diligence noted. The contents from the CNA work file were not reviewed. The components that were reviewed are:
  - Date of the Report
  - Narrative
  - Description of Improvements
  - Photographs of the Subject Property
  - Capital Needs Summary
  - Systems and Conditions Forms
  - Critical Needs Forms
  - Capital Needs over the Term Forms
- This is a desk review, and the reviewer has not inspected the subject Property.
- The reviewer has/has not confirmed data contained within the CNA report.

**Review Conclusion:**

**In the reviewer's opinion, given the scope of the work under review:**

- The subject CNA *meets/does not meet* the reporting requirements of Rural Development.
- The data *appears/does not appear* to be adequate and relevant.
- The CNA methods and techniques used *are/are not* appropriate.

- The analyses, opinions, and conclusions *are/are not* appropriate and reasonable.
- This is a review report on a *preliminary/final* CNA report. The *preliminary/final* CNA report is subject to review discussions between Rural Development and the CNA Recipient of the subject Property and between the CNA Recipient and the CNA Provider. The CNA Recipient is the CNA Provider's client, and only the client can instruct the CNA Provider to revise the *preliminary/final* report. To be acceptable to Rural Development, the final CNA report should address any errors or deficiencies identified in the *Reviewer's Comments* section of this review report.

CNA PROVIDER TO INSERT IN MEMO FORMAT THEIR WRITTEN REPORT AND THEN HAVE SIGNATURE PAGE BELOW FOR REVIEWER AND UNDERWRITER/LOAN OFFICIAL TO SIGN.

Signed by:

\_\_\_\_\_  
(CNA Reviewer)

\_\_\_\_\_  
(Underwriter / Loan Official)

*(Please note: for the CNA Review Report of the preliminary CNA, only the CNA Reviewer needs to sign the report on behalf of Rural Development. For the CNA Review Report of the final CNA, the CNA Reviewer and the Underwriter/Loan Official must sign the report. This is to encourage discussion between the Agencies parties, so that both the CNA Reviewer and the Underwriter are involved in the process of accepting the final CNA for the Property.)*