



## SMALL BALANCE LOAN UPDATE

### Freddie Mac Staff:

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### Small Balance Loans (SBL) Lease Audits

We have updated the [Multifamily Seller/Servicer Guide Chapter 8 SBL.15\(b\)](#) to reflect updated requirements for lease audits, including that the leases on all occupied units that were inspected must be audited.

### Small Talk

Each week we're welcoming any questions from you in the Small Talk series. Please continue to submit questions to [the Small Talk mailbox](#) to hear from a select member of our team in the following week's *SBL Update*.

This week we're featuring [Catherine Evans](#) – our Vice President of underwriting & credit. Catherine is located in the North Central region.



Catherine Evans

**Recently I determined a loan to be cash neutral because there were only 1% of excess cash proceeds to the borrower, but my regional underwriter said that wasn't quite right. Help me figure this out!**

Since we increased the allowed Permitted Transactional Expenses, there is no longer any leeway to allow cash out to the borrower, **even if it is less than 3%**. However, don't forget to remind the borrower that if all goes as planned, we fully expect the COVID-19 Debt Service Reserve (DSR) will be returned to them at the designated time.

**Refresher:** a “cash-out” refinance transaction is any transaction where the proceeds of the new loan exceed the balance of the existing first mortgage and any junior capital (such as second mortgage, mezzanine debt or preferred equity), plus any allowance for Permitted Transactional Expenses, which are defined as 1.) Prepayment penalties paid by the borrower (this should be identified on the payoff statement) 2.) COVID-19 DSR and 3.) Freddie Mac Permissible Closing Costs.

Let's break it down. Here are a few things to keep in mind to help us get through your underwriting package with fewer questions! Now that I have your attention...

1. Lenders need to verify Freddie Mac permissible closing costs via a settlement statement/supporting documentation. (This means: you **can't** simply assume expenses between 1-3% - expenses need to be **verified**.)
2. Upon verification of Freddie Mac permissible closing costs, the lenders need to build the permissible closing costs into their sources and uses. (This means: you **can't** assume 1-3% cash-out to cover unverified closing costs is considered cash-neutral)
3. On cash-neutral transactions, the Mortgage Transaction Narrative Analysis should include a summary of the sources and uses reflecting \$0 cash-out.

### **Fun facts about Catherine:**

I bought the video game Just Dance and we've been having dance offs during the pandemic. I was the reigning champ until my teenage daughter recently

took the crown. Mario Kart is another favorite video game, which is much preferred by my son and husband!

Also, over the holidays we turned to Zoom activities to keep the kids (and adults) occupied, such as "Wisc-cow-sun" art class and "Almost 7 Fishes" cooking class (in crazy holiday hats). We also played "can roll for cash" (big hit with the kids!) and went to the Chicago Botanic Garden holiday light show.



Catherine Evans and family



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