



Announcement 15-35

Date: July 13, 2015

Topic: FNMA SEL 2015-07 and DU Version 9.2 August Update Release: Various Changes

Effective immediately, for DU conventional loans, PennyMac is aligning with Fannie Mae's changes in Announcement SEL 2015-07 and DU Version 9.2 August Update Release Notes. The changes include:

Conversion of Principal Residence Requirements No Longer Apply

The purpose of this policy has been to ensure that borrowers have adequate capacity and financial reserves to successfully manage multiple properties. Because there are other policies now in place that adequately address credit history, rental income, and financial reserves, Fannie Mae is eliminating the requirements specifically associated with the conversion of a principal residence to a second home or investment property. The 30% equity requirement and the additional reserves specific to the departing residence no longer need to be applied. All other standard requirements, including standard reserve requirements, still apply.

Note: DU messaging regarding equity requirement, or additional reserves for the departing residence may be disregarded (standard reserve requirements apply). DU will be updated with these changes the weekend of August 15, 2015.

Stocks, Bonds, and Mutual Funds

PennyMac is updating the policies related to the use of vested stocks, bonds, and mutual funds (including retirement accounts) when they are used for down payment, closing costs, and reserves. Instead of requiring a standard reduction in value, the policies have been simplified as follows:

- One hundred percent (100%) of the value of the asset is allowed when determining available reserves.
- If the lender documents that the value of the asset is at least 20% more than the funds needed for the borrower's down payment and closing costs, no documentation of liquidation is required. Otherwise, documentation of the borrower's actual receipt of funds realized from the sale or liquidation must be obtained.

Note: Any DU messaging regarding discounting the value of the stock, bond, or mutual fund account may be disregarded. DU will be updated with these changes the weekend of August 15, 2015.

Tip Income

PennyMac allows tip income to be included in qualifying income if the borrower has received the income for the last two years. Tip income can be verified using a Request for Verification of Employment (Form 1005) or recent paystubs and IRS W-2 forms. In some cases, the full amount of the tip income earned by the borrower may not be reported by the employer on the Form 1005, paystub and W-2 form. The borrower may report additional tip income to the IRS using Form 4137, Social Security and Medicare Tax on Unreported Tip Income, when filing his or her tax returns. PennyMac will allow this tip income to be used in qualifying if the lender obtains the most recent two years of federal income tax returns with Form 4137.

Use of IRS W-2 Transcripts In Lieu of W-2s

As a clarification, W2 transcripts may be obtained in lieu of W-2s.

Prepayment Penalties on Subordinate Liens

The intent of this policy was to guard against predatory lending and unduly severe prepayment penalty scenarios. Over time, however, regulatory changes have increased borrower protections in this regard, serving to prohibit, limit or otherwise deter imposition of prepayment penalties. As a result, this restriction is no longer considered necessary and is being removed.

Optional Data Fields on Verification of Employment (Form 1005)

The Verification of Employment (Form 1005) may be used to document income for a salaried or commissioned borrower in lieu of a paystub and W-2 forms. However, some of the data requested by the form is not generally provided by employers, nor is it available on paystubs and W-2s. As a result, the following fields are optional and need not be completed:

- #11: Probability of continued employment,
- #14: If overtime or bonus is applicable, is its continuance likely?
- #16: Date of applicant's next pay increase,
- #17: Projected amount of next pay increase,
- #18: Date of applicant's last pay increase,
- #19: Amount of last pay increase, and
- #24: Reason for leaving (Part III – Verification of Previous Employment)

Please contact your Sales Representative with any questions.