



**Announcement 16-08**

**Date: March 10, 2016**

**Topic: FNMA SEL 2016-02 Continuity of Obligation and 2015 Tax Transcript Requirement**

**Continuity of Obligation**

Fannie Mae introduced the Continuity of Obligation requirements during the financial crisis, to ensure borrowers who recently acquired ownership of a new property in the absence of a recorded sale of the previous property were properly qualified. This policy was applied to all refinance transactions. Since its inception, Fannie Mae has introduced a number of policy updates to improve the reliability of borrower qualification. As a result, the Continuity of Obligation policy is no longer required.

Effective immediately, for all DU approved conventional refinance transactions, PennyMac is aligning with Fannie Mae's removal of Continuity of Obligation requirements. Please note for rate-and-term transactions, a mortgage rating for the loan being paid off is required per the DU condition. If the mortgage is not reported on the borrower's credit, a Verification of Mortgage (VOM) or canceled checks may be acceptable.

**Tax Transcript Requirement**

Effective with all loans closed on or after June 15, 2016, 2015 tax transcripts will be required, unless the file contains evidence an extension was filed along with a copy of the IRS notice for 2015 showing "no record of return filed".

As a reminder, PennyMac's Fannie Mae, Freddie Mac, FHA, and VA Tax Transcript Policy is shown below:

Tax transcripts are required for each borrower whose income is utilized as a source of repayment. Transcripts must be provided for the number of years of income used to qualify the borrower. Tax transcripts are required to support the income used to qualify the borrower. If only W2 income is used to qualify, the lender may obtain W2 transcripts as long as tax returns are not included in the loan file.

Generally, when the documentation used to verify income is from the same calendar period as the tax transcript, the information must match exactly. However, if the income documentation is from the current calendar year and the transcript is from a prior year, there can be acceptable variances. If this variance exceeds 20%, document the rationale for using current income.

If tax transcripts are not available (due to a recent filing) a copy of the IRS notice showing "No record of return filed" is required along with documented acknowledgement receipt (such as IRS

officially stamped tax returns or evidence that the return was electronically received) from the IRS and the previous one year's tax transcripts.

**Note:** Loans not requiring income such as non-credit qualifying FHA Streamlines and VA IRRRLs do not require tax transcripts. For Jumbo or Rural Housing loans, refer to the Jumbo and LTV Plus Underwriting Guidelines and Eligibility Requirements or the Rural Housing Product Profile for tax transcript requirements.

Please contact your Sales Representative with any questions.