



Announcement

Announcement # 20-08

Date: March 3, 2020

Topic: **Fannie Mae SEL-2020-01, Lender Letter LL-2020-01 and Freddie Mac Bulletin 2020-01**

PennyMac is aligning with Fannie Mae's most recent Selling Guide updates in SEL-2020-01, Lender Letter 2020-01, and Freddie Mac's Bulletin 2020-01, with the exception of all updates to cooperative projects and manufactured homes. Updates include but are not limited to the following.

Retirement of LIBOR ARMs

Fannie Mae and Freddie Mac have recently announced their transition from the current LIBOR index to the SOFR index for adjustable-rate mortgages.

As part of this transition Fannie Mae and Freddie Mac are now requiring lenders to use updated ARM notes and riders for all loans closed on or after June 1, 2020. These new ARM notes and riders contain fallback language which provides clear direction on the selection of a replacement index in the event an index is no longer available.

Effective with applications on or after October 1, 2020 LIBOR ARMs will be ineligible for origination. All LIBOR ARMs must have applications on or before September 30, 2020. PennyMac will release an additional announcement in regards to the transition from LIBOR to SOFR as more information becomes available.

Rental Housing Payment Update

Effective for new loan casefiles submitted to DU on or after June 1, 2020, PennyMac is aligning with Fannie Mae's requirements for documenting the primary rental housing payment. For all second home, investment property, or non-occupant co-borrower transactions, when a borrower rents a primary residence, the primary rental housing payment must be documented with one of the following:

- six months canceled checks or equivalent payment source;
- six months bank statements reflecting a clear and consistent payment to an organization or individual;
- direct verification of rent from a management company or individual landlord; or
- a copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.

Borrowers currently living rent-free will be required to provide a signed letter from a third party confirming rent-free status. Please see Fannie Mae's Selling Guide section B3-6-05 for complete details on how to document the housing payment.



Rental Income from the Subject Property

Previously, Fannie Mae required borrowers to own a principal residence or have a current housing expense when purchasing a 2-4 unit principal residence or 1-4 unit investment property, and using rental income from the subject to qualify.

Effective for new loan casefiles submitted on or after April 1, 2020, PennyMac is aligning with Fannie Mae's update to determining the amount of rental income from the subject property that can be used to qualify. The updated rental income requirements will now apply to refinance transactions in addition to purchases. Please see Fannie Mae's Selling Guide section B3-3.1-08 Rental Income for complete details.

Property Tax Calculation Delayed Effective Date

PennyMac is aligning with Fannie Mae's delayed effective date for calculating the monthly real estate tax payment. The update was originally announced in SEL-2019-09 to clarify that property taxes must be calculated for qualifying and escrow based on the reasonable market value of the land, and completed improvements for all purchase and new construction transactions. This update has been postponed until further notice.

PennyMac encourages lenders to follow the guidance regarding qualifying and escrowing property taxes at the same amount to prevent payment shock to the borrower.

Gift Funds

Previously, Freddie Mac has required that if gift funds have not been deposited in a borrower's bank account then evidence of the transfer of funds is required.

Effective for all conforming LPA approved transactions closed on or after March 15, 2020, PennyMac is aligning with Freddie Mac's clarification to documentation requirements for gift funds and will require the following whenever gift funds are used in the transaction:

- Evidence of the transfer of funds from the donor's account in a financial institution to the borrower's account, or
- Evidence of transfer of the funds from the donor's account in a financial institution to the settlement or closing agent.
- Funds transferred via a third-party money transfer application (e.g., Zelle, Venmo) evidenced by a transfer from the donor's bank account to the borrower's account or settlement agent.

Please see Freddie Mac's Seller Guide section 5501.3 for complete details.

Please contact your Sales Representative with any questions.