

Non-QM FAQs

What is Non QM loan?

A Non-Qualified Mortgage is a loan type that doesn't meet the standards set for a Qualified Mortgage (QM) by the CFPB. These loans are borrowers who may not qualify for traditional mortgages due to factors like unique income sources, DTI ratios, or past credit issues.

What are the programs?

A+, A, A- and DSCR (Debt Service Ratio)

What is the difference between the "A" products?

Numerous differences between the products like credit event 48, 36 or 24 months ago. Delinquency on housing payments 2x30x12 vs 1x30x12 vs 0x30x12. All with nuanced differences around FICO, LTV, reserves as well. See Non-QM Credit Grade Comparison for additional information

Is there an AUS?

No, this program is not supported by an AUS. However client must provide validation the transaction was either Not GSE eligible or price and/or terms of the transaction in the NonQM program were more beneficial to the borrower.

Does Pennymac have a submission form for Clients?

Yes, Pennymac has created a submission form for Non-QM clients to identify loan specific attributes and provide any pertinent information about the loan. Non-QM submission form can be found under the Non-QM Resources/Forms section

Can the buyer be an Entity?

Yes, for Business Purpose loans, the buyer can be a Limited Liability Partnership (LLP), General Partnership (GP), Corporation or Limited Liability Corporation (LLC).

Are there ARM and IO financing options?

Yes, there are numerous allowances around ARM, IO and prepayment penalties as well.

Are Temp Buydowns allowed?

Yes, on the A+ and A program only.

What is the min/max loan amount?

Minimum loan amount is \$150,000 and the maximum is \$3.5MM depending on program, occupancy, etc

Are POA's allowed?

POAs are acceptable however not on Cash out transactions or where POA being used for an Entity.

How is the representative FICO determined?

The mid score (if 3 scores, or the lower when only two) from the borrower with the highest qualifying income will be utilized as the representative credit score. If multiple borrowers with the same highest qualifying income value, the representative score would be the lowest borrower representative score amongst these borrowers.

What are some key differences around Credit?

OFAC search required on all borrowers sellers, settlement agents. Much like Jumbo, Fraud report required on all loans as well. Housing payment delinquencies help define what product eligible for ie 2x30x12 A-, 1x30x12 A, 0x30x12 A+. LOE required for all credit inquiries within last 90 days. If less than 10 months remaining on installment debt, must be included into DTI. If borrower has a departing residence pending sale allowances to exclude if under contract.

What are some key differences around Derogatory Credit?

Major derog time frame helps define what product the borrower(s) are eligible for, i.e. if major derog within 24 months = A-, 36 months = A, 48 months A+. If collections or charge offs in last 3 years exceeding 5k must be paid off prior to or at closing (15k aggregate for medical). Past due accounts must be brought current prior to closing as well.

What are some key highlights around borrower eligibility?

For Business Purpose loans, the buyer can be an entity (LLP, GP, Corp, LLC) and all entity owners must then meet guarantor eligibility guidelines and credit qualified, all borrowers must execute a personal guarantee agreement as well. Permanent, non permanent resident aliens are allowed (non perm subject to LTV restrictions). Non occupant borrowers also allowed subject to LTV restrictions.

What are some key highlights around NOO Occupancy?

If subject is a NOO property with a guarantor, the individuals providing the guarantee must execute personal guaranty agreement. If subject is a refinance transaction, all individuals signing the note or providing personal guarantee must execute a business purpose and occupancy affidavit. If a cash out, borrower must provide an LOE detailing the purpose and use of proceeds.

What are some key highlights around Condos?

Subject must be defined as either a warrantable or non warrantable condo. Warrantable condo requires CPM approval. Condo project warranty certification along with the project questionnaire and all supporting documentation required. Non Warrantable subject to LTV restrictions and specific single entity, commercial, investor concentration and delinquency restrictions. Florida condos are subject to specific requirements including distance from coastline, number of stories, age, etc.

What are some key highlights around Appraisal/Property eligibility?

Specific LTV requirements around warrantable/non warrantable condos or rural properties. Additionally, subject in a declining market (defined by Appraisal or Pennymac list) requires reduction of max LTV/CLTV by 5%. Secondary valuation is required for CU score over 2.5. If over 2.5, CDA or Stewart valuation Appraisal risk review required and must support within tolerance (defined by LTV). If the aforementioned reviews do not support then a Field Review then ultimately a Full Appraisal Is required. If loan amount over 2 million or flip transaction, 2 Appraisals are required. If subject is legal non conforming, evidence subject can be 100% rebuilt if damaged/destroyed required.

Are property flips allowed?

A flip is defined as property being resold within 365 days of acquisition and sales price increased by more than 10%. If yes, there must be no pattern of flipping activity and transaction must be arms length. Second Appraisal required if 10% increase and acquired within 90 days, If acquisition within 180 days and increase over 20% as well.

Is Subordinate financing allowed?

Yes, but not cannot be IO or DSCR loan. Subordinate financing must be from institutional investor.

What are some key highlights around Property Insurance

HOI limits must equal the lesser of 100% of the replacement cost of the improvements as of the current property insurance policy effective date or the UPB of the mortgage, provided it equals no less than 80% of the replacement cost value (RCV) of the improvements as of the current property insurance policy effective date. For Condo and PUD, the master policy coverage limits for condominium and PUD projects must be at least equal to 100% of the replacement cost value of the project's improvements, including common elements and residential structures, as of the current insurance policy effective date. For DSCR rent loan insurance required and must equal at least 6 months of local average monthly rents.

Can business assets be utilized?

Yes, Borrower must have at least 50% ownership of business and must be owners on the business account. Ownership documented via CPA letter, operating agreement or equivalent. Non borrower owners of business must provide signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account. Balance of the business assets must be multiplied by the ownership percentage to determine owner's portion of business assets allowed for the transaction. Signed CPA or UW cash flow analysis must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on business.

Can Gift funds be utilized?

Yes, and can be utilized on 2nd Home/NOO as well given LTV restrictions as well as other factors.

What are the key highlights around reserve requirements?

Each program has their individual reserve requirement depending on the loan amount however there is always a minimum of 3 months reserves. Additionally, 2 months reserves required for every other property financed by borrower(s). If non occupant co borrower or borrower has not sold departing residence additional reserves required as well.

What is the Disaster Policy?

If a post disaster inspection is required, a post disaster inspection report from Clear Capital or Damage assessment report from Pro Teck must be provided. Any indication of damage reflected on the report will require re-inspection by the Appraiser (if two appraisals by the Appraiser with the lower value). Any damage that impacts the safety or habitability of the property or damage in excess of \$2,000 must be repaired and re-inspected. A VVOE (salaried and self-employed) after the disaster occurred is required to ensure borrower still employed at the same employer listed on the initial 1003 and continuing to receive the same amount of income.

On a cash out can the funds be utilized to satisfy the Reserve Requirement?

Yes, they can be utilized to satisfy the reserve requirement

What is the length of ownership requirements for C/O Transactions?

Borrower must have owned property a minimum of 6 months measured from acquisition to the note date. If owned at least 6 but not more than 12 months, LTV based on the lower of the appraised value or the property's purchase price plus improvements. If 12 or more, LTV based on appraised value.

What is the maximum cash back on a R/T Refinance?

2% of the loan amount or \$5,000

If the previous transaction was a cash out within 12 months, can borrower now do a R/T Refinance?

No, if the previous cash out was within 12 months, the new transaction must be considered cash out.

What is the maximum DTI Ratios?

Max DTI is 55% for A+ with specific caveats, A is 50% , A- is 45%. Not applicable to DSCR

What are the max financing concessions?

Max Interested Party Contributions (IPCs) are 6%

Is there a residual income requirement?

Yes on A+, A and A-. Determine the minimum residual income by determining the number of household members. 1 member = 1,500. 2 members = 2,500. Every individual beyond this add an additional \$150 per member. Residual Income is gross monthly income minus total monthly debt.

Are Tax Transcripts required?

Yes excluding DSCR as well as if borrower is using alt docs such as bank statements, P&L, Asset depletion or written voe.

What is the standard income documentation highlights?

Wage borrowers require for standard (24 months/full documentation) most recent paystub and two years 1040s or W2s and a WVOE (if needed for overtime, bonus or commission). For streamline (12 months documentation), most recent paystub and one years 1004s or W2 required. For Self employed Standard (24 months/full documentation) two years personal and business tax returns including all schedules and K-1s) plus YTD P&L from any business being used for qualification. For Self employed streamline (12 months documentation) one year personal and business tax returns (including all schedules and K-1s) plus YTD P&L for any business being used for qualification. Additional specific documentation requirements around trust income, alimony/child support, notes receivable, royalty, RSU, Retirement income, secondary employment, foreign sources of income. Additionally borrower must have a minimum of six months employment unless recently graduated from school or formal training.

What is the Asset Depletion income documentation highlights?

Only allowed for A+ and A program. Cannot be combined with other sources of income. Reserves also not required for this program. Must have a minimum of lesser of 1 million in qualifying assets or must have qualifying assets >=125% of the original subject loan amount. Borrower must also meet residual income guidelines. Program also not allowed for NOO/ 2nd Homes, C/O, Non Occupant co borrowers.

What is the bank statement income documentation highlights?

If borrowers paid 1099 from single company or tax returns/transcripts are provided then not eligible for this program and must qualify using full documentation. 12 to 24 months consecutive bank statements are required as well as business narrative, internet search of business and verification of business required within 10 calendar days of closing.

What are the highlights of the Personal Bank statements documentation method?

Utilize deposits that are part of the business and exclude sources outside of this. Large deposits exceeding 50% of monthly income must be explained via LOE. Two months of business bank statements are also required to validate activity to support business operations and reflect transfers to personal account. Validation of minimum two years existence by either business licenses, letter from tax preparer, sec of state filing. For qualification lower of the personal bank statement average (total eligible deposits / 12 or 24 months) or if a borrower has declining income and is qualifying with 24 months of bank statements, the last 12 months of income will be utilized to qualify or monthly income disclosed on initial signed 1003.

What are the highlights of the Business Bank statements documentation method?

Maximum number of businesses to utilize this method is 3. Transfers from other bank accounts into the business bank accounts require conclusive evidence that the source of transfer is business related income. Large deposits exceeding 50% of monthly income must be explained via LOE. Expense line items that can be added back to the business net income include depreciation, depletion, amortization, casualty losses and other losses or expenses that are not reoccurring. Validation of two years exitance by either business licenses, letter from tax preparer or sec of state or equivalent. Minimum of 50% ownership is required and if <100% ownership, business will be qualified at the net income multiplied by ownership percentage. If the statements reflect NSF's there are specific restrictions around the frequency of these as well.

How is income qualified under the bank statement income method?

There are three different methods that can be utilized to qualify the income. Expense Ratio, 3rd party Profit and Loss or 3rd Party Expense Ratio

How is income qualified under the Expense Ratio?

Percentage of gross deposits (12 or 24 months) using expense ratio factor based on business type and number of employees. If borrowers business is Service business (consulting, accounting, legal, therapy,etc), if 0 employees expense factor is 15%, if 1-5 employees expense factor is 30%, if >5 employees 50% expense factor. If borrowers business is product business (retail, food services, restaurant, etc.), if 0 employees expense factor is 25%, if 1-5 employees expense factor is 50%, if >5 employees 85% expense factor. The qualifying income should be multiplied by the borrowers documented business ownership and lower of expense ratio formula or monthly income disclosed on the initial signed 1003.