Pennymac Correspondent
Fannie Mae Standard and High Balance Product Profile
03.26.24

Overlays to Fannie Mae are underlined. Overlays indicated as Non-Del Only are specific to Non-Delegated loans only

Agency	Fannie Mae - DU Approval			Fannie Mae - DU Approval		
Finance Type	Purchase and Rate/Term Refinances			Cash Out Refinances		
Occupancy	Owner Occupied			Owner Occupied		
Term	Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs		
[1] High balance or transactions with non-occupant co-borrowers are limited to 95% LTV/CLTV	Property Type	LTV, CLTV, HCLTV[2]	Min Credit Score	Property Type	LTV, CLTV, HCLTV	Min Credit Score
	1 Unit	FRM 97[1] ARM 95	620	1 Unit	80	620
	2 Unit	95*	620	2 - 4 Unit	75	620
	3 - 4 Unit	95**	620			
[2] Loans with Community Seconds may be eligible up to 105% CLTV. See Down Payment Assistance section.	Second Home			Second Home		
	Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs		
	Property Type	LTV, CLTV, HCLTV	Min Credit Score	Property Type	LTV, CLTV, HCLTV	Min Credit Score
*2-Unit: High balance max. LTV/CLTV, HCLTV 85%	1 Unit	90	620	1 Unit	75	620
	Investment Property			Investment Property		
**3-4 Units - High balance max. LTV/CLTV, HCLTV 75%	Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs		
	Property Type	LTV, CLTV, HCLTV	Min Credit Score	Property Type	LTV, CLTV, HCLTV	Min Credit Score
	1 Unit - Purchase	85	620	1 Unit	75	620
	1 Unit- R/T Refi	75	620			620
	2 - 4 Unit	75	620	2 - 4 Unit	70	620
Maximum Loan Amounts	Current Guidance is available at: https://www.fanniemae.com/singlefamily/loan-limits					

Ability To Repay and Qualified Mortgage Rule	• For loans subject to the ATR/QM rule, Pennymac will only purchase loans that comply with the ATR/QM requirements. ○ Note: Investment properties which are for business purposes (borrower does not intend to occupy for greater than 14 days in the year) are exempt from ATR/QM; however, such loans must meet agency eligibility requirements and are subject to the applicable points and fees threshold. • Correspondents are responsible for providing evidence of compliance with the ATR/QM rules. • Clear itemization of fees and application of all credits that indicate paid by/to will be required on all loans. • See Seller Guide section "Ability to Repay and Qualified Mortgage Rule" under "Delivery Procedures" for more details.
Age of Documents	• For new and existing construction, credit documents must be no more than 4 months old on the date the note is signed, including credit reports and employment, income and asset documents. • Preliminary Title Policies must be no more than 180 days old on the date the note is signed.

Appraisals

- Determined by AUS Findings.
  - The use of Value Acceptance (appraisal waiver) is allowed when the final submission of the loan casefile to DU results in a Value Acceptance offer.
  - Value Acceptance + property data (PDC) is eligible for certain loan casefiles where DU offers Value Acceptance + PDC
    - DU Approve / Eligible required
    - One-unit properties only
    - Condos (attached and detached) are eligible
    - Ineligible transactions include:
      - Manufactured homes
      - Investment properties where rental income is used to qualify
      - Proposed construction
      - Construct to perm
      - Texas 50(a)(6)
      - Leaseholds
      - Properties with resale price restrictions (includes Community Land Trusts)
      - Gift of equity transactions
      - HomeStyle Renovation and HomeStyle Energy
      - Purchase price or estimated value is ≥ $1,000,000
      - Refer to the Fannie Mae Selling Guide for complete guidance
    - The property data collection must be obtained after the initial DU offer and submitted to the Property Data API prior to the note date.
    - If the subject property requires repairs or alterations, satisfactory evidence and documentation must be provided showing the condition has been corrected (evidence and documentation must meet Fannie Mae requirements).
    - If the Value Acceptance + PDC offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in *certain* cases it may be possible to obtain a hybrid appraisal.
    - If an appraisal is obtained, the appraisal must be used.
    - Refer to the Fannie Mae Selling Guide for complete Value Acceptance + property data program requirements.
- Desktop Appraisal allowed only with an Approve/Eligible recommendation and a message from DU indicating the casefile is eligible for a desktop appraisal. All agency required desktop requirements must also be met. Eligibility requirements include:
  - Purchase transactions of one-unit principal residence only
  - LTV ratios </= 90%
- If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.
- Properties with unpermitted secondary kitchens may be eligible if:
  - it is common for the area,
  - no negative impact on marketability, and
  - Appraiser comments on quality of construction, any health/safety issues, any soundness issues, which must meet Fannie Mae requirements.
- Accessory Units are acceptable when meeting Fannie Mae requirements.
  - When the accessory unit is permitted or complies with zoning:
    - The property is defined as a one-unit property.

	▪ There is only one accessory unit on the property; multiple accessory units are not permitted ▪ The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use. ▪ The borrower qualifies for the mortgage without considering any rental income from the accessory unit. ▪ The accessory unit must have the required separate features per Selling Guide Section B2-3-04 ▪ The kitchen must meet all requirements per Selling Guide Section B2-3-04. The removal of the stove does not change the Accessory Unit classification. ▪ Manufactured homes are eligible as Accessory Units if they meet the requirements per Selling Guide Section B2-3-04 and are <u>not given any value by the appraiser.</u> o When the accessory unit is NOT permitted or DOES NOT comply with zoning: ▪ PennyMac confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property. ▪ The use conforms to the subject neighborhood and to the market. ▪ The property is appraised based upon its current use. ▪ The appraisal must report that the improvements represent a use that does not comply with zoning. ▪ The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least two comparable properties that have the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales. • Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.

Assets/Gift Funds/Large Deposits	Assets
	• Follow Fannie Mae verification of deposit and asset documentation guidelines to determine asset eligibility for down payment, closing costs, and reserve requirements.
	  ○ Asset statements must clearly identify the borrower as the account holder
	  ○ Assets held solely in the name of a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.
	• Follow Fannie Mae guidelines for gift fund eligibility and documentation requirements
	  ○ Gift funds are ineligible on an investment property transaction
	Large Deposits
	• Follow Fannie Mae guidance for large deposit eligibility and verification requirements
	  ○ Large deposits sourced back to a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.
	• On refinance transactions, the documentation or explanation for large deposits is not required; however, any borrowed funds, including any related liability, must be considered.
	
	Virtual Currency
	
	• Cryptocurrency/Virtual Currency may only be used as funds for closing and reserves if it has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution. There must be sufficient documentation to verify that the funds originated from the borrower's cryptocurrency/virtual currency account. Acceptable documentation to use those funds includes the following:
	
	  ○ Documentation from Cryptocurrency exchange account verifying the borrower as the Legal Owner and not the nickname of the account, AND
	  ○ Previous borrower bank statement showing funds going into the same Cryptocurrency exchange account that the large deposit came from, OR
	  ○ 1099-B/MISC from the same Cryptocurrency exchange account that the large deposit came from, plus the borrower's Tax Returns reflecting the 1099 gain/loss
	
	Minimum Borrower Contribution
	• A minimum borrower contribution of 5% of their own funds into the transaction is required when the LTV is > 80% and one of the following apply:
	  ○ 2–4-unit primary residence, or
	  ○ Second home

Assignment of Mortgages	All loans must be registered with MERS at time of delivery to PennyMac and a MERS transfer of beneficial rights and transfer of servicing right must be initiated by the Seller, to PennyMac Corp, LLC (#1009313), within 24-hours of purchase.
AUS	• Desktop Underwriter with "Approve/Eligible" Findings is required. • Manual UW is not permitted.

Borrower Eligibility	• U.S. citizens • Permanent resident aliens, with proof of lawful permanent residence • Nonpermanent resident alien immigrants with proof of lawful residence • DACA recipients are eligible with proof of legal status, including but not limited to a valid Employment Authorization Document card. See Non-U.S. Citizen Documentation Requirements.
CEMA	• Refinance Only • eMortgages are ineligible • Lost Note Affidavits (LNAs) are not allowed for prior or current notes

Credit	• <u>Each borrower's representative credit score must be a minimum of 620 regardless of the DU eligibility assessment</u> unless the below requirements for borrowers without a credit score are met
	  ○ All borrowers may have no credit score. Fannie Mae and DU requirements must be met.
	  ○ See B3-5.4-01 for additional requirements.
	• A maximum of one credit bureau may be frozen with a DU accept. If the credit must be un-frozen, borrowers must unfreeze all bureaus, and the DU rerun with the updated credit.
	• When the borrower has an APO, FPO or DPO, military address it does not need to be located within the U.S. to obtain a credit report compatible with DU® loan casefile requirements.
	• Mortgage Payment History
	  ○ The mortgage payment history reflected on the credit report can be used to meet mortgage payment history requirements
	  ○ Non-Del: Mortgages serviced by PennyMac: Use PennyMac servicing data to verify mortgage payment history for all mortgages regardless if they are the subject mortgage or other REO
	  ○ Lenders must warrant that repayment of the debt can be expected from the borrower and that there are no circumstances or conditions of which the lender is aware involving the mortgage, the mortgaged premises or the creditworthiness of the borrower that would adversely affect the value or marketability of the mortgage. If a borrower is not making payments on an existing mortgage at the time of application for a new mortgage, it may be an indication that the borrower is experiencing a financial hardship that is preventing them from making their mortgage payments. The lender must also consider whether the borrower's circumstances will impact their willingness or ability to make the payments on the new mortgage
	  ○ As a reminder, Fannie Mae requires the following: On the date of the loan application, the borrower's existing mortgage(s) must be current, which means that no more than 45 days have elapsed since the last paid installment. If the credit report does not reflect the above, proof the additional loan payments were paid on time is required. Refer to Fannie Mae Selling Guide B3-5.3-03
	• When the payment for the primary residence for any borrower is not reported on the credit report (ex: renting primary and the subject is 2nd/NOO):
	  ○ Provide third party verification of payment amount.
	• <u>Non-Del Only:</u>
	  ○ <u>No more than two tax years may be on repayment plan</u>

Condominiums	• See B4-2 Project Standards in Fannie Mae's Seller Guide or https://www.fanniemae.com/singlefamily/project-eligibility for complete details on condos.
	• Fannie Mae to Fannie Mae rate and term refinances up to 80% LTV may be eligible for a waiver of the project eligibility review.
	    ○ Documentation confirming refinanced loan was owned by Fannie Mae is required.
	    ○ Condo type V required.
	    ○ See B4-2.1-02 Waiver of Project Review for additional information.
	• Limited Review allowed in accordance with Fannie Mae Guidelines, including NOO up to 75% LTV/CLTV/HCLTV
	• Projects in which the HOA is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are ineligible.
	• Projects with pending litigation that involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, may be eligible if the litigation meets Fannie Mae's requirements for minor matters. See Fannie Mae Selling Guide Section B4-2.1-03 for details.
	• Florida Condos are allowed in accordance with Fannie Mae requirements.
	• See Pennymac Announcement 19-62 for additional documentation details. Lenders must provide all documentation used to verify the condo warranty type. This may include, but is not limited to:
	    ○ Loan documentation with warranty type
	    ○ HOA questionnaire
	    ○ Copies of applicable insurance policies
	    ○ Any additional documentation as required by the warranty type

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<td>Derogatory Credit</td>
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<tr><th>Derogatory Event</th><th>Waiting Period Requirements</th></tr>
<tr><td>Bankruptcy — Chapter 7 or 11</td><td>4 years</td></tr>
<tr><td>Bankruptcy — Chapter 13</td><td>2 years from discharge date
4 years from dismissal date</td></tr>
<tr><td>Multiple Bankruptcy Filings</td><td>5 years if more than one filing within the past 7 years</td></tr>
<tr><td>Foreclosure</td><td>7 years
3 years with documented extenuating circumstances (see section below) allowed subject to:
up to the lesser of 90% LTV/CLTV or the max LTV/CLTV per the eligibility matrix,
purchase of an OO, or
rate and term of any occupancy
If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the lender obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.</td></tr>
<tr><td>Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale (Short Sale), Mortgage Charge-Off</td><td>4 years
2 years with documented extenuating circumstances, see Extenuating Circumstances below</td></tr>
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All transactions require a DU Approve/Eligible regardless of which time frame for the derogatory event is met, standard or extenuating circumstances.
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<td>Disaster Policy</td>
<td><u>Pennymac may require a post-disaster inspection when the appraisal occurred before the incident end date of the disaster. See Pennymac disaster policy located in the Seller's Guide for full details.</u>
<u>Non-Del Only: Disaster inspections may not be completed by the Lender. Acceptable inspection providers include, but are not limited to, the original appraiser or a post-disaster inspection company.</u></td>
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Documentation	• Documentation requirements are determined by the AUS
	• LoanBeam income calculation is acceptable per Fannie Mae guidelines
	• Non-Del: <u>Handwritten Verification of Mortgages (VOM) or Verification of Rents (VOR) are not eligible</u>
	• **Non-Del only:** <u>VODs are not acceptable for asset documentation</u>
	• Private mortgages may be verified with cancelled checks or bank statements
	• Income or assets derived from the following sources are ineligible for qualifying:
	    ○ The production or sale of marijuana
	    ○ Bitcoin or other cryptocurrencies
	        ▪ See Assets/Gift Funds/Large Deposits section for documentation requirements on funds used for closing/reserves that originated from a cryptocurrency account.
	• Day 1 Certainty
	    ○ Loans using Day 1 Certainty are acceptable.
	    ○ Lenders must provide the third-party vendor report used in the DU validation process. Pennymac will compare the vendor reference number and date to the DU messages.
	    ○ When all of a borrower's income is validated by the DU validation service, the lender is not required to obtain a signed IRS Form 4506–C or tax transcripts for that borrower.
	
	Second Home / Investment Properties / Non-Occupant Borrowers
	Current Housing Payment
	• Borrowers must document their current housing expense with one of the following when they do not currently own a primary residence:
	    ○ 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.
	• For second home transactions or non-occupant borrowers who are living rent-free, the borrower's rent-free status must be documented. A rent-free letter from a third party may be acceptable.
	
	Note: Regardless of AUS documentation requirements, all documentation submitted with the loan file is subject to review and may be used for qualification purposes.

Down Payment Assistance	• <u>Down Payment Assistance is allowed as long as the assistance is provided by a government entity or a non-profit organization that is affiliated with a government entity. Evidence of the terms and provider must be included in the loan file and must meet Fannie Mae requirements.</u> • Employer assistance is acceptable in accordance with Fannie Mae guidelines. • Loans with Community Seconds may be eligible up to 105% CLTV. Follow Fannie Mae guidelines, <u>second must be from government entity or a non-profit organization that is affiliated with a government entity.</u>

Extenuating Circumstances	• Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. • If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include documents that confirm the event (such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.) and documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.). • The lender must obtain a letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate the borrower had no reasonable options other than to default on their financial obligations.

Eligible and Ineligible Mortgage Products and Features	• Fixed Rate: 10, 15, 20, 25, 30 Year;
	• SOFR ARMs:
	  ○ 5/6: 2/1/5 caps, qualifying rate: greater of fully indexed rate or note rate + 2%
	    ▪ An “Approve/Eligible” finding by DU may differ from the eligibility for the purpose of meeting QM requirements. The APR calculation for 5/6 ARMs requires the use of the maximum interest rate that would apply during the first five years as the interest rate for the full term of the loan. As a result, all loans must also meet QM requirements regardless of the AUS eligible determination.
	    ▪ Fully indexed rate = index rate + margin
	  ○ 7/6: 5/1/5 caps, qualifying rate: no less than the note rate
	  ○ 10/6: 5/1/5 caps, qualifying rate: no less than the note rate
	    ▪ Exception: 7/6 and 10/6 ARMs in IL, MA, MD (Purchase only), NM and PA require qualifying rate at the greater of the note rate or the fully indexed rate (index rate + margin). The DU qualifying rate may need to be adjusted to comply with this requirement.
	  ○ Margin of 2.75% to 3.0% are allowed
	    ▪ Non-Del: Margin of 2.75% only.
	Please refer to the Fannie Mae Selling Guide for additional information.
	• 3/6 SOFR ARMs are not eligible
	• Loans with LTV/CLTV/HCLTV calculated using the "Affordable LTV" calculation are eligible for purchase subject to meeting all Fannie Mae requirements. Refer to the Fannie Mae Selling Guide for additional details.
	• HomeReady financing is eligible for purchase. See FNMA HomeReady Product Profile for complete details.
	• HomeStyle Renovation Financing eligible with Pennymac Seller Approval. See HomeStyle Renovation Product Profile for complete details.
	• HomeStyle Energy:
	  ○ May not be combined with other options (e.g., HomeReady). Only eligible as stand-alone.
	  ○ May only be used to pay off PACE or non-PACE secured/unsecured debt used to finance energy efficient improvements.
	  ○ Rate/Term: No limit to amount of payoff when paying off a PACE lien, paying off non-PACE limited to 15% of the appraised value.
	  ○ Must meet all Fannie Mae and Pennymac applicable guidelines. Refer to the Selling Guide for complete details. DU must remain approve/eligible.
	• Non-Del only: HomeStyle Energy not eligible for purchase.
	• One time close construction eligible. Please see Fannie Mae OTC product profile
	• Fannie Mae High LTV not eligible
	• Escrow for taxes, insurance, and mortgage insurance are required above 80% LTV, (90% in CA), or as required by applicable state law.

eMortgages and eNotarization	• eMortgages and eNotarization are eligible for Delegated correspondents only
	• Lenders must be approved by Pennymac prior to delivering eMortgages, transactions closed using eNotarization or Remote Online Notarization (RON)
	• Lenders are responsible for ensuring eMortgage loans are delivered in accordance with all requirements in the Pennymac Correspondent Group eMortgage Guide, including but not limited to the following:
	    ○ State eligibility; and
	    ○ Product eligibility; and
	    ○ Transaction eligibility; and
	    ○ eNotarization eligibility; and
	    ○ RON eligibility

Employment/Income Verification	• For salaried employees the verbal verification of employment must be completed within 10 business days prior to the note date.
	• For self-employed borrowers the verbal verification of employment must be completed within 120 days prior to the note date.
	• For borrowers in the military, a military Leave and Earnings Statement dated within 120 calendar days prior to the note date is acceptable in lieu of a verbal verification of employment.
	• Trust income is eligible and must be documented and calculated in accordance with all Fannie Mae requirements.
	• Mortgage Credit Certificates (MCCs) enable an eligible first-time home buyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.
	    ○ When calculating the borrower's debt-to-income ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income: [(Mortgage Amount) x (Note Rate) x (MCC %)] ÷ 12 = Amount added to borrower's monthly income.
	    ○ For example, if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125). The lender must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file.
	    ○ For refinance transactions, the lender may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new mortgage loan file.
	• Housing Choice Voucher Homeownership Program income (commonly known as Section 8 for homeowners) paid via Housing Assistance Payments (HAPs) are an acceptable source of income.

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<td>Employment Offers or Contracts</td>
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Borrowers with employment beginning no more than 90 days after the note date are eligible when:

Purchase transaction, principal residence, one-unit property, the borrower is not employed by a family member or by an interested party to the transaction, and the borrower is qualified using only fixed based income.
Obtain and review the borrower's offer or contract for future employment. The employment offer or contract must

clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
clearly identify the terms of employment, including position, type and rate of pay, and start date; and
be non-contingent. Note: If conditions of employment exist, the lender must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.

Start date for employment is no more than 30 days prior to the note date:

Employment offer or contract required; and
Verbal Verification of employment that confirms active employment status

Start date is no more than 90 days after the note date

Employment offer or contract only

Document, in addition to the amount of reserves required by DU or for the transaction, one of the following:

Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
Financial reserves or current income sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month.

Current income refers to income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract.
Current income may be used in lieu of or in addition to financial reserves. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date.
If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, and no verification of employment is required.
For Fannie Mae Employment Contracts option two is acceptable, <u>option one is not allowed</u>.

Refer to Fannie Mae Selling Guide for additional details.
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<td>Escrow Holdbacks</td>
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Follow FNMA guidelines regarding reason, type of improvements, time to complete, quality, disbursements, and post-closing documentation.
Post funding stip for 1004D confirming completion will be placed on loans where appraisal is "subject to" completion of improvements.
Post funding stip for a final title policy endorsement that ensures the priority of the first lien will be placed on loans where the appraisal is "subject to" completion of improvements.
A copy of the escrow agreement will be required to show how the escrow account will be managed and how funds will be disbursed.
<u>Non-Del Only:</u>

<u>New Construction only</u>
<u>Weather related repairs only</u>
<u>Settlement Agent must administer escrow account and disbursement of funds</u>
<u>150% of repair estimate to be escrowed</u>

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Financing Concessions	• Financing concessions for primary residences and second homes must be within the following allowable percentages: ○ 9% of value with LTV/CLTV ratios less than or equal to 75% ○ 6% of value with LTV/CLTV ratios greater than 75% up to and including 90% ○ 3% of value with LTV/CLTV ratios greater than 90% ○ The maximum financing concession for investment properties is 2% of value regardless of the LTV ratio • Value is the lesser of the sales price or appraised value
High Cost / High Priced	• Pennymac will not purchase High-Cost Loans • Higher Priced Mortgage Loans (HPML) transactions are eligible for purchase. HPML guidelines require: ○ Establishment of an escrow account for taxes and insurance premiums on any transaction secured by a principal residence. ○ Must meet all applicable state and/or federal compliance requirements. ○ HPML ARM loans with an initial fixed rate period of less than seven years are ineligible.

Loan Purpose: Purchase and Rate Term	• Purchase
	    ○ >95% LTV requires at least one borrower to be a first-time home buyer and at least one borrower must complete Fannie Mae's Framework homebuyer education on a purchase transaction with LTV, CLTV or HCLTV ratios > 95% when all borrowers are first time homebuyers. Please see Selling Guide Section B2-2-06 for complete details and exceptions.
	• Limited Cash-Out/Rate & Term Refinance
	    ○ RT to buy out owner's interest: Written agreement must be legible and signed/dated prior to or at application. All other Fannie Mae requirements must be met.
	    ○ >95% LTV requires the lender to document the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from any of the following:
	        ▪ The lender's servicing system,
	        ▪ The current servicer (if the lender is not the servicer),
	        ▪ Fannie Mae's Loan Lookup tool, or
	        ▪ Any other source as confirmed by the lender.
	    ○ At least one borrower on the new loan must be a current owner of the subject property (on title) at the time of the initial loan application. Exceptions are allowed if:
	        ▪ The borrower acquired the property through an inheritance or was legally awarded the property via a legal settlement or divorce decree, or
	        ▪ The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.
	    ○ Properties held in a Limited Liability Corporation (LLC) do not meet Fannie Mae ownership eligibility requirements. At least one borrower (individually) must be on title prior to the application date of the new loan.
	    ○ A transaction is not eligible as a limited cash-out refinance if the borrower completed a cash-out refinance transaction with a Note date 30 days or less prior to the application date of a new refinance secured by the same property
	    ○ Proceeds can be used to pay off a first mortgage lien
	    ○ Proceeds can be used to pay off any junior liens related to the purchase of the subject property
	    ○ Proceeds can be used to pay off an existing first lien mortgage that includes a deferred balance
	        ▪ A deferred balance that is a second lien is not eligible for a limited cash-out refinance (refer to cash-out section below)
	    ○ For two-closing construction-to-permanent loans, to pay off an existing construction loan and documented construction cost overruns that were incurred outside of the interim construction financing. (These construction cost overruns must be paid directly to the builder at closing.)
	    ○ Pay related closing costs and prepaid items
	    ○ Disburse cash out to the Borrower in an amount not to exceed 2% of the new Mortgage or $2,000, whichever is less.
	    ○ Disaster-Related Limited Cash-Out Refinance Flexibilities - Standard limited cash-out refinance policies for borrowers who have been impacted by a natural disaster are allowed as follows:
	        ▪ Permits the refinance of non-purchase money subordinate loans obtained to finance disaster-related property repairs, and
	        ▪ Provides for a higher cash-out amount to reimburse borrowers for documented out-of-pocket expenses related to disaster related property repairs.
	
	These guidelines apply only to loans secured by the borrower's principal residence. SFC 416 must be applied prior to loan delivery. Refer to Fannie Mae Chapter B5-4.2-02 for all requirements.

Loan Purpose: Cash-Out	Cash-Out
	• Student Loan Cash-Out Refinances are eligible. Must meet Fannie Mae requirements. See Fannie B2-1.2 for complete details.
	• Any existing first mortgage being paid off through the transaction must be at least 12 months old as measured from the note date of the existing loan to the note date of the new loan. This requirement does ***not*** apply
	    ○ When buying out a co-owner pursuant to a legal agreement
	• At least one borrower must have been on title for at least 6 months; measured from settlement date to disbursement date (the time spent in borrower's majority-owned or borrower controlled limited liability corporation (LLC) is included, unless
	    ▪ the borrower that inherits or was legally awarded (by divorce, separation, or dissolution of a domestic partnership) the property, or
	    ▪ Delayed financing is met.
	• A refinance transaction that is paying off an existing first mortgage lien and a second lien created due to a payment deferral is eligible subject to the above seasoning requirements
	• Fannie Mae's delayed financing provision is acceptable if all of the following requirements are met:
	    ▪ The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points (subject to the maximum LTV/CLTV ratios for the transaction).
	    ▪ The original purchase transaction was an arms-length transaction.
	    ▪ The borrower(s) may have initially purchased the property as one of the following:
	        • a natural person;
	        • an eligible inter Vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
	        • an eligible land trust when the borrower is the beneficiary of the land trust; or
	        • An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.
	    ▪ The original purchase transaction is documented by the settlement statement, which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.
	    ▪ The sources of funds for the purchase transaction are documented (such as, bank statements, personal loan documents, HELOC on another property).
	    ▪ All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.
	• Note for Delayed Financing: The preliminary title search or report must not reflect any existing liens on the subject property. If the source of funds to acquire the property was an unsecured loan or HELOC (secured by another property), the new HUD-1 must reflect that all cash out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the new property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

<table>
<tr><td>Loan Purpose: Ineligible Transactions</td><td>Intra-family purchases as a means to obtain cash-out for the seller while avoiding cash-out qualifications and pricing are not eligible transactions. These types of transactions may seem to meet Agency guidelines, they are not bonafide purchase transactions and therefore not eligible for purchase by Pennymac. Unacceptable transactions of this type may have some or all of the following characteristics:
Gift of equity from the seller
Large amount of seller credits
Family member remaining in the home and on title after the “purchase”
Seller unable to qualify for a cash-out transaction of their own</td></tr>
<tr><td>Mortgage Insurance</td><td>Acceptable MI Types:
Borrower Paid Monthly
Borrower Paid Single Premium
Financed: Gross LTV cannot exceed Pennymac's program maximum
Split Premium
Lender Paid Single Premium
Reduced coverage
Unacceptable MI Types:
<u>Lender Paid Monthly</u>
<u>Lender Paid Annual</u>
<u>Borrower Paid Annual</u>
<u>Any MI type not listed as acceptable</u>
For properties in NY
To determine if MI is required on a purchase transaction, base the LTV calculation on the Appraised Value only instead of the lower of Appraised Value or Sales price.
When MI is required based on the above calculation, determine the level of MI required by using the standard LTV calculation (lower of Appraised Value or Sales price).</td></tr>
<tr><td>Occupancy</td><td>Primary Residence: 1-4 units
Second Homes: 1-unit only
See Documentation section for when borrowers do not currently own a primary residence.
Investment properties: 1-4 units and primary residence 2–4-unit properties.
When using rental income to qualify from a subject property, at the time of application the borrower must own a principal residence or have the ability to document a reasonable current housing expense.
See Documentation section for when borrowers do not currently own a primary residence.</td></tr>
<tr><td>Power of Attorney (POA)</td><td><u>An individual employed by or affiliated with any party to the loan transaction e.g. title insurer, settlement agent etc. is not eligible as a POA.</u></td></tr>
</table>

Property: Eligible Types	• Single Family Detached Single Unit • Single Family Attached Single Unit • 2–4 Unit Attached/Detached • PUDs • Low-rise and High-rise Condominiums (must be Fannie Mae eligible) • Rural Properties (in accordance with agency Guidelines, properties must be residential in nature) • Leaseholds • Manufactured Homes – refer to the Fannie Mae Manufactured Home Product Profile for all requirements. The more restrictive of the loan program guidelines apply.
Property: Ineligible Types	• Mobile homes • Cooperatives • Condotels • Hotel Condominiums • Timeshares • Working Farms and Ranches • Unimproved Land • Property currently in litigation • Land Trust, including Community Land Trust Mortgages, and Illinois Land Trust • Condition Rating of C5/C6 or a Quality Rating of Q6 • Turn-key investment properties. See Property Turn-key Investments section for additional details. • Non-Del Only: New construction and gut rehab condos are not allowed, unless final PERS approved with no conditions.
Property Flipping Policy (Properties resold within 180 days of purchase)	• Properties that involve a re-sale that occurred within the last 180 days that have a non-arm's length relationship between the buyer and seller and an increase in value are prohibited. Time frame is established by seller's date of acquisition as the date of settlement on the seller's purchase of that property and the execution of a sales contract to another party. • Lenders must pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or where the value of the property has experienced significant appreciation in a short time period since the prior sale. Pennymac believes that one of the best ways lenders can reduce the risk associated with excessive values and/or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers. • Pennymac recommends an additional value product to support the subject appraised value in instances of greater than 20% appreciation.
Property: Maximum Number of Financed Properties	• The loan must comply with Fannie Mae's limitations on the maximum number of financed properties. • Fannie Mae has imposed minimum credit score, reserves requirements. Refer to the Fannie Mae Seller Guide, section B2-2-03 for details.

Property: Turn-key Investments	<u>Purchase or refinance transactions involving turn-key investment, or other similar arrangements, are not eligible for purchase by Pennymac. Characteristics of a Turn-key property include but are not limited to:</u> • <u>The property seller is an LLC (or other entity) that purchases distressed properties and re-sells to borrowers at a non-distressed valuation.</u> • <u>Property seller or a related entity enters into an agreement to manage the property on behalf of the buyer including marketing, tenant screening, rent collection, maintenance, etc.</u> • <u>Buyer frequently lives out-of-the-area from the subject property.</u> • <u>See Pennymac Announcement 15-43 for additional details.</u>
Ratios	• The Maximum DTI is 50% with a DU Approve/Eligible.
Recently Listed Properties	• The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan. Borrowers must confirm their intent to occupy the subject property (for principal residence transactions). • <u>If the property was listed in the prior 30 days to the application date, the Early Pay-off (EPO) provision will be extended to 1 year.</u>

Rental Income	• Rental income from the subject or non-subject property is eligible. Eligible property types include:
	    o 2-4-unit principal residence property in which the borrower occupies one of the units, or
	    o 1-4-unit investment property.
	• For subject property rental income used for qualification purposes, one of the following forms must be used to support the rental income
	    o 1-unit investment properties: Single-Family Comparable Rent Schedule, Form 1007, or
	    o 2-4-unit properties: Small Residential Income Property Appraisal Report, Form 1025.
	• The use of a rental lease agreement may be justified in certain scenarios. When using a rental lease agreement, the amount reflected on the lease must be supported by the following:
	    o Form 1007 or 1025 as applicable; or
	    o Evidence the terms of the lease have gone into effect
	        ▪ Two months consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or
	        ▪ Copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements.
	        ▪ Cash payments are ineligible
	    o Maximum rental income used will be 75% of the lesser of the lease agreement or market rents
	• At the time of application, if the borrower does not own a principal residence, *and* does not have a current housing expense, rental income from the subject or non-subject property (new or newly placed in service less than a year) may be ineligible.
	    o See Documentation section for when borrowers do not currently own a primary residence.
	• Ability to use full or partial net rental income for the subject or non-subject investment property is dependent on many factors, which include, but are not limited to the length of time the property has been in service, the borrower's history of receiving rental income, and a documented primary housing expense.
	
	Please refer to the Fannie Mae Selling Guide for complete rental income and documentation requirements.

Reserves	• DU will determine the reserve requirements based on the overall risk assessment of the loan, the minimum reserve requirement that may be required for the transaction, and whether the borrower has multiple financed properties.
	• If the borrower owns other financed properties, additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:
	    o 2% of the aggregate UPB if the borrower has one to four financed properties,
	    o 4% of the aggregate UPB if the borrower has five to six financed properties, or
	    o 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only).
	• The aggregate UPB calculation does not include the mortgages and HELOCs that are on the subject property, the borrower's principal residence, properties that are sold or pending sale, and accounts that will be paid by closing (or omitted in DU on the online loan application).
	• Note: DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the online loan application.

Seasoning	Please refer to the Pennymac Seasoned Loan Policy located in the Pennymac Seller Guide for requirements and loan-level price adjustments.

State Restrictions	• Non-Del Only: Texas Non-Owner-Occupied Cash-Out transactions: A borrower must own a homestead property in the State of Texas in order to complete a non-owner occupied cash-out (non-A6) transaction in TX.
	• Texas 50 (a)(6) refinance mortgages are eligible with Pennymac Seller Approval:
	    o Fixed Rate and 5/6, 7/6 & 10/6 ARMs
	    o Owner-Occupied, 1 unit only – Non occupant co-borrowers may not be eligible on TX A6 loans. Correspondents are responsible for determining acceptability.
	    o Maximum 80% LTV/CLTV
	    o 2% fee restriction in accordance with Texas Constitution
	    o Full appraisal required
	    o No new secondary financing
	    o Loans must comply with Fannie Mae and Texas Constitution requirements
	    o Power of Attorney allowed in accordance with Texas requirements.

Tax Transcripts	• Tax transcripts for the most recent one year are required for all self-employed borrowers whose income is used to qualify. If only non-self-employed income is used to qualify, transcripts are not required.
	• When tax transcripts are provided, they must support the income used to qualify.
	• A properly executed 4506-C is required for all transactions except:
	    o Loan file contains tax transcripts, or
	    o When all of a borrower's income is validated by the DU validation service (FNMA only).
	• If tax transcripts are not available (due to a recent filing for the current year) 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 transcripts from the previous year.

Temporary Interest Rate Buydowns	Allowed subject to the following: • Max total interest rate reduction of 3%, max increase per year of 1% (e.g.,1/0,1/1,2/1, and 3/2/1 buydowns) • Maximum 3 years to reach standard note rate • Minimum 660 FICO • Owner Occupied and Second Home only • Purchase and Limited Cash-Out Refinance only • Fixed rate and ARMs • Manufactured Homes are ineligible • Must qualify at the standard note rate without benefit of the buydown • Must meet all other applicable Fannie Mae requirements, including but not limited to qualification, documentation of buydown, and funding of buydown.

Seller shall deliver loans that were originated in accordance with the Fannie Mae Single Family Selling Guide unless otherwise noted in the PNMAC Seller's Guide.
Pennymac does not discriminate in any aspect of a credit transaction on the basis of sex, gender identity or expression, sexual orientation, marital status, familial status, race, color, ethnicity, religion, national origin, age, handicap or disability status, income derived from public assistance, military status or the good faith exercise of rights under the Consumer Credit Protection Act.