



**Pennymac Correspondent
Fannie Mae Single Close Construction
7.11.22
Delegated Only Pennymac Specific Approval
Required**

Overlays to Fannie Mae are underlined

Agency	Fannie Mae - DU Approval			Fannie Mae - DU Approval		
Finance Type	Purchase			Limited Cash Out Refinances		
Term	Owner Occupied			Owner Occupied		
	Fixed Rate			Fixed Rate		
	Property Type	LTV/CLTV/HCLTV	Min Credit Score	Property Type	LTV/CLTV/HCLTV	Min Credit Score
¹ High balance or transactions with non-occupant co-borrowers are limited to 95% LTV/CLTV	1 Unit	97%	<u>620</u>	1 Unit	97%	<u>620</u>
Maximum Loan Amounts	Current Guidance is available at: https://www.fanniemae.com/singlefamily/loan-limits					
COVID-19 – cont. below	<ul style="list-style-type: none"> • Please refer to the following for all updates related to COVID-19: <ul style="list-style-type: none"> ○ Fannie Mae COVID-19 resources including FAQs located at: https://www.fanniemae.com/portal/covid-19.html • Updates to S/E VVOE: Effective for loan apps on or after April 14, 2020, the self-employed business must be validated as open and operating within 20 business days of the note • For borrowers using self-employed income to qualify: refer to Fannie Mae LL 2021-03 Update 2.2.2022 for documentation requirements. • Pennymac will continue to accept POAs in accordance with standard Fannie Mae. Please see standard guidelines Selling Guide Section B8-5-05 for complete information. • Remote Online Notarization: Pennymac is not accepting remote online notarization (RON) at this time. 					
Ability To Repay and Qualified Mortgage Rule	<ul style="list-style-type: none"> • For loans subject to the ATR/QM rule, Pennymac will only purchase loans that comply with the ATR/QM requirements. • 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	<ul style="list-style-type: none"> • All credit documents must be no more than 4 months old on the note date (the closing date of the construction loan). • In addition, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing. As an exception, these documents may be more than four months but not exceeding 12 months old at the time of the conversion to permanent financing if ALL of the following conditions are met at the time of the original closing of the construction loan: <ul style="list-style-type: none"> ○ The LTV/CLTV/HCLTV do not exceed 95%. ○ The representative credit score of the loan is greater than or equal to 700. ○ The loan was underwritten through DU and received an Approve/Eligible recommendation • If any of the above conditions is not met or an eligible loan term was modified subsequent to the last DU submission, the lender must: <ul style="list-style-type: none"> ○ Obtain updated income, employment, and credit report documents no more than four month prior to conversion; and ○ Re-qualify the borrower(s) in accordance with the Requalification Requirements (see Fannie Mae selling guide B5-3.1-02) <u>before the loan is delivered to Pennymac.</u> • Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification either of the following applies: <ul style="list-style-type: none"> ○ More reserves are required than were required at the time of original qualification, or ○ The borrower chooses to bring additional funds to the transaction. • Validation through DU Validation Service <ul style="list-style-type: none"> ○ If updated credit documents are required to be obtained after the original closing of the construction loan, any validation of income, employment, or assets is no longer applicable. ○ Updated validation reports must be obtained and the loan casefile resubmitted to DU and the loan must convert to permanent financing by the close by date stated in the DU validation message. • The effective date of the appraisal for all single-closing transactions must be no more than four months prior to the note date (the closing date of the construction loan). Refer to Fannie Mae selling guide B4-1.2-03 for additional details. • In addition, at the time of completion of construction, an Appraisal Update and/or Completion Report (Form 1004D) must be completed in its entirety including the appraisal update and certification of completion. <ul style="list-style-type: none"> ○ If the appraiser indicates on the Form 1004 that the property value has declined, then the lender must obtain a new appraisal for the property and requalify the borrower using the updated LTV ratio per the Requalification Requirements (see Fannie Mae selling guide B5-3.1-02). • Preliminary Title Policies must be no more than 180 days old on the date the Note is signed.
Appraisals	<ul style="list-style-type: none"> • Determined by AUS Findings. • See Fannie Mae Seller Guide section B4-1.3-05 for complete details. • Any unpermitted additions or unpermitted accessory units must be fully permitted and comply with local and/or federal zoning requirements by the end of the renovation/construction. • Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.
Assignment of Mortgages	<p>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.</p>
AUS	<ul style="list-style-type: none"> • <u>Desktop Underwriter with "Approve/Eligible" Findings is required.</u> • <u>Manual UW is not permitted.</u>

Borrower Eligibility	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Refinance Only • eMortgages are ineligible • Lost Note Affidavits (LNAs) are not allowed for prior or current notes
Construction Documentation	<ul style="list-style-type: none"> • All construction documents must be included in the loan file. Construction documentation includes: <ul style="list-style-type: none"> ○ Any applicable construction documentation, including but not limited to construction agreement between borrower and contractor. ○ All draw administration documentation ○ Accounting summary to show how funds were allocated, including any principle reductions ○ Documentation in file evidencing final sign off from borrower showing that all work was completed according to the borrower's satisfaction. ○ All change orders • Construction must be complete at time of delivery to Pennymac as evidenced by <ul style="list-style-type: none"> ▪ 1004D and photo of completed property and ▪ Certificate of Occupancy, when issued by the local building authority
Credit	<ul style="list-style-type: none"> • <u>Each borrower's representative credit score must be a minimum of 620 regardless of the DU eligibility assessment, unless the below requirements for borrowers without a credit score are met:</u> <ul style="list-style-type: none"> ○ All borrowers may have no credit score. Fannie Mae and DU requirements must be met. • 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. • Current Housing Payment, applicable when the payment for the primary residence for any borrower is not reported on credit (ex renting primary and the subject is 2nd/NOO): <ul style="list-style-type: none"> ○ When the payment is not reported on the credit report, provide third party verification of payment amount. ○ If living rent free, a rent free letter from landlord or person obligated on lease required. • Loan payment history must be 0x30 from close of construction to purchase by Pennymac.

Derogatory Credit	Derogatory Event	Waiting Period Requirements
	Bankruptcy – Chapter 7 or 11	4 years
	Bankruptcy – Chapter 13	<ul style="list-style-type: none"> • 2 years from discharge date • 4 years from dismissal date
	Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years
	5 years if more than one filing within the past 7 years	<ul style="list-style-type: none"> • 7 years • 3 years with documented extenuating circumstances (see section below) allowed subject to: <ul style="list-style-type: none"> ○ 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 <p>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.</p>
Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale (Short Sale), Mortgage Charge-Off	<ul style="list-style-type: none"> • 4 years • 2 years with documented extenuating circumstances, see Extenuating Circumstances below 	
All transactions require a DU Approve/Eligible regardless of which time frame for the derogatory event is met, standard or extenuating circumstances.		
Disaster Policy	<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>	
Documentation Type	<ul style="list-style-type: none"> • Determined by AUS • LoanBeam income calculation is acceptable per Fannie Mae guidelines • Income or assets derived from the following sources are ineligible for qualifying: <ul style="list-style-type: none"> ○ The production or sale of marijuana ○ Bitcoin or other cryptocurrencies <ul style="list-style-type: none"> ▪ See Large Deposits section for documentation requirements on funds used for closing/reserves that originated from a cryptocurrency account. • Day 1 Certainty <ul style="list-style-type: none"> ○ 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. 	

Down Payment Requirements	<ul style="list-style-type: none"> • The borrower must use his or her own funds to make the minimum borrower contribution unless: <ul style="list-style-type: none"> ○ the LTV, CLTV, or HCLTV is less than or equal to 80%; or ○ The borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution.
Draws	<ul style="list-style-type: none"> • Pennymac will not administer the draw process. The Correspondent will be responsible for managing the project, as well as the draw administration. • All documentation evidence satisfactory completion of work and release of monies must be included in loan file.
Extenuating Circumstances	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Agency Fixed Rate: 10, 15, 20, 25, 30 Year • <u>ARMs are ineligible with an OTC transaction</u> • Loans with LTV/CLTV/HCLTV calculated using the "Affordable LTV" calculation are eligible for purchase subject to meeting all Fannie Mae requirements. See Fannie Mae Selling Guide B5-5.2-02 Loans with Resale Restrictions: Loan and Borrower Eligibility.
Employment/Income Verification	<ul style="list-style-type: none"> • Required per DU approval. • 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.
Financing Concessions	<ul style="list-style-type: none"> • Financing concessions for primary residences and second homes must be within the following allowable percentages: <ul style="list-style-type: none"> ○ 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

<p>Hazard Insurance</p>	<ul style="list-style-type: none"> • Borrower must have hazard insurance meeting Fannie Mae requirements. • Builder's risk policy that automatically converts to standard hazard policy is acceptable or new hazard policy may be established. • Correspondent to ensure no lapse in coverage.
<p>High Cost / High Priced</p>	<ul style="list-style-type: none"> • <u>Pennymac will not purchase High Cost Loans</u> • Higher Priced Mortgage Loans (HPML) transactions are eligible for purchase. HPML guidelines require: <ul style="list-style-type: none"> ○ 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. ○ A prohibition on ARM loans with an initial fixed rate period of less than seven years (7/6 ARMs are eligible).
<p>Large Deposits</p>	<ul style="list-style-type: none"> • 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. <u>Acceptable documentation to use those funds includes the following:</u> <ul style="list-style-type: none"> ○ <u>Documentation from Cryptocurrency exchange account verifying the borrower as the Legal Owner and not the nickname of the account, AND</u> ○ <u>Previous borrower bank statement showing funds going into the same Cryptocurrency exchange account that the large deposit came from, OR</u> ○ <u>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</u>

<p style="text-align: center;">Loan Conversion/Modification Options</p>	<p>Loan Conversion Options</p> <ul style="list-style-type: none"> • The construction loan may be converted into a permanent mortgage loan in either of the following ways: <ul style="list-style-type: none"> ○ Option 1 via Rider: A construction loan rider must be used to modify Fannie Mae’s uniform instrument that will be used for the permanent mortgage. The rider must state the construction loan terms, and the construction-related provisions of the rider must become null and void at the end of the construction period and before the permanent mortgage is sold to Pennymac. Because the permanent mortgage cannot be sold before it is scheduled to begin amortizing, a lender will need to amend the construction loan rider, and the accompanying uniform instrument, if the construction is completed sooner or later than originally anticipated. The amendment(s) should provide the new dates on which amortization for the permanent mortgage will begin and end. ○ Option 2 via Modification: A separate modification agreement must be used to convert the construction loan into permanent financing. This agreement must be executed and recorded in the applicable jurisdiction before the permanent mortgage is delivered to Pennymac. See below for additional details • The lender must include the applicable conversion document in the loan submission package. When amended documents are recorded in connection with a construction loan rider, the lender also must include a copy of the original document that the borrower signed. <p>Modification Option</p> <ul style="list-style-type: none"> • If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria: <ul style="list-style-type: none"> ○ The modification must take place prior to or at the time of conversion ○ Only the following loan terms may be modified in a single-closing transaction: <ul style="list-style-type: none"> ▪ Interest rate, ▪ Loan amount, ▪ Loan term, and ▪ Amortization type-The only amortization change permitted is from an ARM to a Fixed rate • The loan must be underwritten based on the terms of the loan as modified and delivered to <u>Pennymac</u>. If the final (modified) terms of the loan do not match the last submission to DU, the loan must be re-submitted to DU. • If the modification results in an increase in the original loan amount, the lender remains responsible for all standard title insurance requirements. In addition, the lender must obtain an endorsement to the title insurance policy that <ul style="list-style-type: none"> ○ Extends the effective date of the or coverage to the date of the recording of the modification agreement; ○ Increases the amount of the policy to the original loan amount, as increased; and ○ Confirms that the lien of the mortgage, as modified, continues to be a first lien. • The modification must be documented on one of the following: <ul style="list-style-type: none"> ○ Loan Modification Agreement (Providing for Fixed Interest Rate) FNMA Form 3179 ○ Loan Modification Agreement (Providing for Adjustable Interest Rate) FNMA Form 3161 ○ Substantially similar document, subject to the non-standard document representations and warranties
<p style="text-align: center;">Loan Purpose</p>	<ul style="list-style-type: none"> • Purchase • Limited Cash-Out/Rate & Term Refinance <ul style="list-style-type: none"> ○ The borrower must have held legal title to the lot before he or she receives the first advance of interim construction financing

<p>Loan Purpose: Ineligible Transactions</p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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 • Cash out Refinances
<p>LTV Calculation</p>	<ul style="list-style-type: none"> • Purchase: Divide the loan amount of the construction-to-permanent financing by the lessor of: <ul style="list-style-type: none"> ○ The purchase price(sum of the cost of construction and the sales price of the lot), or ○ The “as completed” appraised value of the property (the lot and improvements) • Limited Cash-Out: Applicable when the borrower is the owner of the lot at the time of the first advance of the interim construction financing. <ul style="list-style-type: none"> ○ Divide the loan amount of the construction-to-permanent financing by the “as completed” appraised value of the property (the lot and improvements)
<p>Mortgage Insurance</p>	<p>Acceptable MI Types:</p> <ul style="list-style-type: none"> • Borrower Paid Monthly • Borrower Paid Single Premium • Financed: Gross LTV cannot exceed Pennymac's program maximum • Split Premium • Lender Paid Single Premium • Reduced coverage <p>Unacceptable MI Types:</p> <ul style="list-style-type: none"> • <u>Lender Paid Monthly</u> • <u>Lender Paid Annual</u> • <u>Borrower Paid Annual</u> • <u>Any MI type not listed as acceptable</u> <p>For properties in NY</p> <ul style="list-style-type: none"> • 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).
<p>Occupancy</p>	<p><u>Primary residence only</u></p>
<p>Power of Attorney (POA)</p>	<p><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></p>
<p>Property: Eligible Types</p>	<ul style="list-style-type: none"> • Single Family Single Unit • PUDs • Detached Condos

<p>Property: Ineligible Types</p>	<ul style="list-style-type: none"> • <u>Manufactured homes. This includes on-frame modular homes built on a permanent chassis.</u> • <u>Mobile Homes</u> • <u>Cooperatives</u> • <u>Condotels</u> • <u>Single Family Attached Single Unit</u> • <u>2-4 Unit Attached/Detached</u> • <u>Low-rise and High-rise Condominiums (must be Fannie Mae eligible)</u> • <u>Leaseholds</u> • <u>Hotel Condominiums</u> • <u>Timeshares</u> • <u>Working Farms and Ranches</u> • <u>Unimproved Land</u> • <u>Property currently in litigation</u> • <u>Land Trust, including Community Land Trust Mortgages and Illinois Land Trust</u> • <u>Condition Rating of C5/C6 or a Quality Rating of Q6</u> • <u>Turn-key investment properties. See Property Turn-key Investments section for additional details.</u> • <u>Lava zones 1 and 2</u>
<p>Property: Maximum Number of Financed Properties</p>	<ul style="list-style-type: none"> • 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.
<p>Ratios</p>	<p>The Maximum DTI is 50% with a DU Approve/Eligible.</p>
<p>Rental Income Calculation</p>	<p>Follow Fannie Mae rental income documentation calculation requirements.</p>
<p>Reserves</p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 2% of the aggregate UPB if the borrower has one to four financed properties, ○ 4% of the aggregate UPB if the borrower has five to six financed properties, or ○ 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	<ul style="list-style-type: none"> • Please refer to the Pennymac Seasoned Loan Policy located in the Pennymac Seller Guide for requirements and loan-level price adjustments. • Loans must be no more than 45 days old at time of delivery as measured from conversion or modification date to delivery to Pennymac.
State Restrictions	Texas 50(a)(6) transactions are not eligible
Tax Transcripts	<ul style="list-style-type: none"> • <u>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.</u> • <u>When tax transcripts are provided, they must support the income used to qualify.</u> • A properly executed 4506-C is required for all transactions except: <ul style="list-style-type: none"> ○ Loan file contains tax transcripts, or ○ When all of a borrower's income is validated by the DU validation service (FNMA only). • <u>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.</u>
Temporary Interest Rate Buydowns	<ul style="list-style-type: none"> • <u>Not allowed for permanent financing.</u> • Follow Fannie Mae requirements for interest rate during interim construction loan.
Terms of Construction	<ul style="list-style-type: none"> • The construction loan period for single-closing construction-to-permanent transactions may have no single period of more than 12 months and the total period may not exceed 18 months. • Exceptions to the 12-month and 18 month periods will not be granted. If the construction loan period exceeds the allotted construction term period(s), the Correspondent must process the loan as a two-closing construction-to-permanent transaction in order for the loan to be eligible for sale to Pennymac.
Unplanned Changes During Construction	Should a life change occur with the borrower, such as loss of job or death occurs, the Correspondent remains responsible to work with the builder to complete the home.
<p>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.</p> <p><i>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.</i></p>	