PCG Jumbo Underwriting Product Profile

08.30.18

		Purchase and Rate/Term Refinances			Cash Out Refinances			
Units	**Loan Amount**	**LTV/CLTV**	**Credit Score**	**Reserves**	**LTV/CLTV**	**Credit Score**	**Reserves**	**Max Cash Out**
1 Unit OO	up to $1,500,000	80	700	9 months	75	700	9 months	$300,000
1 Unit OO	$1,500,001 to $2,000,000	80	700	12 months	75	700	12 months	$500,000
2 Unit OO	up to $1,500,000	80	700	12 months				
2nd Home	up to $1,000,000	80	700	12 months				
2nd Home	$1,000,001 to $1,500,000	80	700	18 months				

Eligibility Matrix Notes:
- Max LTV/CLTV reduced by 5% when the appraisal indicates in either the Neighborhood Section Housing Trends or 1004MC Median Comparable Sale Price that property values are declining.
- First time homebuyer (FTHB) maximum $1,000,000 loan amount.
- Non-Permanent Resident Aliens only eligible for owner occupied, 75% LTV/CLTV/HCLTV.
- See Reserves Section for FTHB and multiple financed properties reserves requirements.
- When flood insurance is required, must be escrowed, regardless of LTV/CLTV

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. • 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.
Age of Credit Docs	• Credit report must be dated within 90 days of the note date • Employment and income, and asset documentation must be dated within 90 days of the note date • Title commitment dated within 90 days of the note date, measured from the effective or issue date of the commitment.

Appraisals	• Appraisals must be dated within 120 days of the note date. A new appraisal is required after 120 days. • Two full appraisals (1004 or equivalent) are required on all loan amounts greater than $2,000,000. Appraised value variance between the two appraisals may not exceed 10%. • Two full appraisals are required for non-arm's length transactions, regardless of the loan amount. • When two appraisals are required, the following applies: - the LTV will be determined by the lower of the two (2) appraised values as long as the lower appraisal supports the value conclusion - Both appraisal reports must be reviewed and address any inconsistencies between the two (2) reports and all discrepancies must be reconciled. - If the two (2) appraisals are done "subject to" and 1004Ds are required, it is allowable to provide one (1) 1004D. If only one (1) 1004D is provided, it should be for the appraisal that the value of the transaction is being based upon. • PennyMac requires lenders order an independent appraisal review product on the appraisal used for qualify: - Property Desktop Analysis (PDA) from Old Republic, PDAClientsetup@oldrepublictitle.com - Collateral Desktop Analysis (CDA) from Clear Capital, or jim.smith@clearcapital.com • All appraisers must hold at least the minimum required state license and a copy of the license must be submitted with the appraisal. • Appraisals must be completed in compliance with FIRREA/USPAP and all applicable regulatory requirements. • 1004MC required. On purchase transactions, the appraiser must review the sales contract, and all subsequent addenda. • Appraisal 1st generation PDF required. • Appraisals must be Appraiser Independence Requirements (AIR) compliant. • For newly constructed homes: All required inspections, licenses and certificates must be obtained. • LTV/CLTV reduced by 5% when the appraisal indicates in either the Neighborhood Section Housing Trends or 1004MC Median Comparable Sale Price that property values are declining. • Transferred appraisals are not allowed.
Assets: General Requirements	• Full asset documentation is required - Verification of Deposits (VODs) are not acceptable - All pages of the most recent two consecutive months' statements or the most recent quarterly statement may be provided. Statements must: • Clearly identify the borrower as the account holder; • Include the account number; • Include the time period covered by the statement; • Include all deposits and withdrawal transactions (for depository accounts); • Include all purchase and sale transactions (for financial portfolio accounts); and • Include the ending account balance. • All asset documentation must be dated within 90 days of the note date. • All funds must be owned by the borrowers.

Assets: Large Deposits	• When bank statements (typically covering the most recent two months) are used, Lender must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Requirements for evaluating large deposits vary based on the transaction type, as shown below. • Refinance transactions: Documentation or explanation for large deposits is not required; however, Lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered. • Purchase transactions: - If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), Lender must document funds are from an acceptable source. - If funds are from a transfer between borrower accounts, copies of outdated statements may be acceptable to source only the deposit. Statements dated within the allowable age of credit docs must be provided to source funds used for closing and reserves. - Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, Lender must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. - Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and Lender must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. - When a reduced asset amount is used, net of the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes - When a deposit has both sourced and unsourced portions, only the unsourced portion should be used to calculate whether or not it must be considered a large deposit
Assets: Eligible Sources	• Bridge loans • Business funds. See Reserves for requirements for Business funds as reserves. Business funds to close allowed when: - Borrower is 100% owner, and - 2 months consecutive business bank statements are provided, and - One of the following: • CPA letter confirming withdrawal of funds will cause no harm to business, or • Business funds used for closing do not exceed 50% of the lesser of the prior two months business bank statement ending balances. Note: funds transferred from business to personal are included as business funds, and multiple accounts are considered as one account. • Cash value of life insurance: Underwriter must assess repayment or additional obligation considerations to determine the impact on borrower qualification or reserves. • Depository accounts (checking and savings) • Earnest Money Deposit. - Receipt of the deposit my be verified with either a copy of the cancelled check or written statements from the deposit holder - Bank statement covering the month the EMD cleared and the month prior is required in addition to the most recent two months of statements normally required. - Large deposits must be sourced • Gift funds allowed after borrower contributes minimum 5% of own funds. Gift must be transferred to the borrower prior to close or directly to escrow from the donor. - Eligible donors are: • A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or • A fiancé, fiancée, or domestic partner. • Retirement accounts • Stocks, bonds, mutual funds • Trust accounts funds • See Jumbo guidelines for complete details.
Assets: Ineligible Sources	• 1031 exchange funds (ineligible for reserves, eligible for funds to close) • 529 plans • Cash-on-hand • Credit card financing • Donations • Gift Funds (ineligible for reserves, eligible for funds to close) • Personal unsecured loans • Real estate commissions earned from the subject transaction • Rent credit from Rent-to-Own transactions • Secured borrowed funds, i.e. funds from a HELOC securing a non-subject property (ineligible for reserves, eligible for funds to close) • Sweat Equity

Borrowers: Eligible	• U.S. citizens. • Permanent resident alien - A permanent resident alien is an immigrant who, although not a U.S. citizen, has been granted the right to live and work permanently in the United States. PennyMac requires proof of lawful permanent residence and 24 months United States employment history. • Non-permanent resident aliens - A non-permanent resident alien is a temporary resident, who, although not a U.S. citizen has been granted the right to live and/or work in the United States for a specific period of time. PennyMac requires proof of lawful residence and 24 months United States employment and income history. Employment and income history documentation including but not limited to: US tax returns, history of visa renewals, no indication employment will stop - Eligible for: • Primary residence only • Maximum LTV/CLTV/HCLTV 75% • 30 year fixed rate only • No other financed properties in the US • Unexpired H1B, H2B, E1, L1 and G Series visas only. G Series visas must have no diplomatic immunity • Credit and tradeline requirements must be met, non-traditional credit is not acceptable. • Borrower must have a current 24 month employment history in the US. • All borrowers must have a valid Social Security Number. ITINs are not acceptable. • Inter-Vivos Revocable Trusts (revocable at any time by the Trustor). • Borrowers involved in non-arm's length transactions, which are defined as a pre-existing relationship between the buyer and the seller. PennyMac requires two full appraisals regardless of loan amount. When there is an existing mortgage on the property, lenders must provide a mortgage rating indicating no lates in the last 12 months.
Borrowers: Ineligible	• Irrevocable Trusts or Blind Trusts • Limited/General Partnerships and Corporations • Foreign nationals - A non-U.S. citizen who is not a permanent or non-permanent resident alien. This person does not have the right to live and/or work in the U.S. for a specific period of time. • Borrowers with diplomatic immunity - a form of legal immunity that ensures diplomats are not susceptible to lawsuit or prosecution under U.S. laws. • Non-occupant co-borrowers • Land Trusts, including Illinois
Continuity of Obligations	Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) on the existing mortgage is also a borrower on the new refinance transaction secured by the subject property. In addition, PennyMac will consider the following scenarios as meeting the continuity of obligation requirements: • The borrower acquired the property through an inheritance or was legally awarded the property (for example, divorce, separation, or dissolution of a domestic partnership) • The borrower on the new refinance transaction has been added to title through a transfer from a trust, or a limited liability company (LLC), or partnership. The following requirements apply: - the borrower must have been a beneficiary/creator (trust) or a 25% or more owner of the LLC or partnership prior to the transfer, and - the transferring entity and/or the borrower has had a consecutive ownership (on title) for at least the most recent 6 months prior to disbursement of the new loan. Note: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement. • The borrower has been on title for at least 12 months but is not obligated on the existing mortgage(s) that is being refinanced and the borrower meets both of the following: - Has been residing in the property for at least 12 months, and - Has paid the mortgage from their own account for at least 12 months. • When there is no existing mortgage on the subject property as a result of the borrower either having purchased the subject property with cash or when any prior mortgage for which the borrower was an obligor was paid in full. **Note:** Cash-out transactions require the borrower to be on title to the subject property for at least six months and six months seasoning required on existing loan.
Condominiums	• Fannie Mae warrantable condos only. • Projects with pending litigation are not eligible.

Credit	• Residential Mortgage Credit Report from all three repositories is required. • Mortgage/Rental history must reflect 0x30x24. PennyMac will consider the borrower as having timely payments for the time in which the borrower has owned a property "free and clear." - Individual landlord must be documented via canceled checks. - Institutional landlord may be documented via VOM • PennyMac will allow borrowers that are living "rent free" subject to the following: - The "rent free" period is less than or equal to 12 months, and - The borrower has a 0x30x24 housing history immediately surrounding the rent free period either via previously paid mortgage or rental history, • Example: the borrower was rent free for 11 months, a year ago. The borrower is required to have a 0x30x12 since the rent free time, and 0x30x12 prior to the rent free time, to total 0x30x24 housing history. • Example: The borrowers have been rent free for the past 4 months. The borrowers are required to have 0x30x24 immediately preceding the current rent free period. • Verification of rent free period must come from the third party owner or person obligated on the lease/rental agreement. • Trade Line Depth Requirements: Borrowers contributing qualifying income must meet one of the following options: - Three open trade lines with: • All 3 trade lines must have had activity within the last 6 months of the credit report date, and • A minimum of 24 months reporting on at least one trade line (open or closed). - Two open trade lines with: • Purchase transactions only, and • Borrowers have 24 month consecutive mortgage history, with some portion of the 24 months in the last 5 years. - One open trade line with: • A minimum of 12 months reporting on the open trade line, and • No less than 10 trade lines reporting with one being a mortgage; and • Credit history established for at least 10 years. - Borrowers not contributing income for qualifying purposes are not subject to the minimum trade line requirement. • Non-Traditional Credit cannot be used in place of any trade line. • Authorized user accounts or collection accounts may not be used to meet any credit or tradeline requirement. • Letter of Explanation (LOE) required for all inquiries within the last 90 days.
Credit: Derogatory and Frozen	• Bankruptcy Chapter 7, 11, 13: Seven years since discharge or dismissal date • Foreclosure: Seven years since completion date • Notice of Default: Seven years since redemption • Short Sale, Deed-in-Lieu, or other pre-foreclosure sale: Seven years since completion or sale date • Any Mortgage accounts that were settled for less, or negotiated or short payoff: Seven years since settlement date • Loan Modification: - Lender initiated modification will not be considered a derogatory credit event if the modification did not include debt forgiveness and was not due to hardship as evidenced by supporting documentation. No seasoning requirement would apply. - Seven years since modification if the modification was due to hardship or included debt forgiveness • Multiple significant derogatory credit events, as indicated above, are not allowed. • Medical collections: Aggregated balances of less than $10,000 do not need to be included. • IRS and State Tax Payment Plans - All current and previous tax debt must be paid, including any liens/judgments on title or credit. Cash-out proceeds may be used to pay taxes. - Tax repayment plans from the IRS or other taxing authorities are not allowed. • PennyMac requires all three credit reporting agencies to be unfrozen regardless of transaction type.
Disaster Policy	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 or see the complete Jumbo Guidelines.
Documentation Type	• In general, PennyMac's Jumbo guidelines follow Appendix Q. When Appendix Q is silent, follow Fannie Mae manual underwriting guidelines. • <u>See Tax Transcript Requirements section for details on Tax Transcripts.</u>

Eligible and Ineligible Mortgage Products	**Eligible Mortgage Products** • 15 or 30 Year fixed rate, fully amortized • 5/1 LIBOR ARM with 2.25 margin and 2-2-5 caps, fully amortized • 7/1 LIBOR ARM with 2.25 margin and 2-2-5 caps, fully amortized **Ineligible Mortgage Products** • Temporary buydowns • Interest-only amortization • Negative amortization • Loans with prepayment penalties • Construction financing during building phase is ineligible. Permanent financing is acceptable. • Assumable loans are ineligible. Jumbo ARM loans must be originated using PennyMac's Non-Assumability ARM Rider and Non-Assumability Note Addendum.
Employment/Income: Wage Earner	• Full Documentation is required, which includes: - Most recent year to date paystub covering at least 30 days and two years W2's - Written Verification of Employment (WVOE) is not acceptable - Borrowers may qualify using an employment contract and a pay stub in lieu of the 30 days pay stub. Pay stub must contain sufficient information to accurately verify the qualifying income. 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. • Paystubs must: - clearly identify the borrower as the employee. - include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained. - be computer-generated or typed by the borrower’s employer(s), although paystubs that the borrower downloads from the Internet are also acceptable. Documents must clearly identify the employer’s name and source of information. - be from a third party original source of information, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor. • See Tax Transcripts for complete details on transcript requirements. • Extended absence defined as six or more months. Income may be considered effective when the borrower: - is employed on current job six months or longer; and - can document a two year work history prior to the absence using traditional employment verifications or copies of W2s or paystubs. Time spent in the military or school or not considered in the extended absence. • OT and bonus income eligible with a two year history of receipt and is likely to continue. Assume income is likely to continue unless documentation in file indicates otherwise. See handbook for borrowers with 12-24 months receipt of income. • Commission income must be averaged over the previous two years. - Borrower is commissioned when 25% or more of annual income is commissioned. - Borrower must provide: • Two years signed personal tax returns • The most recent pay stub. - Unreimbursed business expenses must be deducted from income • Restricted Stock, Restricted Stock Options, and Stock Options may be used for income. - Must be consistently received for last two years with minimum three year continuance - Must be reported on pay stubs and W2s - Vesting schedule must be provided and support current level of income - Qualifying income and continuance calculated from stock value at close of market as of the application date - See 40.30.10 for complete details.

Employment/Income: Passive Sources	• Alimony, Child Support, Maintenance Income: - Borrower must provide a copy of the final divorce decree, legal separation agreement, or court order. Voluntary payments are not eligible. - Borrower must provide proof of timely receipt for the last 12 months via cancelled checks, deposit slips, tax returns, court records. • Foreign Income: - Copies of his or her signed federal income tax returns for the most recent two years that include foreign income. - Provide copy of pay stub from current job (if applicable). Must cover a minimum of 30 days YTD income. - All income must be translated to U.S. dollars. • Interest and Dividend income - Eligible with two year history of receipt. - Income must be averaged over two years. - Any investment funds used for closing must be deducted from the amount used to calculate the income. • Notes Receivable Income - Eligible when income will continue for at least three years. - Borrower must provide a copy of the note, evidence the payments have been timely consistently received for the past 12 months. Deposit slips, cancelled checks, bank or other account statements, or tax returns are acceptable. • Retirement: - Must document amount and regular and continued receipt of income - Amount and continuance may be verified with any of the following: letters from organizations, retirement award letters, tax returns, W2s or 1099s, proof of current receipt with two months bank statements - If any retirement income, such as employer pensions or 401(k)'s, will cease within the first full three years of the mortgage loan, such income may not be used in qualifying • Trust Income - Eligible when income will continue for at least three years. - Borrower must provide copy of the trust agreement or trustee statement confirming the amount of trust, frequency of distribution and the duration of payments. - Trust funds may be used for closing if the withdrawal will not negatively impact the trust income used to qualify. • Social Security - Social Security income must be verified by a Social Security Administration benefit verification letter (sometimes called a "proof of income letter," "budget letter," "benefits letter," or "proof of award letter"). - If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying. Income with no defined expiration may be considered as likely to continue. Non Taxable Income may be grossed up based on the percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable. - Use the previous year's tax returns to determine the tax rate. If borrower is not required to file a tax return, use 25%.

Employment/Income: Rental	• Analyzing the Stability of Rental Income. Rent received for properties owned by the borrower is acceptable as long as Lender can document the stability of the rental income through: - A current lease; - An agreement to lease, or - A rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation). **Note:** The underwriting analysis may not consider rental income from any property being vacated by the borrower, except under the circumstances described below. • Rental Income From Borrower Occupied Property. - The rent for multiple unit property where the borrower resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes. - Projected rent for the tenant-occupied units only may: • Be considered gross income, only after deducting vacancy and maintenance factors, and • Not be used as a direct offset to the mortgage payment. • Documentation Required To Verify Rental Income. - IRS Form 1040 Schedule E; and - Current leases/rental agreements. **Note**: Current leases/rental agreements are required for all properties located on the Schedule E (including commercial properties), except when the borrower qualifies without including any rental income on that property and debt ratio is burdened with the full PITIA. • Analyzing IRS Form 1040 Schedule E. - The IRS Form 1040 Schedule E is required to verify all rental income. Depreciation shown on Schedule E may be added back to the net income or loss. - Depletion and Amortization may also be added back. - Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability. - Lender must confirm that the borrower still owns each property listed, by comparing Schedule E with the real estate owned section of the URLA. • Using Current Leases To Analyze Rental Income. - The borrower can provide a current signed lease or other rental agreement for a property that was acquired since the last income tax filing, and is not shown on Schedule E. - In order to calculate the rental income: • Reduce the gross rental amount by 25 percent for vacancies and maintenance; • Subtract PITI and any homeowners association dues; and • Apply the resulting amount to income, if positive, or recurring debts, if negative. • Exclusion of Rental Income From Property Being Vacated by the Borrower. Underwriters may not consider any rental income from a borrower’s principal residence that is being vacated in favor of another principal residence, except under the conditions described below: - Notes: This applies solely to a principal residence being vacated in favor of another principal residence. It does not apply to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040) - When a borrower vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis under the circumstances listed below: - Provide a properly executed lease agreement (that is, a lease signed by the borrower and the lessee) of at least one year’s duration after the loan is closed. • Note: Underwriters should also obtain evidence of the security deposit and/or evidence the first month’s rent was paid to the homeowner. - Sufficient Equity in Vacated Property: The borrower has a loan-to-value ratio of 75 percent or less, as determined by a current (no more than six months old) residential appraisal as described below: • Fannie Mae form 1004, • exterior-only appraisal using Fannie Mae form 2055, or • condominium units form Fannie Mae 1075. • See Jumbo Guide for complete details.

Employment/Income: Self-Employed	• A borrower with a 25 percent or greater ownership interest in a business is considered self-employed and will be evaluated as a self-employed borrower. • Borrowers paid via 1099 are considered self-employed. • A two year history of self-employment is required. Borrowers with less than two years may be eligible, see Jumbo Guidelines for details. • Two years signed/dated personal tax returns plus two years signed/dated business tax returns are required for all self-employed borrowers for all business, see section 40.20.10 for exceptions. • A Profit and Loss (P&L) Statement and Balance Sheet are required. The documentation: - must be the most recent available statement (within 90 days of the note date) - must include the date range for period covered - can be audited, reviewed, compiled, or internally prepared. - is required for all 1099, Schedule C, 1065, 1120S and 1120 businesses. - may be waived if borrower is paid via 1099 and does not own business, Schedule C analysis must be consistent with little to no expenses reported. See 40.20.10 for full details. - may be waived if the positive income is not used to qualify. See 40.20.10 for full details. - P&L and Balance Sheet may show 0 if the business has no assets or liabilities. - must include a full year P&L and Balance Sheet for any full year period where tax returns have not yet been filed. - must have the name of the business and the date range of the information provided. • S/e business generating a loss of less than or equal to 5.00% of the qualifying income must be included in qualifying but does not need tax return, P&L or balance sheet. - 5.00% loss is cumulative between multiple business - no exceptions to loss percentage • See Jumbo Guidelines for detailed tax analysis information.
Employment/Income: Unacceptable	• Boarder Income • Capital gains income • Employment contracts • Employer Mortgage Differential Payments: Payments made by a borrower’s employer to subsidize the borrower’s mortgage payment • Employment Assets as Income, or Asset Annuitization • Homeownership Subsidies • Projected Income
Employment/Income Verification	• Verbal Verification of Employment for the last two years required for: - For all employment used for qualifying income, and - For all self-employment generating a loss • Any gaps spanning one or more months must be explained. If borrower was in school or military, evidence supporting this must be provided such as transcripts or discharge papers. • Verbal Verifications must be: - Within 10 business days prior to closing for employed borrowers - Within 30 calendar days prior to closing for self-employed
Escrow Holdbacks	Loans with escrow holdbacks are not eligible.
Financing Concessions	• Financing concessions for primary residences and second homes must be within the following allowable percentages: - 3% of value with LTV/CLTV ratios greater than 75% and up to 80% - 6% of value with LTV/CLTV ratios less than or equal to 75% - Amounts in excess of these limits must be deducted from the lower of sales price or appraised value when calculating the LTV/CLTV. • Value is the lesser of appraised value or purchase price.
High Cost / High Priced Mortgage Loans (HPML)	• PennyMac will not purchase High Cost Loans • PennyMac will not purchase Higher Priced Mortgage Loans (HPML)

Insurance Requirements: Flood	• When flood insurance is required, it must be escrowed. • If flood insurance is required, the mortgage loan must close with one of the following: - A complete flood insurance policy containing a standard mortgagee clause which must read as described in the Guide. - A complete application to the National Flood Insurance Program Agency (NFIP) with evidence that the first year premium on the policy has been paid and an elevation certificate if the property was constructed after the date on the FIRM. • When flood insurance is required with respect to a mortgaged property, the amount of flood insurance required, regardless of property type, is the lesser of: - The unpaid principal balance of the mortgage, or - The maximum amount of coverage available under the NFIP for the type of improvements, or - The replacement cost of the improvements • Deductible must meet Fannie Mae requirements.
Insurance Requirements: Hazard	• The hazard insurance coverage must be equal to the lesser of: - 100% of the insurable value of the improvements—as established by the property insurer or - Guaranteed Replacement Cost Endorsement, which provides that the insurer agrees to replace the insurable property, regardless of the cost or the Replacement Cost Endorsement or; - The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80%) of the insurable value (total appraised value minus the estimated site value) required to compensate for damage or loss calculated on a replacement cost basis. **Note:** Due to the revised agency appraisal form, which eliminated the site value box, the estimated site value can be submitted with a notation in the Comments section of the appraisal or an appraisal addendum signed by the appraiser. • If the hazard insurance is not equal to at least one of the above minimum coverage amounts, then additional hazard coverage that meets the minimum coverage amounts must be obtained before the loan can be closed. • PennyMac requires a cost estimator from the insuring company if the hazard insurance does not equal at least 100% of the loan amount. • If the estimated site value, opinion site value, or an appraisal addendum signed by the appraiser is not available on the appraisal, the documents below are acceptable in the following order: - Insurance value from the insurance agency - Third party vendor (Marshall and Swift [example: Data Quick] may have been used by the vendor.) - If the site value is not noted, the tax assessor value from the title policy/commitment or tax assessment form may be used for the calculation. • Hazard insurance policies that include optional coverage that is not required by PennyMac are acceptable, provided that PennyMac is not obligated to renew any part of the coverage not required hereunder. • Hazard coverage for units in Project Developments must meet FNMA requirements. • Deductible must meet Fannie Mae requirements.
Liabilities: General	• Debts lasting less than ten months must be included if the amount of the debt affects the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after loan closing. • Revolving Account Monthly Payment Calculation. If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of: - 5% of the balance; or - $10. **Note**: If the actual monthly payment is documented from the creditor or PennyMac obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes. - Accounts paid off and closed prior to the loan closing may be excluded from the DTI. Documentation showing sufficient assets to pay off, in addition to any required assets, must be provided. • Open Ended Accounts: Accounts which require the balance to be paid in full monthly. Must follow one of the following bullets: -In the absence of a monthly payment on the credit report or direct verification of the payment, the greater of 5% of the outstanding balance or $10 can be considered to be the required monthly payment; or - When the balance is equal to the monthly payment, the borrower may provide sufficient verified funds to pay off the outstanding account balance. The funds must be in addition to any funds required for down payment, closing costs, financing costs, prepaids/escrows or reserves, as applicable • Alimony must be included as a liability. May not be included as a reduction in income. • Contingent Liabilities exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment. See Jumbo Guide for complete details on treatment of Contingent Liabilities. • Authorized user accounts must be included in the liabilities calculation. • Projected Obligations - Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by PennyMac as anticipated monthly obligations during the underwriting analysis. - Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe. - Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.

Liabilities: Student Loans	• If a monthly student loan payment is provided on the credit report, use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. • If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, determine the qualifying monthly payment using one of the options below. - If the borrower is on an income-driven payment plan, obtain student loan documentation to verify the actual monthly payment is $0. The borrower may then be qualified with the $0 payment. - For deferred loans or loans in forbearance, calculate • a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or • a fully amortizing payment using the documented loan repayment terms.
Loan Amounts: Maximum and Minimum	• The maximum loan amounts permitted are reflected in the grid at the beginning of the guide. • The minimum loan amount for all areas is $1 above the standard balance limit. • First Time Home Buyers (FTHB) are limited to $1,000,000 loan amount. - FTHB is defined as an individual who has not had a mortgage in the past three years or owned a home in the past three years. - Applications with multiple borrowers are not considered FTHB unless all applicants are FTHB.
Loan Purpose: Purchase and Rate and Term	• Purchase - A complete copy of the ratified purchase contract and any applicable addenda must be provided • Limited Cash-Out / Rate & Term Refinance. Proceeds can be used: -To pay off a first mortgage regardless of age -To pay off any junior liens related to the purchase of the subject property -To pay off a 12 month seasoned junior lien. If a HELOC, then it must have no cumulative draws greater than $2,000 within the last 12 months. Based on the note date of the new loan. • Proof of no cumulative draws greater than $2,000 within the last 12 months is required. • Transaction history may be sufficient to document no draws exceeding limits. -Incidental cash back may not be used to pay off debt on the Closing Disclosure. -Incidental cash back more than $2,000 is not allowed on a rate & term refinance. -Listings must have been expired or withdrawn six months prior to the note date of the new loan. - Payoff of current or delinquent property taxes is not eligible. • All refinances on properties owned less than 12 months, must use the lesser of the original purchase price or current appraised value for either a rate and term or cash-out transaction. Based on the new note date. - Refinances of entirely new construction properties may use the current appraised value regardless of the length of time of ownership • All refinances must meet the more restrictive of these guidelines or continuity of obligation requirements.
Loan Purpose: Cash-out and Delayed Financing Cash-out	• Cash-Out - 6 months seasoning required; measured from settlement date to initial application date (time spent in LLC is not included in seasoning). - Listings must have been expired or withdrawn 12 months prior to the note date of the new loan. • Delayed Financing - Defined as the refinance of a property purchased by the borrower for cash within 6 months of the current loan's note date. - Must be underwritten to the cash-out eligibility matrix, however the max cash out limits do not apply. - Acceptable in accordance with the following: • Owner-Occupied only. • Eligible during the first 6 months of ownership only. • LTV/CLTV calculated from the lesser of the purchase price or current appraised value. • The original purchase transaction was an arm's-length transaction. - Arm's length is defined as no pre-existing relationship between buyer and seller. • The original purchase transaction is documented by a Closing Disclosure Settlement Statement, which confirms the borrower's own funds used to purchase the property. - Borrowed funds are ineligible - Gift or blended funds are ineligible - Funds secured by a pledged asset or retirement account are ineligible • The preliminary title search or report must confirm that there are no existing liens on the subject property. • The source of funds for the purchase transaction are documented with a minimum of two months' statements. • All refinances on properties owned less than 12 months, must use the lesser of the original purchase price or current appraised value for either a rate and term or cash-out transaction. Based on the new note date. - Refinances of entirely new construction properties may use the current appraised value regardless of the length of time of ownership • All refinances must meet the more restrictive of these guidelines or continuity of obligation requirements.

Loan Purpose: Ineligible Transactions	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
Occupancy	• Primary Residence • Second Homes - 1-unit only - Must be located a reasonable distance away from the borrower's primary residence. - Must be occupied by the borrower for some portion of the year. - Must be suitable for year-round occupancy. - The borrower must have exclusive control over the property. - Must not be rental property or a timeshare arrangement. - Cannot be subject to any agreements that give a management firm control over the occupancy of the property. • Investment Properties are ineligible.
Property: Eligible Types	• Single Family Detached One Unit • Single Family Attached One Unit • 2 Unit (Must be Owner-Occupied) • PUDs • Condominiums—Fannie Mae Warrantable only. • Multiple Parcels. See Jumbo guidelines for complete details when there are multiple parcels.
Property: Ineligible Types	• 3-4 unit properties • Agriculturally zoned • Commercially zoned • Commercial Enterprises (e.g. Bed and Breakfast, Boarding House, Hotel) • Condotels • Cooperatives • Fannie Mae Unwarrantable Condos • Geodesic Domes • Hobby farm properties • Hotel Condos • Log homes, except in areas where log homes are acceptable and prevalent • Manufactured homes, including modular homes built on a permanent chassis. • Mixed-Use Properties • Mobile Homes • Properties held in a business name • Properties with environmental hazards • Properties with less than 750 square feet of living area • Properties with more than 15 acres. • Timeshares • Unimproved Land and property currently in litigation • Unpermitted additions • Working Farms and Ranches • Zoning violations including residential properties zoned commercial • Properties with C5, C6, or Q6 ratings • Properties with Private Transfer Fee Covenants

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-arms 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
Property; Maximum Number of	• Owner-Occupied: Borrowers may have up to four financed properties. • Second home: Borrowers may have up to four financed properties. • PennyMac limits borrowers to four PennyMac serviced properties. • The subject property is included in the total number of financed properties. • Borrowers with three or more financed properties require at least 18 months reserves on the subject property.
Power of Attorney	• Specific Power of Attorney (POA) allowed. In addition, the POA must be recorded and include a copy of the POA with the county recorder's stamp. There are no exceptions regarding the recordation of the POA. • POAs are ineligible on cash-out transactions.
Ratios	• The maximum DTI ratio is 43%. • 15 yr Fixed, 30 yr Fixed, and 7/1 ARM qualify at the note rate. • 5/1 ARM qualifies at the greater of Note rate plus 2% or fully indexed rate. Fully Indexed rate is index plus margin.
Recently listed properties	• Rate/Term Refinances: The listing must have been expired or withdrawn six months prior to the note date. • Cash-out Refinances: The listing must have been expired or withdrawn 12 months prior to the note date.
Reserves	• All funds eligible under Source of Funds are acceptable for reserves, unless otherwise noted. See Assets: Ineligible Sources for more information. • The minimum reserve requirements are reflected in the grid at the beginning of the Guide. • First Time Home Buyers (FTHB) require 12 months reserves. - FTHB is defined as an individual who has not had a mortgage in the past three years or owned a home in the past three years. - Applications with multiple borrowers are not considered FTHB unless all applicants are FTHB. • Borrowers with three or more financed properties require at least 18 months reserves, based on the subject property's PITIA. • All assets used to satisfy reserve requirements must be owned by the borrowers. - Gift funds may not be used for reserves. • Business funds for reserves allowed with: - Schedule C business only - Borrower 100% owner - Must have 2x required reserves. Required if any portion of reserves are from the business. 2x includes additional reserves for FTHB, multiple financed property, etc. • Stocks/Bonds/Mutual Funds: 70% of the current balance may be considered for reserves. • Vested Retirement Account Funds - 60% of the current vested balance may be considered for reserves. • Departing Residence Reserve Requirements: - If the percentage of equity in the departing residence is 25% or more: 2 months reserves on the departing residence in addition to number of months required in the Eligibility Grid or Multiple Financed Properties section, as applicable. - If the percentage of equity in the departing residence is less than 25%: 6 months reserves on the departing residence in addition to number of months required in the Eligibility Grid or Multiple Financed Properties section, as applicable.

Secondary Financing	Subordination of existing secondary financing is allowed. New secondary financing is permitted subject to the following: • Allowed up to the maximum CLTV as shown in the Eligibility Matrix. • Institutional financing. Seller subordinate (seller-carried second) financing are not allowed • Employer sponsored financing. The program must be an established company program, not just an accommodation developed for an individual employee. • Subordinate liens must be recorded and clearly subordinate to the first mortgage lien. • Full disclosure must be made on the existence of subordinate financing and the subordinate financing repayment terms. • Acceptable Subordinate Financing Types: - mortgages with regular payments that cover at least the interest due so that negative amortization does not occur, and - minimum of five years.
State Restrictions	Texas a(6) transactions are ineligible.
Tax Transcript and 4506-T Requirements	• The most recent two years tax transcripts are required for all borrowers, regardless if income is used to qualify. Generally, when the documentation used to verify income is from the same calendar period as the tax transcript, the information must match exactly. However, if the income documentation is from the current calendar year and the transcript is from a prior year, there can be acceptable variances. If this variance exceeds 20%, document the rationale for using current income. W2 transcripts do not satisfy this requirement. - If the transcripts reflect any losses, then: • The loss must be considered in qualifying income, and • Tax returns (including Profit & Loss and Balance Sheet as applicable) must be provided and analyzed according to the requirements in the Tax Returns section below. • If tax transcripts are not available (due to a recent filing) a copy of the IRS notice showing "No record of return filed" is required along with documented acknowledgement receipt (such as IRS officially stamped tax returns or evidence that the return was electronically received) from the IRS and the previous one year's tax transcripts. • Business transcripts are not required. - A fully executed 4506-T for each of the borrower's businesses is required. • A 4506-T, signed at application and closing, is required for all transactions. • Borrowers that are a victim of identity theft, where the Lender is unable to obtain tax transcripts, will be reviewed on a case-by-case basis, but will not require an exception. In general, some, but not necessarily all of the following documentation can be included in the file to support the validity of the income: - Police Report - IRS confirmation of identity theft - Prior year's tax transcripts - An institutional written VOE - Bank statements supporting payroll deposits - Evidence of tax payment made or refund received for that year - Other documentation deemed supportive, based upon the specific situation

Refer to the Jumbo Underwriting Guidelines and Fannie Mae Handbook for any item not addressed by these Matrices.

PennyMac does not discriminate in any aspect of a credit transaction on the basis of sex, marital status, race, religion, national origin, age, income derived from public assistance, or the good faith exercise of rights under the Consumer Credit Protection Act.