



Announcement 15-43

Date: August 31, 2015

Topic: Transactions Involving “Turn-Key” Investments

PennyMac has seen an increase in transactions financing “turn-key” investment opportunities. A typical turn-key transaction has the following characteristics:

- The property seller is an LLC (or other entity) that purchases distressed properties and re-sells to borrowers at a non-distressed valuation.
- 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.
- Buyer frequently lives out-of-the-area from the subject property.

While these loans may meet Agency guidelines and perform within expectations in a rising home price environment, PennyMac believes that a fundamental misalignment of interests between buyer and seller/property manager present undue risk to both the originator and the borrower when home prices decline. Specifically,

- Out-of-state buyers are at an inherent disadvantage in negotiating a sales price with the local seller which may result in an inflated sales price.
- Out-of-state investors may find it difficult to preserve rental income if the seller/property manager ceases to operate.
- When placing tenants, property managers may have incentives to steer tenants towards newly sold properties or to properties where rent guarantees have been offered.
- Property managers may have incentives to place unqualified tenants in exchange for premiums paid within or outside of the lease.
- Property managers may have incentives to defer standard maintenance, leading to property deterioration or larger maintenance costs in future periods.
- A primary source of income for turnkey investment companies is derived from the re-sale of distressed properties. As such, a managed property going into foreclosure may present an income opportunity for the seller.

Effective immediately and for all loan programs, transactions involving turn-key investment, or other similar arrangements, are not eligible for purchase by PennyMac. The refinance of such loans are similarly ineligible. PennyMac encourages all Clients to consider their origination policies with regards to such transactions.

Please contact your Sales Representative with any questions.