Announcement 17-27

Date: August 10, 2017

Topic: FNMA SEL 2017-06: Various Topics

PennyMac is aligning with the updates announced in Fannie Mae Announcement 2017-06, including but not limited to the following. Effective dates are included below.

Employment Offers or Contracts

Currently PennyMac allows borrowers to begin employment after close for one unit owner occupied properties when the borrower has a non-contingent signed offer letter and additional 3 months PITIA reserves.

Effective immediately, PennyMac is aligning with Fannie Mae's updated and will be allowing borrowers to begin employment after close with the following requirements:

- One unit, primary residence purchase
- Borrower is not employed by family members
- Borrower is only using fixed base income to qualify
- The offer letter must be included in the loan file at time of delivery to PennyMac and:
    - 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.
- Employment must start within 90 days of the note date
- Additional reserves or current income must be documented and meet one of the following options:
    - 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.

- Current income refers to income that is currently being received by the borrower (or co-borrower), 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 calculation purposes, consider any portion of a month as a full month.

Student Loan Updates

Effective immediately, PennyMac is aligning with Fannie Mae's clarification regarding student loan payments. If the lender obtains documentation to evidence the actual monthly payment is $0, the lender may qualify the borrower with the $0 payment as long as the $0 payment is associated with an income-driven repayment plan.

Alimony Treatment

Previously, alimony was always treated as a liability and included in the borrower's DTI for qualifying purposes.

Effective immediately, PennyMac is aligning with Fannie Mae's update and allowing alimony to be either deducted from the borrower's income or included in the borrower's liability. When using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, enter the adjusted income figure as the income amount in DU. Lenders can disregard the DU message requiring inclusion of the alimony obligation as a monthly liability that is issued whenever the borrower declares on the loan application that they are obligated to pay alimony. However, Lenders must still obtain documentation confirming the amount of the alimony obligation.

Mortgages Paid by Others

Effective immediately, PennyMac is aligning with Fannie Mae's clarification regarding mortgages paid by others. When a borrower is obligated on a mortgage debt – but is not the party who is actually repaying the debt – the lender may exclude the monthly mortgage payment from the calculation of the DTI ratio if the party making the payments is obligated on the mortgage debt and can document the most recent 12-month payment history with no delinquencies.

ARM 5/5 Plan

Fannie Mae is introducing the 5/5 ARM with 2/2/6 caps. This new ARM plan will be fixed for the first five years, and adjust every fifth year thereafter. The initial adjustment and each subsequent adjustment will be no more than 2%, with a lifetime cap of 6%.

PennyMac is currently evaluating the new 5/5 ARM Plan released by Fannie Mae. At this time PennyMac is not purchasing loans with the 5/5 ARM Plan.

Please contact your Sales Representative with any questions.