



PennyMac Correspondent Group Delegated only  
 Fannie Mae HomeStyle Renovation Product Profile 02.27.20 Overlays to Fannie Mae are underlined  
**Lenders must be approved by PennyMac prior to delivering HomeStyle Renovation loans.**

Agency				
Agency		Fannie Mae - DU Approval		
Finance Type				
Finance Type		Purchase and Rate/Term Refinances		
Occupancy				
Occupancy		Owner Occupied		
Term				
Term		Fixed Rate and ARMs		
*All standard Fannie Mae requirements for LTV/CLTV 95.01%-97% must be met.	Property Type	LTV, CLTV, HCLTV	Min Credit Score	
	1 Unit	97*	<u>680</u>	
	2 Unit	85	<u>680</u>	
	3 - 4 Unit	75	<u>680</u>	
	Second Home			
	Fixed Rate and ARMs			
	Property Type	LTV, CLTV, HCLTV	Min Credit Score	
	1 Unit	90	<u>680</u>	
	Investment Property			
	Fixed Rate and ARMs			
	Property Type	LTV, CLTV, HCLTV	Min Credit Score	
	1 Unit - Purchase	85	<u>680</u>	
	1 Unit- R/T Refi	75	<u>680</u>	
	Maximum Loan Amounts	Current Guidance is available at: <a href="https://www.fanniemae.com/singlefamily/loan-limits">https://www.fanniemae.com/singlefamily/loan-limits</a> . Must use Form 1035 to calculate the maximum mortgage amount.		
	Agency		Fannie Mae	

<p><b>Ability To Repay and Qualified Mortgage Rule</b></p>	<ul style="list-style-type: none"> <li>• For loans subject to the ATR/QM rule, PennyMac will only purchase loans that comply with the ATR/QM requirements. <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• Correspondents are responsible for providing evidence of compliance with the ATR/QM rules.</li> <li>• Clear itemization of fees and application of all credits that indicate paid by/to will be required on all loans.</li> <li>• See Seller Guide section "Ability to Repay and Qualified Mortgage Rule" under "Delivery Procedures" for more details.</li> </ul>
<p><b>Age of Documents</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Preliminary Title Policies must be no more than 180 days old on the date the note is signed.</li> </ul>
<p><b>Appraisals</b></p>	<ul style="list-style-type: none"> <li>• Full appraisal required, "as-completed" that estimates the value of the property after completion of the renovation work.</li> <li>• Any existing unpermitted areas must be permitted by the end of construction.</li> <li>• All work must have required permits</li> <li>• Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.</li> </ul>
<p><b>Assignment of Mortgages</b></p>	<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>
<p><b>AUS</b></p>	<ul style="list-style-type: none"> <li>• <u>Desktop Underwriter with "Approve/Eligible" Findings is required. Manual UW is not permitted.</u></li> <li>• For Purchase Transactions, the sales price is the sum of Line a + Line b in Section VII. <ul style="list-style-type: none"> <li>○ Line a: Purchase price</li> <li>○ Line b: The cost of alterations, improvements, repairs</li> </ul> </li> </ul>
<p><b>Borrower Eligibility</b></p>	<ul style="list-style-type: none"> <li>• U.S. citizens</li> <li>• Permanent resident aliens, with proof of lawful permanent residence</li> <li>• Nonpermanent resident alien immigrants with proof of lawful residence</li> <li>• <u>Non-arm's length transactions are prohibited</u></li> <li>• <u>Borrower may not be employed by the contractor/company doing the renovation.</u></li> <li>• <u>Borrowers must have valid Social Security Number, ITINs are not acceptable.</u></li> </ul>
<p><b>Credit</b></p>	<ul style="list-style-type: none"> <li>• <u>At least one borrower must have a minimum of one credit score to be eligible.</u></li> <li>• 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.</li> <li>• 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"> <li>○ When the payment is not reported on the credit report, provide third party verification of payment amount.</li> <li>○ If living rent free, a rent free letter from landlord or person obligated on lease required.</li> </ul> </li> </ul>

<p style="text-align: center;"><b>Condominiums</b></p>	<ul style="list-style-type: none"> <li>• HOA must provide written approval for renovation work.</li> <li>• Renovation work is limited to the interior of the unit.</li> <li>• See B4-2 Project Standards in Fannie Mae's Seller Guide or <a href="https://www.fanniemae.com/singlefamily/project-eligibility">https://www.fanniemae.com/singlefamily/project-eligibility</a> for complete details on condos.</li> <li>• Fannie Mae to Fannie Mae rate and term refinances up to 80% LTV may be eligible for a waiver of the project eligibility review. <ul style="list-style-type: none"> <li>○ Documentation confirming refinanced loan was owned by Fannie Mae is required.</li> <li>○ Condo type V required.</li> <li>○ See B4-2.1-02 Waiver of Project Review for additional information.</li> </ul> </li> <li>• Limited Review allowed in accordance with Fannie Mae Guidelines, including NOO up to 75% LTV/CLTV/HCLTV</li> <li>• 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.</li> <li>• 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 B4-2.1-02 for details.</li> <li>• Florida Condos are allowed in accordance with Fannie Mae requirements.</li> <li>• See PennyMac Announcement <a href="#">19-62</a> for additional documentation details. Lenders must provide all documentation used to verify the condo warranty type. This may include, but is not limited to: <ul style="list-style-type: none"> <li>○ Loan documentation with warranty type</li> <li>○ HOA questionnaire</li> <li>○ Copies of applicable insurance policies</li> <li>○ Any additional documentation as required by the warranty type</li> </ul> </li> </ul>
<p style="text-align: center;"><b>Construction Timeframe</b></p>	<ul style="list-style-type: none"> <li>• <u>Repairs and construction must be completed within nine months. Extensions may be approved by PennyMac.</u></li> <li>• <u>Early Payment Default is in effect until recourse is lifted.</u></li> </ul>
<p style="text-align: center;"><b>Construction Contract</b></p>	<p>The construction contract must:</p> <ul style="list-style-type: none"> <li>• itemize the specific work that the contractor agrees to perform for the borrower,</li> <li>• state the agreed-upon cost of the renovation,</li> <li>• identify all subcontractors and suppliers,</li> <li>• include an itemized description that establishes the schedule for completing each stage of the work and the corresponding payments to be made to the contractor.</li> </ul> <p>This contract, which must be executed by both the contractor and the borrower, should also require the contractor to:</p> <ul style="list-style-type: none"> <li>• be duly licensed (if required by applicable law);</li> <li>• obtain all required insurance coverages (such as all-risk, public liability, workmen's compensation, and automobile liability);</li> <li>• complete the work in compliance with the contract and all applicable government regulations (such as building codes and zoning restrictions);</li> <li>• provide for appropriate remedies for resolving disputes (including an agreement to indemnify the borrower for all property losses or damages caused by the contractor's employees or subcontractors).</li> </ul>

<p><b>Consultant</b></p>	<ul style="list-style-type: none"> <li>• <u>Must use a HUD approved Consultant to assist with managing the project and draw requests when:</u> <ul style="list-style-type: none"> <li>○ <u>Repairs or renovations exceed \$15,000, or</u></li> <li>○ <u>Any structural work is required.</u></li> </ul> </li> <li>• <u>Must inform the HUD Consultant the work is for a Fannie Mae HomeStyle transaction, and not a 203(b) or 203(k) transaction.</u></li> </ul>	
<p><b>Contingency Reserves</b></p>	<ul style="list-style-type: none"> <li>• <u>Contingency reserve equal to minimum of 10% of the total costs of the repairs and renovation work must be established and funded, for all mortgages, to cover required unforeseen repairs or deficiencies that are discovered during the renovation:</u> <ul style="list-style-type: none"> <li>○ 10% includes soft and hard costs.</li> <li>○ May be included in the renovation costs or funded by the borrower.</li> <li>○ Unused contingency funds, if financed, may be used to reduce the outstanding balance of the mortgage after all the renovation work has been completed and the certification of completion has been obtained.</li> </ul> </li> <li>• Remaining contingency funds may also be used to make additional improvements or repairs that are permanently affixed to the property and add value to the property if: <ul style="list-style-type: none"> <li>○ A Change Order Request (Form 1200) is provided prior to using any contingency reserve funds for additional improvements. Change orders must be approved by PennyMac prior to beginning additional work.</li> <li>○ The work scheduled and described in the plans and specifications has been completed, and the contingency reserve funds have already been reduced by any cost overruns;</li> <li>○ The contingency reserve funds that are used for additional improvements or repairs are documented, and inspections of the additional work or installations are completed by the appraiser who prepared the “as completed” value appraisal report.</li> </ul> </li> </ul>	
<p><b>Contractor Requirements</b></p>	<ul style="list-style-type: none"> <li>• <u>Do-It-Yourself not allowed</u></li> <li>• Borrower is responsible for choosing a licensed and insured contractor to perform the renovation.</li> <li>• Lender must determine that the contractor is qualified and experienced, has all appropriate credentials required by the state, is financially able to perform the duties necessary to complete the renovation work in a timely manner, and agrees to indemnify the borrower for all property losses or damages caused by its employees or subcontractors.</li> <li>• Lender is required to provide a complete contractor profile to PennyMac prior to purchase. Profile must include confirmation all references have been validated.</li> <li>• Copy of contractor license and insurance is required.</li> </ul>	
<p><b>Derogatory Credit</b></p>	<p><b>Derogatory Event</b></p>	<p><b>Waiting Period Requirements</b></p>
	<p>Bankruptcy — Chapter 7 or 11</p>	<p>4 years</p>
	<p>Bankruptcy — Chapter 13</p>	<ul style="list-style-type: none"> <li>• 2 years from discharge date</li> <li>• 4 years from dismissal date</li> </ul>
	<p>Multiple Bankruptcy Filings</p>	<p>5 years if more than one filing within the past 7 years</p>

	Foreclosure	<ul style="list-style-type: none"> <li>• 7 years</li> <li>• 3 years with documented extenuating circumstances (see section below) allowed subject to: <ul style="list-style-type: none"> <li>○ up to the lesser of 90% LTV/CLTV or the max LTV/CLTV per the eligibility matrix,</li> <li>○ purchase of an OO, or</li> <li>○ rate and term of any occupancy</li> </ul> </li> <li>• 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.</li> </ul>
	Deed-in-Lieu of Foreclosure, Preforeclosure Sale (Short Sale), Mortgage Charge-Off	<ul style="list-style-type: none"> <li>• 4 years</li> <li>• 2 years with documented extenuating circumstances, see Extenuating Circumstances below</li> </ul>
	All transactions require a DU Approve/Eligible regardless of which time frame for the derogatory event is met, standard or extenuating circumstances.	
<b>Derogatory Credit: Extenuating Circumstances</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.).</li> <li>• 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.</li> </ul>	
<b>Disaster Policy</b>	<p><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></p>	

<p style="text-align: center;">Documentation Type</p>	<ul style="list-style-type: none"> <li>• Determined by AUS</li> </ul> <p><b>Day 1 Certainty</b></p> <ul style="list-style-type: none"> <li>• Loans using Day 1 Certainty are acceptable.</li> <li>• 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.</li> <li>• 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–T or tax transcripts for that borrower.</li> <li>• Income or assets derived from the production or sale of marijuana are ineligible for qualifying.</li> </ul> <p><b>Current Housing Payment</b></p> <ul style="list-style-type: none"> <li>• Borrowers must document their current housing expense with one of the following when they do not currently own a primary residence: <ul style="list-style-type: none"> <li>○ six months canceled checks or equivalent payment source;</li> <li>○ six months bank statements reflecting a clear and consistent payment to an organization or individual</li> <li>○ direct verification of rent from a management company or individual landlord; or</li> <li>○ a copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.</li> </ul> </li> <li>• Borrowers living rent-free must document their rent-free status. A rent-free letter from a third party may be acceptable.</li> </ul>
<p style="text-align: center;">Documentation: Required Forms</p>	<ul style="list-style-type: none"> <li>• Form 1035: HomeStyle Renovation Maximum Mortgage Worksheet. Used to calculate the maximum mortgage amount.</li> <li>• Form 1204: HomeStyle Renovation Consumer Tips. Used as a checklist for the key facts that need to be disclosed to the borrower. Borrower's signature serves as an acknowledgement of his/her understanding of the facts.</li> <li>• Form 1202: Contractor Profile. Used to assist the lender in making the determination if the contractor meets Fannie Mae's requirements. See Contractor Requirements section for more details.</li> <li>• Form 1200: HomeStyle Change Order Request (if applicable). Used to provide a detailed description of the change(s), the cost of the change(s), and the estimated completion date(s) for any changes requested by the borrower. Must be approved by PennyMac prior to start of work.</li> <li>• Form 1004D Appraisal Completion Report OR Form 1036 HomeStyle Completion Certificate. Used to document that the renovation was completed in accordance with the submitted plans and specifications. All applicable signatures must be provided.</li> <li>• Form 3734: Construction Contract or equivalent document with all required information. Used to document the construction contract between the borrower and the contractor.</li> <li>• Form 3735: Construction Loan Agreement or equivalent document with all required information. Used to document the construction loan agreement between the borrower and the lender.</li> <li>• Form 3739: Lien Waiver or equivalent document with all required information. Used to document all contractor, subcontractor, and supplier liens have been released prior to disbursing funds.</li> <li>• Form 3737: Construction Loan Rider to Security Instrument or equivalent document with all required information. Must meet Fannie Mae's requirements in B8-5-03.</li> </ul>

<p><b>Down Payment Assistance</b></p>	<ul style="list-style-type: none"> <li>• <u>Down Payment Assistance is allowed as long as the assistance is provided by a government entity. Evidence of the terms and provider must be included in the loan file and must meet Fannie Mae requirements.</u></li> <li>• Employer assistance is acceptable in accordance with Fannie Mae guidelines.</li> </ul>
<p><b>Draws and Renovation Escrow</b></p>	<ul style="list-style-type: none"> <li>• The lender may fund up to 50% of the planned materials cost at closing with an initial materials draw in the form of a check issued to the borrower and the contractor.</li> <li>• Funds will be dispersed to the contractor, borrower, inspector, or appropriate party, only when any given renovation work has been completed and inspected. All required documentation must be received by PennyMac prior to payment. Required documentation includes, but is not limited to: <ul style="list-style-type: none"> <li>○ Draw request forms,</li> <li>○ Invoices</li> <li>○ Lien waivers or title updates</li> <li>○ Inspections <ul style="list-style-type: none"> <li>• Fee for each inspection ordered by PennyMac is \$185.</li> </ul> </li> <li>○ Change orders (if applicable)</li> <li>○ Contingency Release Letter (if applicable)</li> <li>○ Invoices (if applicable)</li> </ul> </li> <li>• Before any disbursements during the renovation period for a HomeStyle mortgage are made, a lien waiver or a clear title report that releases all contractor, subcontractor, and supplier liens must be obtained.</li> <li>• No maximum number of draw requests.</li> </ul>
<p><b>Eligible Mortgage Products</b></p>	<ul style="list-style-type: none"> <li>• Agency Fixed Rate: 10, 15, 20, 25, 30 Year</li> <li>• Agency Adjustable Rate: 3/1, 5/1, 7/1, 10/1</li> <li>• <u>Temporary buydowns are ineligible.</u></li> <li>• <u>HomeReady loans are ineligible.</u></li> <li>• <u>HomeStyle Energy loans are eligible under the standard Fannie Mae Program. See Fannie Mae Product Profile. HomeStyle Renovation may not be combined with HomeStyle Energy.</u></li> <li>• <u>Fannie Mae High LTV not eligible</u></li> <li>• Escrow for taxes, insurance, and mortgage insurance are required above 80% LTV, (90% in CA), or as required by applicable state law.</li> </ul>
<p><b>Employment/Income Verification</b></p>	<ul style="list-style-type: none"> <li>• For salaried employees the verbal verification of employment must be completed within 10 business days prior to the note date.</li> <li>• For self-employed borrowers the verbal verification of employment must be completed within 120 days prior to the note date.</li> <li>• For borrowers in the military, a military Leave and Earnings Statement dated within 30 days prior to the note date is acceptable in lieu of a verbal verification of employment.</li> <li>• Mortgage Credit Certificates (MCCs) eligible per Fannie Mae guidelines.</li> <li>• 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. However due to operational constraints, transactions involving HAPs paid directly to the Servicer are ineligible for purchase by PennyMac. Transactions with HAPs paid directly to the borrower continue to remain eligible for purchase.</li> </ul>

<p style="text-align: center;"><b>Employment Offers or Contracts</b></p>	<p>Borrowers with employment beginning no more than 90 days after the note date are eligible when:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Obtain and review the borrower’s offer or contract for future employment. The employment offer or contract must <ul style="list-style-type: none"> <li>○ clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;</li> <li>○ clearly identify the terms of employment, including position, type and rate of pay, and start date; and</li> <li>○ 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.</li> </ul> </li> <li>• Start date for employment is no more than 30 days prior to the note date: <ul style="list-style-type: none"> <li>○ Employment offer or contract required; and</li> <li>○ Verbal Verification of employment that confirms active employment status</li> </ul> </li> <li>• Start date is no more than 90 days after the note date <ul style="list-style-type: none"> <li>○ Employment offer or contract only</li> </ul> </li> <li>• Document, in addition to the amount of reserves required by DU or for the transaction, one of the following: <ul style="list-style-type: none"> <li>○ Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or</li> <li>○ 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.</li> </ul> </li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>
<p style="text-align: center;"><b>Financing Concessions</b></p>	<ul style="list-style-type: none"> <li>• Financing concessions for primary residences and second homes must be within the following allowable percentages: <ul style="list-style-type: none"> <li>○ 9% of value with LTV/CLTV ratios less than or equal to 75%</li> <li>○ 6% of value with LTV/CLTV ratios greater than 75% up to and including 90%</li> <li>○ 3% of value with LTV/CLTV ratios greater than 90%</li> <li>○ The maximum financing concession for investment properties is 2% of value regardless of the LTV ratio</li> </ul> </li> <li>• Value is the lesser of the sales price or appraised value</li> </ul>



Gift Funds	Follow Fannie Mae's guidelines for gift funds. See B3-4.3-04 for additional details.		
	LTV/CLTV/HCLTV	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
	80% or less	<ul style="list-style-type: none"> <li>1-4 unit Principal Residence</li> <li>Second Home</li> </ul>	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	Greater than 80%	1 unit Principal Residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
<ul style="list-style-type: none"> <li>2-4 unit Principal Residence</li> <li>Second Home</li> </ul>		The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.	
Hazard Insurance	<ul style="list-style-type: none"> <li>Borrower must have hazard insurance in place to cover the estimated <b>as-completed</b> value of the home after renovation.</li> <li>Premium used to qualify must be based on the <b>as-completed</b> coverage amount.</li> </ul>		
High Cost / High Priced	<ul style="list-style-type: none"> <li>PennyMac will not purchase High Cost Loans</li> <li>Higher Priced Mortgage Loans (HPML) transactions are eligible for purchase. HPML guidelines require: <ul style="list-style-type: none"> <li>Establishment of an escrow account for taxes and insurance premiums on any transaction secured by a principal residence.</li> <li>Must meet all applicable state and/or federal compliance requirements.</li> </ul> </li> </ul>		
Loan Purpose	<ul style="list-style-type: none"> <li>Purchase</li> <li>Limited Cash-Out/Rate &amp; Term Refinance <ul style="list-style-type: none"> <li>Proceeds can be used to pay off a first mortgage regardless of age</li> <li>Proceeds can be used to pay off any junior liens related to the purchase of the subject property</li> <li>Pay related closing costs and prepaid items</li> </ul> </li> <li>Excess funds after renovations are completed, may be applied to the loan balance as a curtailment or may be reimbursed to the borrower for the cost of actual supplies or additional renovations for which paid receipts are provided. Borrower may not receive any incidental cash.</li> </ul>		

<p><b>Loan Purpose: Ineligible Transactions</b></p>	<p>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:</p> <ul style="list-style-type: none"> <li>• Gift of equity from the seller</li> <li>• Large amount of seller credits</li> <li>• Family member remaining in the home and on title after the “purchase”</li> <li>• Seller unable to qualify for a cash-out transaction of their own</li> </ul>
<p><b>LTV/CLTV/HCLTV Calculation</b></p>	<ul style="list-style-type: none"> <li>• Purchase Transactions LTV is based on the lesser of: <ul style="list-style-type: none"> <li>○ Purchase price plus cost of renovation, or</li> <li>○ The "As-Completed" value</li> </ul> </li> <li>• Limited Cash-Out Refinance Transactions LTV is based on the "As-Completed" value</li> </ul>
<p><b>Mortgage Insurance</b></p>	<ul style="list-style-type: none"> <li>• MI is calculated from the estimated value of the home after renovation.</li> </ul> <p><b>Acceptable MI Types:</b></p> <ul style="list-style-type: none"> <li>• Borrower Paid Monthly</li> <li>• Borrower Paid Single Premium</li> <li>• Financed: Gross LTV cannot exceed PennyMac's program maximum</li> <li>• Split Premium</li> <li>• Lender Paid Single Premium</li> <li>• Enterprise Paid MI (EPMI)</li> </ul> <p><b>Unacceptable MI Types:</b></p> <ul style="list-style-type: none"> <li>• <u>Lender Paid Monthly</u></li> <li>• <u>Lender Paid Annual</u></li> <li>• <u>Borrower Paid Annual</u></li> <li>• <u>Any MI type not listed as acceptable</u></li> <li>• <u>Reduced coverage</u></li> </ul>
<p><b>Mortgage Payment Reserve</b></p>	<ul style="list-style-type: none"> <li>• An escrow for mortgage payments (PITIA) that will become due during the renovation period generally may be included as part of the total renovation costs for a principal residence property if the property cannot be occupied during the renovation period.</li> <li>• The lender must set up a PITIA escrow account at the loan level if the borrower chooses to do so.</li> <li>• The maximum amount that may be escrowed is six full payments of principal, interest, taxes, insurance, and any association dues. If work is completed ahead of schedule, any remaining mortgage payment funds will be applied as a principal curtailment.</li> </ul>

<p style="text-align: center;"><b>Occupancy</b></p>	<ul style="list-style-type: none"> <li>• Primary Residence - 1-4 units</li> <li>• Second Homes - 1-unit only <ul style="list-style-type: none"> <li>○ See Documentation section for when borrowers do not currently own a primary residence.</li> </ul> </li> <li>• Investment 1 unit only and Primary Residence 2-4 unit properties: <ul style="list-style-type: none"> <li>○ When using rental income to qualify from a subject property, the borrower must own a principal residence or document a <b>reasonable</b> current housing expense.</li> <li>○ See Documentation section for when borrowers do not currently own a primary residence.</li> </ul> </li> </ul>
<p style="text-align: center;"><b>Permits (if applicable)</b></p>	<ul style="list-style-type: none"> <li>• Any work requiring permits must be identified prior to closing in the scope of work, plans and specs, or other applicable documentation.</li> <li>• Costs of permits must be provided, including whether permits are financed or paid by the borrower.</li> <li>• Lender to determine who is responsible for pulling permits, either borrower or contractor.</li> </ul>
<p style="text-align: center;"><b>Plans and Specifications</b></p>	<ul style="list-style-type: none"> <li>• Plans and specifications must be prepared by a registered, licensed, or certified general contractor, renovation consultant, or architect.</li> <li>• Must fully describe the work to be done, and provide indication of when various jobs or stages of completion will be scheduled.</li> <li>• Must include start and completion dates.</li> <li>• Must include specified material and labor costs.</li> <li>• Used by the lender to document and evaluate the quantity, quality, and cost of the renovation work that is to be done and to determine the amount of financing that will be available.</li> <li>• Must be used by the appraiser in the development of his or her opinion of the “as completed” value of the property.</li> </ul>
<p style="text-align: center;"><b>Property: Eligible Types</b></p>	<ul style="list-style-type: none"> <li>• Single Family Detached Single Unit</li> <li>• Single Family Attached Single Unit</li> <li>• 2–4 Unit Attached/Detached (owner-occupied only)</li> <li>• PUDs</li> <li>• Low-rise and High-rise Condominiums (must be Fannie Mae eligible)</li> <li>• Rural Properties (in accordance with agency Guidelines, properties must be residential in nature)</li> <li>• Leaseholds</li> </ul>

<p><b>Property: Ineligible Types</b></p>	<ul style="list-style-type: none"> <li>• <u>Manufactured homes.</u> This includes on-frame modular homes built on a permanent chassis.</li> <li>• <u>Mobile Homes</u></li> <li>• <u>Cooperatives</u></li> <li>• Condotels</li> <li>• Hotel Condominiums</li> <li>• Timeshares</li> <li>• Working Farms and Ranches</li> <li>• Unimproved Land</li> <li>• Property currently in litigation</li> <li>• Land Trust</li> <li>• <u>Condition Rating of C5/C6 or a Quality Rating of Q6</u></li> <li>• <u>Turn-key investment properties.</u> See Property Turn-key Investments section for additional details.</li> <li>• <u>Homes may not be moved from one location to another</u></li> <li>• Tear downs are not allowed</li> <li>• <u>Construction of detached properties is not allowed, including detached guest houses, workshops,etc.</u></li> </ul>
<p><b>Property: Maximum Number of Financed Properties</b></p>	<ul style="list-style-type: none"> <li>• If the Borrower is financing a principal residence, there are no limitations on the number of other properties that the borrower will have financed.</li> <li>• If the borrower is financing a second home or investment property that is underwritten through DU, the maximum number of financed properties the borrower can have is ten. If the borrower will have one to six financed properties, Fannie Mae’s standard eligibility policies apply (for example, LTV ratios and minimum credit scores). If the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720.</li> <li>• See B2-2-03 for additional information.</li> </ul>
<p><b>Property: Turn-key Investments</b></p>	<p><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></p> <ul style="list-style-type: none"> <li>• <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></li> <li>• <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></li> <li>• <u>Buyer frequently lives out-of-the-area from the subject property.</u></li> <li>• <u>See PennyMac Announcement 15-43 for additional details.</u></li> </ul>
<p><b>Ratios</b></p>	<ul style="list-style-type: none"> <li>• The Maximum DTI is 50% with a DU Approve/Eligible.</li> <li>• 3/1 &amp; 5/1 ARMs are qualified at the greater of the Note rate plus 2% or the fully indexed rate. 7/1 &amp; 10/1 ARMs are qualified at the greater of the note rate or fully indexed rate.</li> </ul>
<p><b>Recently Listed Properties</b></p>	<ul style="list-style-type: none"> <li>• 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).</li> <li>• <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></li> </ul>

<p style="text-align: center;"><b>Renovation Costs</b></p>	<ul style="list-style-type: none"> <li>• The cost of renovations is limited to 75% of the "as-completed" value of the property</li> <li>• Renovation related costs that may be considered as part of the total renovation costs include: <ul style="list-style-type: none"> <li>○ Labor and materials</li> <li>○ Property inspection fees</li> <li>○ Costs and fees for the title update</li> <li>○ architectural and engineering fees</li> <li>○ independent consultant fees</li> <li>○ costs for required permits</li> <li>○ other documented charges, such as fees for appraisal, review of renovation plans, and fees charged for processing renovation draws.</li> <li>○ financed contingency reserves. See Contingency Reserves for additional information.</li> <li>○ mortgage payment escrow for mortgage payments. See Mortgage Payment Escrow for additional information.</li> </ul> </li> <li>• Should there be an increase in costs during the renovation period, the borrower, or the lender, must fund the amount of the increase <ul style="list-style-type: none"> <li>○ The lender must ensure that the additional funds are obtained in a manner that will not affect the priority of Fannie Mae's lien.</li> </ul> </li> </ul>
<p style="text-align: center;"><b>Reserves</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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"> <li>○ 2% of the aggregate UPB if the borrower has one to four financed properties,</li> <li>○ 4% of the aggregate UPB if the borrower has five to six financed properties, or</li> <li>○ 6% of the aggregate UPB if the borrower has seven to ten financed properties</li> </ul> </li> <li>• 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).</li> <li>• 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.</li> </ul>
<p style="text-align: center;"><b>Seasoning</b></p>	<p>Please refer to the PennyMac Seasoned Loan Policy located in the PennyMac Seller Guide for requirements and loan-level price adjustments.</p>

<p style="text-align: center;"><b>Security Instrument</b></p>	<p>The mortgage or an appropriate rider to the security instrument (“construction loan rider to security instrument” or “security instrument rider”) must</p> <ul style="list-style-type: none"> <li>• grant the lender a security interest in any personal property (including building materials) located in, or on, or used, or intended to be used, in connection with the work, and</li> <li>• provide that a borrower default under the construction loan agreement must constitute a default under the security instrument and the note, and</li> <li>• grant the lender an assignment of rents as additional security for the loan and the right to appointment of a receiver of rents if the property is held for rental purposes.</li> <li>• Form 3737 may be used</li> </ul>
<p style="text-align: center;"><b>State Restrictions</b></p>	<ul style="list-style-type: none"> <li>• <u>Illinois Land Trust Vestings are not eligible for loan sale to PNMAC</u></li> <li>• <u>Texas 50 (a)(6) refinance mortgages are ineligible</u></li> </ul>
<p style="text-align: center;"><b>Title</b></p>	<ul style="list-style-type: none"> <li>• The policy must cover the full amount of the recorded mortgage, must be dated concurrently with the recordation of the mortgage, and must be updated to the date on which renovation work is completed.</li> <li>• Lien waivers are required for each draw. A final title update assuring first lien position through the completion date is required.</li> <li>• Fee for each title update ordered by PennyMac is \$75.</li> </ul>
<p style="text-align: center;"><b>Tax Transcripts</b></p>	<ul style="list-style-type: none"> <li>• <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></li> <li>• <u>When tax transcripts are provided, they must support the income used to qualify.</u></li> <li>• A properly executed 4506-T is required for all transactions except: <ul style="list-style-type: none"> <li>○ Loan file contains tax transcripts, or</li> <li>○ When all of a borrower’s income is validated by the DU validation service (FNMA only).</li> </ul> </li> <li>• <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></li> </ul>
<p><b>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.</b></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>	