



Pennymac Correspondent FHA Product Profile

04.10.25

Overlays to FHA are underlined

Overlays indicated as Non-Del Only are specific to Non-Delegated loans only

LTV/FICO Requirements								
Purchase			No Cash-out Refinance			Cash-out Refinance		
Maximum LTV/CLTV ¹	Minimum FICO		Maximum LTV/CLTV	Minimum FICO		Maximum LTV/CLTV	Minimum FICO	
	TOTAL	Manual UW		TOTAL	Manual UW		TOTAL	Manual UW
96.5% ²	<u>580</u>	Delegated: <u>620</u> Non-Del: <u>640</u>	97.75%	<u>580</u>	Delegated: <u>620</u> Non-Del: <u>640</u>	80%	<u>580</u>	Delegated: <u>620</u> Non-Del: <u>640</u>

¹Refer to the Down Payment Assistance and Secondary Financing section for CLTV limitations

²Refer to the HUD REO section for HUD REO LTV/CLTV exceptions

<p style="text-align: center;">Ability To Repay and Qualified Mortgage Rule</p>	<ul style="list-style-type: none"> • For loans subject to the ATR/QM rule, Pennymac will only purchase loans that comply with the ATR/QM requirements. <ul style="list-style-type: none"> ○ 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. • Correspondents are responsible for providing evidence of compliance with the ATR/QM rules. • Clear itemization of fees and application of all credits that indicate paid by/to will be required on all loans. • See Seller Guide section "Ability to Repay and Qualified Mortgage Rule" under "Delivery Procedures" for more details.
<p style="text-align: center;">Accessory Dwelling Unit (ADU)</p>	<ul style="list-style-type: none"> • An ADU refers to a single habitable living unit with separate ingress and egress from the primary housing unit. <ul style="list-style-type: none"> ○ One-unit properties, with a single ADU unit only ○ The ADU must be subordinate in size to the primary residence ○ The ADU must meet FHA minimum requirements for a living unit ○ The ADU along with the one-unit primary residence dwelling, together, constitute a single interest in real estate • Rental income received from the subject property ADU is eligible <ul style="list-style-type: none"> ○ Rental income from the ADU unit may not exceed 30% of the total monthly income used for qualification ○ Rental income from the ADU must be added to the borrower's gross monthly income ○ Two months PITIA reserves required ○ Full appraisal is required. Appraisal requirements include <ul style="list-style-type: none"> ▪ Must represent highest and best use ▪ A completed description of the ADU characteristics ▪ Report the GLA of the ADU separate from the primary residence ▪ State whether the ADU can be legally rented without restrictions; and ▪ Report the current occupancy of the ADU unit, and provide the details of an existing lease agreement if applicable ▪ A Single-Family Comparable Rent Schedule (Form 1007/1000) may be required depending on the length of time the ADU rental income has been received by the borrower ○ Note: A renter of an ADU is not a boarder. ○ Refer to the FHA Handbook for complete ADU rental history and documentation requirements • Rental income received from other REO or departing residence with an ADU is eligible <ul style="list-style-type: none"> ○ A Single-Family Comparable Rent Schedule (Form 1007/1000) may be required depending on the length the rental income has been received by the borrower ○ Refer to the FHA Handbook for complete ADU rental history and documentation requirements • Use of rental income from an ADU is ineligible for cash-out refinance transactions • Refer to the FHA Handbook for complete ADU, appraisal, and rental income from an ADU requirements.
<p style="text-align: center;">Age of Documents</p>	<ul style="list-style-type: none"> • Credit documents must be no more than 120 days old on the disbursement date, including credit reports and employment, income and asset documents. • Preliminary Title Policies must be no more than 180 days old on the date the note is signed.

Appraisals

- A full appraisal (e.g., form 1004 or equivalent) is required for all submissions
- To extend the validity of the appraisal, FHA appraisers may perform an update of a previously completed appraisal using the Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005 when requested by the lender/mortgagee. The updated appraisal is valid for one year after the effective date of the initial appraisal report that is being updated.
- Compliance, repairs, or final inspection:
 - Form HUD-92051, Compliance Inspection Report, completed, signed, and dated by an approved inspector is eligible. Local government inspection with the underwriter certification.
 - Fannie Mae form 1004D/Freddie Mac form 442, Appraisal Update and/or Completion Report, completed, signed, and dated by an FHA appraiser in good standing on the FHA appraiser roster is eligible. **Note:** Form 1004D/442 must be used if the appraiser is being utilized to provide evidence of completion of repairs or conditions noted in the original appraisal report.
 - Regardless of the inspection process used, the lender/mortgagee must certify on form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value, that the Property is 100 percent complete and meets HUD's MPR and MPS.
 - Refer to the FHA Handbook 4000.1 for complete requirements.
- Properties with unpermitted secondary kitchens may be eligible if:
 - it is common for the area,
 - no negative impact on marketability, and
 - Appraiser comments on quality of construction, any health/safety issues, any soundness issues, which must meet FHA requirements.
- Properties with additions and converted living space may be acceptable when the property meets FHA's requirements. Refer to FHA Handbook 4000.1 for complete details. In general:
 - The appraiser must treat room additions and garage conversions as part of the GLA of the dwelling, provided that the addition or conversion space:
 - is accessible from the interior of the main dwelling in a functional manner;
 - has a permanent and sufficient heat source; and
 - was built in keeping with the design, appeal, and quality of construction of the main dwelling
 - Room additions and garage conversions that do not meet the criteria listed above are to be addressed as a separate line item in the sales grid, not in the GLA.
 - The appraiser must address the impact of inferior quality garage conversions and room additions on marketability as well as contributory value, if any.
- Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.

Assets/Gift Funds/Large Deposits

- Cryptocurrency/virtual currency may only be used as funds for closing and reserves if it has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution. There must be sufficient documentation to verify that the funds originated from the borrower's cryptocurrency/virtual currency account. Acceptable documentation to use those funds includes the following:
 - Documentation from a cryptocurrency exchange account verifying the borrower as the legal owner and not the nickname of the account, AND
 - Previous borrower bank statement showing funds going into the same cryptocurrency exchange account that the large deposit came from, OR
 - 1099-B/MISC from the same cryptocurrency exchange account that the large deposit came from, plus the borrower's tax returns reflecting the 1099 gain/loss

<p>AUS/Underwriting Method</p>	<ul style="list-style-type: none"> • <u>All loans must be submitted through FHA TOTAL Mortgage Scorecard utilizing DU or LPA. Loans receiving a Refer recommendation or loans that require a downgrade must be manually underwritten in accordance with Pennymac overlays and FHA manual underwriting requirements.</u> • A borrower is not eligible for a new FHA-insured mortgage if: <ul style="list-style-type: none"> ○ The borrower's credit history reflects any of the ineligible derogatory credit criteria outlined in the Derogatory Credit section of the product profile; ○ The borrower doesn't meet business income requirements outlined in the Documentation section of the product profile. ○ The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard; ○ Additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage. • Scenarios that require downgrades to manual underwriting are: <ul style="list-style-type: none"> ○ The borrower has \$1,000 or more collectively in disputed derogatory credit accounts. See Credit and Derogatory Credit sections. • <u>Non-Del Only: Lender must be approved for Pennymac Sponsored UW</u> Refer to FHA Handbook 4000.1 for scenarios that require downgrades to manual underwriting.
<p>Borrower Eligibility</p>	<ul style="list-style-type: none"> • U.S. citizens • Permanent resident aliens, with proof of lawful residence • Nonpermanent resident alien immigrants, with proof of lawful residence • DACA recipients are eligible with proof of legal status, including but not limited to a valid Employment Authorization Document card. See Non-U.S. Citizen Documentation Requirements. • Pennymac allows Mortgage Credit Certificates (MCCs) in accordance with FHA policy (can be considered as acceptable income or used to offset the mortgage payment, before calculating the qualifying ratios). Include a copy of the MCC and lender's documented calculation in the file. • 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. • Borrowers with an existing FHA insured mortgage on their on their own Principal Residence may qualify as a non-occupying co-borrower on other FHA-insured mortgages. • Occupant borrower and non-occupant co-borrower must share a family relationship that meets the definition under FHA guidelines, and does not involve the following: <ul style="list-style-type: none"> ○ A family member selling to a family member who will be a non-occupying co-borrower; or ○ The property is a 2-4-unit property ○ If family relationship requirements are not met, the maximum LTV for the transaction is 75%
<p>CEMA</p>	<ul style="list-style-type: none"> • Refinance Only • 1-4-unit properties • eMortgages are ineligible • Lost Note Affidavits (LNAs) are not allowed for prior or current notes

<p style="text-align: center;">Condominiums</p>	<ul style="list-style-type: none"> • Must be located in an FHA approved Condominium Project • HUD REOs do not require FHA Condominium Project approval • Condominiums involved in minor litigation subject to DE approval and in accordance with FHA requirements. • <u>Non-Del Only:</u> <ul style="list-style-type: none"> ○ <u>Condo Single-Unit Approvals are ineligible</u> • <u>DELRAP Condo Approvals are ineligible</u>
<p style="text-align: center;">Credit</p>	<ul style="list-style-type: none"> • <u>Each borrower must have at least one credit score to be eligible.</u> • <u>Frozen Credit: No credit bureaus may be frozen. Borrowers must unfreeze all bureaus, and the AUS rerun with the updated credit</u> • Non-borrowing spouse (NBS): If the subject property is located in a community property state, or the borrower currently resides (rents or owns) in a community property state the NBS debt must be included in qualifying ratios if the NBS obligations are not excluded by state law. <ul style="list-style-type: none"> ○ A note in the file referencing the specific state law that justifies the exclusion of any debt from consideration is required • All applicable monthly liabilities must be included in the qualifying ratio. <ul style="list-style-type: none"> ○ Closed-end debts (e.g., installment loans) do not have to be included if they will be paid off within 10 months from the date of closing and the cumulative payments of all such debts are less than or equal to 5 percent of the borrower's gross monthly income. ○ The borrower may not pay down the balance in order to meet the 10-month requirement however may pay the debt in full to exclude the debt from qualification. • If the credit report reflects the borrower has disputed credit information, the following applies: <ul style="list-style-type: none"> ○ If the TOTAL Scorecard returned an Approve AND the manual downgrade conditions in "Derogatory Credit / Accounts" does not apply, then no additional action is necessary. Underwrite the file using TOTAL. ○ If TOTAL Scorecard returned a Refer OR the manual downgrade conditions in "Derogatory Credit / Disputed Accounts" apply, then: <ul style="list-style-type: none"> ▪ Obtain written documentation from the repository of the credit information or the creditor reporting the disputed information confirming the accuracy of all disputed information. ▪ If the inaccurate/disputed information can be resolved, and a new corrected credit report and TOTAL Accept received, the loan may be underwriting using TOTAL. ▪ If a new, corrected credit report cannot be obtained timely, the correct information must be documented in the file and the loan must be manually underwritten. All debts for which the borrowers are obligated must be included in the DTI and all requirements in the Derogatory Credit section and elsewhere in this Product Profile apply.

		PCG Delegated	TPO Non-Delegated
<p style="text-align: center;">Derogatory Credit</p>	<p>Mortgage Payment History</p>	<ul style="list-style-type: none"> • Purchase or rate and term refinances with a payment history for ANY mortgage, including HELOCs, that reflect any of the following must be downgraded to a Refer and manually underwritten: <ul style="list-style-type: none"> ○ 3x30x12, or 1x60x12 plus 1x30x12, or 1x90x12 within the most recent 12 months prior to the case number assignment date; or ○ The borrower has made less than three consecutive monthly housing payments since completion of a mortgage forbearance plan. • Cash-out refinance with a payment history for ANY mortgage, including HELOCs that reflect any of the following must be downgraded to a Refer and manually underwritten: <ul style="list-style-type: none"> ○ Current delinquency; or ○ Any delinquency within 12 months of the case number assignment date; or ○ The borrower has made less than 12 consecutive monthly mortgage payments since completion of a mortgage forbearance plan. • Undisclosed mortgage debt with a pay history that reflect the following must be downgraded to a Refer and manually underwritten: <ul style="list-style-type: none"> ○ Current delinquency; or ○ Any mortgage delinquency within 12 months of the case number assignment date; or ○ More than two 30-day late payments within 24 months of the case number assignment date. • Follow FHA Handbook 4000.1 requirements for loans receiving a Refer recommendation or loans that require a downgrade to a Refer and must be manually underwritten. 	<ul style="list-style-type: none"> • <u>Purchase or rate and term refinances with a payment history for ANY mortgage, including HELOCs, that reflect any of the following are ineligible:</u> <ul style="list-style-type: none"> ○ <u>3x30x12, or 1x60x12 plus 1x30x12, or 1x90x12 within the most recent 12 months prior to the case number assignment date; or</u> ○ <u>The borrower has made less than three consecutive monthly housing payments since completion of a mortgage forbearance plan.</u> • <u>Cash-out refinances with a payment history for ANY mortgage, including HELOCs, that reflect any of the following are ineligible:</u> <ul style="list-style-type: none"> ○ <u>Current delinquency; or</u> ○ <u>Any delinquency within 12 months of the case number assignment date; or</u> ○ <u>The borrower has made less than 12 consecutive monthly mortgage payments since completion of a mortgage forbearance plan.</u> • <u>Undisclosed mortgage debt with a pay history that reflect the following is ineligible:</u> <ul style="list-style-type: none"> ○ <u>Current delinquency; or</u> ○ <u>Any mortgage delinquency within 12 months of the case number assignment date; or</u> ○ <u>More than two 30-day late payments within 24 months of the case number assignment date.</u>
	<p>Bankruptcy</p>	<ul style="list-style-type: none"> • Follow FHA Handbook 4000.1 requirements for loans receiving a Refer recommendation or loans that require a downgrade to a Refer and must be manually underwritten. 	<ul style="list-style-type: none"> • <u>Chapter 7 or Chapter 13 bankruptcy discharged less than 2 years from the case number assignment date are ineligible.</u>

	Foreclosure and Deed-in-Lieu	<ul style="list-style-type: none"> Follow FHA Handbook 4000.1 requirements for loans receiving a Refer recommendation or loans that require a downgrade to a Refer and must be manually underwritten. 	<ul style="list-style-type: none"> <u>A foreclosure or a deed-in-lieu (DIL) of foreclosure within three years of the case number assignment date is ineligible</u> <ul style="list-style-type: none"> <u>The three-year period begins on the date of the DIL or the date that the borrower transferred ownership of the property to the foreclosing entity/designee.</u>
	Short Sale	<ul style="list-style-type: none"> Follow FHA Handbook 4000.1 requirements for loans receiving a Refer recommendation or loans that require a downgrade to a Refer and must be manually underwritten. 	<ul style="list-style-type: none"> <u>If the borrower relinquished property through a short sale within three years of the case number assignment date the transaction is ineligible.</u> <ul style="list-style-type: none"> <u>The three-year period begins on the date of transfer of title by short sale.</u>
	Collections	<ul style="list-style-type: none"> For loans receiving an Accept/Eligible recommendation, follow FHA Handbook 4000.1 requirements. For loans receiving a Refer recommendation or loans that require a manual downgrade, the following applies: <ul style="list-style-type: none"> If the total outstanding balance for all borrowers is less than \$2,000, a capacity analysis is not required to be performed. If the total outstanding balance for all borrowers is equal to or greater than \$2,000 at time of underwrite, lender must perform a capacity analysis. Capacity analysis includes: <ul style="list-style-type: none"> Payment in full of collection accounts, prior to or at closing, along with documentation of acceptable source of funds, Borrower makes payment arrangements, and provides proof of arrangement with payment included in DTI, or 5% of the outstanding balance of each collection account is included as monthly payment in DTI. Non-borrowing spouse collection accounts ARE included in cumulative balance in community property states with the exception of obligations excluded by state law. Medical collections and charge offs are excluded. 	
	Judgments	<ul style="list-style-type: none"> Judgments must be paid prior to or at closing. <ul style="list-style-type: none"> An exception to the payoff of a court ordered judgment may be made if the borrower has an agreement with the creditor to make regular and timely payments. Provide a copy of the agreement and proof of 3 months payments made prior to credit approval. Borrowers may not prepay the scheduled payments to qualify. Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law. 	

	<p>Disputed Accounts</p>	<ul style="list-style-type: none"> • If the credit report utilized by TOTAL Mortgage Scorecard indicates that the borrower has \$1,000 or more collectively in disputed derogatory credit accounts, the mortgage must be downgraded to a Refer and manually underwritten. <ul style="list-style-type: none"> ○ Cumulative outstanding balance of disputed derogatory accounts less than \$1,000: Manual downgrade NOT required. • Disputed medical accounts and disputed derogatory accounts resulting from identity theft may be excluded from the \$1,000 limit. Identity theft documentation must be provided. • Disputed derogatory accounts defined as: <ul style="list-style-type: none"> ○ Disputed charge-off accounts, ○ Disputed collection accounts, and ○ Disputed accounts with late payments in the last 24 months • The following disputed non-derogatory accounts are not included in the \$1,000 limit: <ul style="list-style-type: none"> ○ Disputed accounts with \$0 balance, ○ Disputed accounts with late payments 24 months or older, or ○ Disputed accounts that are current and paid as agreed. • For manually underwritten loans the payment history on all disputed tradelines must be confirmed. <ul style="list-style-type: none"> ○ Non-Del only: <u>The applicant may not have more than 2x30x12, 1x60x12, and 0x90x12 across all tradelines.</u>
	<p>Tax liens</p>	<ul style="list-style-type: none"> • Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. <ul style="list-style-type: none"> ○ The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. ○ Provide proof of satisfactory payment agreement, and minimum of three months timely payments. Include the payment amount in the agreement in the calculation of the borrower's Debt-to-Income (DTI) ratio.
<p>Disaster Policy</p>	<ul style="list-style-type: none"> • <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> • Non-Del Only: <u>Disaster inspections may not be completed by the Lender. Acceptable inspection providers include, but are not limited to, the original appraiser or a post-disaster inspection company.</u> 	
<p>Documentation Type</p>	<ul style="list-style-type: none"> • Follow TOTAL Scorecard and FHA requirements. • Non-Del only: <u>VODs are not acceptable for asset documentation</u> • Non-Del only: <u>Handwritten Verification of Mortgages (VOM) or Verification of Rents (VOR) are not eligible</u> <ul style="list-style-type: none"> ○ Private mortgages may be verified with cancelled checks or bank statements. • Self-employed <ul style="list-style-type: none"> ○ A year-to-date profit and loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. <ul style="list-style-type: none"> ▪ A balance sheet is not required for self-employed borrowers filing Schedule C income. ▪ If income used to qualify the borrower exceeds the two-year average of tax returns, an audited P&L and signed quarterly tax returns obtained from IRS is required. ○ Non-Del only: <u>For self-employed borrowers the verbal verification of employment must be completed within 120 days prior to the note date.</u> ○ Non-Del only: <u>If business income shows a greater than 20 percent decline over the analysis period the borrower is not eligible for an FHA mortgage.</u> <ul style="list-style-type: none"> ▪ Delegated: A downgrade to a Refer and manual underwriting is required. 	

- For salaried employees the verbal verification of employment must be completed within 10 calendar days prior to the note date.
- Documentation requirements for purchase transactions with departing residence being rented to family member:
 - Lease agreement – fully completed and executed. Must also meet any agency requirements
 - Evidence of payment of a security deposit and/or first month's rent – cancelled check(s) or evidence of online transfer (must be dated on or near to lease signing date). Cash is not allowed.
 - Maximum rental income used will be the lesser of the lease agreement or market rents.
- Rental income received from boarders of the subject property is eligible for qualification purposes. Rental income receipt and eligibility must be documented and verified as follows:
 - Evidence of rental history over the previous 12 months and evidence of current receipt
 - Evidence of receipt of rental income for at least nine of the most recent 12 months in the form of:
 - **PCG Del Only:** The borrower's tax returns, deposit slips; or
 - Bank statements, canceled checks, or showing rental payments received (including Venmo, PayPal, or similar);
 - Evidence that the boarder's address is the same as the borrower's address; and
 - A copy of the executed written agreement documenting the boarding terms and the boarder's intent to continue boarding with the borrower.
 - Where rental income from boarders has been documented for at least nine of the last 12 months, rental income must be averaged over a 12-month period.
 - **PCG Del Only:** The amount of the rental income from boarders used as effective income must not exceed 30% of the total monthly effective income to qualify the borrower
 - Rental income from boarders must be calculated by using the lesser of:
 - The 12-month average; or
 - The current rent as documented in the written lease agreement
 - **TPO Non-Del Only:**
 - Minimum 680 FICO score is required for occupying borrowers (use the qualifying score of all occupying borrowers).
 - The boarder income being used as effective income for qualification purposes must have an on-time payment history for the most recent 9 months, validated in the form of:
 - Bank statements (including Venmo, PayPal, or similar); or
 - Cancelled checks.
 - Tax returns and deposit slips are ineligible for validation purposes.
 - The amount of the rental income from boarders used as effective income must not exceed 15% of the total monthly effective income to qualify the borrower.
 - Boarder income is ineligible for manually underwritten loans.
 - Note: A renter of an ADU is not a boarder.
 - Refer to the FHA Handbook 4000.1 for complete requirements
- Income or assets derived from the following sources are ineligible for qualifying:
 - The production or sale of marijuana
 - Income derived from or paid in virtual currency
 - Restricted stock or restricted stock units (RSU)

Note: Regardless of AUS documentation requirements, all documentation submitted with the loan file is subject to review and may be used for qualification purposes.

<p>Down Payment Assistance and Secondary Financing</p>	<ul style="list-style-type: none"> • Down Payment Assistance (DPA) programs are permitted in accordance with FHA's guidelines. <ul style="list-style-type: none"> ◦ No maximum CLTV when the second is provided by a government entity. • Secondary financing from family members allowed in accordance with FHA's guidelines. Maximum CLTV is 100%. • All other sources of secondary financing must meet FHA's requirements. Maximum CLTV is 96.5%. • Please refer to the FHA Handbook for complete FHA secondary financing requirements.
<p>eMortgages and eNotarization</p>	<ul style="list-style-type: none"> • eMortgages and eNotarization are eligible for Delegated correspondents only • Lenders must be approved by Pennymac prior to delivering eMortgages, transactions closed using eNotarization or Remote Online Notarization (RON) • Lenders are responsible for ensuring eMortgage loans are delivered in accordance with all requirements in the Pennymac Correspondent Group eMortgage Guide, including but not limited to the following: <ul style="list-style-type: none"> ◦ State eligibility; and ◦ Product eligibility; and ◦ Transaction eligibility; and ◦ eNotarization eligibility; and ◦ RON eligibility
<p>Escrow Account</p>	<ul style="list-style-type: none"> • Escrow impound accounts must be established for taxes and insurance premiums for all loans.
<p>Escrow Holdbacks</p>	<ul style="list-style-type: none"> • Escrow holdbacks are allowed in accordance with FHA guidelines, including but not limited to: <ul style="list-style-type: none"> • A post funding stipulation for a copy of a 1004D confirming completion will be placed on loans where the appraisal is "subject to" improvements. • A post funding stipulation for a final title policy endorsement that ensures the priority of the first lien will be required on any loan where the appraisal is "subject to" improvements. • A copy of the escrow agreement (HUD 92300 on FHA loans) will be required that states how the escrow account will be managed and how the funds will be disbursed. • Non-Del only: <ul style="list-style-type: none"> ◦ <u>New construction only</u> ◦ <u>Weather related repairs only</u> ◦ <u>Settlement agent must administer escrow account and disbursement of funds</u> ◦ <u>150% of repair estimate to be escrowed</u>
<p>Financing Concessions</p>	<ul style="list-style-type: none"> • Financing concessions cannot exceed 6% of the sales price.
<p>High-Cost / Higher Priced</p>	<ul style="list-style-type: none"> • Pennymac will not purchase High-Cost Loans • Higher Priced Mortgage Loans (HPML) transactions are eligible for purchase. HPML guidelines require: <ul style="list-style-type: none"> ◦ Establishment of an escrow account for taxes and insurance premiums on any transaction secured by a principal residence. ◦ Must meet all applicable state and/or federal compliance requirements.

<p>HUD REO Transactions</p>	<ul style="list-style-type: none"> • Owner-occupied and non-owner-occupied transactions allowed <ul style="list-style-type: none"> ○ Investment properties eligible up to maximum 75% LTV <ul style="list-style-type: none"> ▪ Must be scored through TOTAL Scorecard and then manually underwritten (any mortgage receiving an Accept recommendation through TOTAL must be downgraded and manually underwritten). ○ Non-Del: <u>Investment properties are ineligible.</u> • Approve/Ineligible due to LTV/CLTV is acceptable for owner-occupied transactions only. • 203(b) with repair escrow: The total escrow amount including the 10% contingency must not exceed \$11,000. Refer to the 4000.1 II.A.8.o for full details. <ul style="list-style-type: none"> ○ 1004D or CIR HUD 92051 required to confirm repairs are completed, which may be provided post-funding. Note: Pennymac allows HUD's \$100 Down and Good Neighbor Next Door programs.
<p>Identity of Interest Transaction</p>	<ul style="list-style-type: none"> • An Identity-of-Interest Transaction is a sale between parties with an existing Business Relationship or between Family Members. • Generally, the maximum LTV percentage for Identity-of-Interest transactions on Principal Residences is restricted to 85%, see 4000.1 II.A.2.b.ii (A) for exceptions. • Business Relationship refers to an association between individuals or companies entered into for commercial purposes. • Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status: <ul style="list-style-type: none"> ○ Child, parent, or grandparent; <ul style="list-style-type: none"> ▪ Child is defined as a son, stepson, daughter, or stepdaughter; ○ Parent or grandparent includes a step-parent/grandparent or foster parent/grandparent; ○ Spouse or domestic partner; ○ Legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption; ○ Foster child; ○ Brother, stepbrother; sister, stepsister; ○ Uncle; aunt; or ○ Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower.
<p>Ineligible Transactions</p>	<ul style="list-style-type: none"> • Intra-family purchases as a means to obtain cash-out for the seller while avoiding cash-out qualifications and pricing are not eligible transactions. These types of transactions may seem to meet Agency guidelines, they are not bonafide purchase transactions and therefore not eligible for purchase by Pennymac. Unacceptable transactions of this type may have some or all of the following characteristics: <ul style="list-style-type: none"> ○ Gift of equity from the seller ○ Large amount of seller credits. ○ Family member remaining in the home and on title after the "purchase" ○ Seller unable to qualify for a cash-out transaction of their own
<p>Loan Limits</p>	<ul style="list-style-type: none"> • FHA mortgage limits for all areas: https://entp.hud.gov/idapp/html/hicostlook.cfm. Refer to the rate sheet for High Balance price adjustments.

**Loan Purpose:
Cash-Out Refinance**

- Non-Del only: All cash-out refinance transactions must present a tangible benefit to the borrower. At Pennymac's discretion, cash-out loans where effective interest of proceeds are clearly more costly than alternative financing may be deemed ineligible.
 - The property securing the cash-out refinance must have been owned and occupied by at least one borrower as their Principal Residence for the 12 months prior to the date of case number assignment. Exception:
 - In the case of inheritance, a borrower is not required to occupy the property for a minimum period of time before applying for a cash-out refinance, provided the borrower has not treated the subject property as an Investment Property at any point since inheritance of the property.
 - If the borrower rents the property following inheritance, the borrower is not eligible for cash-out refinance until the borrower has occupied the property as a Principal Residence for at least 12 months.
 - The payments for all mortgages secured by the subject property must have been paid within the month due for the month prior to mortgage disbursement.
 - Subject properties with mortgages must have a minimum of six months of mortgage payments on the current loan.
 - Non-occupant co-borrowers may not be added in a cash-out refinance transaction in order to meet FHA's credit underwriting guidelines for the mortgage. Any co-borrower or co-signer being added to the note must be an occupant of the property.
 - Income from a non-occupant co-borrower may not be used to qualify for a cash-out refinance.
 - Non-Del only: Borrowers may not have multiple cash-out transactions within the prior 12 months on the same property. Closing Disclosures (CDs), or other supporting documentation, from all subject property refinances in the prior 12 months are required to confirm the previous transactions were no cash-out. The subject cash-out transaction is excluded if the borrower is receiving no cash in hand, or is receiving less than the incidental limit allowed by the Agency. Loans with LTV/CLTVs of 75% or less are excluded from this requirement.
- Notes:
- Removing or adding borrowers will not make the transaction eligible.
 - When a HELOC is paid through closing, the current transaction is only considered cash out for this requirement if there were any draws in the last 12 months.
 - Loan may be defined as cash-out by the Agency and be excluded from this requirement.
- To meet Ginnie Mae Seasoning requirements:
 - The borrower has made at least six *consecutive* monthly payments on the loan being refinanced, beginning with the payment made on the first payment due date as of the new loan application date; and
 - The first payment due date of the new loan may not occur earlier than 210 days after the first payment due date of the loan paid off through the transaction.
 - To meet Ginnie Mae seasoning on modified loans:
 - The borrower has made at least six *consecutive* monthly payments on the modified loan being refinanced, beginning with the payment made on the first payment due date as of the modification date.
 - The first payment due date of the new loan may not occur earlier than 210 days after the first payment due date of the modified loan paid off through the transaction.

<p>Loan Purpose: Purchase and Rate & Term Refinance</p>	<ul style="list-style-type: none"> • Purchase • Rate & Term Refinance <ul style="list-style-type: none"> ○ <u>Delegated only</u>: Includes Simple Refinances meeting FHA requirements ○ Proceeds can be used to pay off an FHA or non-FHA first mortgage regardless of age ○ Proceeds can be used to pay off any junior liens related to the purchase of the subject property, or that are seasoned at least 12 months. <ul style="list-style-type: none"> ▪ Exception: A partial claim may not be paid off with loan proceeds from a FHA Rate & Term Refinance and must be paid from a borrower's own funds. A partial claim may only be paid off using loan proceeds when it's a cash-out transaction. ○ Pay related closing costs and prepaid items ○ Disburse cash out to the borrower in an amount not to exceed \$500 ○ If the mortgage has been modified, the borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.
<p>Mortgage Products: Eligible</p>	<ul style="list-style-type: none"> • Fixed Rate: 10, 15-, 20-, 25- & 30-year terms. (FHA High Balance allowed on all terms) • Section 203(b) Basic with ADP code of 703 • Section 234 (c) Condominiums with ADP codes of 734 • CMT ARM: 5/1 (1/1/5 caps). FHA High Balance ARMs are allowed • <u>Delegated only</u>: Simple Refinances allowed in accordance with FHA's guidelines.
<p>Mortgage Products: Ineligible</p>	<ul style="list-style-type: none"> • FHA Title 1 • <u>3/1, 7/1, and 10/1 CMT ARMs are not allowed</u> • <u>Any FHA programs/mortgage types identified in the FHA Handbook that are not specifically allowed in the Eligible Mortgage Types above, including but not limited to Energy Efficient Mortgages, Weatherization, Solar and Wind, GPM, and One Time Close Construction to Permanent CP.</u>
<p>Occupancy</p>	<ul style="list-style-type: none"> • Owner-occupied • Investment: See HUD REO section (<u>Delegated only</u>)
<p>Property: Eligible Types</p>	<ul style="list-style-type: none"> • Single family detached/attached • 2-4 unit detached/attached • PUDs • Low-rise and high-rise condominiums (must be FHA eligible) • Rural properties (in accordance with Agency guidelines, loans must be residential in nature) • Manufactured homes. Refer to the FHA Manufactured Home Product Profile for all requirements. The more restrictive of the loan program guidelines apply.
<p>Property: Ineligible Types</p>	<ul style="list-style-type: none"> • Mobile homes • <u>Single-width manufactured home</u> • Cooperatives • Condotels • Hotel condominiums • Timeshares • Working farms and ranches • Unimproved land • Property currently in litigation • Non-Del only: <u>Properties located in lava zone 1 or 2</u>

Property Flipping Policy	<ul style="list-style-type: none"> • Properties resold 90 days or fewer following the date of acquisition by the seller are not eligible for FHA financing unless the loan meets the exceptions set forth in 4000.1 II.A.1.b.iv (A)(3). The date of acquisition is defined as date of settlement on the seller's purchase of the property. The resale date is defined as the date of execution of the sales contract by a buyer intending to finance the property with an FHA-insured loan. • Properties resold between 91 and 180 days after acquisition require a second appraisal by a different appraiser if the resale price is 100% or more over the price paid by the seller when the property was acquired.
Qualifying	<ul style="list-style-type: none"> • Fixed rate: Qualify at the note rate. • 5/1 ARMs: Qualify at the note rate. Exception: ARMs in IL, MA and NM require qualifying at the greater of the note rate or the fully indexed rate (margin + index). Non-Del only: The AUS qualifying rate may need to be adjusted to comply with this requirement.
Ratios (DTI)	<ul style="list-style-type: none"> • Per AUS or FHA manual underwriting requirements
Recently Listed Properties	<ul style="list-style-type: none"> • No Cash-out transaction: Allowed when the property is listed for sale. The property and the borrower must be eligible and qualified for the refinance. • <u>Cash-Out Transaction: The listing must have expired or been withdrawn prior to the application date.</u> <ul style="list-style-type: none"> ○ Note: if the property was listed in the prior 30 days to the application date, the Early EPO provision will be extended to one year.
Reserves	<ul style="list-style-type: none"> • All assets submitted to the AUS (FHA TOTAL Scorecard) must be verified and documented. This includes the assets that exceed the amount required for closing i.e., reserves • 3-4 unit properties: the equivalent of at least three months PITIA after closing must be verified and documented.
State Restrictions	<ul style="list-style-type: none"> • Texas 50 (a)(6) refinance mortgages are eligible <u>with Pennymac Seller Approval</u>: <ul style="list-style-type: none"> ○ Fixed rate and 5/1 ARMs ○ Owner-occupied, 1 unit only ○ Maximum 80% LTV/CLTV ○ 2% fee restriction in accordance with Texas requirements ○ Full appraisal required ○ No new secondary financing ○ Loans must comply with FHA and Texas Constitution requirements ○ Power of Attorney allowed in accordance with Texas requirements
Tax Transcripts	<ul style="list-style-type: none"> • Tax transcripts are not required. • If red flags are present, tax transcripts may be requested at Pennymac's discretion. • A properly executed 4506-C is required for all transactions except when the loan file contains tax transcripts.

<p>Temporary Interest Rate Buydowns</p>	<p>Allowed subject to the following:</p> <ul style="list-style-type: none"> • Max total interest rate reduction of 3%, max increase per year of 1% (only 1/0, 1/1, 2/1 and 3/2/1 buydowns allowed) • Maximum 3 years to reach standard note rate • Fixed rate only • <u>Minimum 660 FICO</u> • Owner occupied only • Purchase only • Must qualify at the standard note rate without benefit of the buydown • Must meet all other applicable FHA requirements, including but not limited to qualification, documentation of buydown, and funding of buydown.
<p>Up Front Mortgage Insurance Premium (UFMIP)</p>	<ul style="list-style-type: none"> • A copy of the FHA Connection Case Query evidencing receipt of the UFMIP must be included in the loan file at the time of delivery.
<p>Title</p>	<ul style="list-style-type: none"> • A title policy is required. • A minimum of 12 month chain of title must be provided. Chain of title must be reviewed for any undisclosed identity of interest transactions. • Loans with private transfer fee covenants are ineligible. Transfer fee covenants exempted from this requirement are fees paid to any homeowner associations, condominiums, cooperatives, and certain tax-exempt organizations that use such private transfer fee proceeds to benefit the property. Fees that do not directly benefit the property are subject to the above rule, and would disqualify mortgages on the property from being purchased by Pennymac. (FHFA Final Ruling 12 C.F.R. Part 1228)
<p>Seller shall deliver loans that were originated in accordance with the Federal Housing Administration Handbook, unless otherwise noted in the Pennymac Seller's Guide.</p> <p><i>Pennymac does not discriminate in any aspect of a credit transaction on the basis of sex, gender identity or expression, sexual orientation, marital status, familial status, race, color, ethnicity, religion, national origin, age, handicap or disability status, income derived from public assistance, military status or the good faith exercise of rights under the Consumer Credit Protection Act.</i></p>	