Pennymac Correspondent
Fannie Mae HomeReady Product Profile
03.24.25

Overlays to Fannie Mae are underlined

<table>
<tr><th colspan="4">Fannie Mae - DU Approval</th></tr>
<tr><th colspan="4">Owner-Occupied Only, Purchase and Rate & Term Refinance</th></tr>
<tr><td rowspan="4">[1] See Loan Purpose for requirements for loans with LTV/CLTV/HCLTVs > 95%
[2] Maximum CLTV is 105% with Community Second secondary financing.</td><td>Property Type</td><td>LTV/CLTV/HCLTV[2]</td><td>Min Credit Score</td></tr>
<tr><td>1 Unit[1]</td><td>FRM 97[1]
ARM 95</td><td><u>620</u></td></tr>
<tr><td>2 Unit</td><td>95</td><td><u>620</u></td></tr>
<tr><td>3-4 Unit</td><td>95</td><td><u>620</u></td></tr>
<tr><td>Ability To Repay and Qualified Mortgage Rule</td><td colspan="3">• 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.</td></tr>
<tr><td>Age of Documents</td><td colspan="3">• For new and existing construction, 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.
• Preliminary Title Policies must be no more than 180 days old on the date the note is signed.</td></tr>
<tr><td>Appraisals</td><td colspan="3">• Minimum appraisal requirement as determined by DU. Approve/Eligible finding is required.
• The use of Value Acceptance (appraisal waiver) is allowed when the final submission of the loan casefile to DU results in a Value Acceptance offer. A Value Acceptance offer may not be exercised if any of the following apply:
  ○ DU is unable to determine ineligible criteria including but not limited to 50(a)(6)
  ○ An appraisal report is required by state law
  ○ Rental Income is used to qualify the borrower
  ○ An appraisal is warranted based on additional information received about the property or subsequent events
  ○ If a full appraisal is obtained, the appraisal must be used
• Value Acceptance + property data (PDC) is eligible for certain loan casefiles where DU offers Value Acceptance + PDC
  ○ DU Approve / Eligible required
  ○ One-unit properties only
  ○ Condos (attached and detached) are eligible
  ○ Ineligible transactions include:
    ▪ Manufactured homes
    ▪ Investment properties where rental income is used to qualify
    ▪ Proposed construction
    ▪ Construct to perm
    ▪ Texas 50(a)(6)
    ▪ Leaseholds
    ▪ Properties with resale price restrictions (includes Community Land Trusts)</td></tr>
</table>

        - Gift of equity transactions
        - Purchase price or estimated value is $\geq$ \$1,000,000
        - Refer to the Fannie Mae Selling Guide for complete guidance
    - The property data collection must be obtained after the initial DU offer and submitted to the Property Data API prior to the note date.
    - If the subject property requires repairs or alterations, satisfactory evidence and documentation must be provided showing the condition has been corrected (evidence and documentation must meet Fannie Mae requirements).
    - If the Value Acceptance +PDC offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in *certain* cases it may be possible to obtain a hybrid appraisal
    - If an appraisal is obtained, the appraisal must be used.
    - Refer to the Fannie Mae Selling Guide for complete Value Acceptance + property data program requirements.
- Properties subject to a leasehold estate:
    - Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
    - Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.
    - The appraiser must use a sufficient number of closed comparable sales with similar leasehold interests, if available, in the analysis of market value of the leasehold estate for the subject property.
        - If not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates.
        - The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised
- If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.
- 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 Fannie Mae requirements.
- Accessory units are acceptable when meeting Fannie Mae requirements.
- When the accessory unit is permitted or complies with zoning:
    - The property is defined as a one-unit property.
    - There is only one accessory unit on the property; multiple accessory units are not permitted
    - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
    - The accessory unit must have the required separate features per Selling Guide Section B2-3-04
    - The kitchen must meet all requirements per Selling Guide Section B2-3-04. The removal of the stove does not change the accessory unit classification.
    - Manufactured homes are eligible as accessory units if they meet the requirements per Selling Guide Section B2-3-04 and are <u>not given any value by the appraiser.</u>

	• When the accessory unit is NOT permitted or DOES NOT comply with zoning:
	  ○ Pennymac confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
	  ○ The use conforms to the subject neighborhood and to the market.
	  ○ The property is appraised based upon its current use.
	  ○ The appraisal must report that the improvements represent a use that does not comply with zoning.
	  ○ The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least two comparable properties that have the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales.
	• Recert of values in accordance with Fannie Mae guidelines are acceptable.
	• Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.

<table>
<tr>
<td>Assets/Gift Funds/Large Deposits</td>
<td>
Assets

Follow Fannie Mae verification of deposit and asset documentation guidelines to determine asset eligibility for down payment, closing costs, and reserve requirements.

Asset statements must clearly identify the borrower as the account holder
Assets held solely in the name of a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.

Follow Fannie Mae guidelines for gift fund eligibility and documentation requirements

Gift funds are ineligible on an investment property transaction

Large Deposits

Follow Fannie Mae guidance for large deposit eligibility and verification requirements

Large deposits sourced back to a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.

On refinance transactions, the documentation or explanation for large deposits is not required; however, any borrowed funds, including any related liability, must be considered.

Virtual Currency

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. <u>Acceptable documentation to use those funds includes the following:</u>

<u>Documentation from Cryptocurrency exchange account verifying the borrower as the Legal Owner and not the nickname of the account, AND</u>
<u>Previous borrower bank statement showing funds going into the same Cryptocurrency exchange account that the large deposit came from, OR</u>
<u>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</u>

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<tr>
<td>Assignment of Mortgages</td>
<td>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.</td>
</tr>
<tr>
<td>AUS</td>
<td>

<u>Desktop Underwriter with "Approve/Eligible" Findings is required</u>
<u>Manual UW is not permitted</u>

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<tr>
<td>Borrower Eligibility</td>
<td>

U.S. citizens
Permanent resident aliens, with proof of lawful permanent 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.
Non-occupant borrowers permitted to maximum 95% LTV/CLTV/HCLTV in DU

Income is considered as part of qualifying income and subject to income limits

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</table>

CEMA	- Refinance Only - eMortgages are ineligible - Lost Note Affidavits (LNAs) are not allowed for prior or current notes
Condominiums	- See B4-2 Project Standards in Fannie Mae's Seller Guide or https://www.fanniemae.com/singlefamily/project-eligibility for complete details on condos. - Fannie Mae to Fannie Mae rate and term refinances up to 80% LTV may be eligible for a waiver of the project eligibility review. - Documentation confirming refinanced loan was owned by Fannie Mae is required. - Condo type V required. - See B4-2.1-02 Waiver of Project Review for additional information. - Limited Review allowed in accordance with Fannie Mae Guidelines, including NOO up to 75% LTV/CLTV/HCLTV - Units in projects subject to a ground lease in which the HOA is the lessee, the lease must comply with Fannie Mae lease requirements unless the project has been approved by Fannie Mae in CPM. Refer to the Fannie Mae Selling Guide for complete condo/lease eligibility requirements. - 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. - 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 B4-2.1-03 for details. - Florida Condos are allowed in accordance with Fannie Mae requirements. - See Pennymac Announcement 19-62 for additional documentation details. Lenders must provide all documentation used to verify the condo warranty type. This may include, but is not limited to: - Loan documentation with warranty type - HOA questionnaire - Copies of applicable insurance policies - Any additional documentation as required by the warranty type

Credit	• <u>Each borrower's representative credit score must be a minimum of 620 regardless of the DU eligibility assessment</u> unless the below requirement for borrowers without a credit score are met:
	  ○ All borrowers may have no credit score. Fannie Mae and DU requirements must be met.
	• When the borrower has an APO, FPO or DPO, military address it does not need to be located within the U.S. to obtain a credit report compatible with DU® loan casefile requirements.
	• Mortgage Payment History
	  ○ The mortgage payment history reflected on the credit report can be used to meet mortgage payment history requirements
	  ○ Non-Del: Mortgages serviced by Pennymac: Use Pennymac servicing data to verify mortgage payment history for all mortgages regardless if they are the subject mortgage or other REO
	  ○ Lenders must warrant that repayment of the debt can be expected from the borrower and that there are no circumstances or conditions of which the lender is aware involving the mortgage, the mortgaged premises or the creditworthiness of the borrower that would adversely affect the value or marketability of the mortgage. If a borrower is not making payments on an existing mortgage at the time of application for a new mortgage, it may be an indication that the borrower is experiencing a financial hardship that is preventing them from making their mortgage payments. The lender must also consider whether the borrower's circumstances will impact their willingness or ability to make the payments on the new mortgage.
	  ○ As a reminder, Fannie Mae requires the following: On the date of the loan application, the borrower's existing mortgage(s) must be current, which means that no more than 45 days have elapsed since the last paid installment. If the credit report does not reflect the above, proof the additional loan payments were paid on time is required. Refer to Fannie Mae Selling Guide B3-5.3-03
	• 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.
	• LTV/CLTVHCLTV > 95% require at least one borrower to have at least one credit score.
	• Non-Del Only:
	  ○ <u>No more than two tax years may be on repayment plan</u>

<table>
<tr><td rowspan="2">Derogatory Credit</td><td>

<table>
<tr><th>Derogatory Event</th><th>Waiting Period Requirements</th></tr>
<tr><td>Bankruptcy — Chapter 7 or 11</td><td>4 years</td></tr>
<tr><td>Bankruptcy — Chapter 13</td><td>2 years from discharge date
4 years from dismissal date</td></tr>
<tr><td>Multiple Bankruptcy Filings</td><td>5 years if more than one filing within the past 7 years</td></tr>
<tr><td>Foreclosure</td><td>7 years
3 years with documented extenuating circumstances (see section below) allowed subject to:
up to the lesser of 90% LTV/CLTV or the max LTV/CLTV per the eligibility matrix,
purchase of an OO, or
rate and term of any occupancy
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.</td></tr>
<tr><td>Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale (Short Sale), Mortgage Charge-Off</td><td>4 years
2 years with documented extenuating circumstances, see Extenuating Circumstances below</td></tr>
</table>

All transactions require a DU Approve/Eligible regardless of which time frame for the derogatory event is met, standard or extenuating circumstances.

</td></tr>
<tr><td><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>
<u>Non-Del Only: 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></td></tr>
</table>

Documentation Type	◦ Documentation requirements are determined by the AUS
	◦ Non-Del: <u>Handwritten Verification of Mortgages (VOM) or Verification of Rents (VOR) are not eligible</u>
	◦ **Non-Del only:** <u>VODs are not acceptable for asset documentation</u>
	◦ Private mortgages may be verified with cancelled checks or bank statements
	◦ Income or assets derived from the following sources are ineligible for qualifying:
	    ◦ The production or sale of marijuana
	    ◦ Bitcoin or other cryptocurrencies
	        ▪ See the Assets/Gift Funds/Large Deposits section for documentation requirements on funds used for closing/reserves that originated from a cryptocurrency account.
	
	Day 1 Certainty
	◦ Loans using Day 1 Certainty are acceptable.
	◦ 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.
	◦ 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–C or tax transcripts for that borrower.
	
	Non-Occupant Borrowers / Non-Subject Investment Properties
	Current Housing Payment
	• Borrowers must document their current housing expense with one of the following when they do not currently own a primary residence:
	    ◦ six months canceled checks or equivalent payment source;
	    ◦ six months bank statements reflecting a clear and consistent payment to an organization or individual
	    ◦ direct verification of rent from a management company or individual landlord; or
	    ◦ a copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.
	• For non-occupant borrowers who are living rent-free, the borrower's rent-free status must be documented. A rent-free letter from a third party may be acceptable.
	
	Note: Regardless of AUS documentation requirements, all documentation submitted with the loan file is subject to review and may be used for qualification purposes.

Down Payment Assistance	• Donations from entities (grants) are eligible • Employer assistance is eligible • Community seconds are eligible • Refer to Fannie Mae Selling Guide for complete requirements

Extenuating Circumstances	• 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. • 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.). • 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.

Eligible Mortgage Products	• Fixed Rate, up to 30 Year term.
	    ○ High Balance eligible up to 95% LTV/CLTV
	• SOFR ARMs:
	    ○ 5/6: 2/1/5 caps, qualifying rate: greater of fully indexed rate or note rate + 2%
	        ▪ An "Approve/Eligible" finding by DU may differ from the eligibility for the purpose of meeting QM requirements. The APR calculation for 5/6 ARMs requires the use of the maximum interest rate that would apply during the first five years as the interest rate for the full term of the loan. As a result, all loans must also meet QM requirements regardless of the AUS eligible determination.
	        ▪ Fully indexed rate = index rate + margin
	7/6: 5/1/5 caps, qualifying rate: no less than the note rate
	10/6: 5/1/5 caps, qualifying rate: no less than the note rate
	        ▪ Exception: 7/6 and 10/6 ARMs in IL, MA, MD (Purchase only), NM and PA require qualifying rate at the greater of the note rate or the fully indexed rate (index rate + margin). The DU qualifying rate may need to be adjusted to comply with this requirement.
	    ○ Margin of 2.75% to 3.0% are allowed
	        ▪ Non-Del: Margin of 2.75% only.
	
	Please refer to the Fannie Mae Selling Guide for additional information.
	• 3/6 SOFR ARMs are not eligible
	• Loans with LTV/CLTV/HCLTV calculated using the "Affordable LTV" calculation are eligible for purchase subject to meeting all Fannie Mae requirements. Refer to the Fannie Mae Selling Guide for additional details.
	• HomeStyle Energy not eligible in combination with HomeReady.
	• An escrow account for taxes and insurance is required for LTVs greater than 80.00%, or as required by applicable state law. For properties in CA the minimum required LTV is 90.00%
	• An escrow account for the payment of monthly premiums for borrower-purchased mortgage insurance (if applicable) is required for all loans with an LTV greater than 80.00%.

eMortgages & eNotarization	• 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:
	    o State eligibility; and
	    o Product eligibility; and
	    o Transaction eligibility; and
	    o eNotarization eligibility; and
	    o RON eligibility

Employment/Income Verification	• For salaried employees the verbal verification of employment must be completed within 10 business days prior to the note date.
	• For self-employed borrowers the verbal verification of employment must be completed within 120 days prior to the note date.
	• For borrowers in the military, a military Leave and Earnings Statement dated within 120 calendar days prior to the note date is acceptable in lieu of a verbal verification of employment.
	• Trust income is eligible and must be documented and calculated in accordance with all Fannie Mae requirements.
	• Mortgage Credit Certificates (MCCs) enable an eligible first-time home buyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.
	    o When calculating the borrower's debt-to-income ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income:
	    [(Mortgage Amount) x (Note Rate) x (MCC %)] ÷ 12 = Amount added to borrower's monthly income.
	    o For example, if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125).
	    o The lender must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file.
	    o For refinance transactions, the lender may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new mortgage loan 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.

<table>
<tr>
<td>Employment Offers or Contracts</td>
<td>Borrowers with employment beginning no more than 90 days after the note date are eligible when:
• 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.
• Obtain and review the borrower’s offer or contract for future employment. The employment offer or contract must
  o clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
  o Clearly identify the terms of employment, including position, type and rate of pay, and start date; and be non-contingent.
  o 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.
• Start date for employment is no more than 30 days prior to the note date:
  o Employment offer or contract required; and
  o Verbal Verification of employment that confirms active employment status
• Start date is no more than 90 days after the note date
  o Employment offer or contract only
• Document, in addition to the amount of reserves required by DU or for the transaction, one of the following:
  o Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
  o 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.
    ▪ 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.
    ▪ 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 Fannie Mae Employment Contracts option two is acceptable, option one is not allowed, Refer to the Fannie Mae Selling Guide for additional details.</td>
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<td>Escrow Holdbacks</td>
<td>• Follow FNMA guidelines regarding reason, type of improvements, time to complete, quality, disbursements, and post-closing documentation.
• Post funding stip for 1004D confirming completion will be placed on loans where appraisal is "subject to" completion of improvements.
• Post funding stip for a final title policy endorsement that ensures the priority of the first lien will be placed on loans where the appraisal is "subject to" completion of improvements.
• A copy of the escrow agreement will be required to show how the escrow account will be managed and how funds will be disbursed.
• Non-Del Only:
  o New Construction only
  o Weather related repairs only
  o Settlement Agent must administer escrow account and disbursement of funds
  o 150% of repair escrow estimate to be escrowed</td>
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<tr><td>Financing Concessions</td><td>

Financing concessions for primary residences must be within the following allowable percentages:

9% of value with LTV/CLTV ratios less than or equal to 75%
6% of value with LTV/CLTV ratios greater than 75% up to and including 90%
3% of value with LTV/CLTV ratios greater than 90%

Value is the lesser of the sales price or appraised value.

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<tr><td>Forms</td><td>Fannie Mae specific forms for the HomeReady program can be found at https://www.fanniemae.com/singlefamily/homeready.</td></tr>
<tr><td>Funds to Close: Acceptable Sources</td><td>

In addition to standard Fannie Mae eligible sources, the following sources are eligible to use as funds to close:

Gifts, follow Fannie Mae's guidelines. See B3-4.3-04
Grants
Community Seconds, including multiple Community Seconds

Must be from a government entity

<u>Sweat Equity is not an eligible source of funds</u>
Cash on hand is acceptable. See Funds to Close: Cash On Hand section for details

</td></tr>
<tr><td>Funds to Close: Borrower Contribution</td><td>
<table>
<tr><th>Number of Units</th><th>Minimum Borrower Contributions</th><th>Min Down Payment Requirement</th></tr>
<tr><td>One</td><td>None</td><td>3%</td></tr>
<tr><td>Two</td><td>3%</td><td>15%</td></tr>
<tr><td>Three or Four</td><td>3%</td><td>25%</td></tr>
</table>
A 3% down payment is permitted for certain purchase transactions. Loan must meet LTV/CLTV/HCLTV > 95% requirements. See Loan Purpose section, and Fannie Mae Selling Guide B5-6-02.
</td></tr>
<tr><td>Funds to Close: Cash On Hand</td><td>

Cash on hand is an acceptable source for the borrower's down payment, funds for closing costs, and prepaid items for one-unit properties.
The lender must verify and document the following with respect to the cash-on-hand funds:

The borrower customarily uses cash for expenses, and the amount of funds saved is consistent with the borrower’s previous payment practices.
The lender must verify that funds for the down payment and closing costs exist in a financial institution account or an acceptable escrow account. Funds must be on deposit at the time of application, or no less than 30 days prior to closing.
The lender must obtain a written statement from the borrower that discloses the source of funds and states that the funds have not been borrowed.
The borrower’s credit report and other verifications should indicate limited or no use of credit and limited or no depository relationship between the borrower and a financial institution.

Note: Cash-on-hand may not be used to fund the borrower’s reserve requirement, if applicable.

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Hazard Insurance	Policies *must provide for claims to be settled on a replacement cost basis*. Insurance policies that provide for claims to be settled at actual cash value or limit, depreciate, reduce, or otherwise settle losses for less than a replacement cost basis are not eligible.
	
	1-4 Unit Properties
	• The insurance limits must equal the lesser of:
	  ○ 100% of the replacement cost of the improvements as of the current property insurance policy effective date, or
	  ○ The unpaid principal balance of the mortgage, provided it equals no less than 80% of the replacement cost value (RCV) of the improvements as of the current property insurance policy effective date.
	• The replacement cost value must be verified in order to complete the calculation above (refer to Validating Property Insurance Sufficiency requirements outlined below).
	
	Master Property Insurance for Condominium and PUD[1] Projects
	• The master policy coverage limits for condominium and PUD projects must be at least equal to 100% of the replacement cost value of the project's improvements, including common elements and residential structures, as of the current insurance policy effective date.
	• Verification the project insurance coverage is not less than the minimum required as described above is required (refer to Validating Property Insurance Sufficiency requirements outlined below).
	
	Note: An HO-6 policy cannot be utilized to satisfy insufficient master property insurance coverage. Building Ordinance or Law Coverage cannot be utilized to offset insufficient master property insurance coverage.
	
	Validating Property Insurance Sufficiency
	• Replacement cost sufficiency may be determined using one of the following:
	  ○ A replacement cost estimator provided by the insurer; or
	  ○ A recent property risk appraisal; or
	  ○ A statement from the insurer affiliated with the property confirming the cost of improvements, as of the current property insurance policy effective date, such that the insurance limits meet the limits specified above; or
	  ○ The presence of a guaranteed replacement cost endorsement.
	  ○ A statement from an insurer or insurance industry professional not affiliated with the property insurer, or the HOA if applicable, is not acceptable evidence.
	
	[1]*Applies to PUD projects where the project's legal documents provide for a master property insurance policy that covers both the common elements and residential structures.*
	
	Refer to the Fannie Mae Selling Guide for complete property insurance requirements.

High Cost / High Priced	• Pennymac will not purchase High-Cost Loans.
	  ○ Higher Priced Mortgage Loans (HPML) transactions are eligible for purchase. HPML guidelines require:
	  ○ 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.
	  ○ HPML ARM loans with an initial fixed rate period of less than seven years are ineligible.

Homeownership: Education and Counseling	• When all occupying borrowers are first-time homebuyers, at least one borrower on the loan must complete homeownership education or housing counseling prior to loan closing. Options for meeting this requirement include:
	  ○ Homeownership education from any qualified third-party provider, independent of the lender (including a mortgage insurance company) that aligns with the National Industry Standards (NIS) or HUD standards; or
	  ○ Education course provided by a Community Seconds or other down payment assistance program provider, where the program requires homeownership education or counseling provided by a HUD-approved agency; or
	  ○ Housing counseling through a HUD-approved agency that meets HUD standards.
	• Certificate of course completion must be retained in the loan file.
	• Refer to Fannie Mae Selling Guide for complete requirements.

Income: Boarder	• The rental payments that any borrower receives from one or more individuals who reside with the borrower (but who are not obligated on the mortgage debt and may or may not be related to the borrower) may be considered as acceptable stable income. This applies for a one-unit property in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage if
	  ○ The individual(s) has lived with (and paid rent to) the borrower for the last 12 months.
	  ○ The boarder can provide appropriate documentation to demonstrate a history of shared residency (such as a copy of a driver's license, bill, or bank statement that shows the boarder's address as being the same as the borrower's address).
	  ○ The boarder can demonstrate (such as copies of canceled checks) the payment of rental payments to the borrower for the last 12 months, or
	  ○ At least 9 of the most recent 12 months provided the rental income is averaged over a 12–month period.
	• Payment of rent by the boarder directly to a third party is not acceptable.

Income: Limits	• Total annual qualifying income may not exceed 80% of area median income (AMI). ○ Does not include non-borrower household member income. • Lenders must use AMI's used by Fannie Mae in DU or on FNMA's website.

Loan Purpose	• Purchase • Rate & Term Refinance: ○ At least one borrower on the new loan must be a current owner of the subject property (on title) at the time of the initial loan application. Please see the Fannie Mae Selling Guide for permitted exceptions. ○ Properties held in a Limited Liability Corporation (LLC) do not meet Fannie Mae ownership eligibility requirements. At least one borrower (individually) must be on title prior to the application date of the new loan. ○ A transaction is not eligible as a limited cash-out refinance if the borrower completed a cash-out refinance transaction with a Note date 30 days or less prior to the application date of a new refinance secured by the same property ○ Proceeds can be used to pay off a first mortgage lien ○ Proceeds can be used to pay off an existing first lien mortgage that includes a deferred balance ▪ A deferred balance that is a second lien is not eligible for a limited cash-out refinance ○ For two-closing construction-to-permanent loans, to pay off an existing construction loan and documented construction cost overruns that were incurred outside of the interim construction financing. (These construction cost overruns must be paid directly to the builder at closing.) ○ Pay related closing costs and prepaid items ○ Disburse cash out to the Borrower in an amount not to exceed 2% of the new Mortgage or $2,000, whichever is less ○ Disaster-Related Limited Cash-Out Refinance Flexibilities - Standard limited cash-out refinance policies for borrowers who have been impacted by a natural disaster are allowed as follows: ▪ Permits the refinance of non-purchase money subordinate loans obtained to finance disaster-related property repairs, and ▪ Provides for a higher cash-out amount to reimburse borrowers for documented out-of-pocket expenses related to disaster related property repairs. These guidelines apply only to loans secured by the borrower's principal residence. SFC 416 must be applied prior to loan delivery. Refer to Fannie Mae Chapter B5-4.2-02 for all requirements. • > 95% LTV/CLTV/HCLTV Purchase and Rate & Term Refinance: ○ One Unit primary residence only ○ Standard balance only ○ All borrowers must occupy the property ○ At least one borrower has a credit score ○ Rate & Term only: The lender must document the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from any of the following: ▪ The lender's servicing system, ▪ The current servicer (if the lender is not the servicer), ▪ Fannie Mae's Loan Lookup tool, or ▪ Any other source as confirmed by the lender ▪ This requirement does not apply if the CLTV exceeds 95% due to Community Second only • Cash Out ○ Not allowed

<table>
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<td>Loan Purpose: Ineligible Transactions</td>
<td>Intra-family purchases as a means to obtain cash-out for the seller while avoiding cash-out qualifications and pricing are not eligible transactions. These types of transactions may seem to meet Agency guidelines, they are not bonafide purchase transactions and therefore not eligible for purchase by Pennymac. Unacceptable transactions of this type may have some or all of the following characteristics:

Gift of equity from the seller
Large amount of seller credits
Family member remaining in the home and on title after the “purchase”
Seller unable to qualify for a cash-out transaction of their own
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<tr>
<td>Mortgage Insurance</td>
<td>
Coverage percentage per Fannie Mae requirements. Full or reduced coverage is allowed.
Acceptable MI Types:

Borrower Paid Monthly
Borrower Paid Single Premium
Financed: Gross LTV cannot exceed the program maximum
Allowed for 1-unit properties only
Split Premium
Lender Paid Single Premium

Unacceptable MI Types:

Lender Paid Monthly
Lender Paid Annual
Borrower Paid Annual
Any MI type not listed as acceptable

For properties in NY

To determine if MI is required on a purchase transaction, base the LTV calculation on the Appraised Value only instead of the lower of Appraised Value or Sales price.
When MI is required based on the above calculation, determine the level of MI required by using the standard LTV calculation (lower of Appraised Value or Sales price).

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<tr>
<td>Occupancy</td>
<td>Owner Occupied only</td>
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<td>Power of Attorney (POA)</td>
<td>An individual employed by or affiliated with any party to the loan transaction e.g. title insurer, settlement agent etc. is not eligible as a POA.</td>
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<tr>
<td>Property: Eligible Types</td>
<td>
Single Family Detached Single Unit
Single Family Attached Single Unit
2–4 Unit Attached/Detached
PUDs
Low-rise and High-rise condominiums (must be Fannie Mae eligible)
Rural Properties (in accordance with agency Guidelines, properties must be residential in nature)
Leaseholds
Must meet all Fannie Mae leasehold requirements, including but not limited to, appraisal, title, Condo and PUD project eligibility requirements. Refer to the Fannie Mae Selling Guide for complete leasehold requirements.
Manufactured Homes – refer to the Fannie Mae Manufactured Home Product Profile for all requirements. The more restrictive of the loan program guidelines apply.
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Property: Ineligible Types	• Mobile homes • Cooperatives • Condotels • Hotel Condominiums • Timeshares • Working Farms and Ranches • Unimproved Land • Property currently in litigation • Land Trust, including Community Land Trust Mortgages and Illinois Land Trust • Condition Rating of C5/C6 or a Quality Rating of Q6 • Homes purchased using HomeStyle Financing
Property Flipping Policy (Properties resold within 180 days of purchase)	• Properties that involve a re-sale that occurred within the last 180 days that have a non-arm's length relationship between the buyer and seller and an increase in value are prohibited. Time frame is established by seller's date of acquisition as the date of settlement on the seller's purchase of that property and the execution of a sales contract to another party. • Lenders must pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or where the value of the property has experienced significant appreciation in a short time period since the prior sale. Pennymac believes that one of the best ways lenders can reduce the risk associated with excessive values and/or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers. • Pennymac recommends an additional value product to support the subject appraised value in instances of greater than 20% appreciation.
Property: Maximum Number of Financed Properties	• The occupant borrower may not have more than two financed properties.
Ratios	• The Maximum DTI is 50% with a DU Approve/Eligible.
Recently Listed Properties	• 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). • 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.

Rental Income	• Rental income from the subject or non-subject property is eligible. Eligible property types include:
	    ◦ 2-4-unit principal residence property in which the borrower occupies one of the units, or
	    ◦ 1-4-unit investment property (non-subject only).
	• For subject property rental income used for qualification purposes, the following form must be used to support the rental income
	    ◦ 2-4-unit properties: Small Residential Income Property Appraisal Report, Form 1025.
	• The use of a rental lease agreement may be justified in certain scenarios. When using a rental lease agreement, the amount reflected on the lease must be supported by the following:
	    ◦ Form 1007 or 1025 as applicable; or
	    ◦ Evidence the terms of the lease have gone into effect
	        ▪ Two months consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or

	▪ Copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements. ▪ Cash payments are ineligible o Maximum rental income used will be 75% of the lesser of the lease agreement or market rents • At the time of application, if the borrower does not own a principal residence, *and* does not have a current housing expense, rental income from the subject or non-subject property (new or newly placed in service less than a year) may be ineligible. o See Documentation section for when borrowers do not currently own a primary residence. • Ability to use full or partial net rental income for the subject or non-subject investment property is dependent on many factors, which include, but are not limited to the length of time the property has been in service, the borrower's history of receiving rental income, and a documented primary housing expense. Please refer to the Fannie Mae Selling Guide for complete rental income and documentation requirements.
Reserves	• Required per DU
Seasoning	• Please refer to the Pennymac Seasoned Loan Policy located in the Pennymac Seller Guide for requirements and loan-level price adjustments.
Secondary Financing	• Standard secondary financing: Maximum CLTV/HCLTV is the same as LTV in the matrix at the beginning. • Community Second secondary financing: Maximum CLTV is 105%. o More than one Community Second is allowed.
State Restrictions	• Texas 50 (a)(6) refinance mortgages are eligible with Pennymac Seller Approval: o Owner-Occupied, 1 unit only o Maximum 80% LTV/CLTV o 2% fee restriction in accordance with Texas Constitution o Full appraisal required o No new secondary financing o Loans must comply with Fannie Mae and Texas Constitution requirements o Power of Attorney allowed in accordance with Texas requirements.
Tax Transcripts	• 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: o Loan file contains tax transcripts, or o When all of a borrower's income is validated by the DU validation service (FNMA only). • **Delegated Only:** IRS form 8821 is an acceptable alternate form in lieu of IRS form 4506-C • **Non-Delegated Only:** IRS form 8821 is not an acceptable alternate form in lieu of IRS form 4506-C

Temporary Interest Rate Buydowns	Allowed subject to the following: • Max total interest rate reduction of 3%, max increase per year of 1% (e.g., 1/0, 1/1, 2/1, and 3/2/1 buydowns) • Maximum 3 years to reach standard note rate • Minimum 660 FICO • Purchase only • Fixed rate & 7/6 and 10/6 ARMs only • Manufactured Homes are ineligible • Must qualify at the standard note rate without benefit of the buydown • Must meet all other applicable Fannie Mae requirements, including but not limited to qualification, documentation of buydown, and funding of buydown.

Seller shall deliver loans that were originated in accordance with the Fannie Mae Single Family Selling Guide unless otherwise noted in the Pennymac Seller's Guide.

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.