



# **Pennymac Correspondent** **Fannie Mae Single Close Construction** **03.24.25**

**Delegated Only - Pennymac Specific Approval Required**  
Overlays to Fannie Mae are underlined

Agency	Fannie Mae - DU Approval			Fannie Mae - DU Approval		
Finance Type	Purchase			Limited Cash Out Refinances		
	Owner Occupied			Owner Occupied		
Term	Fixed Rate			Fixed Rate		
<sup>1</sup> High balance or transactions with non-occupant co-borrowers are limited to 95% LTV/CLTV	Property Type	LTV/ <u>CLTV</u> / <u>HCLTV</u>	Min Credit Score	Property Type	LTV/ <u>CLTV</u> / <u>HCLTV</u>	Min Credit Score
	1 Unit	97%	<u>620</u>	1 Unit	97%	<u>620</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>					
Ability To Repay and Qualified Mortgage Rule	<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.</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 Selling Guide section "Ability to Repay and Qualified Mortgage Rule" under "Delivery Procedures" for more details.</li> </ul>					

Age of Documents	<ul style="list-style-type: none"> <li>• All credit documents must be no more than 4 months old on the note date (the closing date of the construction loan).</li> <li>• In addition, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing. As an exception, these documents may be more than four months but not exceeding 12 months old at the time of the conversion to permanent financing if ALL of the following conditions are met at the time of the original closing of the construction loan: <ul style="list-style-type: none"> <li>○ The LTV/CLTV/HCLTV do not exceed 95%.</li> <li>○ The representative credit score of the loan is greater than or equal to 700.</li> <li>○ The loan was underwritten through DU and received an Approve/Eligible recommendation</li> </ul> </li> <li>• If any of the above conditions is not met or an eligible loan term was modified subsequent to the last DU submission, the lender must: <ul style="list-style-type: none"> <li>○ Obtain updated income, employment, and credit report documents no more than four month prior to conversion; and</li> <li>○ Re-qualify the borrower(s) in accordance with the Requalification Requirements (refer to Fannie Mae Selling Guide for complete requirements) <u>before the loan is delivered to Pennymac.</u></li> </ul> </li> <li>• Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification either of the following applies: <ul style="list-style-type: none"> <li>○ More reserves are required than were required at the time of original qualification, or</li> <li>○ The borrower chooses to bring additional funds to the transaction.</li> </ul> </li> <li>• Validation through DU Validation Service <ul style="list-style-type: none"> <li>○ If updated credit documents are required to be obtained after the original closing of the construction loan, any validation of income, employment, or assets is no longer applicable.</li> <li>○ Updated validation reports must be obtained and the loan casefile resubmitted to DU and the loan must convert to permanent financing by the close by date stated in the DU validation message.</li> </ul> </li> <li>• The effective date of the appraisal for all single-closing transactions must be no more than four months prior to the note date (the closing date of the construction loan). Refer to Fannie Mae Selling Guide for complete requirements.</li> <li>• In addition, at the time of completion of construction, an Appraisal Update and/or Completion Report (Form 1004D) must be completed in its entirety including the appraisal update and certification of completion. <ul style="list-style-type: none"> <li>○ If the appraiser indicates on the Form 1004 that the property value has declined, then the lender must obtain a new appraisal for the property and requalify the borrower using the updated LTV ratio per the Requalification Requirements (refer to Fannie Mae Selling Guide for complete requirements).</li> </ul> </li> <li>• Preliminary Title Policies must be no more than 180 days old on the date the Note is signed.</li> </ul>
Appraisals	<ul style="list-style-type: none"> <li>• <b>Minimum appraisal requirement as determined by DU. Approve/Eligible finding is required.</b></li> <li>• Value Acceptance and Value Acceptance + PDC ineligible</li> <li>• Any unpermitted additions or unpermitted accessory units must be fully permitted and comply with local and/or federal zoning requirements by the end of the renovation/construction.</li> <li>• Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.</li> <li>• Refer to Fannie Mae Selling Guide for complete requirements</li> </ul>

Assets/Gift Funds/Large Deposits	<p>Assets</p> <ul style="list-style-type: none"> <li>Follow Fannie Mae verification of deposit and asset documentation guidelines to determine asset eligibility for down payment, closing costs, and reserve requirements. <ul style="list-style-type: none"> <li>Asset statements must clearly identify the borrower as the account holder</li> <li>Assets held solely in the name of a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.</li> </ul> </li> <li>Follow Fannie Mae guidelines for gift fund eligibility and documentation requirements <ul style="list-style-type: none"> <li>Gift funds are ineligible on an investment property transaction</li> </ul> </li> </ul> <p>Large Deposits</p> <ul style="list-style-type: none"> <li>Follow Fannie Mae guidance for large deposit eligibility and verification requirements <ul style="list-style-type: none"> <li>Large deposits sourced back to a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.</li> </ul> </li> <li>On refinance transactions, the documentation or explanation for large deposits is not required; however, any borrowed funds, including any related liability, must be considered.</li> </ul> <p>Virtual Currency</p> <ul style="list-style-type: none"> <li>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> <ul style="list-style-type: none"> <li><u>Documentation from Cryptocurrency exchange account verifying the borrower as the Legal Owner and not the nickname of the account, AND</u></li> <li><u>Previous borrower bank statement showing funds going into the same Cryptocurrency exchange account that the large deposit came from, OR</u></li> <li><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></li> </ul> </li> </ul>
Assignment of Mortgages	<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>
AUS	<ul style="list-style-type: none"> <li><u>Desktop Underwriter with "Approve/Eligible" Findings is required.</u></li> <li><u>Manual UW is not permitted.</u></li> </ul>
Borrower Eligibility	<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>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.</li> </ul>

CEMA	<ul style="list-style-type: none"> <li>• Refinance Only</li> <li>• eMortgages are ineligible</li> <li>• Lost Note Affidavits (LNAs) are not allowed for prior or current notes</li> </ul>
Construction Documentation	<ul style="list-style-type: none"> <li>• All construction documents must be included in the loan file. Construction documentation includes: <ul style="list-style-type: none"> <li>○ Any applicable construction documentation, including but not limited to construction agreement between borrower and contractor.</li> <li>○ All draw administration documentation</li> <li>○ Accounting summary to show how funds were allocated, including any principle reductions</li> <li>○ Documentation in file evidencing final sign off from borrower showing that all work was completed according to the borrower's satisfaction.</li> <li>○ All change orders</li> </ul> </li> <li>• Construction must be complete at time of delivery to Pennymac as evidenced by <ul style="list-style-type: none"> <li>▪ 1004D and photo of completed property and</li> <li>▪ Certificate of Occupancy, when issued by the local building authority</li> </ul> </li> </ul>
Credit	<ul style="list-style-type: none"> <li>• <u>Each borrower's representative credit score must be a minimum of 620 regardless of the DU eligibility assessment, unless the below requirements for borrowers without a credit score are met:</u> <ul style="list-style-type: none"> <li>○ All borrowers may have no credit score. Fannie Mae and DU requirements must be met.</li> </ul> </li> <li>• 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.</li> <li>• Mortgage Payment History <ul style="list-style-type: none"> <li>○ The mortgage payment history reflected on the credit report can be used to meet mortgage payment history requirements</li> <li>○ 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.</li> <li>○ 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 for complete requirements</li> </ul> </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>• When the payment for the primary residence for any borrower is not reported on the credit report (ex: renting primary and the subject is 2nd/NOO): <ul style="list-style-type: none"> <li>○ Provide third party verification of payment amount.</li> </ul> </li> <li>• Loan payment history must be 0x30 from close of construction to purchase by Pennymac.</li> </ul>

Derogatory Credit	Derogatory Event	Waiting Period Requirements	
	Bankruptcy – Chapter 7 or 11	<ul style="list-style-type: none"> <li>4 years</li> </ul>	
	Bankruptcy – Chapter 13	<ul style="list-style-type: none"> <li>2 years from discharge date</li> <li>4 years from dismissal date</li> </ul>	
	Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	
	5 years if more than one filing within the past 7 years	<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> </ul> <p>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.</p>	
	Deed-in-Lieu of Foreclosure, Pre-foreclosure 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.			
Disaster Policy	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.		
Documentation Type	<ul style="list-style-type: none"> <li>Documentation requirements are determined by the AUS</li> <li>LoanBeam income calculation is acceptable per Fannie Mae guidelines</li> <li>Income or assets derived from the following sources are ineligible for qualifying: <ul style="list-style-type: none"> <li>The production or sale of marijuana</li> <li>Bitcoin or other cryptocurrencies <ul style="list-style-type: none"> <li>See Assets/Gift Funds/Large Deposits section for documentation requirements on funds used for closing/reserves that originated from a cryptocurrency account.</li> </ul> </li> </ul> </li> <li><b>Day 1 Certainty</b> <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-C or tax transcripts for that borrower.</li> </ul> </li> </ul> <p><i>Note: Regardless of AUS documentation requirements, all documentation submitted with the loan file is subject to review and may be used for qualification purposes.</i></p>		

Down Payment Requirements	<ul style="list-style-type: none"> <li>The borrower must use his or her own funds to make the minimum borrower contribution unless: <ul style="list-style-type: none"> <li>the LTV, CLTV, or HCLTV is less than or equal to 80%; or</li> <li>The borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution.</li> </ul> </li> </ul>
Draws	<ul style="list-style-type: none"> <li>Pennymac will not administer the draw process. The Correspondent will be responsible for managing the project, as well as the draw administration.</li> <li>All documentation evidence satisfactory completion of work and release of monies must be included in loan file.</li> </ul>
Extenuating Circumstances	<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>
Eligible and Ineligible Mortgage Products and Features	<ul style="list-style-type: none"> <li>Agency Fixed Rate: 10, 15, 20, 25, 30 Year</li> <li><u>ARMs are ineligible with an OTC transaction</u></li> <li>Loans with LTV/CLTV/HCLTV calculated using the "Affordable LTV" calculation are eligible for purchase subject to meeting all Fannie Mae requirements. Refer to Fannie Mae Selling Guide for complete requirements for loans with Resale Restrictions and details specific to Loan and Borrower Eligibility.</li> <li>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%</li> <li>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%.</li> </ul>
eMortgages & eNotarization	<ul style="list-style-type: none"> <li>eMortgages and eNotarization are eligible for Delegated correspondents only</li> <li>Lenders must be approved by Pennymac prior to delivering eMortgages, transactions closed using eNotarization or Remote Online Notarization (RON)</li> <li>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"> <li>State eligibility; and</li> <li>Product eligibility; and</li> <li>Transaction eligibility; and</li> <li>eNotarization eligibility; and</li> <li>RON eligibility</li> </ul> </li> </ul>

Employment/Income Verification	<ul style="list-style-type: none"> <li>• Required per DU approval.</li> <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 120 calendar days prior to the note date is acceptable in lieu of a verbal verification of employment.</li> <li>• Trust income is eligible and must be documented and calculated in accordance with all Fannie Mae requirements.</li> </ul>
Financing Concessions	<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>

Hazard Insurance	<p>Policies <i>must provide for claims to be settled on a replacement cost basis</i>. 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.</p> <ul style="list-style-type: none"> <li>The insurance limits must equal the lesser of: <ul style="list-style-type: none"> <li>100% of the replacement cost of the improvements as of the current property insurance policy effective date, or</li> <li>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.</li> </ul> </li> <li>The replacement cost value must be verified in order to complete the calculation above (refer to Validating Property Insurance Sufficiency requirements outlined below).</li> </ul> <p>For detached condominiums and PUDs <i>where projects where the project's legal documents provide for a master property insurance policy that covers both the common elements and residential structures</i>, the following applies:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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).</li> </ul> <p>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.</p> <p><b>Validating Property Insurance Sufficiency</b></p> <ul style="list-style-type: none"> <li>Replacement cost sufficiency may be determined using one of the following: <ul style="list-style-type: none"> <li>A replacement cost estimator provided by the insurer; or</li> <li>A recent property risk appraisal; or</li> <li>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</li> <li>The presence of a guaranteed replacement cost endorsement.</li> <li>A statement from an insurer or insurance industry professional not affiliated with the property insurer, or the HOA if applicable, is not acceptable evidence.</li> </ul> </li> </ul> <p>Note: A builder's risk policy that automatically converts to standard hazard policy is acceptable or a new hazard policy may be established. The correspondent must ensure there is no lapse in coverage. The above requirements apply.</p> <p>Refer to the Fannie Mae Selling Guide for complete property insurance requirements.</p>
High Cost / High Priced	<ul style="list-style-type: none"> <li><u>Pennymac will not purchase High Cost Loans</u></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> <li>A prohibition on ARM loans with an initial fixed rate period of less than seven years (7/6 ARMs are eligible).</li> </ul> </li> </ul>



## Loan Conversion/Modification Options

### Loan Conversion Options

- The construction loan may be converted into a permanent mortgage loan in either of the following ways:
  - Option 1 via Rider: A construction loan rider must be used to modify Fannie Mae's uniform instrument that will be used for the permanent mortgage. The rider must state the construction loan terms, and the construction-related provisions of the rider must become null and void at the end of the construction period and before the permanent mortgage is sold to Pennymac. Because the permanent mortgage cannot be sold before it is scheduled to begin amortizing, a lender will need to amend the construction loan rider, and the accompanying uniform instrument, if the construction is completed sooner or later than originally anticipated. The amendment(s) should provide the new dates on which amortization for the permanent mortgage will begin and end.
  - Option 2 via Modification: A separate modification agreement must be used to convert the construction loan into permanent financing. This agreement must be executed and recorded in the applicable jurisdiction before the permanent mortgage is delivered to Pennymac. See below for additional details
- The lender must include the applicable conversion document in the loan submission package. When amended documents are recorded in connection with a construction loan rider, the lender also must include a copy of the original document that the borrower signed.

### Modification Option

- If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria:
  - The modification must take place prior to or at the time of conversion
  - Only the following loan terms may be modified in a single-closing transaction:
    - Interest rate,
    - Loan amount,
    - Loan term, and
    - Amortization type-The only amortization change permitted is from an ARM to a Fixed rate
- The loan must be underwritten based on the terms of the loan as modified and delivered to Pennymac. If the final (modified) terms of the loan do not match the last submission to DU, the loan must be re-submitted to DU.
- If the modification results in an increase in the original loan amount, the lender remains responsible for all standard title insurance requirements. In addition, the lender must obtain an endorsement to the title insurance policy that
  - Extends the effective date of the or coverage to the date of the recording of the modification agreement;
  - Increases the amount of the policy to the original loan amount, as increased; and
  - Confirms that the lien of the mortgage, as modified, continues to be a first lien.
- The modification must be documented on one of the following:
  - Loan Modification Agreement (Providing for Fixed Interest Rate) FNMA Form 3179
  - Loan Modification Agreement (Providing for Adjustable Interest Rate) FNMA Form 3161
  - Substantially similar document, subject to the non-standard document representations and warranties

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>○ The borrower must have held legal title to the lot before he or she receives the first advance of interim construction financing.</li> <li>○ 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.</li> <li>○ 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.</li> <li>○ Proceeds can be used to pay off an existing first lien mortgage that includes a deferred balance <ul style="list-style-type: none"> <li>▪ A deferred balance that is a second lien is not eligible for a limited cash-out refinance</li> </ul> </li> </ul> </li> </ul>
Loan Purpose: Ineligible Transactions	<ul style="list-style-type: none"> <li>• 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"> <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> </li> <li>• Cash out Refinances</li> </ul>
LTV Calculation	<ul style="list-style-type: none"> <li>• Purchase: Divide the loan amount of the construction-to-permanent financing by the lessor of: <ul style="list-style-type: none"> <li>○ The purchase price (sum of the cost of construction and the sales price of the lot), or</li> <li>○ The “as completed” appraised value of the property (the lot and improvements)</li> </ul> </li> <li>• Limited Cash-Out: Applicable when the borrower is the owner of the lot at the time of the first advance of the interim construction financing. <ul style="list-style-type: none"> <li>○ Divide the loan amount of the construction-to-permanent financing by the “as completed” appraised value of the property (the lot and improvements)</li> </ul> </li> </ul>
Mortgage Insurance	<p>Acceptable MI Types:</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>• Reduced coverage</li> </ul> <p>Unacceptable MI Types:</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> </ul> <p>For properties in NY</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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).</li> </ul>

Occupancy	<u>Primary residence only</u>
Power of Attorney (POA)	<u>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.</u>
Property: Eligible Types	<ul style="list-style-type: none"> <li>• Single Family Single Unit</li> <li>• PUDs</li> <li>• Detached Condos</li> </ul>
Property: Ineligible Types	<ul style="list-style-type: none"> <li>• <u>Manufactured homes. This includes on-frame modular homes built on a permanent chassis.</u></li> <li>• <u>Mobile Homes</u></li> <li>• <u>Cooperatives</u></li> <li>• Condotels</li> <li>• Single Family Attached Single Unit</li> <li>• 2–4 Unit Attached/Detached</li> <li>• Low-rise and High-rise Condominiums (must be Fannie Mae eligible)</li> <li>• Leaseholds</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>• <u>Land Trust, including Community Land Trust Mortgages and Illinois Land Trust</u></li> <li>• <u>Condition Rating of C5/C6 or a Quality Rating of Q6</u></li> <li>• Lava zones 1 and 2</li> </ul>
Property: Maximum Number of Financed Properties	<ul style="list-style-type: none"> <li>• The loan must comply with Fannie Mae's limitations on the maximum number of financed properties.</li> <li>• Fannie Mae has imposed minimum credit score, reserves requirements. Refer to Fannie Mae Selling Guide for complete requirements.</li> </ul>
Ratios	The Maximum DTI is 50% with a DU Approve/Eligible.

Rental Income	<ul style="list-style-type: none"> <li>Rental income from a non-subject property is eligible. Eligible property types include: <ul style="list-style-type: none"> <li>1-4-unit investment property.</li> </ul> </li> <li>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: <ul style="list-style-type: none"> <li>Form 1007 or 1025 as applicable; or</li> <li>Evidence the terms of the lease have gone into effect <ul style="list-style-type: none"> <li>Two months consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or</li> <li>Copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements.</li> <li>Cash payments are ineligible</li> </ul> </li> <li>Maximum rental income used will be 75% of the lesser of the lease agreement or market rents</li> </ul> </li> <li>At the time of application, if the borrower does not own a principal residence, <i>and</i> does not have a current housing expense, rental income from the non-subject property (new or newly placed in service less than a year) may be ineligible.</li> <li>Ability to use full or partial net rental income for the 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.</li> </ul> <p>Please refer to the Fannie Mae Selling Guide for complete rental income and documentation requirements.</p>
Reserves	<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 (DU only).</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>
Seasoning	<ul style="list-style-type: none"> <li>Please refer to the Pennymac Seasoned Loan Policy located in the Pennymac Seller Guide for requirements and loan-level price adjustments.</li> <li>Loans must be no more than 45 days old at time of delivery as measured from conversion or modification date to delivery to Pennymac.</li> </ul>
State Restrictions	Texas 50(a)(6) transactions are not eligible

Tax Transcripts	<ul style="list-style-type: none"> <li>• Tax transcripts are not required. If red flags are present, tax transcripts may be requested at Pennymac's discretion.</li> <li>• A properly executed 4506-C 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>• <b>Delegated Only:</b> IRS form 8821 is an acceptable alternate form in lieu of IRS form 4506-C</li> <li>• <b>Non-Delegated Only:</b> <u>IRS form 8821 is not an acceptable alternate form in lieu of IRS form 4506-C</u></li> </ul>
Temporary Interest Rate Buydowns	<p>Allowed subject to the following:</p> <ul style="list-style-type: none"> <li>• 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)</li> <li>• Maximum 3 year to reach standard note rate</li> <li>• <u>Minimum 660 FICO</u></li> <li>• Must qualify at the standard note rate without benefit of the buydown</li> <li>• Must meet all other applicable Fannie Mae requirements, including but not limited to qualification, documentation of buydown, and funding of buydown.</li> </ul>
Terms of Construction	<ul style="list-style-type: none"> <li>• The construction loan period for single-closing construction-to-permanent transactions may have no single period of more than 12 months and the total period may not exceed 18 months.</li> <li>• Exceptions to the 12-month and 18 month periods will not be granted. If the construction loan period exceeds the allotted construction term period(s), the Correspondent must process the loan as a two-closing construction-to-permanent transaction in order for the loan to be eligible for sale to Pennymac.</li> </ul>
Unplanned Changes During Construction	<p>Should a life change occur with the borrower, such as loss of job or death occurs, the Correspondent remains responsible to work with the builder to complete the home.</p>
<p><b>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.</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>	