Pennymac Correspondent
Freddie Mac Standard and Super Conforming Product Profile
03.17.25

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

Agency	Freddie Mac - LPA Accept			Freddie Mac - LPA Accept		
Finance Type	Purchase and Rate/Term Refinances			Cash Out Refinances		
Occupancy	Owner Occupied			Owner Occupied		
Term	Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs		
[1]LTVs 95.01% - 97% LTV/TLTV allowable under Freddie Mac HomeOne (refer to Borrower Eligibility for more details) [2]105% TLTV Allowed with Affordable Second only, Affordable Second may not be HELOC	Property Type	LTV/TLTV[2]	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score
	1 Unit	FRM 97[1] ARM 95	AUS Cert with Min 620	1 Unit	80	AUS Cert with Min 620
	2 Unit	85				
	3-4 Unit	80		2-4 Unit	75	
	Second Home			Second Home		
	Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs		
	Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score
	1 Unit	90	AUS Cert with Min 620	1 Unit	75	AUS Cert with Min 620
	Investment Property			Investment Property		
	Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs		
	Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score
	1 Unit	85	AUS Cert with Min 620	1 Unit	75	AUS Cert with Min 620
	2-4 Unit	75		2-4 Unit	70	

Ability To Repay and Qualified Mortgage Rule	• For loans subject to the ATR/QM rule, Pennymac will only purchase loans that comply with the ATR/QM requirements. ○ 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.
Age of Documents	• Must be dated within 120 days old on the note 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	• Determined by Loan Product Advisor (LPA).
	• Automated Collateral Evaluation (ACE) waivers and ACE+PDR, as determined by LPA are eligible.
	  ○ If an appraisal report or PDR is obtained an ACE appraisal waiver offer may not be accepted
	  ○ ACE waivers and ACE+PDR are not eligible for:
	  ▪ Leasehold estates
	  ▪ Properties subject to resale restrictions (excluding aged based resale restrictions)
	  ▪ Properties acquired in a non-arm's length transaction
	  ▪ Texas 50(a)(6) and Texas 50(f)(2) transactions
	• Desktop Appraisal allowed only with an Accept recommendation and feedback message in LPA indicating the loan is eligible for delivery with a desktop appraisal. All agency required desktop requirements must also be met. Eligibility requirements include:
	  ○ Purchase transactions of one-unit principal residence only
	  ○ Mixed-use properties are ineligible
	• 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 Freddie Mac requirements
	• Properties with accessory units may be acceptable when meeting Freddie Mac requirements:
	  ○ Allowed on 1-to 3-unit property
	  ○ Property must be appraised based on current use
	  ○ At least one comparable sale with an accessory unit, when available, to demonstrate the property's conformity and marketability to its market area. If a recent comparable sale with an accessory unit is not available in the subject neighborhood, the appraiser can use an older sale with an accessory unit from the subject neighborhood or a sale with an accessory unit from a competing neighborhood as a comparable sale or as supporting market data. The appraiser may always use more than three comparable sales, including contract sales (pending sales) and/or current listings, to justify and support his or her opinion of market value, as long as at least three are actual closed (settled) sales
	  ○ If a comparable sale with an accessory unit is not available, the appraiser can use a comparable sale in the subject neighborhood without an accessory unit as long as the appraiser can justify and support such use in the appraisal report. Freddie Mac will purchase eligible Mortgages secured by a property with an accessory unit if the appraiser can develop an accurate opinion of market value for the property
	  ○ Manufactured homes as an accessory unit are acceptable if they meet all the requirements in the Freddie Mac Selling Guide and <u>are given no value by the appraiser</u>
	  ○ If the subject property accessory unit does not comply with the zoning and land use requirements, property is eligible if:

	▪ The "Site" section of the appraisal report indicates that the accessory unit does not comply with zoning and land use requirements (illegal zoning compliance) ▪ At least two comparable sales with each having only one accessory unit must be included in the appraisal report. The accessory unit of each comparable sale must also be non-compliant with the zoning and land use requirements to demonstrate the conformity and marketability of the subject property to its market area; and ▪ Pennymac confirms that the existence of the accessory unit will not jeopardize future hazard insurance claims • Appraisal Updates in accordance with Freddie Mac guidelines are acceptable • 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	Assets
	• Follow Freddie Mac 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 Freddie Mac gift fund requirements.
	• Follow Freddie Mac guidelines for gift fund eligibility and documentation requirements
	  ○ Gift funds are ineligible on an investment property transaction
	Large Deposits
	• Follow Freddie Mac guidance for large deposit eligibility and verification requirements
	  ○ Large deposits sourced back to a non-borrowing purchaser are considered a gift and must follow Freddie Mac 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. Acceptable documentation to use those funds includes the following:
	  ○ Documentation from 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
	
	Minimum Borrower Contribution
	• A minimum borrower contribution of 5% of their own funds into the transaction is required when one of the following apply:
	  ○ Second home with LTV >80%
	  ○ Transactions with a shared equity plan (regardless of LTV)

Assignment of Mortgages	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.
AUS	• Loan Product Advisor with "Accept" Recommendation is required. LPA A Minus Offering is not allowed. • Manual UW is not allowed.

Borrower Eligibility	• U.S. Citizens
	• Permanent resident aliens, with proof of lawful residence
	• Nonpermanent resident alien immigrants, with proof of lawful residence
	• Properties vested in trusts are permitted for all occupancy types in accordance with Freddie Mac Trust guidelines
	  ○ Pennymac allows investment properties to be vested in the name of the trust
	• LTV/TLTV above 95.01% and above (HomeOne)
	  ○ All borrowers must occupy the property
	  ○ At least one borrower must be a first-time home buyer on purchase transactions
	  ○ Standard balance only

CEMA	• Refinance Only • eMortgages are ineligible • Lost Note Affidavits (LNAs) are not allowed for prior or current notes

Condominiums	• Refer to the Freddie Mac Selling Guide for complete guidance on condominium eligibility and project standard requirements.
	• Streamlined Condo review allowed in accordance with Freddie Mac Guidelines, including N/O/O up to 75%
	• Condo Project Advisor waiver request allowed for the following;
	  ○ Delinquent assessments
	  ○ Excessive commercial space
	  ○ Pending litigation
	  ○ Owner occupancy (referred to as 'Project Unit Occupancy' in Condo Project Advisor)
	  ○ Reserves for capital expenditures and deferred maintenance
	  ○ Excessive single investor concentration (referred to as 'Single Entity Ownership' in Condo Project Advisor)
	  ○ The Condo Project Advisor feedback certificate must be maintained in the mortgage file
	• Condominium Unit Mortgages with approved Project Waiver Request, must be delivered to Freddie Mac within 120 days after the note date
	• Freddie to Freddie rate and term refinances up to 80% LTV/TLTV may be eligible for a waiver of the project eligibility review.
	• Documentation confirming Freddie Mac is the current owner and the current Freddie Mac loan number is required.
	• Pennymac will not allow a project in which: (i) the HOA is named as a party to pending litigation/mediation/arbitration, or (ii) the project sponsor or developer is named as a party to pending litigation/mediation/arbitration that relates to the safety, structural soundness, functional use or habitability of the project. If it is determined that the reason for the pending litigation only involves minor matters that do not affect the safety, structural soundness, functional use or habitability of the project, the project is eligible if the litigation/mediation/arbitration is limited to one of the following
	  ○ The litigation amount is known, the insurance company has committed to providing defense and the litigation amount is covered by the insurance policy
	  ○ The litigation amount is unknown, the complaint is documented in the file, an attorney opinion letter is provided confirming litigation is only a minor matter, insurance is providing defense, and any possible damages are covered by insurance.
	  ○ The matters involve non-monetary neighbor disputes regarding rights of enjoyment, whether litigated or in an alternative dispute resolution (ADR) proceeding or
	  ○ The HOA is the plaintiff seeking reimbursement for repair expenses and the issue did not significantly impact financial stability or future solvency of HOA.
	  ○ The valid estimation of or known litigation amount is not expected to exceed 10% of the project's funded reserves, provided that use of the project's funded reserves to pay for project litigation or dispute resolution does not violate the applicable jurisdiction's laws and regulations.
	• Florida Condos are allowed in accordance with Freddie Mac requirements with the exception of newly converted condo projects

	• 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

Continuity of Obligation:	When an existing mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met: • At least one borrower on the refinance mortgage was a borrower on the mortgage being refinanced; or • At least one borrower on the refinance mortgage held title to and resided in the mortgaged premises as a primary residence for the most recent 12-month period and the mortgage file contains documentation evidencing that the borrower has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 12-month period; or • At least one borrower on the refinance mortgage inherited or was legally awarded the mortgaged premises by a court in the case of divorce, separation or dissolution of a domestic partnership

Credit	• All borrowers may have no credit score. Freddie Mac and LPA requirements must be met.
	  ○ For LTV/TLTV above 95%: at least one borrower must have a usable credit score as determined by LPA.
	• Must pay off any existing judgments or tax liens.
	• 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.
	• Rent payment history included in the LPA assessment is eligible
	  ○ Purchase transactions only
	  ○ At least one borrower with a rent payment history must:
	  ▪ Have a usable credit score as determined by LPA; and
	  ▪ Be a first-time homebuyer who intends to occupy the subject property as their primary residence; and
	  ▪ Have been renting for a minimum of 12 months with a monthly rent payment of at least $300 paid from the depository account on the verification report or documented as described in the *borrower provided documentation* requirements below.
	  ▪ <u>Only PCG Delegated clients</u> who have obtained Freddie Mac's written approval may utilize *borrower provided documentation* as outlined below.
	  ▪ The monthly rent amount paid by the borrower must be submitted to LPA and:
	  ▪ Obtain a verification report of the depository account from which the rent payments are made; or
	  ▪ Provide true for the positive rental history indicator and follow *borrower provided documentation requirements* outlined below *(<u>PCG Delegated clients only</u>)*
	  ○ Borrower provided documentation requirements (<u>PCG Delegated clients</u> with Freddie Mac written approval only):
	  ▪ The last feedback certificate must indicate positive rental payment history was included in the credit assessment and borrower documentation was provided. *All* of the following documentation is required and must be included in the loan file:
	  ▪ Fully executed lease agreement for the most recent 12-month period as of the application date

            - Proof of timely rent payments (i.e., no 30-day or greater late payments) in accordance with the terms of the lease for the most recent 12 months as of the application date. Timely receipt to be evidenced by one or more of the following:
                - Cancelled checks
                - Bank/asset account statements
                - Third-party asset verifications
                - Verification reports
                - Evidence of rent payments transferred from the Borrower's bank account to the landlord through a third-party money transfer application
                - Refer to the appropriate sections of the Freddie Mac Seller Guide for complete documentation requirements on all items outlined above.
    - All "rent payment history included in the LPA Assessment" requirements apply. Refer to the Freddie Mac Seller Guide for complete requirements.
    - The documentation used to support the borrower's rent payment history must comply with Freddie Mac's age of documentation requirements.
- For student loans in deferment, forbearance or repayment, including income-driven plans, an amount greater than zero must be included in the DTI.
    - If the monthly payment amount reported on the credit report is > zero, the monthly amount on the credit report must be used for qualification purposes (unless documentation supports a different payment amount > zero)
    - If the monthly payment amount reported on the credit report is zero, 0.5% of the outstanding loan balance as reported on the credit report must be used for qualification purposes (unless documentation supports a different amount > zero).
    - For income driven plans, if documentation in the file indicates the borrower must recertify their income and/or the borrower's payment will increase prior to or on the first mortgage payment due date, the following must be included in the DTI:
        - The greater of the current payment or 0.5% of the outstanding loan balance, or
        - The documented future payment amount if greater than the current payment, or
        - The future payment amount that is less than or equal to the current payment, provided that evidence the borrower has recertified their income and the future payment amount has been approved. The future payment amount must be greater than zero.
- For borrowers with frozen credit, no more than one credit bureau can have frozen credit information.
- 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):
    - Provide third party verification of payment amount.
- IRS Installment Agreements – must meet the following requirements:
    - IRS approved: The payment associated with the installment agreement must be included in the calculation of the borrower's debt payment-to-income ratio if there are more than 10 months of payments remaining under the agreement.
        - The loan file must include a copy of the installment agreement approved by the IRS verifying the payment terms, including the monthly payment amount and balance.
        - The loan file must contain documentation verifying that the borrower is *not* past due under the terms of the installment agreement.
        - There must be no indication, and the lender must have no knowledge that the IRS has filed a Notice of Federal Tax Lien for the taxes owed under the installment agreement.
    - Pending IRS approval: When a borrower has applied for an installment agreement and it is pending IRS approval, the following requirements must be met:
        - The application for the installment agreement reflecting the amount of taxes owed and requested payment terms must be documented in the loan file.

	▪ The greater of the monthly payment amount requested by the borrower or the amount of taxes owed divided by 72 must be included in the DTI ratio. ▪ There must be no indication, and the lender must have no knowledge that the IRS has filed a Notice of Federal Tax Lien for the taxes owed under the installment agreement. ○ Non-Del Only: No more than two tax years may be on repayment plan
Derogatory Credit	• No specific waiting times with an LPA Accept. All derogatory events must be reflected on the credit report in order for the LPA accept to be valid. To further clarify, an LPA Accept will remain valid unless a significant derogatory event "e.g. more than a 1 X30 mortgage late in last 12 months" occurs. • If derogatory event is not reflected on credit report, or is not accurate, the loan must be manually underwritten. Pennymac does not purchase manually underwritten Freddie Mac loans.
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. • 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.
Documentation	• Documentation requirements determined by LPA • **Non-Del only:** VODs are not acceptable for asset documentation • Non-Del: Handwritten Verification of Mortgages (VOM) or Verification of Rents (VOR) are not eligible ○ Private mortgages may be verified with cancelled checks or bank statements. • One year of tax returns is acceptable if allowed by LPA and Freddie Mac guidelines • Freddie Mac Automated Income and Asset Assessment • Loans using FHLMC Automated Income and Asset assessment are acceptable • Lenders must provide the third-party vendor report used in the LPA validation process. • Income or assets derived from the following sources are ineligible for qualifying: ○ The production or sale of marijuana ○ Bitcoin or other cryptocurrencies ▪ See Assets/Gift Funds/Large Deposits section for documentation requirements on funds used for closing/reserves that originated from a cryptocurrency account. • Current housing payment for non-occupying borrowers. The borrower must document their current housing payment with one of the following when they do not own a primary residence. ○ Direct verification of rent from a management company, or ○ Direct verification of rent from an individual landlord (supported by two months of cancelled checks or other evidence of two months payments), or ○ Copy of the current fully executed lease agreement (supported by two months of cancelled checks or other evidence of two months payments), or ○ Six months of canceled checks or bank statements supporting consistent payment in the amount used in qualifying • *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	• Gifts or grants from an Agency are eligible • Employer assistance is eligible • Affordable seconds are eligible • Refer to Freddie Mac Selling Guide for complete requirements

Eligible Mortgage Products	• Pennymac will only purchase the following products:
	  ○ Agency Fixed Rate: up to 30 years
	  ○ Agency SOFR ARMs:
	  ▪ 5/6: 2/1/5 caps, qualifying rate: greater of fully indexed rate* or note rate + 2%**
	  ▪ 7/6: 5/1/5 caps, qualifying rate: note rate ***
	  ▪ 10/6: 5/1/5 caps, qualifying rate: or note rate ***
	  ▪ ***Exception: ARMs in IL, MA, MD (Purchase only), NM and PA require qualifying at the greater of the Note rate or the fully indexed rate. The LPA qualifying rate may need to be adjusted to comply with this requirement.
	  Please refer to selling guide section 4401.8 for additional information
	  * Fully indexed rate = index rate + margin
	  **An "Accept" recommendation by LPA 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.
	  ○ Margin of 2.75% to 3.0% are allowed
	  ▪ Non-Del: Margin of 2.75% only.
	• <u>Agency 3/6 SOFR ARMs are not eligible</u>
	• Home Possible financing is eligible. See the Home Possible Product Profile for complete details.
	• HomeOne is eligible. HomeOne is a loan with LTV/TLTV above 95% and is not a Home Possible loan.
	  ○ Standard balance only
	  ○ Fixed Rate only allowed
	  ○ Refer to Borrower Eligibility section
	  LPA and Freddie Mac requirements must be met.
	• <u>CHOICERenovation mortgages are ineligible</u>
	• Loans using the alternative LTV calculation, are eligible for purchase subject to meeting all Freddie Mac requirements. See Freddie Mac Chapter 4406.1 and 4406.2, Mortgages Secured by Properties Subject to Resale Restrictions.
	• 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:
	  ○ State eligibility; and
	  ○ Product eligibility; and
	  ○ Transaction eligibility; and
	  ○ eNotarization eligibility; and
	  ○ RON eligibility

Employment/Income Verification	Employment and income documentation must comply with the requirements of Loan Product Advisor or the Freddie Mac Seller Guide if not addressed by LPA:
	• For salaried employees Pre-closing verification (PCV, previously known as verbal verification of employment) must be completed within 10 business days prior to the note date.
	• For self-employed borrowers the PCV 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 days prior to the note date is acceptable in lieu of a verbal verification of employment.
	• Provide a written analysis of the income used to qualify the borrower on the Transmittal Summary or like document(s) in the file. An Income Analysis must be completed for self-employed borrowers.
	• Assets as a basis of qualification is acceptable in accordance with Freddie Mac.
	• Mortgage Credit Certificates (MCCs) The amount of the MCC tax credit may be considered as qualifying income in accordance with the following requirements:
	  ○ The amount used as qualifying income must be calculated as follows: (Mortgage amount) x (Note Rate) x (Mortgage Credit Certificate rate %) divided by 12
	  ○ The amount used as qualifying income cannot exceed the maximum Mortgage interest credit permitted by the IRS
	  ○ The Mortgage file must contain a copy of the:
	  ▪ MCC
	  ▪ Seller's calculation of the amount used as qualifying income history of receipt of MCC tax credit is not required.
	• 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.

Employment and Income commencing after the note date	• Option one is acceptable, see Freddie Mac Seller Guide 5303.2 for complete details.
	• <u>Option two is not allowed</u>
	• Purchase, No cash out refinance only
	• 1-unit primary residence only
	• Employment or increase must start no later than 90 days after the note date
	• Income must be from new primary employment or a future salary increase with the current primary employer
	• Non-fluctuating base pay only, employer may not be a family member or interested party
	• Verify additional funds that meet or exceed the amount of the monthly housing expense plus other liabilities due between Note Date and start date of new employment/future increase plus one month
	  ○ Partial month is counted as one month
	  ○ Required in addition to all other required funds
	• Include the offer letter, or employment contract, or proof of salary increase from current employer in the file
	  ○ Must be fully executed and accepted by the borrower
	  ○ Must be non-contingent or provide evidence from the employer all contingencies have been cleared
	  ○ Must include the terms of employment including start date, and annual income based on non-fluctuating earnings
	  ○ Future salary increase only: Increase is fully approved and explicitly granted to the borrower
	• Provide a 10-day pre-closing verification (PCV) verifying the terms of the employment offer letter, contract or future salary increase have not changed
	• All other Freddie Mac and Pennymac requirements must be met

Escrow Holdbacks	Escrow holdbacks are allowed in accordance with Freddie Mac guidelines including, but not limited to:
	• 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 will be required that states how the escrow account will be managed and how the funds will be disbursed.
	• <u>Non-Del Only:</u>
	  ○ <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>

Financing Concessions	• Financing concessions for primary residences and second homes must be within the following allowable percentages:
	  ○ 9% of value with LTV/TLTV ratios less than or equal to 75%
	  ○ 6% of value with LTV/TLTV ratios greater than 75% up to and including 90%
	  ○ 3% of value with LTV/TLTV ratios greater than 90%
	  ○ The maximum financing concession for investment properties is 2% of value regardless of the LTV ratio
	  Note: Financing concessions paid by Freddie Mac, as the property seller for transactions involving the sale of Freddie Mac REO properties are not subject to the above maximum financing concession limits. In all cases, the requirements for use of financing concessions continue to apply i.e., the concessions must not exceed the borrower's actual closing costs. Selling Guide section 5501.5
	• Property Seller can pay up to 12 months future HOA dues per Freddie Mac's guidelines. Amount of HOA dues must meet IPC limits. Refer to the Freddie Mac Selling Guide for additional information.

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 Freddie Mac Seller 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.
	• A prohibition on ARM loans with an initial fixed rate period of less than seven years (7/6 ARMs are eligible). HPML ARMs are qualified at the greater of the note rate or the fully indexed rate.

Loan Purpose:
Purchase and Rate & Term Refinance
	• Purchase
	  ○ For LTV/TLTV above 95%: When all borrowers are first time home buyers, at least one borrower must participate in a homeownership education program acceptable to Freddie Mac.
	• No Cash-Out/Rate & Term Refinance
	  ○ When the LTV/TLTV is greater than 95%: the loan being refinanced must be owned in whole or in part or securitized by Freddie Mac
	  ○ The refinance mortgage being paid off must have a note date no less than 30 days prior to the note date of the no cash-out refinance, and evidence must be documented in the loan file.
	  ○ Proceeds can be used to pay off a first mortgage.
	  ○ Proceeds can be used to pay off or pay down any junior liens related to the purchase of the subject property
	  ○ 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 no cash-out refinance (refer to cash-out section below)
	  ○ Pay related closing costs and prepaid items
	  ○ Disburse cash out to the borrower (or any other payee) up to the greater of 1% of the new refinance mortgage or $2,000
	  ○ For cases in which title to the property is held by a limited liability company (LLC) or limited partnership (LP),
	  ▪ At least one borrower must have been the majority owner or had control of the LLC or LP since the date the property was acquired by the LLC or LP, and
	  ▪ Title must be transferred from the LLC or LP into the borrower's name on or before the note date.
	  ○ Continuity of obligation requirements must be met.

Loan Purpose:
Cash Out Refinance
	• Requirements for all cash-out refinances
	  ○ **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.
	  ○ Non-occupant borrowers are ineligible

- At least one borrower must have been on the title to the subject property for at least six months prior to the note date, except as specified below:
  - For cases in which the property is a leasehold estate, at least one borrower must have been lessee on the ground lease or lease agreement of the subject leasehold estate for at least six months
  - For cases in which title to the property is held by a limited liability company (LLC) or limited partnership (LP), the time the property was titled in the name of the LLC or LP may be included in the six-month requirement provided:
    - At least one borrower must have been the majority owner or had control of the LLC or LP since the date the property was acquired by the LLC or LP, and
    - Title must be transferred from the LLC or LP into the borrower's name on or before the note date.
- If none of the borrowers have been on the title to the subject property for at least six months prior to the note date of the cash-out refinance, the following requirements must be met:
  - At least one borrower on the refinance inherited or was legally awarded the subject property (for example, in the case of divorce, separation or dissolution of a domestic partnership)
  - OR, all of the following requirements are met for borrowers seeking delayed financing:
    - The executed HUD-1 Settlement/Closing Disclosure Statement from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property
    - The preliminary title report for the refinance transaction must reflect the Borrower as the owner of the subject property and must reflect that there are no liens on the property
    - The source of funds used to purchase the subject property must be fully documented
    - If funds were borrowed to purchase the subject property:
      - Cash-out proceeds must be used to pay off or pay down the borrowed funds, as reflected on the Settlement/Closing Disclosure Statement for the refinance transaction
      - Additional cash-out is permitted *only* when all borrowed funds are paid in full, and
    - The payment on any remaining outstanding balance of the borrowed funds must be included in the DTI ratio The amount of the cash-out refinance Mortgage must not exceed the sum of the original purchase price and related Closing Costs, Financing Costs and Prepaids/Escrows as documented by the HUD-1 Settlement/Closing Disclosure Statement for the purchase transaction, less any gift funds used to purchase the subject property.
    - There must have been no affiliation or relationship between the buyer and seller of the purchase transaction
- The cash-out refinance mortgage must comply with the applicable LTV/TLTV/HTLTV ratio limits and all other Freddie Mac requirements
- All refinance transactions must meet Continuity of Obligation requirements

- Cash-out refinance mortgage used to pay off a first lien mortgage
  - When proceeds of a cash-out refinance mortgage are used to pay off a first lien mortgage, the first lien being refinanced must be seasoned for at least 12 months (i.e., at least 12 months must have passed between the Note Date of the mortgage being refinanced and the Note Date of the cash-out refinance mortgage), as documented in the mortgage loan file (e.g., on the credit report or title commitment)
  - The requirement that the mortgage being refinanced must be seasoned for at least 12 months does **not** apply when:
    - The cash-out refinance is a special purpose loan cash-out refinance that meets Freddie Mac requirements or
    - The first lien mortgage being refinanced is a Home Equity Line of Credit (HELOC); or
    - Construction conversion mortgages (2x close)
  - A refinance transaction that is paying off an existing first mortgage lien and a second lien created due to a payment deferral is eligible subject to the above seasoning requirements
  - Refinance to buy out owner's interest: Written agreement must be legible and signed/<u>dated prior to or at application</u>. All other Freddie Mac requirements must be met.

	○ The cash-out refinance Mortgage must comply with the applicable LTV/TLTV/HTLTV ratio limits and all other Freddie Mac requirements ○ All refinance transactions must meet Continuity of Obligation requirements • Cash-out refinance mortgage on a property owned free and clear ○ A mortgage placed on a property previously owned free and clear by the borrower is considered a cash-out refinance, except for: ▪ GreenCHOICE Mortgages when proceeds are used only to finance eligible energy and/or water efficiency improvements (**PCG Delegated only)**
Loan Purpose: Ineligible Transactions	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
Mortgage Insurance	Eligible MI Types • Standard and Reduced (custom) MI (Refer to Freddie Mac Selling Guide for complete requirements) • Borrower Paid Monthly • Borrower Paid Single Premium • Borrower Paid Financed ○ Gross LTV cannot exceed program maximum ○ Not allowed for Super Conforming Loans ○ <u>Not allowed with split premium</u> ○ Reduced (custom) MI not permitted ○ Refer to Freddie Mac Selling Guide for complete requirements • Split Premium per Freddie Mac Selling Guide requirements • Lender Paid Single Premium Ineligible MI Types: • <u>Any MI type not listed as acceptable</u> 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).
Occupancy	• Primary Residence - 1-4 units • Second Homes - 1-unit only • Investment Properties 1-4 units ○ Borrowers financing with the 5/6 ARM loan product are limited to owning only one financed investment property (Selling Guide 4201.16)

Open-End (30 Day) Accounts	For 30-day accounts (i.e., accounts that require the balance to be paid in full monthly): • Verify sufficient funds[1] to cover balance, in addition to funds required for closing and reserves and exclude from DTI, or • Document payment amount and include in DTI. Acceptable documentation may include a monthly statement or credit supplement showing the payment amount. • 5% of balance may not be used as a default payment. [1] The source of funds must be from an eligible source as described in Freddie Mac Guide section 5501.3
Power of Attorney (POA)	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
Property: Eligible Types	• Single Family Detached Single Unit • Single Family Attached Single Unit • 2–4 Unit Attached/Detached ○ LTV/TLTV above 95%: Not eligible • PUDs • Low-rise and high-rise condominiums (must be Freddie Mac eligible) • Rural Properties (in accordance with agency Guidelines, loans must be residential in nature) • Manufactured Homes – refer to the Freddie Mac Manufactured Home Product Profile for all requirements. The more restrictive of the loan program guidelines apply.
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 • Condition Rating of C5/C6 or a Quality Rating of Q6 • Non-Del Only: New construction and gut rehab condos are not allowed, unless final PERS approved from Fannie Mae, with no conditions.

Property; Maximum Number of Financed Properties	• The loan must comply with Freddie Mac's limitations on the maximum number of financed properties:
	  ○ owner-occupied: unlimited
	  ○ second home and investment property: ten
	• When the borrower owns 7-10 financed properties:
	  ○ LPA accept required
	  ○ Minimum 720 credit score

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. • 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.
Ratios	• The maximum DTI is 50% with an LPA Accept • Loans with DTI exceeding 50% regardless of AUS decision are ineligible. • Pennymac allows non-occupant co-borrower blended ratios in accordance with Freddie Mac guidelines
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 Calculation	• Follow Freddie Mac guidelines relative to rental income calculation. • Rent loss insurance is not required. • Refer to the Freddie Mac Selling Guide for information on rental income from an ADU on a 1-unit primary residence.
Reserves	• Follow LPA requirements for reserves • Reserves must be based upon the full monthly payment (PITIA) amount for the property.
Seasoning	Please refer to the Pennymac Seasoned Loan Policy located in the Pennymac Seller Guide for requirements and loan-level price adjustments.

State Restrictions	• Illinois Land Trust vesting's are not eligible for loan sale to Pennymac
	• Texas Non-Owner-Occupied Cash-Out transactions – A borrower must own a homestead property in the State of Texas in order to complete a non-owner-occupied cash-out (non-A6) transaction in TX.
	• Texas 50 (a)(6) refinance mortgages are eligible with Pennymac Seller Approval:
	  ○ Owner-Occupied, 1 unit only – Non occupant co-borrowers may not be eligible on TX A6 loans. Correspondents are responsible for determining acceptability.
	  ○ Maximum 80% LTV/TLTV
	  ○ 2% fee restriction in accordance with Texas Constitution
	  ○ Full appraisal required
	  ○ No new secondary financing
	  ○ Loans must comply with Freddie Mac and Texas Constitution requirements
	  ○ 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 when the loan file contains tax transcripts
	  ○ **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 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 • Owner Occupied and Second Homes only • Purchase and No Cash-Out Refinances (cannot be funded with premium pricing) only • Minimum 660 FICO • Fixed Rate and ARMs. For 3-4 units, only 7/6 and 10/6 ARMS are eligible. • Manufactured Homes are ineligible • Must qualify at the standard note rate without benefit of the buydown • Must meet all other applicable Freddie Mac 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 Freddie Mac 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.