PennyMac Correspondent Group

Announcement 16-16

Date: April 27, 2016

Topic: Fannie Mae DU 10.0 Release Notes and SEL 2016-03

PennyMac is announcing the following updates from Fannie Mae's DU 10.0 Release Notes and SEL 2016-3. The applicable effective date is included in each section:

Multiple Financed Properties

Previously, Fannie Mae had additional requirements for borrowers with multiple financed properties, including reduced LTVs, and transaction restrictions when the subject property was a second home/investment and the borrower owned 5-10 financed properties.

Effective immediately, PennyMac is aligning with Fannie Mae's updates for borrowers with multiple financed properties:

- A financed property has been redefined as a residential one-to four-unit property with a mortgage for which the borrower is personally obligated;
- The reserve calculation has been redefined for the other financed properties and will now be determined by applying a specific percentage based on the number of financed properties to the aggregate of the outstanding unpaid principal balance (UPB) for all mortgages and HELOCs:
    - 2% of the aggregate UPB if the borrower has 1 to 4 financed properties
    - 4% of the aggregate UPB if the borrower has 5 to 6 financed properties
    - 6% of the aggregate UPB if the borrower has 7 or more financed properties
- A minimum credit score of 720 is required for borrowers that have 7 to 10 financed properties. Borrowers remain limited to 10 financed properties.
- Delivery of SFC 150 is no longer required (applied when the borrower has five to ten financed properties).

These changes will not be implemented in DU until DU Version 10.0, the weekend of June 25, 2016; however, lenders can implement them immediately. Lenders will have to manually apply the minimum credit score and reserves policies as applicable. Lenders must not deliver SFC 150 on loans underwritten to the new policies.

Underwriting Borrowers without Traditional Credit

Currently, PennyMac aligns with Fannie Mae DU and requires at least one borrower to have a minimum of one credit score to be eligible. A co-borrower with no credit score may be eligible, subject to limitations.

Effective with DU 10.0 runs, released the weekend of June 25, 2016, PennyMac is aligning with Fannie Mae's update where no borrowers have a credit score. DU will apply the following additional underwriting guidelines to ensure the overall risk assessment is appropriate for the loan:

- Principal residence transaction where all borrowers will occupy the property
- One-unit property (may not be a manufactured home)
- Purchase or limited cash-out refinance transaction
- Fixed-rate mortgage
- Loan amount must meet the general loan limits (may not be a high-balance mortgage loan)
- LTV, CLTV, and HCLTV ratios may be no more than 90%
- Debt-to-income ratio must be less than 40%

DU will require the verification of at least two non-traditional credit sources for each borrower that does not have traditional credit, one of which must be housing-related. A 12 month payment history is required for each source of nontraditional credit, which must be documented in accordance with the Fannie Mae Selling Guide.

In addition, effective with DU 10.0, PennyMac is aligning with Fannie Mae's updates to the eligibility requirements for co-borrowers with no score:

- The requirement prohibiting self-employed income is removed
- The requirement that the borrower(s) with the credit score must contribute more than 50% of the qualifying income is removed.
- When the borrower(s) with a credit score is contributing 50% or less of the qualifying income, DU will issue a message requiring the lender to document a minimum of two sources of nontraditional credit that has been active for at least 12 months for the borrower that does not have traditional credit, one of the sources being housing-related.

Updates to Texas 50(a)(6)

Effective with loans sold to Fannie Mae on or after May, 1 2016. Fannie Mae is eliminating the special lender approval requirement for the selling of Texas 50(a)(6) transactions.

As a reminder, PennyMac approval is required to sell Texas 50(a)(6) transactions to PennyMac, regardless of Fannie Mae's removal of their approval requirements. Please see your Sales Representative regarding Texas 50(a)(6) approval.

Project Insurance Coverage Updates

Effective immediately, PennyMac is aligning with Fannie Mae's updates to the project insurance updates, including:

- The requirement for flood insurance to cover all machinery and equipment that are not part of the building has been removed, as these items are not covered by a Residential Condominium Building Association Policy.
- Lenders are now only required to verify that the HOA maintains the requisite flood policy for the subject unit's building, and not coverage for all buildings in the project that are located in a Special Flood Hazard Area.
- The requirement for the liability, and fidelity/crime insurance policy to provide at least ten days' written notice to each holder of a first mortgage or share loan before the insurer can cancel or substantially modify it, has been removed.
- The requirement for the HOA management agent to maintain a specific amount of fidelity/crime insurance has been removed.

Please contact your Sales Representative with any questions.