



**Announcement 17-09**

**Date: March 08, 2016**

**Topic: Freddie Mac Income and Asset Changes in Bulletin 2016-19 and 2016-23**

Effective immediately for Freddie Mac loans, PennyMac will align with Freddie Mac’s updates to income and assets as announced in Freddie Mac Bulletins 2016-19 and 2016-23. Lenders may deliver loans under the current guidelines until June 1, 2017, and PennyMac must purchase these loans by June 22, 2017. Lenders must follow Freddie Mac’s new income and asset requirements for all Freddie Mac loans delivered on or after June 2, 2017.

Below is a high level summary of some of the key changes. Please review Freddie Mac Bulletins 2016-19, 2016-23 and Freddie Mac guidelines for complete information. Please note that for a period of time Freddie Mac and PennyMac will allow an individual loan to be documented and underwritten using either current guidelines or the new guidelines; however Lenders may not combine requirements from current and new guidelines in the same loan.

**Income**

Topic	Current	New
<b>Self-employment Documentation</b>	<ul style="list-style-type: none"> <li>• Streamlined Accept: One year personal and business returns</li> <li>• Standard: Two years personal and business returns.</li> </ul>	<ul style="list-style-type: none"> <li>• Business in existence greater than or equal to five years               <ul style="list-style-type: none"> <li>○ One year personal and business returns required.</li> </ul> </li> <li>• Business in existence less than five years               <ul style="list-style-type: none"> <li>○ Two years personal and business returns required.</li> </ul> </li> </ul>
<b>Rental Real Estate Income and Expenses of a Partnership or an S Corporation</b>	<i>No specific guidance</i>	<p>All rental real estate income and expenses reported on IRS Form 8825 for partnerships and S corporations are to be treated as self-employment income, regardless of whether or not the Borrower is personally obligated on the Note.</p> <p>Refer to Form 91 for the appropriate treatment and calculation of the Borrower's proportionate share of the net rental real estate income or loss.</p>

<p><b>Income after the Note Date</b></p>	<ul style="list-style-type: none"> <li>• Purchase or rate and term refi</li> <li>• 1 Unit Primary Residence</li> <li>• Fully executed non-contingent (or contingent with documentation showing all contingencies have been cleared) contract with terms of employment</li> <li>• The borrower’s employment must begin within 60 days after the note date</li> <li>• The borrower must have a minimum of 3 months PITIA reserves in addition to all other required reserves</li> <li>• The Lender is not required to provide a Verbal Verification of Employment (VVOE) in connection with the borrower’s future employment</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase only</li> <li>• 1 Unit Primary Residence</li> <li>• Fully executed non-contingent (or contingent with documentation showing all contingencies have been cleared) contract with terms of employment</li> <li>• The borrower’s employment must begin within 60 days after the note date</li> <li>• The borrower must have a minimum of 6 months PITIA reserves in addition to all other required reserves plus sufficient income/assets to pay all liabilities between note and start date</li> <li>• The Lender is required to provide a 10 day VVOE indicating the offer has not changed</li> </ul> <p><i>Note: PennyMac requires the paystub in the file at time of delivery if NOT using the above guidelines</i></p>
<p><b>Self-Employed Age of VVOE</b></p>	<p>The verification must be completed prior to the Delivery Date, but no more than 30 days prior to the Note Date</p>	<p>The verification must be completed prior to the Delivery Date, but no more than 120 days prior to the Note Date</p>
<p><b>Income from a foreign source (i.e., non-employment/non-self employment income)</b></p>	<p><i>No specific guidance</i></p>	<p><b>Requirements:</b> The income must be reported on the Borrower's most recent U.S. federal individual income tax return Refer to the income type(s) listed in this chapter for the requirements applicable to the income type received from the foreign source (e.g., history of receipt, continuance, calculation, documentation).</p> <p><b>Documentation:</b></p> <ul style="list-style-type: none"> <li>• Copy of the Borrower's most recent complete signed U.S. federal individual income tax return, and</li> <li>• Documentation for the applicable income type in accordance with the requirements of this chapter</li> </ul>

## Assets

Topic	Current	New
<p><b>Earnest Money Deposit (EMD)</b></p>	<p>When verifying an earnest money deposit for a purchase transaction Mortgage, the Seller must determine that the source of the cash deposit is an eligible source of Borrower Funds and must document the source in accordance with the requirements for the applicable asset type, as stated in Section 5501.3.</p> <p>Care should be taken to make sure that the earnest money deposit is not counted twice in the evaluation of the Mortgage (i.e., deducted from the funds to close and counted in assets).</p>	<p>When an EMD for a purchase transaction is used to qualify the Borrower for the Mortgage transaction, the Seller must obtain evidence that the EMD check cleared the Borrower's account (e.g., copy of the canceled check, asset account statement or written statement from the EMD holder verifying receipt of the funds).</p> <p>When the EMD is needed to meet the minimum contribution from Borrower personal funds, the Seller must:</p> <ul style="list-style-type: none"> <li>• Verify that the source of the EMD is an eligible asset type and document it in accordance with the applicable requirements in this section</li> <li>• Provide account statement(s) (based on Streamlined Accept or Standard documentation requirements, as applicable) or a direct account verification (i.e., VOD) that covers the period up to and including the date the EMD funds cleared the account.</li> </ul> <p>The EMD must not be counted twice in the evaluation of the Mortgage (i.e., deducted from the funds to close and counted in assets).</p>

Please contact your Sales Representative with any questions.