Pennymac Correspondent Delegated only
Fannie Mae HomeStyle Renovation Product Profile
02.28.25

Overlays to Fannie Mae are underlined

Lenders must be approved by Pennymac prior to delivering HomeStyle Renovation loans.

Agency	Fannie Mae - DU Approval		
Finance Type	Purchase and Rate/Term Refinances		
Occupancy	Owner Occupied		
Term	Fixed Rate and ARMs		
[1] All standard Fannie Mae requirements for LTV/CLTV 95.01%-97% must be met. *2-Unit: High balance max. LTV/CLTV, HCLTV 85% **3-4 Units - High balance max. LTV/CLTV, HCLTV 75%	Property Type	LTV, CLTV, HCLTV	Min Credit Score
	1 Unit	FRM 97[1] ARM 95	680
	2 Unit	95*	680
	3 - 4 Unit	95**	680
	Second Home		
	Fixed Rate and ARMs		
	Property Type	LTV, CLTV, HCLTV	Min Credit Score
	1 Unit	90	680
	Investment Property		
	Fixed Rate and ARMs		
	Property Type	LTV, CLTV, HCLTV	Min Credit Score
	1 Unit - Purchase	85	680
	1 Unit- R/T Refi	75	680
Maximum Loan Amounts	Current Guidance is available at: https://www.fanniemae.com/singlefamily/loan-limits. Pennymac suggests Correspondents use Form 1035 or an alternative form with equivalent information to calculate the maximum mortgage amount.		

Agency	Fannie Mae
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	• Credit documents must be no more than 4 months old on the date the note is signed, including credit reports and employment, income and asset documents. • Preliminary Title Policies must be no more than 180 days old on the date the note is signed.

Appraisals	• Full appraisal required, "as-completed" that estimates the value of the property after completion of the renovation work.
	• Any existing unpermitted areas must be permitted by the end of construction.
	• All work must have required permits
	• Properties subject to a leasehold estate:
	  ○ Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
	  ○ Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.
	  ○ The appraiser must use a sufficient number of closed comparable sales with similar leasehold interests, if available, in the analysis of market value of the leasehold estate for the subject property.
	    ▪ If not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates.
	    ▪ The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised
	• 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 Fannie Mae verification of deposit and asset documentation guidelines to determine asset eligibility for down payment, closing costs, and reserve requirements.
	  ○ Asset statements must clearly identify the borrower as the account holder
	  ○ Assets held solely in the name of a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.
	• Follow Fannie Mae guidelines for gift fund eligibility and documentation requirements
	  ○ Gift funds are ineligible on an investment property transaction
	
	Large Deposits
	• Follow Fannie Mae guidance for large deposit eligibility and verification requirements
	  ○ Large deposits sourced back to a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.
	• On refinance transactions, the documentation or explanation for large deposits is not required; however, any borrowed funds, including any related liability, must be considered.
	
	Virtual Currency
	• Cryptocurrency/Virtual Currency may only be used as funds for closing and reserves if it has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution. There must be sufficient documentation to verify that the funds originated from the borrower's cryptocurrency/virtual currency account. 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 the LTV is > 80% and one of the following apply:
	  ○ 2 unit Principal Residence, or
	  ○ Second home

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	• Desktop Underwriter with "Approve/Eligible" Findings is required. Manual UW is not permitted.
	• For Purchase Transactions, the sales price is the sum of Line a + Line b in Section VII.
	  ○ Line a: Purchase price
	  ○ Line b: The cost of alterations, improvements, repairs

Borrower Eligibility	• U.S. citizens • Permanent resident aliens, with proof of lawful permanent residence • Nonpermanent resident alien immigrants with proof of lawful residence • DACA recipients are eligible with proof of legal status, including but not limited to a valid Employment Authorization Document card. See Non-U.S. Citizen Documentation Requirements. • Non-arm's length transactions are prohibited • Borrower may not be employed by or related to the contractor/company doing the renovation. • Borrowers must have valid Social Security Number, ITINs are not acceptable.
CEMA	• Refinance Only • eMortgages are ineligible • Lost Note Affidavits (LNAs) are not allowed for prior or current notes

Credit	• Each borrower's representative credit score must be a minimum of 680 regardless of the DU eligibility assessment unless the below requirements for a borrower without a credit score are met:
	  ○ At least one borrower must have a minimum of one credit score to be eligible.
	• When the borrower has an APO, FPO or DPO, military address it does not need to be located within the U.S. to obtain a credit report compatible with DU® loan casefile requirements.
	• Mortgage Payment History
	  ○ The mortgage payment history reflected on the credit report can be used to meet mortgage payment history requirements
	  ○ Lenders must warrant that repayment of the debt can be expected from the borrower and that there are no circumstances or conditions of which the lender is aware involving the mortgage, the mortgaged premises or the creditworthiness of the borrower that would adversely affect the value or marketability of the mortgage. If a borrower is not making payments on an existing mortgage at the time of application for a new mortgage, it may be an indication that the borrower is experiencing a financial hardship that is preventing them from making their mortgage payments. The lender must also consider whether the borrower's circumstances will impact their willingness or ability to make the payments on the new mortgage.
	  ○ As a reminder, Fannie Mae requires the following: On the date of the loan application, the borrower's existing mortgage(s) must be current, which means that no more than 45 days have elapsed since the last paid installment. If the credit report does not reflect the above, proof the additional loan payments were paid on time is required. Refer to Fannie Mae Selling Guide B3-5.3-03
	• A maximum of one credit bureau may be frozen with a DU accept. If the credit must be un-frozen, borrowers must unfreeze all bureaus, and the DU rerun with the updated credit.
	• 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.

<table>
<tr><td>Condominiums</td><td>

HOA must provide written approval for renovation work.
Renovation work is limited to the interior of the unit.
See B4-2 Project Standards in Fannie Mae's Seller Guide or https://www.fanniemae.com/singlefamily/project-eligibility for complete details on condos.
Fannie Mae to Fannie Mae rate and term refinances up to 80% LTV may be eligible for a waiver of the project eligibility review.

Documentation confirming refinanced loan was owned by Fannie Mae is required.
Condo type V required.
See B4-2.1-02 Waiver of Project Review for additional information.

Limited Review allowed in accordance with Fannie Mae Guidelines, including NOO up to 75% LTV/CLTV/HCLTV
Units in projects subject to a ground lease in which the HOA is the lessee, the lease must comply with Fannie Mae lease requirements unless the project has been approved by Fannie Mae in CPM. Refer to the Fannie Mae Selling Guide for complete condo/lease eligibility requirements.
Projects in which the HOA is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are ineligible.
Projects with pending litigation that involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, may be eligible if the litigation meets Fannie Mae's requirements for minor matters. See Fannie Mae Selling Guide Section B4-2.1-03 for details.
Florida Condos are allowed in accordance with Fannie Mae requirements.
See Pennymac Announcement 19-62 for additional documentation details. Lenders must provide all documentation used to verify the condo warranty type. This may include, but is not limited to:

Loan documentation with warranty type
HOA questionnaire
Copies of applicable insurance policies
Any additional documentation as required by the warranty type

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<tr><td>Construction Timeframe</td><td>

<u>Repairs and construction must be completed within 9 months</u> from the date the loan closed. <u>Extensions may be approved by Pennymac.</u>
<u>Early Payment Default is in effect until recourse is lifted.</u>

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Construction Contract	The construction contract must: • itemize the specific work that the contractor agrees to perform for the borrower, • state the agreed-upon cost of the renovation, • identify all subcontractors and suppliers, • Include an itemized description that establishes the schedule for completing each stage of the work and the corresponding payments to be made to the contractor. This contract, which must be executed by both the contractor and the borrower, should also require the contractor to: • be duly licensed (if required by applicable law); • obtain all required insurance coverages (such as all-risk, public liability, workmen's compensation, and automobile liability); • complete the work in compliance with the contract and all applicable government regulations (such as building codes and zoning restrictions); • provide for appropriate remedies for resolving disputes (including an agreement to indemnify the borrower for all property losses or damages caused by the contractor's employees or subcontractors).

Consultant	• Must use a HUD approved Consultant to assist with managing the project and draw requests when:
	  ○ Repairs or renovations exceed $15,000, or
	  ○ Any structural work is required.
	• Must inform the HUD Consultant the work is for a Fannie Mae HomeStyle transaction, and not a 203(b) or 203(k) transaction.

Contingency Reserves	• Contingency reserve equal to minimum of 10% of the total costs of the repairs and renovation work must be established and funded, for all mortgages, to cover required unforeseen repairs or deficiencies that are discovered during the renovation:
	  ○ 10% includes soft and hard costs.
	  ○ May be included in the renovation costs or funded by the borrower.
	  ○ Unused contingency funds, if financed, may be used to reduce the outstanding balance of the mortgage after all the renovation work has been completed and the certification of completion has been obtained.
	• Remaining contingency funds may also be used to make additional improvements or repairs that are permanently affixed to the property and add value to the property if:
	  ○ A Change Order Request (Form 1200) is provided prior to using any contingency reserve funds for additional improvements. Change orders must be approved by Pennymac prior to beginning additional work.
	  ○ The work scheduled and described in the plans and specifications has been completed, and the contingency reserve funds have already been reduced by any cost overruns;
	  ○ The contingency reserve funds that are used for additional improvements or repairs are documented, and inspections of the additional work or installations are completed by the appraiser who prepared the "as completed" value appraisal report.

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<td>Contractor Requirements</td>
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Do-It-Yourself not allowed
Borrower is responsible for choosing a licensed and insured contractor to perform the renovation.
Lender must determine that the contractor is qualified and experienced, has all appropriate credentials required by the state, is financially able to perform the duties necessary to complete the renovation work in a timely manner, and agrees to indemnify the borrower for all property losses or damages caused by its employees or subcontractors.
Lender is required to provide a complete contractor profile to Pennymac prior to purchase. Profile must include confirmation all references have been validated.
Copy of contractor license and insurance is required.

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<td>Derogatory Credit</td>
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<tr><th>Derogatory Event</th><th>Waiting Period Requirements</th></tr>
<tr><td>Bankruptcy — Chapter 7 or 11</td><td>4 years</td></tr>
<tr><td>Bankruptcy — Chapter 13</td><td>2 years from discharge date
4 years from dismissal date</td></tr>
<tr><td>Multiple Bankruptcy Filings</td><td>5 years if more than one filing within the past 7 years</td></tr>
<tr><td>5 years if more than one filing within the past 7 years</td><td>7 years
3 years with documented extenuating circumstances (see section below) allowed subject to:
up to the lesser of 90% LTV/CLTV or the max LTV/CLTV per the eligibility matrix,
purchase of an OO, or
rate and term of any occupancy
If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the lender obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.</td></tr>
<tr><td>Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale (Short Sale), Mortgage Charge-Off</td><td>4 years
2 years with documented extenuating circumstances, see Extenuating Circumstances below</td></tr>
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All transactions require a DU Approve/Eligible regardless of which time frame for the derogatory event is met, standard or extenuating circumstances.
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Derogatory Credit: Extenuating Circumstances	• Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. • If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include documents that confirm the event (such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.) and documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.). • The lender must obtain a letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate the borrower had no reasonable options other than to default on their financial obligations.
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	• Documentation requirements are determined by the AUS
	• 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.
	
	Day 1 Certainty
	
	• Loans using Day 1 Certainty are acceptable.
	• Lenders must provide the third-party vendor report used in the DU validation process. Pennymac will compare the vendor reference number and date to the DU messages.
	• When all of a borrower's income is validated by the DU validation service, the lender is not required to obtain a signed IRS Form 4506–C or tax transcripts for that borrower.
	Income or assets derived from the production or sale of marijuana are ineligible for qualifying.
	
	Second Home / Investment Properties / Non-Occupant Borrowers
	Current Housing Payment
	• Borrowers must document their current housing expense with one of the following when they do not currently own a primary residence:
	  ○ six months canceled checks or equivalent payment source;
	  ○ six months bank statements reflecting a clear and consistent payment to an organization or individual
	  ○ direct verification of rent from a management company or individual landlord; or
	  ○ a copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.
	• For second home transactions or non-occupant borrowers who are living rent-free, the borrower's rent-free status must be documented. A rent-free letter from a third party may be acceptable.
	
	Note: Regardless of AUS documentation requirements, all documentation submitted with the loan file is subject to review and may be used for qualification purposes.

Documentation: Required Forms	• Form 1035: HomeStyle Renovation Maximum Mortgage Worksheet. Used to calculate the maximum mortgage amount. **Note:** An alternative form with equivalent information to the 1035 is acceptable. • Form 1204: HomeStyle Renovation Consumer Tips. Used as a checklist for the key facts that need to be disclosed to the borrower. Borrower's signature serves as an acknowledgement of his/her understanding of the facts. • Form 1202: Contractor Profile. Used to assist the lender in making the determination if the contractor meets Fannie Mae's requirements. See Contractor Requirements section for more details. • Form 1200: HomeStyle Change Order Request (if applicable). Used to provide a detailed description of the change(s), the cost of the change(s), and the estimated completion date(s) for any changes requested by the borrower. Must be approved by Pennymac prior to start of work. • Form 1004D Appraisal Completion Report OR Form 1036 HomeStyle Completion Certificate. Used to document that the renovation was completed in accordance with the submitted plans and specifications. All applicable signatures must be provided. • Form 3730 Renovation Contract aka Homeowner/Contractor Agreement (HOCA) with required information. Used to document the contract between the borrower and contractor. • Form 3731 Renovation Loan Agreement or equivalent document with all required information. Used to document the renovation contract between the borrower and the lender. • Form 3739: Lien Waiver or equivalent document with all required information. Used to document all contractor, subcontractor, and supplier liens have been released prior to disbursing funds. • Form 3737: Construction Loan Rider to Security Instrument or equivalent document with all required information. Must meet Fannie Mae's requirements in B8-5-03. **Note**: Lender may use alternative forms that contain the same or substantially similar information.
Down Payment Assistance	• Donations from entities (grants) are eligible • Employer assistance is eligible • Community Seconds are eligible • Refer to Fannie Mae Selling Guide for complete requirements

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<td>Draws and Renovation Escrow</td>
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The lender may fund up to 50% of the planned materials cost at closing with an initial materials draw in the form of a check issued to the borrower and the contractor.
Funds will be dispersed to the contractor, borrower, inspector, or appropriate party, only when any given renovation work has been completed and inspected. All required documentation must be received by Pennymac prior to payment. Required documentation includes, but is not limited to:

Draw request forms,
Invoices
Lien waivers or title updates
Inspections

Fee for each inspection ordered by Pennymac is $185.

Change orders (if applicable)
Contingency Release Letter (if applicable)
Invoices (if applicable)

Before any disbursements during the renovation period for a HomeStyle mortgage are made, a lien waiver or a clear title report that releases all contractor, subcontractor, and supplier liens must be obtained.
No maximum number of draw requests.

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<td>Eligible Mortgage Products</td>
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Fixed Rate: 10, 15, 20, 25, 30 Year
SOFR ARMs:

5/6: 2/1/5 caps, qualifying rate: greater of fully indexed rate or note rate + 2%

An “Approve/Eligible” finding by DU may differ from the eligibility for the purpose of meeting QM requirements. The APR calculation for 5/6 ARMs requires the use of the maximum interest rate that would apply during the first five years as the interest rate for the full term of the loan. As a result, all loans must also meet QM requirements regardless of the AUS eligible determination.
Fully indexed rate = index rate + margin

7/6: 5/1/5 caps, qualifying rate: no less than the note rate
10/6: 5/1/5 caps, qualifying rate: no less than the note rate

Exception: 7/6 and 10/6 ARMs in IL, MA, MD (Purchase only), NM and PA require qualifying rate at the greater of the note rate or the fully indexed rate (index rate + margin). The DU qualifying rate may need to be adjusted to comply with this requirement.

Margin of 2.75% to 3.0% are allowed

Please refer to the Fannie Mae Selling Guide for additional information.
3/6 SOFR ARMs are not eligible
HomeReady loans are ineligible.
HomeStyle Energy loans are eligible under the standard Fannie Mae Program. See Fannie Mae Product Profile. HomeStyle Renovation may not be combined with HomeStyle Energy.
Fannie Mae High LTV not eligible
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%.

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<tr><td>eMortgages & eNotarization</td><td>eMortgages and eNotarization are not eligible for HomeStyle Renovation Loans.</td></tr>
<tr><td>Employment/Income Verification</td><td>
For salaried employees the verbal verification of employment must be completed within 10 business days prior to the note date.
For self-employed borrowers the verbal verification of employment must be completed within 120 days prior to the note date.
For borrowers in the military, a military Leave and Earnings Statement dated within 120 calendar days prior to the note date is acceptable in lieu of a verbal verification of employment.
Trust income is eligible and must be documented and calculated in accordance with all Fannie Mae requirements.
Mortgage Credit Certificates (MCCs) eligible per Fannie Mae guidelines.
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.
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<tr><td>Employment Offers or Contracts</td><td>Borrowers with employment beginning no more than 90 days after the note date are eligible when:
Purchase transaction, principal residence, one-unit property, the borrower is not employed by a family member or by an interested party to the transaction, and the borrower is qualified using only fixed based income.
Obtain and review the borrower’s offer or contract for future employment. The employment offer or contract must
clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
Clearly identify the terms of employment, including position, type and rate of pay, and start date; and be non-contingent. Note: If conditions of employment exist, the lender must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.
Start date for employment is no more than 30 days prior to the note date:
Employment offer or contract required; and
Verbal Verification of employment that confirms active employment status
Start date is no more than 90 days after the note date
Employment offer or contract only
Document, in addition to the amount of reserves required by DU or for the transaction, one of the following:
Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
Financial reserves or current income sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month.
Current income refers to income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract.
Current income may be used in lieu of or in addition to financial reserves. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date.
If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, and no verification of employment is required.
For Fannie Mae Employment Contracts option two is acceptable<u>, option one is not allowed</u>, Refer to Fannie Mae Selling Guide for additional details.
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Financing Concessions	• Financing concessions for primary residences and second homes must be within the following allowable percentages:
	    ○ 9% of value with LTV/CLTV ratios less than or equal to 75%
	    ○ 6% of value with LTV/CLTV ratios greater than 75% up to and including 90%
	    ○ 3% of value with LTV/CLTV ratios greater than 90%
	    ○ The maximum financing concession for investment properties is 2% of value regardless of the LTV ratio
	• Value is the lesser of the sales price or appraised value

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 post-renovation 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 post-renovation 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 (must reflect post-renovation replacement cost); or
	    ○ A recent property risk appraisal; or
	    ○ A statement from the insurer affiliated with the property confirming the post-renovation 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.*
	
	Insurance Premium
	• The premium use for qualification purposes must be based on the post-renovation coverage amount.
	
	Refer to the Fannie Mae Selling Guide for complete property insurance requirements.

High-Cost / Higher Priced	• Pennymac will not purchase High-Cost Loans
	• Higher Priced Mortgage Loans (HPML) transactions are eligible for purchase. HPML guidelines require:
	    ○ Establishment of an escrow account for taxes and insurance premiums on any transaction secured by a principal residence.
	    ○ Must meet all applicable state and/or federal compliance requirements.
	    ○ HPML ARM loans with an initial fixed rate period of less than seven years are ineligible.

Loan Purpose	• Purchase
	• Limited Cash-Out/Rate & Term Refinance
	    ○ At least one borrower on the new loan must be a current owner of the subject property (on title) at the time of the initial loan application. Please see the Fannie Mae Selling Guide for permitted exceptions.
	    ○ Properties held in a Limited Liability Corporation (LLC) do not meet Fannie Mae ownership eligibility requirements. At least one borrower (individually) must be on title prior to the application date of the new loan.
	    ○ A transaction is not eligible as a limited cash-out refinance if the borrower completed a cash-out refinance transaction with a Note date 30 days or less prior to the application date of a new refinance secured by the same property.
	    ○ Proceeds can be used to pay off a first mortgage
	    ○ Proceeds can be used to pay off 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 limited cash-out refinance
	    ○ For two-closing construction-to-permanent loans, to pay off an existing construction loan and documented construction cost overruns that were incurred outside of the interim construction financing. (These construction cost overruns must be paid directly to the builder at closing.)
	    ○ Pay related closing costs and prepaid items
	• Excess funds after renovations are completed, may be applied to the loan balance as a curtailment or may be reimbursed to the borrower for the cost of actual supplies or additional renovations for which paid receipts are provided. Borrower may not receive any incidental cash.

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

LTV/CLTV/HCLTV Calculation	• Purchase Transactions LTV is based on the lesser of:
	    ○ Purchase price plus cost of renovation, or
	    ○ The "As-Completed" value
	• Limited Cash-Out Refinance Transactions LTV is based on the "As-Completed" value

Mortgage Insurance	• MI is calculated from the estimated value of the home after renovation. Acceptable MI Types: • Borrower Paid Monthly • Borrower Paid Single Premium • Financed: Gross LTV cannot exceed Pennymac's program maximum • Split Premium • Lender Paid Single Premium Unacceptable MI Types: • <u>Lender Paid Monthly</u> • <u>Lender Paid Annual</u> • <u>Borrower Paid Annual</u> • <u>Any MI type not listed as acceptable</u> • <u>Reduced coverage</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).
Mortgage Payment Reserve	• An escrow for mortgage payments (PITIA) that will become due during the renovation period generally may be included as part of the total renovation costs for a principal residence property if the property cannot be occupied during the renovation period. • The lender must set up a PITIA escrow account at the loan level if the borrower chooses to do so. • The maximum amount that may be escrowed is six full payments of principal, interest, taxes, insurance, and any association dues. If work is completed ahead of schedule, any remaining mortgage payment funds will be applied as a principal curtailment.

Occupancy	• Primary Residence: 1-4 units
	• Second Homes: 1-unit only
	    ○ See Documentation section for when borrowers do not currently own a primary residence.
	• Investment properties: 1-4 units and primary residence 2–4-unit properties.
	    ○ When using rental income to qualify from a subject property, at the time of application the borrower must own a principal residence or have the ability to document a reasonable current housing expense.
	    ○ See Documentation section for when borrowers do not currently own a primary residence.

Permits (if applicable)	• Any work requiring permits must be identified prior to closing in the scope of work, plans and specs, or other applicable documentation. • Costs of permits must be provided, including whether permits are financed or paid by the borrower. • Lender to determine who is responsible for pulling permits, either borrower or contractor.

Plans and Specifications	• Plans and specifications must be prepared by a registered, licensed, or certified general contractor, renovation consultant, or architect. • Must fully describe the work to be done, and provide indication of when various jobs or stages of completion will be scheduled. • Must include start and completion dates. • Must include specified material and labor costs. • Used by the lender to document and evaluate the quantity, quality, and cost of the renovation work that is to be done and to determine the amount of financing that will be available. • Must be used by the appraiser in the development of his or her opinion of the "as completed" value of the property.
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 (owner-occupied only) • PUDs • Low-rise and High-rise Condominiums (must be Fannie Mae eligible) • Rural Properties (in accordance with agency Guidelines, properties must be residential in nature) • Leaseholds ○ Must meet all Fannie Mae leasehold requirements, including but not limited to, appraisal, title, Condo and PUD project eligibility requirements. Refer to the Fannie Mae Selling Guide for complete leasehold requirements.
Property: Ineligible Types	• Manufactured homes. This includes on-frame modular homes built on a permanent chassis. • Mobile Homes • Cooperatives • Condotels • Hotel Condominiums • Timeshares • Working Farms and Ranches • Unimproved Land • Property currently in litigation • Land Trust, including Community Land Trust Mortgages and Illinois Land Trust • Condition Rating of C5/C6 or a Quality Rating of Q6 • Homes may not be moved from one location to another • Tear downs are not allowed • Construction of detached properties is not allowed, including detached guest houses, workshops, etc. • Historic Homes – homes designated by an official body as "historic" e.g. listed on the National Register of Historic Places

<table>
<tr><td>Property: Maximum Number of Financed Properties</td><td>If the Borrower is financing a principal residence, there are no limitations on the number of other properties that the borrower will have financed.
If the borrower is financing a second home or investment property that is underwritten through DU, the maximum number of financed properties the borrower can have is ten. If the borrower will have one to six financed properties, Fannie Mae’s standard eligibility policies apply (for example, LTV ratios and minimum credit scores). If the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720.
See B2-2-03 for additional information.</td></tr>
<tr><td>Ratios</td><td>The Maximum DTI is 50% with a DU Approve/Eligible.</td></tr>
<tr><td>Recently Listed Properties</td><td>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).
<u>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.</u></td></tr>
<tr><td>Renovation Costs</td><td>The cost of renovations is limited to 75% of the "as-completed" value of the property
Renovation related costs that may be considered as part of the total renovation costs include:
Labor and materials
Property inspection fees
Costs and fees for the title update
architectural and engineering fees
independent consultant fees
costs for required permits
other documented charges, such as fees for appraisal, review of renovation plans, and fees charged for processing renovation draws.
financed contingency reserves. See Contingency Reserves for additional information.
mortgage payment escrow for mortgage payments. See Mortgage Payment Escrow for additional information.
Should there be an increase in costs during the renovation period, the borrower, or the lender, must fund the amount of the increase
The lender must ensure that the additional funds are obtained in a manner that will not affect the priority of Fannie Mae’s lien.</td></tr>
</table>

Rental Income	• Rental income from the subject or non-subject property is eligible. Eligible property types include:
	    ○ 2-4-unit principal residence property in which the borrower occupies one of the units, or
	    ○ 1-4-unit investment property.
	• For subject property rental income used for qualification purposes, one of the following forms must be used to support the rental income
	    ○ 1-unit investment properties: Single-Family Comparable Rent Schedule, Form 1007, or
	    ○ 2-4-unit properties: Small Residential Income Property Appraisal Report, Form 1025.
	• The use of a rental lease agreement may be justified in certain scenarios. When using a rental lease agreement, the amount reflected on the lease must be supported by the following:
	    ○ Form 1007 or 1025 as applicable; or
	    ○ Evidence the terms of the lease have gone into effect
	        ▪ Two months consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or
	        ▪ Copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements.
	        ▪ Cash payments are ineligible
	    ○ Maximum rental income used will be 75% of the lesser of the lease agreement or market rents
	• At the time of application, ff the borrower does not own a principal residence, *and* does not have a current housing expense, rental income from the subject or non-subject property (new or newly placed in service less than a year) may be ineligible.
	    ○ See Documentation section for when borrowers do not currently own a primary residence.
	• Ability to use full or partial net rental income for the subject or non-subject investment property is dependent on many factors, which include, but are not limited to the length of time the property has been in service, the borrower's history of receiving rental income, and a documented primary housing expense.
	
	Please refer to the Fannie Mae Selling Guide for complete rental income and documentation requirements.

Reserves	• 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.
	• 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 reserve amounts 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:
	    ○ 2% of the aggregate UPB if the borrower has one to four financed properties,
	    ○ 4% of the aggregate UPB if the borrower has five to six financed properties, or
	    ○ 6% of the aggregate UPB if the borrower has seven to ten financed properties
	• 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).
	• 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.

Seasoning	Please refer to the Pennymac Seasoned Loan Policy located in the Pennymac Seller Guide for requirements and loan-level price adjustments.
Security Instrument	The mortgage or an appropriate rider to the security instrument ("construction loan rider to security instrument" or "security instrument rider") must • grant the lender a security interest in any personal property (including building materials) located in, or on, or used, or intended to be used, in connection with the work, and • provide that a borrower default under the construction loan agreement must constitute a default under the security instrument and the note, and • grant the lender an assignment of rents as additional security for the loan and the right to appointment of a receiver of rents if the property is held for rental purposes. • Form 3737 may be used
State Restrictions	Texas 50 (a)(6) refinance mortgages are ineligible
Temporary Interest Rate Buydowns	Allowed subject to the following: • Max total interest rate reduction of 3%, max increase per year of 1% (e.g.,1/0,1/1, 2/1, and 3/2/1 buydowns) • Maximum 3 year to reach standard note rate • Fixed rate and ARMs • Minimum 680 FICO • Owner Occupied and Second Home only • Purchase and Limited Cash-Out Refinance only • Must qualify at the standard note rate without benefit of the buydown • Must meet all other applicable Fannie Mae requirements, including but not limited to qualification, documentation of buydown, and funding of buydown.
Title	• The policy must cover the full amount of the recorded mortgage, must be dated concurrently with the recordation of the mortgage, and must be updated to the date on which renovation work is completed. • Lien waivers are required for each draw. A final title update assuring first lien position through the completion date is required. • A mortgage that is subject to a leasehold estate must have an ALTA Endorsement 13.1. • Fee for each title update ordered by Pennymac is $75.
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: ○ Loan file contains tax transcripts, or ○ When all of a borrower's income is validated by the DU validation service (FNMA only). • **Delegated Only:** IRS form 8821 is an acceptable alternate form in lieu of IRS form 4506-C • **Non-Delegated Only:** IRS form 8821 is not an acceptable alternate form in lieu of IRS form 4506-C

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

Pennymac does not discriminate in any aspect of a credit transaction on the basis of sex, gender identity or expression, sexual orientation, marital status, familial status, race, color, ethnicity, religion, national origin, age, handicap or disability status, income derived from public assistance, military status or the good faith exercise of rights under the Consumer Credit Protection Act.