Pennymac Correspondent
FHA 203(k) Product Profile
05.27.25
Delegated Only

(Lenders must be approved by Pennymac prior to delivering 203(k) loans).

Overlays to FHA are underlined

LTV/FICO Requirements					
Purchase			No Cash-out Refinance		
Maximum LTV/CLTV[1]	Minimum FICO		Maximum LTV/CLTV[1]	Minimum FICO	
	TOTAL	Manual UW		TOTAL	Manual UW
106.15%	580	620	107.52%[2]	580	620

[1]Refer to the Down Payment Assistance and Secondary Financing section for CLTV limitations
[2]Maximum LTV/CLTV as indicated in DU TOTAL.

- LTV based on 110% of the after improved value calculation.
- Other factors may impact LTV maximum available for the transaction.
- Refer to the LTV Calculation section for details.
- May not exceed maximum LTV allowed by FHA.

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<td>Ability To Repay and Qualified Mortgage Rule</td>
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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.
Refer to the Pennymac Seller Guide "Ability to Repay and Qualified Mortgage Rule" section for additional information.

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<td>Accessory Dwelling Unit (ADU)</td>
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An ADU refers to a single habitable living unit with separate ingress and egress from the primary housing unit.

One-unit properties, with a single ADU unit only
The ADU must be subordinate in size to the primary residence
The ADU must meet FHA minimum requirements for a living unit
The ADU along with the one-unit primary residence dwelling, together, constitute a single interest in real estate

Eligible Improvements

Converting a single-family residence to a single-family with an ADU

Adding an ADU that will be attached to an existing structure

Renovating an existing ADU that is attached or unattached to the existing primary residence

Rental income received from the subject property ADU is eligible

Rental income from the ADU unit may not exceed 30% of the total monthly income used for qualification
If the borrower does not have a history of receiving rental income from the subject property ADU since the last tax filing, only 50% of the lesser of fair market rent (from form 1007) or the amount on the rental lease agreement may be used as effective income for qualification purposes.
Rental income from the ADU must be added to the borrower’s gross monthly income
Two months PITIA reserves required
Full appraisal is required. Appraisal requirements include

Must represent highest and best use
Provide a description of the ADU characteristics
Report the GLA of the ADU separate from the primary residence
State whether the ADU can be legally rented without restrictions; and
Report the current occupancy of the ADU unit, and provide the details of an existing lease agreement if applicable
A Single-Family Comparable Rent Schedule (Form 1007/1000) may be required depending on the length of time the ADU rental income has been received by the borrower

Note: A renter of an ADU is not a boarder.
Refer to the FHA Handbook for complete ADU rental history and documentation requirements

Rental income received from other REO or departing residence with an ADU is eligible

A Single-Family Comparable Rent Schedule (Form 1007/1000) may be required depending on the length the rental income has been received by the borrower
Refer to the FHA Handbook for complete ADU rental history and documentation requirements

Refer to the FHA Handbook for complete ADU, appraisal, and rental income from an ADU requirements.

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Age of Documents	• Credit documents must be no more than 120 days old on the disbursement 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	• Appraisals are valid for 180 days.
	• An appraisal update must be performed before the initial appraisal. Where the initial appraisal is subsequently updated, the updated appraisal is valid for a period of one year after the effective date of the initial appraisal report that is being updated.
	• Appraisers may perform an update of a previously completed appraisal using the Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005 when requested by the Mortgagee.
	• For Purchase Transactions: The appraiser must provide the proposed value after rehabilitation. The as-is value to be used in the maximum mortgage calculation is the lesser of the purchase price less any inducements to purchase or the as-is property value.
	• Refinance transactions:
	    ○ The appraiser must provide the proposed value after rehabilitation. In addition, the appraiser must provide the as-is value in the body of the report.
	    ○ If the appraiser refuses to provide the as-is value within the as-repaired report, Pennymac will require both an as-is appraisal and as-repaired appraisal.
	    ○ The existing debt plus fees may not be used to determine the Adjusted As-Is Value.
	• Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, hydroponic equipment are ineligible

Assets/Gift Funds/Large Deposits	• 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 a 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

AUS	• All loans must be submitted through FHA TOTAL Mortgage Scorecard utilizing DU or LPA. Loans receiving a Refer recommendation or loans that require a downgrade must be manually underwritten in accordance with Pennymac overlays and FHA manual underwriting requirements.
	• A borrower is not eligible for a new FHA-insured mortgage if:
	  ○ The borrower's credit history reflects any of the ineligible derogatory credit criteria outlined in the Derogatory Credit section of the product profile;
	  ○ The borrower doesn't meet business income requirements outlined in the Documentation section of the product profile;
	  ○ The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard;
	  ○ Additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage.
	• Scenarios that require downgrades to manual underwriting are:
	  ○ The borrower has $1,000 or more collectively in disputed derogatory credit accounts. See Credit and Derogatory Credit sections.
	• Refer to the FHA Handbook for complete requirements and scenarios that require downgrades to manual underwriting.

Borrower Eligibility	• U.S. citizens • Permanent resident aliens with proof of lawful permanent residence • Non-permanent resident aliens are ineligible
CEMA	• Refinance only • 1-4-unit properties • eMortgages are ineligible • Lost Note Affidavits (LNAs) are not allowed for prior or current notes

Condominiums	• Must be located in an FHA approved Condominium Project
	• HUD REOs do not require FHA Condominium Project approval.
	• Condominiums involved in minor litigation subject to DE approval and in accordance with FHA requirements.
	• Additional FHA Condo Requirements on 203k:
	  ○ The maximum mortgage amount cannot exceed 100% of after-improved value
	  ○ Rehabilitate only the interior space of an eligible condominium unit excluding any areas that are the responsibility of the condominium association.
	    ▪ For 203(k) Rehabilitation Mortgage eligibility, a one-family dwelling unit in a multi-unit condominium project may be considered a single-unit structure and a townhouse in a townhouse-style condominium may be considered a single-unit structure provided each townhouse-style unit is separated by a one and one-half hour firewall from foundation to roof.

Construction / Rehab 203(k)-specific Requirements	Construction Overlays • Self-help is not allowed for Standard and Limited 203(k) transactions. • Homes that have been demolished, or will be razed as part of the rehabilitation work are ineligible. • Homes located on another site, that will be moved onto a new foundation are ineligible.

	Architectural Exhibits	• The improvements must comply with HUD's Minimum Property Standards as stated in the FHA Handbook and all local codes and ordinances. The following list of exhibits are recommended, but may be modified by the jurisdictional HUD office as required: ○ A Plot Plan of the Site is required only if a new addition is being made to the existing structure. Show the location of the structure(s), walks, drives, streets, and other relevant details. Include finished grade elevations at the property corners and building corners. Show the required flood elevation. ○ Proposed Interior Plan of the Dwelling. Show where structural or planning changes are contemplated, including an addition to the dwelling. (An existing plan is no longer required.) • Work Write-up and Cost Estimate ○ The Mortgagee must obtain the Consultant's Work Write-Up and Cost Estimate for all Standard 203(k) Mortgages. ○ The Mortgagee must ensure the Work Write-Up/Cost Estimate specifies the type of repair and cost of each Work Item. ○ The Mortgagee must review the Work Write-Up and ensure that all health and safety issues identified were addressed before, including additional Work Items. ▪ The Work Write-Up refers to the report prepared by a 203(k) Consultant that identifies each Work Item to be performed and the specifications for completion of the repair. ○ Cost Estimate refers to a breakdown of the cost for each proposed Work Item, prepared by a 203(k) Consultant. ▪ Work Item refers to a specific repair or improvement that will be performed.
	Contingency Reserve	• For Standard 203(k) transactions ○ For structures with an actual age of less than 30 years: ▪ Required when evidence of termite damage: Minimum 10%, Maximum 20% ▪ Discretionary: No minimum, maximum 20% ○ For structures with an actual age of 30 years or more: ▪ Required: Minimum 10%, Maximum 20% ▪ Required when utilities are not operable as referenced in the Work Write-Up • Minimum 15%, Maximum 20%
	Cost of Rehabilitation	• The following repair and improvement costs and fees may be financed: ○ Costs of construction, repairs and rehabilitation; ○ Architectural/engineering professional fees; ○ The 203(k) Consultant fee subject to the limits in the 203(k) Consultant Fee Schedule section; ○ Inspection fees performed during the construction period, provided the fees are reasonable and customary for the area; ▪ Title update fees; ▪ Permits; ○ Feasibility Study, when necessary to determine if the rehabilitation is feasible; ○ Any costs for Energy Efficient Mortgages and Solar Energy Systems must not be included in financeable repair and improvement costs; ○ Contingency reserves as required above; ▪ Up to 12 months mortgage payments; ○ Origination fee, discount points, • Refer to the FHA Handbook for complete requirements specific to Standard and Limited 203(k) programs.

	Draws: General Information	• The Mortgagee must obtain an executed form HUD-9746-A, Draw Request Section 203(k), from the 203(k) Consultant, or from the Borrower when there is no 203(k) Consultant, requesting the release of escrow funds for completed Work Items. • Draw documents are required for any funds released prior to delivery to Pennymac. • Maximum of five draws for standard, 2 for limited • Holdback required, see Holdback section for details. • W-9 required for each contractor • For each draw request, the Consultant may charge an Inspection Fee that is reasonable and customary for work performed in the area where the property is located, provided the fee does not exceed a maximum of $375
	Draws: Initial Draw at Close	• For Standard 203(k) transactions, mortgagees may disburse the following at closing: ○ Permit fees (the permit must be obtained before work commences); ○ Prepaid architectural or engineering fees; ○ Prepaid Consultant fees; ○ Origination fees; ○ Discount points; ○ Materials costs for items, prepaid by the borrower in cash or by the contractor, where a contract is established with the supplier and order is placed with the manufacturer for delivery at a later date; and ○ Up to 50 percent of materials costs for items, not yet paid for by the borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date. ○ For any disbursements paid to the contractor, the mortgagee must hold back 10 percent of the draw request in the Contingency Reserve. • For Limited 203(k) transactions, mortgagees may disburse the following at closing: ○ Permit fees (the permit must be obtained before work commences); ○ Origination fees; ○ Discount points; and ○ Up to 50 percent of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able "to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. ▪ A statement from the contractor is sufficient to document

	Draws: Required Documentation	• Standard Intermediate Draw Requirements:
		  ○ HUD 9746-A
		  ○ Title update (optional) and Lien Waiver and Release
		  ○ Accounting summary
		  ○ Contingency Release Letter (if applicable)
		  ○ Change order (if applicable)
		  ○ Invoices for requested funds
		  ○ Permits and required inspections (if applicable)
		  ○ Pictures of completed work
		• Standard Final Draw Requirements
		  ○ HUD 9746-A
		  ○ Title update and Lien Waiver and Release
		  ○ Accounting summary
		  ○ Mortgagor's letter of completion
		  ○ Final release notice
		  ○ Contingency release letter (if applicable)
		  ○ Invoices for requested funds
		  ○ Permits and required inspections (if applicable)
		  ○ Pictures of completed work
		• Limited Final Draw
		  ○ HUD 9746-A
		  ○ Title update and Lien Waiver and Release
		  ○ Accounting summary
		  ○ Retainage Release Letter/Summary (optional)
		  ○ Letter of Satisfaction (optional)
		  ○ Mortgagor's letter of completion
		  ○ Final release notice
		  ○ Compliance Inspection Report/1004D
		  ○ Contingency Release Letter (if applicable)
		  ○ Change order (if applicable)
		  ○ Invoices for requested funds
		  ○ Permits and required inspections (if applicable)
		  ○ Pictures of completed work

	Extension Requests	• If the work is not completed within the rehabilitation period specified in the Rehabilitation Loan Agreement, the Borrower may request an extension of time and must submit adequate documentation to justify the extension.
		• The Mortgagee may grant an extension at its discretion only if the Mortgage Payments are current or the borrower is complying with the terms of the forbearance.
		• The Mortgagee must obtain:
		  ○ Evidence that the Mortgage is current or the borrower is complying with the terms of the forbearance;
		  ○ An explanation for the delay from the Borrower, contractor, or Consultant; and
		  ○ A new estimated completion date.

	Holdback	• A 10% holdback is required on each release from the Rehabilitation Escrow Account. • Before final release of rehabilitation escrow funds, the Mortgagee must approve the final inspection and draw request signed by the Consultant, contractor, and Borrower.

	Homeowner Contractor Agreements	• Contractor acceptance is required for each contractor by the borrower. • The lender is required to approve all contractors.
	Inspections (Fee Consultants)	• An onsite property inspection must be performed by HUD-approved consultants/inspectors or HUD-accepted staff of the DE lender. ○ The consultant is to use the architectural exhibits in order to make a determination of compliance or non-compliance. ○ When the inspection is scheduled with a payment, the inspector is to indicate whether or not the work has been completed. Also, the inspector is to use the Draw Request form (Form HUD-9746-A). • The first draw must not be scheduled until the lender has determined that the applicable building permits related to the specific draw items have been issued • Fee for each inspection ordered by Pennymac is $185.
	Lien Waivers	• Lien waivers are required for each draw. • A final title update assuring first lien position through the completion date is required. • Fee for each title update ordered by Pennymac is $75.
	Mortgage Payment Reserve	• Funds not to exceed the amount of 12 mortgage payments (including the mortgage insurance premium) can be included in the cost of rehabilitation to assist a mortgagor when the property is not habitable during rehabilitation. ○ The number of mortgage payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement. ○ Note: Eligible to be financed for Standard 203(k). • Refer to FHA Handbook for complete requirements.
	Permits	• Consultant must indicate which work items require permits in the WWU (if applicable). ○ Permits must be obtained prior to work commencing. ○ The Consultant must ensure that all building permits are onsite for the work that was performed. ○ At each draw inspection, the Consultant must complete form HUD-9746-A, Draw Request Section 203(k), to indicate completion of the repairs in compliance with the Work Write-Up and architectural exhibits. ▪ The Consultant must ensure all repairs meet all local codes and ordinances, including any required permits and inspections. ▪ The Consultant must ensure that both the Borrower and the contractor sign the form to certify that the work has been completed in a workmanlike manner before authorizing payments. • The Mortgagee may release funds only when repairs and improvements per the draw request, whether made by the contractor or Borrower, meet all federal, state, and local laws, codes and ordinances, including any required permits and inspections.

	Property Improvements: Eligible	• Must begin within 30 days of execution of the Rehabilitation Loan Agreement. Must be completed within 12 months of closings for Standard 203(k).
		  ○ Can be used to convert a one-family dwelling to a two-, three-, or four-family dwelling. An existing multi-unit dwelling could be decreased to a one- to four-family unit.
		  ○ Improvement Standards (reference: FHA Handbook for complete requirements)
		    ▪ All improvements to existing structures must comply with HUD's MPR and meet or exceed local building codes.
		    ▪ For a newly constructed addition to the existing structure, the energy improvements must meet or exceed local codes and the requirements of the latest energy code standard that has been adopted by HUD through a Federal Register notice.
		    ▪ Any addition of a structure unit must be attached to the existing structure.
		• A minimum of $5,000 must be used in part for renovation and/or repair of an existing property. Minor or cosmetic repairs or new fixtures alone, such as stoves and refrigerators, are not acceptable. The repair or renovations include, but are not limited to:
		  ○ Making structural alterations such as repair or replacement of structural damage, additions to structure and finished attics and/or basements
		  ○ Eliminating health and safety hazards that would violate HUD's Minimum Property Standards
		  ○ Installing or repairing wells and/or septic systems - making changes for improved functions and modernization
		  ○ Making changes for aesthetic appeal
		  ○ Repairing or adding roofing, gutters and downspouts
		  ○ Making energy conservation improvements
		  ○ Landscaping, installing or repairing exterior decks, patios, and porches (must increase the as-ss property value equal to the dollar amount spent on the improvements or necessary to preserve the property from erosion),
		  ○ creating accessibility for persons with disabilities
		• Refer to FHA Handbook for complete requirements.

	Property	• The 203(k) mortgage proceeds may not be used to finance costs associated with the purchase or repair of any luxury item, any improvement that does not become a permanent part of the subject property, or improvements that solely benefit commercial functions within the property, including:
		  ○ Recreational or luxury improvements, such as:
		    ▪ Swimming pools (existing swimming pools can be repaired)
		    ▪ An exterior hot tub, spa, whirlpool bath, or sauna
		    ▪ Barbecue pits, outdoor fireplaces or hearths
		    ▪ Bath houses
		    ▪ Tennis courts
		    ▪ Satellite dishes
		    ▪ Tree surgery (except when eliminating an endangerment to existing improvements)
		    ▪ Photo murals
		    ▪ Gazebos; or
		    ▪ Additions or alterations to support commercial use or to equip or refurbish space for commercial use.

	Rehabilitation Loan Agreement	• Executed by the borrower and lender in order to establish the conditions under which the lender will release funds from the Rehabilitation Escrow Account. ○ Must be included in the loan file.

Credit		• Each borrower must have at least one credit score to be eligible. • Frozen Credit: No credit bureaus may be frozen. Borrowers must unfreeze all bureaus, and the AUS rerun with the updated credit. • Non-borrowing spouse (NBS): If the subject property is located in a community property state, or the borrower currently resides (rents or owns) in a community property state the NBS debt must be included in qualifying ratios if the NBS obligations are not excluded by state law. ○ A note in the file referencing the specific state law that justifies the exclusion of any debt from consideration is required. • All applicable monthly liabilities must be included in the qualifying ratio. ○ Closed-end debts (e.g., installment loans) do not have to be included if they will be paid off within 10 months from the date of closing and the cumulative payments of all such debts are less than or equal to 5 percent of the borrower's gross monthly income. ○ The borrower may not pay down the balance in order to meet the 10-month requirement however may pay the debt in full to exclude the debt from qualification. • If the credit report reflects the borrower has disputed credit information, the following applies: ○ If the TOTAL Scorecard returned an Approve AND the manual downgrade conditions in "Derogatory Credit / Accounts" does not apply, then no additional action is necessary. Underwrite the file using TOTAL. ○ If TOTAL Scorecard returned a Refer OR the manual downgrade conditions in "Derogatory Credit / Disputed Accounts" apply, then: ▪ Obtain written documentation from the repository of the credit information or the creditor reporting the disputed information confirming the accuracy of all disputed information. ▪ If the inaccurate/disputed information can be resolved, and a new corrected credit report and TOTAL Accept received, the loan may be underwriting using TOTAL. ▪ If a new, corrected credit report cannot be obtained timely, the correct information must be documented in the file and the loan must be manually underwritten. All debts for which the borrowers are obligated must be included in the DTI and all requirements in the Derogatory Credit section and elsewhere in this Product Profile apply.
Derogatory Credit	Mortgage Payment History	• Purchase or rate and term refinances with a payment history for ANY mortgage, including HELOCs, that reflect any of the following must be downgraded to a Refer and manually underwritten: ○ 3x30x12, or 1x60x12 plus 1x30x12, or 1x90x12 within the most recent 12 months prior to the case number assignment date; or ○ The borrower has made less than three consecutive monthly housing payments since completion of a mortgage forbearance plan. • Cash-out refinance with a payment history for ANY mortgage, including HELOCs that reflect any of the following must be downgraded to a Refer and manually underwritten: ○ Current delinquency; or ○ Any delinquency within 12 months of the case number assignment date; or ○ The borrower has made less than 12 consecutive monthly mortgage payments since completion of a mortgage forbearance plan. • Undisclosed mortgage debt with a pay history that reflect the following must be downgraded to a Refer and manually underwritten: ○ Current delinquency; or ○ Any mortgage delinquency within 12 months of the case number assignment date; or ○ More than two 30-day late payments within 24 months of the case number assignment date. • Follow FHA Handbook 4000.1 requirements for loans receiving a Refer recommendation or loans that require a downgrade to a Refer and must be manually underwritten.

	Bankruptcy	• Follow FHA Handbook 4000.1 requirements for loans receiving a Refer recommendation or loans that require a downgrade to a Refer and must be manually underwritten.
	Foreclosure and Deed-in-Lieu	• Follow FHA Handbook 4000.1 requirements for loans receiving a Refer recommendation or loans that require a downgrade to a Refer and must be manually underwritten.
	Short Sale	• Follow FHA Handbook 4000.1 requirements for loans receiving a Refer recommendation or loans that require a downgrade to a Refer and must be manually underwritten.
	Collections	• For loans receiving an Accept/Eligible recommendation, follow FHA Handbook 4000.1 requirements. • For loans receiving a Refer recommendation or loans that require a manual downgrade, the following applies: ○ If the total outstanding balance for all borrowers is less than $2,000, a capacity analysis is not required to be performed. ○ If the total outstanding balance for all borrowers is equal to or greater than $2,000 at time of underwrite, lender must perform a capacity analysis. Capacity analysis includes: ▪ Payment in full of collection accounts, prior to or at closing, along with documentation of acceptable source of funds, ▪ Borrower makes payment arrangements, and provides proof of arrangement with payment included in DTI, or ▪ 5% of the outstanding balance of each collection account is included as monthly payment in DTI. ○ Non-borrowing spouse collection accounts ARE included in cumulative balance in community property states with the exception of obligations excluded by state law. • Medical collections and charge offs are excluded.
	Judgments	• Judgments must be paid prior to or at closing. ○ An exception to the payoff of a court ordered judgment may be made if the borrower has an agreement with the creditor to make regular and timely payments. Provide a copy of the agreement and proof of 3 months payments made prior to credit approval. Borrowers may not prepay the scheduled payments to qualify. • Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.
	Disputed Accounts	• If the credit report utilized by TOTAL Mortgage Scorecard indicates that the borrower has $1,000 or more collectively in disputed derogatory credit accounts, the mortgage must be downgraded to a Refer and manually underwritten. ○ Cumulative outstanding balance of disputed derogatory accounts less than $1,000: Manual downgrade NOT required. • Disputed medical accounts and disputed derogatory accounts resulting from identity theft may be excluded from the $1,000 limit. Identity theft documentation must be provided. • Disputed derogatory accounts defined as: ○ Disputed charge-off accounts, ○ Disputed collection accounts, and ○ Disputed accounts with late payments in the last 24 months • The following disputed non-derogatory accounts are not included in the $1,000 limit: ○ Disputed accounts with $0 balance, ○ Disputed accounts with late payments 24 months or older, or ○ Disputed accounts that are current and paid as agreed. • For manually underwritten loans the payment history on all disputed tradelines must be confirmed.

	Tax liens	• Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments.
		  ○ The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
		  ○ Provide proof of satisfactory payment agreement, and minimum of three months timely payments. Include the payment amount in the agreement in the calculation of the borrower's Debt-to-Income (DTI) ratio.

Documentation Type	• Follow TOTAL Scorecard and FHA requirements.
	• Either provide the HUD-92700 Maximum Mortgage Worksheet, or the applicable FHA Maximum Mortgage Calculation Worksheet located on the HUD website is required.
	• Self-employed
	  ○ The lender must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period.
	    ▪ A balance sheet is not required for self-employed borrowers filing Schedule C income.
	    ▪ If income used to qualify the borrower exceeds the two-year average of tax returns, an audited P&L or signed quarterly tax returns obtained from IRS is required.
	  ○ If business income shows a greater than 20 percent decline over the analysis period a downgrade to a Refer and manual underwriting is required.
	• Pennymac allows Mortgage Credit Certificates (MCCs) in accordance with FHA policy (can be considered as acceptable income or used to offset the mortgage payment, before calculating the qualifying ratios). Include a copy of the MCC and lender's documented calculation in the file.
	• 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.
	• Rental income received from boarders of the subject property is eligible for qualification purposes. Rental income receipt and eligibility must be documented and verified as follows:
	  ○ Evidence of rental history over the previous 12 months and evidence of current receipt
	  ○ Evidence of receipt of rental income for at least nine of the most recent 12 months in the form of:
	    ▪ The borrower's tax returns, deposit slips; or
	    ▪ Bank statements, canceled checks, or showing rental payments received (including Venmo, PayPal, or similar);
	  ○ Evidence that the boarder's address is the same as the borrower's address; and
	  ○ A copy of the executed written agreement documenting the boarding terms and the boarder's intent to continue boarding with the borrower.
	  ○ Where rental Income from boarders has been documented for at least nine of the last 12 months, rental income must be averaged over a 12-month period.
	  ○ The amount of the rental income from boarders used as effective income must not exceed 30% of the total monthly effective income to qualify the borrower
	  ○ Rental income from boarders must be calculated by using the lesser of:
	    ▪ The 12-month average; or
	    ▪ The current rent as documented in the written lease agreement
	  ○ Note: A renter of an ADU is not a boarder.
	  ○ Refer to the FHA Handbook 4000.1 for complete requirements	

	• Income or assets derived from the following sources are ineligible for qualifying:
	  ○ The production or sale of marijuana
	  ○ Income derived from or paid in virtual currency
	  ○ Restricted stock or restricted stock units (RSU)
	
	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 and Secondary Financing	• Down Payment Assistance (DPA) programs are permitted in accordance with FHA's guidelines. ○ No maximum CLTV when the second is provided by a government entity. • No maximum CLTV when the second is provided by a family member. • The maximum CLTV when the second provided by private individuals and other organizations is 110% of the After Improved Value. Secondary financing provided by private individuals and other organizations may not be used to meet the Borrower's minimum down payment requirement. • Refer to the FHA Handbook for complete FHA secondary financing requirements.

eMortgages and 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

Financing Concessions	• Financing concessions cannot exceed 6% of the sales price.

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

Identity of Interest Transaction	• Identity of Interest refers to a transaction between Family Members, business partners or other business affiliates. • Conflict of interest refers to any party to the transaction who has a direct or indirect personal, business, or financial relationship sufficient to appear that may cause partiality and influence the transaction. • Business relationship refers to an association between individuals or companies entered into for commercial purposes. • Family member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status: Child, parent, or grandparent; ○ a child is defined as a son, stepson, daughter, or stepdaughter; ○ a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent; ○ spouse or domestic partner; ○ legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption; ○ foster child; ○ brother, stepbrother; sister, stepsister; ○ uncle; aunt; or ○ son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower. • Sales transactions between family members and tenants/landlords that meet the requirements for the exception in Exceptions to the Maximum LTV are permitted. • The Mortgagee must ensure there are no other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction. The Borrower and the 203(k) Consultant must each sign an Identity-of-Interest certification that is placed in the case binder.
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
Loan Limits	• FHA mortgage limits for all areas: https://entp.hud.gov/idapp/html/hicostlook.cfm. Refer to Rate Sheet for High Balance price adjustments.

Loan Purpose: Limited 203K	• The Limited 203(k) program is intended to facilitate uncomplicated rehabilitation and/or improvements to a home for which plans, consultants, engineers and/or architects are not required. Eligible improvement types include, but are not limited to:
	  ○ Eliminating health and safety hazards that would violate HUD's MPR;
	  ○ Repairing or replacing wells and/or septic systems;
	  ○ Connecting to public water and sewage systems;
	  ○ Repairing/replacing plumbing, heating, AC and electrical systems;
	  ○ Making changes for improved functions and modernization, and eliminating obsolescence;
	  ○ Repairing or installing new roofing, provided the structural integrity of the Structure will not be impacted by the work being performed; siding; gutters; and downspouts;
	  ○ Making energy conservation improvements;
	  ○ Creating accessibility for persons with disabilities;
	  ○ installing or repairing fences, walkways, and driveways;
	  ○ Installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven and washer/dryer;
	  ○ Repairing or removing an in-ground swimming pool;
	  ○ Installing smoke detectors;
	  ○ Installing, replacing or repairing exterior decks, patios, and porches; and
	  ○ Covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the single-family mortgage insurance lead-based paint rule and EPA's Renovation, Repair, and Painting Rule.
	• Ineligible uses for the Limited (203k) program, include but are not limited to:
	  ○ Major rehabilitation of major remodeling, such as the relocation of a load-bearing wall
	  ○ New construction including room additions
	  ○ Repairs of structural damage
	  ○ Repairs requiring detailed drawings or architectural exhibits
	  ○ Landscaping or similar site amenity improvements
	• Repair Amount:
	  ○ No minimum repair amount.
	  ○ Maximum $75,000 repair amount.
	• Consultant permitted, but not required
	  ○ The Lender is responsible for ensuring the contractor meets all jurisdictional licensing and bonding requirements. Lender is responsible for examining the contractor's bids and determining they fall within the usual and customary range for similar work.
	• As-repaired appraisal is only required.
	• Contingency reserve is not mandated; however, it may be established. If established, may not exceed 20% of the financeable repair and improvement costs.
	• Draw disbursements:
	  ○ The mortgagee may disburse up to 50% of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.
	  ○ No more than two draws per contractor - Holdback not required
	  ○ Refer to the Draw section for additional information.
	• Refer to FHA Handbook for complete requirements for Limited 203(k) transactions.

Loan Purpose Purchase and Rate and Term	• Purchase
	  ○ Minimum 3.5% required down payment on purchase transactions
	• Rate & term refinance
	  ○ Proceeds can be used to pay off a first mortgage regardless of age
	  ○ Proceeds can be used to pay off any junior liens related to the purchase of the subject property, or that are seasoned at least 12 months
	  ○ Pay related closing costs and prepaid items
	  ○ If the mortgage has been modified, the borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.

LTV Calculation	Purchase:
	• The maximum mortgage amount that FHA will insure on a 203(k) purchase is the lesser of:
	  ○ The appropriate Loan-to-Value (LTV) ratio from the purchase loan-to-value limits, multiplied by the lesser of:
	    ▪ The adjusted as-Is value, plus:
	      ○ Financeable repair and improvement costs, for Standard 203(k) or Limited 203(k);
	      ○ Financeable mortgage gees, for Standard 203(k) or Limited 203(k);
	      ○ Financeable contingency reserves, for or Limited 203(k); and
	      ○ Financeable mortgage payment reserves, for Standard 203(k) only; or
	    ▪ 110% of the after improved value (100% for condominiums); or
	    ▪ The nationwide mortgage limits.
	• For a HUD REO 203(k) purchase utilizing the Good Neighbor Next Door (GNND) or $100 Down sales incentive, the mortgagee must calculate the maximum mortgage amount that FHA will insure in accordance with HUD REO Purchasing.
	• Refer to FHA Handbook for complete requirements and definition of Financeable Repairs and Improvement costs, Mortgage Fees, Contingency Reserves and Mortgage Payment Reserves.
	• Note: AUS maximum at 106.15%.
	
	Refinance:
	• Refer to FHA Handbook for complete requirements for Maximum Mortgage Amounts for Refinance

Mortgage Products: Eligible	• Fixed Rate: 10, 15, 20, 25 & 30 year terms
	• Constant Maturity Treasury (CMT) ARM
	  ○ 5/1 (1/1/5 caps)
	  ○ Margin is 1.75%
	• $100 Down program is acceptable
	• Good Neighbor Next Door program is acceptable.

Mortgage Products: Ineligible	• <u>All ARM terms not referenced above</u> • Cash-out refinance transactions • <u>Energy Efficient Mortgages (EEM)</u> • <u>Weatherization, solar, wind technologies costs</u> • <u>Any FHA programs/mortgage types identified in the FHA Handbook that are not specifically allowed in the Eligible Mortgage Types above, including but not limited to Energy Efficient Mortgages, Weatherization, Solar and Wind, GPM, and One Time Close Construction to Permanent.</u>
Occupancy	• Owner-occupied, principal residence only

Property: Eligible Types	• Single family residence • 2–4 Unit • PUDs • Condominiums (must be FHA eligible and scope is limited to interior rehabilitation) • Property must have been completed for at least one year as evidenced by a certificate of occupancy or other similar documentation from the local jurisdiction.
Property: Ineligible Types	• Manufactured homes (built on a permanent chassis and attached to permanent foundations). Also includes on-frame modular homes built on a permanent chassis. • Mobile homes • Cooperatives • Condotels • Hotel condominiums • Timeshares • Geodesic dome and berm homes • Working farms and ranches • Unimproved land • Property currently in litigation • New(er) construction, completed within the last year • Mixed-use • Homes that have been demolished, or will be razed as part of the rehabilitation work, • Homes located on another site, that will be moved onto a new foundation • Rehabilitation involving self-help is not allowed. • Historic homes – homes designated by an official body as "historic" e.g., listed on the National Register of Historic Places

Property Flipping Policy	• Properties resold 90 days or fewer following the date of acquisition by the seller are not eligible for FHA financing unless the loan meets the exceptions set forth in the FHA Handbook.
	  ○ The date of acquisition is defined as date of settlement on the seller's purchase of the property.
	  ○ The resale date is defined as the date of execution of the sales contract by a buyer intending to finance the property with an FHA-insured loan.
	• Properties resold between 91 and 180 days after acquisition require a second appraisal by a different appraiser if the resale price is 100% or more over the price paid by the seller when the property was acquired.

Qualifying	• Fixed rate: qualify at the note rate. • 5/1 ARMs qualify at the note rate Exception: ARMs in IL, MA and NM require qualifying at the greater of the note rate or the fully indexed rate (margin + index).
Ratios	• Per AUS or FHA Manual Underwriting requirements
Recently Listed Properties	• For refinances, the subject property must be off the market on or before the application date.
Reserves	• All assets submitted to the AUS (FHA TOTAL Scorecard) must be verified and documented. This includes the assets that exceed the amount required for closing i.e., reserves. • 3-4 Unit Properties: The equivalent of at least three months PITIA after closing must be verified and documented for 3-4 unit properties.

State Restrictions	• Texas 50 (a) (6) Refinance Mortgages are not eligible
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.

Temporary Interest Rate Buydowns	• Allowed subject to the following:
	  ○ Max total interest rate reduction of 3%, max increase per year of 1% (only 1/0, 1/1, 2/1 and 3/2/1 buydowns allowed)
	  ○ Maximum 3 years to reach standard note rate
	  ○ Fixed rate only
	  ○ Minimum 660 FICO
	  ○ Purchase only
	  ○ Must qualify at the standard note rate without benefit of the buydown
	  ○ Must meet all other applicable FHA requirements, including but not limited to qualification, documentation of buydown, and funding of buydown.

Title	• A title policy is required. • A minimum of 12 month chain of title must be provided. Chain of title must be reviewed for any undisclosed identity of interest transactions. • Loans with private transfer fee covenants are ineligible. Transfer fee covenants exempted from this requirement are fees paid to any homeowner associations, condominiums, cooperatives, and certain tax-exempt organizations that use such private transfer fee proceeds to benefit the property. Fees that do not directly benefit the property are subject to the above rule, and would disqualify mortgages on the property from being purchased by Pennymac. (FHFA Final Ruling 12 C.F.R. Part 1228)
Up Front Mortgage Insurance Premium (UFMIP)	• A copy of the FHA Connection Case Query evidencing receipt of the UFMIP must be included in the loan file at the time of delivery.

Seller shall deliver loans that were originated in accordance with the Federal Housing Administration Handbook, 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.