



# Non-Conforming Non-QM Program

Underwriting Guidelines and Eligibility Requirements

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## 00 INTRODUCTION

This Guide describes PennyMac's underwriting guidelines and eligibility requirements for its Non-Conforming Non-QM Program. In addition to ensuring program eligibility and prudent underwriting, PennyMac requires that all loans meet the Ability to Repay (ATR) rules established by the Consumer Financial Protection Bureau (CFPB). Please see the Ability to Repay section for complete details.

By submitting a loan for purchase, the Lender certifies that: (i) the Lender has made, or is making, its own credit decision with respect to the Borrower, regardless of whether PennyMac purchases or declines to purchase the loan; (ii) none of PennyMac, its directors, officers, employees, agents, or contractors, or any of its affiliates has influenced, or will influence, the Lender's credit decision with respect to the Borrower by (a) indicating whether it will purchase the loan if the Lender originates and closes the loan, or (b) any other action or statement; and (iii) if the Lender has closed, or will close, the loan to the Borrower, the Lender did, or will, fund the closing of the loan with funds from a source other than PennyMac or any of its affiliates.

Lenders are required to meet all guidelines in the PennyMac Seller Guide, Desktop Underwriter (DU) or Loan Product Advisor (LPA) as applicable, Non-Conforming Non-QM Program Underwriting Guidelines and Eligibility Requirements, and the Loan Purchase Agreement.

# 10 GENERAL UNDERWRITING

## 10.10 ELIGIBILITY MATRIX

	Fully Amortizing				
	Purch and RT			Cash out	
	Loan	LTV/CLTV	FICO	LTV/CLTV	FICO
1 unit	\$1,000,000	90	660	80	680
	\$1,500,000	80		70	
2 unit	\$1,000,000	80	680	70	680
	\$1,500,000	70		60	
Second Home	\$1,500,000	80	700	70	720
NOO 1 unit	\$1,000,000	80	700	70	720

### Eligibility Matrix Notes

- See [40.10 Debt to Income Ratios](#) section for max DTI
- Mortgage Insurance (MI) is not required for LTVs above 80%. Any AUS message regarding MI may be disregarded.
- LTV/CLTV reduced by 5% when the appraisal indicates in the Neighborhood Section Housing Trends that property values are declining
- When flood insurance is required, must be escrowed, regardless of LTV/CLTV

## 10.20 UNDERWRITING

All loans must be run through DU or LPA. Decision must reflect Approve/Ineligible (DU) or Risk Class Accept with Purchase Eligibility as Ineligible (LPA) due only to loan amount.

For items not addressed in Non-Conforming Non-QM Program and Underwriting Guidelines (handbook), follow the applicable Agency (Fannie Mae or Freddie Mac) requirements, based on the respective AUS.

## 20 LOAN

### 20.10 ELIGIBLE AND INELIGIBLE MORTGAGE PRODUCTS

#### 20.10.10 Eligible Programs and Qualifying Payment Requirements

30 Year fixed rate only

#### 20.10.20 Ineligible Attributes

The following programs and mortgage features are ineligible for purchase by PennyMac:

- Interest Only

- Loans using Day 1 Certainty, or Freddie Mac's equivalent service, Reps and Warrant relief. Lenders remain responsible for calculating and documenting income.
- Temporary buydowns
- Negative amortization
- Loans with prepayment penalties
- Construction financing during building phase. Permanent financing is acceptable
- Assumable loans:
  - PennyMac will not purchase assumable loans.
  - ARM loans must be originated using PennyMac's Non-Assumability ARM Rider and Non-Assumability Note Addendum

## **20.30 OCCUPANCY**

- Primary Residence: One to two units (1-2) units
- Second Homes
- Non-Owner Occupied Properties one unit only

## **20.40 FINANCING**

### **20.40.10 Financing and Sales Concessions**

Follow Fannie Mae or Freddie Mac requirements as applicable to the AUS run.

### **20.40.20 Maximum and Minimum Loan Amounts**

- The maximum loan amounts permitted are reflected in the grid at the beginning of the guide.
- The minimum loan amount for all areas is \$1 above the conforming high balance limit, or standard balance limit if high balance is not available.

### **20.40.30 LTV/CLTV, Secondary Financing**

Loan-to-Value (LTV) is defined as the sum of any first lien secured by the subject property divided by the lesser of the sales price or appraised value, as applicable.

Combined-Loan-To-Value (CLTV) is defined as the sum of the below divided by the lesser of the sales price or appraised value, as applicable.

- Any first lien, plus
- Any junior liens, plus
- The undrawn amount of any HELOC

Subordination of existing secondary financing is allowed. New secondary financing is permitted subject to the following:

- Allowed up to the maximum CLTV as shown in the Eligibility Matrix

- Meets all other Fannie Mae or Freddie Mac requirements as applicable to the AUS run.

## **20.50 TRANSACTIONS**

### **20.50.10 Loan Purpose**

- Purchase
- Limited Cash-Out / Rate & Term Refinance
  - Follow Fannie Mae or Freddie Mac requirements as applicable to the AUS run for eligible use of funds
  - Incidental cash back may not be used to pay off debt on the Closing Disclosure.
  - Incidental cash to the borrower in an amount not to exceed the lesser of 2% of the loan amount \$2,000.
- Cash-Out
  - Borrower must have owned the property for at least six months
- Delayed Financing
  - Defined as the refinance of a property purchased by the borrower for cash within six months of purchase
  - Follow Fannie Mae or Freddie Mac requirements as applicable to the AUS run

### **20.50.20 Continuity of Obligation**

Follow Fannie Mae or Freddie Mac requirements as applicable to the AUS run.

### **20.50.30 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 guidelines, however 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 on their own

## **20.60 STATE RESTRICTIONS**

Texas 50(a)(6) transactions are ineligible.

# **30 BORROWER**

## **30.10 BORROWER ELIGIBILITY**



### 30.10.10 Eligible Borrowers

The following are eligible borrowers:

- U.S. citizens.
- Permanent resident alien
- Non-permanent resident aliens
- All borrowers must have a valid Social Security Number. ITINs are not acceptable.
- Inter-Vivos Revocable Trusts (revocable at any time by the Trustor)
- Power of Attorney (POA) allowed per Fannie Mae's requirements, regardless of which AUS is used.

**Note:** POAs are ineligible on cash-out transactions

### 30.10.20 Ineligible Borrowers

- Irrevocable Trusts or Blind Trusts
- Limited/General Partnerships and Corporations
- Foreign nationals: A non-U.S. citizen who is not a permanent or non-permanent resident alien. This person does not have the right to live and/or work in the U.S. for a specific period of time.
- Borrowers with diplomatic immunity: A form of legal immunity that ensures diplomats are not susceptible to lawsuit or prosecution under U.S. laws
- Land Trusts, including Illinois

## 30.20 MULTIPLE FINANCED PROPERTIES

The financed property limit applies to the borrower's ownership of one-to four-unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers.

- Borrowers may have up to four financed properties.
- The subject property is included in the total number of financed properties.
- Follow Fannie Mae or Freddie Mac, as applicable to the AUS run, guidelines for determining what properties are included as a financed property.

## 30.30 CREDIT

- Follow Fannie Mae or Freddie Mac AUS approval, as applicable, regarding the selection of the appropriate credit score, amount of trade lines and tradeline depth. The credit score selected by the AUS must meet PennyMac's minimum credit score as indicated on the eligibility matrix.
- All borrowers must return a minimum of one credit score to be eligible.

### 30.30.10 Frozen Credit

As a precautionary measure, borrowers can "freeze" their credit profile with the different credit reporting agencies. A freeze prevents the reporting agencies from releasing any

credit information. PennyMac requires all three credit reporting agencies to be unfrozen in order to proceed with the transaction.

## 40 DEBT-TO-INCOME, EMPLOYMENT AND INCOME

### 40.10 DEBT-TO-INCOME (DTI) RATIOS

- Per DU approval, not to exceed 50%.
- DTI limited to 43% for:
  - FICO below 700, or
  - LTV/CLTV greater than 80%
- See [Eligible Programs](#) for information regarding calculating qualifying payments.

### 40.20 DOCUMENTATION

All loans must receive a DU Approve/Ineligible or LPA Accept/Ineligible, with the ineligible due only to loan amount. Loans must comply with Fannie Mae income calculation and documentation requirements unless otherwise specified. If the item is not addressed below, follow Fannie Mae or Freddie Mac, as applicable to the AUS run, requirements.

#### 40.20.10 Income Documentation Requirements

- Using Day 1 Certainty (DU), or Freddie Mac's equivalent service, does not provide reps and warrants relief. Verification documents provided by the Day 1 Certainty vendors are acceptable (e.g. The Work Number).
  - Lenders remain responsible for calculating and documenting income and assets according to the requirements.
- Full Documentation is required, which includes:
  - Most recent year to date paystub covering at least 30 days year-to-date (YTD) income, dated within 30 days of application and most recent two years of W2s
  - The most recent one or two years tax returns, when tax returns are required.
  - Handwritten Written Verification of Employment (WVOE) is not acceptable
    - Institutional WVOE from a third party verification company (e.g. Work Number) are acceptable.
- PennyMac will allow an employment contract and one pay stub in lieu of the pay stub with 30 days YTD information. The pay stub provided must contain sufficient information to accurately verify the qualifying income.
  - 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.
- Self-Employed Income
  - Follow applicable Agency/AUS requirements for documentation and income calculation.
  - Number of years of tax returns required per the AUS.
- Secondary Self-employment
  - Follow Fannie Mae requirements, including excluding income from businesses not used to qualify, regardless of AUS used.
- When tax returns are required, the corresponding tax transcript(s) can serve in lieu of the signature and date requirement on the tax returns.
- Verbal Verification of Employment required. Follow applicable Agency/AUS requirements for both employed and self-employed borrowers.

#### 40.20.20 Tax Transcripts

- Tax transcripts are required for the number of years used to calculate income.
  - If the AUS allows for one year, then one year of tax transcripts must be provided.
- Tax transcripts must support income used to qualify.
- When only W2 or 1099 income is used to qualify, W2 or 1099 transcripts may be provided.
- If tax transcripts are not available (due to a recent filing) a copy of the IRS notice showing “No record of return filed” is required along with documented acknowledgement receipt (such as IRS officially stamped tax returns or evidence that the return was electronically received) from the IRS and the previous one year’s tax transcripts.
- Business transcripts are not required.
- 4506-T Requirements
  - A fully executed 4506-T for each of the borrower’s businesses is required.
  - All borrowers must sign a 4506-T at application and closing.
- Borrowers that are a victim of identity theft, where transcripts cannot be obtained, will be reviewed on a case-by-case basis, but will not require an exception. In general, some, but not necessarily all of the following documentation can be included in the file to support the validity of the income:
  - Police Report
  - IRS confirmation of identity theft
  - Prior year’s tax transcripts
  - An institutional written VOE
  - Bank statements supporting payroll deposits
  - Evidence of tax payment made or refund received for that year

- Other documentation deemed supportive, based upon the specific situation

## **40.30 EMPLOYMENT AND INCOME**

### **40.30.10 General Employment and Income Requirements**

Loans must comply with applicable Agency/AUS income calculation and documentation requirements unless otherwise specified. If the item is not addressed below, follow the applicable Agency/AUS requirements. Using Day 1 Certainty, or the Freddie Mac equivalent service, does not provide reps and warrants relief.

- Unless the lender has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented the lender may conclude that the income is stable, predictable, and likely to continue.
- If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, the lender must document the likelihood of continued receipt of the income for at least three years.
- Base Income
  - Follow applicable Agency/AUS requirements for documenting and calculating income
- Overtime Income
  - Follow applicable Agency/AUS requirements for documenting and calculating income.
  - In general a two year history is required, however a history of 12 to 24 months may be acceptable as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter history.
- Retirement and Social Security Retirement
  - Follow applicable Agency/AUS requirements for documenting and calculating income.
  - In general, regular and continued receipt of the income may be documented with letters from the organization, award letters, tax returns, W2 or 1099s, or proof of current receipt.
  - If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application.
    - Borrower must have unrestricted access without penalty to the accounts; and
    - if the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject

transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.

- Housing, Parsonage, or Employer Differential Payments.
  - This is also known as housing allowance.
  - PennyMac does not allow housing allowance as qualifying income.
- Alimony, Child Support, and Maintenance Income
  - A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates payment of alimony or child support and states the amount of the award and the period of time over which it will be received.
    - Note: If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should not consider any proposed or voluntary payments as income.
  - Any other type of written legal agreement or court decree describing the payment terms for the alimony or child support

#### **40.30.20 General Information on Self-Employed Borrowers and Income Analysis**

- Follow applicable Agency/AUS requirements to calculate self-employed income, including any requirements regarding distributions or liquidity.
- Analyzing the Business's Financial Strength: Lender must consider the business's financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable.
- Generally, businesses which show a decline of greater than 25% in the most recent year, compared to the average of the documented income are considered to have a significant decline and are not acceptable as qualifying income.
  - However, on a case-by-case basis, businesses which show a decline of greater than 25% can be acceptable when Lender thoroughly documents the income has stabilized.
  - Documentation may include audited P&L, quarterly tax returns or other appropriate documentation.

#### **40.30.40 Rental Income**

- Rental Income calculation must follow applicable Agency/AUS requirements
- Income from Roommates or Boarders in a Single Family Property
  - PennyMac does not allow boarder income

#### **40.30.50 Unacceptable Income Sources**

- Boarder Income
- Capital gains income

- Employer Mortgage Differential Payments: Payments made by a borrower's employer to subsidize the borrower's mortgage payment, including housing allowances.
- Housing, Parsonage, or Employer Differential Payments.
- Homeownership Subsidies, including Mortgage Credit Certificate (MCC) income.
- Projected Income

## **40.40 LIABILITIES**

Follow applicable Agency/AUS requirements, including excluding debt to qualify, 30 day accounts, and student loans.

## **40.50 ASSETS**

### **40.50.10 General Asset Documentation**

- Full asset documentation is required.
- Asset reports from third party vendors approved for Day 1 Certainty, or Freddie Mac's equivalent, (e.g. FormFree) are acceptable.
- Verification of Deposits (VOD) are not acceptable.
- Large Deposits:
  - Follow applicable Agency/AUS requirements
- Eligible Ineligible Funds to Close and Reserves:
  - Follow applicable Agency/AUS requirements, unless indicated below:
- Ineligible Funds to Close and Reserves. PennyMac does not allow the follow sources of funds:
  - 1031 exchange funds
  - 529 plans
  - Cash-on-hand
  - Cash-out proceeds from concurrent transactions
  - Credit card financing
  - Donations
  - Personal unsecured loans
  - Real estate commissions earned from the subject transaction
  - Rent credit from Rent-to-Own transactions
  - Sweat Equity

### **40.50.20 Reserves**

Follow applicable Agency/AUS requirements for amount of reserves required. Ineligible sources of reserves are per the applicable Agency and as indicated above.

## **50 PROPERTY**

### **50.10 GENERAL PROPERTY REQUIREMENTS**

#### **50.10.10 Eligible Property Types**

- Single Family Detached One Unit
- Single Family Attached One Unit
- 2 Unit (Must be Owner-Occupied)
- PUDs
- Condominiums—Fannie Mae or Freddie Mac Warrantable only.
  - Any Fannie Mae or Freddie Mac warranty option is acceptable, including Full/Established or Limited/Streamlined Review
- Multiple parcels must follow applicable Agency/AUS requirements

#### **50.10.20 Ineligible Property Types**

In addition to any Fannie Mae or Freddie Mac ineligible property, the following types of properties are ineligible for PennyMac:

- 3-4 unit properties
- Manufactured homes, including modular homes built on a permanent chassis.
- Mobile Homes
- Properties with Private Transfer Fee Covenants
- Properties located in Lava Zones 1 or 2

#### **50.10.30 Recently Listed Properties**

The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan. Borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

#### **50.10.40 Property Flipping**

- Properties that involve a re-sale that occurred within the last 180 days that have a non-arm's length relationship between the buyer and seller and an increase in value are prohibited. Time frame is established by seller's date of acquisition as the date of settlement on the seller's purchase of that property and the execution of a sales contract to another party
- Properties that involve a re-sale that occurred within the last 180 days with a price increase will have the appraisal fully-reviewed PennyMac.

### **50.20 GENERAL APPRAISAL REQUIREMENTS**

The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. PennyMac requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property. All transactions require a full interior appraisal on a 1004 or 1073 form as appropriate. In addition, the appraisal must be well supported by an independent third party appraisal review. Any issues detected by the appraisal review will need to be addressed and reconciled.

- Appraisal waiver is not allowed. A full 1004 appraisal with all pictures is required.
- Appraisals must be dated within 120 days of the note date. A new appraisal is required after 120 days.
- PennyMac will review all appraisals provided.
- Appraisals must be uploaded to UCDP and satisfactory submission reports (SSR) must be provided from both Fannie Mae and Freddie Mac.
- PennyMac requires lenders order an independent appraisal review product on the appraisal used for qualifying. PennyMac requires using one of the following options:
  - Property Desktop Analysis (PDA) from Old Republic,
    - [PDAClientsetup@oldrepublictitle.com](mailto:PDAClientsetup@oldrepublictitle.com)
    - [ORSSaccountmanagement@Oldrepublictitle.com](mailto:ORSSaccountmanagement@Oldrepublictitle.com)
  - Collateral Desktop Analysis (CDA) from Clear Capital, or
    - [customer@clearcapital.com](mailto:customer@clearcapital.com)
- Appraised value variance between the appraisal and appraisal review product may not exceed 10%.

#### **50.20.10 Soft Market**

LTV/CLTV reduced by 5% when the appraisal indicates in either the Neighborhood Section Housing Trends or 1004MC Median Comparable Sale Price that property values are declining.

#### **50.30 ESCROW HOLDBACKS**

Allowed per applicable Agency's requirements.

#### **50.40 DISASTER POLICY**

It is the lender's sole responsibility to be aware of and act upon any mortgage loans impacted by disasters prior to the sale to PennyMac.

The lender should contact the appropriate source e.g., state office, regional Federal Emergency Management Agency (FEMA) offices, news agency, etc. to determine whether properties located in its origination regions are included in the disaster areas.

PennyMac's Disaster Policy applies to any of the following:

- FEMA declared disaster areas eligible for Individual Assistance.
- Areas identified by PennyMac.
- Properties that the lender has reason to believe sustained damage in a disaster.

When the appraisal is completed on or before the incident period end date, PennyMac will require a post disaster inspection confirming the property has not been adversely affected by the disaster. The lender can utilize any of the following re-inspection options:

- Property Inspection Report (Form 2075), or



- Appraisal Update and/or Completion Report (Form 1004D), or
- Certification from a Licensed Property Inspector, or
- Lender Certification with post-disaster photos that clearly demonstrate the property has not been adversely affected by the disaster. The Certification must not be executed by an employee that receives direct compensation from the subject transaction.

**Note:** The post-disaster inspection must be provided prior to PennyMac purchasing the loan.

## **50.50 HAZARD AND FLOOD INSURANCE REQUIREMENTS**

### **50.50.10 Amount of Hazard Insurance Coverage**

Amount and type of hazard coverage must meet applicable Agency/AUS requirements

### **50.50.20 Hazard Insurance Deductible**

Deductible requirements must meet applicable Agency/AUS requirements

### **50.50.30 Flood Insurance Requirements**

- When flood insurance is required, it must be escrowed.
- A Flood Zone Determination Certification (FZD or Flood Cert) is required in each loan file. Flood insurance is required for any property located in a Special Flood Hazard Area which has federally mandated flood insurance purchase specifications. Properties located in Special Flood Hazard Areas designated by the symbols "A" and "V" on a Flood Insurance Rate Map (FIRM) require flood insurance.
- PennyMac will not purchase mortgages secured by properties which are determined to be in a Special Flood Hazard Area and which are located in areas where the community does not participate in the National Flood Insurance Program.
- Loans must meet PennyMac's flood insurance requirements in the PennyMac Seller's Guide.
- Amount of Coverage must the meet applicable Agency/AUS requirements
- Deductible must meet the applicable Agency/AUS requirements

## **50.60 TITLE AND CLOSING**

### **50.60.10 General Requirements**

- Title commitment dated within 90 days of the note date, measured from the effective or issue date of the commitment.
- Private transfer fee covenants are not acceptable.
- The original principal amount of the mortgage loan is the minimum amount of title insurance coverage acceptable to PennyMac.

- General Title Waivers: The title to the property that secures a mortgage loan must be merchantable and free and clear of all defects, liens and encumbrances.

#### **50.60.20 Title Commitment Requirements**

Title insurance policies must be covered by an American Land Title Association (ALTA) mortgage title insurance policy, or such other generally acceptable form of policy or insurance acceptable to the applicable Agency/AUS.

#### **50.60.30 Borrower's Estate**

- The borrower's title to the mortgaged property must be in fee simple, unless the mortgage loan is secured by a leasehold estate.
- Title may be held by borrowers individually, or as joint tenants. Corporations, partnerships, real estate syndications, and land trusts are not permitted to hold title to mortgaged properties.
- If a married borrower wishes to take title to the mortgaged property without his or her spouse, the lien created by the mortgage must be superior to any interest in the mortgaged property the spouse may have under the law or otherwise.

#### **50.60.40 Title Impediments**

Follow the applicable Agency/AUS requirements for acceptable title impediments

#### **50.60.50 Escrow/Impound Accounts**

In general, PennyMac does not require escrow/impound accounts except for flood insurance. When flood insurance is required, it must be escrowed. Flood insurance escrow may not be waived.

## **60 REGULATORY COMPLIANCE**

Lender must be aware of, and in full compliance with, all federal, state, and local laws (e.g., statutes, regulations, ordinances, administrative rules, and orders that have the effect of law, and judicial rulings and opinions) that apply to any of its origination, selling practices, or other business practices (including the use of technology) that may have a material effect on Lender. This means that Lender must comply with any applicable law, including but not limited to, those addressing fair housing, fair lending, equal credit opportunity, truth in lending, wrongful discrimination, appraisals, real estate settlement procedures, unfair, deceptive or abusive acts or practices, borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, terrorist activity, ability to repay or the enforcement of any of the terms of the mortgage. Lender must comply with Complaint Management and Service Provider program requirements, also ensure that appraisals, and

any appraisal review products, conducted in connection with single-family mortgage loans originated by Lender conform to the Appraiser Independence Requirements.

Lender does not discriminate in any aspect of a credit transaction on the basis of sex, marital status, race, religion, national origin, age, income derived from public assistance, or the good faith exercise of rights under the Consumer Credit Protection Act.

## **60.10 HIGH COST, POINTS AND FEES AND HPML**

- All loans must follow QM Points and Fees and HPML requirements.
- PennyMac will not purchase High Cost loans.

## **60.20 ABILITY TO REPAY RULE**

### **60.20.10 Introduction and Overview**

The Consumer Financial Protection Bureau (CFPB) adopted a rule that implements the Ability to Repay provisions of the Dodd-Frank Act. The effective date of the ATR/ rule is with initial applications received by the creditor on or after January 10, 2014. Loans underwritten to these guidelines meet ATR, but not QM requirements.

For loans subject to the ATR rule, Lender will only originate loans that comply with the requirements of the ATR rule.

The ATR rule requires that the originator make a reasonable, good-faith determination before or when the loan is consummated and that the borrower has a reasonable ability to repay the loan. The origination lender must consider the eight underwriting factors established by the CFPB under Regulation Z section 1026.43 and the loan file must be documented accordingly.

1. The borrower's current or reasonably expected income or assets;
2. The borrower's current employment status;
3. The borrower's monthly payment on the covered transaction;
4. The borrower's monthly payment on any simultaneous loan;
5. The borrower's monthly payment for mortgage-related obligations;
6. The borrower's current debt obligations, alimony, and child support;
7. The borrower's monthly debt-to-income ratio or residual income; and
8. The borrower's credit history.

## **70. APPENDIX**

### **70.10 RUNNING DU WITHOUT DAY 1 CERTAINTY**

PennyMac will not accept the income or asset warranties provided by Fannie Mae when Day 1 Certainty is used. When running the DU, lenders should avoid entering report supplier and reference number information.

Using DU directly (not via upload from a loan origination system), on the Additional Data screen, do not enter information in the Income and Asset Validation section.

**Income & Asset Validation**

Report Supplier	Reference Number
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>

### 70.20 RUNNING LPA WITHOUT AIM REP AND WARRANTY RELIEF

PennyMac will not accept the income or asset warranties provided by Freddie Mac when the Asset and Income Modeler is used. When running the LPA, lenders should avoid entering Verification Type, Verification Company, Reissue ID/Report ID information.

Using LPA directly (not via upload from a loan origination system), on the Request Services screen, do not enter information in the Order Verification section.

**Request Services**

- Credit
- Verification
- Unviewed Assigned/Released Loans

**Order Verification**

Request Verification Report

Select a Borrower

Select a Verification Type \*

Select a Verification Company with whom you have an Established Relationship \*

Please Enter Reissue ID/Report ID \*

**ADD REQUEST** **CLEAR**