Hello,
Rod Boyd here. I am doing an update to my recent PennyMac article and I wanted to pose the following questions. Please refer to my last email for an in-depth discussion of how responses are handled. As before, FFJ will have a balance sheet partner, and thus we will use the same disclosure language as in the earlier article. (See attached screen grab.)

1. For the nine months ended September 30, hundreds of millions in non-cash, non-GAAP "dollars" have dropped to PennyMac's bottom line, boosting EPS and thus the share price. But when this accounting gambit is backed out, the effect is eye-opening. That is, PennyMac is vastly less profitable than it tells investors. Through 9/30, per the screen cap below, its real net income -- after reversing out the pretax income from your valuation changes -- is almost 54 percent lower than what you disclosed to investors. Your first quarter EPS was really $1.22 versus the $2.46 per share your release claimed. To that end, I interviewed a leading accounting professor about what this means for earnings quality. (I will note that PennyMac has a brief boilerplate disclosure in its earnings release discussing the non-GAAP issue.)

Why does PennyMac use this sleight-of-hand? Why not use GAAP-earnings as your headline figure?

2. The 5.19 valuation multiple PennyMac assigns its MSRs is baffling. We interviewed someone who said that it was

well above where the market for large blocks of Ginnie Mae MSRs, even going back to last year. This veteran MSR analyst said he wasn't sure a 4x multiple for those assets would receive a bid. Others involved in this market told us (off-the-record) that there is currently no bid for large blocks of GNMA MSR. They speculated that an appropriate valuation could be less than 3x. While FFJ doesn't use off-the-record quotes, it does point to 5.19x as an absurd multiple. We note that any reduction in the valuation multiple would lead to a balance sheet write-down and charge-off, which in turn would have other downstream effects. (I will note that there are a few fair value and level 3 disclosures in your filings.)

How can MSRs be a Level 3 input when a well-established market for GNMA MSRs already exists? Explain why a 5.19x multiple is more reflective of the portfolio's value than what third-party buyers are willing to pay for it? Why not hire an independent firm to value it?

3. Delinquencies (DQ) spiked sharply in the month of October. On a portfolio with a $241.58 billion UPB, total DQ were $13.73 billion, or 5.7 percent. That's up from September's $12.25 billion, or 5.1 percent. The 90 days+ bucket spiked to $5.17 billion, or 2.1 percent, up from $4.68 billion and 2.0 percent.

What was the basis for the DQ spike? Is any of this attributable to the Florida storm? If so, why haven't you disclosed your >$20 billion in Florida

loans? What plans does management have to address the 90 days+, which GNMA is presumably most concerned about? Does PennyMac have adequate liquidity to meet its obligations, i.e. buy these loans out and/or make P&I payments? How can PennyMac pay $650mm to a struggling Credit Suisse (or its successor entity) in February as well as make a dent in these rapidly growing DQs? Beyond GNMA extending the moratorium on the delinquency threshold, has it discussed any other types of forbearance with PennyMac?