PennyMac Mortgage Investment Trust is pleased to provide you with this investment update from our manager, PNMAC Capital Management (PCM), for the month of November 2011.

PNMAC Capital Management Investment Update

December 23, 2011

During the month of November while there were a series of bullish reports on various U.S. economic indicators (including a fall in the unemployment rate, and rise in auto sales, consumer confidence, and the ISM Manufacturing Index), the European economic situation weighed heavily on the broad financial markets. In the U.S. housing market, positive indicators seem to show signs of stabilization. According to the National Association of Realtors®, the Pending Home Sales Index increased in October, as opposed to a decline in September, and an increase year over year. The NAR also reported in October that annualized *existing* home sales increased month over month and year over year and *new* home sales also rose month over month in October and year over year. However, on December 13th, NAR reported that data on sales of existing homes from 2007 through October 2011 had to be revised due to double counting errors. There were instances when properties were listed more than once and at times new homes were captured in the existing sales data. The periodic benchmark revisions were released as of this writing on December 21st, with downward adjustments to sales and inventory data since 2007, led by a decline in for-sale-by-owner properties. Although re-benchmarking resulted in lower adjustments to several years of home sales data, the month-to-month characterization of market conditions did not change. The most recent corrected November data from NAR shows that annualized *existing* home sales increased 4% month over month and 12.2% year over year.

Home prices nationally continue to bounce around a bottom and remained largely flat to slightly down. The S&P/Case-Shiller Home Price Indices, show that nationally home prices did not register a significant change in the third quarter of 2011, with the U.S. National Home Price Index up by only 0.1% from its second quarter level. The national index posted an annual decline of 3.9%, an improvement over the 5.8% decline posted in the second quarter. Nationally, home prices are back to their first quarter of 2003 levels. In September, the 10- and 20-City Composites posted annual rates of decline of 3.3% and 3.6%, respectively. Eighteen of the 20 MSAs and both monthly Composites had negative annual rates in September 2011, with the only exceptions being Detroit and Washington DC. According to a December 13th report on Bloomberg.com, most economists expect that home prices will continue to fall through the middle of 2012 as the supply of existing properties and distressed transactions drive down home prices.

Turning to the whole loan market, PCM reviewed $1.9 billion of distressed mortgages in November. We continue to see a steady flow of pools in the distressed whole loan market, with most sellers remaining the same as they have throughout the year. However, we have seen several new large program sellers enter the market to begin the disposition of nonperforming assets from their balance sheets. While November was slightly higher than our monthly average in 2011 of approximately $1 billion, we expect December's pace to slow down due to the holiday season.