PennyMac Mortgage Investment Trust



Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding management's beliefs, estimates, projections and assumptions with respect to, among other things, the Company's financial results, future operations, business plans and investment strategies, as well as industry and market conditions, all of which are subject to change. Words like "believe," "expect," "anticipate," "promise," "plan," and other expressions or words of similar meanings, as well as future or conditional verbs such as "will," "would," "should," "could," or "may" are generally intended to identify forward-looking statements. Actual results and operations for any future period may vary materially from those projected herein, from past results discussed herein, or illustrative examples provided herein.

Factors which could cause actual results to differ materially from historical results or those anticipated include, but are not limited to: changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks; volatility in our industry, the debt or equity markets, the general economy or the real estate finance and real estate markets specifically, whether the result of market events or otherwise; events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts; changes in general business, economic, market, employment and political conditions, or in consumer confidence and spending habits from those expected; declines in real estate or significant changes in U.S. housing prices or activity in the U.S. housing market; the availability of, and level of competition for, attractive risk-adjusted investment opportunities in mortgage loans and mortgage-related assets that satisfy our investment objectives; the inherent difficulty in winning bids to acquire mortgage loans, and our success in doing so; the concentration of credit risks to which we are exposed; the degree and nature of our competition; our dependence on our manager and servicer, potential conflicts of interest with such entities and their affiliates, and the performance of such entities; changes in personnel and lack of availability of qualified personnel at our manager, servicer or their affiliates; the availability, terms and deployment of short-term and long-term capital; the adequacy of our cash reserves and working capital; our ability to maintain the desired relationship between our financing and the interest rates and maturities of our assets; the timing and amount of cash flows, if any, from our investments; unanticipated increases or volatility in financing and other costs, including a rise in interest rates; the performance, financial condition and liquidity of borrowers; the ability of our servicer, which also provides us with fulfillment services, to approve and monitor correspondent sellers and underwrite loans to investor standards; incomplete or inaccurate information or documentation provided by customers or counterparties, or adverse changes in the financial condition of our customers and counterparties; our indemnification and repurchase obligations in connection with mortgage loans we purchase and later sell or securitize; the quality and enforceability of the collateral documentation evidencing our ownership and rights in the assets in which we invest; increased rates of delinquency, default and/or decreased recovery rates on our investments; our ability to foreclose on our investments in a timely manner or at all; increased prepayments of the mortgages and other loans underlying our mortgage-backed securities or relating to our mortgage servicing rights , excess servicing spread and other investments; the degree to which our hedging strategies may or may not protect us from interest rate volatility; the effect of the accuracy of or changes in the estimates we make about uncertainties, contingencies and asset and liability valuations when measuring and reporting upon our financial condition and results of income; our failure to maintain appropriate internal controls over financial reporting; technologies for loans and our ability to mitigate security risks and cyber intrusions; our ability to obtain and/or maintain licenses and other approvals in those jurisdictions where required to conduct our business; our ability to detect misconduct and fraud; our ability to comply with various federal, state and local laws and regulations that govern our business; developments in the secondary markets for our mortgage loan products; legislative and regulatory changes that impact the mortgage loan industry or housing market; changes in regulations or the occurrence of other events that impact the business, operations or prospects of government agencies or government-sponsored entities, or such changes that increase the cost of doing business with such entities; the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations and regulatory agencies, and any other legislative and regulatory changes that impact the business, operations or governance of mortgage lenders and/or publicly-traded companies; the Consumer Financial Protection Bureau and its issued and future rules and the enforcement thereof; changes in government support of homeownership; changes in government or government-sponsored home affordability programs; limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a real estate investment trust (REIT) for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 and the ability of certain of our subsidiaries to qualify as REITs or as taxable REIT subsidiaries for U.S. federal income tax purposes, as applicable, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules; changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs, or the exclusions from registration as an investment company); the effect of public opinion on our reputation; the occurrence of natural disasters or other events or circumstances that could impact our operations; and our organizational structure and certain requirements in our charter documents.

You should not place undue reliance on any forward-looking statement and should consider all of the uncertainties and risks described above, as well as those more fully discussed in reports and other documents filed by the Company with the Securities and Exchange Commission from time to time. The Company undertakes no obligation to publicly update or revise any forward-looking statements or any other information contained herein, and the statements made in this presentation are current as of the date of this presentation only.

Third Quarter Highlights

- Net income of $35.4 million on net investment income of $103.3 million
  - Diluted earnings per share of $0.49; return on equity of 10%
  - Dividend of $0.47 per share declared on September 26, 2016
  - Book value per share increased to $20.21 from $20.09 at June 30, 2016
- Results driven by strong contributions from correspondent production and GSE credit risk transfer (CRT) investments
  - Partially offset by distressed loan investments which underperformed expectations, primarily resulting from lower expected real estate owned (REO) proceeds on loans transitioning from foreclosure to REO, higher redefaults of reperforming loans, and fewer loans transitioning from foreclosure to REO
- Segment pretax results: Investment Activities: $13.6 million; Correspondent Production: $31.4 million
- Continued investment in CRT and mortgage servicing rights (MSRs) resulting from PMT's correspondent production business
  - Conventional correspondent loan production totaled $7.3 billion in unpaid principal balance (UPB), up 40% from the prior quarter
  - CRT deliveries totaled $3.4 billion in UPB, resulting in $90 million of new CRT investments
  - Completed third CRT commitment with Fannie Mae and entered into a fourth CRT commitment for $7.5 billion in UPB[(1)]
  - Added $78 million in new MSRs
- Repurchased approximately 1 million of PMT's common shares from August 5th to October 7th at a cost of $14.4 million
- Cash proceeds from the liquidation and paydown of distressed mortgage loans and REO were $75 million, reflecting a decrease in REO sales

Notable activity after quarter end:

- Entered into an agreement to sell $172 million in UPB of performing loans from the distressed portfolio[(1)]

(1) Although definitive documentation has been executed, these transactions are subject to continuing due diligence and customary closing conditions. There can be no assurance regarding the size of the transactions or that the transactions will be completed at all.

Current Market Environment

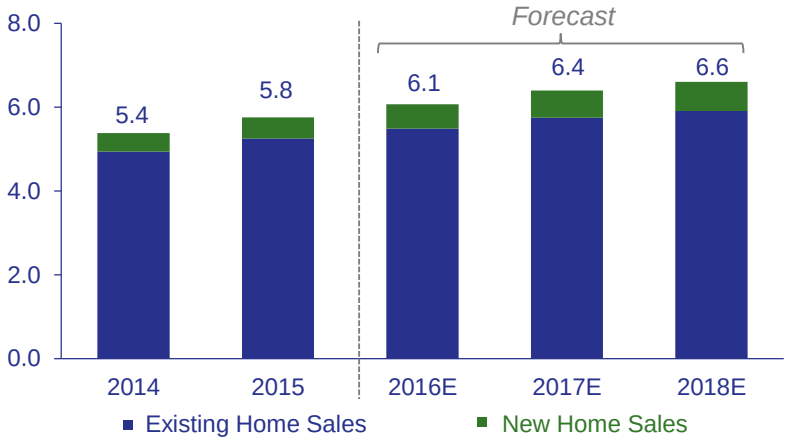
- Despite expectations for higher interest rates over the long term, mortgage rates remained largely unchanged in 3Q16
- Origination volumes for both purchase-money and refinance mortgages remained strong in 3Q16
  - Low rates and continued strong purchase-money demand driving activity
  - Modest reduction in market volumes expected in 4Q16 due to normal seasonal slowing
- Housing remains a source of strength in an otherwise mixed economic outlook
  - Mortgage rates expected to remain relatively low
  - Strong demand for homes, driving higher sales and growth in housing starts
    - Particularly strong demand for entry-level homes

Average 30-year fixed rate mortgage[1]



Home Sales[2]

(Units in millions)



[1] Freddie Mac Primary Mortgage Market Survey. 3.47% as of 10/27/2016

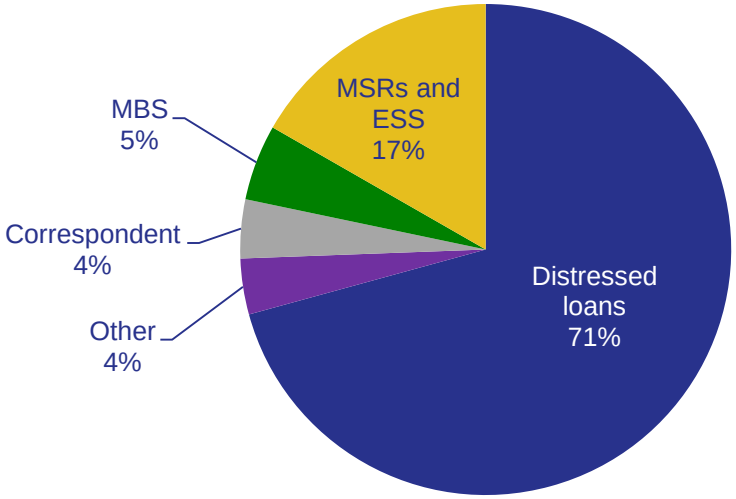
[2] Actual results are from Census Bureau – seasonally adjusted. Forecast estimates are from the Mortgage Bankers Association

Transitioning to Correspondent-Related Investments Such as CRT and MSRs

PMT's Equity Allocation[1]

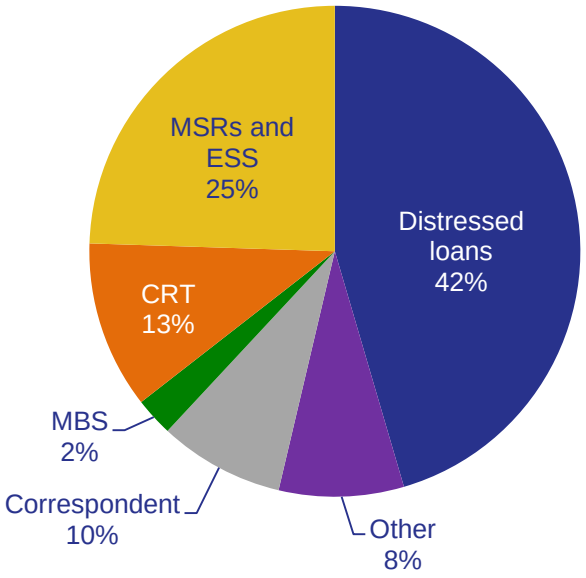
3Q 2014

100% = $1.6 billion



3Q 2016

100% = $1.4 billion



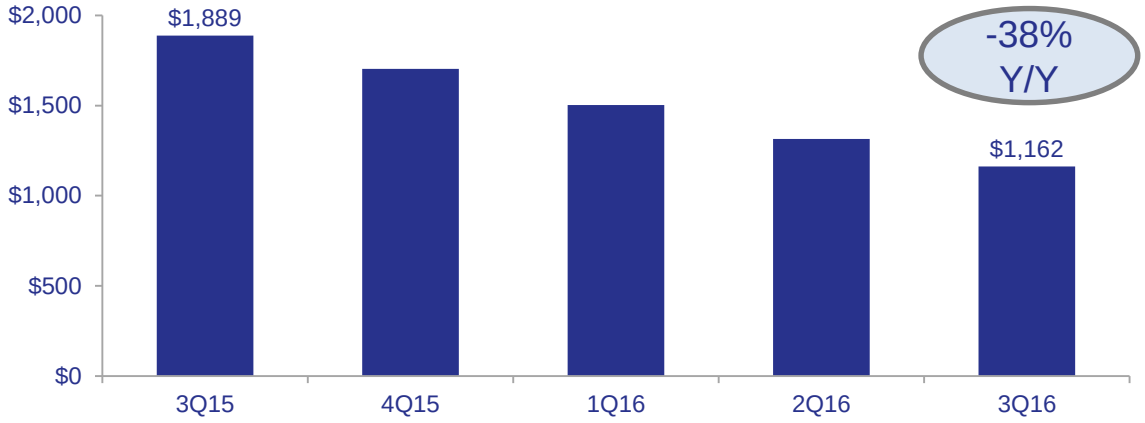
- Current capital deployment is primarily focused on attractive correspondent-related investments – CRT and MSRs

[1] Management's internal allocation of equity. Amounts as of quarter end. Percentages may not sum exactly due to rounding.

Distressed Loan Portfolio Is Declining Through Liquidation and Sales

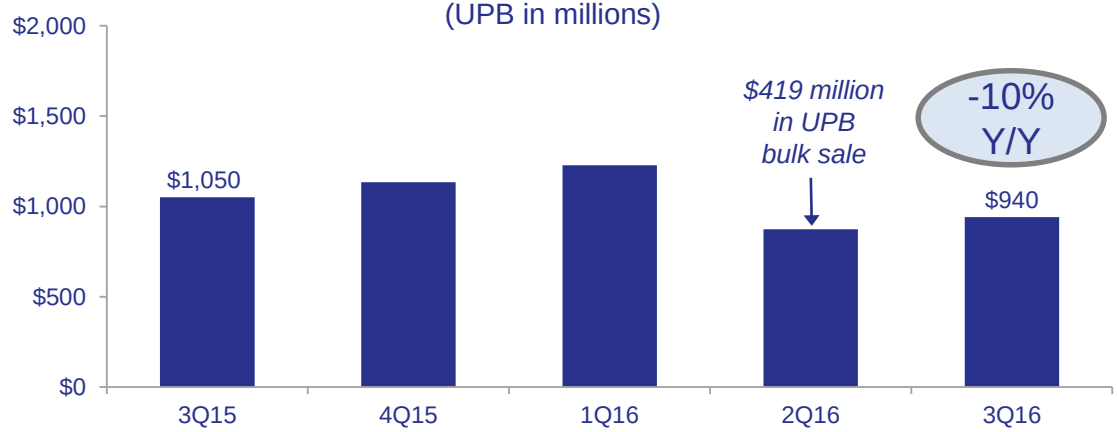
Nonperforming Loans

(UPB in millions)



Performing Loans

(UPB in millions)



- Pending sale of $172 million in UPB of performing loans expected to be completed in 4Q16[(1)]

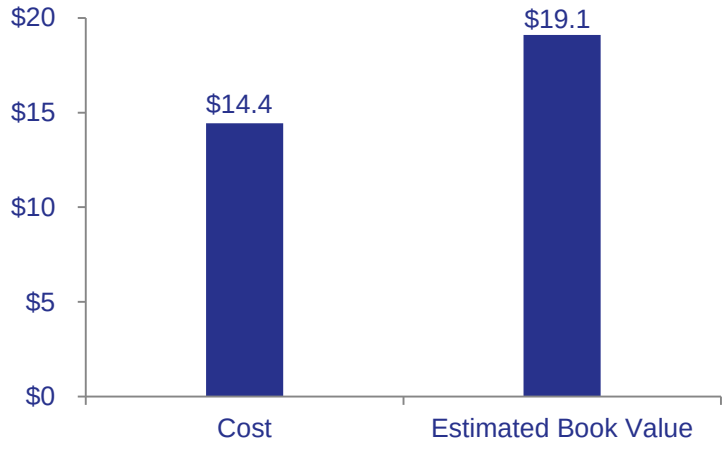
[(1)] Although definitive documentation has been executed, this transaction is subject to continuing due diligence and customary closing conditions. There can be no assurance regarding the size of the transaction or that the transaction will be completed at all.

Share Repurchase Program Update

- Repurchased approximately 1 million PMT common shares from August 5th to October 7th; 8.4 million shares since inception
- $85 million in additional repurchases remain authorized under the $200 million program
- We continue to evaluate repurchases using available capital versus the return on alternative investment opportunities

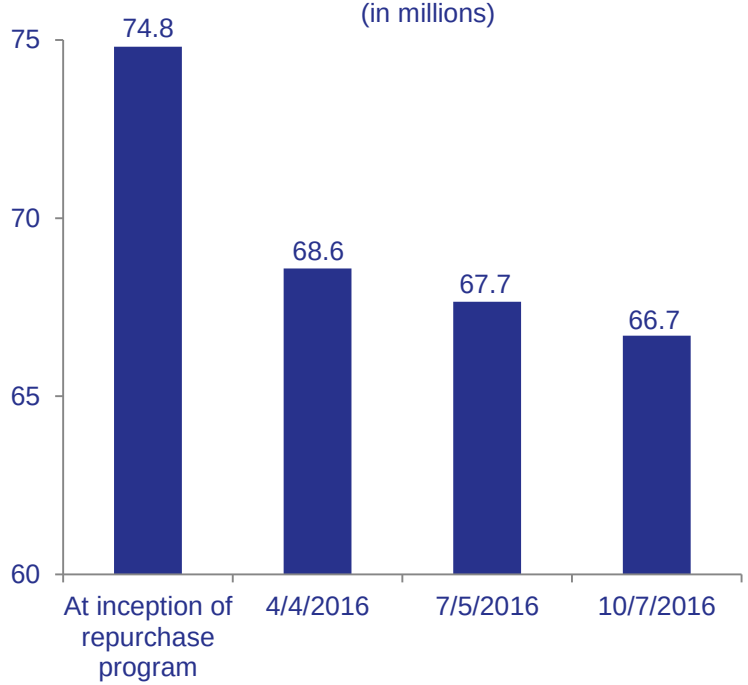
Share Repurchases from August 5th to October 7th

($ in millions)



Shares Outstanding(1)

(in millions)



(1) Includes the impact of shares issued under the PMT 2009 Equity Incentive Plan

Third Quarter Income and Return Contributions by Strategy

($ in millions)	Total Income Contribution[1]	Market-Driven Value Changes	Income Excluding Market-Driven Value Changes[1]	WA Equity Allocated[3]	Annualized Return on Equity (ROE)
Credit sensitive strategies:					
Distressed loan investments	$ (2.0)	n/a	$ (2.0)	$ 618	(1.3%)
Other credit sensitive strategies					
GSE credit risk transfer	$ 17.3	$ 12.3	$ 5.0		
Non-Agency subordinate bonds	$ 1.3	$ 1.1	$ 0.2		
Commercial real estate finance	$ 0.1	$ (0.1)	$ 0.2		
Subtotal net other credit sensitive strategies	$ 18.7	$ 13.3	$ 5.4	$ 170	43.9%
Net credit sensitive strategies	**$ 16.6**	**$ 13.3**	**$ 3.4**	**$ 788**	**8.4%**
Interest rate sensitive strategies:					
MSRs (incl. recapture)[2]	$ (1.2)	$ (4.3)	$ 3.1		
ESS (incl. recapture)[2]	$ (0.0)	$ (4.1)	$ 4.1		
Agency MBS	$ 2.4	$ (0.8)	$ 3.2		
Non-Agency senior MBS (incl. jumbo)	$ (0.1)	$ (0.6)	$ 0.5		
Interest rate hedges	$ 4.7	$ 4.7	n/a		
Net interest rate sensitive strategies	**$ 5.8**	**$ (5.2)**	**$ 10.9**	**$ 360**	**6.4%**
Correspondent production	**$ 32.0**	**$ -**	**$ 32.0**	**$ 112**	**114.3%**
Cash, short term investments, and other	$ 0.1		$ 0.1	$ 99	0.4%
Management fees & corporate expenses	$ (9.5)		$ (9.5)		
Provision for income tax expense	$ (9.6)		$ (9.6)		
Net income	**$ 35.4**	**$ 8.1**	**$ 27.3**	**$ 1,359**	**10.4%**

Note: Amounts may not sum exactly due to rounding

[1] Income contribution is net of any direct expenses associated with investments (e.g., loan fulfillment fees, loan servicing fees)

[2] Equity allocated to MSR, ESS and distressed loan investments include an allocation of exchangeable senior notes and associated expenses

[3] Management's internal allocation of equity. Amounts represent weighted averages during the period

Run-Rate Quarterly Income Potential from PMT's Strategies

($ in millions, except EPS)	Income Potential	Equity Allocation[1]	Annualized ROE
Credit sensitive strategies			
Distressed loan investments[2]	$ 10.9	$ 584	7.5%
Other credit sensitive strategies			
GSE credit risk transfer	$ 5.5	$ 162	13.5%
Non-Agency subordinate bonds	$ 0.1	$ 2	19.4%
Commercial real estate finance	$ 0.1	$ 4	7.1%
Subtotal net other credit sensitive strategies	$ 5.6	$ 169	13.4%
Net credit sensitive strategies	**$ 16.6**	**$ 753**	**8.8%**
Interest rate sensitive strategies			
MSRs (incl. recapture)[2]	$ 6.0	$ 218	10.9%
ESS (incl. recapture)[2]	$ 3.2	$ 105	12.2%
Agency MBS	$ 3.5	$ 40	34.6%
Non-Agency senior MBS (inc. jumbo)	$ 0.1	$ 2	16.4%
Net interest rate sensitive strategies	**$ 12.7**	**$ 364**	**13.9%**
Correspondent production	**$ 19.5**	**$ 104**	**74.7%**
Cash, short term investments & other	$ 0.1	$ 155	0.4%
Management fees & corporate expenses	$ (10.0)		
Income tax expense	$ (4.4)		
Net income	**$ 34.5**	**$ 1,376**	**10.0%**
Diluted EPS	$ 0.48		

- Income potential does not reflect any share repurchases or gain/loss related to fair value changes or from bulk asset sales (e.g., distressed loans)
- Significant contributions from correspondent production expected to continue in the near term, driven by strong volumes and margins
- Returns on net credit sensitive strategies expected to improve over time with increasing capital allocated to CRT investments and away from distressed loans
- Returns on net interest rate-sensitive strategies expected to improve as MSR/ESS amortization normalizes
- PMT's objective is to distribute a dividend consistent with earnings per share; REIT taxable income for the year is a floor for dividend payments

Note: This slide presents estimates for illustrative purposes only, using PMT's base case assumptions (e.g., for credit performance, prepayment speeds, financing economics). Actual results may differ materially. Please refer to slide 2 for important disclosures regarding forward-looking statements.

(1) Management's internal allocation of equity
(2) Equity allocated to MSR, ESS and distressed loan investments include an allocation of exchangeable senior notes and associated expenses

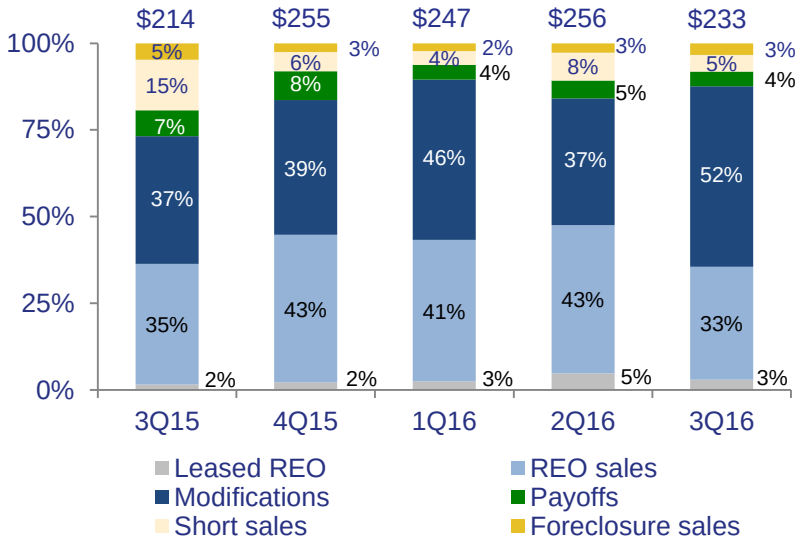
Mortgage Investment Activities



Shift in Distressed Loan Resolutions Toward Modifications

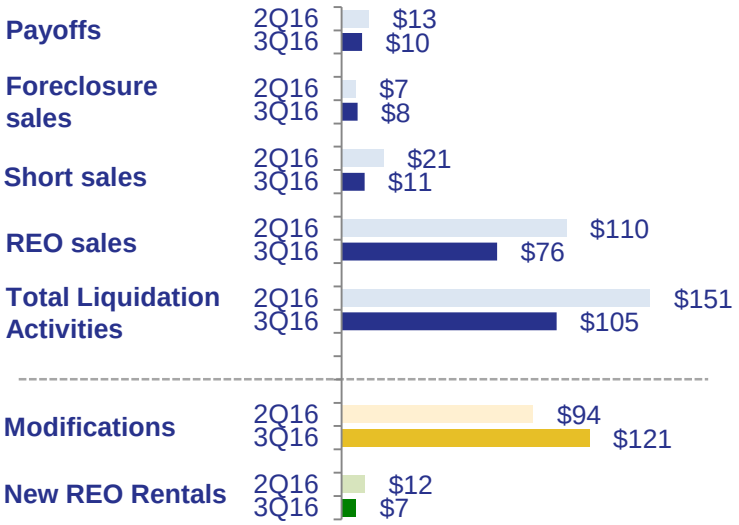
Resolution Activity (% of UPB)

($ in millions)



Resolution Activity (UPB)

($ in millions)

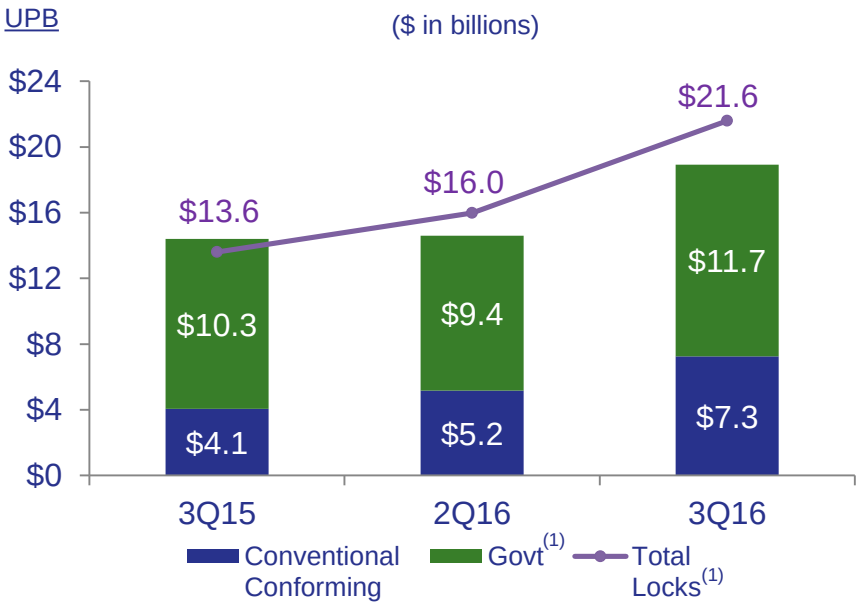


- Modifications comprised 52% of total resolution activity in 3Q16, up from 37% in 2Q16
  - Focused on driving reperformance through loss mitigation programs
    - Streamlined modifications totaled $78 million in 3Q16, up from $38 million in the prior quarter
- REO property sales decreased as a percentage of total resolutions due to a reduction in inflow of REO properties and more properties in the rental portfolio
  - REO inventory decreased to $288 million at September 30, 2016 from $299 million at June 30, 2016
- New REO rentals were $7 million in 3Q16, down from $12 million in 2Q16
  - REO rental portfolio reached $26 million at September 30, 2016, up from $21 million at June 30, 2016

Correspondent Production Volumes Increased Significantly in 3Q16

- Correspondent acquisitions by PMT in 3Q16 totaled $18.9 billion, up 30% Q/Q and up 31% Y/Y
  - 62% government-insured loans; 38% conventional loans
  - 40% Q/Q growth in conventional conforming acquisitions
  - Total lock volume of $21.6 billion, up 35% Q/Q
- October correspondent acquisitions totaled $7.0 billion; locks totaled $6.7 billion
- Record volumes enabled by PennyMac Financial Services, Inc.'s (PFSI) highly automated and efficiently scalable platform
- Significant volume increase due in part to a larger origination market and higher share of originations sold to correspondent aggregators
- Market share increases were driven by maintaining high service levels in a market with elevated volumes, increased business from new sellers added in recent periods and the purchase-money orientation of our correspondent production sellers
- Non-delegated correspondent program launched in 2Q16 drove majority of Q/Q growth in seller relationships

Correspondent Production Volume and Mix



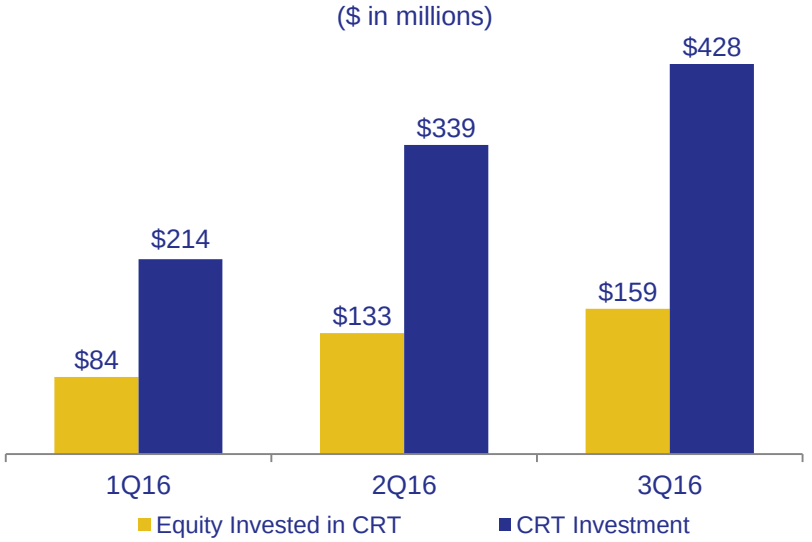
Selected Operational Metrics	2Q16	3Q16
Correspondent production sellers	457	504
Purchase money loans, as % of total acquisitions	71%	67%

(1) For Government loans, PMT earns a sourcing fee and interest income for its holding period and does not pay a fulfillment fee

PMT's Unique Investments in GSE Credit Risk Transfer

- Total CRT investments grew to $428 million at September 30, 2016
- Completed third CRT commitment with Fannie Mae during the quarter with $6.5 billion in UPB
- Entered into a fourth CRT commitment with Fannie Mae for $7.5 billion in UPB[(1)]
- 3Q16 CRT investment performance reflects strong underlying returns and market-driven value changes due to credit spread tightening
- Underlying collateral performance is strong[(2)]
  - Total 60+ day delinquencies are < 6 bps of the $12.2 billion in UPB outstanding
  - CRT special purpose vehicles (SPVs) have realized $28,000 in losses; $14.4 million in cash income collected to date

CRT Investment Outstanding



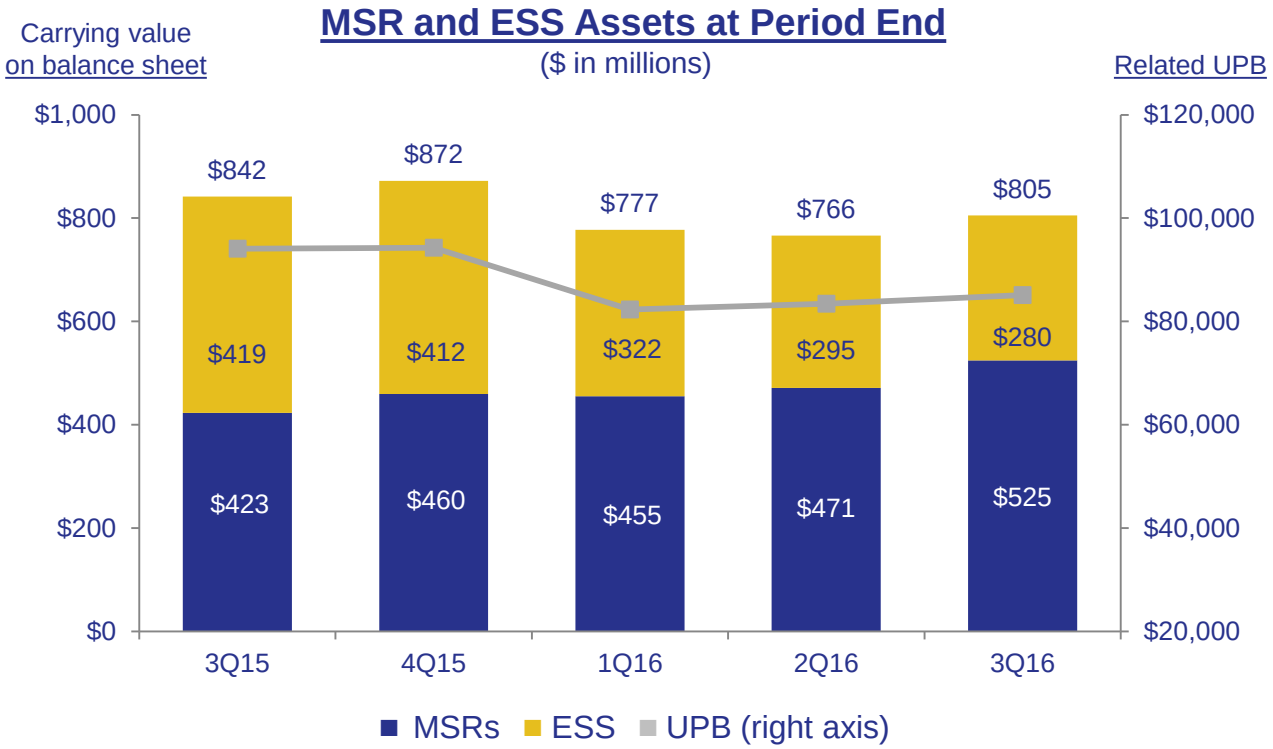
3Q16 Returns on CRT Investments

($ in millions)	Total Income Contribution	Income Excluding Market-Driven Value Changes
Investment income	$14.6	$5.1
Return on average CRT assets	15.9%	6.4%
Return on average CRT equity	39.0%	13.7%

(1) Although definitive documentation has been executed, this transaction is subject to continuing due diligence and customary closing conditions. There can be no assurance regarding the size of the transaction or that the transaction will be completed at all.

(2) See slides 21 and 31 for additional details

MSR Investments Grow, Partially Offset by Prepayment Activity



- Organic MSR investments resulting from correspondent production activity increased to $525 million, from $471 million at June 30, 2016
- ESS investments resulting from bulk, mini-bulk and flow MSR acquisitions by PFSI decreased to $280 million, from $295 million at June 30, 2016, driven by prepayments during the quarter

Financial Results



Pretax Income (Loss) by Operating Segment

Unaudited ($ in millions)	Investment Activities	Correspondent Production	Total Pretax Income
3Q15	$ 34.9	$ 10.2	$ 45.1
4Q15	$ (6.1)	$ 13.1	$ 6.9
1Q16	$ 0.1	$ 10.9	$ 11.0
2Q16	$ (24.6)	$ 16.4	$ (8.2)
3Q16	$ 13.6	$ 31.4	$ 45.0

Note: Figures may not sum exactly due to rounding

Investment Activities Segment Results

Unaudited ($ in thousands)	Quarter Ended September 30, 2016	Quarter Ended June 30, 2016
Revenues:		
Net gain on investments:		
Mortgage loans at fair value	$ (3,400)	$ (13,463)
Mortgage loans held by variable interest entity net of asset-backed secured financing	2,454	842
Mortgage-backed securities	517	4,332
CRT Agreements	18,477	7,764
Hedging derivatives	(945)	862
Excess servicing spread investment[(1)]	(2,824)	(15,824)
	14,279	(15,487)
Net interest income		
Interest income	43,284	38,351
Interest expense	30,957	28,642
	12,327	9,709
Net loan servicing fees	15,761	15,691
Other	(1,100)	(520)
Total revenues	41,267	9,393
Expenses:		
Servicing and Management fees payable to PennyMac Financial Services, Inc.[(2)]	15,350	21,027
Other	12,286	12,958
Total expenses	27,636	33,985
Pretax (loss) income	**$ 13,631**	**$ (24,592)**

(1) Includes $1.3 million in recapture income in 3Q16
(2) Servicing fees include both special servicing for PMT's distressed portfolio and subservicing for PMT's mortgage servicing rights of $5.6 million and $5.0 million, respectively in 3Q16.

- Segment revenue increased $31.9 million Q/Q
  - Net gain on investments increased $29.8 million Q/Q, primarily driven by:
    - Gains on CRT resulting from credit spread tightening and continued growth in the investment position
    - $10.1 million Q/Q reduction in valuation losses on the distressed loan portfolio (see slide 19) and a $13.0 million Q/Q reduction in fair value losses on ESS
    - Partially offset by a $3.8 million reduction in gains on mortgage-backed securities
  - Growth in net interest income related to increased modification of distressed loans (see slide 18)
- Expenses decreased $6.3 million Q/Q
  - 2Q16 expenses included $5.1 million in servicing activity fees related to the sale of performing loans

Net Interest Income Increase Driven by Distressed Loan Modification Activity

Unaudited ($ in thousands)	Quarter Ended September 30, 2016	Quarter Ended June 30, 2016
Short-term investments	$ -	$ -
Mortgage-backed securities	3,394	2,756
Mortgage loans:		
At fair value	28,952	23,042
Held by variable interest entity	4,040	4,951
Acquired for sale at fair value	158	181
Total mortgage loans	33,150	28,174
Excess servicing spread	4,827	5,713
Other	1,913	1,708
Total interest income	43,284	38,351
Interest expense	30,957	28,642
Net interest income	**$ 12,327**	**$ 9,709**

- Total interest income from Investment Activities was $43.3 million, a 13% Q/Q increase
- Interest income from the distressed loan portfolio was $29.0 million, a 26% Q/Q increase
  - Capitalized interest on loan modifications of $23.1 million, up 41% from 2Q16, resulting from increased streamlined modifications(1)
- ESS interest income was $4.8 million, down 16% Q/Q, driven by a smaller investment position due to prepayments
- Total interest expense from Investment Activities was $31.0 million, an 8% Q/Q increase

(1) Capitalized interest from loan modifications increases interest income and reduces gains from loan valuations

Performance of the Distressed Loan Investments

- Combining valuation changes with net interest income, revenue from distressed loans was $14.1 million, compared with $(2.5) million in 2Q16
- While significantly improved from the prior quarter, the distressed loan portfolio underperformed expectations
  - Lower expected REO proceeds on loans transitioning from foreclosure to REO
  - Increase in redefaults of performing loans
  - Fewer nonperforming loans transitioning from foreclosure to REO
  - Actual home prices in line with prior forecasts
  - Expanded use of modification and loss mitigation programs to help more troubled borrowers while at the same time expediting loan resolutions
    - Capitalized interest from modifications increases interest income and reduces valuation gains on reperforming loans in the period of modification
- Cash proceeds from liquidation and paydown activity on distressed loans and REO totaled $74.7 million
  - Accumulated net losses before liquidation on assets liquidated during the quarter were $0.3 million, and net gains on liquidation were $3.3 million

Net Losses on Mortgage Loans

Unaudited ($ in thousands)	Quarter ended Sept. 30, 2016	Quarter ended June 30, 2016
Valuation Changes:		
Performing loans	$ (16,350)	$ (8,356)
Nonperfoming loans	11,506	(5,919)
	(4,844)	**(14,275)**
Payoffs	1,298	1,208
Sales	146	(396)
	$ (3,400)	**$ (13,463)**

Cash Proceeds and Gain on Liquidation

Unaudited ($ in thousands)	Quarter ended September 30, 2016		
	Proceeds	Accumulated gains (losses)[1]	Gain on liquidation[2]
Mortgage loans	$ 29,921	$ 4,811	$ (1,328)
REO	44,814	(5,085)	4,603
	$ 74,735	$ (274)	$ 3,275

[1] Represents valuation gains and losses recognized during the period the Company held the respective asset, but excludes the gain or loss recorded upon sale or repayment of the respective asset

[2] Represents the gain or loss recognized as of the date of sale or repayment of the respective asset

Valuation of MSRs and Excess Servicing Spread (ESS)

Unaudited ($ in millions)	Mortgage Servicing Rights		Excess Servicing Spread
At 9/30/2016	At lower of amortized cost or fair value	At fair value	Fair value
Pool UPB	$44,811	$6,098	$34,189
Pool weighted average coupon	3.83%	4.71%	4.20%
Pool prepayment speed assumption (CPR)	10.4%	13.8%	12.2%
Weighted average servicing fee/spread	0.25%	0.25%	0.19%
Fair value	$472.8	$55.8	$280.4
As multiple of servicing fee	4.15	3.63	4.38
Carrying (accounting) value	$468.7	$55.8	$280.4
Fair value in excess of carrying value	**$4.1**		

- PMT carries most of its MSRs at the lower of amortized cost or fair value ("LOCOM")
  - MSRs where the note rate on the underlying loan is less than or equal to 4.5%
- The fair value of MSRs carried at LOCOM was $4.1 million in excess of the carrying value at September 30, 2016, compared with $3.6 million at June 30, 2016

Credit Risk Transfer – Income Statement and Balance Sheet Treatment

Unaudited

($ in thousands)	Since Inception[1]	
UPB of mortgage loans transferred under CRT Agreements	$ 13,044,694	Total UPB of loans delivered to the CRT SPVs and sold to Fannie Mae
Deposits of restricted cash to secure guarantees	$ 429,880	Cash deposited in the SPV in "restricted cash." Represents collateral for the initial credit risk retained
Gains (losses) recognized on derivatives related to CRT Agreements		
included in Net gain on investments		
Realized	$ 14,432	Cash income to PMT from the CRT SPVs
Resulting from valuation changes	$ 8,259	Gains and losses resulting from valuation changes represent fair value
	$ 22,691	
Payments made to settle losses	$ 28	Payments made to Fannie Mae, from pledged cash, for losses on loans underlying the CRT agreements
At September 30, 2016		
UPB of mortgage loans subject to guarantee obligation	$ 12,196,636	Current outstanding UPB of loans delivered to the CRT SPVs and sold to Fannie Mae
Delinquency		
Current to 89 days delinquent	$ 12,192,306	
90 or more days delinquent	$ 3,125	
Foreclosure	$ 1,205	
Carrying value of CRT agreements		
Restricted cash included in Other assets	$ 427,677	Current cash collateralizing guarantee included in "Deposits securing credit risk transfer agreements"
Net derivative included in Derivative assets	$ 16,662	Derivative represents net value of expected future cash inflows related to assumption of credit risk and expected future losses
Commitments to fund Deposits securing CRT Agreements	$ 35,106	Adjustment to timing of cash flows in the most recent CRT commitment allows more efficient deployment of capital during the aggregation period

[1] Cumulative for the six quarters ending 9/30/2016

Correspondent Production Segment Results

Unaudited ($ in thousands)	Quarter Ended Sept. 30, 2016	As % of Interest Rate Lock Commitments[1]	Quarter Ended June 30, 2016	As % of Interest Rate Lock Commitments[1]
Revenues:				
Net gain on mortgage loans acquired for sale	$ 43,858	0.50%	$ 24,226	0.41%
Net interest income	5,477	0.06%	5,464	0.09%
Other income	12,724	0.15%	8,535	0.14%
	$ 62,059	0.71%	$ 38,225	0.64%
Expenses:				
Loan fulfillment, servicing, and management fees payable to PennyMac Financial Services, Inc.	$ 27,969	0.32%	$ 19,710	0.33%
Other	2,707	0.03%	2,082	0.03%
	$ 30,676	0.35%	$ 21,792	0.37%
Pretax income	**$ 31,383**	**0.36%**	**$ 16,433**	**0.28%**

- Segment revenue totaled $62.1 million, a 62% increase from 2Q16, due to strong conventional conforming lock volume growth
  - Higher net gain on mortgage loans acquired for sale driven by larger volumes and strong margins, including specified loan sales made possible by PMT's large production volumes
  - Net gain on mortgage loans acquired for sale included a $5.1 million benefit, or 0.05% of IRLCs, from a revision of previously recorded provision for representations and warranties due to change in estimate
  - Net interest income relatively unchanged Q/Q driven by yield curve flattening
  - Growth in other income driven by higher loan origination fee income resulting from increased production volume
- Conventional conforming acquisition volumes increased 40% from 2Q16
  - Reflects larger mortgage origination market and success in profitably growing market share
- Fulfillment fees paid for the quarter were 38bp, up slightly from 37bp in 2Q16[2]

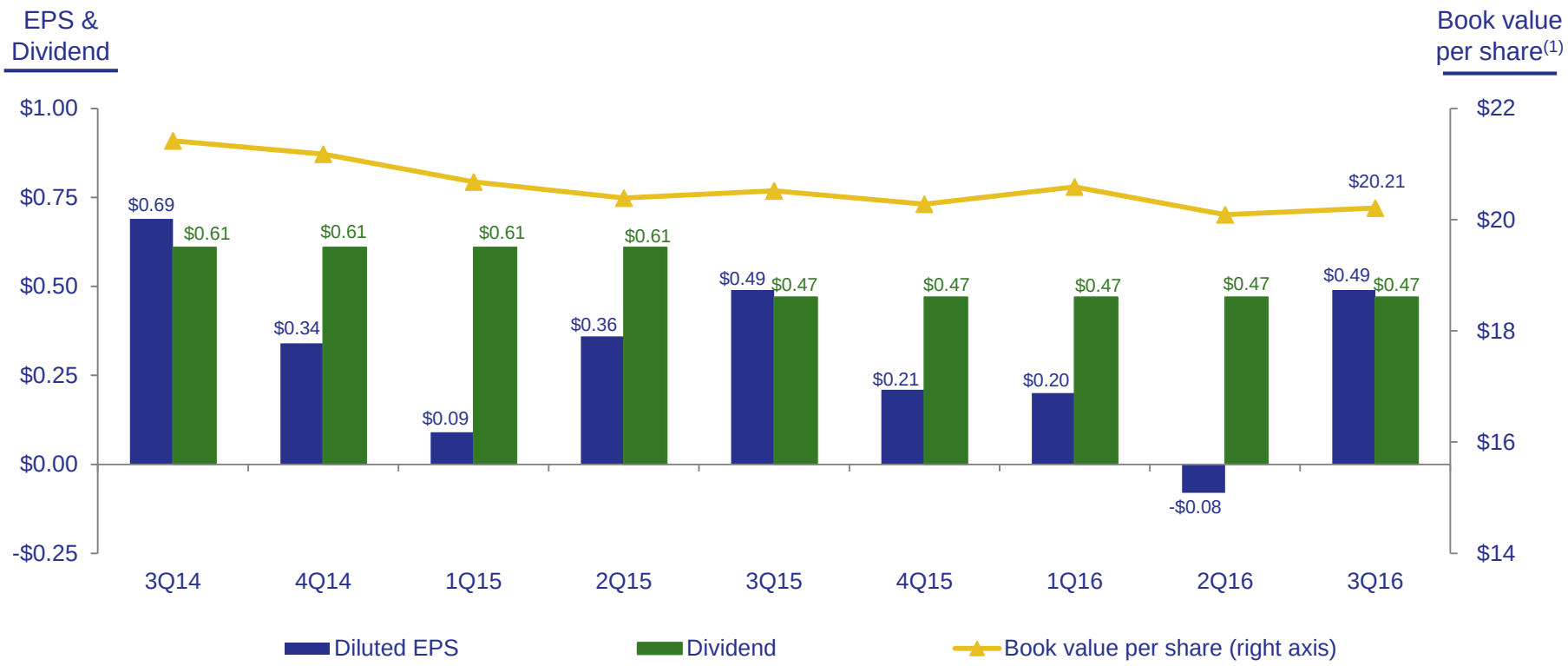
[1] Conventional conforming and jumbo interest rate lock commitments

[2] Fulfillment fees are based on funding volumes. Effective September 1, 2016, the contractual fulfillment fee is 0.35% for conventional loans sold to the Agencies, and 0.85% for all other loans. Previously, the fulfillment fee was in general 0.50% of the funding of conventional and jumbo loans, subject to reductions at specified volumes and discretionary reductions by PFSI.

Appendix



PMT EPS, Dividends and Book Value Over Time

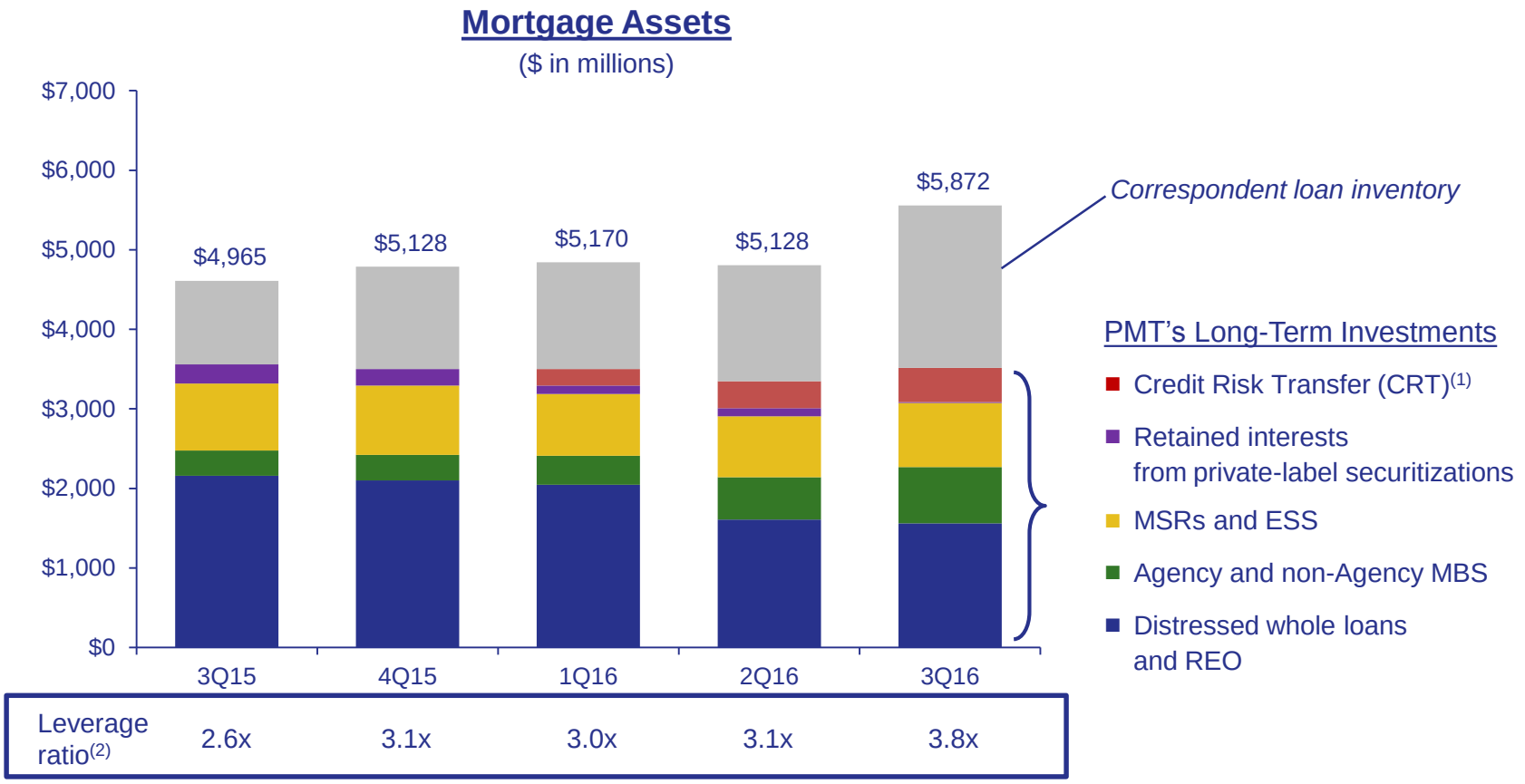


Return on Equity(2)	14%	7%	2%	7%	10%	4%	4%	(1)%	10%

(1) At period end.

(2) Return on average equity during the respective quarter; return on average equity is calculated based on annualized quarterly net income as a percentage of monthly average shareholders' equity during the period.

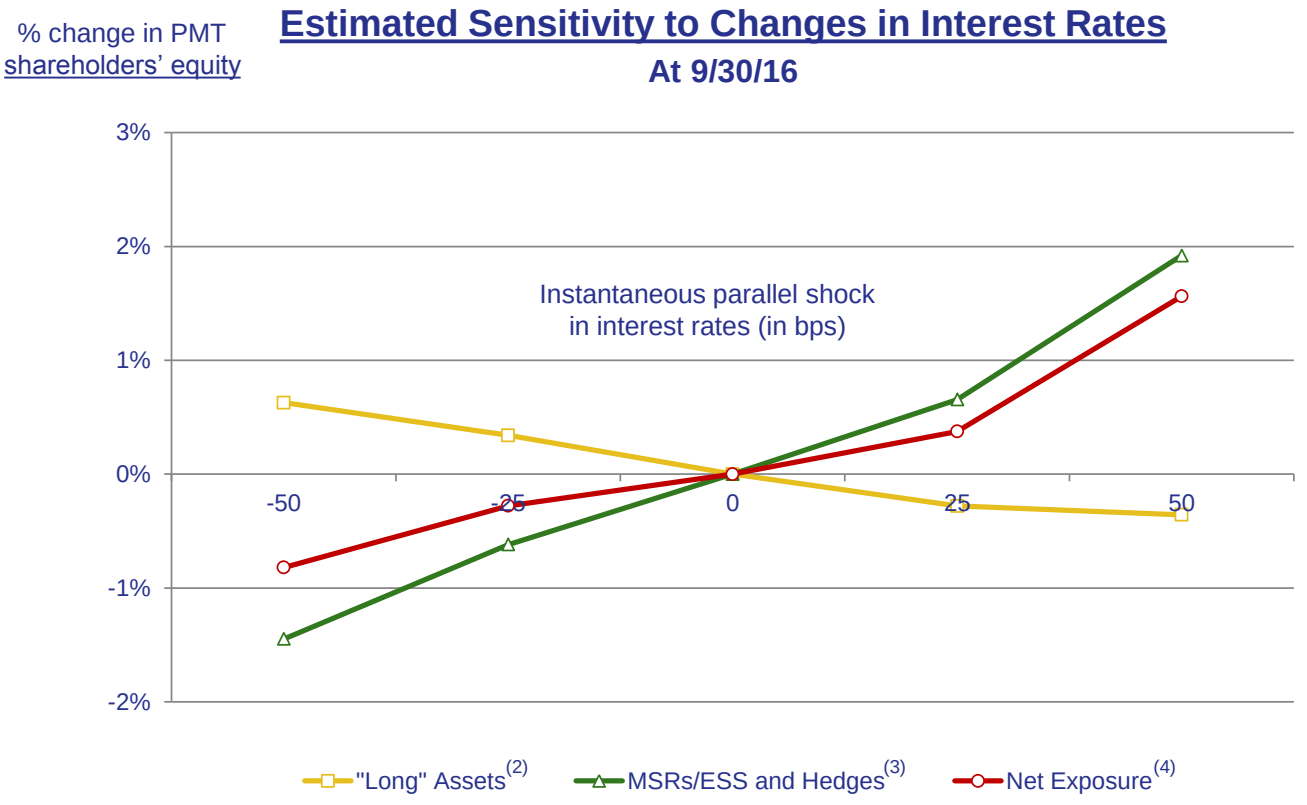
PMT's Mortgage Assets and Leverage Ratio Over Time



(1) The fair value of CRT investments is reflected on the balance sheet as restricted cash and a net derivative asset included in derivative assets

(2) All borrowings, including exchangeable senior notes and asset-backed secured financing of the variable interest entity, divided by shareholders' equity at period end

Management of PMT's Interest Rate Risk(1)



- PMT's interest rate risk exposure is managed on a "global" basis
  - Disciplined hedging
  - Multiple mortgage-related investment strategies with complementary interest rate sensitivities
  - Utilization of financial hedge instruments
  - Also considers recapture benefit on MSRs and ESS and revenue opportunities from correspondent production

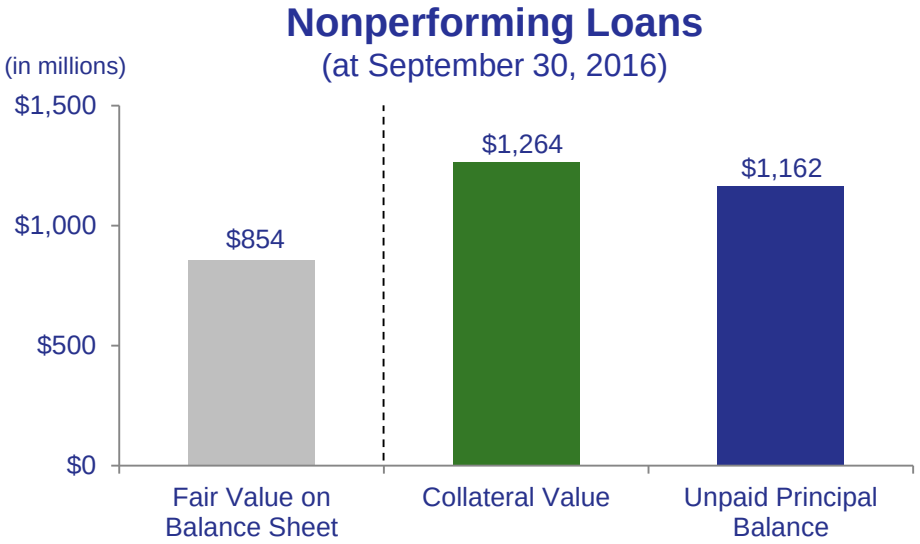
(1) Analysis does not include PMT assets for which interest rates are not a key driver of values, i.e., distressed whole loans and REO. The sensitivity analyses on the slide and the associated commentary are limited in that they are estimates as of September 30, 2016; only reflect movements in interest rates and do not contemplate other variables; do not incorporate changes in the variables in relation to other variables; are subject to the accuracy of various models and assumptions used; and do not incorporate other factors that would affect the Company's overall financial performance in such scenarios, including operational adjustments made by management to account for changing circumstances. For these reasons, the preceding estimates should not be viewed as an earnings forecast.

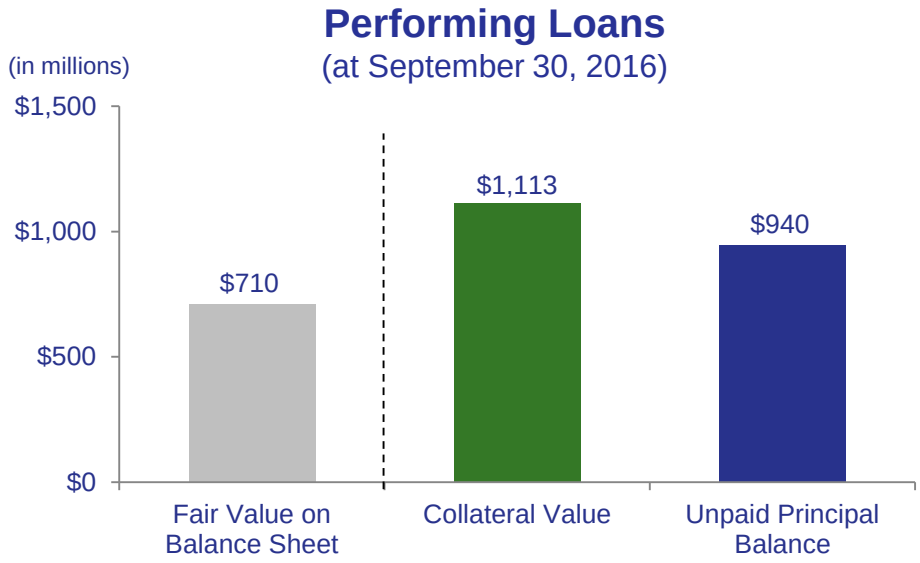
(2) Includes loans acquired for sale and IRLCs, net of associated hedges, Agency and Non-Agency MBS assets

(3) Includes MSRs, ESS, and hedges which include put and call options on MBS, Eurodollar futures, Treasury futures, and Exchange-traded swaps

(4) Net exposure represents the net position of the "Long" Assets Position and the MSR/ESS Investments and Hedges

Carrying Values for PMT's Distressed Whole Loans





- Nonperforming loans are held on average at a 32% discount to current property value – fair value considers costs expected over the liquidation timeline, expected property appreciation and reperformance probability
- PMT advances funds for items such as property taxes and property preservation to protect the value of its investment in the underlying property; these advances are recovered from the proceeds when the loan is liquidated before loan balances are repaid or through borrower reperformance either through modification of the loan or reinstatement of the loan to current status
- Performing loans provide ongoing cash interest income and, as they season, the opportunity to monetize gains through payoffs, refinances, or loan sales

Distressed Portfolio by Acquisition Period

1Q10	Purchase	3Q16
Balance ($mm)	$ 182.7	23.8
Pool Factor[1]	1.00	0.13
Current	6.2%	32.4%
30	1.6%	10.4%
60	5.8%	4.7%
90+	37.8%	21.9%
FC	46.4%	18.6%
REO	2.3%	11.9%

2Q10	Purchase	3Q16
Balance ($mm)	$ 195.5	22.8
Pool Factor[1]	1.00	0.12
Current	5.1%	35.2%
30	2.0%	9.7%
60	4.1%	4.0%
90+	42.8%	13.9%
FC	45.9%	31.0%
REO	0.0%	6.2%

3Q10	Purchase	3Q16
Balance ($mm)	$ 146.2	15.6
Pool Factor[1]	1.00	0.11
Current	1.2%	37.4%
30	0.4%	3.7%
60	1.3%	7.1%
90+	38.2%	24.9%
FC	58.9%	19.0%
REO	0.0%	7.9%

4Q10	Purchase	3Q16
Balance ($mm)	$ 277.8	34.9
Pool Factor[1]	1.00	0.13
Current	5.0%	41.5%
30	4.0%	11.5%
60	5.1%	2.8%
90+	26.8%	16.3%
FC	59.1%	15.4%
REO	0.0%	12.5%

1Q11	Purchase	3Q16
Balance ($mm)	$ 515.1	102.1
Pool Factor[1]	1.00	0.20
Current	2.0%	26.7%
30	1.9%	7.9%
60	3.9%	3.0%
90+	25.9%	16.3%
FC	66.3%	32.1%
REO	0.0%	14.0%

2Q11	Purchase	3Q16
Balance ($mm)	$ 259.8	56.8
Pool Factor[1]	1.00	0.22
Current	11.5%	28.6%
30	6.5%	10.2%
60	5.2%	5.0%
90+	31.2%	20.6%
FC	43.9%	24.0%
REO	1.7%	11.6%

3Q11	Purchase	3Q16
Balance ($mm)	$ 542.6	93.9
Pool Factor[1]	1.00	0.17
Current	0.6%	32.5%
30	1.3%	6.6%
60	2.0%	4.1%
90+	22.6%	18.7%
FC	73.0%	25.3%
REO	0.4%	12.9%

4Q11	Purchase	3Q16
Balance ($mm)	$ 49.0	17.7
Pool Factor[1]	1.00	0.36
Current	0.2%	40.8%
30	0.1%	11.7%
60	0.2%	0.8%
90+	70.4%	11.9%
FC	29.0%	26.2%
REO	0.0%	8.5%

1Q12
No Pools Purchased in this Quarter.

2Q12	Purchase	3Q16
Balance ($mm)	$ 402.5	91.1
Pool Factor[1]	1.00	0.23
Current	45.0%	37.6%
30	4.0%	11.5%
60	4.3%	5.4%
90+	31.3%	20.2%
FC	15.3%	20.2%
REO	0.1%	5.1%

3Q12	Purchase	3Q16
Balance ($mm)	$ 357.2	100.8
Pool Factor[1]	1.00	0.28
Current	0.0%	27.2%
30	0.0%	4.4%
60	0.1%	1.5%
90+	49.1%	17.3%
FC	50.8%	25.3%
REO	0.0%	24.3%

4Q12	Purchase	3Q16
Balance ($mm)	$ 290.3	96.6
Pool Factor[1]	1.00	0.33
Current	3.1%	35.2%
30	1.3%	13.8%
60	5.4%	3.6%
90+	57.8%	17.8%
FC	32.4%	15.6%
REO	0.0%	14.1%

[1] Ratio of unpaid principal balance remaining to unpaid principal balance at acquisition

Distressed Portfolio by Acquisition Period (cont.)

1Q13	Purchase	3Q16
Balance ($mm)	$ 366.2	115.0
Pool Factor[1]	1.00	0.31
Current	1.6%	43.7%
30	1.5%	12.5%
60	3.5%	5.2%
90+	82.2%	17.8%
FC	11.2%	11.5%
REO	0.0%	9.1%

2Q13	Purchase	3Q16
Balance ($mm)	$ 397.3	188.8
Pool Factor[1]	1.00	0.48
Current	4.8%	34.9%
30	7.4%	6.6%
60	7.6%	4.6%
90+	45.3%	18.1%
FC	34.9%	17.8%
REO	0.0%	17.9%

3Q13	Purchase	3Q16
Balance ($mm)	$ 929.5	443.6
Pool Factor[1]	1.00	0.48
Current	0.8%	22.2%
30	0.3%	3.9%
60	0.7%	2.1%
90+	58.6%	19.7%
FC	39.6%	28.3%
REO	0.0%	23.8%

4Q13	Purchase	3Q16
Balance ($mm)	$ 507.3	306.8
Pool Factor[1]	1.00	0.60
Current	1.4%	16.2%
30	0.2%	3.3%
60	0.0%	1.4%
90+	38.3%	18.5%
FC	60.0%	38.2%
REO	0.0%	22.5%

1Q14	Purchase	3Q16
Balance ($mm)	$ 439.0	270.8
Pool Factor[1]	1.00	0.62
Current	6.2%	18.8%
30	0.7%	3.1%
60	0.7%	2.3%
90+	37.5%	18.0%
FC	53.8%	38.2%
REO	1.1%	19.6%

2Q14	Purchase	3Q16
Balance ($mm)	$ 37.9	25.8
Pool Factor[1]	1.00	0.68
Current	0.7%	45.9%
30	0.6%	5.0%
60	1.4%	1.0%
90+	59.0%	24.7%
FC	38.2%	11.5%
REO	0.0%	12.0%

3Q14
No Pools Purchased in this Quarter.

4Q14	Purchase	3Q16
Balance ($mm)	$ 330.8	256.4
Pool Factor[1]	1.00	0.78
Current	1.6%	39.2%
30	1.6%	5.2%
60	7.1%	3.3%
90+	52.7%	16.1%
FC	36.9%	25.9%
REO	0.0%	10.3%

1Q15	Purchase	3Q16
Balance ($mm)	$ 310.2	245.1
Pool Factor[1]	1.00	0.79
Current	1.8%	23.8%
30	0.3%	3.6%
60	0.1%	2.3%
90+	66.7%	19.9%
FC	31.1%	33.5%
REO	0.0%	16.8%

No distressed loan acquisitions since 1Q15

[1] Ratio of unpaid principal balance remaining to unpaid principal balance at acquisition

Correspondent Production Fundings and Locks by Product

($ in millions)	3Q15	4Q15	1Q16	2Q16	3Q16
Fundings					
Conventional	$ 4,055	$ 3,460	$ 3,253	$ 5,171	$ 7,263
Government	10,348	6,558	6,423	9,433	11,657
Jumbo	19	12	7	3	1
Total	**$ 14,421**	**$ 10,030**	**$ 9,683**	**$ 14,607**	**$ 18,920**
Locks					
Conventional	$ 4,085	$ 3,630	$ 3,857	$ 5,957	$ 8,687
Government	9,483	7,001	6,511	10,023	12,868
Jumbo	32	14	11	7	2
Total	**$ 13,599**	**$ 10,645**	**$ 10,379**	**$ 15,988**	**$ 21,557**

Note: Figures may not sum exactly due to rounding

PMT's Investments in GSE Credit Risk Transfer

($ in billions)

CRT 2015 -1 (May 2015 - July 2015)	At inception	9/30/2016
UPB	$ 1.2	$ 1.0
Loan Count	4,108	3,760
% Purchase	67.6%	67.2%
WA FICO[1]	742	741
WA LTV[1]	80.5%	78.4%
60+ Days Delinquent Loan Count		10
60+ Days Delinquent % o/s UPB		0.28%
180+ Days Delinquent Loan Count		1
Actual Losses ($ in thousands)		-

CRT 2015 -2 (August 2015 - Feburary 2016)	At inception	9/30/2016
UPB	$ 4.2	$ 3.7
Loan Count	15,255	14,210
% Purchase	71.4%	71.9%
WA FICO[1]	743	742
WA LTV[1]	81.2%	78.8%
60+ Days Delinquent Loan Count		18
60+ Days Delinquent % o/s UPB		0.11%
180+ Days Delinquent Loan Count		2
Actual Losses ($ in thousands)		$ 28

CRT 2016 -1 (Feburary 2016 - August 2016)	At inception	9/30/2016
UPB	$ 6.5	$ 6.4
Loan Count	21,615	21,474
% Purchase	67.4%	67.0%
WA FICO[1]	748	748
WA LTV[1]	81.2%	80.7%
60+ Days Delinquent Loan Count		3
60+ Days Delinquent % o/s UPB		0.01%
180+ Days Delinquent Loan Count		-
Actual Losses ($ in thousands)		-

CRT 2016 -2 (August 2016 - Current)	At inception	9/30/2016
UPB	$ 1.1	$ 1.1
Loan Count	3,516	3,516
% Purchase	58.1%	58.1%
WA FICO[1]	752	752
WA LTV[1]	81.1%	81.1%
60+ Days Delinquent Loan Count		-
60+ Days Delinquent % o/s UPB		-
180+ Days Delinquent Loan Count		-
Actual Losses ($ in thousands)		-

Total	At inception	9/30/2016
UPB	$ 13.0	$ 12.2
Loan Count	44,494	42,960
% Purchase	68.7%	67.7%
WA FICO[1]	746	745
WA LTV[1]	80.8%	79.9%
60+ Days Delinquent Loan Count		31
60+ Days Delinquent % o/s UPB		0.06%
180+ Days Delinquent Loan Count		3
Actual Losses ($ in thousands)		$ 28

[1] FICO and LTV metrics at origination

Net Cash Flows from Existing Investments

Reconciliation of Non-GAAP Financial Measure

($ in thousands)	Quarter Ended				
	September 30, 2016	June 30, 2016	March 31, 2016	Dec 31, 2015	Sept 30, 2015
Cash flows from investing activities[1]	**($146,950)**	**$222,120**	**$ 93,069**	**$ 81,054**	**$ (22,526)**
Adjustments to remove items:					
Purchase of mortgage-backed securities at fair value	301,729	199,223	50,702	22,604	37,095
Purchase of mortgage loans at fair value	(891)	-	-	-	-
Purchase of excess servicing spread	-	-	-	102	84,165
Deposit of restricted cash to secure CRT agreements	89,697	126,031	66,706	59,555	87,891
Settlements of derivative financial instruments	3,284	2,791	2	(1,957)	(1,788)
Margin deposits and restricted cash	(13,752)	19,137	(2,368)	(6,710)	(37,441)
Net purchase of mortgage servicing rights	-	106	-	1,975	-
Net decrease (increase) in short-term investments	16,476	(30,623)	5,635	10,347	(899)
Sale of mortgage-backed securities at fair value	(94,286)	1	-	-	-
Sale of excess servicing spread to PFSI	-	-	(59,045)		
Bulk sale of mortgage loans at fair value	-	(344,302)	-	-	-
	$155,307	**$194,484**	**$ 154,701**	**$ 166,970**	**$ 146,497**
Other adjustments:					
Debt repayment on investment liquidations/sales[2]	$ (99,834)	$ (148,679)	$ (104,158)	$ (93,962)	$ (126,254)
Servicing fees[3]	$ 34,304	$ 31,578	$ 28,131	$ 25,500	$ 25,887
Net interest income from Investment Activities[4]	$ 14,483	$ 9,709	$ 17,198	$ 16,300	$ 11,360
Less capitalized interest	$ (23,068)	$ (16,421)	$ (22,775)	$ (14,849)	$ (9,921)
Expenses[5]	$ (31,057)	$ (36,666)	$ (30,785)	$ (28,114)	$ (28,203)
Net cash flows from existing investments	**$ 50,135**	**$ 34,005**	**$ 54,974**	**$ 51,372**	**$ 60,426**

[1] Quarterly cash flows from investing activities are derived from the Company's year-to-date statements of cash flows
[2] Debt repayment from liquidations calculated based on debt advance rates for each asset type
[3] Revenue component of net loan servicing fees as reported quarterly
[4] Investment Activities segment net interest income from the quarterly segment income statement
[5] Quarterly income statement items excluding noncash items and fulfillment fees

Opportunity in MSR Acquisitions

Why Are MSR Sales Occurring?

- Large servicers may sell MSRs due to continuing operational pressures, higher regulatory capital requirements for banks (treatment under Basel III) and a re-focus on core customers/businesses
- Independent mortgage banks sell MSRs from time to time due to a need for capital

How Do MSRs Come to Market?

- Intermittent large bulk portfolio sales ($10+ billion in UPB)
  - Require considerable coordination with selling institutions and Agencies
- Mini-bulk sales (typically $500 million to $5 billion in UPB)
- Flow/co-issue MSR transactions (monthly commitments, typically $20-100 million in UPB)
  - Alternative delivery method typically from larger independent originators

Which MSR Transactions Are Attractive?

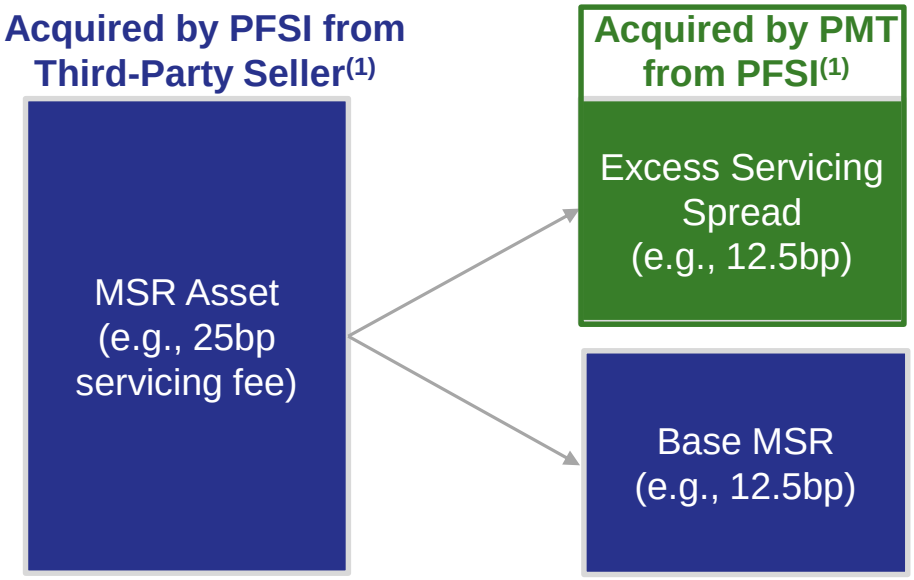
- GSE and Ginnie Mae servicing in which PFSI has distinctive expertise
- MSRs sold and operational servicing transferred to PFSI (not subserviced by a third party)
- Measurable rep and warranty liability for PFSI

PFSI is uniquely positioned be a successful acquirer of MSRs

- Proven track record of complex MSR and distressed loan transfers
- Operational platform that addresses the demands of the Agencies, regulators, and financing partners
- Physical capacity in place to service over $200 billion in UPB
- Potential co-investment opportunity for PMT in the excess servicing spread

PMT's Excess Servicing Spread Investments in Partnership with PFSI

- PMT has co-invested in Agency MSRs acquired from third-party sellers by PFSI; presently only related to Ginnie Mae MSRs
- PMT acquires the right to receive the excess servicing spread cash flows over the life of the underlying loans
- PFSI owns the MSRs and services the loans



Example transaction: actual transaction details may vary materially

Excess Servicing Spread(2)

- Interest income from a portion of the contractual servicing fee
  - Realized yield dependent on prepayment speeds and recapture

Base MSR

- Income from a portion of the contractual servicing fee
- Also entitled to ancillary income
- Bears expenses of performing loan servicing activities
- Required to advance certain payments largely for delinquent loans

(1) The contractual servicer and MSR owner is PennyMac Loan Services, LLC, an indirect subsidiary of PennyMac Financial Services, Inc.
(2) Subject and subordinate to Agency rights (under the related servicer guide); does not change the contractual servicing fee paid by the Agency to the servicer.