# PennyMac Mortgage Investment Trust

Fourth Quarter 2017 Earnings Report

February 8, 2018

# 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.

# Fourth Quarter Highlights

- Net income attributable to common shareholders of $34.6 million on net investment income of $93.7 million
  - Diluted earnings per common share of $0.50; return on average common equity of 11%
  - Reduction of deferred tax liability in PMT's taxable REIT subsidiary (TRS) from the newly enacted federal tax law resulted in a benefit of $13.0 million, or $0.18 in diluted earnings per share
  - Dividend of $0.47 per common share declared on December 19, 2017 and paid on January 26, 2018
  - Book value per common share increased to $20.13[1] from $19.74 at September 30, 2017
- Operating results reflect strong contributions from GSE credit risk transfer (CRT) and correspondent production partially offset by distressed loan investment losses
- Segment pretax results: Credit Sensitive Strategies: $39.3 million; Interest Rate Sensitive Strategies: $3.2 million; Correspondent Production: $14.1 million; Corporate: $(10.6) million
- Repurchased approximately 5.2 million PMT common shares at a cost of $82.6 million from November 6th, 2017 to January 5th, 2018
  - Board of Trustees authorized an increase in the size of the share repurchase program from $200 million to $300 million
- Continued investment in CRT and mortgage servicing rights (MSRs) resulting from PMT's correspondent production
  - Conventional correspondent loan production totaled $5.9 billion in unpaid principal balance (UPB), down 10% from the prior quarter
  - CRT deliveries totaled $4.8 billion in UPB, which will result in approximately $168 million of new CRT investments once the aggregation period is complete
  - Added $83 million in new MSRs

(1) Effective January 1, 2018, PMT is electing changes to the accounting for its MSRs; see slide 18 for details. Pro forma for this change, book value per share would be $20.36.

# Fourth Quarter Highlights (continued)

- Completed the previously announced sale of $287 million in UPB of nonperforming and performing loans from the distressed portfolio

*Notable activity after quarter end:*

- Entered into an agreement to sell $381 million in UPB of nonperforming and performing loans from the distressed portfolio[1]
  - With this pending sale, PMT's equity allocated to distressed mortgage loans is expected to decrease to approximately 15%[2]

[1] 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.
[1] Management's internal allocation of equity. Amounts as of quarter end.

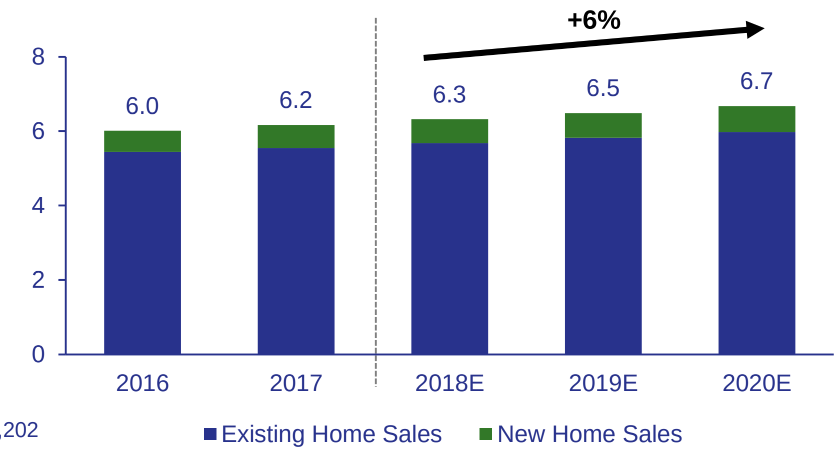
# Current Market Environment

- Interest rates increased steadily throughout 4Q17
  - Mortgage rates increased 16 basis points to 3.99% at quarter end and have increased to 4.22% after quarter end[(1)]
  - Average refinance application activity as tracked by the MBA decreased 14% from the 3Q17 average[(2)]
- Home sales showed renewed strength in 4Q17, reaching their highest levels of the year
  - Fundamental economic and demographic drivers for home sales growth remain positive
  - Mortgage market origination estimates forecast multi-year growth in purchase-money originations driven by continued strong demand for homes
- Mortgage performance remains strong
  - Recent near-term increase in delinquencies is expected to be transitory; attributable to the recent natural disasters and typical seasonal factors[(3)]

**Average 30-year fixed rate mortgage[(1)]**


**Home Sales[(4)]**

*(in millions)*




[(1)] Freddie Mac Primary Mortgage Market Survey. 4.22% as of 2/1/2018

[(2)] Mortgage Bankers Association Refinance Index – 3Q17 average was 1,390, and 4Q17 average was 1,202

[(3)] Black Knight Financial Services – Total U.S. loan delinquency rate (30 day+ delinquent but not in foreclosure) was 4.71% as of December 31, 2017 compared to 4.40% as of September 30, 2017

[(4)] Actual results are from National Association of Realtors and the Census Bureau – seasonally adjusted. Forecast estimates are from the Mortgage Bankers Association

# Implications of the Tax Cuts & Jobs Act

**Housing Market**

- Should be a long-term positive for housing driven by the overall stimulus for the U.S. economy
  - Economic growth has historically supported improved real estate values and home sales
  - Increases in disposable income for many households should aid homeownership
- May have mixed impact on home prices in the near term
  - Reduction in the maximum mortgage interest deduction to $750,000 and a cap on state and local tax deductions could negatively impact high-cost areas (e.g., California, Northeast)

**Mortgage Industry**

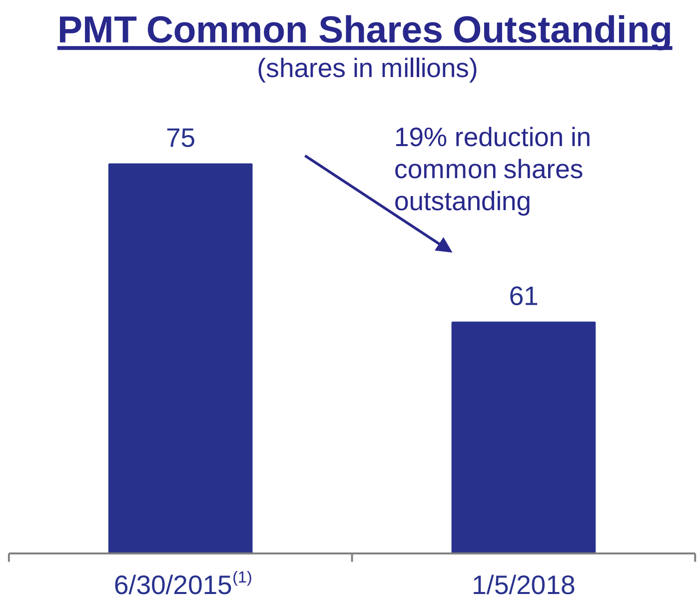
- Reduced corporate tax rate significantly improves the after-tax profitability for taxable industry participants including PMT's taxable REIT subsidiary
- Lower mortgage interest deduction cap does not impact Agency market (government and conventional conforming loans), which comprises 80% of total U.S. mortgage originations
- Uncertain impact on competition and production margins over time (e.g., depends on alternative investments available for banks)

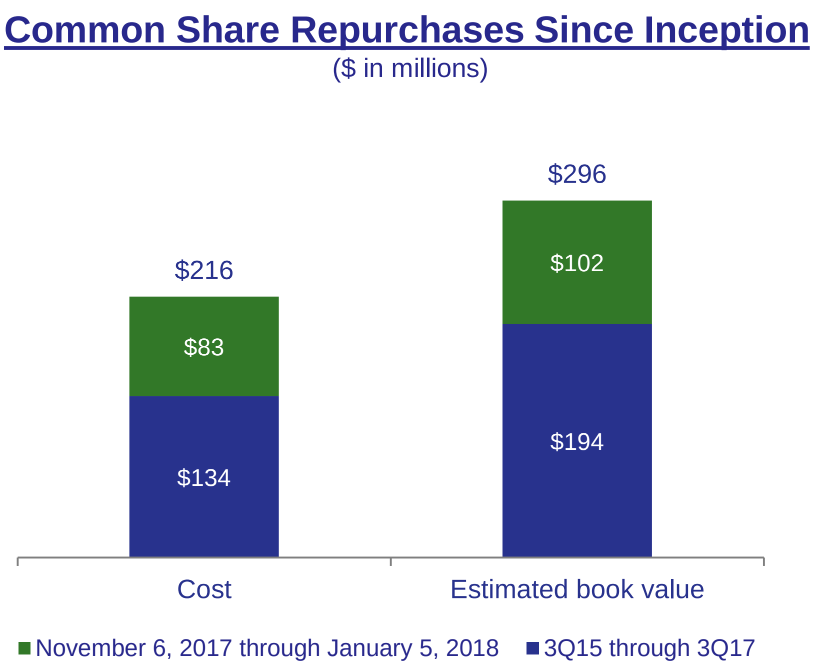
**PennyMac Entities**

- New 20% deduction for dividends from a real estate investment trust (REIT) increases the attractiveness of owning REIT stocks such as PMT for many investors

# Share Repurchase Program Update

- Repurchased approximately 5.2 million PMT common shares at a cost of $82.6 million from November 6th, 2017 to January 5th, 2018
- On December 19, 2017, the Board of Trustees authorized an increase in the size of the common share repurchase program from $200 million to $300 million
- 14.7 million common shares repurchased at a cost of $216 million since inception of the share repurchase program
  - Resulted in an effective purchase price discount to book of $80 million

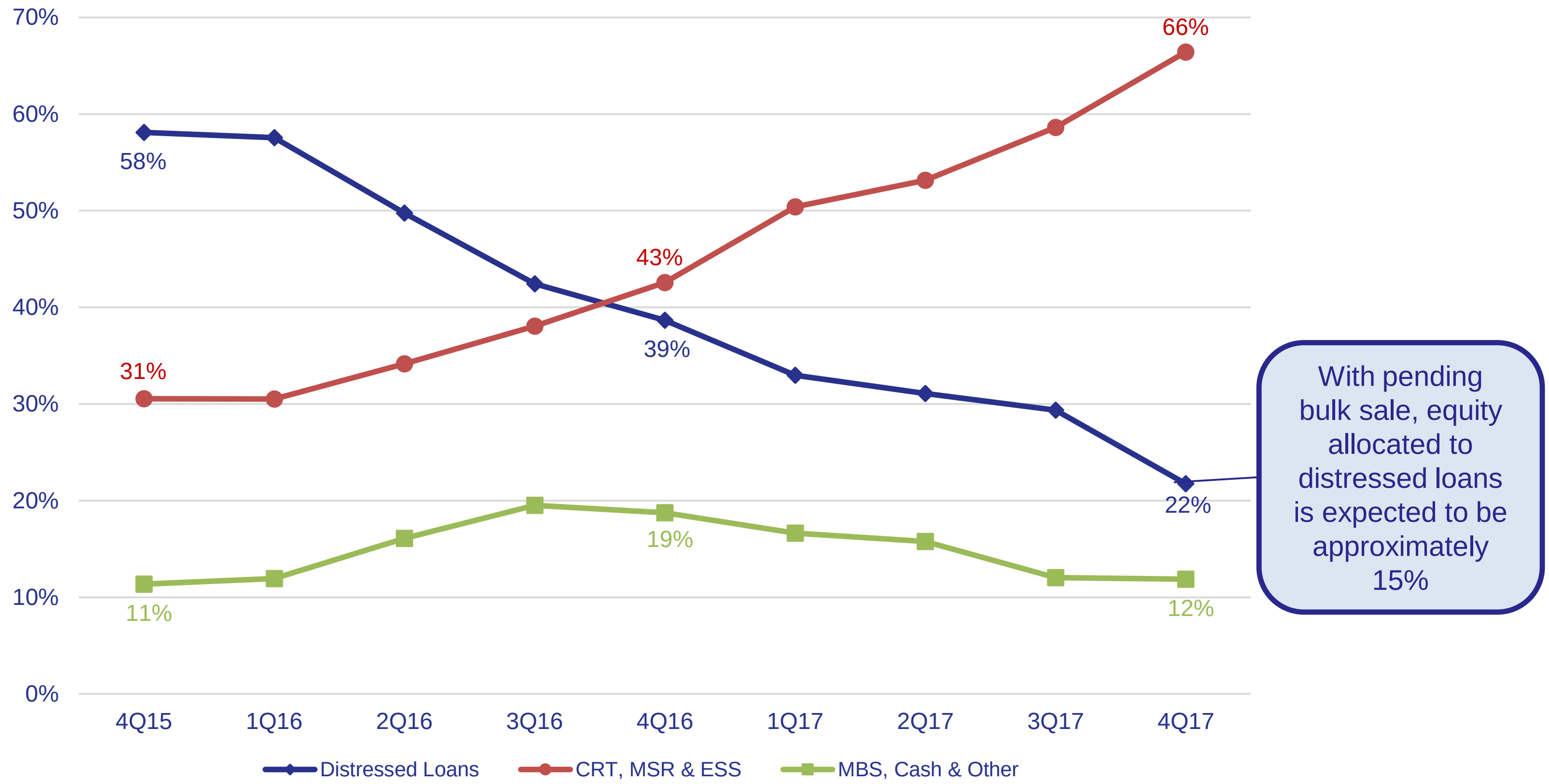



[1] Share repurchase program began in August 2015

# Transition to Correspondent-Generated Investments in CRT and MSRs

## PMT's Equity Allocation[1]




| 4Q 2015 | 4Q 2016 | 4Q 2017[2] |
| --- | --- | --- |
| 100% = $1.50 billion | 100% = $1.35 billion | 100% = $1.55 billion |

(1) Management's internal allocation of equity. Amounts as of quarter end. Percentages may not sum exactly due to rounding.
(2) Includes $310 million of preferred equity

# Run-Rate Quarterly Income Potential from PMT's Strategies

| ($ in millions, except EPS) | Income Potential | WA Equity Allocated[1] | Annualized Return on Equity (ROE) |
|---|---|---|---|
| **Credit sensitive strategies:** | | | |
| Distressed loan investments | $ (0.1) | $ 239 | -0.2% |
| Other credit sensitive strategies | | | |
| GSE credit risk transfer[2] | $ 24.4 | $ 525 | 18.6% |
| Non-Agency subordinate bonds | $ 0.1 | $ 3 | 16.5% |
| Commercial real estate finance | $ 0.6 | $ 50 | 5.0% |
| Subtotal net other credit sensitive strategies | $ 25.1 | $ 578 | 17.4% |
| **Net credit sensitive strategies** | **$ 25.0** | **$ 817** | **12.2%** |
| **Interest rate sensitive strategies:** | | | |
| MSRs (incl. recapture) | $ 12.9 | $ 352 | 14.7% |
| ESS (incl. recapture) | $ 2.8 | $ 90 | 12.5% |
| Agency MBS | $ 5.1 | $ 74 | 27.9% |
| Non-Agency senior MBS (incl. jumbo) | $ 0.2 | $ 2 | 31.6% |
| Interest rate hedges | $ (5.0) | $ - | |
| **Net interest rate sensitive strategies** | **$ 16.0** | **$ 518** | **12.4%** |
| **Correspondent production** | **$ 12.8** | **$ 113** | **45.5%** |
| Cash, short term investments, and other | $ 0.2 | $ 64 | 1.4% |
| Management fees & corporate expenses | $ (11.7) | $ - | |
| **Corporate** | **$ (11.5)** | **$ 64** | **n/a** |
| Provision for income tax expense | $ (4.0) | $ - | |
| **Net income** | **$ 38.3** | **$ 1,511** | **10.1%** |
| **Dividends on preferred stock** | **$ 6.2** | **$ 310** | **8.0%** |
| **Net Income attributable to common shareholders** | **$ 32.1** | **$ 1,201** | **10.7%** |
| **Diluted earnings per common share** | **$ 0.52** | | |

**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.**

- Reflects expectations over 2018; reduced provision for income tax expense resulting from new federal tax law
- Income potential driven by CRT and MSRs as part of interest rate sensitive strategies—continued deployment of proceeds from distressed loan liquidations and the preferred equity raises into these investments
- Correspondent production reflects optimization of secondary market execution and financing arrangements
- Distressed loan portfolio winds down; impact on income potential is de minimis

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

(2) Projected CRT income includes fair value recognition upon loan delivery under CRT agreements

# Mortgage Investment Activities

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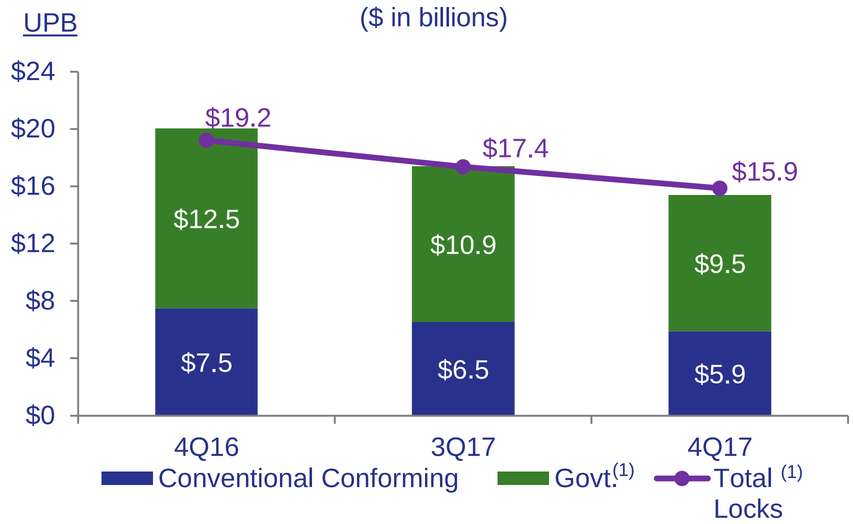
Mortgage Investment Trust

# Correspondent Production Highlights

- Correspondent acquisitions by PMT in 4Q17 totaled $15.4 billion, down 12% Q/Q and down 23% Y/Y
  - 62% government loans; 38% conventional loans
  - 10% Q/Q decline in conventional conforming acquisitions, down 21% Y/Y
  - Total lock volume of $15.9 billion, down 9% Q/Q and 17% Y/Y
- Volume decline from the prior quarter the result of increased competition and seasonal factors
- Pretax margin improved Q/Q, due in part to optimization of secondary market execution and financing arrangements
- Continued growth in seller relationships, which totaled 613 at quarter end
- January correspondent acquisitions totaled $4.8 billion; locks totaled $4.4 billion

## Correspondent Production Volume and Mix

($ in billions)




| Key Financial Metrics | 3Q17 | 4Q17 |
|---|---|---|
| Pretax income as a percentage of interest rate lock commitments[2] | 0.13% | 0.24% |
| Fulfillment Fee[3] | 0.36% | 0.33% |

| Selected Operational Metrics | 3Q17 | 4Q17 |
|---|---|---|
| Correspondent seller relationships | 604 | 613 |
| Purchase money loans, as a % of total acquisitions | 83% | 76% |

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

[2] Conventional conforming and jumbo interest rate lock commitments

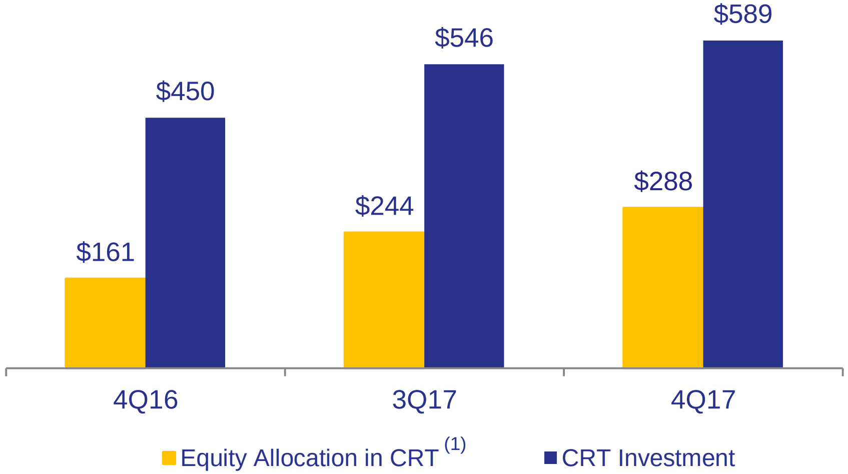
[3] Fulfillment fees are based on funding volumes. The weighted average fulfillment fee rate reflects discretionary reductions to facilitate the successful completion of certain loan transactions by PMT.

# GSE Credit Risk Transfer Investments

- Completed $4.8 billion in UPB of deliveries during the quarter, which resulted in commitments to fund approximately $168 million of new CRT investments once the aggregation period is complete, $40 million of which had been invested at quarter end
- Returns on CRT investments benefited from market-driven value changes resulting from credit spread tightening, consistent with spread tightening across many asset classes during the quarter
- Increase in 60+ days delinquencies primarily the result of disaster-impacted loans in forbearance status[3]
  - As owner of the MSRs, PMT is in a unique position to engage with delinquent borrowers and pursue loss mitigation strategies that we believe will help bring the borrower current and avoid a loss event
- Losses increased by $0.5 million in 4Q17, bringing lifetime losses to $1.5 million
  - Reflects portfolio seasoning that is in line with expectations

**CRT Investments Outstanding**

($ in millions)




**4Q17 Returns on CRT Investments**

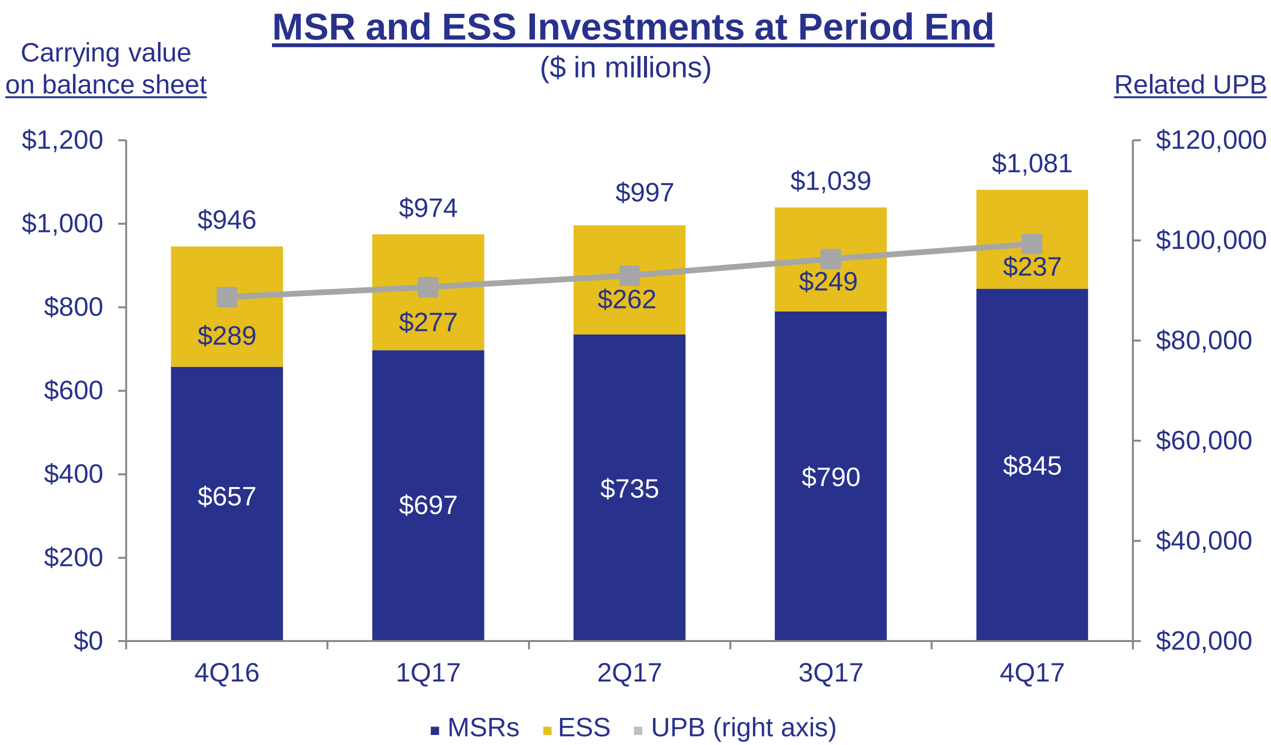
| ($ in millions) | Total Income Contribution | Income Excluding Market-Driven Fair Value Changes[2] |
|---|---|---|
| Investment income | $56.3 | $15.6 |
| Return on average CRT assets | 36.6% | 11.2% |
| Return on average CRT equity | 67.6% | 18.7% |

[1] Represents equity allocation net of financing

[2] Valuation-related changes include fair value recognition upon loan delivery under CRT Agreements and fair value changes and are included in total income contribution

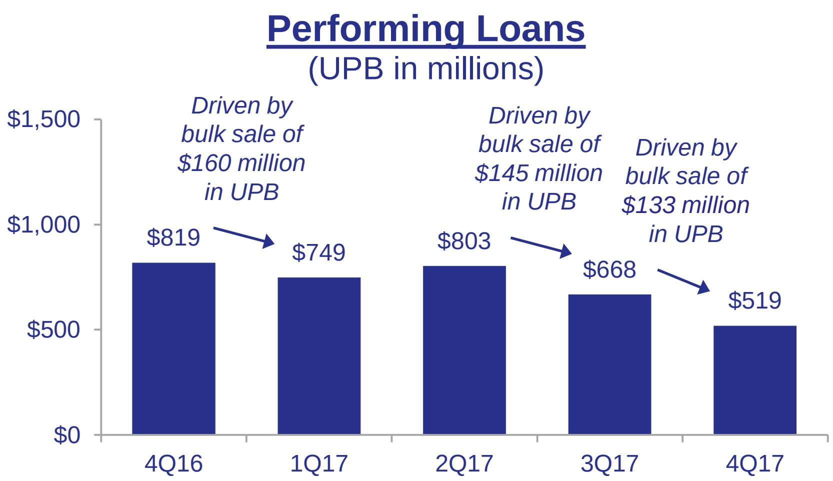
[3] See slides 25 and 29 for performance metrics

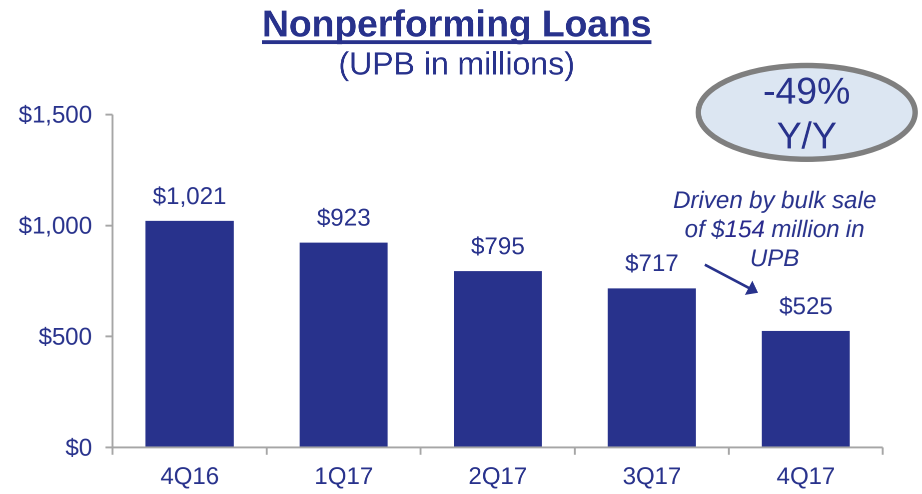
# MSR Investments Continued to Grow

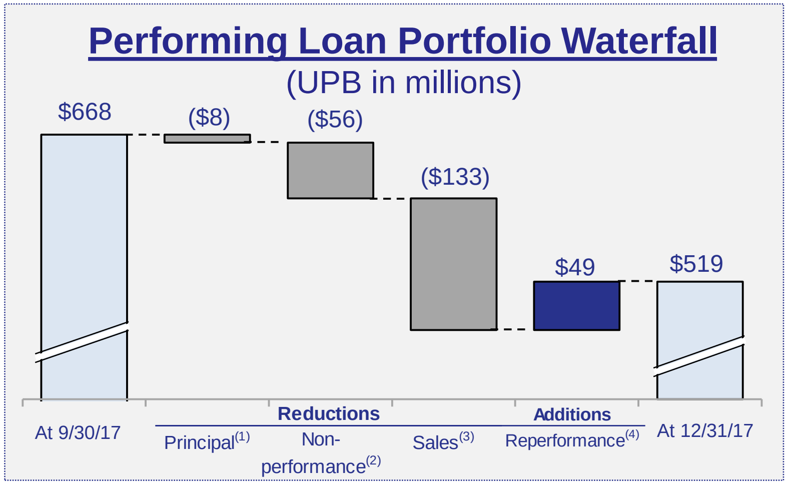



- MSR investments resulting primarily from correspondent production activity increased to $845 million at December 31, 2017, from $790 million at September 30, 2017
- Formed PMT ISSUER TRUST– FMSR, putting in place a structure that has the potential to optimize the terms of Fannie Mae MSR financing available to PMT
- Excess servicing spread (ESS) investments resulting from prior bulk, mini-bulk and flow MSR acquisitions by PennyMac Financial Services, Inc. (NYSE: PFSI) decreased to $237 million at December 31, 2017, from $249 million at September 30, 2017

# Distressed Loan Portfolio Is Declining Through Liquidation and Sales




- Completed the previously announced sale of $287 million in UPB of nonperforming and performing loans from the distressed portfolio
- Entered into an agreement to sell $381 million in UPB of nonperforming and performing loans from the distressed portfolio[5]
  - Approximately 50% nonperforming loans and 50% performing loans

[1] Includes principal payments, payoffs, and write downs
[2] Primarily through recidivism of previously performing loans
[3] Bulk sales of performing loans
[4] Primarily through loan modifications
[5] 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.

# Financial Results

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# Fourth 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[2] | Annualized Return on Equity (ROE)[1] |
|---|---|---|---|---|---|
| **Credit sensitive strategies:** | | | | | |
| Distressed loan investments[2] | $ (17.4) | n/a | $ (17.4) | $ 440 | -15.8% |
| Other credit sensitive strategies | | | | | |
| GSE credit risk transfer[3] | 56.3 | 40.7 | 15.6 | | |
| Non-Agency subordinate bonds | 0.2 | 0.1 | 0.1 | | |
| Commercial real estate finance | 0.2 | 0.0 | 0.1 | | |
| Subtotal net other credit sensitive strategies | $ 56.7 | $ 40.9 | $ 15.8 | $ 352 | 64.4% |
| **Net credit sensitive strategies** | **$ 39.3** | **$ 40.9** | **$ (1.6)** | **$ 792** | **19.8%** |
| **Interest rate sensitive strategies:** | | | | | |
| MSRs (incl. recapture)[2] | $ 8.8 | $ (1.9) | $ 10.6 | | |
| ESS (incl. recapture)[2] | (1.8) | (4.6) | 2.8 | | |
| Agency MBS | 0.3 | (4.8) | 5.1 | | |
| Non-Agency senior MBS (incl. jumbo) | 0.2 | (0.0) | 0.2 | | |
| Interest rate hedges | (4.3) | (4.3) | n/a | | |
| **Net interest rate sensitive strategies** | **$ 3.2** | **$ (15.6)** | **$ 18.8** | **$ 679** | **1.9%** |
| **Correspondent production** | **$ 14.1** | | **$ 14.1** | **$ 80** | **70.6%** |
| Cash, short term investments, and other | $ 0.1 | n/a | $ 0.1 | $ 46 | 1.0% |
| Management fees & corporate expenses | (10.7) | n/a | (10.7) | | |
| **Corporate** | **$ (10.6)** | **n/a** | **$ (10.6)** | **$ 46** | **-93.1%** |
| Provision for income tax expense | $ (5.1) | n/a | $ (5.1) | | |
| **Net income** | **$ 40.8** | **$ 25.3** | **$ 15.5** | **$ 1,597** | **10.2%** |
| **Dividends on preferred stock** | **$ 6.2** | | | **$ 310** | **8.0%** |
| **Net Income attributable to common shareholders** | **$ 34.6** | | | **$ 1,287** | **10.8%** |

**Note: Amounts may not sum exactly due to rounding**

(1) Income contribution and the annualized return on equity calculated net of any direct expenses associated with investments (e.g., loan fulfillment fees, loan servicing fees), but before tax expenses. Some of the income associated with the investment strategies may be subject to taxation.

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

(3) Market-driven value changes include fair value recognition upon loan delivery under CRT Agreements and market value changes

# Performance of the Distressed Mortgage Loan Investments

- Losses to the distressed portfolio in connection with the bulk sale of nonperforming and performing loans were approximately $4 million, including sale expenses and adverse valuation impact on the carrying value of the remaining nonperforming loans
- Other drivers of valuation losses on nonperforming loans:
  - Higher recidivism of previously performing loans
  - Seasonally high costs related to the maintenance of PMT's lien interest in the loans
- Lower valuation gains on performing loans versus 3Q17, due to reduced impact of market improvements and lower reperformance during the quarter
- Cash proceeds from liquidation and paydown activity on distressed portfolio and real estate owned upon settlement of loans (REO) totaled $48 million
- Bulk sale of nonperforming and performing loans generated $210 million in gross cash proceeds and $87 million in net cash proceeds after debt repayment and related expenses

## Net Gains/(Losses) on Mortgage Loans

| *Unaudited* | Quarter ended | |
|---|---|---|
| ($ in thousands) | September 30, 2017 | December 31, 2017 |
| **Valuation Changes:** | | |
| Performing loans | $ 8,638 | $ 647 |
| Nonperforming loans | (5,841) | (11,672) |
| | **2,797** | **(11,025)** |
| | | |
| Payoffs | 224 | 1,114 |
| Sales | 256 | 1,704 |
| | **$ 3,277** | **$ (8,207)** |

## Cash Proceeds and Gain on Liquidation

| *Unaudited*<br>($ in thousands) | Quarter ended December 31, 2017 | | |
|---|---|---|---|
| | Proceeds | Accumulated gains (losses)[1] | Gain on liquidation[2] |
| Mortgage loans | $ 17,872 | $ 678 | $ 1,227 |
| REO | 30,430 | (6,914) | 308 |
| Subtotal | 48,302 | (6,236) | 1,535 |
| Distressed Loan Sales | 209,622 | 18,378 | 1,588 |
| | **$ 257,924** | **$ 12,142** | **$ 3,123** |

[1] Represents accumulated valuation gains and losses recognized during the period the Company held the respective asset; including valuation adjustments made upon entering into a contact of sale 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

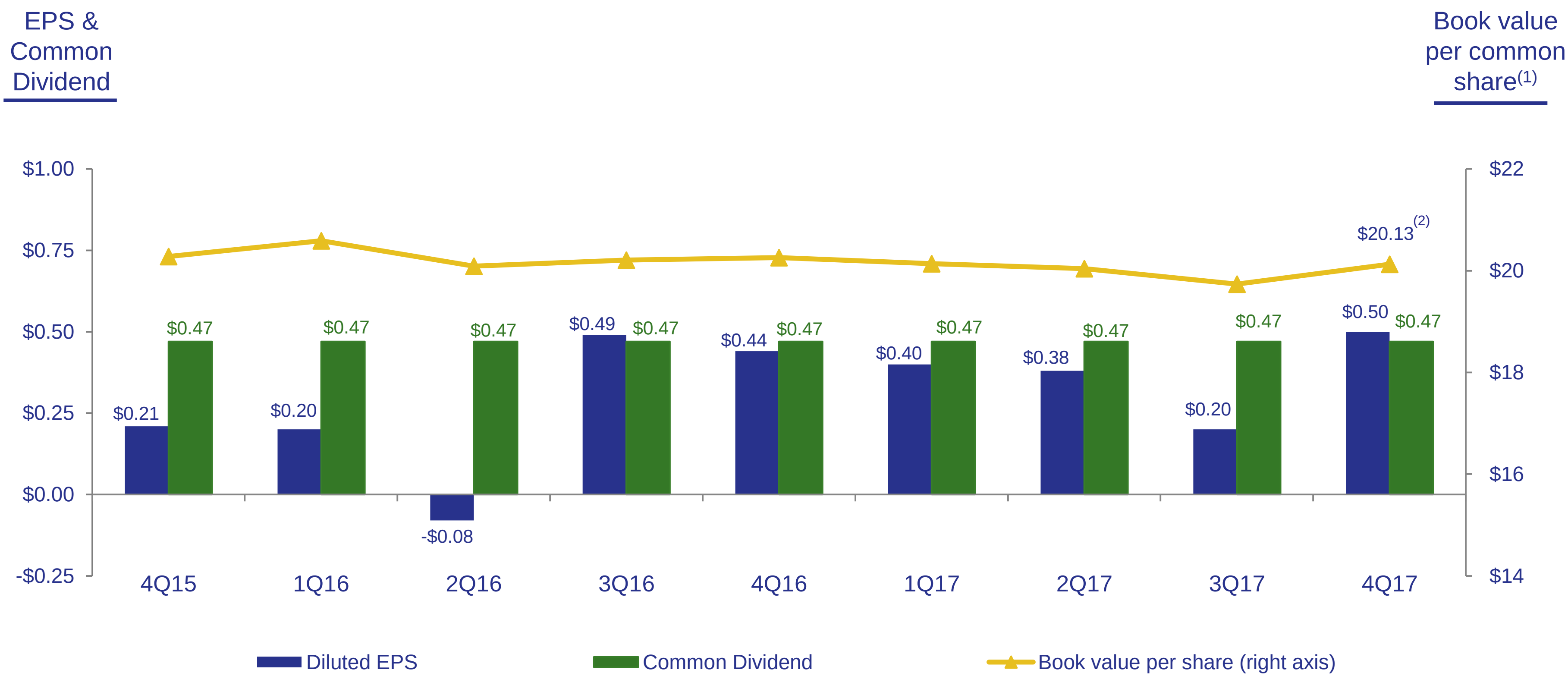
# Changes to Accounting for MSRs in 2018

| ($ in millions) | Mortgage Servicing Rights | | |
|---|---|---|---|
| As of December 31, 2017 | At lower of amortized cost or fair value | At fair value | Total |
| UPB | $63,854 | $8,274 | $72,127 |
| Fair value | $772.9 | $91.5 | $864.4 |
| Carrying (accounting) value | $753.2 | $91.5 | $844.7 |
| **Fair value in excess of carrying value** | **$19.7** | | |

- Through December 31, 2017 PMT carried most of its originated MSRs at the lower of amortized cost or fair value
- Beginning January 1, 2018, all MSRs will be carried at fair value
  - Allows for single accounting treatment across all MSRs, a carrying value consistent with valuation under financing arrangements, and our hedging activities will be simplified
- Change will result in a $19.7 million increase in assets, a $5.3 million increase in deferred tax liability and a $14.4 million increase in shareholders' equity
- Change will not be reported in the income statement

# Appendix

# PMT EPS, Common Dividends and Book Value Per Common Share Over Time



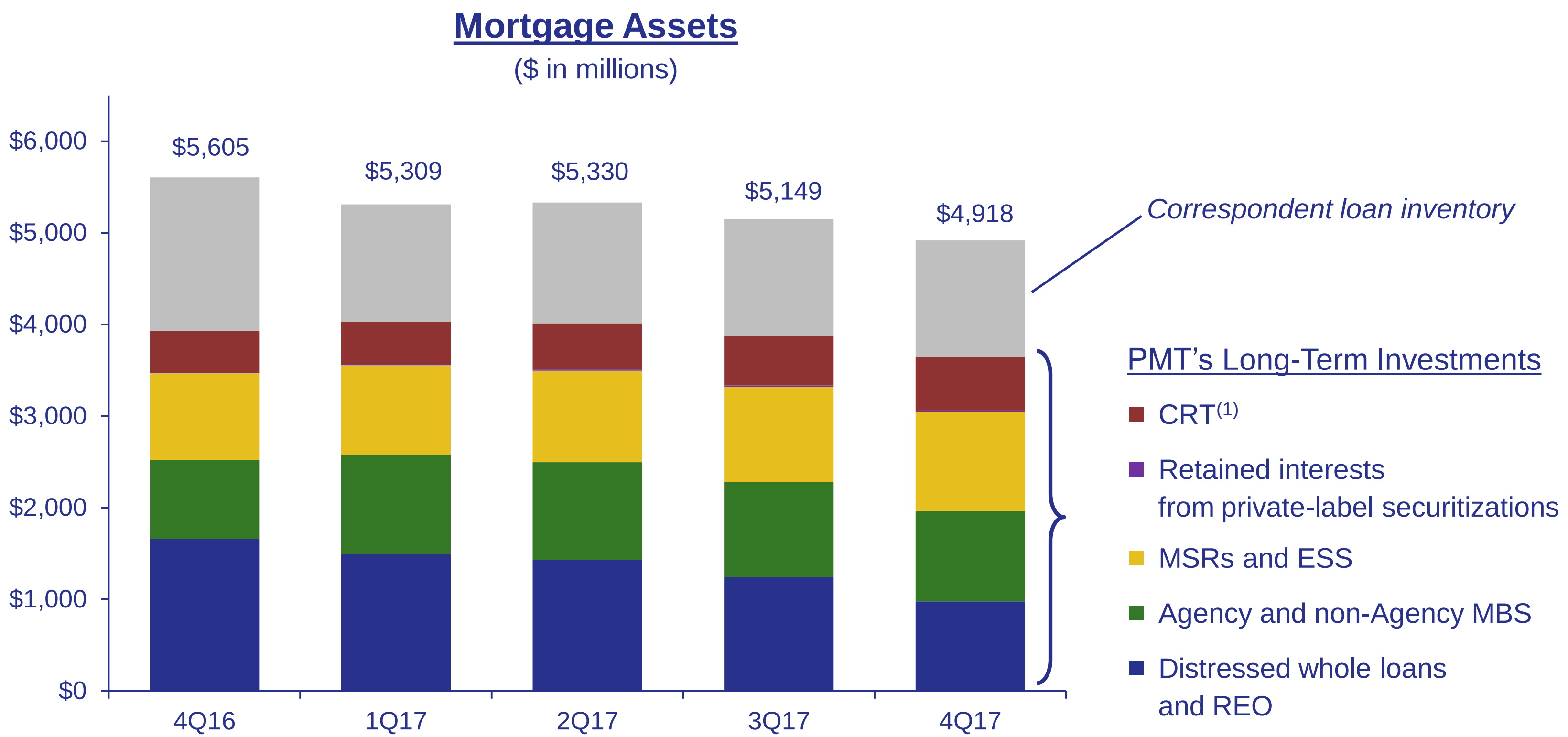

| Return on Avg. Common Equity[3] | 4% | 4% | (1)% | 10% | 9% | 9% | 8% | 4% | 11% |
|---|---|---|---|---|---|---|---|---|---|

[1] At period end.

[2] Effective January 1, 2018, PMT is electing changes to the accounting for its MSRs; see slide 18 for details. Pro forma for this change, book value per share would be $20.36.

[3] Return on average common equity is calculated based on annualized quarterly net income attributable to common shareholders as a percentage of monthly average common equity during the period.

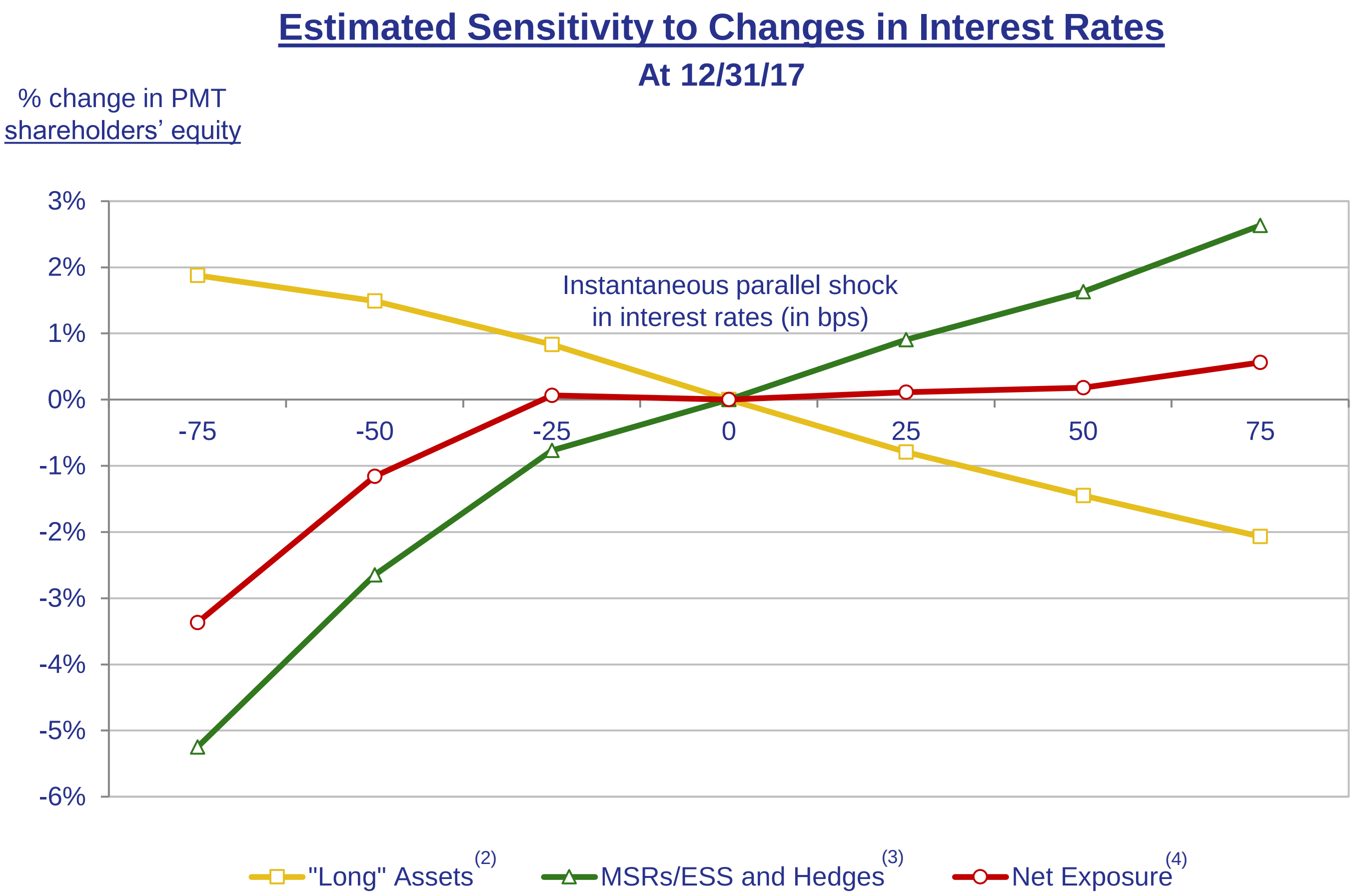
# PMT's Mortgage Assets and Leverage Ratio Over Time




| | 4Q16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 |
|---|---|---|---|---|---|
| Leverage ratio[2] | 3.6x | 3.0x | 3.0x | 2.5x | 2.5x |

[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 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
- Sensitivity profile may differ in 2018 with changes to PMT's accounting for MSRs—see slide 18

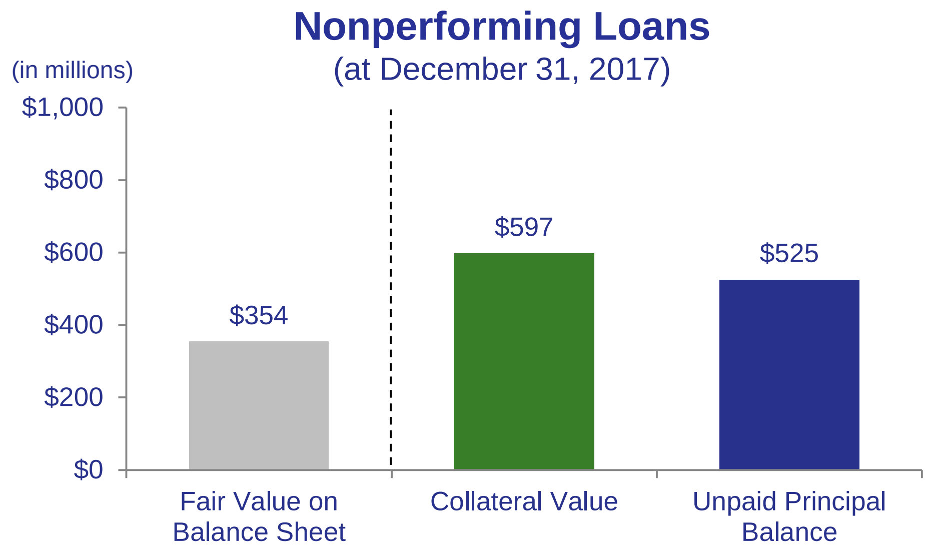
(1) Analysis does not include PMT assets for which interest rates are not a key driver of values, i.e., distressed mortgage loans and REO. The sensitivity analyses on the slide and the associated commentary are limited in that they are estimates as of December 31, 2017; only reflect movements in interest 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 earnings forecasts.

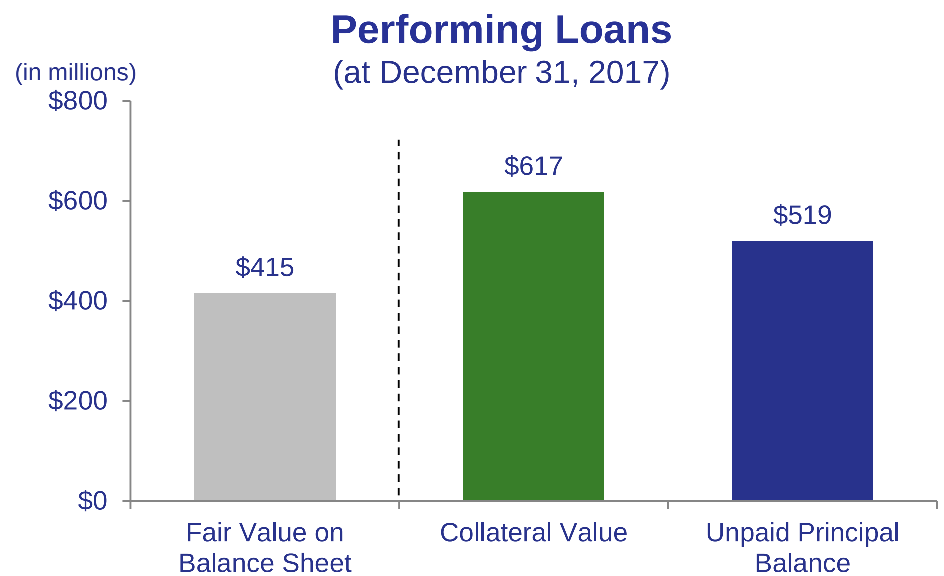
(2) Includes loans acquired for sale and IRLCs, net of associated hedges, Agency and Non-Agency MBS assets

(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 and the MSRs/ESS and Hedges

# Carrying Values for PMT's Distressed Whole Loans



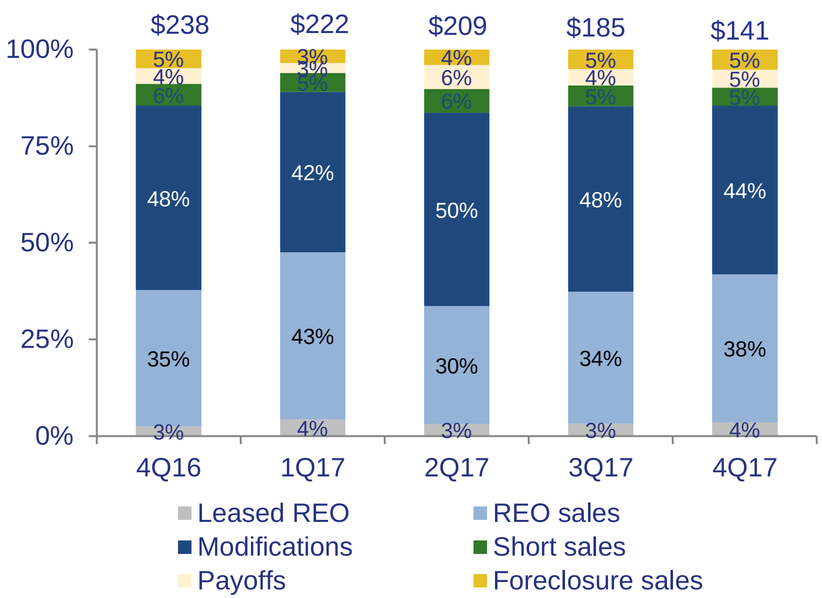




- Nonperforming loans are held on average at a 41% discount to current property value – fair value considers costs expected over the liquidation timeline, expected property appreciation and reperformance probability
- PMT advances funds for items such as property taxes and property preservation to protect 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 from 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 realize gains through payoffs, refinances or loan sales

# 4Q17 Distressed Loan Portfolio Resolution Activity[1]

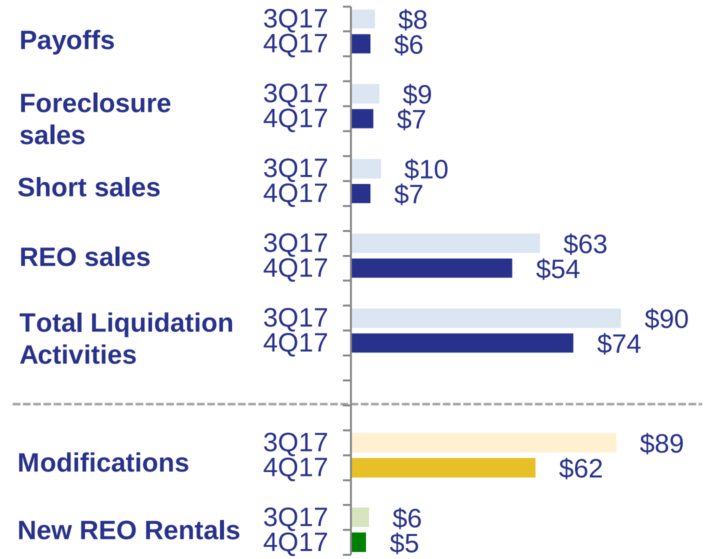
## Resolution Activity Over Time

($UPB in millions) (% by Activity Type)




## Resolution Activity in the Quarter

($UPB in millions)




- Quarterly resolution activity as a percentage of NPLs and REO was 16% in 4Q17, down from 18% in 3Q17 and unchanged from 16% in 4Q16
- Modifications comprised 44% of total resolution activity, down from 48% of total resolution activity in 3Q17
- REO sales were 38% of total resolution activity, up from 34% in 3Q17, despite the ongoing reduction of REO inventory
  - REO inventory decreased to $163 million at December 31, 2017 from $185 million at September 30, 2017
- New REO rentals were $5 million versus $6 million in 3Q17

[1] Does not include bulk sales

# Distressed Portfolio by Acquisition Period

| 1Q10 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 182.7 | 11.5 |
| Pool Factor(1) | 1.00 | 0.06 |
| Current | 6.2% | 42.8% |
| 30 | 1.6% | 13.3% |
| 60 | 5.8% | 2.4% |
| 90+ | 37.8% | 3.4% |
| FC | 46.4% | 27.8% |
| REO | 2.3% | 10.4% |

| 2Q10 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 195.5 | 12.7 |
| Pool Factor(1) | 1.00 | 0.07 |
| Current | 5.1% | 44.1% |
| 30 | 2.0% | 8.8% |
| 60 | 4.1% | 0.9% |
| 90+ | 42.8% | 12.2% |
| FC | 45.9% | 15.6% |
| REO | 0.0% | 18.5% |

| 3Q10 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 146.2 | 5.7 |
| Pool Factor(1) | 1.00 | 0.04 |
| Current | 1.2% | 22.7% |
| 30 | 0.4% | 31.7% |
| 60 | 1.3% | 0.0% |
| 90+ | 38.2% | 28.3% |
| FC | 58.9% | 7.6% |
| REO | 0.0% | 9.8% |

| 4Q10 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 277.8 | 14.4 |
| Pool Factor(1) | 1.00 | 0.05 |
| Current | 5.0% | 22.1% |
| 30 | 4.0% | 19.1% |
| 60 | 5.1% | 8.6% |
| 90+ | 26.8% | 25.8% |
| FC | 59.1% | 5.4% |
| REO | 0.0% | 19.0% |

| 1Q11 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 515.1 | 42.3 |
| Pool Factor(1) | 1.00 | 0.08 |
| Current | 2.0% | 29.9% |
| 30 | 1.9% | 15.9% |
| 60 | 3.9% | 4.5% |
| 90+ | 25.9% | 11.4% |
| FC | 66.3% | 18.7% |
| REO | 0.0% | 19.7% |

| 2Q11 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 259.8 | 22.2 |
| Pool Factor(1) | 1.00 | 0.09 |
| Current | 11.5% | 36.9% |
| 30 | 6.5% | 18.3% |
| 60 | 5.2% | 9.7% |
| 90+ | 31.2% | 11.5% |
| FC | 43.9% | 9.7% |
| REO | 1.7% | 14.0% |

| 3Q11 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 542.6 | 34.6 |
| Pool Factor(1) | 1.00 | 0.06 |
| Current | 0.6% | 35.2% |
| 30 | 1.3% | 15.5% |
| 60 | 2.0% | 4.8% |
| 90+ | 22.6% | 10.2% |
| FC | 73.0% | 10.7% |
| REO | 0.4% | 23.6% |

| 4Q11 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 49.0 | 7.8 |
| Pool Factor(1) | 1.00 | 0.16 |
| Current | 0.2% | 36.3% |
| 30 | 0.1% | 8.5% |
| 60 | 0.2% | 0.0% |
| 90+ | 70.4% | 16.6% |
| FC | 29.0% | 0.0% |
| REO | 0.0% | 38.6% |

| 1Q12 |
|---|
| No Pools Purchased in this Quarter. |

| 2Q12 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 402.5 | 36.3 |
| Pool Factor(1) | 1.00 | 0.09 |
| Current | 45.0% | 33.8% |
| 30 | 4.0% | 17.0% |
| 60 | 4.3% | 12.1% |
| 90+ | 31.3% | 9.6% |
| FC | 15.3% | 15.4% |
| REO | 0.1% | 12.1% |

| 3Q12 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 357.2 | 38.5 |
| Pool Factor(1) | 1.00 | 0.11 |
| Current | 0.0% | 22.7% |
| 30 | 0.0% | 6.2% |
| 60 | 0.1% | 5.9% |
| 90+ | 49.1% | 8.9% |
| FC | 50.8% | 23.0% |
| REO | 0.0% | 33.3% |

| 4Q12 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 290.3 | 52.1 |
| Pool Factor(1) | 1.00 | 0.18 |
| Current | 3.1% | 30.9% |
| 30 | 1.3% | 15.9% |
| 60 | 5.4% | 8.2% |
| 90+ | 57.8% | 17.2% |
| FC | 32.4% | 13.9% |
| REO | 0.0% | 13.8% |

(1) Ratio of unpaid principal balance remaining to unpaid principal balance at acquisition

# Distressed Portfolio by Acquisition Period (cont.)

| 1Q13 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 366.2 | 64.9 |
| Pool Factor[1] | 1.00 | 0.18 |
| Current | 1.6% | 38.7% |
| 30 | 1.5% | 14.3% |
| 60 | 3.5% | 8.2% |
| 90+ | 82.2% | 19.4% |
| FC | 11.2% | 8.6% |
| REO | 0.0% | 10.7% |

| 2Q13 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 397.3 | 104.9 |
| Pool Factor[1] | 1.00 | 0.26 |
| Current | 4.8% | 27.4% |
| 30 | 7.4% | 12.7% |
| 60 | 7.6% | 6.4% |
| 90+ | 45.3% | 18.7% |
| FC | 34.9% | 16.4% |
| REO | 0.0% | 18.4% |

| 3Q13 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 929.5 | 229.7 |
| Pool Factor[1] | 1.00 | 0.25 |
| Current | 0.8% | 21.1% |
| 30 | 0.3% | 8.7% |
| 60 | 0.7% | 4.0% |
| 90+ | 58.6% | 22.9% |
| FC | 39.6% | 18.4% |
| REO | 0.0% | 24.9% |

| 4Q13 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 507.3 | 193.7 |
| Pool Factor[1] | 1.00 | 0.38 |
| Current | 1.4% | 20.4% |
| 30 | 0.2% | 5.3% |
| 60 | 0.0% | 2.6% |
| 90+ | 38.3% | 19.2% |
| FC | 60.0% | 28.7% |
| REO | 0.0% | 23.8% |

| 1Q14 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 439.0 | 169.0 |
| Pool Factor[1] | 1.00 | 0.39 |
| Current | 6.2% | 14.4% |
| 30 | 0.7% | 6.8% |
| 60 | 0.7% | 2.4% |
| 90+ | 37.5% | 26.0% |
| FC | 53.8% | 25.1% |
| REO | 1.1% | 25.3% |

| 2Q14 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 37.9 | 13.0 |
| Pool Factor[1] | 1.00 | 0.34 |
| Current | 0.7% | 37.8% |
| 30 | 0.6% | 12.8% |
| 60 | 1.4% | 7.0% |
| 90+ | 59.0% | 15.5% |
| FC | 38.2% | 13.6% |
| REO | 0.0% | 13.3% |

| 3Q14 |
|---|
| No Pools Purchased in this Quarter. |

| 4Q14 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 330.8 | 124.7 |
| Pool Factor[1] | 1.00 | 0.38 |
| Current | 1.6% | 29.1% |
| 30 | 1.6% | 8.5% |
| 60 | 7.1% | 1.9% |
| 90+ | 52.7% | 21.0% |
| FC | 36.9% | 20.7% |
| REO | 0.0% | 19.0% |

| 1Q15 | Purchase | 4Q17 |
|---|---|---|
| Balance ($mm) | $ 310.2 | 141.8 |
| Pool Factor[1] | 1.00 | 0.46 |
| Current | 1.8% | 21.9% |
| 30 | 0.3% | 6.2% |
| 60 | 0.1% | 8.4% |
| 90+ | 66.7% | 19.5% |
| FC | 31.1% | 25.1% |
| REO | 0.0% | 18.9% |

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) | 4Q16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 |
|---|---|---|---|---|---|
| **Fundings** | | | | | |
| Conventional | $ 7,492 | $ 4,632 | $ 5,918 | $ 6,530 | $ 5,891 |
| Government | 12,544 | 9,280 | 10,392 | 10,873 | 9,505 |
| Jumbo | - | - | - | - | - |
| **Total** | **$ 20,036** | **$ 13,912** | **$ 16,310** | **$ 17,403** | **$ 15,396** |
| **Locks** | | | | | |
| Conventional | $ 6,925 | $ 5,184 | $ 7,022 | $ 6,356 | $ 6,293 |
| Government | 12,289 | 9,292 | 11,209 | 10,999 | 9,571 |
| Jumbo | - | - | - | - | - |
| **Total** | **$ 19,215** | **$ 14,476** | **$ 18,231** | **$ 17,356** | **$ 15,864** |

Note: Figures may not sum exactly due to rounding

# Credit Risk Transfer – Income Statement and Balance Sheet Treatment

| ($ in thousands) | Since Inception[1] | |
|---|---|---|
| UPB of mortgage loans transferred under CRT Agreements | $ 30,322,988 | Total UPB of loans delivered to the CRT Special Purpose Vehicles (SPVs) and sold to Fannie Mae |
| Deposits of restricted cash to secure guarantees | $ 606,594 | Cash deposited in the SPV in Other assets. Represents collateral for the initial credit risk retained |
| Gains (losses) recognized on assets related to CRT Agreements included in Net gain on investments: | | |
| Realized | $ 74,860 | Cash income to PMT from the CRT SPVs |
| Valuation-related | 92,994 | Includes fair value recognition upon loan delivery under CRT Agreements and market value changes |
| | $ 167,854 | |
| Payments made to settle losses | $ 1,486 | Payments made to Fannie Mae, from pledged cash, for losses on loans underlying the CRT agreements |

| | At December 31, 2017 | |
|---|---|---|
| UPB of mortgage loans subject to guarantee obligation | $ 26,845,392 | Current outstanding UPB of loans delivered to the CRT SPVs and sold to Fannie Mae |
| Delinquency | | |
| Current to 89 days delinquent | $ 26,720,097 | |
| 90 or more days delinquent | $ 106,259 | |
| Foreclosure | $ 5,464 | |
| Bankruptcy | $ 13,572 | |
| Carrying value of CRT agreements | | |
| Deposits included in Other assets | $ 588,867 | Current cash collateralizing guarantee included in "Deposits securing credit risk transfer agreements" |
| Derivative assets | $ 98,640 | Derivative represents value of expected future cash inflows related to assumption of credit risk net of expected future losses |
| Commitments to fund Deposits securing CRT Agreements | $ 482,471 | 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 eleven quarters ending 12/31/2017

# PMT's Investments in GSE Credit Risk Transfer

(UPB in billions)

| CRT 2015 -1 (May 2015 - July 2015) | At inception | 12/31/2017 |
|---|---|---|
| UPB | $ 1.3 | $ 0.8 |
| Loan Count | 4,108 | 3,090 |
| % Purchase | 67.6% | 69.3% |
| WA FICO[(1)] | 742 | 743 |
| WA LTV[(1)] | 80.5% | 77.4% |
| 60+ Days Delinquent Loan Count | | 38 |
| 60+ Days Delinquent % o/s UPB | | 1.326% |
| 180+ Days Delinquent Loan Count | | 7 |
| Actual Losses ($k) | | $ 202 |

| CRT 2015 -2 (August 2015 - Feburary 2016) | At inception | 12/31/2017 |
|---|---|---|
| UPB | $ 4.2 | $ 3.0 |
| Loan Count | 15,255 | 11,797 |
| % Purchase | 71.4% | 72.9% |
| WA FICO[(1)] | 743 | 743 |
| WA LTV[(1)] | 81.2% | 78.7% |
| 60+ Days Delinquent Loan Count | | 161 |
| 60+ Days Delinquent % o/s UPB | | 1.396% |
| 180+ Days Delinquent Loan Count | | 29 |
| Actual Losses ($k) | | $ 762 |

| CRT 2016 -1 (Feburary 2016 - August 2016) | At inception | 12/31/2017 |
|---|---|---|
| UPB | $ 6.4 | $ 5.7 |
| Loan Count | 21,615 | 19,579 |
| % Purchase | 67.4% | 69.6% |
| WA FICO[(1)] | 748 | 749 |
| WA LTV[(1)] | 81.2% | 78.9% |
| 60+ Days Delinquent Loan Count | | 164 |
| 60+ Days Delinquent % o/s UPB | | 0.825% |
| 180+ Days Delinquent Loan Count | | 11 |
| Actual Losses ($k) | | $ 285 |

| CRT 2016 -2 (August 2016 - Current) | At inception | 12/31/2017 |
|---|---|---|
| UPB | $ 17.3 | $ 17.3 |
| Loan Count | 63,660 | 63,660 |
| % Purchase | 75.3% | 75.3% |
| WA FICO[(1)] | 734 | 734 |
| WA LTV[(1)] | 81.5% | 81.5% |
| 60+ Days Delinquent Loan Count | | 261 |
| 60+ Days Delinquent % o/s UPB | | 0.419% |
| 180+ Days Delinquent Loan Count | | 7 |
| Actual Losses ($k) | | $ 237 |

| Total | At inception | 12/31/2017 |
|---|---|---|
| UPB | $ 29.2 | $ 26.8 |
| Loan Count | 104,638 | 98,126 |
| % Purchase | 72.9% | 73.7% |
| WA FICO[(1)] | 739 | 738 |
| WA LTV[(1)] | 81.3% | 80.5% |
| 60+ Days Delinquent Loan Count | | 624 |
| 60+ Days Delinquent % o/s UPB | | 0.643% |
| 180+ Days Delinquent Loan Count | | 54 |
| Actual Losses ($k) | | $ 1,486 |

[(1)] FICO and LTV metrics at origination

# 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

**Acquired by PFSI from Third-Party Seller(1)**

MSR Asset
(e.g., 25bp servicing fee)

**Acquired by PMT from PFSI(1)**

Excess Servicing Spread
(e.g., 12.5bp)

Base MSR
(e.g., 12.5bp)

***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 controlled subsidiary of PFSI
(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.