PennyMac Financial Services, Inc.

Third Quarter 2017 Earnings Transcript

November 2, 2017

Introduction

Good afternoon, and welcome to the third quarter 2017 earnings discussion for PennyMac Financial Services, Inc. The slides that accompany this discussion are available from PennyMac Financial's website at www.ir.pennymacfinancial.com. Before we begin, please take a few moments to read the disclaimer on slide two of the presentation. Thank you.

Now I'd like to turn the discussion over to Stan Kurland, PennyMac Financial's Executive Chairman.

Speaker:

Stanford L. Kurland – Executive Chairman

Thank you, Chris.

Let's begin with slide 3.

Slide 3

PennyMac Financial delivered strong results for the third quarter driven by solid contributions from our Production and Servicing segments, reflecting the ongoing strength of our market-leading mortgage franchise.

For the third quarter, PennyMac Financial earned pretax income of 94.1 million dollars and diluted earnings per share of 71 cents. Book value increased to 17 dollars and 20 cents per share, up from 16 dollars and 40 cents per share at June 30th, and from 14 dollars and 41 cents a year ago. During the quarter, we repurchased approximately 500 thousand shares of PFSI's Class A common stock at a cost of 8.6 million dollars and an average price of $17.01 per share.

Our Production segment pretax income was 69 million dollars, up 3 percent from the prior quarter and down 54 percent from the third quarter of 2016. These results reflect the continued strong contributions from both the correspondent and consumer direct channels this quarter.

Total funded production volume for the quarter was 18.9 billion dollars in UPB, up 8 percent from the prior period and down 8 percent from the third quarter of 2016. Total correspondent government and consumer direct locks were 13.2 billion dollars in UPB, down 2 percent from the prior quarter and 19 percent from the third quarter of 2016.

The Servicing segment recorded pretax income of 24.5 million dollars compared to pretax losses of 11.2 million dollars in the prior quarter and 10.7 million dollars in the third quarter of 2016.

These results were primarily driven by growth in our servicing portfolio, which totaled 238.4 billion dollars in UPB, up 4 percent from June 30th and up 31 percent from September 30th a year ago.

During the quarter we successfully transferred 11.9 billion dollars in UPB of MSRs from previously settled acquisitions. We also successfully issued a second term note from our Ginnie Mae MSR financing facility. This transaction was a 500 million dollar, five-year note, and we are pleased with the improved pricing compared to our first three-year term note. This facility is a very meaningful addition to our capital structure, and I will discuss its importance in more detail later.

Excluding valuation-related changes, pretax income for the Servicing segment was 37.1 million dollars, up from 15.3 million dollars in the prior quarter, and 9.9 million dollars in the third quarter of 2016.

Valuation-related losses totaled 10 million dollars, which included a 22 million dollar decrease in MSR values, partially offset by a 4.8 million dollar gain due to changes in the fair value of excess servicing spread liability and 7.2 million dollars in hedging gains.

<u>Slide 4</u>

Continuing with our highlights on slide 4, the Investment Management segment recorded pretax income of 715 thousand dollars, down from

2.5 million dollars the previous quarter and up from 204 thousand dollars in the third quarter of 2016. Net assets under management were 1.6 billion dollars, essentially unchanged from June 30th and September 30th, 2016.

The Investment Funds managed by PennyMac Financial successfully completed the sale of substantially all of their remaining assets this quarter, a related distribution of proceeds resulted in 61 million dollars of previously recognized carried interest received by PFSI.

Now let's turn to slide 5 and look at the current market environment.

Slide 5

Mortgage rates as reported by Freddie Mac's Primary Mortgage Market Survey declined to their lowest levels of 2017 in early September. Since then they have steadily increased, closely tracking the increase in the 10-year Treasury bond yield, and reversing all of the third quarter declines. The 30-year fixed rate mortgage is currently hovering around 4 percent, consistent with its average level thus far for 2017.

Application activity as tracked by the MBA's refinance application index increased in response to lower rates, reaching the second-highest level of the year in early September, but about 40 percent below levels at the same time last year. As a result of the subsequent increase in interest rates, the refinance activity index has slowed about 7 percent since the recent September peak.

Both new and existing home sales slowed during the third quarter from their recent high levels last spring. The slowdown appears to have been temporary, as recent sales data has shown renewed strength, and macroeconomic fundamentals remain supportive of long-term home sales growth.

The credit performance of residential mortgages remains strong, with delinquency rates remaining at multi-year low levels despite recent delinquency increases in other consumer credit products such as auto loans and credit cards. According to Black Knight Financial Services, the total U.S. loan delinquency rate was 4.4 percent at the end of

September. Recent natural disasters led to what is expected to be a temporary increase in delinquencies, with the uptick concentrated in areas affected by the recent hurricanes. September 2017 was the first month since July 2010 during which mortgage delinquencies increased.

Now let's turn to slide 6 and discuss how PennyMac Financial's production franchise is well-positioned for future growth.

Slide 6

As the chart on the left indicates, total U.S. purchase money mortgage originations are forecasted to increase by approximately 11 percent by the end of 2019. The purchase origination market is expected to total 1.1 trillion dollars, considerably larger than the 734 billion dollar purchase market four years ago. Strong demand for homes is also expected to drive demand for mortgages to finance those purchases.

We have built our production platform to succeed in a normalized mortgage market. Our market-leading correspondent franchise is geared to capture substantial purchase-money production, which accounted for 80 percent of our volumes for the first three quarters of 2017. What is also notable is that we have produced 58 percent more volume in the first nine months of this year than we did in all of 2013.

In addition, we expect our consumer direct and new broker direct channels to contribute to continued market share growth for our production business.

Let's go next to slide 7 and discuss how PennyMac Financial's transformational MSR financing structure is a key development in the maturity of non-bank financial companies.

Slide 7

PennyMac Financial's financing capabilities have developed significantly over the last several years. Our strong and mature capital structure – which features low debt levels that are well-collateralized by assets and supported by strong earnings – distinguishes PFSI among public non-bank mortgage companies.

We have created a Ginnie Mae MSR financing structure that provides an important solution to financing PennyMac Financial's largest long-term asset, which comprises 32 percent of total assets.

The term notes issued out of our structure are better aligned to the duration of the MSR asset, and diversify our financing sources to include institutional investors in addition to banks. The Variable Funding Note provides aggregation financing that allows us to bridge to the next term note issuance and maintain leverage as our MSR asset grows. This structure also improves returns on equity for our Ginnie Mae MSRs, and provides cost-effective capital to invest in PennyMac Financial's future growth.

Most of PFSI's other assets are short duration or transitional, such as mortgage loans held for sale which are financed with warehouse lines from seven different banks with staggered maturities.

Now let's turn to slide 8 to discuss the significant accomplishments in PFSI's Investment Management business.

Slide 8

PennyMac Financial, through its subsidiary PNMAC Capital Management, manages PennyMac Mortgage Investment Trust, or PMT, a publicly traded REIT and two limited life private Investment Funds. Combined, net assets under management totaled 1.6 billion dollars at September 30th.

Recently, we have achieved some significant milestones for the entities that we manage.

Early in the third quarter, PMT issued 7.8 million preferred shares for gross proceeds of 195 million dollars, bringing total preferred share issuances to 310 million dollars in 2017.

As the chart on the left illustrates, beginning with PMT's initial public offering in 2009, we have built a successful track record of raising capital over time and growing PMT as appropriate. Our recent capital raises were facilitated by strong market conditions and the significant growth potential of PMT’s investment strategies – in particular, organically generated GSE credit risk transfer assets and MSRs.

Moving to the right side of the page, in August the Opportunity Funds, which we established in 2008 as limited life investment vehicles, successfully completed the sale of substantially all of their remaining assets to a third-party investor.

PennyMac Financial received 61 million dollars in the third quarter, which represents a significant portion of the previously recognized carried interest related to the Funds’ performance. The remaining carried interest, currently valued at 8.5 million dollars, will be received with the final dissolution of the funds, expected to occur in early 2018.

Let’s turn next to slide 9 and discuss how technology is integral to PennyMac Financial’s industry-leading platform.

Slide 9

Throughout PennyMac Financial's evolution, we have focused on developing innovative technology to efficiently grow our businesses. This has enabled us to profitably scale our operations, utilizing internally developed systems to achieve our market position as the second largest non-bank mortgage producer in the United States.

On slide nine, we highlight several examples of proprietary technology developed to enable our leading correspondent production platform. These systems include loan pricing and margin management technology that provides considerable flexibility, granularity and speed in pricing loans, incorporating a variety of unique product attributes. We also have a system that helps us actively manage our inventory of mortgage loans awaiting securitization, and another that optimizes the price we receive on loan sales though a sophisticated analysis of product and pricing options. Finally, we have developed systems to manage our correspondent seller relationships and navigate the acquisition process for bulk loans and MSR acquisitions.

The effective utilization and development of technology will remain integral to our business as we expand into the broker direct channel and continue to grow our consumer direct origination activities.

Now let's turn to slide 10 and discuss how this focus on proprietary technology will play out in the launch of our broker direct channel.

Slide 10

PFSI's broker direct channel is on track to launch later this quarter and the platform we have developed for the initiative will combine the state-of-the-art technology of our new POWER platform with PennyMac's industry-leading loan fulfillment capabilities.

The broker strategy will leverage innovative new technology that will form the centerpiece of our centralized broker sale and engagement model. Our POWER broker platform has been developed with a focus on process transparency, consistency, and delivery of exceptional customer service for brokers – on every loan, every day. It will offer seamless integration between mortgage brokers and our sales and fulfillment functions, featuring sophisticated CRM functionality that provides our sales teams with the ability to track broker leads, maintain contact information, manage marketing campaigns, and track communication activities. Brokers can manage these pipeline activities through the portal and communicate directly with our pipeline account managers and sales team.

Broker direct is an attractive new growth opportunity for PennyMac Financial. The broker channel represents approximately 10 percent of the total 1.7 trillion dollar mortgage origination market. We expect to leverage our leading market position and proven ability to profitably produce high volumes of loans to successfully launch our broker direct platform and achieve a leadership position over time.

We have invested considerable time and effort to develop our broker origination platform and expand the capabilities of our Mortgage Fulfillment Division to support the anticipated volumes. We also look to further enhance our technologies in our other production channels, and many of these enhancements are portable to the Consumer Direct channel.

Continuing with our technology discussion, let's go next to slide 11 and review the rollout of our new technologies across our Loan Servicing operations.

Slide 11

Residential mortgage servicing is a scale business that requires an efficient cost structure to realize optimal returns.

In order to drive greater efficiencies and cost savings, we have implemented technology solutions across our servicing operation to automate processes, reduce processing times, increase accuracy and improve the customer experience.

So far in 2017, we have successfully rolled out 20 servicing enhancement modules, some of which have been developed internally and others leverage third-party technology. One example of these new modules is our automation of payoff demands, which allows consumer direct lending and servicing to receive and order a payoff demand in seconds compared to a turnaround times of two or three days previously. This reduces loan closing timelines for our consumer direct channel, improves customer service and reduces the need for manual processing. This technology has been integrated into PennyMac Financial's online servicing portal; our Interactive Voice Response system; and is available to our call center representatives.

Another example is the Auto-Documentation technology developed to internally record actions taken on loans by our servicing team as those actions occur. By implementing this functionality, we have reduced manually keyed documentation by more than 90 percent.

The last item I would like to mention is our enhanced cash payment intelligence technology, which improves the efficiency in dealing with unscheduled payments. We can leverage this capability as the servicing portfolio grows and use it as a cost savings tool to handle such items as escrow shortage payments, loan fees and curtailments. The potential savings from reducing processing and research costs are significant.

Through these and other enhancements, we are investing in our business to facilitate long-term growth. These investments ultimately make doing business with PennyMac Financial a better experience, differentiates us from competitors, and drives our ability to continue delivering strong returns to stockholders.

We currently employ approximately 175 in-house developers to continually refine, support and improve our technology and systems. This allows us to process high volumes of transactions and costeffectively scale our production activities. Over the past three years we have invested approximately 90 million dollars in proprietary technology development. Only 22 million dollars of software is capitalized on our balance sheet, meaning significant amounts have been expensed by the company as the costs were incurred.

Next, let's go to slide 12 to discuss the Servicing segment profitability.

Slide 12

For the third quarter, we saw a substantial increase in Servicing segment pretax income excluding valuation changes. This increase was driven primarily by portfolio growth, including the full effect of recent bulk acquisitions, and normalized levels of credit losses and provisions on defaulted loans compared to last quarter.   Servicing segment pretax income excluding valuation-related changes was 37.1 million dollars versus 15.3 million dollars in the prior quarter and 9.9 million dollars in the third quarter of 2016.

Early buyout, or EBO, related revenue in the third quarter was 39.4 million dollars versus 32.5 million dollars last quarter. These results were driven by strong reperformance of the loans and increased volume of buyouts of eligible delinquent government loans from Ginnie Mae pools.

This performance was partially offset by higher financing expenses driven by our issuance of additional term notes this quarter. We also saw a modest increase in operating expenses per unit from increased staffing related to the recent bulk acquisitions and servicing transfers.

As I noted in the discussion on technology, we are focused on investing in the business to realize cost savings and drive greater efficiencies, which we expect to result in economies of scale and improved servicing profitability over time.

With that, I conclude my overview of PennyMac Financial's third quarter performance. I would now like to turn the discussion over to

David Spector, PennyMac Financial's President and Chief Executive Officer, to review the operational results in each of our businesses.

Speaker:

David Spector – President and Chief Executive Officer

Thank you, Stan.

On slide 13, let's begin with a review of market share and volume trends across PennyMac Financial's businesses.

Slide 13

PennyMac Financial was the 4th largest producer of mortgage loans in the United States during the third quarter, according to *Inside Mortgage Finance*, and we estimate that we ended the quarter as the 8th largest servicer.

Correspondent and consumer direct market shares for the third quarter were both up modestly.

Additionally, market estimates indicate that we service 2.3 percent of all mortgage debt outstanding in the United States. And in our investment management business, net assets under management were 1.6 billion dollars, essentially unchanged from the prior quarter.

Now let's turn to slide 14 and discuss correspondent production.

Slide 14

Correspondent acquisitions by PMT in the third quarter totaled 17.4 billion dollars in UPB, up 7 percent from the second quarter while down 8 percent year-over-year.

Government loan acquisitions accounted for 62 percent of total correspondent acquisitions, or 10.9 billion dollars in UPB in the third quarter, up from 10.4 billion dollars in UPB in the prior quarter while down from 11.7 billion dollars in UPB in the third quarter of 2016.

Conventional conforming acquisitions, for which PennyMac Financial performed fulfillment services for PMT, totaled 6.5 billion dollars in UPB in the third quarter, up 10 percent from the prior quarter while down 10 percent year over year.

Total lock volume for the quarter was 17.4 billion dollars in UPB, down 5 percent from the prior quarter and 19 percent year over year. Government locks totaled 11 billion dollars in UPB in the third quarter, down 2 percent from the previous quarter and 15 percent year over year.

Continued strong purchase-money demand was the primary driver of this quarter's correspondent production volume growth. Purchase-money loans accounted for 83 percent of total correspondent production during the third quarter, up slightly from 82 percent in the prior quarter. The purchase-money orientation of our correspondent production volume continues to be an important differentiating factor for PennyMac.

We also continued to add to our seller relationships. At the end of the third quarter, we had 604 seller relationships, up from 589 at the end of the second quarter.

Looking at October volumes, correspondent loan acquisitions totaled 5.4 billion dollars in UPB, while interest rate lock commitments totaled 5.2 billion dollars in UPB.

Now let’s turn to slide 15 and discuss consumer direct production.

Slide 15

Consumer direct production volume totaled 1.5 billion dollars in UPB in the third quarter, up 20 percent from the second quarter while down 9 percent year over year. The committed pipeline at the end of the third quarter was 856 million dollars.

Consumer direct volumes benefitted from lower mortgage interest rates during the quarter. We also continued to successfully recapture opportunities from our large and growing servicing portfolio of more than 1.2 million customers.

In October, consumer direct originations totaled 607 million dollars in UPB, while interest rate lock commitments were 706 million dollars in UPB. The committed pipeline was 808 million dollars in UPB as of October 31st.

The quality of our interest rate locks improved in the third quarter. Fallout of loans from interest rate lock commitments was 34 percent compared to 45 percent in the prior quarter and 37 percent in the third quarter of 2016. The improved fallout profile resulted in the realization of more income than the prior quarter from a similar volume of locks. The reduced fallout also improves operating costs, driven by more efficient utilization of processing and fulfillment resources.

Now let's turn to slide 16 and discuss our loan servicing business.

Slide 16

Our loan servicing portfolio grew to 238.4 billion dollars in UPB in the third quarter, up 4 percent from the second quarter and up 31 percent from the third quarter of 2016.

The credit performance of the servicing portfolio remained strong during the third quarter. Mortgages 60 days or more past due were 2.5 percent of our portfolio, unchanged from the previous quarter. However, we expect a modest increase in delinquencies and servicing costs related to the recent disasters in the United States, and I will touch on that topic in more detail in the following slide.

During the third quarter, our servicing operations team successfully boarded three of the previously settled bulk MSR transactions, and completed the servicing release of loans related to the asset sales by PMT and the Investment Funds.

The decline in interest rates during August drove an increase in payoff activity, and the CPR for PennyMac Financial's owned servicing portfolio rose to 15.5 percent from 14.4 percent in the prior quarter. CPR levels for the subserviced portfolio – conventional conforming MSRs owned by PMT – increased to 10.8 percent from 9.6 percent in the prior quarter. The increase in prepayment activity adversely impacted the fair value of our MSR asset, which Andy Chang will discuss later.

Now let's turn to slide 17 and discuss our response to servicing customers affected by the recent natural disasters.

Slide 17

Approximately 11 percent of our servicing portfolio, which includes owned servicing and sub-servicing performed for PMT, is located in areas impacted by Hurricanes Harvey and Irma and the California wildfires. The number of loans in these areas is consistent with our national footprint and the large populations of Texas, Florida and California.

We are proactively engaging our customers via multiple channels including social media, our PennyMacUSA.com website, email and call centers to gather information and provide assistance to those customers in need.

The assistance provided to our customers in disaster-affected areas includes a moratorium on assessing late charges, suppressing negative credit reporting, and following applicable investor and insurer guidelines related to providing forbearance on monthly mortgage payments.

Also, we have extended our customer service hours to handle increased call volumes from affected customers and are working with various agencies to enhance our assistance measures.

Our assistance also includes a charity fundraising effort initiated by PennyMac employees, with a company match to help those in need. In addition, we have dispatched PennyMac servicing experts to the affected communities to offer front-line help and support to homeowners in need of assistance.

We expect the financial impact from these natural disasters to be modest. We also expect a temporary increase in delinquencies in affected areas, which may lead to additional servicing costs as we assist customers impacted by these natural disasters. We are adding staff and utilizing overtime to handle increased volumes of modification and delinquent servicing activities.

Most property damage will be addressed by homeowners' insurance, flood insurance for borrowers with coverage and government assistance. We expect to incur incremental losses on defaulted government loans for certain uninsured property damage that is not covered by FHA insurance or VA guarantees.

However, increases in future costs and losses may be offset by other income – for example, loss mitigation income and increased EBO opportunities.

Next, let's turn to slide 18 to review the Investment Management segment.

Slide 18

As mentioned earlier, net assets under management were 1.6 billion dollars, essentially unchanged from June 30th.

PMT continues to transition capital from distressed whole loans into MSRs and credit risk transfer on its correspondent production.

Last quarter, we announced that the two limited life Investment Funds that we managed entered into agreements to sell substantially all of their remaining assets to a third-party investor. The sales closed in the third quarter, and we expect that the remaining assets held by the

Funds will be resolved or sold by early 2018, after which the funds will be liquidated.

With that I'd now like to turn it over to Andy Chang, PennyMac Financial's Chief Financial Officer, to discuss the third quarter's financial results.

Speaker:

Andy Chang, Chief Financial Officer

Thank you, David.

Slide 19

Slide 19 is an overview of PennyMac Financial's results by operating segment. Stan reviewed these figures for the third quarter earlier, and the table shows trends for the last five quarters. Let's turn to slide 20 and take a look at the impact of our hedging approach on third quarter earnings.

Slide 20

PennyMac Financial seeks to moderate the impact of interest rate changes through a comprehensive hedge strategy that also considers production-related income. Our strategy is designed to partially offset MSR fair value changes associated with significant interest rate movements using hedge instruments.

As Stan mentioned earlier, mortgage rates declined during the quarter to their lowest levels of 2017, but ultimately rebounded to within a few basis points of where they were at the beginning of the quarter. This contributed to fair value losses and impairment charges on the MSR asset totaling 22 million dollars, which were due to a combination of yield curve flattening, tighter mortgage spreads and higher than expected prepayment activity during the quarter.

The change in fair value of the ESS liability and hedge activity contributed fair value gains of 12 million dollars, partially offsetting the MSR valuation losses.

Now, let's go to slide 21 and take a closer look at the results of our Production segment.

Slide 21

Production segment revenues were 142 million dollars for the third quarter, up 9 percent from the prior quarter.

Production revenue for PFSI's own account, which includes net gains on mortgage loans held for sale, loan origination fees, net interest income, and other revenue, increased 9 percent from the prior quarter, primarily driven by increased pull-through on interest rate lock commitments in the consumer direct channel.

Total revenue per lock commitment was 90 basis points in the third quarter, up from 81 basis points in the prior quarter. The gross consumer direct margin per fallout-adjusted lock was 363 basis points, up 4 basis points from the prior quarter. Government correspondent margins per fallout-adjusted lock decreased slightly to 51 basis points from 52 in the prior quarter.

We have revised the presentation of consumer direct and correspondent lock margins beginning this quarter to report production margins as basis points on fallout-adjusted lock volume, which better reflects how we manage the business.

Production margins remained at the low end of the ranges that we have seen over the past several quarters.

Fulfillment fee revenue was 23.5 million dollars, up 11 percent from the prior quarter, driven by an increase in conventional loan acquisitions by PMT. The weighted average fulfillment fee rate during the quarter was 36 basis points, unchanged from the prior quarter.

Production segment expenses were 73.2 million dollars, a 15 percent increase from the prior quarter driven by higher incentive-based compensation, technology costs and headcount growth.

Let's turn to slide 22 and review the financial performance of the Servicing segment.

Slide 22

Servicing segment revenues were 103.4 million dollars, an increase of 59 percent from the prior quarter, primarily resulting from an increase in net loan servicing fees. Net loan servicing fees totaled 78.1 million dollars for the third quarter, compared with 46.9 million dollars in the prior quarter.

Net loan servicing fees included 153.8 million dollars in loan servicing fees reduced by 65.8 million dollars of amortization and realization of MSR cash flows. Amortization and realization of cash flows increased 19 percent from the prior quarter, driven by portfolio growth and higher expected prepayment activity. Valuation-related losses totaled 10 million dollars, which includes MSR fair value losses and impairment for MSRs carried at the lower of amortized cost or fair value of 22 million dollars, changes in fair value of the ESS liability resulting in a 4.8 million dollar gain, and related hedging gains of 7.2 million dollars.

The securitization of reperforming government-insured and guaranteed loans resulted in 28.2 million dollars of revenue in net gains on mortgage loans held for sale at fair value in the third quarter versus 23.4 million dollars in the prior quarter. These loans previously purchased out of Ginnie Mae securitizations, known as EBOs, are primarily brought back to performing status through loan modifications. Additionally, net interest expense declined by 2.5 million dollars, driven by higher interest income from EBO loans held on our balance sheet, partially offset by increased interest expense and higher interest shortfall on loan payoffs.

Servicing segment expenses for the quarter were 79 million dollars, a 4 percent increase from the prior quarter, driven by a larger portfolio and transitional expenses associated with the recent bulk MSR acquisitions and servicing transfers.

Now let's turn to slide 23 and discuss the valuation of PennyMac Financial's MSR asset.

Slide 23

MSRs are a significant portion of PennyMac Financial's assets, and their fair value generally increases when interest rates rise and decreases when interest rates fall.

We account for originated MSRs at the lower of amortized cost or fair value, or LOCOM, when the underlying note rate on the loans is less than or equal to 4.5 percent. MSRs related to loans with note rates above 4.5 percent, and all purchased MSRs, are accounted for at fair value. PennyMac Financial accounted for 108.4 billion dollars in UPB of its MSRs under LOCOM at September 30th. The fair value of these MSRs was modestly greater than their carrying value on our balance sheet. The remaining 54.4 billion dollars in UPB of MSRs are accounted for at fair value.

A portion of our purchased MSRs are subject to an ESS liability. The UPB of the loans underlying those MSRs totaled 27.8 billion dollars at September 30thth.

Now let’s turn to slide 24 and look at the financial performance of the Investment Management segment.

Slide 24

Investment management revenues were 5 million dollars, down 21 percent from the previous quarter. Segment revenues include management fees, comprised of base management fees from PMT and the private Investment Funds, any earned incentive fees from PMT, any carried interest from the Funds and other revenue. The quarter-over-quarter decrease in revenue was primarily driven by a carried interest loss of 1.2 million dollars due to performance of the Investment Funds.

Segment expenses were 4.3 million dollars, an 11 percent increase from the prior quarter, driven by lower expense allocations to PMT.

And with that, I would like to turn it back over to Stan for some closing remarks.

Speaker:

Stanford L. Kurland – Executive Chairman

Thank you, Andy.

We continue to make progress in pursuing long-term growth initiatives to ensure PennyMac Financial's success. This year we have made significant strides on a number of capital initiatives, including our term note issuances, which represent a paradigm shift in our access to capital that significantly enhances our growth potential; the sale of substantially all of the assets in the Investment Funds and raising significant new capital for PMT; and the opportunity to buy back PFSI's common stock. As in our other mortgage banking businesses where we have developed significant technology solutions, we are now introducing our unique Broker POWER platform, enabling our entry into the broker direct channel and allowing us to access an additional 10 percent of the mortgage origination market. We believe all of these initiatives should contribute to our long-term success and help ensure that PennyMac Financial continues to be a leader in the dynamic and highly competitive U.S. mortgage market.

Lastly, we encourage investors with any questions to reach out to our Investor Relations team by email or phone.

Thank you.

Operator:

This concludes PennyMac Financial Services, Inc.'s third quarter earnings discussion. For any questions, please visit our website at www.ir.pennymacfinancial.com, or call our Investor Relations department at 818-264-4907. Thank you.