



PennyMac Financial Services, Inc.

Fourth Quarter 2016 and Full-Year 2016 Earnings Transcript

February 2, 2017

Introduction

Good afternoon, and welcome to the fourth quarter and full-year 2016 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 closed out a record year with outstanding earnings in the fourth quarter, driven by continued strength in our Production segment and improved contributions from our Servicing segment. We were able to capitalize on the opportunities available during the year provided by a vibrant origination market with considerable refinance activity. We also made great strides in further building out our company's leading mortgage origination and servicing platforms.

For the fourth quarter, PennyMac Financial earned pretax income of 129.4 million dollars, and diluted earnings per share of 1 dollar. Book value increased to 15 dollars and 49 cents per share, up from 14 dollars and 41 cents per share at September 30th.

Looking at earnings contribution by segment, production segment pretax income was 93.4 million dollars, down 38 percent from our record results in the third quarter. The decrease in the fourth quarter

was driven by lower lock volumes and margins in both production channels.

Total loan acquisitions and originations in the fourth quarter were 22.1 billion dollars in unpaid principal balance, up 7 percent from the previous quarter, reflecting PennyMac Financial's continued strong operational execution. Total lock volumes were 21.6 billion dollars in UPB, down 14 percent from the third quarter. Interest rate lock commitments on correspondent government and consumer direct loans totaled 14.7 billion dollars, down 10 percent from the prior quarter's record levels.

The servicing segment generated pretax income of 35.1 million dollars, compared to a pretax loss of 10.7 million dollars in the third quarter.

An increase of 151.6 million dollars in MSR value, driven by a rise in mortgage interest rates during the fourth quarter, was partially offset by 133.4 million dollars in losses on hedges and excess servicing spread liability. Excluding valuation-related changes, pretax income for the

segment was 24.6 million dollars, up 150 percent from the previous quarter, reflecting an increase in operating revenue net of amortization and a modest reduction in operating expenses.

The servicing portfolio grew to 194.2 billion dollars in UPB, up 7 percent from the third quarter, resulting from loan production activities.

The Investment Management segment recorded pretax income of approximately 400 thousand dollars, compared to pretax income of 200 thousand dollars in the prior quarter. Net assets under management ended the quarter at 1.5 billion dollars, essentially flat compared with September 30th.

Now let's turn to slide 4 and review the trends in our financial performance over the last several years.

Slide 4

As this slide demonstrates, PennyMac Financial has a track record of delivering consistent earnings and book value growth.

Looking at earnings per share growth on the left, in 2016 the company earned 2 dollars and 94 cents per share, versus 2 dollars and 17 cents for 2015 – a 35 percent increase. Looking at the chart on the right, our book value increased significantly to 15 dollars and 49 cents per share at December 31st, a 26 percent increase for 2016. PennyMac Financial's unique platform has enabled us to produce earnings growth in a variety of market conditions.

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

Slide 5

Mortgage rates rose sharply in the fourth quarter from the near historic low levels of the third quarter. The average 30-year fixed rate mortgage ended the quarter at approximately 4.3 percent, up from 3.4 percent in October. So far in 2017, we have seen rates decline slightly from year-end levels.

With a new administration in Washington, any regulatory or policy changes affecting the mortgage industry remain uncertain at this point. Regulations enacted since the financial crisis have resulted in higher origination and servicing standards and many positive outcomes, including improved consumer protection. However, increased regulation also resulted in substantially higher costs to originate and service mortgages, which has increased the cost of home ownership for consumers. Over the long term, we believe there will be more balanced consideration of the costs and benefits of regulation, but any significant impact on the mortgage industry in the near term is likely to be limited.

Over the last few years, FHFA has supported efforts to reduce taxpayer risk by increasing the role of private capital in the mortgage market.

FHFA's scorecard for Fannie Mae and Freddie Mac in 2017 continues to prioritize these efforts and has established an objective for the GSEs to transfer a meaningful portion of credit risk on at least 90 percent of the

single-family mortgages in targeted categories. This makes 2017 the third year in a row that FHFA has expanded the scope of credit risk transfer, or CRT transactions, creating additional investment opportunities for PennyMac Mortgage Investment Trust, or PMT.

Despite incrementally higher interest rates, home sales growth is expected to continue, driven by strong underlying macroeconomic trends. While mortgage rates remain near historic lows, the lack of available housing inventory is likely to remain a challenge in some areas of the country.

Now let's turn to slide 6 and discuss our outlook for the U.S. mortgage origination market.

Slide 6

This slide provides an outlook for both single-family mortgage originations and a range of projections for where the 30-year fixed-rate mortgage could be in 2017.

The graph on the left side shows an estimate for the size of the U.S. residential mortgage origination market in 2016, averaging the most recent estimates from Fannie Mae, Freddie Mac and the Mortgage Bankers Association, contrasted against expectations for this year's origination market.

While the industry closed out a strong year in 2016 with close to 2 trillion dollars in overall originations, the expectation for 2017 is a smaller origination market of 1.5 to 1.6 trillion dollars, driven by a nearly 50 percent drop in refinance volumes. However, mortgages for home purchases are forecast to rise by 5 percent in 2017, which would result in the largest purchase market in over a decade.

These forecasts for 2017 factor in a modest increase in interest rates. The graph on the right side provides different outlooks for mortgage rates, with Fannie Mae forecasting the lowest increase in the 30-year fixed-rate mortgage, from 4.2 percent to 4.3 percent for the year, and the MBA forecasting the largest increase, from 4.3 percent to

4.7 percent. Nonetheless, the 30-year rate is expected to remain low relative to historic levels.

Now let's go to slide 7 and turn to our approach for growing PennyMac Financial's Production business.

Slide 7

PennyMac has demonstrated a track record of growing production and has become a leader in the U.S. mortgage production market. We believe that a focus on operational excellence, as we have developed our organically built mortgage banking platform, is at the core of our success.

We have leveraged our legacy-free platform to grow the correspondent seller network to more than 500 relationships, driving the market share growth that has resulted in PennyMac becoming the second-largest correspondent producer. In 2015, we leveraged the mortgage fulfillment capabilities we had built for correspondent to our consumer

direct channel to take advantage of our distinctive expertise and economies of scale. The opportunities available from our growing servicing portfolio led us to focus on our consumer direct channel, which has doubled its volume in each of the last two years and is now a meaningful contributor to PennyMac Financial's earnings.

In addition, we have expanded our production channels and launched initiatives in non-delegated correspondent and multifamily production.

I'd like to turn to slide 8 and discuss the initiatives we are now focused on to further develop PennyMac Financial's production business.

Slide 8

In the face of a market that could be smaller in 2017, we believe that PennyMac Financial has a set of compelling strategies that will drive continued success in our Production business.

Although we are the second-largest correspondent aggregator, we expect to see a significant opportunity for continued profitable market

share gains through operational excellence and further expansion of our seller relationships.

Given the purchase-money orientation of our correspondent seller base, we believe we are well-positioned to benefit from the anticipated growth of the purchase market. We expect to see limited margin pressure in government products and consolidation among smaller aggregators due to the more competitive environment.

We are also having success developing new relationships, in particular with correspondent sellers who use our non-delegated services. A segment of the correspondent market sells loans on a non-delegated basis, essentially outsourcing the underwriting of loans to the correspondent aggregator. Giving sellers access to the underwriting capabilities available through our origination platform provides us with additional production volume from a market segment we previously did not address, as well as greater operating leverage, further enhancing the efficiency of our operations. We believe that non-delegated

correspondent will become an attractive option for many of our existing sellers and help drive growth in new client relationships going forward.

In our consumer direct origination channel, we believe a substantial opportunity exists to recapture or source new leads from our large and growing servicing portfolio of almost 1 million customers. At the current level of interest rates, we estimate approximately 130 thousand customers are eligible for refinancing. However, we are seeing margins lower than the elevated levels in 2016, primarily driven by the increase in interest rates that has led to market contraction and increased competition.

In consumer direct, we expect to strengthen our ability to serve current customers seeking to refinance or take out a loan for a new home purchase. Additional portfolio lead opportunities include FHA-to-conventional loan refinances as home prices improve in some areas, as well as USDA and more portfolio purchase loans from these customers.

We are also leveraging our infrastructure and productivity investments in our call center-based model. This model allowed us to cost-effectively double our production volume over the past year, and we expect it to drive additional efficiencies in the future.

We are building a wholesale platform and a team, and expect this initiative to add meaningful income contribution and production volumes in 2018.

Last year, we announced that we would launch a new program in small-balance commercial real estate lending. Since then, we have refined our strategy and, as previously announced, PMT was approved as a Freddie Mac small-balance lender. As PMT's manager and service provider, we have a team and production platform in place and are forecasting 40 to 60 million dollars of origination volume per quarter by the second half of 2017. The multifamily business is expected to generate mortgage origination revenue for PennyMac Financial and

credit investments for PMT in the retained subordinate tranches of future Freddie Mac Small Balance Loan securitizations.

Now let's turn to slide 9 and discuss how PennyMac Financial's hedging approach helped us achieve strong financial performance despite volatility in interest rates in recent periods.

Slide 9

PennyMac Financial is distinctive among public mortgage specialists as we seek to moderate the impact of interest rate changes through a comprehensive hedge strategy.

As we have discussed in prior quarters, our hedge strategy does not seek to completely offset MSR value changes with changes in the value of financial hedging instruments since we also expect interest rate changes to impact our production income. During the first three quarters of 2016, we generally observed declining interest rates, which led to fair value losses, offset by hedge gains and higher production

income. In the fourth quarter, rates reversed direction and increased sharply, leading to MSR fair value gains, offset by hedge losses and lower production income, validating the effectiveness of our approach to distinctly different interest rate environments.

During the fourth quarter, PennyMac Financial's MSR value increased by 151.6 million dollars, driven by the sharp interest rate increase during the quarter and the expectation for a reduction in future prepayment activity. PennyMac Financial's servicing-related hedges and ESS liability performed in line with our expectations and produced a loss of 133.4 million dollars. Combined, this resulted in a net gain of 18.2 million dollars.

For the full year, our MSR fair value losses of 146 million dollars were offset by 50.3 million dollars of gains on the fair value of the hedges and ESS liability and 416.1 million dollars of production pretax earnings. These results highlight the effectiveness of our mortgage banking

platform in capturing market opportunities, while also providing an operational hedge that supplements our financial hedge strategies.

Now, let's go to slide 10 and discuss the profitability of our servicing segment.

Slide 10

As I mentioned earlier, PennyMac Financial's servicing segment contributed pretax income of 35.1 million dollars in the fourth quarter. Excluding valuation-related changes, servicing segment pretax income was 24.6 million dollars in the fourth quarter, compared to 9.9 million dollars in the prior quarter. The increase was primarily due to higher operating revenues resulting from a growing servicing portfolio and lower amortization and realization of cash flows from slower prepayment activity resulting from higher interest rates. Other drivers were a 39 percent quarter-over-quarter increase in EBO-related revenue and 1.3 million dollars in servicing activity fees related to a bulk sale of loans by PMT.

Higher operating revenue was partially offset by an increase in servicing expenses, primarily driven by increased provision for losses on delinquent and defaulted government mortgage loans and EBO transaction-related expenses.

As a percentage of the average servicing portfolio UPB, pretax income excluding valuation-related changes was 5.2 basis points in the fourth quarter and 4.1 basis points for the full year 2016, compared with 2.2 basis points for both the third quarter of 2016 and the full year of 2015.

Operating expenses as a percentage of average UPB were reduced to 10.8 basis points in the fourth quarter from 11.6 basis points in the third quarter. This reduction was driven by continued momentum on initiatives to improve servicing efficiency and productivity, utilizing workflow process and technology enhancements. We expect the standalone profitability of servicing to continue to improve over time,

as we maintain a focus on driving efficiencies and realizing economies of scale as the servicing portfolio grows.

This quarter's presentation of pretax income excluding valuation changes includes some refinements from the prior periods to better reflect the operational results of the Servicing business. Amortization and realization of cash flows, which previously related only to MSRs, now includes the reduction in the value of the mortgage servicing liability, or MSL, in the period resulting from the incurrence of expenses that had been previously contemplated in the MSL valuation.

Furthermore, the provision for credit losses on active loans has been grouped with the other components of valuation-related changes, as the projected losses were considered in the valuation of MSRs. Prior periods have been adjusted accordingly.

This concludes my overview of PennyMac Financial's fourth quarter and full-year performance. Before we move forward with a review of operational results in each of our business units, I'd like to call your

attention to some of the recent high-level organizational changes in our company, which we announced in mid-December.

As of the first of this year, I have taken on the role of Executive Chairman of PennyMac Financial. In this capacity, I continue to lead our strategy, organizational development, oversight and governance initiatives, as well as represent the company with our business partners, investors and other key external stakeholders. My primary focus, however, is advising and guiding our senior management team in their areas of responsibility where I have strong experience, knowledge and business acumen.

In conjunction with my transition to Executive Chairman, we announced that David Spector, who previously served as our President and Chief Operating Officer, would become our President and Chief Executive Officer. Since our founding nine years ago, David has been a selfless business partner, engaged in every critical area of the company including Capital Markets, Secondary Marketing and our investment

activities. David is a highly accomplished executive who has spearheaded our relationships with Wall Street and the banking community, investors and the GSEs, among others.

In addition, we named Andy Chang, who previously was our Chief Business Development Officer, to the role of Chief Financial Officer.

Andy has been a key member of our management team since our founding in 2008, and has distinguished himself leading many corporate initiatives that have made important contributions to the company's growth.

We will hear from David and Andy shortly. I would also like to note that Anne McCallion, Andy's predecessor as CFO, has moved into the role of Chief Enterprise Operations Officer with leadership responsibilities for Legal, Human Resources, Corporate Administration and Enterprise Operations functions. Anne is a consummate mortgage banking executive who, since joining PennyMac Financial in 2009, has built a strong finance organization. Anne's leadership and management

responsibilities have spanned several corporate and operational roles throughout her career.

In addition, Doug Jones, who previously was Chief Institutional Mortgage Banking Officer, will become President of PennyMac Loan Services, or PLS, as well as Chief Mortgage Banking Officer of PennyMac Financial. PLS is the company's principal mortgage banking subsidiary which encompasses all of our production and servicing activities. Doug is a very experienced and highly regarded mortgage banking executive. He has been critical to the success of our correspondent and fulfillment operations and is well-suited for his additional leadership responsibilities.

These changes are very positive steps in the evolution of PennyMac Financial, and have been well-received by our employees, business partners and key stakeholders. I want to emphasize my intent to remain deeply engaged in leading the strategic and operational direction of PennyMac Financial for the foreseeable future. I am

confident that we have the right leadership team in place to support the future growth and development of the company.

With that, I'd 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 11, I would like to begin my remarks by reviewing market share and volume trends across PennyMac Financial's businesses.

Slide 11

PennyMac Financial was the fourth-largest producer of mortgage loans in the United States during the fourth quarter, according to *Inside*

Mortgage Finance, and we estimate that we remained the 11th largest servicer.

Strong correspondent production performance led market share growth to nearly 11 percent in the fourth quarter, up from nearly 10-1/2 percent in the prior quarter. In our consumer direct business, record fourth quarter volumes increased our market share to nearly two-thirds of a percentage point from half a percentage point in the third quarter.

We estimate that the market share for our loan servicing portfolio grew to almost 2 percent of all mortgage debt outstanding in the United States. And lastly, assets under management by our investment management segment was essentially flat quarter-over-quarter.

Now let's turn to slide 12 and discuss correspondent production.

Slide 12

Correspondent acquisitions totaled 20 billion dollars in UPB for the fourth quarter, a 6 percent increase from the third quarter and up 100 percent year-over-year.

Government loan acquisitions accounted for 63 percent of total correspondent acquisitions, or 12.5 billion dollars in the fourth quarter.

Conventional conforming acquisitions, where PennyMac Financial performed fulfillment services for PMT, totaled 7.5 billion dollars in the fourth quarter, up 117 percent year-over-year. Total lock volume was 19.2 billion dollars, down 11 percent quarter-over-quarter.

In January, correspondent loan acquisitions totaled 5 billion dollars in UPB, while interest rate lock commitments totaled 4.5 billion dollars in UPB.

Purchase-money loans accounted for 62 percent of our correspondent production during the quarter. Purchase-money volumes continued to

comprise a significant majority of production in the fourth quarter, outpacing the overall origination market, which, as Stan mentioned earlier, positions us well for the anticipated origination mix in 2017.

We continued to grow our seller relationships in the fourth quarter, driven by success in expanding our non-delegated correspondent program, which was launched in the second quarter of 2016. During the fourth quarter, the number of seller relationships increased to 522, up from 504 in the prior quarter.

Now let's turn to slide 13 and discuss consumer direct production.

Slide 13

We achieved record consumer direct production volume of 2 billion dollars in UPB in the fourth quarter, a 22 percent increase from the third quarter, and a 98 percent increase from the fourth quarter of 2015.

Record volumes reflect our investments in sales and fulfillment capacity which resulted in the production of approximately 79-hundred loans in the fourth quarter of 2016, compared to just over 42-hundred loans in the fourth quarter of 2015. Furthermore, it highlights our unique operational platform that continues to realize improvements in efficiency, which are taken into consideration in go-forward staffing models.

The committed pipeline at the end of the fourth quarter was approximately 800 million dollars, reflecting reduced lock volumes resulting from a significant increase in rates during the quarter.

In January, consumer direct originations totaled 395 million dollars in UPB, and interest rate lock commitments totaled 592 million dollars in UPB. The committed pipeline was 552 million dollars in UPB as of January 31st, 2017.

Now let's turn to slide 14 and discuss our loan servicing business.

Slide 14

In the fourth quarter, our loan servicing portfolio grew to 194.2 billion dollars in UPB, an increase of 7 percent from 182.1 billion dollars in the third quarter. Strong correspondent and consumer direct production volumes more than offset elevated prepayment activity, resulting in continued organic portfolio growth.

Higher mortgage rates helped to create a more valuable servicing portfolio, with the constant prepayment rate on the MSR portfolio slowing to 20.7 percent from 23 percent in the third quarter. We expect prepayment rates to continue declining given higher interest rates.

Initiatives are under way to improve servicing productivity, including major technology developments. These include improvements to our web-based portal to increase consumer adoption, which will help lower future servicing expenses by reducing our live customer service interactions. Other initiatives include the ongoing development of

applications to improve operating efficiencies while driving down information technology costs.

Now let's turn to slide 15 and discuss the Investment Management segment.

Slide 15

As we mentioned earlier, assets under management were essentially flat quarter-over-quarter.

PMT's book value per share increased to 20 dollars and 26 cents, up from 20 dollars and 21 cents at September 30th.

PMT also continued to successfully transition capital toward new investment opportunities such as MSRs and CRT on its correspondent production. During the quarter, we added 101 million dollars in MSRs and PMT delivered 2.6 billion dollars in UPB to Fannie Mae which will result in approximately 92 million dollars of new CRT investments once the aggregation period is completed.

PMT continues to make progress liquidating its distressed loan investments and recently agreed to sell 89 million dollars in UPB of performing loans from the distressed portfolio.

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

Speaker:

Andy Chang, Chief Financial Officer

Thank you, David.

Slide 16

Slide 16 is an overview of PennyMac Financial's results by operating segment. Since Stan reviewed these figures in detail earlier in the presentation, let's turn to slide 17 and take a closer look at the results of our Production segment.

Slide 17

Production segment revenues were 175 million dollars for the fourth quarter, down 25 percent from the record third quarter. The decrease was primarily a result of a 38 percent quarter-over-quarter decrease in net gains on mortgage loans held for sale, reflecting lower lock volumes and margins in both production channels. In addition, the third quarter results benefitted from a 6.6 million dollar reduction in the provision for representations and warranties.

During the fourth quarter, interest rate lock commitments on correspondent government and consumer direct loans decreased 10 percent from the third quarter's record levels. Correspondent locks on government loans were 12.3 billion dollars, a 4 percent decrease from the third quarter. Consumer direct locks were 2.4 billion dollars, a 32 percent decrease.

Gross margins, which represent the revenue per lock commitment, were 101 basis points in the fourth quarter, down from their third

quarter highs of 126 basis points. Revenue per consumer direct lock decreased to 292 basis points from 323 in the third quarter, while revenue per correspondent lock decreased to 61 basis points from 68 in the prior quarter. We note that fourth quarter margins in both channels were near the middle of their ranges for recent quarters.

Fulfillment fee revenue was 27.2 million dollars in the fourth quarter, down slightly from the prior quarter, reflecting a lower weighted average fulfillment fee that was offset by higher volumes of conventional loans acquired by PMT. The weighted average fulfillment fee rate during the quarter was 36 basis points, down from 38 basis points in the prior quarter.

Production segment expenses were 81.7 million dollars, a 1 percent decrease from the third quarter.

Let's turn to slide 18 and review the financial performance of the servicing segment.

Slide 18

Servicing segment revenues were 108 million dollars in the fourth quarter, an increase of 103 percent from the prior quarter. Net loan servicing fees totaled 95.5 million dollars for the fourth quarter, compared to 45.9 million dollars in the third quarter.

Net loan servicing fees included 127.5 million dollars in loan servicing fees reduced by 50.2 million dollars of amortization and realization of MSR cash flows. Amortization and realization decreased from elevated levels in the third quarter, driven by lower prepayment activity partially offset by a larger MSR asset. Net loan servicing fees also included 151.6 million dollars of fair value gains and impairment recovery on MSRs, primarily reflecting the sharp rise in mortgage rates during the fourth quarter and expectations for lower prepayment activity in the future. In addition, net loan servicing fees included 116.3 million dollars in hedging losses and 17.1 million dollars in losses due to the change in

fair value of the ESS liability. The net gain in MSR value after hedge and ESS losses was 18.2 million dollars.

The securitization of reperforming government-insured and guaranteed loans resulted in 24.5 million dollars of revenue in net gains on mortgage loans held for sale at fair value in the fourth quarter, versus 15.6 million dollars in the third quarter. These loans were previously purchased out of Ginnie Mae securitizations and brought back to performing status through PennyMac Financial's successful servicing efforts, primarily with the use of loan modifications.

Servicing segment expenses for the quarter were 72.9 million dollars, a 14 percent increase from the third quarter, primarily resulting from increased provisions for losses on delinquent and defaulted government loans and EBO transaction-related expense.

Now let's turn to slide 19 and discuss the valuation of PennyMac Financial's MSR asset.

Slide 19

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, including those subject to ESS, are accounted for at fair value. PennyMac Financial accounted for 85.5 billion dollars in UPB of its originated MSRs under LOCOM at December 31st. The fair value of these MSRs was 600 thousand dollars greater than their carrying value on our balance sheet. The remaining 43.7 billion dollars in UPB of MSRs are accounted for at fair value.

Most of our purchased MSRs are subject to an ESS liability. The UPB related to the loans underlying those MSRs totaled 31.7 billion dollars

at December 31st. The outstanding ESS liability at December 31st relates only to Ginnie Mae MSRs.

Now let's turn to slide 20 and look at the financial performance of the Investment Management segment.

Slide 20

Investment management revenues were 5.7 million dollars, up 2 percent from the third 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 change in results versus the prior quarter was primarily driven by Other revenue, which increased 113 thousand dollars quarter-over-quarter, driven by an increase in the value of PMT shares held by PennyMac Financial.

No incentive fees were received from PMT in the fourth quarter.

Segment expenses were 5.3 million dollars, down 2 percent from the third quarter.

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

Speaker:

Stanford L. Kurland – Chairman and Chief Executive Officer

Thank you, Andy.

We are proud of our performance in 2016. We delivered record earnings and impressive operational performance. Our continuing strong financial results reflect the hard work and determination of PennyMac's more than 3,000 employees, and we thank them for their commitment to excellence.

Looking forward, we are entering a more normalized mortgage market environment with interest rate increases that began in the fourth quarter. While we expect a strong purchase origination market with

increased volume over the 2016 levels, a reduction in refinance activity should result in a decrease in the overall mortgage origination market.

PennyMac Financial has demonstrated the ability to react to market volatility in the past and operate successfully across different market environments. With the changes in the market, we are making adjustments required to maximize profitability in the current environment.

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 fourth quarter and full-year 2016 earnings discussion. For any questions, please visit our website at www.ir.pennymacfinancial.com, or call our Investor Relations department at 818-264-4907.