

PENNYMAC FINANCIAL SERVICES, INC.
Form 424B1
May 09, 2013

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File No. 333-186495

PROSPECTUS

11,111,111 Shares

PennyMac Financial Services, Inc.

Class A Common Stock

\$18.00 per share

This is the initial public offering of our Class A common stock. We are selling 11,111,111 shares of our Class A common stock. The initial public offering price is \$18.00 per share of Class A common stock.

We have granted the underwriters an option to purchase up to 1,666,666 additional shares of Class A common stock.

Our Class A common stock has been approved for listing on the New York Stock Exchange under the symbol "PFSI."

Immediately following this offering, the holders of our Class A common stock will collectively own 100% of the economic interests in PennyMac Financial Services, Inc. and have 15.0% of the voting power of PennyMac Financial Services, Inc., and indirectly own 15.0% of the economic interests of Private National Mortgage Acceptance Company, LLC, our principal operating subsidiary. The holders of our Class B common stock will have the remaining 85.0% of the voting power of PennyMac Financial Services, Inc. and will directly own the remaining 85.0% of the economic interests of Private National Mortgage Acceptance Company, LLC.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, and therefore have elected to comply with certain reduced public company reporting requirements.

We are not a government-sponsored entity.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 18.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$ 18.000	\$ 199,999,998
Underwriting Discount(1)	\$ 1.125	\$ 12,500,000
Proceeds to PennyMac Financial Services, Inc. (before expenses)	\$ 16.875	\$ 187,499,998

(1)
See "Underwriting" for further information.

The underwriters expect to deliver the shares to purchasers on or about May 14, 2013 through the book-entry facilities of The Depository Trust Company.

Joint Book-Running Managers

Citigroup BofA Merrill Lynch Credit Suisse Goldman, Sachs & Co.

Co-Managers

Barclays J.P. Morgan Morgan Stanley Wells Fargo Securities

May 8, 2013

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Unless the context requires otherwise, references in this prospectus to "PennyMac," the "Company," "we," "us" and "our" refer (1) prior to the consummation of the Offering Transactions described under "Organizational Structure Recapitalization," to Private National Mortgage Acceptance Company, LLC and its consolidated subsidiaries and (2) after the consummation of the Offering Transactions described under "Organizational Structure Recapitalization," to PennyMac Financial Services, Inc. and its consolidated subsidiaries.

In this prospectus, we refer to our subsidiary PNMAC Capital Management, LLC as "PCM" and our subsidiary PennyMac Loan Services, LLC as "PLS." We refer to BlackRock Mortgage Ventures, LLC, together with its affiliates, as "BlackRock," and HC Partners LLC, formerly known as Highfields Capital Investments LLC, together with its affiliates, as "Highfields." We refer to BlackRock, Highfields and the other owners of Private National Mortgage Acceptance Company, LLC prior to the Offering Transactions, collectively, as our "existing owners."

Unless the context requires otherwise, references in this prospectus to "PMT" collectively refer to PennyMac Mortgage Investment Trust, a mortgage "real estate investment trust" managed by PCM, and its operating subsidiaries.

You should rely only on the information contained in this prospectus or contained in any free writing prospectus filed with the Securities and Exchange Commission. Neither we nor the underwriters have authorized anyone to provide you with additional information or information different from that contained in this prospectus or in any free writing prospectus filed with the Securities and Exchange

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Commission. We are offering to sell, and seeking offers to buy, our Class A common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus, or of any sale of our Class A common stock.

Through and including June 2, 2013 (the 25th day after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside the United States: Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside of the United States.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our Class A common stock, you should read the entire prospectus carefully, including the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes.

Business Overview

Our Company

We are a specialty financial services firm with a comprehensive mortgage platform and integrated business focused on the production and servicing of U.S. residential mortgage loans and the management of investments related to the U.S. residential mortgage market. We believe that our operating capabilities, specialized expertise, access to long-term investment capital, and our management's deep experience across all aspects of the mortgage business will allow us to profitably grow these activities and capitalize on other related opportunities as they arise in the future.

We were founded in 2008 by members of our executive leadership team and two strategic partners, BlackRock and Highfields. Since our founding we have pursued opportunities to acquire and manage residential mortgage loans and established what we believe to be a best-in-class mortgage platform. We have relied on the know-how of our management team and built a *de novo* operating platform to our specifications using industry-leading technology, processes and procedures to address the stringent requirements of residential mortgage lending and servicing in the post-financial crisis market. We believe that this approach has resulted in a specialized mortgage platform that is "legacy-free" and highly scalable to support the continued growth of our business.

We conduct our business in two segments: mortgage banking and investment management. Our principal mortgage banking subsidiary, PennyMac Loan Services, LLC, or PLS, is a leading non-bank producer and servicer of mortgage loans in the United States. PLS is a seller/servicer for the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, each of which is a government-sponsored entity, or GSE. It is also an approved issuer of securities guaranteed by the Government National Mortgage Association, or Ginnie Mae, a lender of the Federal Housing Administration, or FHA, a lender/servicer of the Veterans Administration, or VA, and a servicer for the Home Affordable Modification Program, or HAMP. We refer to each of Fannie Mae, Freddie Mac, Ginnie Mae, FHA and VA as an "Agency." PLS is licensed (or exempt or otherwise not required to be licensed) to originate residential mortgage loans in 45 states and the District of Columbia and to service loans in 49 states, the District of Columbia and the U.S. Virgin Islands.

Our principal investment management subsidiary, PNMAC Capital Management, LLC, or PCM, is an SEC registered investment adviser. It manages PennyMac Mortgage Investment Trust, or PMT, a mortgage "real estate investment trust," or REIT, listed on the New York Stock Exchange. PCM also manages PNMAC Mortgage Opportunity Fund, LLC and PNMAC Mortgage Opportunity Fund, LP, both registered under the Investment Company Act of 1940, an affiliate of these funds and PNMAC Mortgage Opportunity Fund Investors, LLC. We refer to these funds collectively as our "Investment Funds" and, together with PMT, as our "Advised Entities." Our Advised Entities have been some of the leading non-bank investors in distressed mortgage loans since 2008, investing in loans with approximately \$5.9 billion of unpaid principal balances, or UPB. As of December 31, 2012, our Advised Entities had combined net assets of approximately \$1.8 billion.

We conduct some of our activities for our own account and some for our Advised Entities. We earn significant fee income and carried interest from the activities we conduct for our Advised Entities; such fees include investment management fees, incentive fees, subservicing fees for servicing loan

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portfolios and fulfillment fees for mortgage banking services provided to PMT in connection with our correspondent lending program. Our relationships with our Advised Entities also allow us to pursue some market opportunities with reduced capital intensity, with PLS and PCM providing operational expertise and our Advised Entities providing investment capital for mortgage-related assets.

Our systems and processes have been designed to be highly scalable to accommodate the continued rapid growth of our businesses. To date our growth has been organic, drawing upon experienced personnel known to us in the mortgage industry, which has allowed us to be methodical and consistent in our operations and to establish and maintain a disciplined corporate culture that is focused on excellence.

Our Company Structure

Mortgage Banking Segment

As summarized below, our mortgage banking segment is comprised of three primary businesses: correspondent lending, retail lending, and loan servicing.

Correspondent Lending

Our correspondent lending business manages, on behalf of PMT and for our own account, the acquisition of newly originated, prime credit quality, first-lien residential mortgage loans that have been underwritten to investor guidelines. PMT acquires, from approved correspondent sellers, newly originated loans, primarily "conventional" residential mortgage loans guaranteed by the GSEs and "government-insured" residential mortgage loans insured or guaranteed primarily by the FHA or the VA.

For conventional loans, we perform fulfillment activities for PMT and earn a fee for each loan acquired by PMT. Fulfillment activities include reviews of loan data, documentation and appraisals to assess loan quality and risk, correspondent seller performance and credit monitoring procedures, and the subsequent sale and securitization of loans through secondary mortgage markets on behalf of PMT. PMT earns interest income and gains or losses during the holding period and upon the sale or

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securitization of these conventional loans and retains the associated mortgage servicing rights, or MSRs. PLS provides loan subservicing for PMT's retained MSRs and earns a subservicing fee.

In the case of government-insured loans, we purchase them from PMT at PMT's cost plus a sourcing fee. We fulfill the government loans for our own account. We typically pool the federally insured or guaranteed loans together into a mortgage-backed security, or MBS, which Ginnie Mae guarantees. We earn interest income and gains or losses during the holding period and upon the sale of these securities, and we retain the associated MSRs.

We have grown our correspondent lending business through purchases from approved mortgage originators that meet specific criteria related to management experience, financial strength, risk management controls and loan quality. Our management team has prior experience with the majority of these mortgage originators. As of December 31, 2012, we had approved 140 sellers on PMT's behalf, primarily independent mortgage originators and small banks located across the United States. PMT purchased approximately \$21.5 billion of loans in 2012, including \$13.0 billion of conventional loans and \$8.4 billion of government-insured loans. In the fourth quarter of 2012, with \$10.0 billion in production, PMT was the fourth largest correspondent lender in the United States as ranked by Inside Mortgage Finance.

Retail Lending

Our retail lending business originates new prime credit quality, first-lien residential conventional and government-insured mortgage loans on a national basis to allow customers to purchase or refinance their homes. We conduct this business through a consumer direct model, which relies on the Internet and call center-based staff, rather than a traditional branch network, to acquire and interact with customers across the country. Effective marketing, call center staff, procedures, training and technology are all important to growing our retail lending business. We use sophisticated telephony and lead-management software to improve conversion rates, deliver outstanding customer service, and lower costs. In 2012, we originated \$534 million of residential mortgage loans in our retail lending business, a 259% growth rate compared to 2011.

Our existing servicing portfolio is our main source of leads for new originations. These portfolio-based originations include: refinancing loans to proactively protect our servicing portfolio from run-off, which we refer to as "recapture;" refinancing loans from the restructure of distressed loans acquired by our Advised Entities; and purchasing loans to facilitate the sale of real estate owned, or REO, properties held by our Advised Entities. In addition, we are growing our non-portfolio originations by sourcing prospective customers through consumer marketing and community and professional relationships.

For loans originated via our retail lending business, we conduct our own fulfillment, earn interest income and gains or losses during the holding period and upon the sale or securitization of these loans, and retain the associated MSRs (subject to sharing 30% of such MSRs with PMT in the case of retail originated loans that refinance a loan for which the related MSR was held by PMT).

Loan Servicing

Our loan servicing business performs loan administration, collection, and default activities, including the collection and remittance of loan payments, responding to customer inquiries, accounting for principal and interest, holding custodial (impound) funds for the payment of property taxes and insurance premiums, counseling delinquent mortgagors, modifying loans and supervising foreclosures and our property dispositions.

We service loans for which we own the MSRs and we service loans on behalf of other MSR or mortgage owners which we refer to as "subservicing." The owner of MSRs acts on behalf of mortgage

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loan owners and has the contractual right to receive a stream of cash flows (expressed as a percentage of UPB) in exchange for performing specified mortgage servicing functions and temporarily advancing funds to cover payments on delinquent and defaulted mortgages. As a subservicer, we earn a contractual fee on a per-loan basis and the right to any ancillary fees, and we are reimbursed for any servicing advances we make on delinquent or defaulted mortgages. We presently subservice only for our Advised Entities.

We characterize our servicing business as either "Prime Servicing" or "Special Servicing."

Prime Servicing. Our prime servicing includes servicing or subservicing activities for loans that are prime credit quality and generally exhibit low delinquency and default rates. This portfolio includes conventional and government-insured loans. Prime servicing generally tends to be lower cost and benefits from significant economies of scale. As of December 31, 2012, our prime servicing portfolio comprised over 100,000 loans, most of which are recent originations, with an aggregate UPB of approximately \$23.3 billion. We own the MSRs to over 50,000 of these loans (or approximately 45% of our total prime portfolio as measured by UPB), most of which are serviced for Ginnie Mae securitizations and were produced by us through our correspondent and retail lending businesses. In addition, we subservice approximately 50,000 conventional loans (or approximately 55% of our total prime portfolio as measured by UPB), the MSRs to which are owned by PMT.

Special Servicing. Our special servicing includes servicing activities for distressed whole loans that have been acquired as investments by our Advised Entities, as well as for loans in "private-label" MBS securities, which are securities that are not guaranteed by or otherwise affiliated with any government agency. Special servicing utilizes a "high-touch" model to establish and maintain borrower contact and facilitate loss mitigation strategies. Our general strategy is to try to keep defaulted borrowers in their homes. Under certain circumstances, we offer loss mitigation options that include loan modification through the use of federally sponsored loan modification programs (such as HAMP) or otherwise to reflect both the borrowers' current financial condition and the value of their homes. When loan modifications and other efforts are unable to cure a default, we seek to avoid foreclosure and timely acquire and/or liquidate the property securing the mortgage loan where possible and pursue alternative property resolutions including "short sales," in which the borrower agrees to sell the property for less than the loan balance and the difference is forgiven, and deeds-in-lieu of foreclosure, in which the borrower agrees to convey the property deed outside of foreclosure proceedings. As of December 31, 2012, we provided special servicing to approximately 16,000 distressed whole loans with an aggregate UPB of approximately \$3.6 billion and approximately 7,000 loans in "private-label" securities with an aggregate UPB of approximately \$1.3 billion. Our special servicing fees typically include a base servicing fee and activity-based fees for the successful completion of default-related services.

We have grown our mortgage servicing portfolio primarily through organic mortgage loan production in our correspondent lending and retail lending businesses, supplemented by the opportunistic acquisition by our Advised Entities of distressed pools of residential whole loans which we subservice, and our own MSR acquisitions. As of December 31, 2012, we serviced or subserviced approximately 123,000 loans with an aggregate UPB of approximately \$28.2 billion. The majority of these loans are serviced for Fannie Mae, Freddie Mac or Ginnie Mae securitizations.

Investment Management Segment

We are an investment manager through our wholly-owned subsidiary PCM. PCM currently manages PMT and the Investment Funds, which had combined net assets of approximately \$1.8 billion as of December 31, 2012. For these activities, we earn management fees as a percentage of net assets and incentive compensation based on investment performance. The Investment Funds are limited-life

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private funds established in August 2008, whose commitment periods ended in 2011. As of December 31, 2012, these funds had aggregate equity value of \$591 million and had generated total returns of 43%, net of all fees, expenses and carried interest, since their inception. The term of each of these funds ends in December 2016 with the possibility of three one-year extensions. Subject to contractual restrictions with PMT, we may establish additional private investment vehicles to invest in distressed loans or pursue related mortgage strategies, for which we would provide investment management services as well.

PMT was formed as a Maryland real estate investment trust in May 2009 and consummated an initial public offering in August 2009. PMT's shareholders' equity has grown through a combination of retained earnings and new equity raised through follow-on public offerings and other sales of its common stock. Since its initial public offering, PMT has raised new equity of approximately \$200 million in 2011 and approximately \$600 million in 2012. As of December 31, 2012, PMT had shareholders' equity of \$1,201 million. For the years ended December 31, 2012, 2011 and 2010, PMT reported returns on average shareholders' equity of 16%, 13% and 8%, respectively. Our relationship with PMT provides a partner with long-term investment capital and enhances our ability to both support our existing business and to pursue potential growth initiatives.

Market Opportunity

The U.S. residential mortgage industry is one of the largest financial markets in the world, with approximately \$10 trillion of outstanding debt and average annual origination volume of \$1.7 trillion for the five years ending December 31, 2012. Dislocations from the financial crisis have led many of the largest financial institutions to reduce their participation in the mortgage market through asset sales and by exiting businesses, and the industry remains in a period of significant transformation. In addition, increasing capital requirements for banks have resulted in competitive advantages for non-bank participants relative to the banks that have traditionally held the majority of the market share in mortgage originations and servicing.

The residential mortgage industry is characterized by high barriers to entry, including: the necessity for approvals required to sell loans to and service loans for the GSEs and Ginnie Mae; state licensing requirements; sophisticated infrastructure, technology, and processes required for successful operations; and financial capital requirements. We believe that we are one of the few new enterprises well positioned to lead in the rapidly evolving mortgage industry.

Our Competitive Strengths

Leading Non-bank Residential Mortgage Specialist with Integrated, Complementary Capabilities

We are a leading non-bank residential mortgage specialist that has developed highly complementary capabilities in residential mortgage production, servicing and investment management. In 2012, we produced \$22.0 billion of mortgage loans, including \$10.0 billion acquired by PMT through correspondent lending in the fourth quarter during which it ranked among the top four correspondent lenders nationwide. In loan servicing, we provide prime and special servicing, with strong expertise in distressed assets that require high levels of borrower contact and specialized operations and technology focused on loss mitigation and default related processes. As of December 31, 2012, we serviced approximately 123,000 loans with an aggregate UPB of approximately \$28.2 billion. In addition, our Advised Entities are leading non-bank investors in distressed mortgage loans.

We believe that we are one of the few non-bank market participants with such a broad range of capabilities. Our leading industry position and synergistic businesses position us favorably in the rapidly evolving mortgage industry. For example, our loan production businesses and investment management activities result in the growth of our servicing business, our special servicing capabilities enhance

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investment management performance through execution of loss mitigation programs and our origination platform mitigates run-off of our servicing portfolios through refinance recapture.

Profitable Businesses with Significant Growth Potential

We have been profitable every year except for our first year of operations and have a track record of generating meaningful returns on equity for our equityholders. Since our inception, we have made substantial investments in infrastructure, technology, and operations that have subsequently facilitated significant growth in our business volumes and profits. For the year ended December 31, 2012, our net income grew 705% to \$118.3 million as compared to the year ended December 31, 2011, resulting in a return on average equity of 66.8%, which was largely driven by growth in our correspondent lending production. During 2012, our correspondent lending production totaled \$21.5 billion, a 1,587% increase versus 2011, and our servicing portfolio totaled approximately \$28.2 billion in UPB as of December 31, 2012, a 264% increase versus a year earlier. We believe that there is significant growth potential yet to be tapped within our existing businesses and also through our expansion into adjacent related businesses as described in "Our Growth Strategies." Our historical profitability has generated internal cash flows that can be used to fund additional growth in our operations.

Legacy-free, Specialized and Scalable Operating Platform

We believe we have a superior mortgage banking platform. Since our formation in 2008, we have utilized state-of-the-art technology combined with best-in-class processes to address the complexity of conducting mortgage banking activities in the post-crisis environment. Unlike many other competing platforms in the market, our platform is not overburdened by "legacy" portfolios which are either distressed or have potentially significant repurchase obligations to the GSEs or liability to other non-Agency investors in connection with loans originated prior to the recent financial crisis that fail to meet required underwriting standards; nor is it constrained by the inherent limitation of old existing systems and operations that are not able to accommodate large numbers of delinquent loans. Instead, our operating platform is legacy-free, highly scalable and specifically designed to address the needs of our businesses. It provides centralized and streamlined processes and infrastructure across all of the critical areas for mortgage management, including correspondent and retail lending, underwriting, quality control, secondary marketing and capital markets, portfolio strategy, servicing, finance and other supporting functions. Many of these functions are proprietary, including our loan-level analytics platform for distressed loan management, which we call "LENESM" (Loan Enhancement Normalization Engine).

Our primary operations center is located in southern California, home to thousands of experienced and qualified mortgage professionals. We have been able to grow our platform in part due to our ability to hire many high-quality employees affected by dislocations in the mortgage market. In 2012, we opened new operations centers in Pasadena, California and Tampa, Florida, an area that also has a deep base of experienced mortgage professionals, to support the growth of our retail lending and correspondent lending businesses, respectively. We believe that our platform enables us to scale our business quickly with cost efficiency and systems integrity, adapt to the latest regulatory changes, and maintain a competitive advantage in meeting the needs of the mortgage market.

Seasoned Management with Deep Industry Experience and Aligned Interests

Our management team has extensive experience managing all aspects of the residential mortgage business through a variety of credit cycles and market conditions. Stanford Kurland, our chairman and chief executive officer, is an accomplished financial services executive with more than 36 years of experience in mortgage banking and was a former president and chief operating officer of Countrywide Financial Corporation until September 2006. Our 47 senior-most executives have on average 23 years of relevant industry experience. Many of them have experience in managing other public companies and

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have also worked together for over a decade. In addition, our management owns approximately one-third of our equity prior to this offering and will own 25.8% of the new class of units of Private National Mortgage Acceptance Company, LLC, which we refer to as "New Holdings Units," outstanding immediately following this offering, creating a significant alignment of interests between our management and stockholders. Such a deep, extensive and interest-aligned management team has delivered a successful execution of our strategy, demonstrated by our profitable growth in a relatively short period of time. We also believe that our seasoned, experienced management team is a significant competitive advantage for us as the mortgage industry continues its transformation and enters new market cycles.

Long-standing Relationships with Critical Institutional Partners

The mortgage industry is characterized by high barriers to entry, including extensive institutional relationships needed to conduct and grow business. Our senior management and business development teams have long-standing relationships with our critical institutional partners. These partners include: the GSEs to whom we sell and for whom we service loans; leading banks and broker-dealers who provide us with financing and mortgage-related assets for acquisition by our Advised Entities; and leading independent mortgage originators who sell loans to PMT through our correspondent lending business. We have successfully turned such relationships into our competitive advantage over other new entrants in our businesses.

Synergistic Partnership with PennyMac Mortgage Investment Trust

We have established a synergistic partnership with PMT, the public REIT that is externally managed by our investment management subsidiary, PCM, and whose mortgage assets are serviced by our mortgage banking subsidiary, PLS. PMT is intended to be a tax-efficient vehicle for investing in mortgages and mortgage-related assets and has a track record of raising new capital in a cost-effective manner. As we provide mortgage banking related operational, infrastructure and risk management services and investment management expertise to PMT, PMT as a long-term investment vehicle provides us with efficient access to the capital markets and helps reduce balance sheet constraints as we grow our business. For example, in our correspondent lending business for conventional loans, PMT funds the loans until their sale or securitization, for which we perform fulfillment activities before and after the acquisition of the loans, and retains the resulting MSR assets, for which we provide subservicing. This mutually beneficial partnership facilitates our activities across the residential mortgage market, particularly given the capital-intensive nature of mortgage origination, servicing and investment.

Our Growth Strategies

Since our establishment during the financial crisis, we have demonstrated our ability to apply our residential mortgage expertise and operating capabilities to multiple business opportunities. In the initial years of our operation, for example, we identified distressed investing as an attractive opportunity and we raised and deployed capital through a series of successful transactions. As the mortgage market presented opportunities in new loan production and servicing, we expanded our management and capabilities to profitably capitalize on these businesses as well.

As a non-bank mortgage company, we believe that we are well positioned to continue to take advantage of future industry changes as the market shifts away from the large banks to specialized firms. For example, we are not subject to stringent regulatory capital constraints on retaining certain mortgage-related assets that could prove beneficial as the residential mortgage market develops following the recent financial crisis. Examples of industry changes that may create future business opportunities for us include, among others, GSE reform and the re-emergence of a robust jumbo mortgage loan market for loans in amounts above conventional conforming loan limits.

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We expect to drive near-term growth in the following ways:

Grow our Servicing Portfolio Organically and through Opportunistic Acquisitions

We expect to grow our servicing portfolio primarily on an organic basis, as our correspondent government-insured lending and retail lending production adds new prime servicing for owned MSR's, and correspondent conventional lending adds new subservicing. Our correspondent and retail loan production in the fourth quarter of 2012 was \$41.0 billion in UPB on an annualized basis, significantly larger than our outstanding servicing portfolio which totaled \$28.2 billion in UPB as of December 31, 2012. We will supplement our organic growth by adding new special servicing through continued distressed loan acquisitions by our Advised Entities. We may also opportunistically pursue the acquisition of third-party residential mortgage servicing portfolios. These acquisitions may be pursued in partnership with PMT, which may co-invest in the MSR's through the purchase of a portion of the servicing fee cash flows.

Grow Correspondent Lending through Expanding Seller Relationships

We expect to grow our correspondent lending business by selectively increasing the number of sellers from which we purchase loans and cautiously increasing the volume of loans that we purchase from our existing sellers as we continue to increase the breadth of approved loan products that we offer and expand into additional geographic markets in the United States. Over the past few years, a number of large banks have exited or reduced the size of their correspondent lending businesses, creating an opportunity for non-bank entities to gain market share. We believe that we are well positioned to take advantage of this opportunity based on our management expertise in the correspondent lending business, our relationships with correspondent sellers, and our supporting systems and processes.

Grow Retail Lending through Portfolio Refinance and Non-Portfolio Originations

We expect to grow our retail lending business by leveraging our growing servicing portfolio through refinance activities as well as increasing our non-portfolio originations. As our servicing portfolio grows, we will have a greater number of leads to pursue, which we believe will lead to greater recapture activity. At the same time, we are making significant investments in technology, personnel and marketing to increase our non-portfolio originations. We believe that our national call center model and our technology will enable us to drive origination process efficiencies and best-in-class customer service.

Risks Affecting Us

Our mortgage banking and investment management businesses are subject to numerous risks and uncertainties, including those highlighted in the section titled "Risk Factors" immediately following the prospectus summary. Some of these risks are:

The continually changing federal, state and local laws and regulations applicable to the highly regulated industry in which we operate;

Lawsuits or governmental actions if we do not comply with the laws and regulations applicable to our businesses;

The creation of the Consumer Financial Protection Bureau, or CFPB, its recently issued and future rules and the enforcement thereof by the CFPB;

Changes in existing U.S. government-sponsored entities, their current roles or their guarantees or guidelines;

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Changes to government mortgage modification programs;

The licensing and operational requirements of states and other jurisdictions applicable to our businesses, to which our bank competitors are not subject;

Foreclosure delays and changes in foreclosure practices;

Certain banking regulations that may limit our business activities;

Changes in macroeconomic and U.S. residential real estate market conditions;

Difficulties inherent in growing loan production volume;

Changes in prevailing interest rates;

Increases in loan delinquencies and defaults;

Our reliance on PMT as a significant source of financing for, and revenue related to, our correspondent lending business;

Any required additional capital and liquidity to support business growth that may not be available on acceptable terms, if at all;

Our obligation to indemnify third-party purchasers or repurchase loans if loans that we originate, acquire or assist in the fulfillment of, fail to meet certain criteria or characteristics or under other circumstances;

Our obligation to indemnify PMT and the Investment Funds if our services fail to meet certain criteria or characteristics or under other circumstances;

Decreases in the historical returns on the assets that we select and manage for our clients, and our resulting management and incentive fees;

The extensive amount of regulation applicable to our investment management segment;

Conflicts of interest in allocating our services and investment opportunities among ourselves and our Advised Entities;

The potential damage to our reputation and adverse impact to our business resulting from the ongoing negative publicity focused on Countrywide Financial Corporation, given the former association of certain of our officers with that entity; and

Our recent rapid growth.

Our Structure

Following this offering PennyMac Financial Services, Inc. will be a holding company and its sole asset will be an equity interest in Private National Mortgage Acceptance Company, LLC. PennyMac Financial Services, Inc. will operate and control all of the business and affairs and consolidate the financial results of Private National Mortgage Acceptance Company, LLC and its subsidiaries. Prior to the completion of this offering, the limited liability company agreement of Private National Mortgage Acceptance Company, LLC will be amended and restated to, among other things, modify its capital structure by converting the different classes of interests currently held by our existing owners into New Holdings Units. We and our existing owners will also enter into an exchange agreement under which (subject to the terms of the exchange agreement) they will have the right to exchange their New Holdings Units for shares of our Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends, reclassifications and certain other transactions that would cause the number of outstanding shares of Class A common stock to be

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different than the number of New Holdings Units owned by PennyMac Financial Services, Inc. See "Organizational Structure."

Recent Developments

The following information is based on our preliminary unaudited financial results for the quarter ended March 31, 2013, which are derived from preliminary internal financial reports, and as a result are subject to completion of our normal quarterly closing procedures.

	March 31, 2013	Quarter ended December 31, 2012	March 31, 2012
	(in thousands)		
Revenue			
Net gains on mortgage loans held for sale at fair value	\$ 39,957	\$ 49,683	\$ 13,937
Fulfillment fees from PennyMac Mortgage Investment Trust	28,244	31,809	6,124
Net servicing income	16,042	14,759	11,576
Management fees and carried interest	13,957	10,677	6,452
Other income	7,498	8,697	861
	105,698	115,625	38,950
Expenses			
Compensation	35,681	46,258	16,143
Interest	3,330	3,652	1,071
Other	11,394	7,841	3,938
	50,405	57,751	21,152
Net income	\$ 55,293	\$ 57,874	\$ 17,798

Our net income decreased by \$2.6 million in the quarter ended March 31, 2013 as compared to the quarter ended December 31, 2012, from \$57.9 million to \$55.3 million. This was due to the effect on net gain on mortgage loans held for sale at fair value of a decrease in loan production volume resulting from higher mortgage interest rates in the period and increasing competition in the mortgage marketplace. These same factors caused reduced fulfillment fees from PMT. These decreases were partially offset by increased management fees and carried interest resulting from incentive fees relating to PMT being earned and improved performance of the Investment Funds during the quarter ended March 31, 2013 as compared to the quarter ended December 31, 2012. These net reductions in revenues were offset by decreased compensation expense as compared to the prior quarter due to reduced accruals of incentive compensation.

Our net income increased by \$37.5 million in the quarter ended March 31, 2013 as compared to the quarter ended March 31, 2012, from \$17.8 million to \$55.3 million, due to growth in our operations, primarily in our mortgage banking activities.

At March 31, 2013, we had total assets of \$693 million and total equity of \$308 million.

Key operating results for the quarter ended March 31, 2013 are expected to be as follows:

\$3.7 billion of correspondent government-insured loan production, and \$266 million of retail loan production;

\$4.8 billion of correspondent conventional loan production fulfilled on behalf of PMT; and

servicing portfolio of \$36.2 billion in UPB at March 31, 2013.

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Financial results for this period have not been reviewed or audited by our independent registered public accounting firm. Our actual final results for the quarter ended March 31, 2013 may differ from these estimates.

Corporate and Other Information

Private National Mortgage Acceptance Company, LLC was formed in Delaware in January 2008. PennyMac Financial Services, Inc. was formed in Delaware in December 2012. Our principal executive offices are located at 6101 Condor Drive in Moorpark, California and our telephone number is (818) 224-7442. Our website address is www.pennymacfinancial.com. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus.

The trademark PennyMac®, and its corresponding logos appearing in this prospectus, are owned by us or one of our subsidiaries. All other trademarks, service marks and trade names appearing in this prospectus are the property of their respective owners.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least \$1.0 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our Class A common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period. We refer to the Jumpstart Our Business Startups Act of 2012 in this prospectus as the "JOBS Act," and references in this prospectus to "emerging growth company" shall have the meaning ascribed to it in the JOBS Act.

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THE OFFERING

Class A common stock we are offering	11,111,111 shares.
Underwriters' option to purchase additional shares	1,666,666 shares.
Class A common stock outstanding after giving effect to this offering	11,111,111 shares (or 74,222,222 shares if all outstanding New Holdings Units held by our existing owners were exchanged for newly-issued shares of Class A common stock on a one-for-one basis).
Class B common stock outstanding after giving effect to this offering	60 shares, or one share for each holder of New Holdings Units.
Voting power held by holders of Class A common stock after giving effect to this offering	15.0% (or 100% if all outstanding New Holdings Units held by our existing owners were exchanged for newly-issued shares of Class A common stock on a one-for-one basis).
Voting power held by holders of Class B common stock after giving effect to this offering	85.0% (or 0% if all outstanding New Holdings Units held by our existing owners were exchanged for newly-issued shares of Class A common stock on a one-for-one basis). A holder of Class B common stock will be entitled, without regard to the number of shares of Class B common stock held, to a number of votes on matters presented to the stockholders of PennyMac Financial Services, Inc. that is equal to the aggregate number of New Holdings Units of Private National Mortgage Acceptance Company, LLC held by such holder.
Use of proceeds	The net proceeds to us from the sale of the shares of our Class A common stock offered by us will be approximately \$187.5 million, after deducting underwriting discounts and commissions. If the underwriters' option to purchase additional shares in this offering is exercised in full, our net proceeds will be approximately \$215.6 million, after deducting underwriting discounts and commissions.

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	<p>We intend to use the net proceeds to us from this offering to purchase newly-issued New Holdings Units from Private National Mortgage Acceptance Company, LLC, as described under "Organizational Structure Recapitalization." Accordingly, we will not retain any of these proceeds. We intend to cause Private National Mortgage Acceptance Company, LLC to use these proceeds primarily to provide capital to grow our mortgage banking business and for general corporate purposes. Private National Mortgage Acceptance Company, LLC will also use these proceeds to pay the expenses of this offering.</p> <p>Private National Mortgage Acceptance Company, LLC will have broad discretion over the uses of such proceeds.</p>
Voting rights	<p>Each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders generally.</p> <p>Following the Offering Transactions described under "Organizational Structure Recapitalization," each existing owner of Private National Mortgage Acceptance Company, LLC will hold one share of Class B common stock. The shares of Class B common stock have no economic rights but entitle the holder, without regard to the number of shares of Class B common stock held, to a number of votes on matters presented to stockholders of PennyMac Financial Services, Inc. that is equal to the aggregate number of New Holdings Units of Private National Mortgage Acceptance Company, LLC held by such holder. See "Description of Capital Stock Common Stock Class B Common Stock."</p> <p>Holders of our Class A common stock and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law.</p>
Dividend policy	<p>Any future determination to pay dividends on our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial position, results of operations, liquidity and legal requirements. See "Dividend Policy."</p>

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Exchange rights of holders of New Holdings Units	<p>Prior to this offering we will enter into an exchange agreement with our existing owners so that they may (subject to the terms of the exchange agreement) exchange their New Holdings Units for shares of Class A common stock of PennyMac Financial Services, Inc. on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends, reclassifications and certain other transactions that would cause the number of outstanding shares of Class A common stock to be different than the number of New Holdings Units owned by PennyMac Financial Services, Inc. As our existing owners exchange New Holdings Units for shares of Class A common stock, the voting power afforded to them by their shares of Class B common stock will be automatically and correspondingly reduced.</p> <p>We will also enter into a tax receivable agreement with our existing owners that will provide for the payment by PennyMac Financial Services, Inc. to the existing owners of Private National Mortgage Acceptance Company, LLC of 85% of the tax benefits, if any, that PennyMac Financial Services, Inc. is deemed to realize under certain circumstances as a result of (i) increases in tax basis resulting from exchanges of New Holdings Units and (ii) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.</p>
Risk factors	See "Risk Factors" beginning on page 18 and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Class A common stock.
Proposed listing and symbol	Our Class A common stock has been approved for listing on the New York Stock Exchange, or NYSE, under the symbol "PFSI."

In this prospectus, unless otherwise indicated, the number of shares of Class A common stock outstanding and the other information based thereon does not reflect:

1,666,666 shares of Class A common stock issuable upon the exercise of the underwriters' option to purchase additional shares of Class A common stock from us;

3,906,433 shares of Class A common stock that may be granted under the PennyMac Financial Services, Inc. 2013 Equity Incentive Plan, or our "2013 Equity Incentive Plan," which number represents the total number of shares initially issuable under this plan less the number of shares issuable under this plan in exchange for New Holdings Units held by our existing owners immediately following this offering pursuant to the exchange agreement; or

63,111,111 shares of Class A common stock issuable (under our 2013 Equity Incentive Plan or otherwise) upon the exchange of 63,111,111 New Holdings Units that will be held by our existing owners immediately following this offering pursuant to the exchange agreement.

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SUMMARY HISTORICAL CONDENSED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our summary historical condensed consolidated financial and other data as of the dates and for the periods indicated. PennyMac Financial Services, Inc. is a recently-formed holding company which has not engaged in any business or other activities except in connection with its formation and the Offering Transactions described elsewhere in this prospectus. Accordingly, for the purposes of this prospectus, all financial and other information herein relating to periods prior to the completion of the Offering Transactions is that of Private National Mortgage Acceptance Company, LLC. The summary historical consolidated balance sheet data as of December 31, 2012 and 2011 and the summary historical consolidated statement of income data for each of the years ended December 31, 2012, 2011 and 2010 have been derived from Private National Mortgage Acceptance Company, LLC's audited financial statements included elsewhere in this prospectus. The summary historical consolidated balance sheet data as of December 31, 2010 has been derived from Private National Mortgage Acceptance Company, LLC's audited financial statements not included in this prospectus.

The summary unaudited pro forma condensed consolidated statement of income data for the year ended December 31, 2012 presents our consolidated results of operations giving pro forma effect to the Recapitalization and Offering Transactions as if such transactions had occurred on January 1, 2012. The summary unaudited pro forma condensed consolidated balance sheet data as of December 31, 2012 presents our consolidated financial position giving pro forma effect to the Recapitalization and Offering Transactions as if such transactions occurred on December 31, 2012.

The summary historical consolidated financial and other data presented below is not indicative of our results for any future periods. You should read the information in the table below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Unaudited Pro Forma Consolidated Financial Information," our historical audited financial statements and the accompanying notes and our interim financial statements and the accompanying notes included elsewhere in this prospectus.

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	Pro Forma Year ended December 31, 2012(1)	Year ended December 31,		
		2012	2011	2010
		(in thousands, except per unit data)		
Statements of Income Data Condensed Consolidated				
Revenue				
Net gains on mortgage loans held for sale at fair value	\$ 118,170	\$ 118,170	\$ 13,029	\$ 2,008
Fulfillment fees from PennyMac Mortgage Investment Trust	62,906	62,906	1,744	
Net servicing income:				
Loan servicing fees				
From PennyMac Mortgage Investment Trust	18,608	18,608	13,204	2,989
From Investment Funds	11,716	11,716	14,523	9,474
Mortgage servicing rebate (to) from Investment Funds	(885)	(885)	(2,772)	1,162
From non-affiliates	20,673	20,673	11,493	11,431
From borrowers ancillary fees	2,245	2,245	1,657	1,345
	52,357	52,357	38,105	26,401
Amortization, impairment and change in estimated fair value of mortgage servicing rights	(12,252)	(12,252)	(9,438)	(400)
Net servicing income	40,105	40,105	28,667	26,001
Management fees:				
From PennyMac Mortgage Investment Trust	15,141	15,141	8,456	5,484
From Investment Funds	9,363	9,363	9,943	9,943
	24,504	24,504	18,399	15,427
Carried Interest from Investment Funds	10,473	10,473	12,596	24,654
Other	16,807	16,807	2,224	1,139
Total net revenue	272,965	272,965	76,659	69,229
Expenses				
Compensation	124,014	124,014	47,479	25,412
Other	30,628	30,628	14,481	10,775
Total expenses	154,642	154,642	61,960	36,187
Net income	\$ 118,323	\$ 118,323	\$ 14,699	\$ 33,042
Net income attributable to preferred unit holders				
	\$ 99,920	\$ 14,507	\$ 29,014	
Net income attributable to Class C unit awards outstanding				
	\$ 2,310			
Net income attributable to Class C unit holders				
	\$ 6			
Net income attributable to common unit awards outstanding				
	\$ 7,178	\$ 152	\$ 3,837	
Net income attributable to common unit holders				
	\$ 8,909	\$ 40	\$ 191	
Pro forma information (unaudited):				
Historical net income before taxes	\$ 118,323	\$ 118,323	\$ 14,699	\$ 33,042
Pro forma adjustment for taxes(2)	(7,454)			
Pro forma net income attributable to controlling and non-controlling interest	110,869			
Less Net Income attributable to non-controlling interest	100,574			
Net Income attributable to PennyMac Financial Services, Inc. stockholders	\$ 10,295			
Earnings per unit/share				
Preferred units	\$ 1,033.49	\$ 237.82	\$ 645.30	
Class C units	\$ 684.70			
Common units/common shares				
Basic	\$ 0.93	\$ 942.89	\$ 11.63	\$ 555.59
Diluted	\$ 0.93	\$ 570.29	\$ 3.88	\$ 40.72

- (1) As described in "Organizational Structure," PennyMac Financial Services, Inc. will become the sole managing member of Private National Mortgage Acceptance Company, LLC. PennyMac Financial Services, Inc. will initially own less than 50% of the economic interest in Private National Mortgage Acceptance Company, LLC but will have 100% of the voting power and control its management immediately following this offering.
- (2) Following the Recapitalization and the Offering Transactions, PennyMac Financial Services, Inc. will be subject to U.S. federal income taxes, in addition to state, local and international taxes, with respect to its allocable share of any net taxable income of Private National Mortgage Acceptance Company, LLC, which will result in higher income taxes. As a result, the pro forma statements of income reflect an adjustment to our provision for corporate income taxes to reflect an effective rate of 42%, which includes provision for U.S. federal income taxes and assumes the highest statutory rates apportioned to each state, local and/or foreign jurisdiction.

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	Pro Forma December 31, 2012(1)	December 31, 2012	December 31, 2011	December 31, 2010
	(in thousands)			
Balance Sheet Data Condensed Consolidated				
ASSETS				
Cash and short-term investment, at fair value	\$ 250,242	\$ 65,487	\$ 32,506	\$ 15,241
Mortgage loans held for sale at fair value	448,384	448,384	89,857	14,720
Servicing advances	93,152	93,152	63,565	22,811
Receivable from Advised Entities	20,363	20,363	19,864	13,687
Carried interest due from Investment Funds	47,723	47,723	37,250	24,654
Mortgage servicing rights	108,975	108,975	32,124	31,957
Other	48,079	48,079	14,115	5,332
Total assets	\$ 1,016,918	\$ 832,163	\$ 289,281	\$ 128,402
LIABILITIES				
Loans sold under agreements to repurchase	\$ 393,534	\$ 393,534	\$ 77,700	\$ 13,289
Note payable	53,013	53,013	18,602	3,499
Derivative liabilities	509	509		
Payable to PennyMac Mortgage Investment Trust	46,779	46,779	25,595	2,842
Payable to Investment Funds	36,795	36,795	29,622	13,262
Accounts payable and accrued expenses	36,279	36,279	13,398	5,352
Liability for losses under representations and warranties	3,504	3,504	449	189
Total liabilities	570,413	570,413	165,366	38,433
Pro forma				
Members' Equity/PennyMac Financial Services, Inc. stockholders' equity	66,977	261,750	123,915	89,969
Non-controlling Interest	379,528			
Total Equity	446,505	261,750	123,915	89,969
Total liabilities and members' equity/Total Equity	\$ 1,016,918	\$ 832,163	\$ 289,281	\$ 128,402

- (1) The column gives effect to the transactions described under "Unaudited Pro Forma Consolidated Financial Information," including the application of the proceeds from this offering as described in "Use of Proceeds."

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RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this prospectus, including our consolidated financial statements and related notes, before deciding whether to purchase shares of our Class A common stock. If any of the following risks are realized, our business, operating results and prospects could be materially and adversely affected. In that event, the price of our Class A common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Industry

Risks Related to Our Mortgage Banking Segment

Regulatory Risks

We operate in a highly regulated industry and the continually changing federal, state and local laws and regulation could materially adversely affect our business, financial condition and results of operations.

Due to the highly regulated nature of the residential mortgage industry, we are required to comply with a wide array of federal, state and local laws and regulations that regulate, among other things, the manner in which we conduct our loan production and servicing businesses and the fees that we may charge. These regulations directly impact our business and require constant compliance, monitoring and internal and external audits. A material failure to comply with any of these laws or regulations could subject us to lawsuits or governmental actions and damage our reputation, which could materially adversely affect our business, financial condition and results of operations.

Federal, state and local governments have recently proposed or enacted numerous new laws, regulations and rules related to mortgage loans. Laws, regulations, rules and judicial and administrative decisions relating to mortgage loans include those pertaining to real estate settlement procedures, equal credit opportunity, fair lending, fair credit reporting, truth in lending, fair debt collection practices, service members protections, compliance with net worth and financial statement delivery requirements, compliance with federal and state disclosure and licensing requirements, the establishment of maximum interest rates, finance charges and other charges, qualified mortgages, licensing of loan officers, loan officer compensation, secured transactions, payment processing, escrow, loss mitigation, collection, foreclosure, repossession and claims-handling procedures, and other trade practices and privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers. Service providers we use must also comply with these legal requirements, including outside foreclosure counsel retained to process foreclosures.

In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or Dodd-Frank Act, represents a comprehensive overhaul of the financial services industry in the United States and includes, among other things (i) the creation of a Financial Stability Oversight Council to identify emerging systemic risks posed by financial firms, activities and practices, and to improve cooperation among federal agencies, (ii) the creation of the CFPB authorized to promulgate and enforce consumer protection regulations relating to financial products and services, including mortgage lending and servicing, (iii) the establishment of strengthened capital and prudential standards for banks and bank holding companies, (iv) enhanced regulation of financial markets, including the derivatives and securitization markets, and (v) amendments to the Truth in Lending Act, or TILA, aimed at improving consumer protections with respect to mortgage originations, including disclosures, originator compensation, minimum repayment standards, prepayment considerations appraisals and servicing requirements.

Our failure to comply with these laws, regulations and rules may result in reduced payments by borrowers, modification of the original terms of mortgage loans, permanent forgiveness of debt, delays in the foreclosure process, increased servicing advances, litigation, enforcement actions, and repurchase

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and indemnification obligations. Our failure to adequately supervise service providers, including outside foreclosure counsel, may also have these negative results.

The failure of the mortgage lenders from whom loans were acquired through our correspondent lending program to comply with these laws, regulations and rules may also result in these adverse consequences. We have in place a due diligence program designed to assess areas of risk with respect to these acquired loans, including, without limitation, compliance with underwriting guidelines and applicable law. However, we may not detect every violation of law by these mortgage lenders. While we have contractual rights to seek indemnity or repurchase from these correspondent lenders, if any of these lenders are unable to fulfill their indemnity or repurchase obligations to us to a material extent, our business, financial condition and results of operations could be materially and adversely affected. In addition, our repurchase agreements that provide us with capital to purchase loans for our correspondent lending business require us to make representations that the loans sold under these agreements comply with applicable law. See "Market Risks We leverage our operations, which may materially and adversely affect our financial condition and results of operations" on page 27 for a discussion of risks related to breaches of such representations.

In addition, although they have not yet been enacted, the Federal Housing Finance Agency, or FHFA, proposed changes to mortgage servicing compensation structures in 2011 for servicing with GSEs, including reducing servicing fees and channeling funds toward reserve accounts for delinquent loans. Also, there continue to be changes in legislation, rulemaking and licensing in an effort to simplify the consumer mortgage experience which requires technology changes and additional implementation costs for loan originators. We expect that legislative and regulatory changes will continue in the foreseeable future, which may increase our operating expenses.

Any of these, or other, changes in laws or regulations could adversely affect our business, financial condition and results of operations.

The creation of the CFPB and its recently issued rules will likely increase our regulatory compliance burden and associated costs, which could adversely affect our business, financial condition and results of operations.

On July 21, 2011, the CFPB obtained rulemaking and enforcement authority pursuant to the Dodd-Frank Act and began official operations. We are subject to examination by the CFPB. The CFPB has broad enforcement powers over mortgage participants, including originators and servicers, and can order, among other things, rescission or reformation of contracts, the refund of moneys or the return of real property, restitution, disgorgement or compensation for unjust enrichment, the payment of damages or other monetary relief, public notifications regarding violations, limits on activities or functions, and civil money penalties. The CFPB has been active in investigations and enforcement actions, and issued large civil money penalties in 2012.

In addition to its regulatory authority, the CFPB has examination authority over all federal and state non-depository lending and servicing institutions, including mortgage brokers, lenders and servicers. Such examinations, as well as regulations that the CFPB might issue in the future, could ultimately increase our administrative burdens and adversely affect our business, financial condition and results of operations.

In October 2011, January 2012 and October 2012, the CFPB issued guidelines governing, among other things, examination procedures for bank and non-bank mortgage servicers and originators and its procedures for supervising mortgage transactions. In January 2013, the CFPB issued its final rules relating to, among other things, its "Ability to Repay" rule under TILA's implementing Regulation Z, mortgage escrow account requirements and mortgage servicing requirements. For further discussion on the details of the CFPB's final rules, see "Business Compliance and Regulatory."

Similar to other mortgage servicers of our size, we received a general request for information from the CFPB on September 24, 2012. We responded in a timely fashion to the CFPB by providing the

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requested information. On February 11, 2013, we were notified by the CFPB that it would perform an examination of PLS's loan servicing and related compliance activities beginning on March 25, 2013. This examination was completed on May 2, 2013. The final outcome of the CFPB's examination is uncertain. If, as a result of its examination, the CFPB were to conclude that PLS's loan servicing or related compliance activities violate applicable law, we may be subject to significant penalties or other punitive actions that could materially and adversely affect our financial condition and results of operations. The CFPB also has the power to notify the public of violations which carries with it reputational risk. The results of CFPB examinations are shared with other regulators, which may in turn initiate their own investigations and impose additional penalties.

The CFPB's recently enacted rules will likely increase our administrative and compliance costs. They could also greatly influence the availability and cost of residential mortgage credit, and increase servicing costs and risks. In addition, the effective dates for these new rules are aggressive in some cases and it may be difficult for us to implement the procedures necessary to comply with these new rules by the dates on which they are to become effective. These increased costs of compliance, the effect of these rules on the mortgage industry and mortgage servicing and any failure in our ability to comply with these new rules by their effective dates, could have an adverse effect on our business, financial position and results of operations.

We are highly dependent on U.S. government-sponsored entities, and any changes in these entities or their current roles could materially and adversely affect our business, liquidity, financial position and results of operations.

Our ability to generate revenues through mortgage loan sales depends to a significant degree on programs administered by government-sponsored entities, or GSEs, such as Fannie Mae and Freddie Mac, government agencies, including Ginnie Mae, and others that facilitate the issuance of mortgage-backed securities, or MBS, in the secondary market. These GSEs and Agencies play a critical role in the residential mortgage industry and we have significant business relationships with many of them. Presently, almost all of the newly originated conforming loans that we originate directly with borrowers or assist PMT in acquiring from mortgage lenders through our correspondent lending program qualify under existing standards for inclusion in mortgage securities backed by the GSEs or Ginnie Mae. We also derive other material financial benefits from these relationships, including the assumption of credit risk by these GSEs on loans included in such mortgage securities in exchange for our payment of guarantee fees and the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures.

There is significant uncertainty regarding the future of Fannie Mae and Freddie Mac, including with respect to how long they will continue to be in existence, the extent of their roles in the market and what forms they will have. Although the U.S. Treasury has committed capital to Fannie Mae and Freddie Mac since they were placed into conservatorship, additional funding may not be provided within the required time periods or the actions of the U.S. Treasury may not be adequate for their needs. If such funding is not provided as required, the FHFA would be obligated to place Fannie Mae and Freddie Mac into receivership. Further, Fannie Mae or Freddie Mac could be placed into receivership at the discretion of the FHFA at any time under certain circumstances. If the actions of the U.S. Treasury are inadequate or pending repurchase requests by Fannie Mae and Freddie Mac to lenders prove unsuccessful, or if Fannie Mae and Freddie Mac are adversely affected by events such as ratings downgrades, foreclosure problems and delays and problems with mortgage insurers, Fannie Mae and Freddie Mac could continue to suffer losses and could fail to honor their guarantees and other obligations. In addition, the future roles of Fannie Mae and Freddie Mac remain uncertain. Their roles could be significantly reduced or eliminated and the nature of the guarantees could be considerably limited relative to historical measurements. Solvency concerns have also recently been raised regarding the FHA, which we rely on for the insurance of a significant portion of the government-insured loans

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that we produce. The elimination of the traditional roles of Fannie Mae, Freddie Mac or the FHA could adversely affect our business and results of operations.

Our ability to generate revenues from newly originated loans that we assist PMT in acquiring from mortgage lenders through our correspondent lending program is highly dependent on the fact that the GSEs have not historically acquired such loans directly from mortgage lenders, but have instead relied on banks and non-bank service providers such as us to acquire, aggregate and securitize or otherwise sell such loans to investors in the secondary market. If one or more of the GSEs were to start making these purchases and sales for their own accounts, our business and results of operations could be adversely affected.

Any discontinuation of, or significant reduction in, the operation of these GSEs or any significant adverse change in the level of activity of these GSEs in the primary or secondary mortgage markets or in the underwriting criteria of these GSEs could materially and adversely affect our business, liquidity, financial position and results of operations.

Changes in GSE guidelines or guarantees could adversely affect our business, financial condition and results of operations.

We are required to follow specific guidelines that impact the way that we service and originate GSE loans, including guidelines with respect to:

credit standards for mortgage loans;

our staffing levels and other servicing practices;

the servicing and ancillary fees that we may charge;

our modification standards and procedures; and

the amount of non-reimbursable advances.

In particular, the FHFA has directed the GSEs to align their guidelines for servicing delinquent mortgages that they own or that back securities which they guarantee, which can result in monetary incentives for servicers that perform well and penalties for those that do not. In addition, the FHFA has directed Fannie Mae to assess compensatory penalties against servicers in connection with the failure to meet specified timelines relating to delinquent loans and foreclosure proceedings, and other breaches of servicing obligations.

We cannot negotiate these terms with the GSEs and they are subject to change at any time. A significant change in these guidelines that has the effect of decreasing the fees we charge or requires us to expend additional resources in providing mortgage services could decrease our revenues or increase our costs, which would adversely affect our business, financial condition and results of operations.

In addition, changes in the nature or extent of the guarantees provided by Fannie Mae and Freddie Mac or the insurance provided by the FHA could also have broad adverse market implications. The guarantee fees that we are required to pay to the GSEs for these guarantees have increased significantly over time and any future increases in these fees would adversely affect our business, financial condition and results of operations.

Fannie Mae has indicated that it may impose annual delivery volume limits on all of its approved seller/servicers. Fannie Mae has not yet determined or announced the criteria for how these potential delivery limits may be calculated, or when they may be imposed. If a delivery limitation is imposed on PMT by Fannie Mae, it could result in a shift of business market share to Freddie Mac, and could adversely impact our gain on sale income to the extent that Freddie Mac price execution may be worse than that of Fannie Mae. Freddie Mac has indicated that it does not have any plans to establish delivery volume limits for its seller/servicers.

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Changes to government mortgage modification and refinance programs could adversely affect our future revenues and costs.

Under HAMP and similar government programs, a participating servicer may be entitled to receive financial incentives in connection with any modification plans that it enters into with eligible borrowers and subsequent success fees to the extent that a borrower remains current in any agreed upon loan modification. While we participate in and dedicate numerous resources to HAMP, changes in legislation or regulation regarding HAMP or any other government mortgage modification program or changes in the requirements necessary to qualify for refinancing mortgage loans may impact the extent to which we participate in and receive financial benefits from such programs, or may increase our operating costs and the expense of our participation in such programs.

On October 24, 2011, the FHFA announced changes to the existing Home Affordable Refinance Program, or HARP, for certain loans sold to Fannie Mae and Freddie Mac prior to May 31, 2009. The changes to HARP are designed to increase the number of mortgage loans eligible for refinancing under the program and have meaningfully increased industry-wide loan production volumes. These changes and any additional changes that may be enacted to increase refinancing eligibility under this program will likely increase mortgage loan prepayment speeds, which would have an unfavorable impact on the valuation of our MSRs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk."

HAMP is currently scheduled to expire on December 31, 2013. If HAMP is not extended, this could decrease our revenues, which would adversely affect our business, financial condition and results of operations. HARP was set to expire on December 31, 2013, but recently, the FHFA extended HARP to December 31, 2015.

Under the Making Home Affordable plan, or MHA, a participating servicer may receive a financial incentive to modify qualifying loans, in accordance with the plan's guidelines and requirements. HARP also allows us to refinance loans with an LTV of up to 125%. This program, and the FHA's negative equity refinance program, allow us to refinance loans to existing borrowers who have little or negative equity in their homes. The FHA's negative equity refinance program is scheduled to expire on December 31, 2014, and the expiration of that program or changes in legislation or regulations regarding that program or the MHA could reduce our volume of refinancing originations to borrowers with little or negative equity in their homes.

Changes to HAMP, HARP, the MHA and other similar programs could adversely affect our future revenues and costs.

Unlike competitors that are banks, we are subject to the licensing and operational requirements of states and other jurisdictions that result in substantial compliance costs, and our business would be adversely affected if we lose our licenses.

Because we are not a depository institution, we do not benefit from exemptions to state mortgage banking, loan servicing or debt collection licensing and regulatory requirements. We must comply with state licensing requirements and varying compliance requirements in all fifty states, the District of Columbia and the Virgin Islands, and we are sensitive to regulatory changes that may increase our costs through stricter licensing laws, disclosure laws or increased fees or that may impose conditions to licensing that we or our personnel are unable to meet. Currently we are able to service loans in 49 states, the District of Columbia and the Virgin Islands and originate loans in 45 states and the District of Columbia, either because we are properly licensed in a particular jurisdiction or we are exempt or otherwise not required to be licensed in that jurisdiction.

In most states in which we operate, a regulatory agency or agencies regulate and enforce laws relating to mortgage servicers and mortgage originators. These rules and regulations generally provide for licensing as a mortgage servicer, mortgage originator, loan modification processor/underwriter, or

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third-party debt default specialist (or a combination thereof), requirements as to the form and content of contracts and other documentation, licensing of our employees and independent contractors with whom we contract, and employee hiring background checks. They also set forth restrictions on collection practices and disclosure and record-keeping requirements, and they establish a variety of borrowers' rights. Future state legislation and changes in existing regulation may significantly increase our compliance costs or reduce the amount of ancillary fees, including late fees, that we may charge to borrowers. This could make our business cost-prohibitive in the affected state or states and could materially affect our business.

In addition, we are subject to periodic examinations by state and other regulators, which can result in increases in our administrative costs and refunds to borrowers of certain fees earned by us, and we may be required to pay substantial penalties imposed by these regulators due to compliance errors, or we may lose our license. Fines and penalties incurred in one jurisdiction may cause investigations or other actions by regulators in other jurisdictions.

We may not be able to maintain all currently requisite licenses and permits. In addition, the states that currently do not provide extensive regulation of our business may later choose to do so, and if such states so act, we may not be able to obtain or maintain all requisite licenses and permits. The failure to satisfy those and other regulatory requirements could result in a default under our servicing agreements and credit facilities and have a material adverse effect on our business, financial condition and results of operations.

Agency inquiries into foreclosure practices and foreclosure delays in certain states could result in additional compliance costs on our servicing business, and may adversely impact our results of operations, financial condition and business.

In connection with allegations of irregularities in foreclosure processes, including so-called "robo-signing" by mortgage loan servicers, certain state Attorneys General, court administrators and government agencies, as well as representatives of the federal government, have issued letters of inquiry to mortgage servicers, requesting written responses to questions regarding policies and procedures, especially with respect to notarization and affidavit procedures. If initiated against us, these requests or any subsequent administrative, judicial or legislative actions taken by these regulators, court administrators or other government entities may subject us to fines and other sanctions, including a foreclosure moratorium or suspension. In addition to these inquiries, several state Attorneys General have requested that certain mortgage servicers suspend foreclosure proceedings pending internal review to ensure compliance with applicable law. Such inquiries, if initiated against us, as well as continued court backlog and emerging court processes, may cause an extended delay in the foreclosure process in certain states.

Also, on February 9, 2012, federal and state agencies announced a \$25 billion settlement with the five largest banks that resulted from investigations of foreclosure practices, which is referred to as the "Joint Federal-State Mortgage Servicing Settlement." As part of the settlement, the banks agreed to comply with various servicing standards relating to foreclosure and bankruptcy proceedings, documentation of borrowers' account balances, chain of title, and evaluation of borrowers for loan modifications and short sales as well as servicing fees and the use of force-placed insurance.

Although we are not a party to the above enforcement consent orders and settlements, we could be required to comply with certain requirements and terms set forth in the consent orders and settlements if (i) we subservice loans in certain circumstances for the mortgage servicers that are parties to the enforcement consent orders and settlements, (ii) the agencies begin to enforce the consent orders and settlements by looking downstream to our arrangement with certain mortgage servicers, (iii) the MSR owners for whom we subservice loans request that we comply with certain aspects of the consent orders and settlements, or (iv) we otherwise find it prudent to comply with certain aspects of the consent orders and settlements. In addition, the practices set forth in such

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consent orders and settlements may be adopted by the industry as a whole, forcing us to comply with them in order to follow standard industry practices, or may become required by our servicing agreements. While we have made and continue to make changes to our operating policies and procedures in light of the consent orders and settlements, further changes could be required and changes to our servicing practices may increase compliance and operating costs for our servicing business, which could materially and adversely affect our financial condition or results of operations.

We may be subject to liability for potential violations of predatory lending laws, which could adversely impact our results of operations, financial condition and business.

Various U.S. federal, state and local laws have been enacted that are designed to discourage predatory lending practices. The U.S. federal Home Ownership and Equity Protection Act of 1994, or HOEPA, prohibits inclusion of certain provisions in residential mortgage loans that have mortgage rates or origination costs in excess of prescribed levels and requires that borrowers be given certain disclosures prior to origination. Some states have enacted, or may enact, similar laws or regulations, which in some cases impose restrictions and requirements greater than those in HOEPA. In addition, under the anti-predatory lending laws of some states, the origination of certain residential mortgage loans, including loans that are not classified as "high-cost" loans under applicable law, must satisfy a net tangible benefits test with respect to the related borrower. This test may be highly subjective and open to interpretation. As a result, a court may determine that a residential mortgage loan, for example, does not meet the test even if the related originator reasonably believed that the test was satisfied. If any of our production loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses, which could adversely impact our results of operations, financial condition and business.

We may be subject to certain banking regulations that may limit our business activities.

As of December 31, 2012, The PNC Financial Services Group, Inc., or PNC, owned approximately 21% of the outstanding voting common shares of BlackRock Inc. Based on PNC's interests in and relationships with BlackRock, Inc., BlackRock, Inc. is deemed to be a non-bank subsidiary of PNC. BlackRock, Inc. is an affiliate of BlackRock Mortgage Ventures, LLC, or BlackRock, which is one of our largest equity holders and which owns approximately one-third of our equity interests prior to this offering. Due to these relationships, we are deemed to be a non-bank subsidiary of PNC, which is regulated as a financial holding company under the Bank Holding Company Act of 1956, as amended. As a non-bank subsidiary of PNC, we may be subject to certain banking regulations, including the supervision and regulation of the Federal Reserve. Such banking regulations could limit the activities and the types of businesses that we may conduct. The Federal Reserve has broad enforcement authority over financial holding companies and their subsidiaries. The Federal Reserve could exercise its power to restrict PNC from having a non-bank subsidiary that is engaged in any activity that, in the Federal Reserve's opinion, is unauthorized or constitutes an unsafe or unsound business practice, and could exercise its power to restrict us from engaging in any such activity. The Federal Reserve may also impose substantial fines and other penalties for violations that we may commit. To the extent that we are subject to banking regulation, we could be at a competitive disadvantage because some of our competitors are not subject to these limitations.

In addition, provisions of the Dodd-Frank Act referred to as the "Volcker Rule" place limitations on the ability of bank holding companies and their affiliates to engage in sponsoring, investing in and transacting with certain investment funds, including hedge funds and private equity funds (collectively "covered funds"). The Volcker Rule will also place restrictions on proprietary trading, which could impact certain hedging activities. It is expected that the Volcker Rule will apply to us by virtue of our affiliation with PNC through BlackRock. The Volcker Rule becomes fully effective in July 2014, but final implementing regulations have not yet been issued. To the extent the Volcker Rule applies to us, it would limit our ability to sponsor or manage covered funds and to make and retain investments in

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covered funds, and would limit investments in covered funds by our employees, among other restrictions. In addition, the scope of the definition of "covered funds" is not yet known, and therefore these restrictions could apply to funds other than those commonly referred to as hedge funds and private equity funds, such as one or more of the funds that we currently manage, including the Investment Funds or PMT. If the Investment Funds or PMT were to be "covered funds" as defined, then, among other consequences, certain transactions between us and the Advised Entities could be limited or required to be restructured. These limitations and restrictions could disadvantage us against those competitors that are not subject to the Volcker Rule in the ability to manage covered funds and to retain employees.

Market Risks

Our mortgage banking revenues are highly dependent on macroeconomic and United States residential real estate market conditions.

Continuing concerns over factors including inflation, deflation, unemployment, personal and business income taxes, energy costs, geopolitical issues and the availability and cost of credit have contributed to increased volatility and unclear expectations for the economy in general and the residential real estate and mortgage markets in particular going forward. According to the S&P/Case-Shiller Home Price Index, since 2006, United States residential housing values have declined by approximately 30% and the volume of newly originated mortgages has decreased by 50%. While national housing values have increased in the last 12 months, these conditions may not have stabilized or they may worsen. A destabilization of the residential real estate and mortgage markets or deterioration in these markets may reduce our loan production volume, reduce the profitability of servicing mortgages or adversely affect our ability to sell mortgage loans that we originate or acquire, either at a profit or at all. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We may not be able to continue to grow our loan production volume, which could negatively affect our business, financial condition and results of operations.

Our loan production operations consist of our retail originations program, in which we originate mortgage loans directly with borrowers through telephone call centers or the Internet, and our correspondent lending program, in which we facilitate, in exchange for a fulfillment fee, the acquisition by PMT from correspondent sellers of newly originated mortgage loans that have been underwritten to our standards. In certain cases, we subsequently acquire those loans from PMT.

Our correspondent lending program is relationship driven. We currently work with 140 approved mortgage lenders, but these lenders are not contractually obligated to do business with us or PMT, and our competitors also have relationships with these lenders and actively compete with us in our efforts to expand PMT's network of approved mortgage lenders. In order to increase our loan production volume, we will need to not only maintain PMT's existing relationships, but also develop PMT's relationships with additional mortgage lenders. To date, we have grown our loan production volumes with mortgage lenders by providing customer service and turn-around times in the execution of our fulfillment functions in accordance with the expectations of the mortgage lenders. If we are not able to consistently maintain this level of execution, our reputation and existing relationships with mortgage lenders could be damaged. We also plan to introduce new mortgage loan products such as Freddie Mac's Loan Prospector loans and enhanced jumbo loan products to mortgage lenders. We may not be able to maintain PMT's existing relationships or develop new relationships with mortgage lenders or our new mortgage products may not gain widespread acceptance.

Our current volume of retail originations, which is based in large part on the refinancing of existing mortgage loans that we service, is highly dependent on interest rates and government mortgage modification programs and may decline if interest rates increase or these programs are terminated. Our

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retail originations platform may not succeed because of the referral-driven nature of our industry. For example, the origination of purchase money mortgage loans is greatly influenced by traditional business clients in the home buying process such as real estate agents and builders. As a result, our ability to secure relationships with such traditional business clients will influence our ability to grow our purchase money mortgage loan volume and, thus, our retail originations business. We may not be successful in establishing such relationships. In addition, to grow our retail originations business, we will need to convert leads regarding prospective borrowers into funded loans, the success of which depends on the pricing we offer relative to the pricing of our competitors and our operational ability to process, underwrite and close loans. Institutions that compete with us in this regard may have significantly greater access to capital or resources than we do, which may give them the benefit of a lower cost of operations.

Our correspondent lending and retail origination businesses are also subject to overall market factors that can impact our ability to grow our loan production volume. For example, increased competition from new and existing market participants, reductions in the overall level of refinancing activity or slow growth in the level of new home purchase activity can impact our ability to continue to grow our loan production volume, and we may be forced to accept lower margins in our respective businesses in order to continue to compete and keep our volume of activity consistent with past or projected levels. We believe that changes in supply and demand within the marketplace have been driving lower margins in recent periods, which would be reflected in our results of operations and in our gains on mortgage loans held for sale. Although margins on gains from mortgage loans held for sale benefited from wider secondary spreads early in the fourth quarter of 2012, margins narrowed somewhat as the quarter progressed. While margins remained elevated from a historical perspective during the fourth quarter of 2012, we expect them to begin normalizing in 2013, and we have begun to see evidence of this normalization in the first quarter of 2013. If we are unable to grow our loan production volumes or if our margins become compressed, then our business, financial condition and results of operations could be adversely affected.

Our earnings may decrease because of changes in prevailing interest rates.

Our profitability is directly affected by changes in prevailing interest rates. The following are the material risks we face related to changes in prevailing interest rates:

an increase in prevailing interest rates could adversely affect our loan production volume because refinancing an existing loan would be less attractive for homeowners and qualifying for a loan may be more difficult for consumers;

an increase in prevailing interest rates would increase the cost of servicing our outstanding debt, including debt related to servicing advances and loan production;

a decrease in prevailing interest rates may cause more borrowers to refinance existing loans that we service or may cause the expected volume of refinancings to increase, which would require us to record a higher level of amortization, impairment or both on our MSRs;

a decrease in prevailing interest rates could reduce our earnings from our custodial deposit accounts; and

an increase in prevailing interest rates could increase payments for servicing customers with adjustable rate mortgages and generate an increase in delinquency, default and foreclosure rates, resulting in an increase in our loan servicing expenses.

Any adverse effect to our business, financial condition or results of operations as a result of changes in prevailing interest rates would be beyond our control.

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We may be unable to obtain sufficient capital and liquidity to meet the financing requirements of our business.

We will require new and continued debt financing to facilitate our anticipated growth. Accordingly, our ability to finance our operations and repay maturing obligations rests in large part on our ability to borrow money. We are generally required to renew our financing arrangements each year, which exposes us to refinancing and interest rate risks. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." Our ability to refinance existing debt and borrow additional funds is affected by a variety of factors including:

limitations imposed on us under our financing agreements that contain restrictive covenants and borrowing conditions, which may limit our ability to raise additional debt;

any decrease in liquidity in the credit markets;

prevailing interest rates;

the strength of the lenders from which we borrow, and the regulatory environment in which they operate, including proposed capital strengthening requirements;

limitations on borrowings on credit facilities imposed by the amount of eligible collateral pledged, which may be less than the borrowing capacity of the credit facility; and

accounting changes that may impact calculations of covenants in our debt agreements.

If we are unable to obtain sufficient capital to meet the financing requirements of our business, our business, financial condition and results of operations would be materially adversely affected.

We leverage our operations, which may materially and adversely affect our financial condition and results of operations.

We currently leverage and, to the extent available, we intend to continue to leverage our retail lending operations and our acquisitions of government-insured loans from PMT through borrowings under repurchase agreements. When we enter into repurchase agreements, we sell mortgage loans to lenders, which are the repurchase agreement counterparties, and receive cash from the lenders. The lenders are obligated to resell the same assets back to us at the end of the term of the transaction. The cash that we receive from a lender when we initially sell the assets to that lender is less than the value of those assets (this difference is referred to as the haircut), so if the lender defaults on its obligation to resell the same assets back to us we could incur a loss on the transaction equal to the amount of the haircut (assuming that there was no change in the value of the assets). In addition, repurchase agreements generally allow the counterparties, to varying degrees, to determine a new market value of the collateral to reflect current market conditions. If a counterparty lender determines that the value of the collateral has decreased, it may initiate a margin call and require us to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing. Should this occur, in order to obtain cash to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause us to incur further losses. If we are unable to satisfy a margin call, our counterparty may sell the collateral, which may result in significant losses to us.

Unlike banks, we are not subject to regulatory restrictions on the amount of our leverage. Our total borrowings are only restricted by covenants in our repurchase agreements and market conditions, and our board of directors may change our target borrowing levels at any time without the approval of our stockholders. Incurring substantial debt subjects us to the risk that our cash flow from operations may be insufficient to repurchase the assets that we have sold to the lenders under our repurchase agreements.

Our existing repurchase agreements also impose financial and non-financial covenants and restrictions on us that limit the amount of indebtedness that we may incur, impact our liquidity through minimum cash reserve requirements, and impact our flexibility to determine our operating policies and

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investment strategies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." In our repurchase agreements we make representations about the loans sold under these agreements, including that the loans were originated in compliance with applicable law. If we default on one of our obligations under a repurchase agreement or breach our representations, the lender may be able to terminate the transaction, accelerate any amounts outstanding, require us to repurchase the loans, and cease entering into any other repurchase transactions with us. Because our repurchase agreements typically contain cross-default provisions, a default that occurs under any one agreement could allow the lenders under our other agreements to also declare a default. Additional repurchase agreements or other bank credit facilities that we may enter into in the future may contain additional covenants and restrictions. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. Any losses that we incur on our repurchase agreements could materially adversely affect our financial condition and results of operations.

Hedging against interest rate exposure may materially and adversely affect our results of operations and cash flows.

We pursue hedging strategies to reduce our exposure to adverse changes in interest rates. Our hedging activity will vary in scope based on the risks hedged, the level of interest rates, the type of investments held, and other changing market conditions. Hedging instruments involve risk because they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities, and our interest rate hedging may fail to protect or could adversely affect us because, among other things:

interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;

available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;

the duration of the hedge may not match the duration of the related liability or asset;

the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and

the hedging counterparty owing the money in the hedging transaction may default on its obligation to pay.

In addition, we may fail to recalculate, re-adjust and execute hedges in an efficient manner.

Any hedging activity, which is intended to limit losses, may materially and adversely affect our results of operations and cash flows. Therefore, while we may enter into such transactions seeking to reduce interest rate risk, unanticipated changes in interest rates may result in worse overall investment performance than if we had not engaged in any such hedging transactions. A liquid secondary market may not exist for a hedging instrument purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses. In addition, the degree of correlation between price movements of the instruments used in hedging strategies and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Numerous regulations currently apply to hedging and any new regulations or changes in existing regulations may significantly increase our

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administrative or compliance costs. Our hedging agreements generally provide for the daily mark to market of our hedge exposures. If a hedge counterparty determines that its exposure to us exceeds its exposure threshold, it may initiate a margin call and require us to post collateral. If we are unable to satisfy a margin call, we would be in default of our agreement, which could materially adversely affect our business, financial condition and results of operations.

Our MSR values are highly volatile assets with continually changing values, and these changes in value, or inaccuracies in our estimates of their value, could adversely affect our financial condition and results of operations.

The value of our MSR values is based on the cash flows projected to result from the servicing of the related mortgage loans and continually fluctuates due to a number of factors. These factors include changes in interest rates and other market conditions, which affect the number of loans that are refinanced and thus no longer result in cash flows, and the number of loans that become delinquent.

We use internal financial models that utilize market participant data to value our MSR values for purposes of financial reporting and for purposes of determining the price that we pay to acquire loans for which we will retain MSR values. These models are complex and use asset-specific collateral data and market inputs for interest and discount rates. In addition, the modeling requirements of MSR values are complex because of the high number of variables that drive cash flows associated with MSR values. Even if the general accuracy of our valuation models is validated, valuations are highly dependent upon the reasonableness of our assumptions and the results of the models.

If loan delinquencies or prepayment speeds are higher than anticipated or other factors perform worse than modeled, the recorded value of certain of our MSR values may decrease, which would adversely affect our financial condition and results of operations.

Increases in delinquencies and defaults may adversely affect our business, financial condition and results of operations.

Falling home prices across the United States have resulted in higher loan-to-value ratios, or LTVs, lower recoveries in foreclosure and an increase in loss severities above those that would have been realized had property values remained the same or continued to increase. Though housing values have stabilized in some markets, many borrowers do not have sufficient equity in their homes to permit them to refinance their existing loans, which may reduce the volume or growth of our loan production business. This may also provide borrowers with an incentive to default on their mortgage loans even if they have the ability to make principal and interest payments. Further, interest rates have remained at historical lows for an extended period of time. Borrowers with adjustable rate mortgage loans must make larger monthly payments when the interest rates on those mortgage loans adjust upward from their initial fixed rates or low introductory rates to the rates computed in accordance with the applicable index and margin. Increases in monthly payments may increase the delinquencies, defaults and foreclosures on a significant number of the loans that we service.

Increased mortgage delinquencies, defaults and foreclosures may result in lower revenue for loans that we service for the GSEs, such as Fannie Mae or Freddie Mac, because we only collect servicing fees from GSEs for performing loans. Additionally, while increased delinquencies generate higher ancillary fees, including late fees, these fees are not likely to be recoverable in the event that the related loan is liquidated. In addition, an increase in delinquencies lowers the interest income that we receive on cash held in collection and other accounts because there is less cash in those accounts. Also, increased mortgage defaults may ultimately reduce the number of mortgages that we service.

Increased mortgage delinquencies, defaults and foreclosures will also result in a higher cost to service those loans due to the increased time and effort required to collect payments from delinquent borrowers and to liquidate properties or otherwise resolve loan defaults if payment collection is

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unsuccessful, and only a portion of these increased costs are recoverable under our servicing agreements. Increased mortgage delinquencies, defaults and foreclosures may also result in an increase in our interest expense and affect our liquidity as a result of borrowing under our credit facilities to fund an increase in our advancing obligations.

A disruption in the MBS market could materially adversely affect our business, financial condition and results of operations.

During 2012, approximately 60% of the loans that we produced were delivered to Fannie Mae or Freddie Mac to be pooled into Agency MBS securities and 39% of our loans were originated to FHA guidelines and pooled into Ginnie Mae MBS securities. Disruptions in the general MBS market have occurred in the past. Any significant disruption or period of illiquidity in the general MBS market would directly affect our own liquidity and the liquidity of PMT because no existing alternative secondary market would likely be able to accommodate on a timely basis the volume of loans that we typically sell in any given period. Accordingly, if the MBS market experiences a period of illiquidity, we might be prevented from selling the loans that we produce into the secondary market in a timely manner or at favorable prices, which could materially adversely affect our business, financial condition and results of operations.

The geographic concentration of our servicing portfolio may decrease the value of our MSR's and adversely affect our retail lending business, which would adversely affect our financial condition and results of operations.

As of December 31, 2012, approximately 38%, 5% and 5% of the aggregate outstanding loan balance in our servicing portfolio was secured by properties located in California, Florida and Colorado, respectively. These states have experienced severe declines in property values and are experiencing a disproportionately high rate of delinquencies and foreclosures relative to other states. To the extent that these states continue to experience weaker economic conditions or greater rates of decline in real estate values than the United States generally, the concentration of loans that we service in those regions may decrease the value of our MSR's and adversely affect our retail lending business. The impact of property value declines may increase in magnitude and it may continue for a long period of time. Additionally, if states in which we have greater concentrations of business were to change their licensing or other regulatory requirements to make our business cost-prohibitive, we may be required to stop doing business in those states or may be subject to higher cost of doing business in those states, which could materially adversely affect our business, financial condition and results of operations.

Related Party Risks

We rely on PMT as a significant source of financing for, and revenue related to, our correspondent lending business, and the termination of, or material adverse change in, the terms of this relationship, or a material adverse change to PMT or its operations, would adversely affect our business, financial condition and results of operations.

PMT is the counterparty that currently acquires all of the newly originated mortgage loans in connection with our correspondent lending businesses. A significant portion of our income is derived from a fulfillment fee earned in connection with PMT's acquisition of conventional loans. We are able to conduct our correspondent lending business without having to incur the significant additional debt financing that would be required for us to purchase those loans from the originating lender. In the case of government-insured loans, we purchase them from PMT at PMT's cost plus a sourcing fee and fulfill them for our own account, typically by pooling the federally insured or guaranteed loans together into an MBS which Ginnie Mae guarantees. We earn interest income and gains or losses during the holding period and upon the sale of these securities, and we retain the MSR's with respect to the loans. If this relationship with PMT was terminated by PMT or PMT reduced the volume of these loans that it

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acquires for any reason, we would have to acquire these loans from the correspondent sellers for our own account, something that we may be unable to do, or enter into another similar counterparty arrangement with a third party, which we may not be able to enter into on terms that are as favorable to us, or at all. Also, the management agreement, the mortgage banking and warehouse services agreement and certain of the other agreements that we have entered into with PMT contain cross-termination provisions that allow PMT to terminate one or more of those agreements under certain circumstances where another one of such agreements is terminated. Accordingly, the termination of this relationship with PMT, or a material change in the terms thereof that is adverse to us, would likely adversely affect our business, financial condition and results of operations.

We expect that PMT will continue to qualify as a REIT for U.S. federal income tax purposes. However, it is possible that PMT may not meet the requirements for qualification as a REIT. If PMT were to lose its REIT status, corporate-level income tax, including any applicable alternative minimum tax, would apply to PMT's taxable income at regular corporate rates, thereby potentially impairing PMT's financial position and its ability to raise capital. Consequently, PMT's failure to qualify as a REIT could impair PMT's ability to continue to acquire loans from correspondent sellers.

A significant portion of our loan servicing operations are conducted pursuant to subservicing contracts with PMT, and any termination by PMT of these contracts, or a material change in the terms thereof that is adverse to us, would adversely affect our business, financial condition and results of operations.

PMT, as the owner of a substantial number of all of the MSRs or whole loans that we subservice, may, under certain circumstances, terminate our subservicing contract with or without cause, in some instances with little notice and little to no compensation. Upon any such termination, it would be difficult to replace such a large volume of subservicing in a short period of time, or perhaps at all. Accordingly, we may not generate as much revenue from subservicing for other third parties. If we were to have our subservicing terminated by PMT, or if there was a change in the terms under which we perform subservicing for PMT that was materially adverse to us, this would adversely affect our business, financial condition and results of operations.

PMT has an exclusive right to acquire the loans that are produced through our correspondent lending program, which may limit the revenues that we could otherwise earn in respect of those loans.

Our mortgage banking and warehouse services agreement with PMT requires PLS to provide fulfillment services for correspondent lending activities exclusively to PMT as long as PMT has the legal and financial capacity to purchase correspondent loans. As a result, unless PMT sells some of these loans back to us, the revenue that we earn with respect to these loans will be limited to the fulfillment fees that we earn in connection with the production of these loans, which may be less than the revenues that we might otherwise be able to realize by acquiring these loans ourselves and selling them in the secondary loan market.

Other Risks

We may be required to indemnify the purchasers of loans that we originate, acquire or assist in the fulfillment of, or repurchase those loans, if those loans fail to meet certain criteria or characteristics or under other circumstances.

Our contracts with purchasers of newly originated loans that we fund through our retail lending program or acquire from PMT contain provisions that require us to indemnify the purchaser of the related loans or repurchase those loans under certain circumstances. In addition, our contracts with PMT and the Investment Funds require us to indemnify those entities with respect to loans for which we provide fulfillment services or repurchase those loans in certain instances. While our contracts vary,

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they generally contain provisions that require us to indemnify these parties, or repurchase these loans, if:

our representations and warranties concerning loan quality and loan characteristics are inaccurate; or

the loans fail to comply with underwriting or regulatory requirements in the current dynamic regulatory environment.

We believe that, as a result of the current market environment, many purchasers of residential mortgage loans, including the GSEs, are particularly aware of the conditions under which loan originators or sellers must indemnify them against losses related to purchased loans, or repurchase those loans, and would benefit from enforcing any repurchase remedies they may have. Our loan sale agreements with purchasers, including the GSEs, include provisions permitting purchasers to demand that we indemnify them for losses suffered in connection with loans sold that were originated in violation of applicable law or with other defects or demand repurchase of such loans. Repurchased loans typically can only be financed at a steep discount to their repurchase price, if at all. They are also typically sold at a significant discount to the unpaid principal balance. In certain cases, we would have contractual rights to recover from the mortgage lenders from whom loans were acquired through our correspondent lending program some or all of the amount paid by us in connection with this indemnification, or contractual rights to cause these mortgage lenders to repurchase these loans from us. Depending on the volume of repurchase and indemnification requests, some of these mortgage lenders may not be able to financially fulfill their obligation to indemnify us or repurchase loans from us. If a material amount of recovery cannot be obtained from these mortgage lenders, our business, financial condition and results of operations could be materially and adversely affected. Although this exposure cannot be quantified with certainty, to recognize these potential indemnification and repurchase losses, we have recorded a liability of \$3.5 million as of December 31, 2012. Because of the increase in our loan originations since 2010, we expect that indemnification and repurchase requests are likely to increase. Should home values decrease, our realized loan losses from loan indemnifications and repurchases may increase as well. As such, our indemnification and repurchase costs may increase beyond our current expectations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Gain on Mortgage Loans Held for Sale." If we are required to indemnify PMT, the Investment Funds or other purchasers against loans, or repurchase loans, that result in losses that exceed our reserve, this could materially adversely affect our business, financial condition and results of operations.

We depend on the accuracy and completeness of information about borrowers and counterparties and any misrepresented information could adversely affect our business, financial condition and results of operations.

In deciding whether to approve loans or to enter into other transactions with borrowers and counterparties in our retail lending and correspondent lending businesses, we may rely on information furnished to us by or on behalf of borrowers and counterparties, including financial statements and other financial information. We also may rely on representations of borrowers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. Our controls and processes may not have detected or may not detect all misrepresented information in our loan originations or from our business clients. Any such misrepresented information could adversely affect our business, financial condition and results of operations.

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The industry in which we operate is highly competitive, and is likely to become more competitive, and our inability to compete successfully or decreased margins resulting from increased competition could adversely affect our business, financial condition and results of operations.

We operate in a highly competitive industry that could become even more competitive as a result of economic, legislative, regulatory and technological changes. With respect to mortgage loan production, we face competition in such areas as mortgage loan offerings, rates, fees and customer service. With respect to servicing, we face competition in areas such as fees, performance in reducing delinquencies and entering into successful modifications.

Competition in servicing mortgage loans and in originating or acquiring newly originated mortgage loans comes from large commercial banks and savings institutions and other independent mortgage servicers and originators. Many of these institutions generally have significantly greater resources and access to capital than we do, which gives them the benefit of a lower cost of funds. Additionally, our existing and potential competitors may decide to modify their business models to compete more directly with our loan production and servicing models. For example, other non-bank loan servicers may try to leverage their servicing relationships and expertise to develop or expand a loan origination business. Since the withdrawal of a number of large participants from these markets following the financial crisis in 2008, there have been relatively few large non-bank participants. As more non-bank entities enter these markets, our mortgage banking businesses may generate lower margins in order to effectively compete.

In addition, technological advances and heightened e-commerce activities have increased consumers' accessibility to products and services. This has intensified competition among banks and non-banks in offering mortgage loans. We may be unable to compete successfully in our industries and this could adversely affect our business, financial condition and results of operations.

We are required to make servicing advances that can be subject to delays in recovery or may not be recoverable in certain circumstances, which could adversely affect our liquidity, business, financial condition and results of operations.

During any period in which a borrower is not making payments, we are required under most of our servicing agreements in respect of our MSR to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums, legal expenses and other protective advances. We also advance funds under these agreements to maintain, repair and market real estate properties on behalf of investors. As home values change, we may have to reconsider certain of the assumptions underlying our decisions to make advances and, in certain situations, our contractual obligations may require us to make advances for which we may not be reimbursed. In addition, if a mortgage loan serviced by us is in default or becomes delinquent, the repayment to us of the advance may be delayed until the mortgage loan is repaid or refinanced or a liquidation occurs. If we receive requests for advances in excess of amounts that we are able to secure from our advance credit facility or, in the case of loans that we subservice, from the owner of the MSRs and loans, we may not be able to fund these advance requests, which could materially and adversely affect our loan servicing business. A delay in our ability to collect an advance may adversely affect our liquidity, and our inability to be reimbursed for an advance could adversely affect our business, financial condition and results of operations.

Our counterparties may terminate our servicing rights, which could adversely affect our business, financial condition and results of operations.

The owners of the loans that we service may terminate our MSR if we fail to comply with applicable servicing guidelines. As is standard in the industry, under the terms of our master servicing agreements with the Agencies in respect of MSRs that we retain in connection with our retail loan originations, the Agencies have the right to terminate us as servicer of the loans we service on their

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behalf at any time (and, in certain instances, without the payment of any termination fee) and also have the right to cause us to sell the MSRs to a third party. In addition, the failure to comply with servicing standards could result in termination of our agreements with the Agencies with little or no notice and without any compensation. If the servicing rights were terminated on a material portion of our servicing portfolio, our business, financial condition and results of operations could be adversely affected.

Negative public opinion involving Countrywide Financial Corporation and certain of its former officers could damage our reputation and adversely affect our earnings.

Certain of our executive officers are former executive officers and senior managers of Countrywide, which has been the subject of various investigations and lawsuits and ongoing negative publicity. Such executive officers include:

Stanford Kurland, our Chairman and Chief Executive Officer, who served as a director and, from January 1979 to September 2006, was employed in a variety of positions, including president, chief financial officer and chief operating officer, at Countrywide Financial Corporation;

David Spector, our President and Chief Operating Officer, who was the senior managing director, secondary marketing, at Countrywide Financial Corporation, where he was employed in a variety of positions from May 1990 to August 2006;

Steve Bailey, our Chief Servicing Officer, who served as a mortgage servicing executive at Countrywide Financial Corporation (and Bank of America Corporation, as its successor) from November 2004 until February 2010 and, prior to this role, served as chief executive officer of Loan Administration for Countrywide Home Loans from May 1985 until June 2008;

Vandad Fartaj, our Chief Capital Markets Officer, who was employed in a variety of positions at Countrywide Securities Corporation, a broker-dealer, including vice president, whole loan trading, from November 1999 to April 2008;

Douglas Jones, our Chief Correspondent Lending Officer, who was the senior managing director, correspondent lending at Countrywide Home Loans, Inc. (and Bank of America Corporation, as its successor) from July 1997 until May 2011;

Anne McCallion, our Chief Financial Officer, who was employed by Countrywide Financial Corporation (and Bank of America Corporation, as its successor), where she worked in a variety of positions, from July 1991 to December 2008, including deputy chief financial officer and senior managing director, finance; and

David Walker, our Chief Credit Officer, who, from 1992 to 2007, was employed in a variety of executive positions at Countrywide Bank, N.A. and its subsidiaries, including chief credit officer for Countrywide Home Loans, Inc. and chief lending officer for Countrywide Bank, N.A.

Any existing or future investigations, litigation or negative publicity involving Countrywide, or our officers as a result of their former association with that entity, may generate negative publicity or media attention for us or adversely impact our business.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending and debt collection practices, corporate governance, and actions taken by government regulators and community organizations in response to those activities. Negative public opinion can also result from media coverage, whether accurate or not. Negative public opinion or perception can tarnish or otherwise strain our working relationships with regulators and government agencies, expose us to litigation and regulatory action and adversely affect our ability to attract and retain customers, trading counterparties and employees.

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Challenges to the MERS® System could materially and adversely affect our business, results of operations and financial condition.

MERSCORP, Inc. is a privately held company that maintains an electronic registry, referred to as the MERS System that tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc., or MERS, a wholly-owned subsidiary of MERSCORP, Inc., can serve as a nominee for the owner of a mortgage loan and in that role initiate foreclosures or become the mortgagee of record for the loan in local land records. We may choose to use MERS as a nominee. The MERS System is widely used by participants in the mortgage finance industry.

Several legal challenges in the courts and by governmental authorities have been made disputing MERS's legal standing to initiate foreclosures or act as nominee for lenders in mortgages and deeds of trust recorded in local land records. These challenges have focused public attention on MERS and on how loans are recorded in local land records. Although most legal decisions have accepted MERS as mortgagee, these challenges could result in delays and additional costs in commencing, prosecuting and completing foreclosure proceedings, conducting foreclosure sales of mortgaged properties, and submitting proofs of claim in borrower bankruptcy cases.

We may not realize all of the anticipated benefits of potential future acquisitions of MSRs, which could adversely affect our business, financial condition and results of operations.

Our ability to realize the anticipated benefits of potential future acquisitions of servicing portfolios will depend, in part, on our ability to scale up to appropriately service any such assets. The process of acquiring these assets may disrupt our business and may not result in the full benefits expected. The risks associated with these acquisitions include, among others, unanticipated issues in integrating information regarding the new loans to be serviced into our information technology systems, and the diversion of management's attention from other ongoing business concerns. Moreover, if we inappropriately value the assets that we acquire or the value of the assets that we acquire declines after we acquire them, the resulting charges may negatively affect the carrying value of the assets on our balance sheet and our earnings. See " Our MSRs are highly volatile assets with continually changing values, and these changes in value, or inaccuracies in our estimates of their value, could adversely affect our financial condition and results of operations." If our estimates or assumptions prove to be incorrect, we may be required to record impairment charges, which could adversely affect our earnings. Furthermore, if we incur additional indebtedness to finance an acquisition, the acquired servicing portfolio may not be able to generate sufficient cash flow to service that additional indebtedness. Unsuitable or unsuccessful acquisitions could adversely affect our business, financial condition and results of operations.

Our prime servicing portfolio, which consists primarily of recently originated loans, has a limited performance history, which makes our future results of operations more difficult to predict.

The likelihood of mortgage delinquencies and defaults, and the associated risks to our business, including higher costs to service such loans and a greater risk that we may incur losses due to repurchase or indemnification demands, changes as loans season, or increase in age. Newly originated loans typically exhibit low delinquency and default rates as the changes in economic conditions, individual financial circumstances and other factors that drive borrower delinquency often do not appear for months or years. Highly seasoned loan portfolios, in which borrowers have demonstrated years of performance on their mortgage payments, also tend to exhibit low delinquency and default rates. Most of the loans in our prime servicing portfolio were originated in the years 2010, 2011, and 2012. As a result, we expect the delinquency rate and defaults in the prime servicing portfolio to increase in future periods as the portfolio seasons, but we cannot predict the magnitude of this impact on our results of operations. In addition, because most of the loans in our portfolios are newly

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originated, it may be difficult to compare our business to our competitors and others that have weathered the economic difficulties in our industry over the last several years.

Risks Related to our Investment Management Segment

Market conditions could reduce the value of the assets that we manage, which would reduce our management and incentive fees.

Volatile market conditions could adversely affect our investment management segment in many ways, including by reducing the value of our assets under management, which could materially reduce our management fee and incentive fee revenues and adversely affect our financial condition. A significant portion of the fees that we earn under our investment management agreements with clients are based on the value of the assets that we manage. The prices of the securities and other assets held in the portfolios that we manage and, therefore, our assets under management may decline due to any number of factors beyond our control, including, among others, a declining housing, stock or bond market, a general economic downturn, political uncertainty or acts of terrorism. The economic outlook remains uncertain and we continue to operate in a challenging business environment. If market conditions cause a decline in the value of the assets that we manage, that decline in value would result in lower management fees and potentially lower incentive fees resulting from reduced performance under our management contracts with our Advised Entities. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced and our business will be negatively affected.

The historical returns on the assets that we select and manage for our clients, and our resulting management and incentive fees, may not be indicative of future results.

The historical returns of the assets that we manage should not be considered indicative of the future returns on those assets or future returns on other assets that we may select for investment by our Advised Entities. The investment performance that is achieved for the assets that we manage varies over time and the variance can be wide. Accordingly, the management and incentive fees that we have earned in the past based on those returns should not be considered indicative of the management or incentive fees that we may earn in the future from managing those same assets or from managing other assets for our Advised Entities. A decline in the investment performance of our managed assets will also adversely affect our ability to attract and retain clients.

We currently, and in the future may, manage assets for a small number of clients, the loss of any one of which could significantly reduce our management and incentive fees and have a material adverse effect on our results of operations.

We currently manage the assets of only the Advised Entities, and the majority of our management and incentive fees result from our management of PMT. Although the management contract that we have entered into with PMT cannot be terminated without cause, other than pursuant to cross-termination provisions contained in other agreements that we have entered into with PMT, prior to February 1, 2017 without the payment of a termination fee, the termination of such contract and the loss of PMT as a client would significantly affect our investment management segment and negatively impact our management fees, and could have a material adverse effect on our results of operations and financial condition. Also, because the management agreements we have entered into with the Investment Funds were negotiated between related parties without the benefit of the type of negotiations normally conducted with unaffiliated third parties, the terms of these agreements, including the fees payable to us, may prove to be more favorable to us than they would be if these agreements had been negotiated with unaffiliated third parties. Accordingly, we may not generate as much revenue from management agreements that we enter into with other third parties. In addition, the Investment Funds are limited-life funds that were established in 2008 with commitment periods that

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ended in 2011 and terms that end in December 2016 with the possibility of three one-year extensions. Accordingly, base fees generated by the Investment Funds will continue to decline as the assets under management run-off.

Our failure to obtain consent of the Advised Entities in connection with certain dispositions by BlackRock and Highfields may cause us to breach agreements and lose management and incentive fees earned from such Advised Entities.

Because PCM is registered under the Investment Advisers Act of 1940, as amended, which we refer to as the "Advisers Act," the management agreements between us and the Advised Entities would be terminated upon an "assignment" of these agreements without consent, which assignment may be deemed to occur in the event that PCM was to experience a direct or indirect change of control. Because BlackRock and Highfields may be deemed to control us, a significant disposition by either of them of their interest in us could trigger an "assignment." We cannot be certain that consents required to assignments of our investment management agreements will be obtained if a change of control occurs. "Assignment" of these agreements without consent could cause us to lose the management and incentive fees we earn from such Advised Entities.

Our failure to comply with the extensive amount of regulation applicable to our investment management segment could materially adversely affect our business, financial condition and results of operations.

Our investment management segment is subject to extensive regulation in the United States, primarily at the federal level, including regulation of PCM by the SEC under the Advisers Act and regulation of PNMAC Mortgage Opportunity Fund LLC, and PNMAC Mortgage Opportunity Fund, LP under the Investment Company Act of 1940, which we refer to as the "Investment Company Act." The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our Advised Entities and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities.

These requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and advisory clients and general anti-fraud prohibitions. Similar requirements apply to registered investment companies and to PCM's management of those companies under the Investment Company Act which, among other things, regulates the relationship between a registered investment company and its investment adviser and prohibits or severely restricts principal transactions and joint transactions. Registered investment advisers and registered investment companies are also subject to routine periodic examinations by the staff of the SEC.

We also regularly rely on exemptions from various requirements of the Securities Act of 1933, as amended, which we refer to as the "Securities Act," the Securities Exchange Act of 1934, as amended, which we refer to as the "Exchange Act," the Investment Company Act and ERISA. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties and service providers whom we do not control. If for any reason these exemptions were to be revoked or challenged or otherwise become unavailable to us, we could be subject to regulatory action or third-party claims, and our business could be materially and adversely affected.

Our business combines the production and servicing of loans and investment management, which presents particular compliance challenges. For example, regulations applicable to our investment management business that are easily applied to traditional investments, such as stocks and bonds, may be more difficult to apply to a portfolio of loans, and the regulations applicable to our investment management business can require procedures that are uncommon, impractical or difficult in our loan production and servicing business.

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The failure by us to comply with applicable laws or regulations could result in fines, suspensions of individual employees or other sanctions, which could materially adversely affect our business, financial condition and results of operations. Even if an investigation or proceeding did not result in a fine or sanction or the fine or sanction imposed against us or our employees by a regulator were small in monetary amount, the adverse publicity relating to an investigation, proceeding or imposition of these fines or sanctions could harm our reputation and cause us to lose existing clients.

Changes in regulations applicable to our investment management segment could materially adversely affect our business, financial condition and results of operations.

The legislative and regulatory environment in which we operate has undergone significant changes in the recent past. We believe that significant regulatory changes in the investment management industry are likely to continue, which is likely to subject industry participants to additional, more costly and generally more detailed regulation. New laws or regulations, or changes in the enforcement of existing laws or regulations, applicable to us and our clients may adversely affect our business. Our ability to function in this environment will depend on our ability to monitor and promptly react to legislative and regulatory changes.

Certain provisions of the Dodd-Frank Act will, and other provisions may, increase regulatory burdens and reporting and related compliance costs on our investment management segment. The scope of many provisions of the Dodd-Frank Act is being determined by implementing regulations, some of which will require lengthy proposal and promulgation periods. Moreover, the Dodd-Frank Act mandates many regulatory studies, some of which pertain directly to the investment management industry, which could lead to additional legislation or regulation. The SEC requires investment advisers such as us that are registered with the SEC and advise one or more private funds to provide certain information on Form PF about their funds and assets under management, including the amount of borrowings, concentration of ownership and other performance information. The Dodd-Frank Act will affect a broad range of market participants with whom we interact or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies and broker-dealers, and may cause us to become subject to further regulation by the Commodity Futures Trading Commission. Regulatory changes that will affect other market participants are likely to change the way in which we conduct business with our counterparties. The uncertainty regarding the continued implementation of the Dodd-Frank Act and its impact on the investment management industry and us cannot be predicted at this time but will continue to be a risk for our business.

In addition, as a result of the recent economic downturn, acts of serious fraud in the investment management industry and perceived lapses in regulatory oversight, U.S. and non-U.S. governmental and regulatory authorities may increase regulatory oversight of our investment management segment. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations, as well as by U.S. and non-U.S. courts. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed on us or the markets in which we trade, or whether any of the proposals will become law. Compliance with any new laws or regulations could add to our compliance burden and costs and adversely affect the manner in which we conduct business, as well as our financial condition and results of operations.

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We may encounter conflicts of interest in trying to appropriately allocate our time and services between our own activities and the accounts that we manage, or in trying to appropriately allocate investment opportunities among ourselves and the accounts that we manage.

Pursuant to our management agreements with PMT and the Investment Funds, we are obligated to provide PMT and the Investment Funds with the services of our senior management team, and the members of that team are required to devote such time to us as is necessary and appropriate, commensurate with the level of activity of PMT and the Investment Funds. The members of our senior management team may have conflicts in allocating their time and services between our operations and the activities of PMT, the Investment Funds and other entities or accounts managed by us now or in the future.

Certain of the funds that we currently advise have, and certain of the funds that we may in the future advise may have, overlapping investment objectives, including funds which have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. In addition, we and the other entities or accounts that we manage now or in the future may participate in some of PMT's investments, which may not be the result of arm's length negotiations and may involve or later result in potential conflicts between our interests in the investments and those of PMT or such other entities.

Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our business.

As we have expanded the scope of our businesses, we increasingly confront potential conflicts of interest relating to the investment activities that we manage for our clients. In addition, investors in our clients may perceive conflicts of interest regarding investment decisions for funds in which our executive officers, who have made and may continue to make personal investments, are personally invested. Similarly, conflicts of interest may exist regarding decisions about the allocation of specific investment opportunities between funds in which we receive an allocation of profits as the general partner and funds in which we do not.

The SEC and other regulators have increased their scrutiny of potential conflicts of interest, and as we expand the scope of our business and our client base, we must continue to monitor and address any conflicts between our interests and those of our clients. We have implemented procedures and controls to be followed when real or potential conflicts of interest arise, but it is possible that potential or perceived conflicts could give rise to the dissatisfaction of, or litigation by, investors in our client entities or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny, litigation or reputational risk incurred in connection with conflicts of interest would adversely affect our business in a number of ways, including a reluctance of counterparties to do business with us, and may adversely affect our results of operations.

The investment management industry is intensely competitive.

The investment management industry is intensely competitive, with competition based on a variety of factors, including investment performance, management fee rates, continuity of the management team and client relationships, reputation and the continuity of buying and selling arrangements with intermediaries. A number of factors, including the following, serve to increase our competitive risks:

a number of our competitors have greater financial, technical, marketing and other resources, more comprehensive name recognition and more personnel than we do;

potential competitors have a relatively low cost of entering the investment management industry;

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some investors may prefer to invest with a manager that is not publicly traded based on the perception that a publicly traded investment manager may focus on the manager's own growth to the detriment of asset performance for clients;

other industry participants, hedge funds and alternative investment managers may seek to recruit our investment professionals; and

some competitors charge lower fees for their investment services than we do.

If we are unable to compete effectively, our results of operations may be materially adversely affected.

We are subject to third-party litigation risk, which could result in significant liabilities and reputational harm to us.

In general, we will be exposed to the risk of litigation by investors in our client funds if our management of or advice to any Advised Entity is alleged to constitute gross negligence or willful misconduct. Investors could sue us to recover amounts lost by those entities due to our alleged misconduct, up to the entire amount of loss. Further, we may be subject to litigation arising from investor dissatisfaction with the performance of entities that we manage or from allegations that we improperly exercised control or influence over those entities. In addition, we are exposed to risks of litigation or investigation relating to transactions which presented conflicts of interest that were not properly addressed. In such actions we would be obligated to bear legal, settlement and other costs (which may be in excess of available insurance coverage). In addition, although we are generally indemnified by the entities that we manage, our rights to indemnification may be challenged. If we are required to incur all or a portion of the costs arising out of litigation or investigations as a result of inadequate insurance proceeds or failure to obtain indemnification from the entities that we manage, our results of operations, financial condition and liquidity would be materially adversely affected.

Risks Relating to Our Business in General

We have experienced rapid growth, which may be difficult to sustain and which may place significant demands on our administrative, operational and financial resources.

Our servicing portfolio, measured in UPB, and annual loan production have grown from approximately \$5.4 billion and \$69.2 million, respectively, at and for the year ended December 31, 2010 to \$28.2 billion and \$22.0 billion, respectively, at and for the year ended December 31, 2012. Our rapid growth has caused, and if it continues will continue to cause, significant demands on our legal, accounting and operational infrastructure, and increased expenses. In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the investment management and mortgage lending markets and legal, accounting and regulatory developments relating to all of our business activities. Our future growth will depend, among other things, on our ability to maintain an operating platform and management system sufficient to address our growth and will require us to incur significant additional expenses and to commit additional senior management and operational resources. As a result, we face significant challenges in:

maintaining adequate financial and business controls,

implementing new or updated information and financial systems and procedures, and

training, managing and appropriately sizing our work force and other components of our business on a timely and cost-effective basis.

We may not be able to manage our expanding operations effectively and we may not be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

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Accounting rules for certain of our transactions are highly complex and involve significant judgment and assumptions. Changes in accounting interpretations or assumptions could impact our financial statements.

Accounting rules for mortgage loan sales and securitizations, valuations of financial instruments and MSRs, investment consolidations and other aspects of our operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to our stockholders and also increase the risk of errors and restatements, as well as the cost of compliance. Changes in accounting interpretations or assumptions could impact our financial statements and our ability to timely prepare our financial statements. Although we are an emerging growth company, we are electing to comply with new public company accounting standards. Our inability to timely prepare our financial statements in the future would likely adversely affect our share price significantly.

If we fail to maintain an effective system of internal controls, we may not be able to accurately determine our financial results or prevent fraud. As a result, our stockholders could lose confidence in our financial results, which could harm our business and the market value of our common shares.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We may in the future discover areas of our internal controls that need improvement. Section 404 of the Sarbanes-Oxley Act of 2002 will require us to continue to evaluate and to report on our internal controls over financial reporting. We cannot be certain that we will be successful in continuing to maintain adequate control over our financial reporting and financial processes. Furthermore, as we rapidly grow our business, our internal controls will become more complex, and we will require significantly more resources to ensure our internal controls remain effective. If we or our independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market value of shares of our Class A common stock. Additionally, the existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiencies and management may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner.

The loss of the services of our senior managers could adversely affect our business.

The experience of our senior managers is a valuable asset to us. Our management team has significant experience in the residential mortgage loan production and servicing industry and the investment management industry. We do not maintain key life insurance policies relating to our senior managers. The loss of the services of our senior managers for any reason could adversely affect our business.

Our business could suffer if we fail to attract and retain a highly skilled workforce.

Our future success will depend on our ability to identify, hire, develop, motivate and retain highly qualified personnel for all areas of our organization, in particular skilled managers, loan officers, underwriters, loan servicers and debt default specialists. Trained and experienced personnel are in high demand and may be in short supply in some areas. Many of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment. In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them. We may not be able to attract, develop and maintain an adequate skilled workforce necessary to operate our businesses and labor expenses may increase as a result of a shortage in the supply of qualified personnel. If we are unable to attract and retain such personnel, we may not be able to take advantage of acquisitions and other growth opportunities that may be presented to us and this could materially affect our business, financial condition and results of operations.

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The success and growth of our business will depend upon our ability to adapt to and implement technological changes.

Our mortgage loan production business is currently dependent upon our ability to effectively interface with our borrowers, mortgage lenders and other third parties and to efficiently process loan applications and closings. The retail and correspondent lending processes are becoming more dependent upon technological advancement, such as our continued ability to process applications over the Internet, accept electronic signatures, provide process status updates instantly and other borrower- or counterparty-expected conveniences. Maintaining and improving this new technology and becoming proficient with it may also require significant capital expenditures. As these requirements increase in the future, we will have to fully develop these technological capabilities to remain competitive and any failure to do so could adversely affect our business, financial condition and results of operations.

Technology failures could damage our business operations and increase our costs, which could adversely affect our business, financial condition and results of operations.

The financial services industry as a whole is characterized by rapidly changing technologies, and system disruptions and failures caused by fire, power loss, telecommunications failures, unauthorized intrusion, computer viruses and disabling devices, natural disasters and other similar events may interrupt or delay our ability to provide services to our customers. Security breaches, acts of vandalism and developments in computer capabilities could result in a compromise or breach of the technology that we use to protect our customers' personal information and transaction data. Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or implement effective preventive measures against all security breaches, especially because the methods of attack change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources, including third parties such as persons involved with organized crime or associated with external service providers. Those parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. These risks may increase in the future as we continue to increase our reliance on the Internet and use of web-based product offerings.

A successful penetration or circumvention of the security of our systems or a defect in the integrity of our systems or cyber security could cause serious negative consequences for our business, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage to our computers or operating systems and to those of our customers and counterparties. Any of the foregoing events could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure and harm to our reputation, all of which could adversely affect our business, financial condition and results of operations.

Terrorist attacks and other acts of violence or war may affect the real estate industry generally and our business, financial condition and results of operations.

The terrorist attacks on September 11, 2001 disrupted the U.S. financial markets, including the real estate capital markets, and negatively impacted the U.S. economy in general. Any future terrorist attacks, the anticipation of any such attacks, the consequences of any military or other response by the United States and its allies, and other armed conflicts could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. The economic impact of these events could also adversely affect the credit quality of some of our loans and investments and the properties underlying our interests.

We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our performance and may cause the market value of our common shares to decline or be more volatile. A prolonged economic slowdown, recession or declining real estate values could

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impair the performance of our investments and harm our financial condition and results of operations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. We cannot predict the severity of the effect that potential future armed conflicts and terrorist attacks would have on us. Losses resulting from these types of events may not be fully insurable.

Risks Related to Our Organizational Structure

PennyMac Financial Services, Inc.'s only material asset after completion of this offering will be its interest in Private National Mortgage Acceptance Company, LLC and its subsidiaries, and it is accordingly dependent upon distributions from Private National Mortgage Acceptance Company, LLC and its subsidiaries to pay taxes, make payments under the tax receivable agreement or pay dividends.

PennyMac Financial Services, Inc. will be a holding company and will have no material assets other than its ownership of New Holdings Units. PennyMac Financial Services, Inc. has no independent means of generating revenue. PennyMac Financial Services, Inc. will be required to pay tax on its allocable share of the taxable income of Private National Mortgage Acceptance Company, LLC without regard to whether Private National Mortgage Acceptance Company, LLC distributes any cash or other property to PennyMac Financial Services, Inc. PennyMac Financial Services, Inc. intends to cause Private National Mortgage Acceptance Company, LLC to make distributions to its unit holders in an amount sufficient to cover all applicable taxes at assumed tax rates, payments under the tax receivable agreement and dividends, if any, declared by it. To the extent that PennyMac Financial Services, Inc. needs funds, and Private National Mortgage Acceptance Company, LLC is restricted from making such distributions under applicable law or regulation or under the terms of our financing arrangements, or is otherwise unable to provide such funds, it could materially adversely affect our liquidity and financial condition.

We will be required to pay our existing owners for certain tax benefits that we may claim arising in connection with this offering and related transactions, and the amounts we may pay could be significant.

As described in "Organizational Structure Recapitalization," we intend to use all of the proceeds from this offering to purchase New Holdings Units. We will enter into a tax receivable agreement with our existing owners that will provide for the payment by PennyMac Financial Services, Inc. to the existing owners of Private National Mortgage Acceptance Company, LLC of 85% of the tax benefits, if any, that PennyMac Financial Services, Inc. is deemed to realize under certain circumstances as a result of (i) increases in tax basis resulting from exchanges of New Holdings Units and (ii) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement."

We expect that the payments that we may make under the tax receivable agreement will be substantial. It is possible that future transactions or events could increase or decrease the actual tax benefits realized and the corresponding tax receivable agreement payments. There may be a material negative effect on our liquidity if, as a result of timing discrepancies or otherwise, the payments under the tax receivable agreement exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement or distributions to PennyMac Financial Services, Inc. by Private National Mortgage Acceptance Company, LLC are not sufficient to permit PennyMac Financial Services, Inc. to make payments under the tax receivable agreement after it has paid taxes. Furthermore, our obligations to make payments under the tax receivable agreement could make us a less attractive target for an acquisition, particularly in the case of an acquirer that cannot use some or all of the tax benefits that are deemed realized under the tax receivable agreement. The payments under the tax receivable agreement are not conditioned upon our existing owners' continued ownership of us.

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In certain cases, payments under the tax receivable agreement to our existing owners may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement.

The tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, or if, at any time, we elect an early termination of the tax receivable agreement, the corporate taxpayer's (or its successor's) obligations with respect to exchanged or acquired New Holdings Units (whether exchanged or acquired before or after such transaction) would be based on certain assumptions, including that the corporate taxpayer would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. As a result, we could be required to make payments under the tax receivable agreement that are greater than or less than the percentage specified in the tax receivable agreement of the actual benefits that we realize in respect of the tax attributes that are subject to the tax receivable agreement. Also, if we elect to terminate the tax receivable agreement early, we would be required to make an immediate payment equal to the present value of the anticipated future tax benefits, which upfront payment may be made years in advance of the actual realization of such future benefits (if any). In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity, as well as our attractiveness as a target for an acquisition. In addition, we may not be able to finance our obligations under the tax receivable agreement.

Payments under the tax receivable agreement will be based on the tax reporting positions that we determine. Although we are not aware of any issue that would cause the Internal Revenue Service, or IRS, to challenge a tax basis increase, PennyMac Financial Services, Inc. will not be reimbursed for any payments previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made under the tax receivable agreement in excess of the benefits that the corporate taxpayer actually realizes in respect of (i) increases in tax basis resulting from exchanges of New Holdings Units and (ii) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

Our existing owners will initially be able to significantly influence the outcome of votes of the outstanding shares of PennyMac Financial Services, Inc., and their interests may differ from those of our public stockholders.

Pursuant to separate stockholder agreements with BlackRock and Highfields, each of BlackRock and Highfields will have the right to nominate one or two individuals for election to our board of directors, depending on the percentage of the voting power of our outstanding shares of stock that it holds, and we are obligated to use our best efforts to cause the election of those nominees. In addition, these stockholder agreements require that we obtain the consent of BlackRock and Highfields with respect to amendments to our certificate of incorporation or bylaws, and the limited liability company agreement of Private National Mortgage Acceptance Company, LLC requires the consent of BlackRock and Highfields for us to conduct certain activities. As a result, each of BlackRock and Highfields may be able to significantly influence our management and affairs. In addition, as a result of the size of their individual equity holding they will initially be able to significantly influence the outcome of all matters requiring stockholder approval, including mergers and other material transactions, and may be able to cause or prevent a change in the composition of our board of directors or a change in control of our company that could deprive our stockholders of an opportunity to receive a premium for their Class A common stock as part of a sale of our company and might ultimately affect the market price of our Class A common stock.

In addition, because they hold their ownership interest in our business through Private National Mortgage Acceptance Company, LLC, rather than through the public company, these existing owners may have conflicting interests with holders of shares of our Class A common stock. For example, our

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existing owners may have different tax positions from us which could influence their decisions regarding whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreement that we will enter in connection with this offering, and whether and when PennyMac Financial Services, Inc. should terminate the tax receivable agreement and accelerate its obligations thereunder. In addition, the structuring of future transactions may take into consideration these existing owners' tax or other considerations even where no similar benefit would accrue to us. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement."

We may not pay dividends on our common stock in the foreseeable future.

PennyMac Financial Services, Inc. will receive a pro rata portion of the tax distributions made by Private National Mortgage Acceptance Company, LLC following this offering. The cash received from such distributions will first be used to satisfy any tax liability of PennyMac Financial Services, Inc. and then to make any payments under the tax receivable agreement with our existing owners. The declaration, amount and payment of any dividends on shares of Class A common stock with respect to any remaining excess cash will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us, and such other factors as our board of directors may deem relevant. We may also enter into credit agreements or other borrowing arrangements in the future that restrict or limit our ability to pay cash dividends on our common stock. Accordingly, we may not pay any dividends on our common stock in the foreseeable future. See "Dividend Policy."

Our certificate of incorporation contains provisions renouncing our interest and expectancy in certain corporate opportunities identified by or presented to BlackRock and Highfields.

BlackRock, Highfields and their respective affiliates are in the business of providing capital to growing companies, and may acquire interests in businesses that directly or indirectly compete with certain portions of our business. Our certificate of incorporation, in the amended and restated form that will be in effect upon the completion of the offering, provides that neither BlackRock nor Highfields nor their respective affiliates has any duty to refrain from (i) engaging, directly or indirectly, in a corporate opportunity in the same or similar lines of business in which we now engage or propose to engage, or (ii) doing business with any of our clients, customers or vendors. In the event that either of BlackRock or Highfields or their respective affiliates acquires knowledge of a potential transaction or other business opportunity which may be a corporate opportunity for itself or its affiliates and for us or our affiliates other than in the capacity as one of our officers or directors, then neither BlackRock nor Highfields has any duty to communicate or offer such transaction or business opportunity to us and may take any such opportunity for themselves or offer it to another person or entity. Neither BlackRock nor Highfields nor any officer, director or employee thereof, shall be liable to us or to any of our stockholders (or any affiliates thereof) for breach of any fiduciary or other duty by engaging in any such activity and we waive and renounce any claim based on such activity. This provision applies even if the business opportunity is one that we might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so. Our separate stockholder agreements with BlackRock and Highfields provide that any amendment or repeal of the provisions related to corporate opportunities described above requires the consent of each of BlackRock and Highfields as long as it, or any of its affiliates, holds any equity interest in us. These potential conflicts of interest could have a material adverse effect on our business, financial condition, results of operations or prospects if attractive corporate opportunities are allocated by BlackRock or Highfields to themselves or their other affiliates instead of to us. The terms of our amended and restated certificate of incorporation are more fully described in "Description of Capital Stock Corporate Opportunity."

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Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our certificate of incorporation and bylaws, each in the amended and restated form that will be in effect upon the completion of the offering, contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors. Among other things, these provisions:

authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of Class A common stock;

prohibit stockholder action by written consent unless the matter as to which action is being taken has been approved by our board of directors, which requires all stockholder actions regarding matters not approved by our board of directors to be taken at a meeting of our stockholders;

provide that our board of directors is expressly authorized to make, alter, or repeal our amended and restated bylaws, (provided that, if that action adversely affects BlackRock or Highfields when that entity, together with its affiliates, holds at least 5% of the voting power of our outstanding shares of capital stock, our stockholder agreements provide that such action must be approved by that entity);

establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings; and

prevent us from selling substantially all of our assets or completing a merger or other business combination that constitutes a change of control without the approval of a majority of those of our directors who are not also our officers.

These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our Class A common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

Risks Related to this Offering

An active trading market for our Class A common stock may never develop or be sustained.

Although our Class A common stock has been approved for listing on the NYSE, an active trading market for our Class A common stock may not develop on that exchange or elsewhere or, if developed, that market may not be sustained. Accordingly, if an active trading market for our Class A common stock does not develop or is not maintained, the liquidity of our Class A common stock, your ability to sell your shares of Class A common stock when desired and the prices that you may obtain for your shares of Class A common stock will be adversely affected.

We are an "emerging growth company" and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors.

We are an "emerging growth company" as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure

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obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least \$1.0 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our Class A common stock that is held by non-affiliates exceeds \$700.0 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

Under Section 107(b) of the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

The market price and trading volume of our Class A common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

Even if an active trading market develops, the market price of our Class A common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our Class A common stock may fluctuate and cause significant price variations to occur. The initial public offering price of our Class A common stock was determined by negotiation between us and the representatives of the underwriters based on a number of factors and may not be indicative of prices that will prevail in the open market following completion of this offering. If the market price of our Class A common stock declines significantly, you may be unable to resell your shares at or above your purchase price, if at all. The market price of our Class A common stock may fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our Class A common stock include:

variations in our quarterly or annual operating results;

changes in our earnings estimates (if provided) or differences between our actual financial and operating results and those expected by investors and analysts;

the contents of published research reports about us or our industry or the failure of securities analysts to cover our Class A common stock after this offering;

additions or departures of key management personnel;

any increased indebtedness we may incur in the future;

announcements by us or others and developments affecting us;

actions by institutional stockholders;

litigation and governmental investigations;

changes in market valuations of similar companies;

speculation or reports by the press or investment community with respect to us or our industry in general;

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increases in market interest rates that may lead purchasers of our shares to demand a higher yield;

announcements by us or our competitors of significant contracts, acquisitions, dispositions, strategic relationships, joint ventures or capital commitments; and

general market, political and economic conditions, including any such conditions and local conditions in the markets in which our customers are located.

These broad market and industry factors may decrease the market price of our Class A common stock, regardless of our actual operating performance. The stock market in general has from time to time experienced extreme price and volume fluctuations, including in recent months. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Future offerings of debt or equity securities by us may adversely affect the market price of our Class A common stock.

In the future, we may attempt to obtain financing or to further increase our capital resources by issuing additional shares of our Class A common stock or offering debt or other equity securities, including commercial paper, medium-term notes, senior or subordinated notes, debt securities convertible into equity or shares of preferred stock. In particular, we intend to seek opportunities to acquire loan servicing portfolios. Future acquisitions could require substantial additional capital in excess of cash from operations. We would expect to obtain the capital required for acquisitions through a combination of additional issuances of equity, corporate indebtedness, asset-backed acquisition financing and/or cash from operations.

Issuing additional shares of our Class A common stock or other equity securities or securities convertible into equity may dilute the economic and voting rights of our existing stockholders or reduce the market price of our Class A common stock or both. Upon liquidation, holders of such debt securities and preferred shares, if issued, and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our Class A common stock. Debt securities convertible into equity could be subject to adjustments in the conversion ratio pursuant to which certain events may increase the number of equity securities issuable upon conversion. Preferred shares, if issued, could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our Class A common stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, which may adversely affect the amount, timing or nature of our future offerings. In addition, the limited liability company agreement of Private National Mortgage Acceptance Company, LLC provides that new classes of units or other equity interests of Private National Mortgage Acceptance Company, LLC may be issued to third parties other than PennyMac Financial Services, Inc. following the completion of this offering only with the approval of BlackRock and Highfields as long as they, or any of their affiliates, hold any New Holding Units. Any such issuance will dilute the ownership of holders of our Class A common stock in substantially all of our operating assets. Thus, holders of our Class A common stock bear the risk that our future offerings, including any future offerings by Private National Mortgage Acceptance Company, LLC, may reduce the market price of our Class A common stock and dilute their stockholdings in us. See "Description of Capital Stock."

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The market price of our Class A common stock could be negatively affected by sales of substantial amounts of our Class A common stock in the public markets.

After this offering, there will initially be 11,111,111 shares of Class A common stock outstanding or 12,777,777 shares outstanding if the underwriters exercise their option to purchase additional shares in full. Of our issued and outstanding shares, all the Class A common stock sold in this offering will be freely transferable, except for any shares held by our "affiliates," as that term is defined in Rule 144 under the Securities Act. We will enter into an exchange agreement with the existing owners of Private National Mortgage Acceptance Company, LLC, under which each existing owner (and certain permitted transferees thereof) may, from and after the closing of this offering (subject to the terms of the exchange agreement), exchange their New Holdings Units for shares of Class A common stock of PennyMac Financial Services, Inc., initially on a one-for-one basis. If all New Holdings Units were exchanged pursuant to this agreement immediately following the closing of this offering, an additional 63,111,111 shares of Class A common stock would be outstanding.

All of the existing holders of New Holdings Units have agreed with the underwriters that, subject to customary exceptions, for a period of 180 days after the date of this prospectus, they will not directly or indirectly sell any Class A common stock, options or warrants to acquire shares of our Class A common stock, or any related security or instrument (including without limitation any New Holdings Units and any shares of Class B common stock) or cause a registration statement covering any Class A common stock to be filed, without the prior written consent of each of Citigroup Global Markets, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co. and certain of our existing holders will be further restricted from selling shares of Class A common stock that they may acquire pursuant to the exchange agreement due to their status as our "affiliates." The market price of our Class A common stock may decline significantly when these restrictions on the sale of Class A common stock by our existing stockholders lapse due to the actual or publicly anticipated sale of this stock into the public market. A decline in the price of our Class A common stock might impede our ability to raise capital through the issuance of additional Class A common stock or other equity securities.

The future issuance of additional Class A common stock in connection with our incentive plans, acquisitions or otherwise will dilute all other stockholdings.

After this offering, assuming the underwriters exercise their option to purchase additional shares in full, we will have an aggregate of 120,204,679 shares of Class A common stock authorized but unissued and not reserved for issuance under our 2013 Equity Incentive Plan or upon the exchange of New Holdings Units. We may issue all of these shares of Class A common stock without any action or approval by our stockholders, subject to certain exceptions. We also intend to continue to evaluate acquisition opportunities and may issue Class A common stock in connection with these acquisitions. Any Class A common stock issued in connection with our incentive plans, acquisitions, the exercise of outstanding stock options or otherwise would dilute the percentage ownership held by the investors who purchase Class A common stock in this offering.

Investors in this offering will suffer immediate and substantial dilution.

The initial public offering price of our Class A common stock will be substantially higher than the net tangible book value per share issued and outstanding immediately after this offering. Our pro forma net tangible book value per share as of December 31, 2012 was approximately \$4.15 and represents the amount of book value of our total tangible assets minus the book value of our total liabilities, divided by the number of our shares of Class A common stock then issued and outstanding (assuming that all of our existing owners' equity was converted into New Holdings Units and all New Holdings Units (other than those held by PennyMac Financial Services, Inc.) were exchanged for newly-issued shares of Class A common stock on a one-for-one basis). Investors who purchase Class A

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common stock in this offering will pay a price per share that substantially exceeds the net tangible book value per share of Class A common stock. If you purchase shares of our Class A common stock in this offering, you will experience immediate and substantial dilution of \$11.98 in the net tangible book value per share. Investors that purchase Class A common stock in this offering will have purchased 15.0% of the shares issued and outstanding immediately after the offering (assuming that all of our existing owners exchanged their New Holdings Units for newly-issued shares of Class A common stock on a one-for-one basis), but will have paid 43.3% of the total consideration for those shares.

Private National Mortgage Acceptance Company, LLC will have broad discretion in the use of a significant part of the net proceeds from this offering and may not use them effectively.

We intend to use the net proceeds to us from this offering to purchase newly-issued New Holdings Units from Private National Mortgage Acceptance Company, LLC. We intend to cause Private National Mortgage Acceptance Company, LLC to use the net proceeds from this offering in the manner described in "Use of Proceeds" and Private National Mortgage Acceptance Company, LLC will have broad discretion in the application of a significant part of the net proceeds from this offering. The failure by Private National Mortgage Acceptance Company, LLC to apply these funds effectively could affect our ability to operate and grow our business.

As a public company, we will incur additional costs and face increased demands on our management.

As a public company with shares listed on a U.S. exchange, we will need to comply with an extensive body of regulations that did not apply to us previously, including provisions of the Sarbanes Oxley Act of 2002, or SOX, regulations of the SEC and requirements of the NYSE. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, particularly after we are no longer an emerging growth company. For example, as a result of becoming a public company, we intend to add independent directors, create additional board committees and adopt certain policies regarding internal controls and disclosure controls and procedures. In addition, we will incur additional costs associated with our public company reporting requirements and maintaining directors' and officers' liability insurance. We are currently evaluating and monitoring developments with respect to these rules, which may impose additional costs on us and materially affect our business, financial condition and results of operations.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates" or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under "Risk Factors" and include, among other things:

The continually changing federal, state and local laws and regulations applicable to the highly regulated industry in which we operate;

Lawsuits or governmental actions if we do not comply with the laws and regulations applicable to our businesses;

The creation of the CFPB, its recently issued and future rules and the enforcement thereof by the CFPB;

Changes in existing U.S. government-sponsored entities, their current roles or their guarantees or guidelines;

Changes to government mortgage modification programs;

The licensing and operational requirements of states and other jurisdictions applicable to our businesses, to which our bank competitors are not subject;

Foreclosure delays and changes in foreclosure practices;

Certain banking regulations that may limit our business activities;

Changes in macroeconomic and U.S. residential real estate market conditions;

Difficulties inherent in growing loan production volume;

Changes in prevailing interest rates;

Increases in loan delinquencies and defaults;

Our reliance on PMT as a significant source of financing for, and revenue related to, our correspondent lending business;

Any required additional capital and liquidity to support business growth that may not be available on acceptable terms, if at all;

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Our obligation to indemnify third-party purchasers or repurchase loans if loans that we originate, acquire or assist in the fulfillment of, fail to meet certain criteria or characteristics or under other circumstances;

Our obligation to indemnify PMT and the Investment Funds if our services fail to meet certain criteria or characteristics or under other circumstances;

Decreases in the historical returns on the assets that we select and manage for our clients, and our resulting management and incentive fees;

The extensive amount of regulation applicable to our investment management segment;

Conflicts of interest in allocating our services and investment opportunities among ourselves and our Advised Entities;

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The potential damage to our reputation and adverse impact to our business resulting from the ongoing negative publicity focused on Countrywide Financial Corporation, given the former association of certain of our officers with that entity; and

Our recent rapid growth.

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

MARKET DATA

This prospectus includes market and industry data and forecasts that we have derived from independent consultant reports, publicly available information, various industry publications, other published industry sources and our internal data and estimates. Independent consultant reports, industry publications and other published industry sources generally indicate that the information contained therein was obtained from sources believed to be reliable.

Our internal data and estimates are based upon information obtained from trade and business organizations and other contacts in the markets in which we operate and our management's understanding of industry conditions. Although we believe that such information is reliable, we have not had this information verified by any independent sources.

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ORGANIZATIONAL STRUCTURE

The diagram below depicts our organizational structure immediately following this offering.

Recapitalization

Currently, the capital structure of Private National Mortgage Acceptance Company, LLC consists of four different classes of limited liability company units (common units, Class B common units, Class C common units and preferred units). Each of these classes (other than the

preferred units) has different amounts of aggregate distributions above which its holders share in future distributions. Prior to the completion of this offering, the limited liability company agreement of Private National Mortgage Acceptance Company, LLC will be amended and restated to, among other things, modify its capital structure by converting all existing classes of limited liability company units into New Holdings

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Units. The amendment and restatement of the limited liability company agreement of Private National Mortgage Acceptance Company, LLC, including the recapitalization of the outstanding units to be effected thereby, requires the approval of Private National Mortgage Acceptance Company, LLC, BlackRock, Highfields and each other holder of preferred units of Private National Mortgage Acceptance Company, LLC.

The allocation of New Holdings Units among our existing owners will be determined pursuant to the distribution provisions of the existing limited liability company agreement of Private National Mortgage Acceptance Company, LLC based upon the liquidation value of Private National Mortgage Acceptance Company, LLC, assuming it was liquidated at the time of this offering with a value implied by the initial public offering price of the shares of Class A common stock sold in this offering. Immediately following this recapitalization but prior to the "Offering Transactions" described below, there will be 63,111,111 New Holdings Units issued and outstanding. The New Holdings Units received by our officers and employees in respect of units that are subject to service-based vesting requirements will remain subject to such service-based vesting requirements. New Holdings Units received by our officers and employees in respect of units that are currently vested will be vested. See "Executive and Director Compensation."

We refer to the foregoing transactions, collectively, as the "Recapitalization."

Incorporation of PennyMac Financial Services, Inc.

PennyMac Financial Services, Inc. was incorporated as a Delaware corporation on December 31, 2012. PennyMac Financial Services, Inc. has not engaged in any business or other activities except in connection with its formation. The amended and restated certificate of incorporation of PennyMac Financial Services, Inc. authorizes two classes of common stock, Class A common stock and Class B common stock, each having the terms described in "Description of Capital Stock."

In connection with this offering and the acquisition of an interest in Private National Mortgage Acceptance Company, LLC, PennyMac Financial Services, Inc. will issue shares of Class B common stock to Private National Mortgage Acceptance Company, LLC, which will, in connection with the Recapitalization, distribute one share of that Class B common stock to each of our existing owners, each of which provides its owner with no economic rights but entitles the holder, without regard to the number of shares of Class B common stock held by such holder, to one vote on matters presented to stockholders of PennyMac Financial Services, Inc. for each New Holdings Unit held by such holder, as described in "Description of Capital Stock Common Stock Class B Common Stock." Holders of our Class A common stock and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law.

We and our existing owners will enter into an exchange agreement under which, subject to the terms of the exchange agreement, they (or certain permitted transferees thereof) will have the right or, under certain circumstances, the obligation to exchange their New Holdings Units for shares of our Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends, reclassifications and certain other transactions that would cause the number of outstanding shares of Class A common stock to be different than the number of New Holdings Units owned by PennyMac Financial Services, Inc. See "Certain Relationships and Related Party Transactions Exchange Agreement."

Offering Transactions

At the time of this offering, PennyMac Financial Services, Inc. intends to purchase New Holdings Units from Private National Mortgage Acceptance Company, LLC at a purchase price per unit equal to the initial public offering price per share of Class A common stock in this offering less the underwriting

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discount per share. Regardless of the initial public offering price per share of Class A common stock in this offering, PennyMac Financial Services, Inc. will purchase a number of newly-issued New Holdings Units from Private National Mortgage Acceptance Company, LLC equal to the number of shares of Class A common stock sold in this offering using the entire amount of proceeds that it receives from this offering. Private National Mortgage Acceptance Company, LLC will bear all of the expenses of this offering, including underwriting discounts.

Accordingly, at the time of this offering PennyMac Financial Services, Inc. will purchase from Private National Mortgage Acceptance Company, LLC 11,111,111 newly-issued New Holdings Units for an aggregate of \$187.5 million (or 12,777,777 New Holdings Units for an aggregate of \$215.6 million if the underwriters exercise in full their option to purchase additional shares of Class A common stock).

The unit holders of Private National Mortgage Acceptance Company, LLC (other than PennyMac Financial Services, Inc.) may (subject to the terms of the exchange agreement) initially exchange their New Holdings Units for shares of Class A common stock of PennyMac Financial Services, Inc. on a one-for-one basis. These exchanges are expected to result in increases in the tax basis of the assets of Private National Mortgage Acceptance Company, LLC that otherwise would not have been available. These increases in tax basis may reduce the amount of tax that PennyMac Financial Services, Inc. would otherwise be required to pay in the future. These increases in tax basis may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. We will enter into a tax receivable agreement with our existing owners that will provide for the payment by PennyMac Financial Services, Inc. to our existing owners of 85% of the amount of the benefits, if any, that PennyMac Financial Services, Inc. is deemed to realize as a result of (i) increases in tax basis resulting from exchanges of New Holdings Units and (ii) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. These payment obligations are obligations of PennyMac Financial Services, Inc. and not of Private National Mortgage Acceptance Company, LLC. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement."

In connection with its acquisition of New Holdings Units, PennyMac Financial Services, Inc. will become the sole managing member of Private National Mortgage Acceptance Company, LLC and, through Private National Mortgage Acceptance Company, LLC and its subsidiaries, operate our business. Accordingly, although PennyMac Financial Services, Inc. will initially have a minority economic interest in Private National Mortgage Acceptance Company, LLC, PennyMac Financial Services, Inc. will have 100% of the voting power and control the management of Private National Mortgage Acceptance Company, LLC, subject to certain exceptions. See "Certain Relationships and Related Party Transactions Private National Mortgage Acceptance Company, LLC Limited Liability Company Agreement."

We refer to the foregoing transactions as the "Offering Transactions."

As a result of the transactions described above:

the investors in this offering will collectively own 11,111,111 shares of our Class A common stock (or 12,777,777 shares of Class A common stock if the underwriters exercise in full their option to purchase additional shares of Class A common stock) and PennyMac Financial Services, Inc. will hold 11,111,111 New Holdings Units (or 12,777,777 New Holdings Units if the underwriters exercise in full their option to purchase additional shares of Class A common stock);

our existing owners will hold 63,111,111 New Holdings Units;

the investors in this offering will collectively have 15.0% of the voting power in PennyMac Financial Services, Inc. (or 16.8% if the underwriters exercise in full their option to purchase additional shares of Class A common stock); and

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our existing owners, through their holdings of our Class B common stock, will have 85.0% of the voting power in PennyMac Financial Services, Inc. (or 83.2% if the underwriters exercise in full their option to purchase additional shares of Class A common stock).

Our post-offering organizational structure will allow our existing owners to retain their equity ownership in Private National Mortgage Acceptance Company, LLC, an entity that is intended to be classified as a partnership for United States federal income tax purposes (and not as an association, taxable mortgage pool or publicly traded partnership, each of which could be taxable as a corporation), in the form of New Holdings Units. Investors in this offering will, by contrast, hold their equity ownership in PennyMac Financial Services, Inc., a Delaware corporation that is a domestic corporation for United States federal income tax purposes, in the form of shares of Class A common stock. We believe that our existing owners generally find it advantageous to hold their equity interests in an entity that is not taxable as a corporation for United States federal income tax purposes. Our existing owners and, following the offering, PennyMac Financial Services, Inc., will incur U.S. federal, state and local income taxes on their proportionate share of any taxable income of Private National Mortgage Acceptance Company, LLC. We do not believe that our organizational structure gives rise to any significant benefit or detriment to our business or operations. Under the tax receivable agreement, PennyMac Financial Services, Inc. and its stockholders will retain approximately 15% of the marginal tax benefits that PennyMac Financial Services, Inc. is deemed to realize as a result of (i) increases in tax basis resulting from exchanges of New Holdings Units and (ii) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

As noted above, we will enter into an exchange agreement with the existing owners of Private National Mortgage Acceptance Company, LLC. Under the exchange agreement, each existing owner (and certain permitted transferees thereof) may elect or, under certain circumstances, is obligated (subject to the terms of the exchange agreement) to exchange their New Holdings Units for shares of Class A common stock of PennyMac Financial Services, Inc. on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends, reclassifications and certain other transactions that would cause the number of outstanding shares of Class A common stock to be different than the number of New Holdings Units owned by PennyMac Financial Services, Inc. As a holder exchanges its New Holdings Units, PennyMac Financial Services, Inc.'s interest in Private National Mortgage Acceptance Company, LLC will be correspondingly increased. See "Certain Relationships and Related Party Transactions Exchange Agreement."

Our existing owners will also hold shares of Class B common stock of PennyMac Financial Services, Inc. Although these shares have no economic rights, they will allow our existing owners to exercise voting power at PennyMac Financial Services, Inc., the managing member of Private National Mortgage Acceptance Company, LLC, at a level that is consistent with their overall equity ownership of our business. Under the amended and restated certificate of incorporation of PennyMac Financial Services, Inc., each holder of Class B common stock shall be entitled, without regard to the number of shares of Class B common stock held by such holder, to one vote for each New Holdings Unit held by such holder. Accordingly, as our existing owners exchange New Holdings Units for shares of Class A common stock of PennyMac Financial Services, Inc. pursuant to the exchange agreement, the voting power afforded to them by their shares of Class B common stock is automatically and correspondingly reduced.

Holding Company Structure

PennyMac Financial Services, Inc. will be a holding company, and its sole material asset will be an equity interest in Private National Mortgage Acceptance Company, LLC. As the sole managing member of Private National Mortgage Acceptance Company, LLC, PennyMac Financial Services, Inc. will operate and control all of the business and affairs of Private National Mortgage Acceptance

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Company, LLC and, through Private National Mortgage Acceptance Company, LLC and its subsidiaries, conduct our business.

PennyMac Financial Services, Inc. will consolidate the financial results of Private National Mortgage Acceptance Company, LLC and its subsidiaries, and the ownership interest of the other members of Private National Mortgage Acceptance Company, LLC will be reflected as a non-controlling interest in PennyMac Financial Services, Inc.'s consolidated financial statements.

Pursuant to the amended and restated limited liability company agreement of Private National Mortgage Acceptance Company, LLC, PennyMac Financial Services, Inc. will have the right to determine when distributions will be made to the members of Private National Mortgage Acceptance Company, LLC and the amount of any such distributions, other than with respect to tax distributions as described below. If PennyMac Financial Services, Inc. authorizes a distribution, such distribution will be made to the members of Private National Mortgage Acceptance Company, LLC pro rata in accordance with the percentages of their respective limited liability company interests.

The holders of limited liability company interests in Private National Mortgage Acceptance Company, LLC, including PennyMac Financial Services, Inc., will incur U.S. federal, state and local income taxes on their proportionate share of any taxable income of Private National Mortgage Acceptance Company, LLC. Except as otherwise required by Section 704(c) of the U.S. Internal Revenue Code of 1986, as amended, which we refer to as the Code, to account for the difference between the fair market value and the adjusted tax basis of the assets of Private National Mortgage Acceptance Company, LLC on the date of this offering, net profits and net losses of Private National Mortgage Acceptance Company, LLC will generally be allocated to its members (including PennyMac Financial Services, Inc.) pro rata in accordance with their respective limited liability company interests. The limited liability company agreement provides for quarterly cash distributions to the holders of limited liability company interests of Private National Mortgage Acceptance Company, LLC if PennyMac Financial Services, Inc. determines that the taxable income of Private National Mortgage Acceptance Company, LLC will give rise to taxable income for its members. In accordance with the limited liability company agreement, we are required to cause Private National Mortgage Acceptance Company, LLC to make quarterly cash distributions to the holders of limited liability company interests of Private National Mortgage Acceptance Company, LLC for purposes of funding their tax obligations in respect of the income of Private National Mortgage Acceptance Company, LLC that is allocated to them. Generally, these tax distributions will be computed based on the taxable income of Private National Mortgage Acceptance Company, LLC multiplied by an assumed tax rate determined by us.

See "Certain Relationships and Related Party Transactions Private National Mortgage Acceptance Company, LLC Limited Liability Company Agreement."

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USE OF PROCEEDS

The net proceeds to us from the sale of the shares of our Class A common stock offered by us will be approximately \$187.5 million, after deducting underwriting discounts and commissions. If the underwriters' option to purchase additional shares in this offering is exercised in full, we estimate that our net proceeds will be approximately \$215.6 million, after deducting underwriting discounts and commissions.

We intend to use the net proceeds to us from this offering to purchase newly-issued New Holdings Units from Private National Mortgage Acceptance Company, LLC, as described under "Organizational Structure Recapitalization." Accordingly, we will not retain any of these proceeds. We intend to cause Private National Mortgage Acceptance Company, LLC to use these proceeds primarily to provide capital to grow our mortgage banking business and for general corporate purposes. Private National Mortgage Acceptance Company, LLC will also use these proceeds to pay the expenses of this offering. Private National Mortgage Acceptance Company, LLC will have broad discretion over the uses of such proceeds.

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DIVIDEND POLICY

Other than tax-related distributions and distributions made to enable the payment of subscriptions receivable and repayment of certain advances made in lieu of bonuses in prior years, Private National Mortgage Acceptance Company, LLC has not made any distributions to our existing owners during 2011, 2012 or to date during 2013. Tax-related distributions aggregated \$15.0 million in 2011 and \$15.8 million in 2012. On February 6, 2013, distributions of \$5.8 million were made to enable the payment of subscriptions receivable and repayment of certain advances made in lieu of bonuses in prior years. Subscriptions receivable are amounts due from certain existing holders that are holders of preferred units. PennyMac Financial Services, Inc. will receive a pro rata portion of the tax distributions made by Private National Mortgage Acceptance Company, LLC following this offering. The cash received from such distributions will first be used to satisfy any tax liability of PennyMac Financial Services, Inc. and then to make any payments under the tax receivable agreement with our existing owners.

The declaration, amount and payment of any dividends on shares of Class A common stock with respect to any remaining excess cash will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us, and such other factors as our board of directors may deem relevant. We may also enter into credit agreements or other borrowing arrangements in the future that restrict or limit our ability to pay cash dividends on our Class A common stock.

PennyMac Financial Services, Inc. is a holding company and has no material assets other than its ownership of New Holdings Units in Private National Mortgage Acceptance Company, LLC. We intend to cause Private National Mortgage Acceptance Company, LLC to make distributions to us in an amount sufficient to cover cash dividends, if any, declared by us. If Private National Mortgage Acceptance Company, LLC makes such distributions to PennyMac Financial Services, Inc., the other holders of New Holdings Units will be entitled to receive equivalent distributions.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash and capitalization as of December 31, 2012 on:

a historical basis for Private National Mortgage Acceptance Company, LLC; and

a pro forma basis for PennyMac Financial Services, Inc. giving effect to the transactions described under "Unaudited Pro Forma Consolidated Financial Information," including the application of the proceeds from this offering as described in "Use of Proceeds."

You should read this table together with the information contained in this prospectus, including "Organizational Structure," "Use of Proceeds," "Unaudited Pro Forma Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2012	
	Actual (Dollar amounts in thousands except share and per share data)	Pro Forma
Cash and short term investments, at fair value	\$ 65,487	\$ 250,242
Loans sold under agreements to repurchase	393,534	393,534
Note payable	53,013	53,013
Members' capital(1)	97,148	
Members' equity attributable to common units from equity incentive plan	22,270	
Stock subscription receivable	(4,842)	
Class A common stock, par value \$0.0001 per share, 200,000,000 shares authorized on a pro forma basis; 11,111,111 shares issued and outstanding on a pro forma basis		1
Class B common stock, par value \$0.0001 per share, 1,000 shares authorized on a pro forma basis; 60 shares issued and outstanding on a pro forma basis		
Additional paid-in capital		66,976
Retained earnings	147,174	
Total members'/PennyMac Financial Services, Inc. stockholders' equity	261,750	66,977
Non-controlling interest in PennyMac Financial Services, Inc.		379,528
Total equity	261,750	446,505
Total capitalization	\$ 708,297	\$ 893,052

(1) Represents the investment of existing unit holders in Private National Mortgage Acceptance Company, LLC.

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If you invest in shares of our Class A common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of Class A common stock and the pro forma net tangible book value per share of Class A common stock after this offering. Dilution results from the fact that the per share offering price of the shares of Class A common stock is substantially in excess of the pro forma net tangible book value per share attributable to our existing owners.

Our pro forma net tangible book value as of December 31, 2012 was approximately \$261.8 million, or \$4.15 per share of Class A common stock. Pro forma net tangible book value represents the amount of total tangible assets less total liabilities, and pro forma net tangible book value per share of Class A common stock represents pro forma net tangible book value divided by the number of shares of Class A common stock outstanding, after giving effect to the Recapitalization and assuming that all of the holders of New Holdings Units in Private National Mortgage Acceptance Company, LLC (other than PennyMac Financial Services, Inc.) exchanged their New Holdings Units for newly-issued shares of Class A common stock on a one-for-one basis.

After giving effect to the transactions described under "Unaudited Pro Forma Consolidated Financial Information," including the application of the proceeds from this offering as described in "Use of Proceeds," our pro forma net tangible book value as of December 31, 2012 would have been \$446.5 million, or \$6.02 per share of Class A common stock. This represents an immediate increase in net tangible book value of \$1.87 per share of Class A common stock to our existing owners and an immediate dilution in net tangible book value of \$11.98 per share of Class A common stock to investors in this offering.

The following table illustrates this dilution on a per share of Class A common stock basis assuming the underwriters do not exercise their option to purchase additional shares of Class A common stock:

Initial public offering price per share	\$	18.00
Pro forma net tangible book value per share as of December 31, 2012	\$	4.15
Increase per share attributable to this offering		1.87
Pro forma net tangible book value per share, as adjusted to give effect to this offering		6.02
Dilution in pro forma net tangible book value per share to new investors in this offering	\$	11.98

Because our existing owners do not own any Class A common stock or other economic interests in PennyMac Financial Services, Inc., we have presented dilution in pro forma net tangible book value per share of Class A common stock to investors in this offering after giving effect to the Recapitalization and assuming that all of the holders of New Holdings Units in Private National Mortgage Acceptance Company, LLC (other than PennyMac Financial Services, Inc.) exchanged their New Holdings Units for newly-issued shares of Class A common stock on a one-for-one basis in order to more meaningfully present the dilutive impact on the investors in this offering.

If the underwriters exercise their option to purchase additional shares in full, pro forma net tangible book value, as adjusted to give effect to this offering, will increase to \$6.26 per share, representing an increase to existing holders of \$2.11 per share, and there will be an immediate dilution of \$11.74 per share to investors purchasing shares in this offering.

The following table summarizes, on the same pro forma basis as of December 31, 2012, the total number of shares of Class A common stock purchased from us, the total cash consideration paid to us and the average price per share of Class A common stock paid by our existing owners and by new

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investors purchasing shares of Class A common stock in this offering, assuming that all of the holders of New Holdings Units in Private National Mortgage Acceptance Company, LLC (other than PennyMac Financial Services, Inc.) exchanged their New Holdings Units for shares of our Class A common stock on a one-for-one basis.

	Shares of Class A Common Stock Purchased		Total Consideration		Average Price Per Share of Class A Common Stock
	Number	Percent	Amount (in thousands)	Percent	
Existing owners	63,111,111	85.0%	\$ 261,750	56.7%	\$ 4.15
Investors in this offering	11,111,111	15.0%	200,000	43.3%	18.00
Total	74,222,222	100%	\$ 461,750	100.0%	

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited pro forma condensed consolidated statements of income for the fiscal year ended December 31, 2012 present our consolidated results of operations giving pro forma effect to the Recapitalization and Offering Transactions described under "Organizational Structure" and the use of the estimated net proceeds from this offering as described under "Use of Proceeds," as if such transactions occurred on January 1, 2012. The unaudited pro forma condensed consolidated balance sheet as of December 31, 2012 presents our consolidated financial position giving pro forma effect to the Recapitalization and Offering Transactions described under "Organizational Structure" and the use of the estimated net proceeds from this offering as described under "Use of Proceeds," as if such transactions occurred on December 31, 2012. The pro forma adjustments are based on available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of these transactions on the historical financial information of Private National Mortgage Acceptance Company, LLC.

The unaudited pro forma consolidated financial information should be read together with "Organizational Structure," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and related notes included elsewhere in this prospectus.

The unaudited pro forma consolidated financial information is included for informational purposes only and does not purport to reflect the results of operations or financial position of PennyMac Financial Services, Inc. that would have occurred had we operated as a public company during the periods presented. The unaudited pro forma consolidated financial information should not be relied upon as being indicative of our results of operations or financial position had the Recapitalization and Offering Transactions described under "Organizational Structure" and the use of the estimated net proceeds from this offering as described under "Use of Proceeds" occurred on the dates assumed. The unaudited pro forma consolidated financial information also does not project our results of operations or financial position for any future period or date.

The pro forma adjustments principally give effect to:

the purchase by PennyMac Financial Services, Inc. of 11,111,111 New Holdings Units of Private National Mortgage Acceptance Company, LLC with the proceeds of this offering and the related effects of the tax receivable agreement as described in "Certain Relationships and Related Party Transactions Tax Receivable Agreement;" and

in the case of the unaudited pro forma consolidated statements of income, a provision for corporate income taxes on the income attributable to PennyMac Financial Services, Inc. at an effective rate of 42%, which includes a provision for U.S. federal income taxes and assumes the highest statutory rates apportioned to each state and local jurisdiction.

The unaudited pro forma consolidated financial information presented assumes no exercise by the underwriters of the option to purchase up to an additional 1,666,666 shares of Class A common stock from us.

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PENNYMAC FINANCIAL SERVICES, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

	Private National Mortgage Acceptance Company, LLC Actual	Pro Forma Adjustments(1)	PennyMac Financial Services, Inc. Pro Forma
(in thousands, except unit data)			
Revenue			
Net gains on mortgage loans held for sale at fair value	\$ 118,170		\$ 118,170
Fulfillment fees from PennyMac Mortgage Investment Trust	62,906		62,906
Net servicing income:			
Loan servicing fees			
From PennyMac Mortgage Investment Trust	18,608		18,608
From Investment Funds	11,716		11,716
Mortgage servicing rebate (to) from Investment Funds	(885)		(885)
From non-affiliates	20,673		20,673
From borrowers ancillary fees	2,245		2,245
	52,357		52,357
Amortization, impairment and change in estimated fair value of mortgage servicing rights	(12,252)		(12,252)
Net servicing income	40,105		40,105
Management fees:			
From PennyMac Mortgage Investment Trust	15,141		15,141
From Investment Funds	9,363		9,363
	24,504		24,504
Carried Interest from Investment Funds	10,473		10,473
Other	16,807		16,807
Total net revenue	272,965		272,965
Expenses			
Compensation	124,014		124,014
Other	30,628		30,628
Total expenses	154,642		154,642
Net income	\$ 118,323		\$ 118,323
Net income attributable to preferred unit holders	\$ 99,920	\$ (99,420)	
Net Income attributable to Class C unit awards outstanding	\$ 2,310	\$ (2,310)	
Net Income attributable to Class C unit holders	\$ 6	\$ (6)	
Net income attributable to common unit awards outstanding	\$ 7,178	\$ (7,178)	
Net income attributable to common unit holders	\$ 8,909	\$ (8,909)	
Pro forma information (unaudited):			
Historical net income before taxes	\$ 118,323		\$ 118,323
Pro forma adjustment for taxes(2)		(7,454)	(7,454)
Pro forma net income attributable to the controlling and non-controlling interest(3)			110,869
Less: Net income attributable to non-controlling interest(1)		100,574	100,574
Net income attributable to PennyMac Financial Services, Inc. stockholders			\$ 10,295

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Earnings per unit/shares:			
Preferred units	\$	1,033.49	
Class C units	\$	684.70	
Common units/common shares:			
Basic(3)	\$	942.89	\$ 0.93
Diluted(4)	\$	570.29	\$ 0.93
Weighted average units outstanding:			
Preferred units		96,682	
Class C units		3,382	
Common units:			
Basic(3)		9,448	11,111,111
Diluted(4)		15,622	74,103,258

Table of Contents**PENNYMAC FINANCIAL SERVICES, INC.****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)****FOR THE YEAR ENDED DECEMBER 31, 2012**

- (1) As described in "Organizational Structure," PennyMac Financial Services, Inc. will become the sole managing member of Private National Mortgage Acceptance Company, LLC. PennyMac Financial Services, Inc. will initially own 15.0% of the economic interest in Private National Mortgage Acceptance Company, LLC, but will have 100% of the voting power and control the management of Private National Mortgage Acceptance Company, LLC. Immediately following this offering, the non-controlling interest will be 85.0%. Net income attributable to the non-controlling interest will represent 85.0% of income before income taxes (\$118.3 million). These amounts have been determined based on the assumption that the underwriters' option to purchase additional shares is not exercised. If the underwriters' option to purchase additional shares is exercised the ownership percentage held by the non-controlling interest would decrease to 83.2%.
- (2) Following the Recapitalization and the Offering Transactions, PennyMac Financial Services, Inc. will be subject to U.S. federal income taxes, in addition to state and local taxes, with respect to our allocable share of any net taxable income of Private National Mortgage Acceptance Company, LLC, which will result in higher income taxes. As a result, the pro forma statements of income reflect an adjustment to our provision for corporate income taxes to reflect an effective rate of 42.0%, which includes provision for U.S. federal income taxes and uses our estimate of the weighted average statutory rates apportioned to each state and local jurisdiction.
- (3) The shares of Class B common stock of PennyMac Financial Services, Inc. do not share in PennyMac Financial Services, Inc. earnings and are therefore not allocated any net income attributable to the controlling and non-controlling interests. As a result, the shares of Class B common stock are not considered participating securities and are therefore not included in the weighted average shares outstanding for purposes of computing net income available per share.
- (4) For purposes of applying the as-if converted method for calculating diluted earnings per share, we assumed an exchange of New Holding Units for Class A common stock. Such exchange is affected by the allocation of income or loss associated with the exchange of New Holding Units for Class A common stock and accordingly the effect of such exchange has been included for calculating diluted pro forma net income (loss) available to Class A common stock per share. Giving effect to the exchange of all New Holdings Units for shares of Class A common stock and dilutive unvested New Holdings Unit Stock based compensation awards, diluted pro forma net income (loss) available to Class A common stock per share would be computed as follows:

Pro forma income before income taxes	\$ 118,323,000
Adjusted pro forma income taxes	49,695,660(a)
Adjusted pro forma net income	\$ 68,627,340(b)
Weighted average shares of Class A common stock outstanding (assuming the exchange of all New Holdings Units for shares of Class A common stock)	74,103,258(c)
Pro forma diluted net income (loss) available to Class A common stock per share	\$ 0.93

- (a) Represents the implied provision for income taxes assuming the full exchange of all New Holding Units of Private National Mortgage Acceptance Company, LLC for shares of Class A common stock of PennyMac Financial Services, Inc. using the same method applied in calculating pro forma tax provision.
- (b) Assumes elimination of all non-controlling interest due to the assumed exchange of all New Holding Units of Private National Mortgage Acceptance Company, LLC for shares of Class A common stock of PennyMac Financial Services, Inc. as of the beginning of the period (January 1, 2012).
- (c)

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The unvested units are converted to New Holdings Units based on the treasury stock method and an as-if converted method is used to give effect to the exchange agreement for the diluted weighted average share calculation.

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PENNYMAC FINANCIAL SERVICES, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2012

	Private National Mortgage Acceptance Company, LLC Actual	Pro Forma Adjustments(1)	PennyMac Financial Services, Inc. Pro Forma
	(in thousands, except unit data)		
ASSETS			
Cash(2)	\$ 12,323	\$ 184,755	\$ 197,078
Short-term investment, at fair value	53,164		53,164
Mortgage loans held for sale at fair value	448,384		448,384
Servicing advances	93,152		93,152
Receivable from Investment Funds	3,672		3,672
Receivable from PennyMac Mortgage Investment Trust	16,691		16,691
Derivative assets	27,290		27,290
Carried Interest due from Investment Funds	47,723		47,723
Investment in PennyMac Mortgage Investment Trust, at fair value	1,897		1,897
Mortgage servicing rights, at fair value	19,798		19,798
Mortgage servicing rights, at lower of cost or fair value	89,177		89,177
Furniture, fixtures, equipment and building improvements, net	5,065		5,065
Capitalized software, net	795		795
Other	13,032		13,032
Total assets	\$ 832,163	\$ 184,755	\$ 1,016,918
LIABILITIES			
Mortgage loans sold under agreements to repurchase	\$ 393,534		\$ 393,534
Notes payable	53,013		53,013
Derivative liabilities	509		509
Payable to PennyMac Mortgage Investment Trust	46,779		46,779
Payable to Investment Funds	36,795		36,795
Accounts payable and accrued expenses	36,279		36,279
Liability for losses under representations and warranties	3,504		3,504
Total liabilities	570,413		570,413
MEMBERS' EQUITY			
Preferred units, 96,682 units authorized, subscribed, issued and outstanding as of December 31, 2012	\$ 97,148	\$ (97,148)	
Members' equity attributable to common units from equity compensation plan(3)(4)	22,270	(22,270)	
Stock subscription receivable(3)(4)	(4,842)	4,842	
Class A common stock; authorized to issue 200,000,000 shares, par value \$0.0001 per share; 11,111,111 shares issued on a pro forma basis(2)		1	1
Class B common stock; authorized to issue 1,000 shares, par value \$0.0001 per share; 60 shares issued on a pro forma basis			
Retained earnings(3)(4)	147,174	(147,174)	
Additional paid-in capital(4)		184,754	
		(117,778)	66,976
	261,750	(194,773)	66,977

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Total members' equity / stockholders' equity PennyMac Financial Services, Inc.(3)				
Non-controlling interest(4)(5)			379,528	379,528
Total Equity(4)(2)	\$	261,750	\$	184,755 \$ 446,505
Total liabilities and equity	\$	832,163	\$	184,755 \$ 1,016,918

(1) As described in "Organizational Structure," PennyMac Financial Services, Inc. will become the sole managing member of Private National Mortgage Acceptance Company, LLC. PennyMac Financial Services, Inc. will initially have 15.0%

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PENNYMAC FINANCIAL SERVICES, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2012

economic interest in Private National Mortgage Acceptance Company, LLC, but will have 100% of the voting power and control the management of Private National Mortgage Acceptance Company, LLC. As a result, PennyMac Financial Services, Inc. will consolidate the financial results of Private National Mortgage Acceptance Company, LLC and will record non-controlling interest on the PennyMac Financial Services, Inc. consolidated balance sheet. Immediately following the Offering Transactions, the non-controlling interest, based on the assumptions to the pro forma financial information, will be \$379.5 million. Pro forma non-controlling interest represents 85.0% of the pro forma equity of Private National Mortgage Acceptance Company, LLC of \$446.5 million.

- (2) Reflects the net effect on cash and cash equivalents of the receipt of offering proceeds of \$187.5 million described in "Use of Proceeds" net of estimated unreimbursed expenses.
- (3) Represents the members' equity of the existing unit holders in Private National Mortgage Acceptance Company, LLC.
- (4) Represents an adjustment to stockholders' equity reflecting the following:
 - (a) par value for Class A common stock and Class B common stock to be outstanding following this offering;
 - (b) an increase of \$184.8 million of additional paid-in capital as a result of estimated net proceeds from this offering;
 - (c) a decrease of \$117.8 million of additional paid-in capital to allocate a portion of PennyMac Financial Services, Inc.'s equity to the non-controlling interest; and
 - (d) the elimination of Private National Mortgage Acceptance Company, LLC members' equity of \$261.8 million upon consolidation.
- (5) The increase in non-controlling interest reflects the following:
 - (a) an increase from the reclassification of Private National Mortgage Acceptance Company, LLC members' equity of \$261.8 million to non-controlling interest upon consolidation; and
 - (b) an increase of \$117.8 million from the proportional allocation of additional paid-in capital of PennyMac Financial Services, Inc.'s equity to the non-controlling interest.

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The following selected historical condensed consolidated financial data of Private National Mortgage Acceptance Company, LLC should be read together with "Organizational Structure," "Unaudited Pro Forma Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and related notes included elsewhere in this prospectus. Private National Mortgage Acceptance Company, LLC will be considered our predecessor for accounting purposes, and its consolidated financial statements will be our historical consolidated financial statements following this offering.

We derived the selected historical consolidated statement of income data of Private National Mortgage Acceptance Company, LLC for the fiscal years ended December 31, 2012, 2011 and 2010 and the selected historical consolidated balance sheet data as of December 31, 2012 and 2011 from the audited consolidated financial statements of Private National Mortgage Acceptance Company, LLC which are included elsewhere in this prospectus. The selected historical consolidated balance sheet data as of December 31, 2010 has been derived from audited consolidated financial statements of Private National Mortgage Acceptance Company, LLC not included in this prospectus.

	Year ended December 31,		
	2012	2011	2010
	(in thousands, except unit data)		
Statements of Income Data Condensed Consolidated			
Revenue			
Net gains on mortgage loans held for sale at fair value	\$ 118,170	\$ 13,029	\$ 2,008
Fulfillment fees from PennyMac Mortgage Investment Trust	62,906	1,744	80
Net servicing income:			
Loan servicing fees			
From PennyMac Mortgage Investment Trust	18,608	13,204	2,989
From Investment Funds	11,716	14,523	9,474
Mortgage servicing rebate (to) from Investment Funds	(885)	(2,772)	1,162
From non-affiliates	20,673	11,493	11,431
From borrowers ancillary fees	2,245	1,657	1,345
	52,357	38,105	26,401
Amortization, impairment and change in estimated fair value of mortgage servicing rights	(12,252)	(9,438)	(400)
Net servicing income	40,105	28,667	26,001
Management fees:			
From PennyMac Mortgage Investment Trust	15,141	8,456	5,484
From Investment Funds	9,363	9,943	9,943
	24,504	18,399	15,427
Carried Interest from Investment Funds	10,473	12,596	24,654
Other	16,807	2,224	1,059
Total net revenue	272,965	76,659	69,229
Expenses			
Compensation	124,014	47,479	25,412
Other	30,628	14,481	10,775
Total expenses	154,642	61,960	36,187
Net income	\$ 118,323	\$ 14,699	\$ 33,042
Net income attributable to preferred unit holders	\$ 99,920	\$ 14,507	\$ 29,014
Net income attributable to Class C unit awards outstanding	\$ 2,310		
Net income attributable to Class C unit holders	\$ 6		
Net income attributable to common unit awards outstanding	\$ 7,178	\$ 152	\$ 3,837

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Net income attributable to common unit holders	\$	8,909	\$	40	\$	191
Earnings per unit						
Preferred units	\$	1,033.49	\$	237.82	\$	645.30
Class C units	\$	684.70	\$		\$	
Common units:						
Basic	\$	942.89	\$	11.63	\$	555.59
Diluted	\$	570.29	\$	3.88	\$	40.72
Weighted average units outstanding:						
Preferred units		96,682		61,003		44,962
Class C units		3,382				
Common units:						
Basic		9,448		3,470		345
Diluted		15,622		10,410		4,704

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	December 31, 2012	December 31, 2011	December 31, 2010
(in thousands)			
Balance Sheet Data Condensed Consolidated			
ASSETS			
Cash and short term investment, at fair value	\$ 65,487	\$ 32,506	\$ 15,241
Mortgage loans held for sale at fair value	448,384	89,857	14,720
Servicing advances	93,152	63,565	22,811
Receivable from Advised Entities	20,363	19,864	13,687
Carried interest due from Investment Funds	47,723	37,250	24,654
Mortgage servicing rights	108,975	32,124	31,957
Other	48,079	14,115	5,332
 Total assets	 \$ 832,163	 \$ 289,281	 \$ 128,402
LIABILITIES			
Loans sold under agreements to repurchase	\$ 393,534	\$ 77,700	\$ 13,289
Note payable	53,013	18,602	3,499
Derivative liabilities	509		
Payable to PennyMac Mortgage Investment Trust	46,779	25,595	2,842
Payable to Investment Funds	36,795	29,622	13,262
Accounts payable and accrued expenses	36,279	13,398	5,352
Liability for losses under representations and warranties	3,504	449	189
 Total liabilities	 570,413	 165,366	 38,433
MEMBERS' EQUITY	261,750	123,915	89,969
 Total liabilities and members' equity	 \$ 832,163	 \$ 289,281	 \$ 128,402
OPERATING METRICS			
Net assets under management of the Advised Entities	\$ 1,792,490	\$ 1,166,095	\$ 883,338
Mortgage loans serviced (unpaid balance)	\$ 28,152,549	\$ 7,736,608	\$ 5,358,819
Number of mortgage loans serviced	123,453	36,395	26,022

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read this discussion together with the consolidated financial statements, related notes and other financial information included in this prospectus. The following discussion may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed under "Risk Factors" and elsewhere in this prospectus. These risks could cause our actual results to differ materially from any future performance suggested below. Accordingly, you should read "Special Note Regarding Forward-Looking Statements" and "Risk Factors."

Overview

We are a specialty financial services firm that operates in two segments: mortgage banking and investment management.

Mortgage Banking

Our mortgage banking segment is comprised of three primary businesses: correspondent lending, retail lending, and loan servicing.

Correspondent Lending. Our correspondent lending business manages, on behalf of PMT and for our own account, the acquisition of newly originated, prime credit quality, first-lien residential mortgage loans that have been underwritten to investor guidelines. PMT acquires, from approved correspondent sellers, newly originated loans, primarily "conventional" residential mortgage loans guaranteed by the GSEs and "government-insured" residential mortgage loans insured or guaranteed by the FHA or the VA and eligible to back securities guaranteed by Ginnie Mae. For conventional loans, we perform fulfillment activities for PMT and earn a fee for each loan sold by PMT. In the case of government-insured loans, we purchase them from PMT at PMT's cost plus a sourcing fee and fulfill them for our own account.

Retail Lending. Our retail lending business originates new prime credit quality, first-lien residential conventional and government-insured mortgage loans on a national basis to allow customers to purchase or refinance their homes. We conduct this business through a consumer direct model, which relies on the Internet and call center-based staff to acquire and interact with customers across the country. We do not have a "brick and mortar" branch network and have been developing our consumer direct operations with call centers strategically positioned across the United States. We use sophisticated telephony and lead-management software to improve conversion rates, deliver outstanding customer service, manufacture high-quality loans and lower costs.

Loan Servicing. Our loan servicing business performs loan administration, collection, and default activities, including the collection and remittance of loan payments; response to customer inquiries; accounting for principal and interest; holding custodial (impound) funds for the payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising foreclosures and property dispositions. We service a diverse portfolio of loans both as the owner of MSRs and on behalf of other MSR or mortgage owners. We provide prime servicing for prime loans, conventional and government-insured loans, as well as special servicing for distressed whole loans that have been acquired as investments by our Advised Entities, and loans in "private-label" MBS securities, which are securities issued by institutions that are not affiliated with any Agency.

During the year ended December 31, 2012, we managed PMT's acquisition of approximately \$21.5 billion in unpaid principal balance of newly originated, prime credit quality, first-lien residential mortgage loans, of which we purchased approximately \$8.4 billion of government-insured loans from PMT for our own account. We also originated \$534.5 million of residential mortgage loans through our retail channel during the year ended December 31, 2012. During the year ended December 31, 2012,

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we increased our portfolio of loans that we serviced or subserviced from approximately \$7.7 billion to approximately \$28.2 billion.

During the year ended December 31, 2011, we managed PMT's acquisition of approximately \$1.3 billion of newly originated, prime credit quality, first-lien residential mortgage loans, of which we purchased \$548.6 million of government-insured loans from PMT for our own account. We also originated \$148.8 million of residential mortgage loans through our retail channel during the year ended December 31, 2011. During the year ended December 31, 2011, we increased our portfolio of loans that we serviced or subserviced from approximately \$5.4 billion to \$7.7 billion.

Investment Management

We are an investment manager through our wholly-owned subsidiary, PCM. PCM currently manages PMT and the Investment Funds, which had combined net assets of approximately \$1.8 billion as of December 31, 2012. For these activities, we earn management fees as a percentage of net assets and incentive compensation based on investment performance. To date, we have achieved strong investment performance in all Advised Entities largely through the successful execution of PCM's strategy of investing in distressed mortgage loans.

Observations on Current Market Opportunities

Our business is affected by macroeconomic conditions in the United States, including economic growth, unemployment rates, the residential housing market and interest rate levels and expectations. During 2012, the U.S. economy continued its pattern of modest growth as reflected in recent economic data. Real U.S. gross domestic product, as reported by the Bureau of Economic Analysis, expanded at an annual rate of 2.2% for 2012 as compared to a revised 1.8% annual rate for 2011. The seasonally adjusted national unemployment rate, as reported by the Bureau of Labor Statistics, was 7.8% at December 31, 2012, the fourth consecutive month the rate was below 8% and equaling the previous lowest rate for the year, and compares to an unemployment rate of 8.5% at December 31, 2011. Declining unemployment may, however, be partially reflective of a declining workforce labor participation rate. Despite the decline below 8% as of September 2012, the persistently high monthly unemployment rate, which had been above 8% since February 2009, continues to be reflected in high delinquency rates on single family residential mortgage loans. As reported by the Federal Reserve, during the first three quarters of 2012 charge-off and delinquency rates on loans and leases at commercial banks ranged from a low of 10.3% for the first quarter to a high of 10.6% for the third quarter, a modest reduction from the recent high of 11.26% during the first quarter of 2010.

Residential real estate activity appears to be modestly improving. The seasonally adjusted annual rate of existing home sales for December 2012, as reported by the National Association of Realtors®, or NAR, was 12.1% higher than for December 2011. The national median existing home price for all housing types in December 2012, as reported by the NAR, was \$180,800, an 11.5% increase from December 2011, and represents the 10th consecutive month of year-over-year price gains as well as the largest year-over-year price increase reported in any one month since November 2005. Foreclosure filings, as reported by RealtyTrac, on a national level decreased 3% during 2012 as compared to 2011 and declined 36% from the foreclosure filings peak in 2010 with December 2012 filings representing a 68 month low. However, foreclosure activity in 2012 increased from 2011 in 25 states, primarily those states with longer judicial foreclosure processes as lenders began catching up with their foreclosure backlogs. Nationwide, the average time to foreclose increased to 414 days during the fourth quarter of 2012 from 348 days in the fourth quarter of 2011. As of January 2013, 26% of all homes with outstanding mortgages had a balance owed that was at least 25% more than the value of the homes collateralizing such loans, down from 28% of all homes with outstanding mortgages in January 2012 as reported by RealtyTrac.

Thirty-year fixed rate mortgage interest rates ranged from a high of 4.08% to a low of 3.31% during 2012 with the low of 3.31% representing an all-time record low for the thirty-year fixed rate

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mortgage as reported by Freddie Mac's Weekly Primary Mortgage Market Survey. The average annual interest rate for the thirty-year fixed rate mortgage in 2012 was 3.66% compared to 4.45% in 2011.

In our capacity as an investment manager, we continue to see substantial volumes of distressed residential mortgage loan sales by a limited number of sellers, which remain primarily sales of nonperforming loan pools, with a small but increasing number of sales of troubled but performing loans. During 2012, we reviewed 96 mortgage loan pools on behalf of PMT with unpaid principal balances totaling approximately \$19.7 billion and one pool of real estate acquired in settlement of loans totaling approximately \$30.1 million for potential purchase. We managed the acquisition on behalf of PMT of distressed mortgage loans with unpaid principal balances totaling \$1.1 billion during 2012, of which \$952.3 million was acquired from or through one or more subsidiaries of Citigroup Inc.

During 2011, we reviewed on behalf of PMT and the Investment Funds 88 mortgage loan pools with unpaid principal balances totaling approximately \$13.6 billion for potential purchase. During 2011, we managed the acquisitions on behalf of PMT and the Investment Funds of distressed mortgage loans with unpaid principal balances totaling \$2.0 billion, of which \$1.7 billion was acquired from or through one or more subsidiaries of Citigroup Inc.

In recent periods we have seen increased competition from new and existing market participants in both our correspondent lending and retail origination businesses, as well as reductions in the overall level of refinancing activity. We believe that this change in supply and demand within the marketplace has been driving lower production margins in recent periods, which will be reflected in our results of operations in our gains on mortgage loans held for sale. Although margins on gains from mortgage loans held for sale benefitted from wider secondary spreads (the difference between interest rates charged to borrowers and yields on mortgage-backed securities in the secondary market) early in the fourth quarter of 2012, margins narrowed somewhat as the quarter progressed. While production margins remained elevated from a historical perspective during the fourth quarter of 2012, we expect them to begin normalizing towards their long-term averages in 2013, and we have begun to see evidence of this normalization in the first quarter of 2013.

Reporting Metrics and Prospective Trends

We expect our results of operations to be affected by various factors, many of which are beyond our control. Our primary sources of income are from:

net servicing income;

gains on mortgage loans held for sale, including commitments to purchase or originate mortgage loans and the related hedging instruments;

management fees from PMT and the Investment Funds and carried interest from the Investment Funds; and

fulfillment fees from PMT.

Net Servicing Income

We service loans either through subservicing arrangements with PMT and the Investment Funds or for our own account as a result of our purchase of MSRs and our retention of MSRs associated with the loans that we originate or purchase for sale. Net servicing income includes the fees that we earn as well as the amortization, impairment and changes in fair value that we recognize from holding MSRs. A significant component of our net servicing income is driven by the changes in the fair value of the MSRs that we hold. Changes in the fair value of MSRs are significantly influenced by prepayment expectations and actual prepayments relating to the underlying loans.

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Loans Serviced for PMT

Under the terms of our prior loan servicing agreement with PennyMac Operating Partnership, L.P., the operating partnership subsidiary of PMT, servicing fee rates for the historical periods presented in the consolidated financial statements included in this prospectus were based on the risk characteristics of the mortgage loans serviced and total servicing compensation was established at levels that management believed was competitive with those charged by other servicers or special servicers, as applicable.

Subservicing fee rates for distressed loans owned by PMT ranged between 30 and 100 basis points per year of the unpaid principal balance of such loans we subserviced for PMT for all periods prior to February 1, 2013. We were also entitled to certain customary market-based fees and charges, including boarding and deboarding fees, ancillary fees, activity fees, liquidation and disposition fees, assumption, modification fees and late charges, as well as interest on funds on deposit in custodial accounts. In the event we either effected a refinancing of a loan on PMT's behalf and not through a third-party lender and the resulting loan was readily saleable, or originated a loan to facilitate the disposition of real estate that PMT had acquired in settlement of a loan, we were entitled to receive market-based fees and compensation from PMT.

Subservicing fee rates for mortgage loans acquired by PMT through our correspondent lending business and in respect of which PMT retains the MSRs ranged between 4 and 20 basis points per year of the unpaid principal balance of such loans for all periods prior to February 1, 2013. We were also entitled to other customary market-based fees and charges.

Effective February 1, 2013, we amended our loan servicing agreement with PMT and established servicing fees at fixed per-loan monthly amounts based on the delinquency, bankruptcy and foreclosure status of the serviced loan or the real estate acquired in settlement of a loan. Amounts for the historical periods presented in the consolidated financial statements included in this prospectus do not reflect the amended agreement, as it was not in effect during the historical periods presented. However, we do not expect the amendment to have a significant effect on the level of fees that we record for loans serviced for PMT. See the description of the new terms of the loan servicing agreement under "Certain Relationships and Related Party Transactions Servicing Agreements."

Loans Serviced for Investment Funds

Our servicing agreements with the Investment Funds generally provide for fee revenue of between 45 and 100 basis points of unpaid principal balance per year, which varies depending on the type and quality of the loans being serviced. We are also entitled to certain customary market-based fees and charges.

Under the servicing agreements between us and one of the Investment Funds, on December 31, 2011 and at the end of every calendar year thereafter, we will also rebate to the fund an amount equal to the cumulative profit, if any, of the servicing operations attributable to the fund's assets, and, conversely, charge the fund if a loss has been incurred in order to effect overall "at cost" pricing with respect to loan servicing activities for such assets.

Under the agreements, we will also rebate to the Investment Funds 50% of any profit generated from loan originations resulting from the refinancing of, or modification activities with respect to, loans that we subservice on behalf of the Investment Funds. This arrangement was changed effective January 1, 2012 with respect to one of the Investment Funds, whereby we settled our accrued servicing fee rebate with the fund and amended the related servicing agreement to charge scheduled servicing fees in place of the previous "at cost" servicing arrangement. We record the net rebate amounts as earned or incurred.

On our account, as well as on behalf of PMT and the Investment Funds, we participate in HAMP (and other similar mortgage loan modification programs). HAMP establishes standard loan

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modification guidelines for "at risk" homeowners and provides incentive payments to certain participants, including loan servicers, for achieving modifications and successfully remaining in the program. Our loan servicing agreements entitle us to retain any incentive payments that we receive and to which we are entitled under HAMP; provided, however, that with respect to any such incentive payments paid to us under HAMP in connection with a mortgage loan modification for which we previously were paid an incentive fee by PMT or the Investment Funds, we will reimburse PMT or the Investment Fund an amount equal to the lesser of such modification fee or such incentive payments.

Loans Serviced for Non-affiliates

Our servicing agreements with non-affiliates were initially primarily special servicing arrangements with non-affiliated entities in support of mortgage securitizations and provided for servicing fees of approximately 50 basis points per year of the UPB of the loans. Beginning late in 2011, as our correspondent lending activities began to grow, the primary composition of our servicing for non-affiliates began to shift from special servicing to prime servicing primarily of government-insured or guaranteed loans included in pools of loans securing Ginnie Mae-guaranteed securities that we originated through our correspondent lending activities and sold to third parties on a servicing-retained basis. Such loans have contractual servicing fee rates ranging from 19 to 44 basis points net of guarantee fees. As with other servicing arrangements, we are also entitled to ancillary fees such as late charges and other fees allowable for government-insured or guaranteed loans.

Valuation, Amortization, Impairment and Change in Estimated Fair Value of Mortgage Servicing Rights

MSRs represent the value of a contract that obligates us to service the mortgage loans on behalf of the owner of the loan in exchange for servicing fees and the right to collect certain ancillary income from the borrower. We recognize MSRs at our estimate of the fair value of the contract to service the loans.

How much of the MSR we realize in cash depends upon how our initial estimates of the future cash flows accruing to the MSRs are realized. As economic fundamentals influencing the loans change, our estimate of the fair value of the related MSR we retain will also change. As a result, we will record changes in fair value as a component of net servicing income for the MSRs we carry at fair value, and we may recognize changes in fair value relating to our MSRs carried at the lower of amortized cost or fair value depending on the relationship of the asset's fair value to its amortized cost at the measurement date. See "Note 9 Fair Value" in the Notes to Consolidated Financial Statements for the years ended December 31, 2012, 2011 and 2010 for key assumptions used in determining the fair value of MSRs at the time of the initial recognition and at period end for the periods covered by our financial statements.

After the initial recognition of MSRs, we account for such assets based on the initial interest rates of the mortgage loans underlying the respective MSRs. We account for MSRs differently based on whether the interest rates of the mortgage loans underlying such assets are above 4.5% because we have concluded that mortgage loans with initial interest rates of 4.5% or less present different risks to us than MSRs relating to mortgage loans with initial interest rates of more than 4.5% and, therefore, require a different risk management approach. Our risk management efforts relating to originated MSRs relating to mortgage loans with initial interest rates of 4.5% or less are aimed at moderating the effects of non-interest rate risks on fair value, such as the effect of changes in home prices on the assets' values. Our risk management efforts in connection with MSRs relating to mortgage loans with initial interest rates of more than 4.5% are aimed at moderating the effects of changes in interest rates on the assets' values.

We account for MSRs relating to mortgage loans with initial interest rates of more than 4.5% at fair value. Changes in the fair value of MSRs carried at fair value are included in current period results of operations as a component of net servicing income.

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We account for MSR accounting relating to mortgage loans with initial interest rates of less than or equal to 4.5% using the amortization method. Under the amortization method, we amortize the cost of MSRs in proportion to, and over the period of, net servicing income for the mortgage loans underlying the respective assets.

We also evaluate MSRs accounted for using the amortization method for impairment with reference to the assets' fair value at the measurement date. Impairment occurs when the current fair value of the MSR falls below the asset's carrying value (carrying value is the amortized cost reduced by any related valuation allowance). If MSRs are impaired, the impairment is recognized in current period income and the carrying value of the MSRs is adjusted through a valuation allowance. If the value of impaired MSRs subsequently increases, we recognize the increase in value in current period income and, through a reduction in the valuation allowance, adjust the carrying value of the MSRs to a level not in excess of amortized cost.

When evaluating MSRs for impairment, we stratify the assets by predominant risk characteristic including loan type (fixed-rate or adjustable-rate) and note rate. We stratify fixed-rate loans into note rate pools of 50 basis points for note rates between 3.0% and 4.5% and a single pool for note rates below 3%. We evaluate adjustable-rate mortgage loans with initial interest rates of 4.5% or less in a single pool.

We periodically review the various impairment strata to determine whether the value of the impaired MSRs in a given stratum is likely to recover. When we deem recovery of the value to be unlikely in the foreseeable future, a write-down of the cost of the MSRs for that stratum to its estimated recoverable value is charged to the valuation allowance.

Amortization and impairment of MSRs accounted for using the amortization method are included in current period results of operations as a component of net servicing income.

For more information on the key assumptions used in determining the fair value of MSRs at the time of initial recognition for the historical periods presented in the consolidated financial statements included in this prospectus, see "Note 9 Fair Value Mortgage Servicing Rights" in the Notes to Consolidated Financial Statements for the years ended December 31, 2012, 2011 and 2010.

Gain on Mortgage Loans Held for Sale

When we sell our mortgage loans, we record a gain or loss which is determined by the nature and terms of the transaction. The gain or loss that we realize on the sale of loans acquired through our mortgage lending activities is primarily determined by the price paid for purchased loans or the terms of originated loans, the effect of any hedging and other risk management activities that we undertake, the sales price of the loan and the value of any MSRs received in the transaction. Gain on mortgage loans held for sale is significantly influenced by mortgage loan prepayment activity which is, in turn, significantly influenced by the level and direction of mortgage interest rates. Certain of these factors are beyond our control.

Our gain on mortgage loans held for sale includes both cash and non-cash elements. We receive proceeds on sale that include both cash and our estimate of the value of MSRs. We also provide an estimate of our losses relating to representations and warranties that we make to the investors.

We recognize the fair value of loan commitments we make to borrowers and commitments to PMT to purchase government-insured loans. We refer to these commitments as interest rate lock commitments, or IRLCs. We recognize the value of these commitments upon their issuance, which is generally before we purchase the mortgage loans subject to the commitment. We presently issue interest rate lock commitments with commitment periods ranging to sixty days. The value that we assign to an IRLC is estimated based on our estimated gain on sale of a mortgage loan funded under the commitment, adjusted for the probability that the loan will fund or be purchased within the terms of the IRLC. The IRLC is subject to changes in fair value as the loan approaches funding, as market

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interest rates for similar loans change and as our assessment of the probability of the funding of mortgage loans at similar points in the origination process changes. The value of an IRLC can be either positive or negative, depending on the relationship of the mortgage loan's interest rates to current market rates for similar mortgage loans.

The primary factor influencing the probability that the loan will fund within the terms of the IRLC is the change, if any, in mortgage interest rates subsequent to the commitment date. In general, the probability of funding increases if current rates rise and decreases if current rates fall. This is due primarily to the relative attractiveness of current mortgage interest rates compared to the applicant's committed rate. The probability that a loan will fund within the terms of the IRLC is also influenced by the source of the application, age of the application, purpose of the loan (purchase or refinance) and the application approval rate. We have developed closing ratio estimates using empirical data that take into account all of these variables, as well as renegotiations of rate and point commitments that tend to occur when mortgage interest rates fall. These closing ratio estimates are used to calculate the aggregate balance of loans that we expect to fund within the terms of the IRLCs.

We manage the risk created by IRLCs relating to mortgage loans and by our inventory of mortgage loans held for sale by entering into forward sale agreements to sell the mortgage loans and by the purchase and sale of MBS options and futures. Such agreements are accounted for as derivative instruments.

We account for our derivative financial instruments as free-standing derivatives. We do not designate our forward sale agreements or options and futures for hedge accounting. We recognize all of our derivative financial instruments on the balance sheet at fair value with changes in the fair value being reported in current period income as a component of net gain on mortgage loans held for sale.

We also provide for our estimate of the fair value of future losses that we may be required to incur as a result of our breach of representations and warranties provided to the purchasers of the loans we have sold. The representations and warranties require adherence to investor or insurer origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

In the event of a breach of our representations and warranties, we may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor, or may become ineligible to receive any of the benefits provided by the insurer with respect to such mortgage loans. In such cases, we bear any subsequent credit loss on the mortgage loans. Our losses from representations and warranties may be reduced by any recourse that we have to correspondent lenders that, in turn, had sold such mortgage loans to us through PMT and breached similar or other representations and warranties. In such event, we generally have the right to seek a repurchase or indemnity from that originator through PMT.

We record a provision for losses relating to such representations and warranties as part of our loan sale transactions. The method we use to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimated future defaults and loan repurchase rates, the potential severity of loss in the event of defaults and the probability of reimbursement by the correspondent loan seller. We establish a liability at the time loans are sold and continually update our liability estimate.

The level of the liability for losses from representations and warranties is difficult to estimate and requires considerable management judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor repurchase demand strategies, and other external conditions that may change over the lives of the underlying loans. Our representations and warranties are generally not subject to stated limits of exposure. However, we believe that the current unpaid principal balance of loans that we have sold to date represents the maximum exposure to repurchases related to representations and warranties.

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We evaluate the adequacy of our liability for losses from representations and warranties based on our loss experience and our assessment of future losses to be incurred relating to loans that we have previously sold and which remain outstanding at the balance sheet date. As our portfolio of loans sold subject to representations and warranties grows and as economic fundamentals change, such adjustments can be material. However, we believe that our current estimates adequately approximate the future losses to be incurred on our servicing portfolio of mortgage loans sold subject to such representations and warranties.

For more information on our estimates of our liability for representations and warranties for the historical periods presented in the consolidated financial statements included in this prospectus, see "Note 17 Liability for Representations and Warranties" in the Notes to Consolidated Financial Statements for the years ended December 31, 2012, 2011 and 2010.

Management Fees and Carried Interest

In our investment management activities, we earn management fees from PMT and we earn management fees and carried interest from the Investment Funds.

The management fees that we are entitled to receive from PMT have two components: a base component and a performance incentive component. Under our prior management agreement with PMT, which was effective during the historical periods presented in the consolidated financial statements included in this prospectus, the terms of the two components were as follows:

Base component. The base component was calculated at the annual rate of 1.5% of shareholders' equity (as defined in the management agreement). Effective May 16, 2012, we amended our management agreement with PMT to change the way that shareholders' equity was measured for purposes of calculating the base component of our management fee. Previously, the measure of PMT's shareholders' equity excluded unrealized gains, losses or other non-cash items reflected in PMT's financial statements. To better align the base component of our management fee with PMT's investment strategy, we amended the management agreement to base the management fee on shareholders' equity computed using United States generally accepted accounting principles, or U.S. GAAP. The effect of this modification had been to increase the base management fee that we received from PMT since the agreement was amended.

Performance incentive component. The performance incentive fee was calculated at 20% per year of the amount by which "core earnings" (as defined in the management agreement, "core earnings" generally represented PMT's net income, adjusted for the effects of unrealized gains and losses recognized in earnings), on a rolling four-quarter basis and before the incentive fee, exceeded an 8% "hurdle rate." PMT's "core earnings" (as defined) did not exceed the 8% hurdle rate and we therefore did not recognize the incentive component of our management fees.

Effective February 1, 2013 we amended the terms of our management agreement with PMT. The amendment reduced the annual rate of the base component of the management fee applicable to shareholders' equity in excess of \$2.0 billion and it changed the basis on which the performance incentive portion of our management fee is calculated from "core earnings," as defined under the prior agreement, to earnings as determined in accordance with U.S. GAAP. As a result of this change, we expect to earn and recognize the performance incentive portion of our management fee on a prospective basis. See the new terms of this agreement at "Certain Relationships and Related Party Transactions Management Agreements."

For periods through December 31, 2011, the management fees that we received from the Investment Funds were based on the respective funds' capital commitments. For subsequent periods, the management fees have been based on the lesser of the funds' net asset values or aggregate capital contributions. The base management fees accrue at annual rates ranging from 1.5% to 2.0% of the applicable amounts on which they are based.

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The carried interest that we recognize from the Investment Funds is determined by the Investment Funds' performance and our contractual rights to share in the Investments Funds' returns in excess of the preferred returns accruing to the investors, if any. We recognize carried interest as a participation in the profits in the Investment Funds after the investors in the Investment Funds have achieved a preferred return as defined in the fund agreements. After the investors have achieved the preferred returns specified in the respective fund agreements, a "catch up" return accrues to us until we receive a specified percentage of the preferred return. Thereafter, we participate in future returns in excess of the preferred return at the rates specified in the fund agreements.

The investment period for the Investment Funds ended on December 31, 2011. The amount of the carried interest that we will receive depends on the Investment Funds' future performance. As a result, the amount of carried interest recorded by us at period end is subject to adjustment based on future results of the Investment Funds. We expect to collect the carried interest when the Investment Funds liquidate. The Investment Funds will continue in existence through December 31, 2016, subject to three one-year extensions by PCM at its discretion, in accordance with the terms of the agreements that govern the Investment Funds.

Fulfillment Fees from PennyMac Mortgage Investment Trust

In connection with our correspondent lending business, we provide certain mortgage banking services to PMT, including fulfillment and disposition-related services, for a fulfillment fee based on a percentage of the UPB of the mortgage loans sold to non-affiliates. In general, the fulfillment fee for such services is based on the type of mortgage loan acquired by PMT and equal to a percentage of the unpaid balance of such mortgage loan.

Effective February 1, 2013, we terminated our prior amended and restated mortgage banking services agreement with PMT and entered into a new mortgage banking and warehouse services agreement and on March 1, 2013, we amended Exhibit A to the new agreement. The new agreement, as amended, provides for the reimbursement of a portion of the fulfillment fee applicable to PMT's acquisition of mortgage loans in excess of specified monthly thresholds. In the event that PMT acquires mortgage loans with an aggregate UPB in any month greater than \$2.5 billion but less than or equal to \$5 billion, we have agreed to discount the amount of such fulfillment fees by reimbursing PMT in an amount equal to the product of (i) .025%, (ii) the amount of unpaid principal balance in excess of \$2.5 billion, and (iii) the percentage of the aggregate unpaid principal balance relating to mortgage loans for which we collected fulfillment fees in such month. In the event that PMT acquires mortgage loans in any month with an aggregate UPB greater than \$5 billion, we have agreed to discount the amount of such fulfillment fees by reimbursing PMT in an amount equal to the product of (i) .05%, (ii) the amount of unpaid principal balance in excess of \$5.0 billion, and (iii) the percentage of the aggregate unpaid principal balance relating to mortgage loans for which we collected fulfillment fees in such month. See a further description of the terms of this agreement under "Certain Relationships and Related Party Transactions Other Agreements with PMT."

Expenses

We incur compensation and overhead expenses necessary to run our business. The level of these expenses depends, in part, on the nature and amount of assets that we manage for our investment management clients, the volume of mortgage loans and mix of such loans between performing and distressed mortgage loans that we service, and the level of loan origination and purchase activity that we manage and conduct for our own account. Many of these expenses (such as certain technology costs and the cost of experienced specialized managers and staff necessary to manage and execute the specialized activities in which we engage) are fixed and require us to operate at an adequate level of activity to operate profitably.

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The following is a summary of the composition of expenses included in the various expense line items:

Compensation includes salaries, incentive awards, employee benefits and non-cash equity-based compensation that we award certain members of our management.

Professional services includes expenses that we incur in our loan servicing and origination quality control functions (such as property valuation reviews and third-party underwriting reviews), legal fees and fees we pay for accounting and auditing services.

Occupancy includes our lease costs, utilities, maintenance and security expenses related to the operation of our facilities.

Technology includes software licenses and data service subscriptions and telephone and data communications costs.

Interest includes the expense that we incur in financing our inventory of mortgage loans held for sale and our loan servicing advances.

Servicing includes expenses related to customer mailings, unreimbursed direct servicing expenses, tax service expenses, document imaging and other expenses directly related to our servicing of mortgage loans.

Loan origination includes the unreimbursed portion of direct out-of-pocket expenses that we incur in the loan origination process, including collateral review expenses, credit reports and other expenses paid to non-affiliates.

Our management agreement with PMT provides us with the right to allocate a portion of certain overhead charges to PMT based on PMT's assets as a percentage of the total assets we manage. For the actual expenses allocated to PMT in the historical periods presented in the consolidated financial statements included in this prospectus, refer to the discussion and tables under " Results of Operations Expenses Allocated to PMT."

Other Factors Influencing Our Results

Prepayment Speeds. Prepayment speeds, as reflected by the constant prepayment rate, vary according to interest rates, the type of investment, conditions in the housing and financial markets, competition and other factors, none of which can be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans and, as a result, prepayment speeds tend to decrease. This can extend the period over which we earn servicing income but reduce the demand for new mortgage loans. When interest rates fall, prepayment speeds tend to increase, thereby decreasing the value of MSR's and shortening the period over which we earn servicing income but increasing the demand for new mortgage loans.

Changing Interest Rate Environment. Generally, when interest rates rise, the value of mortgage loans and interest rate lock commitments decrease while the value of hedging instruments related to such loans and commitments increases. When interest rates fall, the value of mortgage loans and interest rate lock commitments increases and the value of hedging instruments related to such loans and commitments decrease. Decreasing interest rates also precipitate increased loan refinancing activity by borrowers seeking to benefit from lower mortgage interest rates.

Changing Home Prices Affect REO Property Disposition Proceeds. The state of the real estate market and home prices at the time of sale will determine proceeds from the sale of REO properties. Generally, rising home prices are expected to positively affect our results from REO properties for loans serviced under agreements whereby we retain some risk on REO sales. Conversely, declining real estate prices are expected to negatively affect our results from REO properties. We cannot predict future home prices with any certainty.

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Risk Management Effectiveness Credit Risk. We are subject to the risk of potential credit losses on all of the residential mortgage loans that we hold for sale or investment as well as for losses incurred by investors in mortgage loans that we sell to them as a result of breaches of representations and warranties we make as part of the loan sales. The representations and warranties require adherence to investor or guarantor origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. The level of mortgage loan repurchase losses is dependent on economic factors, investor repurchase demand strategies, and other external conditions that may change over the lives of the underlying loans.

Risk Management Effectiveness Interest Rate Risk. Because changes in interest rates may significantly affect our activities, our operating results will depend, in large part, upon our ability to effectively manage interest rate risks and prepayment risks, including risk arising from the change in value of our inventory of mortgage loans held for sale and commitments to fund mortgage loans and related hedging derivative instruments, as well the effects of changes in interest rates on the value of our investment in MSR's. See " Quantitative and Qualitative Disclosures about Market Risk" for a discussion on the effects of changes in interest rates on the recorded value of our MSR's.

Liquidity. Our ability to operate profitably is dependent on both our access to capital to finance our assets and our ability to profitably sell and service mortgage loans. An important source of capital for the residential mortgage industry is warehouse financing facilities. These facilities provide funding to mortgage loan producers until the loans are sold to investors or securitized in the secondary mortgage loan market. Our ability to hold loans pending sale and/or securitization depends, in part, on the availability to us of adequate financing lines of credit at suitable interest rates. During any period in which a borrower is not making payments, if we own the MSR then we may be required to advance our own funds to meet contractual principal and interest remittance requirements for investors and advance costs of protecting the property securing the investors' loan and the investors' interest in the property. We finance a portion of these advances under bank lines of credit. The ability to obtain capital to finance our servicing advances at appropriate interest rates influences our ability to profitably service delinquent loans. See " Liquidity and Capital Resources" and " Off-Balance Sheet Arrangements and Aggregate Contractual Obligations Debt Obligations."

Servicing Effectiveness. In cases where we own the MSR, our servicing fee rates for loans serviced for non-affiliates are generally at specified servicing rates that do not change with a loan's performance status. As a mortgage loan becomes delinquent and moves through the delinquency process to settlement through acquisition of the property or partial payoff, the loan requires greater effort on our part to service. Increased mortgage delinquencies, defaults and foreclosures will therefore result in a higher cost to service those loans due to the increased time and effort required to collect payments from delinquent borrowers. Therefore, how efficiently we are able to maintain the credit quality of our portfolio of serviced mortgage loans and address the mortgage loans where the borrower has defaulted influences the level of expenses that we incur in the mortgage loan servicing process.

Critical Accounting Policies

We have identified the following to be our most critical accounting policies:

Valuation of Financial Instruments

We have elected to record our non-cash financial assets at fair value and group them in three levels, based on the markets in which the assets are traded and the observability of the assumptions used to determine fair value. These levels are:

Level 1 Quoted prices in active markets for identical assets or liabilities.

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Level 2 Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing an asset or liability and are developed based on market data obtained from sources independent of us. These may include quoted prices for similar assets or liabilities, interest rates, prepayment speeds, credit risk and others.

Level 3 Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect our assumptions about the factors that market participants use in pricing an asset or liability, and are based on the best information available under the circumstances.

The valuation method used to estimate fair value may produce a fair value measurement that may not be indicative of ultimate realizable value. Furthermore, while we believe our valuation methods are appropriate and consistent with those used by other market participants, the use of different methods or assumptions to estimate the fair value of certain financial statement items could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such items existed, or had such items been liquidated, and those differences could be material to the financial statements.

Mortgage Loans Held for Sale and Related Derivative Financial Instruments

We have elected to have mortgage loans held for sale accounted for at fair value, with changes in fair value recognized in current period income. We have elected to record mortgage loans held for sale at fair value so changes in fair value will be reflected in results of operations as they occur and more timely reflect the results of our performance. Accordingly, changes in the estimated fair value of mortgage loans are recognized in current period income. All changes in fair value, including changes arising from the passage of time, are recognized as a component of net gains on mortgage loans held for sale at fair value. We classify mortgage loans held for sale at fair value as "Level 2" fair value financial statement items.

Mortgage loans that are saleable into active markets are categorized as "Level 2" fair value financial statement items and their fair values are estimated using their quoted market price or market price equivalent.

Loans that are not saleable into active markets are categorized as "Level 3" fair value financial statement items, and their fair values are estimated using a discounted cash flow valuation model. Inputs to the model include current interest rates, loan amount, payment status and property type, and forecasts of future interest rates, home prices, prepayment speeds, defaults and loss severities. The estimates of value are made by our financial analysis and valuation group and reviewed and approved by our senior management valuation committee.

Our interest rate lock commitments are categorized as a "Level 3" fair value financial statement item. Inputs to the estimation of the fair value of interest rate lock commitments include the pull-through rate and MSR value, which we classify as "Level 3" inputs. Changes in the value of interest rate lock commitments are included in gain on mortgage loans held for sale at fair value. Beginning in the fourth quarter of 2012, we began using a portion of our interest rate lock commitments as an economic hedge of our MSRs.

The derivative financial instruments that we acquire to manage the price risk arising from making interest rate lock commitments and holding mortgage loans held for sale at fair value are categorized as "Level 2" financial statement items and their fair values are estimated using quoted market prices or market price equivalents. Changes in the fair value of derivatives used to manage price risk are included in gain on mortgage loans held for sale at fair value in our consolidated statement of income.

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Mortgage Servicing Rights

We recognize MSR's initially at their estimated fair values, either from sales of mortgage loans where we retain the right to service the loan in the sale transaction, or from the purchase of MSR's. MSR's arise from contractual agreements between us and the investors (or their agents) in mortgage securities and mortgage loans. Under these contracts, we are responsible for loan servicing functions in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest; holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising the acquisition of real estate collateralizing the mortgage loans in settlement thereof and property dispositions.

The value of MSR's is derived from the net positive cash flows associated with the servicing contracts. We receive servicing fees ranging generally from 0.25% to 0.38% annually on the remaining outstanding principal balances of the loans subject to the servicing contracts. The servicing fees are collected from the monthly payments made by the mortgagors. We generally receive other remuneration including rights to various mortgagor-contracted fees such as late charges, collateral reconveyance charges and loan prepayment penalties, and we are generally entitled to retain the interest earned on funds held pending remittance for mortgagor payments.

The fair value of MSR's is difficult to determine because MSR's are not actively traded in stand-alone markets. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect our income. MSR values are estimated by our financial analysis and valuation group and are reviewed and approved by our senior management valuation committee. Therefore, we classify our MSR's as "Level 3" fair value financial statement items.

We use a discounted cash flow approach to estimate the fair value of MSR's. This approach consists of projecting servicing cash flows discounted at a rate that we assume market participants would use in their determinations of value. The cash flow and prepayment assumptions used in our discounted cash flow model are based on market factors which we believe are consistent with assumptions and data used by market participants valuing similar MSR's.

The key assumptions used in the valuation of MSR's include mortgage prepayment speeds, cost to service the loans and discount rates. These variables can, and generally do, change from period to period as market conditions change.

Our subsequent accounting for MSR's is based on the class of MSR's. We have identified two classes of MSR's: originated MSR's backed by mortgage loans with initial interest rates of less than or equal to 4.5% and MSR's backed by mortgage loans with initial interest rates of more than 4.5%. Originated MSR's backed by mortgage loans with initial interest rates of less than or equal to 4.5% are accounted for using the amortization method. MSR's backed by loans with initial interest rates of more than 4.5% are accounted for at fair value with changes in fair value recorded in current period income. We distinguish between these classes of MSR's due to the differing factors that can cause changes in prepayment speeds of the underlying loans, which in turn cause changes in the fair value of the MSR's.

MSR's Accounted for Using the MSR Amortization Method

We amortize MSR's accounted for using the amortization method. MSR amortization is determined by applying the ratio of the net MSR cash flows projected for the current period to the estimated total remaining net MSR cash flows. The estimated total net MSR cash flows are determined at the beginning of each month using prepayment assumptions applicable at that time.

We assess MSR's accounted for using the amortization method for impairment monthly. Impairment occurs when the current fair value of the MSR falls below the asset's carrying value (carrying value is the amortized cost reduced by any related valuation allowance). If MSR's are impaired, we recognize the impairment in current-period income and adjust the carrying value of the

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MSRs through a valuation allowance. If the value of impaired MSRs subsequently increases, we recognize the increase in value in current-period income and we adjust the carrying value of the MSRs through a reduction in the valuation allowance. Carrying value is not increased above amortized cost.

We stratify our MSRs by predominant risk characteristic when evaluating for impairment. For purposes of performing our MSR impairment evaluation, we stratify our servicing portfolio on the basis of certain risk characteristics, including loan type (fixed-rate or adjustable-rate) and note rate. We stratify fixed-rate loans into note rate pools of 50 basis points for note rates between 3.0% and 4.5% and a single pool for note rates below 3%. If the fair value of MSRs in any of the note rate pools is below the carrying value of the MSRs for that pool, we recognize impairment to the extent of the difference between the estimated fair value and the existing valuation allowance for that pool.

We periodically review the various impairment strata to determine whether the value of the impaired MSRs in a given stratum is likely to recover. When we deem recovery of the value to be unlikely in the foreseeable future, a write-down of the cost of the MSRs for that stratum to its estimated recoverable value is charged to the valuation allowance.

Amortization and impairment of MSRs are included in current period results of operations as a component of net servicing income.

MSRs Accounted for at Fair Value

Changes in fair value of MSRs accounted for at fair value are recognized in current period results of operations as a component of net servicing income.

Carried Interest Due from Investment Funds

We may earn carried interest from each of the Investment Funds in which we have a general partnership interest or other carried interest arrangement. See " Reporting Metrics and Prospective Trends Net Servicing Income" and " Reporting Metrics and Prospective Trends Management Fees and Carried Interest." We determine the amount of carried interest to be recorded each period based on the cash flows that would be produced assuming termination of the Investment Funds' agreements at each period end.

The amount of the carried interest received by us depends on the Investment Funds' future performance. As a result, the amount of carried interest recorded by us at period end is subject to adjustment based on future results of the Investment Funds and may be reduced as a result of subsequent performance. However, we are not required to pay guaranteed returns to the Investment Funds and the amount of carried interest will only be reversed to the extent of amounts previously recognized.

Stock-Based Compensation

We have historically had three formal equity compensation plans:

A common equity compensation plan under which up to 15% of Private National Mortgage Acceptance Company, LLC's total equity may be issued to key members of management in the form of common units. Common units are subordinate to our preferred units. The common units vest over a three-or four-year period. Vesting of four-year awards starts on the grantees' date of hire. Vesting of three-year awards begins on the award date. Several of our key management members have received common units.

A Class C common equity plan that provides for awards of up to 3% of Private National Mortgage Acceptance Company, LLC's total equity to key management members in our correspondent lending business. Class C c