

PUBLIC DISCLOSURE

APRIL 18, 2019

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**PENNYMAC LOAN SERVICES, LLC
MC35953**

**3043 TOWNSGATE ROAD, SUITE 200
WESTLAKE VILLAGE, CA 91361**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MA 02118**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this mortgage lender. The rating assigned to this mortgage lender does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this mortgage lender.

GENERAL INFORMATION

This document is an evaluation of the Mortgage Lender Community Investment (CRA) performance of **PennyMac Loan Services LLC (Lender or PennyMac)** pursuant to Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' (Division) regulation 209 CMR 54.00, prepared by the Division, the Lender's supervisory agency, as of **April 18, 2019**.

SCOPE OF EXAMINATION

An evaluation was conducted using examination procedures, as defined by CRA guidelines. A review of the Division's records, as well as the Lender's public CRA file, did not reveal any complaints.

The CRA examination included a comprehensive review and analysis, as applicable, of PennyMac's:

- (a) origination of loans and other efforts to assist low and moderate income residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the mortgage lender's history with similarly situated borrowers, the availability of mortgage loan products suitable for such borrowers, and consistency with safe and sound business practices;
- (b) origination of loans that show an undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units;
- (c) efforts working with delinquent residential mortgage customers to facilitate a resolution of the delinquency; and
- (d) other efforts, including public notice of the scheduling of examinations and the right of interested parties to submit written comments relative to any such examination to the Commissioner of Banks (Commissioner), as, in the judgment of the Commissioner, reasonably bear upon the extent to which a mortgage lender is complying with the requirements of fair lending laws and helping to meet the mortgage loan credit needs of communities in the Commonwealth of Massachusetts (Commonwealth or Massachusetts).

CRA examination procedures were used to evaluate PennyMac's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered PennyMac's lending and community development activities for the year 2017. The data and applicable timeframes for the Lending Test and the Service Test are discussed below.

The Lending Test evaluates the mortgage lender's community investment performance pursuant to the following six criteria: geographic distribution of loans, lending to borrowers of different incomes; innovative and flexible lending practices, loss mitigation efforts, fair lending, and loss of affordable housing.

Home mortgage lending for 2017 is presented in the geographic distribution, lending to borrowers of different incomes, and the minority application flow tables. Comparative analysis of the Lender's lending performance with aggregate lending data for the year of 2017 is provided. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of

loan demand. It includes lending information from all HMDA reporting mortgage lenders which originated loans in the Commonwealth. In addition, preliminary home mortgage lending data for 2018 is referenced to illustrate trends in PennyMac's lending performance.

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the CRA examination also reflects an in-depth review of the entity's mortgage lending using qualitative analysis. This analysis includes, but is not limited to: an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks and through local Registries of Deeds and through other sources available to the examination team. The examination included inspection of individual loan files for review of compliance with consumer protection provisions and scrutiny of these files for the occurrence of disparate treatment based on a prohibited basis.

The Service Test evaluates the mortgage lender's record of helping to meet the mortgage credit needs by analyzing the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products, the extent and innovativeness of its community development services, and, if applicable, loss mitigation services to modify loans and/or efforts to keep delinquent home borrowers in their homes.

MORTGAGE LENDER'S CRA RATING:

This mortgage lender is rated "Satisfactory".

Lending Test: "Satisfactory"

- The geographic distribution of the Lender's loans reflects satisfactory dispersion in low- and moderate-income level census tracts.
- Given the demographics of Massachusetts, the loan distribution to borrowers reflects an adequate record of serving the credit needs among individuals of different income levels.
- PennyMac offers several flexible lending products, which are provided in a safe and sound manner to address the credit needs of low- and moderate-income level individuals.
- Lending practices and products do not show a systematic pattern of lending resulting in mortgage loans that are not sustainable, nor do these practices or products show an undue concentration of early payment defaults, resulting in consequent loss of affordable housing units.
- Fair lending policies and practices are considered adequate.

Service Test: "Satisfactory"

- The Lender provides limited level of community development services, and its service delivery systems are accessible to geographies and individuals of different income levels in the Commonwealth.

PERFORMANCE CONTEXT

Description of Mortgage Lender

PennyMac Loan Services, LLC was established in 2008, and was licensed by the Division as a mortgage lender and debt collector in March 2014. In addition, the Division granted to the Lender a mortgage broker license during the current examination, on May 20, 2019. The Lender's corporate office is located in Westlake Village, California, and it does not maintain any licensed locations within Massachusetts. PennyMac conducts business as either a mortgage lender, loan servicer, or debt collector in all states and territories. The Lender offers several mortgage loan products to meet the needs of the Commonwealth's borrowers. PennyMac is an approved lender for the Federal Housing Administration (FHA), Veteran Administration (VA), and US Department of Agriculture (USDA).

A majority of the Lender's Massachusetts mortgage loans are purchased from other entities via PennyMac's Correspondent Group channel. The Lender's direct mortgage loan applications are generated in-house either via its Consumer Direct Lending channel, or from third parties through its Broker Direct Lending channel. All underwriting and major functions in the loan process are done at PennyMac's main office, as well as selected branch office locations. Approved loans are funded through established warehouse lines of credit, and sold to secondary market investors with servicing rights retained.

Demographic Information

The regulation requires mortgage lenders to be evaluated on their performance within the Commonwealth. Demographic data is provided below to offer contextual overviews of economic climate along with housing and population characteristics for the Commonwealth of Massachusetts.

2010 CENSUS DEMOGRAPHIC INFORMATION						
Demographic Characteristics	Amount	Low %	Moderate %	Middle %	Upper %	N/A %
Geographies (Census Tracts)	1,474	11.1	19.0	40.6	27.9	1.4
Population by Geography	6,547,629	9.2	18.0	42.4	30.2	0.2
Owner-Occupied Housing by Geography	1,608,474	3.1	13.0	48.3	35.6	0.0
Family Distribution by Income Level	1,600,588	22.2	16.5	20.6	40.7	0.0
Distribution of Low and Moderate Income Families Throughout AA Geographies	619,565	15.7	25.9	40.9	17.5	0.0
Median Family Income		\$86,272	Median Housing Value			373,206
Households Below Poverty Level		11.1%	Unemployment Rate			3.1*
2016 HUD Adjusted Median Family Income		\$86,904	2017 HUD Adjusted Median Family Income			\$91,119

Source: 2010 US Census

*as of January 2019

Based on the 2010 Census, the Commonwealth's population stood at 6.55 million people with a total of 2.79 million housing units. Of the total housing units, 1.61 million or 57.7 percent are owner-occupied, 904,078 or 32.5 percent are rental-occupied, and 9.8 percent are vacant units.

According to the 2010 Census, there are 2.51 million households in the Commonwealth with a median household income of \$69,101. Nearly 40 percent of the households are classified as low- and moderate-income. In addition, over 11 percent of the total number of households are living below the poverty level. Individuals in these categories may find it challenging to qualify for traditional mortgage loan products.

Households classified as "families" totaled slightly over 1.60 million. Of all family households, 22.2 percent were low-income, 16.5 percent were moderate-income, 20.6 percent were middle-income, and 40.7 percent were upper-income. The median family income according to the 2010 census was \$86,272. The Housing and Urban Development (HUD) adjusted median family income was \$86,904 in 2016 and \$91,119 in 2017. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth contained 1,474 Census tracts. Of these, 164 or 11.1 percent are low-income; 281 or 19.0 percent are moderate-income; 598 or 40.6 percent are middle-income; 411 or 27.9 percent are upper-income; and 20 or 1.4 percent are NA or have no income designation. The tracts with no income designation are located in areas that contain no housing units and will not be included in this evaluation since they provide no lending opportunities. These areas are made up of correctional facilities, universities, military installations, and uninhabited locations such as the Boston Harbor Islands.

Low-income is defined as individual income that is less than 50 percent of the area median income. Moderate-income is defined as individual income that is at least 50 percent and less than 80 percent of the area median income. Middle-income is defined as individual income that is at least 80 percent and less than 120 percent of the area median income. Upper-income is defined as individual income that is more than 120 percent of the area median income.

The median housing value for Massachusetts was \$373,206 according to the 2010 Census. The unemployment rate for Massachusetts stood at 3.1 percent as of January 2019, a decrease from the previous year when the Commonwealth's unemployment rate was at 3.6 percent in January 2018. Employment rates would tend to affect a borrower's ability to remain current on mortgage loan obligations and also correlates to delinquency and default rates.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test evaluates a mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth through its lending activities. PennyMac's lending efforts are rated under the six performance criteria: Geographic Distribution, Borrower Characteristics, Innovative or Flexible Lending Practices, Loss Mitigation Efforts, Fair Lending Policies and Procedures, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of PennyMac.

PennyMac's Lending Test performance was determined to be "Satisfactory".

I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well PennyMac is addressing the credit needs throughout the Commonwealth's low-, moderate-, middle-, and upper-income level census tracts. The following table presents, by number, PennyMac's 2017 and preliminary 2018 HMDA reportable loans in low-, moderate-, middle-, and upper-income geographies, in comparison to the percentage of owner-occupied housing units in each of the census tract income categories, and the 2017 aggregate lending data (inclusive of PennyMac).

Distribution of HMDA Loans by Income Level Category of the Census Tract						
Census Tract Income Level	Total Owner- Occupied Housing Units	2017 PennyMac		2017 Aggregate Lending Data	2018 PennyMac	
		#	%	% of #	#	%
Low	3.1	222	9.2	4.8	222	11.1
Moderate	13.0	590	24.4	15.9	460	23.0
Middle	48.3	1,128	46.7	43.5	940	47.1
Upper	35.6	476	19.7	35.7	373	18.7
N/A		0	0.0	0.1	1	0.1
Total	100.0	2,416	100.0	100.0	1,996	100.0

Source: 2017 & 2018 HMDA LAR Data and 2010 U.S. Census Data.

As reflected in the above table, of the total loans purchased and originated in 2017, 33.6 percent were in the low- and moderate-income level census tracts. The percentages were above the percentage of the area's owner occupied housing units in low- and moderate-income level census tracts, as well as the aggregate percentages. A preliminary review of the interim data for 2018 confirms this trend with 34.1 percent of loans being originated in low- and moderate-income level census tracts.

The highest concentration of residential loans was originated in the middle- and upper-income level census tracts for both 2016 and 2017. Given that over 80.0 percent of the area's owner-occupied housing units are in middle- and upper-income level census tracts, it is reasonable to find the majority of loans originated within these designated census tracts.

Overall, the geographic distribution of residential mortgage loans reflects satisfactory dispersion throughout low- and moderate-income level geographies within the Commonwealth.

II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the Lender is addressing the credit needs of the Commonwealth's residents. The following table shows PennyMac's 2017 and preliminary 2018 HMDA-reportable loans to low-, moderate-, middle-, and upper-income borrowers in comparison to the percentage of total families within the Commonwealth in each respective income group, and the 2017 aggregate lending data (inclusive of PennyMac).

Distribution of HMDA Loans by Borrower Income Level						
Median Family Income Level	% of Families	2017 PennyMac		2017 Aggregate Lending Data	2018 PennyMac	
		#	%	% of #	#	%
Low	22.2	1	0.1	5.2	14	0.7
Moderate	16.5	22	0.9	17.6	54	2.7
Middle	20.6	42	1.7	23.4	58	2.9
Upper	40.7	56	2.3	40.8	46	2.3
N/A	0.0	2,295	95.0	13.0	1,824	91.4
Total	100.0	2,416	100.0	100.0	1,996	100.0

Source: 2017 & 2018 HMDA LAR Data and 2010 U.S. Census Data.

The majority of transactions fall into the income not available category, due to the high number of purchased loans. Consequently, the originations with verified income available represent less than ten percent of the loan volume. The available figures indicate 2017 lending to low- and moderate-income borrowers was significantly below the census and aggregate data. Nonetheless, taking into consideration that the vast majority of the Lender's loans do not capture borrower income information, PennyMac's overall lending performance to low- and moderate-income borrowers is considered adequate.

III. Innovative or Flexible Lending Practices

PennyMac offers several flexible lending products, which are provided in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

PennyMac maintains HUD approved Non-Supervised FHA Loan Mortgagee status. Although they contain imbedded insurance premiums, FHA products provide generally competitive interest rates and smaller down payments for low- and moderate-income first time homebuyers and existing homeowners. In 2017, PennyMac purchased and originated 1,488 FHA loans totaling \$381 million. Of these, 624 loans were originated in low- and moderate-income level geographies.

The Lender is an approved VA lender and servicer. The VA Home Loan Guarantee Program is designed specifically for the unique challenges facing service members and their families. Through VA-approved lenders like PennyMac, the program offers low closing costs, no down payment requirement, and no private mortgage insurance requirement. In addition, under certain circumstances the Service Members Civil Relief Act provides military personnel with rights and protections on issues relative to mortgage interest rates and foreclosure proceedings. In 2017, PennyMac purchased and originated 728 VA loans totaling \$204 million. Of these, 156 loans were originated in low- and moderate-income level geographies.

PennyMac offers loan products guaranteed by the USDA. The Rural Housing Program is an innovative loan program that provides 100% financing for eligible homebuyers in rural-designated areas. This program is for home purchase transactions, offering fixed rates and not requiring a down payment. Income requirements do apply and the property must be located in a rural development designated area. Farm Service Agency loan products provide flexible temporary financing for customers who are planning to start, purchase, sustain, or expand a family farm. In 2017, PennyMac purchased and originated 113 USDA loans totaling \$25 million. Of these, 16 loans were originated in low- and moderate-income level geographies.

PennyMac also offers FNMA HomeReady and FHLMC Home Possible loans. These programs are designed to extend to consumers certain benefits and flexible credit options, to help them meet their home buying, refinance, or renovation needs, and help the mortgage lenders to confidently serve a market of creditworthy low- to moderate-income borrowers. During 2017, the Lender purchased and originated 16 loans under these flexible lending programs, totaling approximately \$3.5 million in volume.

IV. Loss Mitigation Efforts

The Division reviews a mortgage lender's efforts to work with delinquent home mortgage loan borrowers to facilitate a resolution of the delinquency, including the number of loan modifications, the timeliness of such modifications, and the extent to which such modifications are effective in preventing subsequent defaults or foreclosures

PennyMac conducts in-house servicing and loss mitigation of its retained servicing rights portfolio. The overall default rates reflect credit characteristics of government sponsored loans, which generally exhibit higher delinquency rates than conventional loan products.

For the review period, lending practices and products do not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable.

V. Fair Lending

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. The Lender's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The review included, but was not limited to, review of written policies and

procedures, interviews with PennyMac's personnel, and individual file review. No evidence of disparate treatment was identified.

PennyMac has established an adequate record relative to fair lending policies and practices.

Fair lending is incorporated in PennyMac's company-wide policies and procedures that apply to all employees. Fair lending training is designed and delivered by the Mortgage Regulatory Compliance Committee, and distributed to all personnel on an annual basis. All staff also participates in periodic in-house training and external courses available through online vendors, as well as any additional agency-specific or investor-specific training. In addition, employees are instructed not to engage in any inappropriate conduct, take any action based upon prohibited bases, or steer consumers to loan products unsuitable for their needs.

Mortgage loan officers are required to pass the National SAFE Exam and complete continuing education courses, in line with the Nationwide Multi-state Licensing System and Registry (NMLS) requirements, as well as any other courses required by PennyMac's senior management.

Senior management is responsible for ensuring that the Lender is in compliance with current laws and regulations, and for making necessary changes and updates to policies and procedures. PennyMac utilizes its internal review team, as well as external vendors, to conduct targeted periodic reviews and annual audits for compliance with all regulatory standards, including CRA and fair lending.

Minority Application Flow

Examiners reviewed the Lender's HMDA data to determine whether the mortgage application flow from various racial and ethnic groups was consistent with the area demographics.

During 2017, PennyMac had received and purchased 2,767 HMDA-reportable mortgage loan applications from within the Commonwealth. The racial and ethnic identity was not specified in approximately 80 percent of cases, due to the large number of purchased loans. Of the remaining applications, 106 or 3.8 percent were received from racial minority applicants, and 42 or 39.6 percent resulted in originations. For the period, PennyMac received 78 or 2.8 percent of HMDA reportable applications from ethnic groups of Hispanic or Latino origin, and 32 or 41.0 percent were originated. This compares to 48.8 percent overall approval ratio of mortgage loans originated by the Lender in Massachusetts, and the 72.3 percent approval ratio for the aggregate group.

Demographic information for Massachusetts reveals the total racial and ethnic minority population stood at 23.9 percent of the total population as of the 2010 Census. This segment of the population is comprised of 9.6 percent Hispanic or Latino ethnicities. At 14.3 percent, racial minorities consisted of 6.0 percent Black; 5.3 percent Asian/Pacific Islander; 0.2 percent American Indian/Alaskan Native; and 2.8 percent self-identified as Other Race.

Refer to the following table for information on the Lender's minority loan application flow as well as a comparison to aggregate lending data throughout the Commonwealth. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Lender received from minority applicants.

MINORITY APPLICATION FLOW					
RACE	2017 PennyMac		2017 Aggregate Data	2018 PennyMac	
	#	%	% of #	#	%
American Indian/ Alaska Native	4	0.1	0.2	5	0.2
Asian	17	0.6	5.5	24	1.0
Black/ African American	69	2.5	4.1	74	3.1
Hawaiian/Pacific Islander	0	0.0	0.2	2	0.1
2 or more Minority	1	0.1	0.1	1	0.1
Joint Race (White/Minority)	15	0.5	1.4	14	0.6
Total Minority	106	3.8	11.5	120	5.1
White	466	16.9	67.0	366	15.4
Race Not Available	2,195	79.3	21.5	1,885	79.5
Total	2,767	100.0	100.0	2,371	100.0
ETHNICITY					
Hispanic or Latino	63	2.3	5.3	58	2.5
Joint (Hisp-Lat /Not Hisp-Lat)	15	0.5	1.1	8	0.3
Total Hispanic or Latino	78	2.8	6.4	66	2.8
Not Hispanic or Latino	528	19.1	72.4	436	18.4
Ethnicity Not Available	2,161	78.1	21.2	1,869	78.8
Total	2,767	100.0	100.0	2,371	100.0

Source: 2017 & 2018 HMDA LAR Data and 2010 U.S. Census Data

Based on the available demographic data, in 2017, PennyMac's overall racial and ethnic minority application flow was below the census data and the aggregate data. Preliminary review of the data for 2018 indicates similar levels of performance. However, as previously noted, the vast majority of the Lender's loans do not capture demographic information as they are purchased.

VI. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by PennyMac by taking into account delinquency and default rates of the Lender and those of the overall marketplace. Pertinent information provided by the Lender was reviewed as were statistics available on delinquency and default rates for mortgage loans. Additionally, individual mortgage loans could be tracked for their status through local Registries of Deeds and other available sources including public records of foreclosure filings.

An extensive review of information and documentation, from both internal and external sources as partially described above, did not reveal lending practices or products that showed an undue concentration or a systematic pattern of lending, including a pattern of early payment defaults, resulting in the loss of affordable housing units. Overall delinquency rates were found to be comparable to industry averages.

SERVICE TEST

The Service Test evaluates a mortgage lender's record of helping to meet the mortgage credit needs in the Commonwealth by analyzing both the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products; the extent and innovativeness of its community development services; and loss mitigation services to modify loans or otherwise keep delinquent home loan borrowers in their homes. Community development services must benefit the Commonwealth or a broader regional area that includes the Commonwealth.

PennyMac's Service Test performance was determined to be "**Satisfactory**" at this time.

Community Development Services

A community development service is a service that:

- (a) has as its primary purpose community development; and
- (b) is related to the provision of financial services, including technical services

The Commissioner evaluates community development services pursuant to the following criteria:

- (a) the extent to which the mortgage lender provides community development services; and
- (b) the innovativeness and responsiveness of community development services.

As of October 2016, PennyMac began conducting outreach events in areas with concentrated rates of high delinquency in an effort to engage customers in a modification review or other loss mitigation solution. Customers that are over 60 days delinquent receive an event invitation via mail and/or email. Dedicated agents then discuss with responding customers an outline of the event process, collect a loss mitigation application and supporting documents, and schedule appointments. Underwriters attend the event to meet with customers in-person, and deliver an on-site decision wherever possible. To date, the Lender hosted two events within the Commonwealth, in Boston and Springfield.

PennyMac is also a member of Hope Now Alliance, a non-profit effort between counselors, mortgage companies, investors, regulators, and other mortgage market participants to support home preservation activities.

Management is encouraged to seek additional opportunities to offer community development activities that meet the definition of community development under the CRA regulation, and/or provide expertise and assistance to community organizations throughout the Commonwealth.

Qualified Investments

For the purposes of this CRA evaluation, a Qualified Investment is a lawful investment, deposit, membership share, or grant, the primary purpose of which is community development. The evaluation considered (1) the number of investments and grants, (2) the extent to which community development opportunities have been made available to the institution, and (3) the responsiveness of the institution's community development grants to the assessment area's needs.

PennyMac does not currently engage in any qualified community development investments.

Management is encouraged to establish and properly document investments and donation programs, which promote financial literacy education, homeownership counseling, and other initiatives targeted to low- and moderate-income consumers throughout the Commonwealth.

Mortgage Lending Services

The Commissioner evaluates the availability and effectiveness of a mortgage lender's systems for delivering mortgage lending services to low- and moderate-income geographies and individuals.

PennyMac provides adequate delivery of mortgage lender services that are accessible to geographies and individuals of different income levels in the Commonwealth. Business development relies primarily on loan purchases and direct consumer contact. Customers can also apply to PennyMac for a mortgage loan via the company's website.

As described above, lending practices and products do not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable. Overall, the Lender provides an adequate delivery of mortgage lending services throughout the Commonwealth.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the CRA regulation, requires all mortgage lenders to take the following actions within 30 business days of receipt of the CRA evaluation:

- 1) Make its most current CRA performance evaluation available to the public.
- 2) Provide a copy of its current evaluation to the public, upon request. In connection with this, the mortgage lender is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the mortgage lender's evaluation, as prepared by the Division of Banks, may not be altered or abridged in any manner. The mortgage lender is encouraged to include its response to the evaluation in its CRA public file.

The Division of Banks will publish the mortgage lender's Public Disclosure on its website no sooner than 30 days after the issuance of the Public Disclosure.