

**PUBLIC DISCLOSURE**

**August 6, 2018**

**CRA FOR MORTGAGE LENDERS  
PERFORMANCE EVALUATION**

**PROVIDENT FUNDING ASSOCIATES, LP  
ML3821**

**851 Traeger Avenue, Suite 100  
San Bruno, California 94066**

**DIVISION OF BANKS  
1000 WASHINGTON STREET  
BOSTON, MASSACHUSETTS 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 **Provident Funding Associates, LP (the Lender or Provident Funding)** pursuant to the 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 **August 6, 2018**.

## 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 mortgage lender's public CRA file, did not reveal any complaints related to CRA.

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

- (a) origination of loans and other efforts to assist low- and moderate-income (LMI) residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the 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, 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.

CRA examination procedures were used to evaluate Provident Funding's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Provident Funding's lending and community development activities for the period of January 1, 2016 through December 31, 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 five criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible lending practices, fair lending, and loss of affordable housing.

Home mortgage lending for 2016 and 2017 is presented in the geographic distribution, lending to borrowers of different incomes. Comparative analysis of the mortgage lender's lending performance for 2016 and 2017 is provided as those are the most recent years for which aggregate HMDA lending data is available. 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 of Massachusetts.

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, which includes, but is not limited to: an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the mortgage lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks, 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 “Needs to Improve”**

### **Lending Test: “Needs to Improve”**

- The geographic distribution of the Lender’s loans reflects a poor dispersion in LMI census tracts.
- Given the demographics of Massachusetts, the loan distribution to borrowers reflects a poor record of servicing the credit needs among individuals of different income levels.
- Provident Funding offers flexible lending products, which are provided in a safe and sound manner to address the credit needs of LMI individuals.
- The lending practices and products did not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable. The Lender demonstrates the ability to work with delinquent borrowers to facilitate a resolution of delinquency.
- Fair lending policies are considered adequate.

### **Service Test: “Needs to Improve”**

- Provident Funding provided limited community development activities within the Commonwealth.
- Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the Commonwealth.

**PERFORMANCE CONTEXT**

**Description of Mortgage Lender**

Provident Funding Associates, LP was organized in the state of California on November 10, 1992 and licensed in Massachusetts by the Division as a mortgage lender and loan servicer on May 9, 2014. The Licensee’s headquarters are located in San Bruno, California. At the time of the examination, the Licensee had 11 licensed branches nationwide, including one non-retail operations branch located within the Commonwealth. The Licensee originates and sells residential mortgage loans to the secondary market with servicing rights retained. Provident Funding services its own loans, purchases servicing rights, and subservices for other entities. The Licensee originates loans in Massachusetts predominantly through its wholesale (broker) channel and additionally through its retail channel.

During the examination period of 2016 and 2017, Provident Funding originated 1,190 loans totaling approximately \$378 million in Massachusetts.

**Demographic Information**

The CRA regulation requires mortgage lenders to be evaluated on their performance within the Commonwealth of Massachusetts. 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	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			3.5*
2016 HUD Adjusted Median Family Income	\$86,904		2017 HUD Adjusted Median Family Income			\$91,119
<i>Source: 2010 US Census; *as of 12/31/2017</i>						

Based on the 2010 Census, the Commonwealth’s population was above 6.5 million people with a total of 2.8 million housing units. Of the total housing units, 1.6 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 2.5 million households in the Commonwealth with a median of household income of \$69,101. Over 39 percent of households are now classified as LMI. Over 11 percent of the total number households are living below the poverty level. Individuals in these categories may find it difficult to qualify for traditional mortgage loan products.

Households classified as “families” totaled slightly over 1.6 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 reported by the 2010 Census was \$86,272. The Housing and Urban Development (HUD) adjusted median family income was \$86,904 in 2016 and increased to \$91,119 in 2017. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth of Massachusetts 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 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 the Commonwealth of Massachusetts as of December 31, 2017, stood at 3.5 percent, which was an increase from December 31, 2016, at which time it stood at 3.1 percent. 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

Lending performance is rated under six performance criteria: Geographic Distribution, Borrower Characteristics, Innovative or Flexible Lending Practices, Loss Mitigation Efforts, Fair Lending, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of Provident Funding.

Provident Funding’s Lending Test performance was determined to be “**Needs to Improve**” at this time.

#### I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well Provident Funding is addressing the credit needs throughout the Commonwealth of Massachusetts’ low-, moderate-, middle-, and upper-income census tracts. The table below shows the distribution of HMDA-reportable loans by census tract income level. The lending activity is compared with the percent of owner-occupied housing units based on U.S. Census demographics, and Provident Funding’s 2016 and 2017 home mortgage lending performance comprised of loans originated and purchased by Provident Funding. This lending performance is compared to aggregate lending performance in 2016 and 2017.

<b>Geographic Distribution of HMDA Loans by Census Tract</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2016	3.1	3.5	10	1.3	2,542	1.1
2017	3.4	4.8	10	2.3	2,671	1.9
<b>Moderate</b>						
2016	13.0	12.9	54	7.1	17,251	7.2
2017	13.8	15.9	44	10.2	13,686	9.8
<b>Middle</b>						
2016	48.3	47.0	309	40.7	87,851	36.9
2017	44.4	43.5	161	37.4	47,479	33.9
<b>Upper</b>						
2016	35.6	36.6	386	50.9	130,391	54.8
2017	38.3	35.7	216	50.1	76,368	54.5
<b>Not Available</b>						
2016	0.0	0.0	0	0.0	0	0.0
2017	0.1	0.1	0	0.0	0	0.0
<b>Totals</b>						
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>759</b>	<b>100.0</b>	<b>238,035</b>	<b>100.0</b>
<b>2017</b>	<b>100.0</b>	<b>100.0</b>	<b>431</b>	<b>100.0</b>	<b>140,204</b>	<b>100.0</b>

*Source: 2016 & 2017 HMDA Data and 2010 U.S.*

Provident Funding’s geographic distribution of loans in LMI tracts was below aggregate lending and the demographics in 2016. The Lender started offering additional flexible lending products during 2017 in an effort to improve LMI lending performance. In 2017, the Lender’s performance of lending in LMI tracts improved from 8.4 percent to 12.5 percent overall, but remained below the aggregate and demographics. Provident Funding’s distribution of lending is considered poor when compared to the demographics and aggregate lending data for the time period of January 1, 2016 through December 31, 2017.

## II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the mortgage lender is addressing the credit needs of the Commonwealth’s residents. The table below illustrates HMDA-reportable loan originations and purchases, categorized by borrower income level, that were reported by Provident Funding during 2016 and 2017, and compares this activity to the 2016 and 2017 aggregate lending data and the percentage of families by income level within the assessment area using U.S. Census demographics.

<b>Distribution of HMDA Loans by Borrower Income</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2016	22.2	4.2	5	0.7	831	0.3
2017	23.3	5.2	7	1.6	1,010	0.7
<b>Moderate</b>						
2016	16.5	14.9	66	8.7	15,367	6.5
2017	16.4	17.6	46	10.7	11,483	8.2
<b>Middle</b>						
2016	20.6	22.5	202	26.6	60,023	25.2
2017	19.4	23.3	112	26.0	33,209	23.7
<b>Upper</b>						
2016	40.7	44.4	477	62.8	158,848	66.7
2017	40.9	40.8	218	50.6	78,078	55.7
<b>Not Available</b>						
2016	0.0	14.0	9	1.2	2,966	1.2
2017	0.0	13.0	48	11.1	16,424	11.7
<b>Totals</b>						
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>759</b>	<b>100.0</b>	<b>238,035</b>	<b>100.0</b>
<b>2017</b>	<b>100.0</b>	<b>100.0</b>	<b>431</b>	<b>100.0</b>	<b>140,204</b>	<b>100.0</b>
<i>Source: 2016 &amp; 2017 HMDA Data and 2010 U.S. Census</i>						



As shown in the above table, lending to LMI borrowers during 2016 and 2017 was below the percentage of LMI families, as well as below the performance of aggregate data. While some improvement is noted from 2016 to 2017, the Lender's overall lending performance to LMI borrowers is considered poor at this time.

### **III. Innovative or Flexible Lending Practices**

Provident Funding originates flexible lending products, which are provided in a safe and sound manner to address the credit needs of LMI individuals and geographies. During the review period, Provident Funding originated 39 loans totaling \$7,130,300 in Home Affordable Refinance Program (HARP) loans. HARP was created by the Federal Housing Finance Agency specifically to help homeowners who are current on their mortgage payments, but have little to no equity in their homes, refinance their mortgage.

During 2017, in an effort to address the credit needs of LMI individuals and geographies, Provident Funding began offering Freddie Mac affordable mortgage options such as the Home Possible and Home Possible Advantage mortgage products. These products have income limitations and have Homebuyer Education/ Housing Counseling requirements on purchase transactions. Provident Funding has originated 10 Home Possible Massachusetts loans totaling \$3,511,050 as of the date of this evaluation. Through their wholesale channel, Provident Funding also recently began offering FHA loans which provide competitive interest rates and smaller down payments for LMI first time homebuyers and existing homeowners.

### **IV. Loss Mitigation Efforts**

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

Provident Funding services a portfolio of loans in Massachusetts. The majority of originations are sold on the secondary market with servicing rights retained. Provident Funding also purchases loans for servicing. Lending and servicing practices did not show an undue concentration or systematic pattern of lending resulting in mortgage loans that were not sustainable. In addition, Provident Funding's servicing department provides assistance to delinquent borrowers by offering various options to resolve the delinquency.

### **V. Fair Lending**

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. The mortgage 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, written policies and procedures and interviews with mortgage lender personnel.

Provident Funding’s compliance with the laws relating to discrimination and other illegal credit practices was reviewed. Provident Funding has established an adequate record relative to fair lending policies and practices. No evidence of discriminatory or other illegal credit practices was identified.

Minority Application Flow

Examiners reviewed Provident Funding’s HMDA data to determine whether the mortgage application flow from various racial and ethnic groups was consistent with the area demographics. During 2016 and 2017, Provident Funding received 1,529 HMDA-reportable mortgage loan applications from within the Commonwealth of Massachusetts. Of these applications, 478 or 31.3 percent were received from racial minority applicants, and 294 or 61.5 percent resulted in originations. For the same period, Provident Funding received 29 or 1.9 percent of HMDA-reportable applications from ethnic groups of Hispanic or Latino origin, and 14 or 48.3 percent were originated. This compares to the 77.8 percent overall ratio of mortgage loans originated by the Lender in Massachusetts, and the 71.5 percent approved by the aggregate group.

Demographic information for Massachusetts reveals the total racial and ethnic minority population stood at 23.9 percent of total population as of 2010 Census. 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 identified as Other Race. Ethnic minorities consisted of 9.6 percent Hispanic or Latino.

Refer to the following table for information on the mortgage lender’s minority application flow as well as a comparison to aggregate lenders throughout the Commonwealth of Massachusetts. The comparison of this data assists in deriving reasonable expectations for the rate of applications the mortgage lender received from minority applicants.

MINORITY APPLICATION FLOW						
RACE	2016		2016	2017		2017
	Lender		Aggregate Data	Lender		Aggregate Data
	#	%	% of #	#	%	% of #
American Indian/ Alaska Native	0	0.0	0.2	0	0.0	0.2
Asian	291	30.3	5.4	150	26.4	5.5
Black/ African American	7	0.7	3.6	3	0.5	4.1
Hawaiian/Pac Isl.	2	0.2	0.2	0	0.0	0.2
2 or more Minority	0	0.0	0.1	0	0.0	0.1
Joint Race (White/Minority)	22	2.3	1.3	3	0.5	1.4
<b>Total Minority</b>	<b>322</b>	<b>33.5</b>	<b>10.8</b>	<b>156</b>	<b>27.4</b>	<b>11.5</b>
White	488	50.8	68.9	254	44.7	67.0
Race Not Available	151	15.7	20.3	158	27.9	21.5
<b>Total</b>	<b>961</b>	<b>100.0</b>	<b>100.00</b>	<b>568</b>	<b>100.0</b>	<b>100.00</b>
ETHNICITY						
Hispanic or Latino	8	0.8	4.5	12	2.1	5.3
Not Hispanic or Latino	761	79.2	74.5	386	68	72.4
Joint (Hisp/Lat /Not Hisp/Lat)	5	0.5	1.1	4	0.7	1.1
Ethnicity Not Available	187	19.5	19.9	166	29.2	21.2
<b>Total</b>	<b>961</b>	<b>100.0</b>	<b>100.0</b>	<b>568</b>	<b>100.0</b>	<b>100.0</b>

*Source: 2016 & 2017 HMDA Data and 2010 U.S. Census*

In 2016 and 2017, Provident Funding's performance was above the aggregate's performance for racial minority applicants. For the same time period, Provident Funding's performance was below the aggregate's performance for ethnic minority applicants of Hispanic origin. However, the percentage of ethnic minority applications increased from 2016 to 2017.

The majority of Provident Funding's Massachusetts business is generated through wholesale broker relationships, where several broker relationships are situated near high minority geographic areas in the Commonwealth. This is reflected in the high percentage of Asian minority applications during 2016 and 2017.

## **VI. Loss of Affordable Housing**

This review concentrated on the suitability and sustainability of mortgage loans originated by Provident Funding by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the mortgage lender was reviewed, as were statistics available on delinquency and default rates for mortgage loans.

A 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.

## **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.

Provident Funding's Service Test performance was determined to be **"Needs to Improve"** during the evaluation period.

### **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.

Provident Funding's Chief Administrative Officer volunteers at her local Habitat for Humanity's Business Office providing her expertise of financial reporting and accounting services for the fundraising efforts and the construction of the various charitable projects the organization completes. Habitat for Humanity is a national nonprofit organization with chapters in Massachusetts that helps families build and improve affordable housing in their community.

Provident Funding provides limited qualified community development services. However, the Lender is encouraged to employ a stronger focus on and a proactive commitment to community development activities locally throughout the Commonwealth. As the Lender has one non-retail location within Massachusetts with a single staff member, this could be achieved through financial literacy education initiatives targeted to LMI individuals and foreclosure prevention counseling using technology to reach Massachusetts consumers; and/or providing technical assistance to community organizations in a leadership capacity.

### **Mortgage Lending Services**

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

Provident Funding provides an adequate level of mortgage lending services to LMI geographies and individuals through home purchase and refinance transactions and mortgage loan servicing in Massachusetts. Provident Funding provides lending services through broker, retail, and correspondent lending channels. Approximately 76 percent of Provident Funding's loans are originated through its

wholesale (broker) channel. Through the wholesale channel, Provident Funding has loan origination relationships with brokers doing business throughout the Commonwealth. Through the retail channel, consumers can apply for a loan directly through Provident Funding's website or by telephone. Provident has one operations branch in Massachusetts which is located in a middle-income census tract.

Provident Funding also services loans originated in Massachusetts. Provident Funding's servicing department is responsible for loss mitigation and delinquencies for the loans that are being serviced and works with delinquent homeowners to facilitate a resolution of delinquency and provides available options which may include loan modification, short sale, and forbearance. Servicing Analysts ensure that all eligible borrowers understand their options and do not wait until they are delinquent to obtain assistance.

Provident Funding's loss mitigation department performs loss mitigation activities on delinquent loans to ensure that all possible options are considered to prevent foreclosure. The Loss Mitigation department is a combination of Single Points of Contact, Loss Mitigation Specialists, Quality Control personnel, and Operations Support.

As described above, lending practices and products did 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 Mortgage Lender Community Investment (CRA) regulation, requires all mortgage lenders to take the following actions within 30 business days of receipt of the CRA evaluation of their mortgage lender:

- 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. 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.