

**PUBLIC DISCLOSURE**

**December 6, 2011**

**MORTGAGE LENDER COMMUNITY INVESTMENT  
PERFORMANCE EVALUATION**

**STEARNS LENDING, INC.**

**MC1854**

**4 HUTTON CENTRE DRIVE, 10th Floor, Suite 150  
SANTA ANA, CA 92707**

**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

Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' (Division) regulation 209 CMR 54.00, Mortgage Lender Community Investment (MLCI), require the Division to use its authority when examining mortgage lenders subject to its supervision who have made 50 or more home mortgage loans in the last calendar year, to assess the mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth, including low- and moderate-income neighborhoods and individuals, consistent with the safe and sound operation of the mortgage lender. Upon conclusion of such examination, the Division must prepare a written evaluation of the mortgage lender's record of meeting the credit needs of the Commonwealth.

This document is an evaluation of the MLCI performance of **Stearns Lending, Inc.** (Stearns) prepared by the Division, the mortgage lender's supervisory agency, as of **December 6, 2011**.

## SCOPE OF EXAMINATION

An evaluation was conducted using examination procedures as defined by MLCI. A review of the Division's records, as well as the mortgage lender's public MLCI file, did not reveal any complaints related to MLCI.

The MLCI examination included a comprehensive review and analysis, as applicable, of Stearns':

- (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 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.

MLCI examination procedures were used to evaluate Stearns' community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Stearns' lending and community development activities for the period of January 2010 through December 2011. 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 2010 and 2011 is presented in the geographic distribution, lending to borrowers of different incomes and the Minority Application Flow tables. Comparative analysis of the mortgage lender's lending performance for the year of 2010 is provided as it is the most recent year for which aggregate 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 lenders which originated loans in the Commonwealth of Massachusetts and were required to report data under the Home Mortgage Disclosure Act (HMDA).

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the MLCI 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 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 MLCI RATING:**

**This mortgage lender is rated "Satisfactory."**

- The geographic distribution of the lender's loans reflects a reasonable dispersion in low- and moderate-income census tracts as it is reflective of the distribution of owner occupied housing in those census tracts.
- The distribution of borrowers reflects, given the demographics of Massachusetts, a reasonable record of serving the credit needs of individuals of different income levels, including low- and moderate-income.
- Stearns offers a limited number of government insured FHA, VA, and Rural Housing guaranteed loans, which are provided in a safe and sound manner to address the credit needs of low-and moderate-income individuals.
- Fair lending policies and practices are considered reasonable. No complaints were received during the evaluation period.
- Stearns' Community Development services were considered reasonable at this time.

## **PERFORMANCE CONTEXT**

### **Description of Mortgage Lender**

Stearns was incorporated in California in July, 1984. The Division first granted Stearns a mortgage lender license on September 18, 2009. Stearns is a retail lender engaging in the organization and sale of residential first mortgage loans, secured primarily by one-to-four family residential properties, to consumers of sound credit quality. As of the date of the examination the lender was licensed in 46 states and the District of Columbia and had two branch locations in Massachusetts. The branches are located in Burlington and Hyannis. Stearns is wholly-owned by Stearns Holdings, Inc.

For the examination period, 2010 and 2011, Stearns originated 1,545 loans totaling \$413.1 million in Massachusetts.

### **Demographic Information**

The MLCI 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 the economic climate along with housing and population characteristics for the Commonwealth of Massachusetts.

<b>DEMOGRAPHIC INFORMATION*</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A
Geographies (Census Tracts)	1,361	8.4	21.7	46.1	23.4	0.4
Population by Geography	6,349,097	5.8	20.5	47.6	26.0	0.1
Owner-Occupied Housing by Geography	1,508,248	1.6	12.8	54.0	31.6	0.0
Family Distribution by Income Level	1,587,537	20.5	17.7	22.3	39.5	0.0
Distribution of Low and Moderate Income Families throughout AA Geographies	606,419	10.0	29.4	46.2	14.4	0.0
Median Family Income	\$65,318	Median Housing Value			209,519	
2010 HUD Adjusted Median Family Income	\$83,413	Unemployment Rate			6.9%**	
Households Below Poverty Level	9.8%					

\*Source: PCI Corporation Inc., CRA Wiz, Data Source: 2000 US Census

\*\*as of 12/11

Based on 2000 Census data, the Commonwealth of Massachusetts has a total population of just over 6.3 million people and a total of 2.6 million housing units. Of the total housing units, 1.5 million or 57.5 percent are owner-occupied, 935,332 or 35.7 percent are rental-occupied, and 6.8 percent are vacant units.

There are 2.4 million households in the Commonwealth with a median household income of \$53,686 according to the 2000 Census. Over 40 percent of the households are classified as low- and moderate-income. In addition, 9.8 percent of the total 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" total slightly over 1.5 million. Of all family households, 20.5 percent are low income, 17.7 percent are moderate income, 22.3 percent are middle income, and 39.5 percent are upper income. The median family income according to the 2000 census was \$65,318. The Housing and Urban Development (HUD) adjusted median family income is \$83,413. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth of Massachusetts contains 1,361 Census tracts. Of these, 114 or 8.4 percent are low-income; 295 or 21.7 percent are moderate-income; 628 or 46.1 percent are middle-income; 319 or 23.4 percent are upper-income; and 5 or 0.4 percent are NA or have no income designation. The five census tracts with no income designation are located in Bridgewater (a correctional facility), Boston (islands in Boston Harbor), Amherst (U MASS campus), Harvard (Fort Devens), and Grafton (Tufts Veterinary School). These Census tracts contain no housing units and will not be included in this evaluation since they provide no lending opportunities.

The median housing value for Massachusetts was \$209,519 according to the 2000 Census. However, recent figures from the Warren Group, publishers of *Banker and Tradesman*, show the median price for a single-family property increased to \$289,000 in October 2010, up 3.2 percent from \$280,000 in 2009. Fluctuating housing values have a direct effect on the types of financial products adequate for homeowners and property buyers.

The unemployment rate for the Commonwealth of Massachusetts as of December 2011 stood at 6.9 percent, down from 8.3 percent in December 2010 and the lowest since January 2009. 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**

Stearns' lending efforts are rated under five performance criteria: Geographic Distribution, Borrower Characteristics, Innovative or Flexible Lending Practices, 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 Stearns Lending.

Stearns' Lending Test performance was determined to be "Satisfactory" at this time.

#### ***I. Geographic Distribution***

The geographic distribution of loans was reviewed to assess how well Stearns is addressing the credit needs throughout the Commonwealth of Massachusetts' low-, moderate-, middle-, and upper-income census tracts.

The mortgage lender's geographic distribution of loans reflects a reasonable distribution of loans in the Commonwealth.

The following table presents Stearns' HMDA-reportable loans as well as the 2010 aggregate data (exclusive of Stearns). In addition, the table reflects the percentage of owner-occupied housing units in each of the census tract income categories.

<b><i>Distribution of HMDA Loans by Income Category of the Census Tract</i></b>								
<b>Census Tract Income Level</b>	<b>% Total Owner-Occupied Housing Units</b>	<b>Stearns 2010</b>		<b>Aggregate Lending Data (% of #) 2010</b>	<b>Stearns 2011</b>		<b>Stearns Total</b>	
		<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b><i>Low</i></b>	1.6	5	0.6	1.3	10	1.4	15	1.0
<b><i>Moderate</i></b>	12.8	94	11.5	10.0	71	9.8	165	10.7
<b><i>Middle</i></b>	54.0	453	55.4	49.4	410	56.4	863	55.8
<b><i>Upper</i></b>	31.6	266	32.5	39.3	236	32.4	502	32.5
<b><i>Total</i></b>	<b>100.0</b>	<b>818</b>	<b>100.0</b>	<b>100.0</b>	<b>727</b>	<b>100.0</b>	<b>1,545</b>	<b>100.0</b>

*Source: 2010 and 2011 HMDA Data and 2000 U.S. Census*

As reflected in the table above, lending in low-income tracts was below the aggregate in 2010. However, even though overall lending decreased, lending to low-income tracts doubled from 2010 to 2011. Lending in moderate-income tracts was comparable to the aggregate's lending and to the percentage of owner occupied housing units in moderate income tracts.

Stearns' performance in this category is considered reasonable at this time.

#### ***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.

Stearns achieved a reasonable record of serving the mortgage credit needs among borrowers of different income levels based on the areas' demographics and a comparison to aggregate lending data in Massachusetts.

The following table shows HMDA-reportable loans by borrower income in comparison to the aggregate, and the percentage of total families within the Commonwealth in each respective income group.

Median Family Income Level	<i>Distribution of HMDA Loans by Borrower Income</i>							
	% of Families	Stearns 2010		Aggregate Lending Data (% of #) 2010	Stearns 2011		Stearns Total	
		#	%		#	%	#	%
<b>Low</b>	20.5	26	3.2	4.4	43	5.9	69	4.5
<b>Moderate</b>	17.7	157	19.2	15.3	171	23.5	328	21.2
<b>Middle</b>	22.3	207	25.3	22.7	184	25.3	391	25.3
<b>Upper</b>	39.5	319	39.0	42.8	290	39.9	609	39.4
<b>NA*</b>	0	109	13.3	14.8	39	5.4	148	9.6
<b>Total</b>	<b>100.0</b>	<b>818</b>	<b>100.0</b>	<b>100.0</b>	<b>727</b>	<b>100.0</b>	<b>1,545</b>	<b>100.0</b>

Source: 2010 & 2011 HMDA Data and 2000 U.S. Census \*Income Not Available

As reflected in the table above, lending to low-income borrowers was below the aggregate in 2010. However, lending to low-income borrowers increased noticeably from 2010 to 2011. Lending to moderate-income borrowers surpassed the aggregate's lending and was comparable to the percentage of the percentage of families considered moderate-income.

Stearns' performance in this category is considered reasonable at this time.

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

Stearns offers flexible lending products, provided in a safe and sound manner, to address the credit needs of low- and moderate-income individuals or geographies. Stearns provides FHA, VA, and Rural Housing loan products. These products provide competitive interest rates and smaller downpayments for low- and moderate-income first time homebuyers and existing homeowners. During the review period of 2010 and 2011 the lender originated 1,545 loans, of which 446 or 29.0 percent were government insured or guaranteed products. Of the 446 FHA, VA and Rural Housing loan products originated during the examination period, 30.3 percent were to low- or moderate-income borrowers, and 18.0 percent were in low- or moderate-income census tracts.

### **IV. Fair Lending**

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-103 and Regulatory Bulletin 5.3-101. 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, review of written policies and procedures, interviews with mortgage lender personnel, and individual file review. No evidence of disparate treatment was identified.

Stearns has established a reasonable record relative to fair lending policies and practices.

## MINORITY APPLICATION FLOW

For 2010 and 2011, Stearns received 1,994 HMDA-reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 161 or 8.1 percent were received from racial minority applicants, of which 116 or 72.1 percent resulted in originations. Stearns received 59 or 3.0 percent of HMDA reportable applications from ethnic groups of Hispanic origin, of which 47 or 79.7 percent were originated. This is comparable to the 77.5 percent overall approval ratio of the lender.

Demographic information for Massachusetts reveals that the total ethnic and racial minority population stood at 18.12 percent of the total population in 2010. This segment of the population is comprised of 6.75 percent Hispanic or Latino and 11.38 racial minorities: 5.01 percent Black; 3.73 percent Asian; 0.18 percent American Indian; 0.03 percent Native Hawaiian/Other Pacific Islander; and 2.42 percent identified as Other Race.

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	Stearns 2010		2010 Aggregate Data		Stearns 2011		Stearns Total	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	0	0.0	659	0.1	3	0.3	3	0.2
<i>Asian</i>	40	3.8	21,944	4.8	43	4.6	83	4.2
<i>Black/ African American</i>	30	2.8	8,469	1.8	23	2.5	53	2.6
<i>Hawaiian/Pacific Islander</i>	1	0.1	482	0.1	4	0.4	5	0.2
<i>2 or more Minority</i>	1	0.1	102	0.1	0	0.0	1	0.1
<i>Joint Race (White/Minority)</i>	11	1.0	4,981	1.0	5	0.6	16	0.8
<b>Total Minority</b>	<b>83</b>	<b>7.8</b>	<b>36,637</b>	<b>7.9</b>	<b>78</b>	<b>8.4</b>	<b>161</b>	<b>8.1</b>
<i>White</i>	980	92.1	327,342	71.6	850	91.4	1,830	91.8
<i>Race Not Available</i>	1	0.1	93,725	20.5	2	0.2	3	0.1
<b>Total</b>	<b>1064</b>	<b>100.0</b>	<b>457,704</b>	<b>100.0</b>	<b>930</b>	<b>100.0</b>	<b>1,994</b>	<b>100.0</b>
<b>ETHNICITY</b>								
<i>Hispanic or Latino</i>	14	1.3	9,682	2.1	27	2.9	41	2.0
<i>Not Hispanic or Latino</i>	1042	97.9	349,851	76.4	892	95.9	1,934	97.0
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	8	0.8	3,674	0.8	10	1.1	18	0.9
<i>Ethnicity Not Available</i>	0	0.0	94,497	20.7	1	0.1	1	0.1
<b>Total</b>	<b>1064</b>	<b>100.0</b>	<b>457,704</b>	<b>100.0</b>	<b>930</b>	<b>100.0</b>	<b>1,994</b>	<b>100.0</b>

Source: PCI Corporation CRA Wiz, Data Source: 2000 U.S. Census Data

Stearns' performance was on par with the 2010 aggregate data for racial minority applicants. The lender's performance was also comparable to the aggregate for applications from ethnic minorities. Furthermore, Stearns' minority application flow experienced a positive trend in 2011. Stearns' minority application flow is reasonable when compared to the aggregate's lending performance levels and the demographics of Massachusetts.

## **V. Loss of Affordable Housing**

This review concentrated on the suitability and sustainability of mortgage loans originated by Stearns by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the lender was reviewed as were statistics available on delinquency and default rates for mortgage loans. Additionally, individual mortgage loans were tracked for their status through the Division's foreclosure database.

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. Further, delinquency rates were found to be consistent with 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.

Stearns' Service Test performance was determined to be "Satisfactory" at this time.

### **Mortgage Lending Services**

The Commissioner evaluates the availability and effectiveness of a mortgage lender's systems for delivering mortgage lending services, pursuant to the following criteria:

- (a) the availability and effectiveness of systems for delivering mortgage lending services (e.g., Internet, telephone solicitation, direct mail) in low- and moderate-income geographies and to low- and moderate-income individuals, including, to the extent applicable, the current distribution of the mortgage lender's branches among low-, moderate-, middle-, and upper-income geographies;
- (b) 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; and
- (c) the range of services provided in low-, moderate-, middle-, and upper- income geographies and the degree to which the services are tailored to meet the needs of those geographies.

Stearns provides mortgage lender services that are accessible to geographies and individuals of different income levels in the Commonwealth by providing financing opportunities through FHA, VA, and Rural Housing loan products. Stearns' customers can apply through its network of local mortgage brokers. Stearns retail branch in Hyannis is in a low-income census tract.

As Stearns does not routinely service mortgage loans, it would not work directly with delinquent borrowers. Therefore, this review would not include an evaluation of loan mitigation and modification efforts as the mortgage lender would not be accountable for such action. However, 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.

## **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.

A community development service has community development as its primary purpose and is generally related to the provision of financial services or technical services or assistance. Stearns Lending has a number of qualified community development services to address the area's community development needs.

The Chairman of the Board of Stearns is a member of the Horatio Alger Association of Distinguished Americans, Inc. (The Association). The Association is a national 501(c)(3) nonprofit educational organization that, through its members, educates young people about the economic and personal opportunities afforded them by the promise of the American free enterprise system. While providing scholarship opportunities, Association members mentor the scholars and underscore the importance of service to others.

## **Qualified Investments**

A Qualified Investment for the purposes of this MLCI evaluation is a lawful investment, deposit, membership share, or grant that has as its primary purpose 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.

## **Contributions**

Stearns made two qualified donations totaling \$140,000 during the examination period which helped fund a national scholarship program. This program provides college scholarships to students in financial need who are in their senior year of high school. The scholarship has benefitted several students in need in the Commonwealth of Massachusetts.

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the Mortgage Lender Community Investment (MLCI) regulation, requires all mortgage lenders to take the following actions within 30 business days of receipt of the MLCI evaluation of their mortgage lender:

- 1) Make its most current MLCI 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 MLCI 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.