

PUBLIC DISCLOSURE

November 25, 2013

**CRA FOR MORTGAGE LENDERS
PERFORMANCE EVALUATION**

**VILLAGE MORTGAGE COMPANY
ML6331**

**21 PROSPECT STREET, UNIT D
TORRINGTON, CT 06790**

**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 (CRA), 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 CRA performance of **Village Mortgage Company (Village Mortgage)** prepared by the Division, the mortgage lender's supervisory agency, as of **November 25, 2013**.

SCOPE OF EXAMINATION

An evaluation was conducted using examination procedures, as defined by CRA. 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 Village Mortgage:

- (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.

CRA examination procedures were used to evaluate Village Mortgage's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Village Mortgage's lending and community development activities for the period of January 1, 2012 through June 30, 2013. 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 2012 and the first two quarters of 2013 (YTD 2013) is presented in the geographic distribution, lending to borrowers of different incomes and the Minority Application Flow tables. Comparative analysis is provided for the mortgage lender's 2012 lending performance as this is the most recent year 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 lenders required to report loan application information pursuant to the Home Mortgage Disclosure Act (HMDA) 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 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 "Needs to Improve."

Evidence of illegal credit practices adversely affects the Commissioner's evaluation of a mortgage lender's performance. In determining the effect on the mortgage lender's assigned rating, the Commissioner considers the nature and extent of the evidence, the policies and procedures the mortgage lender has in place to prevent illegal credit practices, any corrective action the mortgage lender has taken or has committed to take, particularly voluntary corrective action resulting from self-assessment, the mortgage lender's compliance with written policies and directives with regard to fair lending, and other relevant information.

The examination of Village Mortgage revealed a significant number of serious violations of consumer protection statutes and regulations. Additionally, on January 3, 2013, a Stipulation and Consent to the Issuance of a Consent (Order) was entered into by Village Mortgage and the Commissioner of Banks, as a result of the previous examination dated November 4, 2009. The examination team performed a detailed review of the Licensee's current status with regard to the issues contained in the Order. The review determined the Licensee failed to comply with several articles of the Order.

PERFORMANCE CONTEXT

Description of Mortgage Lender

The Division first licensed Village Mortgage as a mortgage lender on August 26, 1999. Village Mortgage was granted a mortgage lender and broker license (MC5341) by the Division on February 25, 2009; however, it currently holds a mortgage lender license (ML6331). The Lender's corporate office is located at 21 Prospect Street in Torrington, Connecticut. The Lender also maintains branch locations in Great Barrington, Norwood and Milford, Massachusetts and in Wethersfield, Connecticut which service Massachusetts consumers.

A majority of the Lender's business focuses on the wholesale and retail originations and the selling of conventional mortgage products. Village Mortgage has been a direct endorsed FHA lender since October 2010; the Lender is also approved by VA and USDA and began offering MassHousing loans in 2013. Village Mortgage has been an approved seller/servicer with FNMA and FHLMC since 2000 and 1999, respectively. Generally, closed loans are sold to secondary market investors within 30 days on a servicing right retained and released basis. The Lender operates primarily as a wholesale lender within Massachusetts and has correspondent relationships with local banks, credit unions and mortgage brokers. All loans are processed at the main office located in Torrington, CT. Village Mortgage offers a variety of mortgage loan products to meet the needs of the Commonwealth's borrowers. In addition to Massachusetts, Village Mortgage is also licensed in Connecticut, Rhode Island and Vermont.

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	10.8	20.0	40.7	27.1	1.4
Population by Geography	6,547,629	8.9	18.9	42.8	29.2	0.2
Owner-Occupied Housing by Geography	1,608,474	2.9	13.7	48.9	34.5	0.0
Family Distribution by Income Level	1,600,588	19.3	17.7	24.4	38.6	0.0
Distribution of Low and Moderate Income Families	592,420	7.7	18.4	43.6	30.3	0.0
Median Family Income	\$86,272	Median Housing Value				373,206
Households Below Poverty Level	11.14%	Unemployment Rate				7.0%*
2012 HUD Adjusted Median Family Income	\$87,891	2013 HUD Adjusted Median Family Income				\$84,208

Source: 2010 US Census

**as of 12/31/2013*

Based on the 2010 Census, the Commonwealth's population grew to just over 6.5 million people with a total of 2.7 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 household income of \$69,101. Over 39 percent of the households are now classified as low- and moderate-income. In addition, over 11 percent of the total number of households is

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 1.6 million. Of all family households, 19.3 percent were low-income, 17.7 percent were moderate-income, 24.4 percent were middle-income, and 38.6 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 is \$87,891 in 2012 and \$84,208 in 2013. 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, 160 or 10.8 percent are low-income; 295 or 20.0 percent are moderate-income; 600 or 40.7 percent are middle-income; 399 or 27.1 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 the Commonwealth of Massachusetts as of December 31, 2013, stood at 7.0 percent which was an increase from December 31, 2012 at 6.7 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

Village Mortgage's Lending Test performance was rated an overall "Needs to Improve." As noted previously, evidence of illegal credit practices adversely affects the Commissioner's evaluation of a mortgage lender's performance. The examination of Village Mortgage revealed a significant number of serious violations of consumer protection statutes and regulations precluding the issuance of a satisfactory rating.

Lending performance is presented under the 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 Village Mortgage.

I. 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, by number, HMDA reportable loans to low, moderate, middle and upper-income borrowers in comparison to the aggregate and the percentage of total families within the Commonwealth in each respective income group.

<i>Distribution of HMDA Loans by Borrower Income</i>						
<i>Median Family Income Level</i>	<i>% of Families</i>	<i>Village Mortgage 2012</i>		<i>Aggregate Lending Data (% of #) 2012</i>	<i>Village Mortgage YTD 2013</i>	
		<i>#</i>	<i>%</i>		<i>#</i>	<i>%</i>
<i>Low</i>	19.3	22	4.2	5.2	10	4.6
<i>Moderate</i>	17.8	113	21.6	15.6	42	19.4
<i>Middle</i>	24.4	134	25.7	23.2	65	29.9
<i>Upper</i>	38.5	251	40.1	42.7	100	46.1
<i>NA*</i>	0.0	2	0.4	13.3	0	0.0
<i>Total</i>	100.0	522	100.0	100.0	217	100.0

Source: 2012 HMDA Data, YTD 2013 HMDA Data and 2010 U.S. Census

As shown in the above table, Village Mortgage's 2012 lending volume to low- and moderate-income borrowers was comparable to that of the aggregate. Village Mortgage's 2012 lending to low-income borrowers was slightly below the aggregate's lending, while lending to moderate-income borrowers was above the aggregate lending. The lender's performance YTD 2013 showed a similar trend to low- and moderate-income borrowers.

Village Mortgage's lending to low-income borrowers, while comparable to the aggregate, was below the percentage of low-income families in the Commonwealth. This appears to indicate the difficulty low-income families may have in qualifying for a home mortgage, particularly considering 11.1 percent of these families earn income below the poverty level.

II Geographic Distribution

The geographic distribution of loans was reviewed to assess how well Village Mortgage 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.

Distribution of HMDA Loans by Income Category of the Census Tract						
Census Tract Income Level	% Total Owner-Occupied Housing Units	Village Mortgage 2012		Aggregate Lending Data (% of #) 2012	Village Mortgage YTD 2013	
		#	%		#	%
Low	2.9	1	0.2	2.2	3	1.4
Moderate	13.7	35	6.5	10.2	14	6.4
Middle	48.9	275	52.7	45.1	112	51.6
Upper	34.5	212	40.6	42.5	88	40.6
Total	100.0	522	100.0	100.0	217	100.0

Source 2012 HMDA, YTD 2013 HMDA Data and 2010 U.S. Census

Village Mortgage's geographic distribution of loans during 2012 was below the distribution of owner-occupied housing units and the aggregate lending data in low- and moderate-income census tracts during that time period. The lender's performance YTD 2013 showed a similar trend, however, there was a noticeable increase in lending in low-income tracts to 1.4 percent.

III. Innovative or Flexible Lending Practices

Village Mortgage offers a limited number of 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.

The Lender is directly endorsed by HUD to underwrite Federal Housing Administration (FHA) insured mortgages. The FHA products offered by Village Mortgage provide competitive interest rates and smaller down payments for low- and moderate-income first-time homebuyers and existing homeowners. During the review period of 2012 and YTD 2013, the lender closed 14 FHA loans totaling \$3.3 million. Of the 14 FHA loans closed during the examination period, 8 were to low- and moderate-income borrowers and 3 benefited low- and moderate-income geographies in the Commonwealth.

Village Mortgage also began offering MassHousing and the United States Department of Agriculture (USDA) Housing programs during 2013. MassHousing mortgage loan products provide competitive interest rates, smaller down payments for low- and moderate-income first time homebuyers and existing homeowners. USDA loans provide homeownership opportunities to in rural low- and moderate-income areas through a variety of loan programs.

IV. 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, review of written policies and procedures, interviews with mortgage lender personnel, and individual file review. No evidence of disparate treatment was identified.

Village Mortgage has established an adequate record relative to fair lending policies and practices. The fair lending policies and procedures apply to all residential mortgage transactions, products types, and geographies.

Fair lending is further enforced through online training courses which all employees including management are required to take. All employees are provided with training in fair lending issues appropriate to their job description and responsibilities. This includes information regarding both technical requirements that come into play, as well as the more substantive and subtle issues related to unintentional discrimination and quality of assistance. All loans are monitored for compliance, by an external quality control audit which reviews samples of loan files before and after closing. All denied loans receive a secondary review before a final decision is made.

MINORITY APPLICATION FLOW

For 2012 and YTD 2013 Village Mortgage received 332 HMDA-reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 30 or 9.0 percent were received from minority applicants, of which 20 or 66.7 percent resulted in originations. Village Mortgage received 20 or 6.0 percent of HMDA reportable applications from ethnic groups of Hispanic origin within its assessment area of which 13 or 65.0 percent were originated.

Demographic information for Massachusetts reveals the total ethnic and racial minority population stood at 23.8 percent of the total population as of the 2010 Census. This segment of the population is comprised of 9.59 percent Hispanic or Latino. Racial minorities consisted of 5.98 percent Black; 5.33 percent Asian/Pacific Islander; 0.16 percent American Indian/Alaskan Native; and 2.81 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	Village Mortgage 2012		Aggregate Data 2012	Village Mortgage YTD 2013	
	#	%	% of #	#	%
<i>American Indian/ Alaska Native</i>	0	0.0	0.1	0	0.0
<i>Asian</i>	8	1.2	4.8	7	2.7
<i>Black/ African American</i>	5	0.8	1.7	1	0.4
<i>Hawaiian/Pac Isl.</i>	3	0.5	0.1	2	0.7
<i>2 or more Minority</i>	0	0.0	0.1	0	0.0
<i>Joint Race (White/Minority)</i>	4	0.6	1.2	0	0.0
Total Minority	20	3.0	8.0	10	3.8
<i>White</i>	600	91.2	69.6	225	85.2
<i>Race Not Available</i>	38	5.8	22.4	29	11.0
Total	658	100.0	100.0	264	100.0
ETHNICITY					
<i>Hispanic or Latino</i>	9	1.4	2.1	3	1.2
<i>Not Hispanic or Latino</i>	607	92.3	74.7	229	86.7
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	4	0.6	0.8	4	1.5
<i>Ethnicity Not Available</i>	38	5.8	22.4	28	10.6
Total	658	100.0	100.0	264	100.0

Source: 2000 U.S. Census Data, 2012 & YTD 2013 HMDA Data

During 2012, Village Mortgage's performance was below to the aggregate's performance for racial and ethnic minority applicants at 3.0 and 2.0 percent, respectively.

V. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by Village Mortgage 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 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. 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.

Village Mortgage's Service Test performance was determined to be "Needs to Improve" during the evaluation period.

Mortgage Lending Services

Village Mortgage provides a reasonable level of mortgage lending services to low- and moderate-income geographies and borrowers through home purchase and refinance transactions in Massachusetts. The Lender offers a variety of mortgage products including conventional, FHA, VA, USDA and MassHousing loans. Village Mortgage generates the majority of its applications through their wholesale channel, which receives applications from community banks and well as through their retail loan officers in their Massachusetts and Connecticut branches. Also, customers can apply to Village Mortgage for a mortgage over the telephone or via the company's website. Village Mortgage has three Massachusetts' offices in Great Barrington, Norwood and Milford, Massachusetts; as well two offices in Torrington and Wethersfield, Connecticut which all service Massachusetts consumers.

Village Mortgage has an internal Loan Servicing Department and services certain loans that are sold to investors. The function of the Servicing Department is to collect timely mortgage payments and provide loss mitigation efforts. Loan servicing and loss mitigation services are offered via mail, internet, ACH or in person to all borrower income levels and geographies.

Village Mortgage accepts mortgage payments by phone, mail or in person at 30 Tower Lane, Avon, Connecticut, 06001. Payment may also be made online by accessing Village Mortgage's online payment system. Payments can be made from Village Mortgage's home page free of charge and payments can be drafted from a checking or savings account. Payments can also be withdrawn automatically on a monthly basis through an ACH program which will withdraw payments from a customer bank account.

The Loss Mitigation Department works with delinquent homeowners to facilitate a resolution of delinquency. Village Mortgage provides several options available which reduce monthly mortgage payments and prevent foreclosure allowing borrowers to stay in their homes. They include loan modifications, subordination agreements, assumptions and short sales. In addition Village mortgage also offers the Home Affordable Modification Program (HAMP) which refinances existing loan whose amounts are more than the equity on the property; and the Home Affordable Foreclosure Alternatives (HAFA) which assists borrowers with government insured mortgages. Although the HAFA does not eliminate foreclosure proceedings, it does offer payment assistance to displaced borrowers. Also offered are Deeds in Lieu of Foreclosure which help borrowers avoid foreclosure and stay in their homes by providing a lease-back where the borrower will lease the home back from the lender in exchange for release of the mortgage loan and payments.

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. Overall, the mortgage lender provides an effective delivery of mortgage lending services throughout the Commonwealth and the lender demonstrates the ability to work with delinquent borrowers to facilitate a resolution of delinquency.

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.

Although Village Mortgage has taken an active role in Connecticut, where their corporate office is located, the Lender did not engage in any qualified community development services in the Commonwealth during the examination period.

Management is encouraged to employ a strong focus and a pro-active commitment in community development activities or investments that meet the definition of community development under the MLCI regulation. Other activities may include, but are not necessarily limited to: financial literacy education initiatives targeted to low and moderate-income individuals; and foreclosure prevention counseling and/or providing technical assistance to community organizations in a leadership capacity.

Qualified Investments

A Qualified Investment for the purposes of this CRA 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.

During the examination period, Village Mortgage made a number of qualified community development donations totaling \$1,600 that benefited the Commonwealth of Massachusetts. Recipients of these donations included the *Central Berkshire Habitat for Humanity*, the *United Way*, *Volunteers in Medicine Berkshires*, which provides free medical services, and *Father Bill's and MainSpring*, which provides services for the homeless. These nonprofit organizations focus on serving the needs of low- and moderate-income individuals and affordable housing initiatives.

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.