

PUBLIC DISCLOSURE

MAY 24, 2017

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**HOMESTEAD FUNDING CORP.
MC3232**

**8 AIRLINE DRIVE
ALBANY N.Y. 12205**

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

<p>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.</p>
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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 (LMI) 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 **Homestead Funding Corp. (Homestead Funding or Lender)** prepared by the Division, the Lender's supervisory agency, as of **May 24, 2017**.

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.

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

- (a) origination of loans and other efforts to assist LMI 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, 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 Homestead Funding's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Homestead Funding's lending and community development activities for the period of January 2015 through December 2016. 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 2015 and 2016 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 for the year of 2015 is provided because it 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 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 lender's internally maintained records of delinquencies and defaults as well as information publicly available. 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.

- The geographic distribution of the Lender's loans reflects a reasonable dispersion in LMI level census tracts, as it is reflective of the distribution of owner occupied housing in those census tracts.
- Given the demographics of Massachusetts, the loan distribution to borrowers reflects, a reasonable record of serving the credit needs among individuals of different income levels.
- Homestead Funding offers flexible lending products, which are provided in a safe and sound manner to address the credit needs of LMI level individuals.
- Fair lending policies and practices are considered satisfactory.
- The Lender provides various community development and mortgage lending services, as well as qualified investments within the Commonwealth.
- Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the Commonwealth and services do not vary in a way that inconveniences geographies or individuals, particularly low- and moderate-income geographies and low- and moderate-income individuals.

PERFORMANCE CONTEXT

Description of Mortgage Lender

Homestead Funding was established in the state of New York in 1995, and was granted a license by the Division in December 1997. The main office is located in Albany, New York. Homestead Funding is licensed to conduct business throughout the United States, and has one branch office within Massachusetts, located in North Chelmsford.

All major functions in the loan process are conducted at Homestead Funding's main office. Underwriting is also performed at two branch locations, including one in North Chelmsford. Approved loans are funded through established warehouse lines of credit. Homestead Funding's business development relies primarily on professional relationships with realtors and attorneys, and also includes some advertising and direct marketing. Originated loans are closed in the Lender's name and sold immediately to secondary market investors, with servicing rights both retained and released.

Demographic Information

The 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	19.2	17.8	24.4	38.6	0.0
Distribution of Low and Moderate Income Families Throughout AA Geographies	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	11.1%		Unemployment Rate	3.1*		
2015 HUD Adjusted Median Family Income	\$87,300		2016 HUD Adjusted Median Family Income	\$86,904		

Source: 2010 US Census

*as of 12/31/2016

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 now classified as LMI. 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, 19.2 percent were low-income, 17.8 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 \$86,904 in 2016. 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, 2016, stood at 3.1 percent, which was a decrease from December 31, 2015, at which time it stood at 4.4 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

The lending test evaluates a mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth through its lending activities. Homestead Funding'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 Homestead Funding.

Homestead Funding's 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 Homestead Funding is addressing the credit needs throughout the Commonwealth of Massachusetts' low, moderate, middle, and upper-income Census tracts.

The following table shows the distribution of HMDA-reportable loans by census tract income level. The lending activity is compared to the aggregate data (including Homestead Funding) and the percentage of owner-occupied housing units within the Commonwealth of Massachusetts within each respective group.

Distribution of HMDA Loans by Income Level Category of the Census Tract						
Census Tract Income Level	Total Owner-Occupied Housing Units	2015 Homestead Funding		2015 Aggregate Lending Data	2016 Homestead Funding	
		#	%	% of #	#	%
Low	3.1	13	12.3	3.5	8	4.0
Moderate	13.0	40	37.7	12.9	59	29.3
Middle	48.3	43	40.6	46.5	77	38.3
Upper	35.6	10	9.4	37.0	57	28.4
N/A	0.0	0	0.0	0.1	0	0.0
Total	100.0	106	100.0	100.0	201	100.0

Source: 2015 & 2016 HMDA LAR Data and 2010 U.S. Census Data.

As reflected in the above table, of the total loans originated in 2015, 50.0 percent were in the LMI census tracts. The percentages in each category were well above the percentage of the area's owner occupied housing units in LMI census tracts, as well as the aggregate.

In 2016, the Lender's overall loan volume nearly doubled, while the percentage of lending in LMI census tracts decreased from the prior year. Overall, the geographic distribution of residential mortgage loans reflects a reasonable dispersion in LMI 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 Homestead Funding's 2015 and 2016 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 2015 aggregate lending data (inclusive of Homestead Funding).

Distribution of HMDA Loans by Borrower Income Level						
Median Family Income Level	% of Families	2015 Homestead Funding		2015 Aggregate Lending Data	2016 Homestead Funding	
		#	%	% of #	#	%
Low	22.2	15	14.1	4.8	17	8.5
Moderate	16.5	34	32.1	15.8	35	17.4
Middle	20.6	22	20.8	21.4	49	24.4
Upper	40.7	9	8.5	39.1	87	43.2
N/A	0.0	26	24.5	18.9	13	6.5
Total	100.0	106	100.0	100.0	201	100.0

Source: 2015 & 2016 HMDA LAR Data and 2010 U.S. Census Data.

Lending to low-income borrowers during 2015 and 2016 was below the percentage of low-income families but above the performance of the aggregate data. Homestead Funding's lending to moderate-income borrowers during that same period was above the percentages of moderate-income families, as well as the aggregate data.

The high housing costs throughout Massachusetts can restrict the ability of low-income mortgage loan applicants to qualify for residential loans, which may constrain the opportunities to lend to these consumers. Although lending to LMI borrowers decreased from 2015 to 2016, the Lender's overall lending performance to LMI borrowers is reasonable.

III. Innovative or Flexible Lending Practices

Homestead Funding offers flexible lending products, which are provided in a safe and sound manner to address the credit needs of LMI individuals or geographies in the Commonwealth.

Homestead Funding became a Housing and Urban Development approved Non-Supervised FHA Loan Correspondent (Direct Endorsement Lender) in 1994. FHA products provide competitive interest rates, smaller down payments for LMI first time homebuyers and existing homeowners. Since 2009 Homestead Funding also offers HUD insured Home Equity Conversion Mortgage product. During the review period, Homestead Funding originated 118 FHA loans totaling \$29 million. Of these, 47 loans benefited LMI borrowers, while 68 loans were originated in LMI level geographies.

The Lender became a VA Automatic Approval Agent in 1994. The VA Home Loan Guarantee Program is designed specifically for the unique challenges facing service members and their families. Through VA-approved lenders like Homestead Funding, the program offers low closing cost, no down payment requirement, and no private mortgage insurance requirement. During the review period, Homestead Funding originated ten VA loans totaling \$3 million. Of these, two loans benefited LMI borrowers or were originated in an LMI geography.

Since 2011, Homestead Funding has offered 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 which offers fixed rates, and does not require a down payment. Income requirements do apply and the property must be located in a rural development designated area. During the review period, Homestead Funding originated one loan for \$240,000.

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, the timeliness of such modifications, and the extent to which such modifications are effective in preventing subsequent defaults or foreclosures.

Homestead Funding uses a third party to sub-service approximately \$1.0 billion retained servicing portfolio. During the review period, delinquency rates were slightly above industry average. One Massachusetts mortgage loan originated by Homestead Funding underwent modification and foreclosure proceedings were initiated on another loan in January 2017. Lending practices and products do not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable. Nonetheless, delinquency levels appear elevated, although at present, the Lender's loss mitigation efforts do not appear to warrant regulatory concern.

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, review of written policies and procedures, interviews with Homestead Funding's personnel, and individual file review. No evidence of disparate treatment was identified.

Homestead Funding has established an adequate record relative to Fair Lending policies and practices. Fair Lending is incorporated in Homestead Funding's company-wide policies and procedures that apply to all employees. Fair Lending training is distributed to all personnel on at least annual basis. In addition, employees are instructed not to engage in any inappropriate conduct, take any action based upon prohibited basis, or steer consumers to loan products unsuitable for their needs. All staff participate in periodic in-house training and external courses

available through on-line vendors, as well as any additional agency specific or investor specific training.

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. Homestead Funding utilizes its internal review team, as well as external vendors, to conduct targeted periodic reviews and annual audits for compliance with regulatory requirements, including CRA and Fair Lending.

Minority Application Flow

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

During 2015 and 2016, Homestead Funding received 370 HMDA-reportable mortgage loan applications from within the Commonwealth of Massachusetts. The racial and ethnic identity was not specified in approximately 2.5 percent of cases. Of the remaining applications, 135 or 36.5 percent were received from racial minority applicants, and 110 or 81.5 percent resulted in originations. For the period, Homestead Funding received 53 or 14.3 percent of HMDA reportable applications from ethnic groups of Hispanic or Latino origin, and 40 or 75.5 percent were originated. This compares to an 83 percent overall ratio of mortgage loans originated by the Lender in Massachusetts, and the 72.7 percent approval ratio for the aggregate.

Demographic information for Massachusetts reveals the total ethnic and racial 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 6.00 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 mortgage lenders' minority loan application flow as well as a comparison to aggregate lending data 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	2015 Homestead Funding		2015 Aggregate Data	2016 Homestead Funding	
	#	%	% of #	#	%
American Indian/ Alaska Native	0	0.0	0.2	0	0.0
Asian	41	32.5	4.8	80	32.8
Black/ African American	4	3.2	3.3	5	2.1
Hawaiian/Pacific Islander	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	2	1.6	1.3	3	1.2
Total Minority	47	37.3	9.8	88	36.1
White	79	62.7	67.6	147	60.2
Race Not Available	0	0.0	22.6	9	3.7
Total	126	100.0	100.0	244	100.0
ETHNICITY					
Hispanic or Latino	24	19.0	4.0	20	8.2
Joint (Hisp-Lat /Not Hisp-Lat)	3	2.4	1.0	6	2.5
Total Hispanic or Latino	27	21.4	5.0	26	10.7
Not Hispanic or Latino	99	78.6	72.6	211	86.4
Ethnicity Not Available	0	0.0	22.4	7	2.9
Total	126	100.0	100.0	244	100.0

Source: PCI Corporation CRA Wiz, Data Source: 2000 U.S. Census Data, 2015 & 2016 HMDA Data

In both 2015 and 2016, Homestead Funding's overall racial minority application flow was above the population demographics derived from the census data and the aggregate figures. Similarly, the ethnic minority flow was also above the demographic and peer indicators.

VI. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by Homestead Funding 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.

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.

Homestead Funding'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.

For several years, the Massachusetts based branch manager has participated in fundraising and educational activities provided by a Lowell based real estate broker firm, serving LMI and majority-minority areas. The manager is a member of the Greater Lowell Landlord's Association, where they regularly speaks about low down payment mortgage loan products, as well as down payment assistance programs. This manager has also appeared on a TV program "Town Talk" that serves the greater Lowell area, speaking about first time homebuyer programs.

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.

During the review period, Homestead Funding's made financial contributions to the Merrimack Valley Housing Partnership, Merrimack Valley Food Bank, BlueSkies Wellness, a Massachusetts licensed mental health clinic providing clinical services for all ages, specializing in bullying prevention program.

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.

The Lender offers a variety of mortgage loan products to meet the needs of the Commonwealth's borrowers. Homestead Funding is an approved lender for the Federal Housing Administration (FHA), Veteran Administration (VA), and the US Department of Agriculture (USDA).

Homestead Funding provides reasonable delivery of mortgage lender services that are accessible to geographies and individuals of different income levels in the Commonwealth. Business development relies primarily on professional relationships with realtors and attorneys, and also includes some advertising and direct marketing. Customers can also apply to Homestead Funding for a mortgage loan over the telephone and via the company's website.

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.