

PUBLIC DISCLOSURE

September 7, 2010

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

MERRIMACK MORTGAGE COMPANY, INC.

MC1768

**1045 ELM STREET, SUITE 601
MANCHESTER, NH 03101**

**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 **Merrimack Mortgage Company, Inc. ("Merrimack")** prepared by the Division, the mortgage lender's supervisory agency, as of **September 7, 2010**.

SCOPE OF EXAMINATION

An onsite 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.

The MLCI examination included a comprehensive review and analysis, as applicable, of Merrimack Mortgage's:

- (a) origination of loans and other efforts to assist low and moderate income residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the 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 Merrimack's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Merrimack's lending and community development activities for the period of January 2008 through December 2009. 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 2008 and 2009 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 2008 and 2009 is provided because 2008 was the most recent year for which aggregate HMDA lending data was available and 2009 data became available prior to issuance of the evaluation. 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 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 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 an adequate 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, an adequate record of serving the credit need among individuals of different income levels, including low- and moderate-income.
- Merrimack offers a 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.
- Fair lending policies and practices are considered reasonable.
- Community Development Services are considered adequate.

PERFORMANCE CONTEXT

Description of Mortgage Lender

Merrimack Mortgage Company Inc. was established in the Commonwealth of Massachusetts on September 15, 1983, and was granted a license by the Division in May of 1993. Merrimack's main office is located at 1045 Elm Street, Ste 601, Manchester, New Hampshire. The lender has seven additional branches located within Massachusetts in Holden, Holyoke, Fall River, Waltham, Plymouth, Byfield, and Andover. The company is also licensed to do business in New Hampshire, Connecticut, Rhode Island, Maine, Vermont, South Carolina, and Florida.

Merrimack offers a variety of mortgage loan products to meet the needs of the Commonwealth's borrowers. Merrimack is an approved lender for the Federal Housing Administration and Veteran's Administration loan products. Additionally, the lender offers a selection of MassHousing products.

All underwriting and major functions in the loan process are centralized at Merrimack's main office in Manchester, NH. Approved loans are funded through warehouse lines of credit. Merrimack's business development relies primarily on referrals and repeat customers. Merrimack acts as both a retail and wholesale lender. Loans originated are closed in Merrimack's name and sold immediately to investors.

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

DEMOGRAPHIC INFORMATION*						
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 Unemployment Rate		\$209,519 9.3%**	
2009 HUD Adjusted Median Family Income		\$82,684				
Households Below Poverty Level		9.8%				

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

**as of 2/10

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 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" 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 US Department of Housing and Urban Development ("HUD") adjusted median family income is \$82,684. 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 the Banker's and Tradesman, show the median price for a single-family increased to \$345,000 in 2007 and experienced a drop of 11.6 percent to \$305,000 in 2008. Fluctuating housing values have a direct effect in mortgage affordability and the types of financial products adequate for homeowners and property buyers.

The unemployment rate for Massachusetts as of April 2010 was 9.9 percent, up from 7.7 percent in February 2009. This represents an increase from the end of 2008 when the unemployment rate stood at 6.4 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

Merrimack's lending efforts are rated 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 Merrimack Mortgage.

I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well Merrimack 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 is consistent with the distribution of owner-occupied housing units and slightly below the performance of the aggregate's distribution of loans for low- and moderate-income borrowers in the Commonwealth. Overall, Merrimack's distribution of loans reflects an adequate distribution of loans in the Commonwealth.

The following table presents Merrimack's HMDA-reportable loans as well as the 2008 aggregate data (exclusive of Merrimack). In addition, the table also reflects the percentage of owner-occupied housing units in each of the Census tract income categories.

<i>Distribution of HMDA Loans by Income Category of the Census Tract</i>							
<i>Census Tract Income Level</i>	<i>% Total Owner-Occupied Housing Units</i>	<i>Merrimack Mortgage 2008</i>		<i>Aggregate Lending Data (% of #) 2008</i>	<i>Merrimack Mortgage 2009</i>		<i>Aggregate Lending Data (% of #) 2009</i>
		<i>#</i>	<i>%</i>		<i>#</i>	<i>%</i>	
<i>Low</i>	1.6	30	2.7	2.2	25	1.0	1.5
<i>Moderate</i>	12.8	175	15.8	14.2	284	10.7	10.7
<i>Middle</i>	54.0	616	55.7	51.8	1,353	51.3	50.8
<i>Upper</i>	31.6	285	25.8	31.7	976	37.0	37.0
<i>NA*</i>	0	0	0.00	0.1	0	0.0	0
<i>Total</i>	100.0	1,106	100.0	100.0	2,638	100.0	100.0

Source: 2008 and 2009 HMDA Data and 2000 U.S. Census

For 2008, Merrimack exceeded the performance of the aggregate with regard to lending to low- and moderate-income geographies. As a percentage of total lending, in 2009 Merrimack experienced a decline in lending to these geographies. However, by number, lending to moderate income geographies experienced growth. Merrimack performance year over year is consistent with the aggregate which also experienced a noticeable decline in lending to low- and moderate-income geographies as a percentage of total lending.

Overall, the geographic distribution of residential loans reflects a reasonable dispersion throughout 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.

Merrimack achieved an adequate record of serving the mortgage credit needs of 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 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.

Distribution of HMDA Loans by Borrower Income							
Median Family Income Level	% of Families	Merrimack Mortgage 2008		Aggregate Lending Data (% of #) 2008	Merrimack Mortgage 2009		Aggregate Lending Data (% of #) 2009
		#	%		#	%	
Low	20.5	50	4.5	5.0	97	3.7	5.1
Moderate	17.7	266	24.0	16.9	537	20.3	16.6
Middle	22.3	360	32.6	23.8	720	27.3	23.7
Upper	39.5	399	36.1	37.8	1,077	40.8	39.6
NA*	0	31	2.8	16.5	207	7.9	15.0
Total	100.0	1,106	100.0	100.0	2,638	100.0	100.0

Source: 2008 & 2009 HMDA Data and 2000 U.S. Census *Income Not Available

Most notable is the significant increase in the number of loans originated by Merrimack in 2009. While the percentage of total lending to low- and moderate-income borrowers decreased, the number of loans originated to these borrowers approximately doubled in both categories. While Merrimack fell short in comparison to the aggregate for both years with regard to low-income borrowers, the lender exceeded the performance of the aggregate within the moderate-income category for both years. An additional noted difference in the 2009 lending activity is the emergence of loans for which income was unavailable, approximately 8 percent of total lending. Merrimack offered an FHA mortgage loan refinance product which required minimal documentation from existing mortgagors who were not required to disclose an income. It is conceivable that this flexible loan benefited each income category of borrowers proportionately and reflects Merrimack's willingness to lend to borrowers of all income categories.

Given the increase in lending and the positive comparison to the aggregate, Merrimack's performance for this criterion is considered reasonable.

III. Innovative or Flexible Lending Practices

Merrimack offers a 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.

Merrimack is a Direct Endorsed Lender for the Federal Housing Administration (FHA) and the Veterans Administration (VA). FHA and VA products provide competitive interest rates, smaller downpayments for low- and moderate income first time homebuyers and existing homeowners. In 2008, Merrimack originated 488 FHA and VA loans totaling \$115.0 million in dollar volume. In 2009, Merrimack originated 980 FHA and VA loans totaling \$233.0 million in dollar volume.

Merrimack also offers FHA's 203K loan program, which its primary purpose is geared to neighborhood revitalization and expanding homeownership. In 2008, Merrimack closed 10 FHA 203K loans totaling \$1.9 million; in 2009, Merrimack closed 18 totaling \$2.6 million.

Merrimack also offers MassHousing products, which include the MyCommunity and the MassAdvantage Programs. The MassAdvantage Program features fixed interest rates below the conventional market, flexible underwriting criteria, low fees and discounted interest rates for low-income borrowers and first time homebuyers. Further, the MyCommunity loan program through MassHousing offers loan limits as high as \$417,000 with the borrower's income limit up to \$110,700, with no down payment required, and a 30 year fixed rate loan. In 2008 and 2009, Merrimack originated 26 Mass Housing loans with a total of \$5.2 million in dollar volume.

Merrimack offers the Home Possible Mortgage Program. This program is designed for first time home buyers and low- and moderate-income borrowers offering fixed-rate mortgages, reduced mortgage insurance coverage levels, flexible closing cost funding options and no cash-out refinancing. Homeownership education is required for first-time homebuyers for purchase transactions through Home Possible Mortgages. Merrimack originated 6 loans in 2008.

Merrimack offers the USDA Rural Housing Program which is an innovative loan program that provides 100% financing for eligible homebuyers in rural-designated areas. This program, for home purchase transactions, offers fixed rates and does not require a down payment. Income limitations do apply and borrowers can earn no more than 115% of the HUD median income for their area, adjusted by family size. The property must be located in a rural development designated area. In 2008, 16 loans were closed with a dollar volume of \$3.1 million and, in 2009, 67 loans were closed with a dollar volume of \$12 million.

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.

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

Fair lending is incorporated in Merrimack's company-wide policy. The policy states that employees will not discriminate against loan applicants on the basis of race or color, national origin, religion or creed, sex, marital status, familial status, sexual orientation, handicap or disability, or age, or the fact that all or part of the applicant's income is derived from a public assistance program, or has in good faith exercised any right under the Consumer Credit Protection Act. Complying with this policy is the responsibility of every employee.

Merrimack ensures that fair lending is enacted within the company and customers are treated fairly. While they do not currently have any formal training program, all loan originators and operations staff are required to take approved fair lending courses online. These courses include Fair Lending overview, the Equal Credit Opportunity Act, and the Fact Act overview. Any updates to policies and procedures are made available to employees through company meetings, trainings, and communication via email.

MINORITY APPLICATION FLOW

For 2008 and 2009, Merrimack received 5,013 HMDA-reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 450 or 9.0 percent were received from minority applicants, of which 289 or 64.2 percent resulted in originations. Merrimack received 346 or 6.9 percent of HMDA-reportable applications from ethnic groups of Hispanic origin within its assessment area of which 205 or 59.2 percent were originated.

Demographic information for Massachusetts reveals that the total ethnic and racial minority population stood at 18.12 percent of the total population in 2008. This segment of the population is comprised of 6.75 percent Hispanic or Latino; 5.01 percent Black; 3.73 percent Asian; .18 percent American Indian; .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	Merrimack Mortgage 2008		2008 Aggregate Data		Merrimack Mortgage 2009		2009 Aggregate Data	
	#	%	#	%	#	%	#	%
American Indian/ Alaska Native	2	0.1	687	0.2	2	0.1	730	0.2
Asian	63	4.1	11,734	3.5	142	4.1	19,944	4.1
Black/ African American	55	3.6	11,683	3.5	117	3.4	10,024	2.0
Hawaiian/Pac Isl.	4	0.3	639	0.2	1	0.0	554	.1
2 or more Minority	0	0.0	280	0.1	0	0.0	230	.1
Joint Race (White/Minority)	28	1.8	3,174	1.0	36	1.0	4,939	1.0
Total Minority	152	9.8	28,197	8.5	298	8.6	36,421	7.5
White	1,338	87.1	232,490	69.7	3,113	89.5	340,923	69.5
Race Not Available	46	3.0	72,886	21.8	66	1.9	112,611	23.0
Total	1,536	100.0	333,573	100.0	3,477	100.0	489,955	100.0
ETHNICITY								
Hispanic or Latino	147	9.6	13,185	3.9	144	4.1	11,445	2.3
Not Hispanic or Latino	1,336	87.0	244,554	73.3	3,231	92.9	361,096	73.7
Joint (Hisp/Lat /Not Hisp/Lat)	14	0.9	2,634	0.8	41	1.2	3,653	.8
Ethnicity Not Available	39	2.5	73,200	22.0	61	1.8	113,761	23.2
Total	1,536	100.0	333,573	100.0	3,477	100.0	489,955	100.0

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

Merrimack's performance exceeded the 2008 and 2009 aggregate's performance for racial minority applicants. The mortgage lender's performance was significantly above the aggregate for applications from ethnic minorities in 2008 but did show a decline in 2009 while still exceeding the performance of the aggregate. The number of racial and ethnic minority applicants remained relatively consistent from 2008 to 2009 and reflects good performance in this area.

V. Loss of Affordable Housing

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

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

Mortgage Lending Services

Merrimack provides an effective delivery of mortgage lender services that are accessible to geographies and individuals of different income levels in the Commonwealth. Customers can apply to Merrimack for a mortgage over the telephone and via the company's website and at any of the five sales office locations. Merrimack's main office is located at 1045 Elm Street in Manchester, NH and is situated in a moderate-income geography. Merrimack has seven branch offices within Massachusetts. These branch offices are located in Holden, Andover and Byfield, which are upper-income geographies; Fall River, a middle-income geography, Waltham and Plymouth, moderate-income geographies, and Holyoke, which is a low-income geography. In 2008 and 2009, Merrimack closed six of its branch offices in Massachusetts located in Hanover, Newton, Lowell, North Chelmsford, Salem, and Billerica.

Business development relies primarily on referrals and repeat customers. Merrimack does not advertise in Massachusetts.

As Merrimack 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.

Merrimack provides a minimal level of Community Development Services. Listed below are the community development services provided by the mortgage lender.

A Loan Originator is a Trustee on the Groton Affordable Housing Trust and the Chairman of the Groton Habitat for Humanity committee.

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 limited to: financial literacy education initiatives targeted to low and moderate-income individuals; 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 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

Merrimack made 2 qualified donations during the examination period totaling \$6,000 which went to an organizations that promote education, health and human services for individuals in need, and economic development throughout the Commonwealth of Massachusetts.

New England Center for Homeless Veterans – This organization extends assistance to homeless men and women veterans who are addressing the challenges of addiction, trauma, severe and persistent mental illness, and/or unemployment and who will commit themselves to sobriety, non-violence, and working for personal change.