Office of the
Comptroller of the Currency
Washington, DC 20219

SMALL BANK

PUBLIC DISCLOSURE

May 06, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Homewood Federal Savings Bank
Charter Number 706639

3228 Eastern Avenue
Baltimore, MD 21224-4012

Office of the Comptroller of the Currency

400 7th Street, SW
Washington, DC 20219

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The major factors supporting the institution’s rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, assessment area, credit needs and relevant competitive factors;

- A majority of loans originated are in the bank’s assessment area;

- The record of lending reflects reasonable penetration to residential real estate loans; and

- The distribution of loans reflects reasonable dispersion among borrowers of different income levels, in particular, low and moderate-income borrowers.

SCOPE OF EXAMINATION

CRA activities at Homewood Federal Savings Bank (Homewood Federal) were completed using full-scope procedures for its assessment area (AA). Our review covered the thrift’s performance from January 1, 2008 through December 31, 2011. Residential mortgage loans are the thrift’s primary loan product and were reviewed as part of this examination. The analysis of lending activity was limited to Home Mortgage Disclosure Act (HMDA) data (home purchase, refinance and home improvement loans) reported from January 1, 2008 through December 31, 2011.

The current rating is based primarily on the evaluation of lending performance against the five components of the small savings association-lending test. We also considered community development activity in the evaluation.

In order to evaluate Homewood Federal’s record of originating residential mortgage loans, we analyzed loan data Homewood Federal collected and reported in accordance with the (HMDA) requirements. In addition, to ensure the reliability of the HMDA loan data, we performed a data integrity examination during the first quarter of 2013. In conjunction with the data integrity examination, we evaluated the processes employed by Homewood Federal to ensure the accuracy of collected HMDA data and tested a sample of their reported HMDA loans. Specifically, we tested the accuracy of Homewood Federal’s HMDA loan data by comparing it against loan file documentation. The data integrity examination revealed that Homewood Federal’s publicly available HMDA loan data is reliable for purposes of this CRA evaluation.

DESCRIPTION OF INSTITUTION

Homewood Federal is a federally chartered mutual savings bank headquartered in the city of Baltimore, Maryland. As of March 31, 2013, total assets totaled $70.4 million.

Total assets increased slightly by $3.6 million since the last evaluation. Homewood Federal has no subsidiaries, affiliates or holding company. The thrift operates exclusively from its main office located at 3228 Eastern Avenue, Baltimore, Maryland 21224, in the Highlandtown and Canton neighborhoods of Baltimore. The branch is located in a moderate-income census tract that is contiguous to one low, three moderate, and two middle-income census tracts. This proximity continues to provide reasonable accessibility to serving lower-income areas and customers.

The institution offers loan and deposit products and services typical of a traditional thrift, concentrating primarily on residential mortgage lending and consumer deposit accounts. The thrift does not make small business loans. Consumer loans are comprised primarily of residential mortgage lending; both first and second lien loans and loans secured by mobile or manufactured homes located on leased lots in mobile home parks or manufactured housing communities. Manufactured home loan applications are referred through a program offered by Mainland Financial, a specialist in helping lenders develop manufactured housing portfolios. The loans, which are underwritten to institution standards, provide additional lending opportunities to low-and moderate-income individuals and areas.

All products and services are provided through the institution's main office. The institution does not operate any ATMs, but offers ATM services through M&T Bank, a local surcharge-free ATM network. ATMs within reasonable proximity to the main office are located throughout the neighborhood at various pharmacies and gas stations. Debit MasterCard and online banking services are available to existing accountholders. There were no offices opened or closed during the review period.

DESCRIPTION OF ASSESSMENT AREA

The AA includes all of Baltimore City, Baltimore County and Anne Arundel County in the Baltimore-Towson, MD (#12580) Metropolitan Statistical Area (MSA) and contains 499 census tracts. The AA meets regulatory requirements and does not arbitrarily exclude low- and moderate-income geographies.

Demographic Information for Full Scope Area: Homewood Federal's AA						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts/BNAs)	499	15.64*	25.25	37.27	20.84	1.00
Population by Geography	1,895,102	11.90	24.63	38.08	24.85	0.54
Owner-Occupied Housing by Geography	801,148	6.27	20.59	41.37	31.77	0.00

Businesses by Geography	204,393	6.52	19.49	40.30	33.64	0.05
Farms by Geography	2,800	1.43	10.39	35.54	52.64	0.00
Family Distribution by Income Level	478,077	10.72	23.76	38.25	27.27	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	203,880	20.13	34.00	33.50	12.37	0.00

Median Family Income	$57,852	Median Housing Value	$120,150
HUD Adjusted Median Family Income for 2011	$84,500	Unemployment Rate (May 2013 Bureau of Labor Statistics)	7.0%
Households Below Poverty Level	11.44%		

The unemployment rate for the Baltimore-Towson, MD MSA during the review period ranged from 3.5% to 8.5%. Major sources of employment in the assessment area include financial and retail services, hospitals and medical services, real estate, military, municipal, and federal government. Community groups oriented toward area revitalization, housing development and rehabilitation include the Highlandtown Community Association, Canton Community Association, Brewer's Hill Community Association, and Southeast Community Development Corporation. Highlandtown continues to be designated as a "Main Street District" under the National Main Street Program, which encourages and supports revitalization of struggling commercial districts.

The AA includes urban, industrialized, lower-income neighborhoods of Highlandtown and Canton in Baltimore City and middle- to upper-income suburban neighborhoods in Baltimore and Anne Arundel Counties. Forty-one percent of the area's 499 census tracts are either low or moderate-income, with thirty-six percent of the population residing in those low- and moderate-income census tracts.

The median cost of housing in the assessment area is $120,150. The Updated Median Family Income for 2011 is $84,500. The percentage of households below the poverty level is 11.44%. The AA's population is comprised of 478,077 families with the following family income distribution: 10.72% are low-income, 23.76% are moderate-income, 38.25% are middle-income and 27.27% are upper-income.

In 2011, 491 lenders originated HMDA loans in the assessment area, according to the HMDA Peer Mortgage Data. Competition in the AA was strong with Wells Fargo Bank, Bank of America, JP Morgan Chase Bank and Branch Banking and Trust Co. (BB&T) ranking as the top four lenders with market shares of 17.15%, 8.57%, 5.35% and 3.16% respectively. Homewood Federal was ranked 207 with a market share of 0.02%. Other competitors consisted of large national banks, mortgage companies, local banks and mortgage brokers with nationwide sources of funding.

According to the June 30, 2011 FDIC Summary of Deposits Market Share Report, Homewood Federal was ranked 45 out of 65 institutions within its AA with a 0.13% deposit market share. In comparison, Bank of America is ranked first with 80 offices and 28.94% deposit market share. The other top three top deposit gatherers are Manufacturers and Traders Trust Company with 96 offices and 26.27% of deposits, PNC Bank with 59 offices and 8.59% of deposits and Wells Fargo Bank with 45 offices and 7.90% of the deposits.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Homewood Federal's loan-to-deposit ratio is satisfactory. The thrift's average loan-to-deposit ratio for the prior sixteen quarters is 86.06%. This resulted in a decrease from the prior review period when the average loan-to-deposit ratio was 93.26%. Homewood Federal's average loan-to-deposit ratio is in line with the peer median average of 86.97% for similarly situated thrifts during the same period. Homewood Federal's loan-to-deposit ratio is considered satisfactory given its small size, conservative lending strategies and significant investment in loans.

Lending in Assessment Area

Homewood Federal's lending in its AA is satisfactory. The institution continues to focus on conventional mortgage lending in its local market, originating 78.95% of one-to-four and multi-family residential loans inside of its AA. The institution also originates loans secured by manufactured homes on leased lots located in manufactured housing communities. Manufactured home loan applications are referred through a program offered by Mainland Financial, a specialist in helping lenders develop manufactured housing portfolios. The loans are underwritten to institution standards, which provide additional lending opportunities to low- and moderate-income individuals and areas. Referrals from Mainland Financial are more geographically dispersed than the institution's conventional residential loan activity, extending primarily across Maryland, Delaware, Pennsylvania and New Jersey. Only 11 of the 69 manufactured loans were made on properties in the AA.

Because of the manufactured home lending distribution, just half of the HMDA-reportable loans reflected in the table below, were originated inside the AA. However, a significant majority of the dollar volume of the lending activity was originated within the AA. While residential mortgage loans averaged $266,990, the nature of leased lot mobile home loans resulted in a significantly lower average loan amount of $37,940. These loans generally contain no land value with smaller, less expensive structures than conventional homes.

Concentration of Homewood Federal HMDA-Reportable Loans
Originated in and Outside of the Assessment Area

Loans	Number	Percentage	$Amount (000s)	Percentage
Within Area	86	52.44%	$19,374	68.86%
Outside Area	78	47.56%	8,763	31.14%
Total	**164**	**100.00%**	**$28,137**	**100.00%**

Although the number of loans originated in the AA was a slight majority, loans by dollar volume made in the AA was a significant majority. The relatively small size of manufactured home loans distorts the proportion of lending activity in and outside the AA. In addition, mobile home or manufactured housing loans provide more opportunity to lend to low- and moderate-income persons. The concentration is considered reasonable based on these considerations and, therefore, meets the standards for satisfactory performance.

Lending to Borrowers of Different Incomes

Homewood Federal's lending to borrowers of different incomes meets the standard for satisfactory performance. Borrower distribution reflects reasonable penetration among residential real estate loans.

The institution applies traditionally conservative underwriting guidelines to its lending activities. Although more flexible products are offered to qualifying low-to-moderate income (LMI) borrowers, volumes through most of the review period was limited by competition from larger institutions and subprime lenders and the economic recession that began in 2008. The table below contrasts the distribution, categorized by borrower income level, of Homewood Federal's HMDA-reportable residential mortgage loans against demographic and aggregate 2008 through 2011 HMDA data.

Distribution of Homewood Federal HMDA-Reportable Loans By Borrower Income Level in the Assessment Area

Income Category	# of Loans	% of Loans	Volume ($000s)	% of Volume	Family Distribution	Aggregate
Low	2	2.38%	$44	0.23%	23.81%	7.33%
Moderate	17	20.24%	1,728	9.14%	18.84%	15.77%
Middle	9	10.71%	989	5.23%	22.09%	23.01%
Upper	56	66.67%	16,151	85.40%	35.26%	53.89%
Total	**84**	**100.00%**	**$18,912**	**100.00%**	**100.00%**	**100.00%**
Income NA	2	NA	462	NA	NA	NA

The table indicates that the percentage of Homewood Federal's mortgage lending to low-income borrowers in the AA was below the percentage of low-income families residing in the AA. However, when considering that 11.44% of households within the AA are below the poverty level and may find it difficult to qualify for a home loan, the lending level to low-income borrowers is acceptable. The Institution's lending to moderate-income borrowers slightly exceeded the demographic benchmark. Comparing the institution's combined percentage of loans made to LMI borrowers of 22.62% to the combined aggregate benchmark of 23.1%; Homewood Federal meets the demographic benchmark.

Another compensating factor for the institution is the expansion of lending activities into the manufactured or mobile home market. In an effort to identify underserved markets, Homewood Federal continues to make loans in the manufactured home market primarily in the states of Maryland, Delaware, Pennsylvania and New Jersey. Although these loans were made almost entirely outside of the thrift's AA, they disproportionately assisted LMI borrowers. Based on the comparative distribution of demographic data and aggregate loans by borrower income level and the impact of manufactured home loans, Homewood Federal's residential mortgage lending performance is considered satisfactory.

Geographic Distribution of Loans

Homewood Federal's geographic distribution of loans exceeds the standard for satisfactory performance. The geographic distribution reflects reasonable dispersion in comparison to the geographical distribution of residential mortgage loans within the AA. Our review did not detect any conspicuous or unexplained gaps in the bank's lending patterns.

With the location of the institution in a primarily LMI area, the proportion of Homewood Federal loans in low-and moderate-income census tracts is strong compared to both demographic and aggregate data distributions in both income categories. The table below contrasts the distribution, categorized by tract income level, of Homewood Federal's HMDA reportable residential mortgage loans against demographic and aggregate HMDA data for the review period.

Distribution of Homewood Federal HMDA-Reportable Loans By Census Tract Level in the Assessment Area

Census Tract Income Category	# of Loans	% of Loans	Volume ($000s)	% of Volume	% Owner Occupied	Aggregate
Low	17	19.77%	$2,009	10.37%	6.27%	2.71%
Moderate	19	22.09%	2,324	12.00%	20.59%	10.55%
Medium	18	20.93%	3,399	17.54%	41.37%	34.26%
Upper	32	37.21%	11,642	60.09%	31.77%	52.48%
Total	**84**	**100.00%**	**$19,374**	**100.00%**	**100.00%**	**100.00%**

The geographic distribution of Homewood Federal's AA residential mortgage loans is very strong compared to the distribution of demographic data and aggregate loans. The institution's performance by tract income level significantly exceeds the standards for satisfactory performance.

Qualified Investments and CD Services

Homewood Federal has supplemented lending activities with qualified community development activities. Efforts include funding for community development organizations and programs, and investment in qualified instruments. Current community development investments, outstanding community development loan balances, and contributions to community organizations exceed $2.1 million. The table below details the purpose, amount and balance of investments, loans and grants held or made during the period. These activities demonstrate a reasonable responsiveness to community development needs.

Community Development Loans, Investments & Contributions January 1, 2008 through December 31, 2011			
Issuer	**Investment**	**Amount**	**Year Incurred**
CRA Fund Advisors	CRA Qualified Investment Fund FNMA Pool Maryland LMI Borrowers	$1,500,000	Ongoing
Patterson Park Community Development Corp.	Conventional Mortgage Loans	219,501	*
Associated Catholic Charities	Conventional Mortgage Loans	468,138	Ongoing
Neighborhood Housing Services of Baltimore	Homeownership Counseling, Financing and Development	500	2009
Banner Neighborhoods Community Organization	Low-income Senior Housing Services, Neighborhood Revitalization	1,000	Ongoing
Total Investments		**$2,189,139**	

*Filed Chapter 11 Bankruptcy on 2/17/2009.

Responses to Complaints

During the review period, the institution received no known written complaints pertaining to its performance in helping to meet the credit needs within the AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c) or 12 C.F.R. 195.28(c), in determining a national bank's or Federal savings association's CRA rating respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or Federal savings association, or in any AA by an affiliate whose loans have been considered as part of the bank's or Federal savings association's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. In addition, the total dollar amount of loans made inside the AA was twice the total dollar amount of loans made outside the AA. Therefore, the AA loan concentration is considered reasonable.