

PUBLIC DISCLOSURE

AUGUST 15, 2024

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**BAY EQUITY LLC D/B/A BAY EQUITY HOME LOANS
MC76988
770 TAMALPAIS DRIVE, SUITE 207
CORTE MADERA, CA 94925**

**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

This document is an evaluation of the Mortgage Lender Community Investment (CRA) performance of **Bay Equity LLC d/b/a Bay Equity Home Loans (Lender or Bay Equity)** pursuant to Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' (Division) regulation 209 CMR 54.00, prepared by the Division, the Lender's supervisory agency, as of August 15, 2024.

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 Lender's public CRA file, did not reveal any complaints.

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

- (a) origination of loans and other efforts to assist low- and moderate-income (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 of Banks (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 of Massachusetts (Commonwealth or Massachusetts).

CRA examination procedures were used to evaluate Bay Equity's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Bay Equity's lending and community development activities for the period of January 1, 2022, through December 31, 2023. 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 six criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible lending practices, loss mitigation efforts, fair lending, and loss of affordable housing.

Home mortgage lending for 2022 and 2023 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 both years is provided. 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 Home Mortgage Disclosure Act (HMDA) reporting mortgage lenders who originated loans in the Commonwealth.

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. This analysis 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 “Satisfactory”

Lending Test: “Satisfactory”

- The geographic distribution of the Lender's loans reflects adequate dispersion in LMI census tracts.
- Given the demographics of Massachusetts, the loan distribution to borrowers reflects an adequate record of serving the credit needs among individuals of different income levels.
- Bay Equity makes use of flexible lending products, which are provided in a safe and sound manner to address the credit needs of LMI individuals.
- Lending practices and products did not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable.
- Fair lending policies and practices are considered adequate.

Service Test: “High Satisfactory”

- The Lender provides an adequate level of community development services within the Commonwealth during the evaluation period.
- Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the Commonwealth.

PERFORMANCE CONTEXT

Description of Mortgage Lender

Bay Equity was organized in California to operate as a residential mortgage lender and mortgage broker. The Lender has been licensed in the Commonwealth as a mortgage lender and mortgage broker since June 7, 2019. At the commencement of the examination, the Lender had two active branches located in Massachusetts. Bay Equity operates in numerous states nationwide and takes applications via the Lender's website, telephone, or in-person. Massachusetts loans retained for servicing are serviced through a third-party loan servicer, ServiceMac, LLC.

Demographic Information

The Division's regulation 209 CMR 54.00 requires mortgage lenders to be evaluated on their performance within the Commonwealth. Demographic data is provided below to offer contextual overviews of the economic climate along with housing and population characteristics for Massachusetts.

DEMOGRAPHIC INFORMATION OF THE COMMONWEALTH						
Demographic Characteristics	Amount	% Low	% Moderate	% Middle	% Upper	% N/A
Geographies (Census Tracts)	1,620	10.5	19.1	37.0	30.0	3.4
Population by Geography	7,029,917	9.4	19.0	37.8	32.6	1.2
Owner-Occupied Housing by Geography	1,654,892	3.1	14.6	43.1	38.9	0.3
Family Distribution by Income Level	1,673,992	22.8	16.4	19.8	41.0	0.0
Distribution of Low- and Moderate-Income Families	655,582	15.8	27.3	37.1	19.1	0.7
Median Family Income	\$114,076		Median Housing Value			\$449,342
Households Below Poverty Level	10.6%		2023 Unemployment Rate			3.4%*
2022 HUD Adjusted Median Family Income	\$120,400		2023 HUD Adjusted Median Family Income			\$127,700

Source: 2020 US Census; *Bureau of Labor Statistics annual average

Based on the 2020 United States (US) Census, the Commonwealth's population was above 7 million people with a total of 2.9 million housing units. Of the total housing units, almost 1.6 million or 56.8 percent are owner-occupied, 992,088 or 34.1 percent are rental-occupied, and 9.1 percent are vacant units.

According to the 2020 US Census, there are 2.6 million households in the Commonwealth with a median household income of \$91,426. Nearly 40 percent of households are classified as LMI. Over ten 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 1.67 million. Of all family households, 22.8 percent were low-income, 16.4 percent were moderate-income, 19.8 percent were middle-income, and 41.0 percent were upper-income. The median family income according to the 2020 US Census data stood at \$114,076. The Department of Housing and Urban Development (HUD) adjusted median family income was \$120,400 in 2022 and increased to \$127,700 in 2023. The

HUD adjusted median family income is updated yearly and takes into account inflation and other economic factors.

Massachusetts contains 1,620 census tracts. Of these, 170 or 10.5 percent are low-income; 309 or 19.1 percent are moderate-income; 599 or 37.0 percent are middle-income; 486 or 30.0 percent are upper-income; and 56 or 3.4 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 \$449,342 according to the 2020 US Census data. The unemployment rate for Massachusetts stood at an annual average of 3.4 percent for 2023, a decrease from the 2022 annual average rate of 3.8 percent, according to the Bureau of Labor Statistics. Employment rates would tend to affect a borrower's ability to remain current on mortgage loan obligations and also correlate with 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. Bay Equity'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 Bay Equity.

Bay Equity's Lending Test performance was determined to be **"Satisfactory"**.

I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well Bay Equity is addressing credit needs throughout Massachusetts. The following table presents, by number, Bay Equity's 2022 and 2023 HMDA reportable loans in low-, moderate-, middle-, and upper-income level geographies, in comparison to the percentage of owner-occupied housing units in each of the census tract income level categories, and the 2022 and 2023 aggregate lending data (inclusive of Bay Equity).

Geographic Distribution of HMDA Loans by Census Tract					
Tract Income Level	Year	% of MA Owner-Occupied Housing Units	Aggregate Performance % of #	Bay Equity #	Bay Equity %
Low	2022	3.1	4.4	14	4.33
	2023		4.5	4	2.45
Moderate	2022	14.6	16.0	75	23.22
	2023		15.5	24	14.72
Middle	2022	43.1	42.0	141	43.65
	2023		40.8	76	46.63
Upper	2022	38.9	37.1	93	28.79
	2023		38.5	59	36.20
Not Available	2022	0.3	0.5	0	0
	2023		0.7	0	0
Total	2022	100.0	100.0	323	100.0
	2023		100.0	163	100.0

Source: 2020 US Census; 1/1/2022 - 12/31/2023 Lender HMDA Data, 2022 and 2023 HMDA Aggregate Data

As shown in the above table, Bay Equity's lending to low-income geographies during 2022 and 2023 was below the aggregate percentages for both years but above the demographics of owner-occupied housing units for 2022. Lending to moderate-income geographies was above the aggregate for 2022 and above the owner-occupied housing units for both 2022 and 2023. Lending to both low- and moderate-income geographies was below the aggregate in 2023. Data for 2023 showed a decrease in the percentage of loans made in low- and moderate-income census tracts

from 2022 to 2023, coinciding with a decrease in overall lending volume. The Lender's lending performance is considered adequate at this time.

II. Borrower Characteristics

The distribution of loans by borrower income was reviewed to determine the extent to which the Lender is addressing the credit needs of the Commonwealth's residents. The following table shows Bay Equity's 2022 and 2023 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 2022 and 2023 aggregate lending data (inclusive of Bay Equity).

Distribution of HMDA Loans by Borrower Income					
Borrower Income Level	Year	% of MA Owner-Occupied Housing Units	Aggregate Performance % of #	Bay Equity #	Bay Equity %
Low	2022	22.8	7.4	18	5.57
	2023		6.1	5	3.07
Moderate	2022	16.4	19.7	104	32.20
	2023		16.3	27	16.56
Middle	2022	19.8	23.0	112	34.67
	2023		22.1	54	33.13
Upper	2022	41.0	37.5	89	27.55
	2023		35.8	77	47.24
Not Available	2022	0.0	12.4	0	0
	2023		19.7	0	0
Total	2022	100.0	100.0	323	100.0
	2023		100.0	163	100.0

Source: 2020 US Census; 1/1/2022 - 12/31/2023 Lender HMDA Data, 2022 and 2023 HMDA Aggregate Data

For 2022 and 2023, lending to low-income borrowers was below both the aggregate and the percentage of families. For 2022 and 2023, lending to moderate-income borrowers was above both the percentage of families and the aggregate. The Lender's performance among LMI borrowers decreased from 2022 to 2023 from 37.77 percent to 19.63 percent of overall lending.

According to the 2020 census data, 10 percent of the families within the Commonwealth have incomes below the poverty threshold; and would most likely not qualify for the home ownership given high housing costs. The Lender's overall lending performance to LMI borrowers is adequate at this time.

III. Innovative or Flexible Lending Practices

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

Bay Equity maintains HUD-approved Non-Supervised Federal Housing Administration (FHA) Loan Correspondent status. Although they contain imbedded insurance premiums, FHA products provide generally competitive interest rates and smaller down payments for LMI first-time homebuyers and existing homeowners. During the review period, Bay Equity originated 66 FHA loans totaling \$27 million. Of these, 28 loans benefited low- to moderate-income borrowers, while 28 loans were originated in low- and moderate-income level geographies.

The Lender is also a Department of Veterans Affairs (VA) Automatic Approval Agent. The VA Home Loan Guarantee Program is designed specifically for the unique challenges facing service members and their families. Through VA-approved lenders like Bay Equity, the program offers low closing costs, no down payment requirement, and no private mortgage insurance requirement. In addition, under certain circumstances the Service Members Civil Relief Act provides military personnel with rights and protections on issues relative to mortgage interest rates and foreclosure proceedings. During the review period, Bay Equity originated 16 VA loans totaling \$7.6 million. Eight of these loans benefited moderate-income borrowers, while five were originated in moderate-income level geographies.

Bay Equity also offers loan products guaranteed by the U.S. Department of Agriculture (USDA). The USDA 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, 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. Farm Service Agency loan products provide flexible temporary financing for customers who are planning to start, purchase, sustain or expand a family farm. During the review period, Bay Equity originated one loan totaling approximately \$242,000. This loan was not originated in a low- or moderate-income level geography, and it did not benefit a low- or moderate-income borrower.

Bay Equity also offers MassHousing products. MassHousing is a self-supporting non-profit public agency that provides financing for homebuyers and homeowners, as well as for developers and owners of affordable rental housing. The agency sells bonds to fund its credit programs. In 2022 and 2023, Bay Equity originated 34 MassHousing loans with a total of \$9.9 million in dollar volume.

In addition, Bay Equity offers several additional flexible loan programs, including FNMA HomeReady and FHLMC Home Possible loans. These programs are designed to extend to consumers certain benefits and flexible credit options, to help them meet their home buying, refinance, or renovation needs, and help mortgage lenders to confidently serve a market of creditworthy low- to moderate-income borrowers. During the review period, the Lender's Massachusetts loans closed under these flexible lending programs totaled \$8.4 million in volume.

IV. Loss Mitigation Efforts

The Division reviews a mortgage lender's 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.

Although Bay Equity retains the servicing rights for a portfolio of loans in Massachusetts, it utilizes a third-party servicer to service these loans. As such, this review does not include an evaluation of loan mitigation and modification efforts.

V. Fair Lending

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. The 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 Bay Equity's personnel, and individual file review.

Bay Equity has established an adequate record relative to fair lending policies and procedural practices. No evidence of discriminatory or illegal credit practices was identified.

Minority Application Flow

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

During 2022 and 2023, Bay Equity received 751 HMDA-reportable mortgage loan applications from within Massachusetts. For these applications, the racial and ethnic identity was not specified in 13.8 and 12.0 percent of cases, respectively. Of the remaining applications, 251 or 33.4 percent were received from racial minority applicants, and 155 or 61.8 percent resulted in originations. For the review period, Bay Equity received 81 or 10.8 percent of HMDA-reportable applications from ethnic groups of Hispanic or Latino origin, and 47 or 58.0 percent were originated.

This compares to the 63.7 percent overall ratio of mortgage loans originated by the Lender in Massachusetts in 2022 and the 58.3 percent approval ratio by the aggregate group in 2022. In 2023, the Lender originated 66.8 percent of applications, and the aggregate group originated 53.2 percent.

Demographic information for Massachusetts reveals the total racial minority population stood at 30.4 percent of total population as of the 2020 US Census data. Racial minorities consisted of 7.0 percent Black; 7.3 percent Asian/Pacific Islander; 0.3 percent American Indian/Alaskan Native; 8.7 percent two or more minority races; and 7.1 percent identified as Other Race. Ethnic minorities consisted of 12.6 percent Hispanic or Latino.

Refer to the following table for information on the Lender's minority loan application flow as well as a comparison to aggregate lending data throughout the Commonwealth. The comparison of this

data assists in deriving reasonable expectations for the rate of applications the Lender received from minority applicants.

Minority Application Flow						
Race	2022 Aggregate Data	2022 Bay Equity		2023 Aggregate Data	2023 Bay Equity	
	% of #	#	%	% of #	#	%
American Indian/ Alaska Native	0.3	3	0.59	0.3	0	0
Asian	6.6	53	10.45	6.5	56	22.95
Black/ African American	5.8	95	18.74	5.9	18	7.38
Hawaiian/Pacific Islander	0.2	2	0.39	0.2	0	0
2 or more Minority	0.2	0	0	0.2	3	1.23
Joint Race (White/Minority)	1.7	15	2.96	1.7	6	2.46
Total Minority	14.8	168	33.13	14.8	83	34.02
White	61.0	276	54.44	57.3	120	49.18
Race Not Available	24.2	63	12.43	27.9	41	16.80
Total	100.0	507	100	100.0	244	100
Ethnicity	% of #			% of #		
Hispanic or Latino	7.4	48	9.47	7.6	13	5.33
Joint (Hisp-Lat /Non-Hisp-Lat)	1.5	14	2.76	1.5	6	2.46
Total Hispanic or Latino	8.9	62	12.23	9.1	19	7.79
Not Hispanic or Latino	67.6	392	77.32	63.8	188	77.05
Ethnicity Not Available	23.5	53	10.45	27.1	37	15.16
Total	100.0	507	100	100.0	244	100

Source: 1/1/2022 - 12/31/2023 Lender HMDA Data, 2022 & 2023 HMDA Aggregate Data

In 2022 and 2023, Bay Equity's performance was well above the aggregate's performance for racial minority applicants. For ethnic minority applicants of Hispanic origin, the Lender's application rate was above the aggregate in 2022 but fell below for 2023.

VI. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by Bay Equity by considering delinquency and default rates of the 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.

Bay Equity's Service Test performance was determined to be **"High 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.

During the review period, Bay Equity provided a good level of qualified community development services in Massachusetts. Bay Equity's staff members provided multiple educational seminars in the Commonwealth, including first time homebuyer seminars conducted in low-income census tracts and seminars at regional vocational high schools on various homebuying topics.

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.

Bay Equity provides a good delivery of mortgage lender services that are accessible to geographies and individuals of different income levels in the Commonwealth. During the review period, Bay Equity's local branch offices donated to institutions such as NewVue Communities of Fitchburg, which is a nonprofit organization that provides services that meet the definition of community development to assist borrowers in the home ownership process by providing counseling as well as grants to eligible applicants.

As described above, lending practices and products do not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable.

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, Bay Equity made financial donations totaling approximately \$8,030 to organizations within the Commonwealth that meet the definition of community development.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 255E, Section 8, and the Division's regulation 209 CMR 54.00, require 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.