

PUBLIC DISCLOSURE

2/18/2020

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**EMBRACE HOME LOANS, INC.
MC2184**

**25 Enterprise Center
Middletown, Rhode Island 02842**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MASSACHUSETTS 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 **Embrace Home Loans, Inc. (Embrace or the Lender)** 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 **February 18, 2020**.

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 related to CRA.

The CRA examination included a comprehensive review and analysis, as applicable, of Embrace'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 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 Embrace's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Embrace's lending for the period of January 1, 2018 through December 31, 2019 and community development activities for the same period. 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 2018 and 2019 is presented in the geographic distribution, lending to borrowers of different incomes and minority application flow tables. Comparative analysis of the Lender's lending performance for 2018 is also 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 which originated loans in 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. 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 mortgage lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks, 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 an adequate dispersion in LMI census tracts.
- Given the demographics of Massachusetts, the loan distribution to borrowers reflects an adequate record of servicing the credit needs among individuals of different income levels.
- Embrace offers flexible lending products, which are provided in a safe and sound manner to address the credit needs of LMI individuals.
- Lending practices and products do not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable.
- Fair lending policies are considered adequate.

Service Test: “Satisfactory”

- Embrace provides community development activities within the Commonwealth.
- Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the Commonwealth.

PERFORMANCE CONTEXT

Description of Mortgage Lender

Embrace was incorporated in Rhode Island on May 13, 1983 and registered in Massachusetts as a foreign corporation on April 4, 1984. The Lender is a nationwide retail lender, licensed to originate mortgage loans in all 50 states and the District of Columbia. The Division of Banks granted Embrace its mortgage lender and mortgage broker licenses on January 2, 1992. In addition, the Lender received a third party loan servicer registration on August 21, 2019.

The Lender’s corporate headquarters is located at 25 Enterprise Center in Middletown, Rhode Island. As of the date of this evaluation, Embrace maintained 18 branch locations licensed to conduct business with Massachusetts consumers, seven of which are located in Massachusetts. Embrace mainly generates business through marketing efforts derived from its call center and network of retail branches. The Lender’s business focuses on the retail origination and underwriting of residential mortgage loans, offering products including conventional conforming loans, Federal Housing Administration (FHA), Department of Veterans Affairs (VA) loans, jumbo loans, and Massachusetts Housing Finance Agency (MassHousing) loans.

During 2018 and 2019, Embrace originated or purchased 2,714 loans totaling approximately \$824 million in Massachusetts.

Demographic Information

The Division’s regulation 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)	1,478	12.2	19.1	37.5	29.2	2.0
Population by Geography	6,705,586	10.1	18.6	38.9	31.9	0.5
Owner-Occupied Housing by Geography	1,583,667	3.4	13.8	44.4	38.3	0.1
Family Distribution by Income Level	1,620,917	23.3	16.4	19.4	40.9	0.0
Distribution of Low and Moderate Income Families	643,491	17.8	25.8	37.6	18.7	0.1
Median Family Income	\$93,145		Median Housing Value			\$358,764
Households Below Poverty Level	12.0%		Unemployment Rate			2.8%*
2018 HUD Adjusted Median Family Income	\$95,500		2019 HUD Adjusted Median Family Income			\$101,200
<i>Source: 2015 ACS US Census; * Bureau of Labor Statistics as of 12/31/2019</i>						

Based on the 2015 American Community Survey (ACS), the Commonwealth’s population was above 6.7 million people with a total of 2.8 million housing units. Of the total housing units, 1.58 million or 56.4 percent are owner occupied, 966,054 or 34.5 percent are rental units, and 9.1 percent are vacant units.

According to the ACS data, there are 2.5 million households in the Commonwealth with a median of household income of \$74,527. Over 41 percent of households are now classified as LMI. Twelve percent of the total number households are living below the poverty level. Individuals in these categories may find it difficult to qualify for traditional mortgage loan products.

Households classified as “families” totaled slightly over 1.62 million. Of all family households, 23.3 percent were low-income, 16.4 percent were moderate-income, 19.4 percent were middle-income, and 40.9 percent were upper-income. The median family income reported by the ACS data was \$93,145. The Department of Housing and Urban Development (HUD) adjusted median family income was \$95,500 in 2018 and increased to \$101,200 in 2019. The HUD adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth contains 1,478 Census tracts. Of these, 181 or 12.2 percent are low-income; 282 or 19.1 percent are moderate-income; 555 or 37.5 percent are middle-income; 431 or 29.2 percent are upper-income; and 29 or 2.0 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 \$358,764 according to the 2015 ACS data. The unemployment rate for Massachusetts as of December 31, 2019, stood at 2.8 percent, which was a decrease from December 31, 2018, at which time it stood at 3.1 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 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. Lending performance is rated under six performance criteria: geographic distribution, borrower characteristics, innovative or flexible lending practices, loss mitigation efforts, fair lending, and loss of affordable housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of Embrace.

Embrace’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 Embrace is addressing the credit needs throughout the Commonwealth’s low-, moderate-, middle-, and upper-income census tracts. The table below shows the distribution of HMDA-reportable loans by census tract income level. The lending activity is compared with the percent of owner-occupied housing units based on the ACS census demographics, and is also compared to aggregate lending performance in 2018. Embrace’s 2018 and 2019 home mortgage lending performance comprised of loans originated and purchased by Embrace.

Geographic Distribution of HMDA Loans by Census Tract						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	3.4	4.8	66	5.1	20,015	5.3
2019	3.4	--	83	5.8	25,585	5.8
Moderate						
2018	13.8	15.6	295	23.0	89,970	23.7
2019	13.8	--	251	17.6	73,148	16.5
Middle						
2018	44.4	43.2	637	49.6	179,079	47.2
2019	44.4	--	724	50.6	215,034	48.4
Upper						
2018	38.3	36.3	285	22.2	90,161	23.8
2019	38.3	--	371	25.9	130,343	29.3
Not Available						
2018	0.1	0.1	1	0.1	326	0.1
2019	0.1	--	1	0.1	484	0.1
Totals						
2018	100.0	100.0	1,284	100.0	379,550	100.0
2019	100.0	--	1,430	100.0	444,595	100.0

Source: 2015 ACS Census; 1/1/2018 - 12/31/2019 Lender HMDA Data, 2018 HMDA Aggregate Data

As shown in the above table, Embrace’s lending to low- and moderate-income geographies during 2018 was above demographics, as well as above the performance of the aggregate data. Data for 2019 showed an increase in lending in low-income census tracts. The Lender’s lending performance is considered adequate at this time.

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 table below illustrates HMDA-reportable loan originations and purchases, categorized by borrower income level, that were reported by Embrace during 2018 and 2019, and compares this activity to the 2018 aggregate lending data and the percentage of families by income level within the assessment area using ACS Census demographics.

Distribution of HMDA Loans by Borrower Income						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	23.3	6.3	101	7.9	18,937	5.0
2019	23.3	--	81	5.7	15,142	3.4
Moderate						
2018	16.4	18.1	376	29.3	93,516	24.6
2019	16.4	--	379	26.5	94,610	21.3
Middle						
2018	19.4	23.1	439	34.2	136,963	36.1
2019	19.4	--	449	31.4	139,937	31.5
Upper						
2018	40.9	39.9	368	28.7	130,133	34.3
2019	40.9	--	451	31.5	170,469	38.3
Not Available						
2018	0.0	12.6	0	0.0	0	0.0
2019	0.0	--	70	4.9	24,436	5.5
Totals						
2018	100.0	100.0	1,284	100.0	379,550	100.0
2019	100.0	--	1,430	100.0	444,595	100.0

Source: 2015 ACS Census; 1/1/2018 - 12/31/2019 Lender HMDA Data, 2018 HMDA Aggregate Data.

As shown in the above table, Embrace’s lending to low- and moderate-income borrowers during 2018 was above the aggregate and lending to moderate-income borrowers was above the demographics. The Lender’s overall lending performance to LMI borrowers is considered adequate at this time.

III. Innovative or Flexible Lending Practices

Embrace originated flexible lending products, which were provided in a safe and sound manner to address the credit needs of LMI individuals and geographies. During the examination period, Embrace offered products insured by HUD through its FHA programs. Examples of these products, which may have helped low- and moderate-income families, included high loan-to-value (LTV) offerings such as 97% LTV FHA options, 3.5% down FHA purchase loans, and streamline refinance transactions. During 2018 and 2019, Embrace closed 357 FHA loans; 126 or 35% were to low- or moderate-income borrowers and 109 or 31% were made in low- or moderate-income areas.

In addition, Embrace offered VA Home Loans to qualifying veterans during the review period. VA Home Loans offer veterans flexible terms such as low or no down payments and no monthly insurance premiums. During 2018 and 2019, Embrace closed 92 VA loans in Massachusetts; 29 or 32% were to low- or moderate-income borrowers and 20 or 22% were made in low- or moderate-income areas.

Embrace also originates MassHousing loans in the Commonwealth. MassHousing is an independent, quasi-public agency charged with providing financing for affordable housing in Massachusetts and provides flexible options targeted to LMI areas and borrowers. During the exam period, Embrace closed 50 MassHousing loans totaling approximately \$8.9 million dollars.

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

Embrace does not service a portfolio of loans in Massachusetts. During the examination period, the servicing rights which Embrace retained were serviced by a third party loan servicer. As Embrace does not routinely service mortgage loans for Massachusetts consumers, it would not work directly with delinquent borrowers. Therefore, this review did 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, a review of written policies and procedures and interviews with the Lender's personnel.

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

Minority Application Flow

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

During 2018, Embrace received 1,314 HMDA-reportable mortgage loan applications from within the Commonwealth and purchased 829 loans. Of these applications, 208 or 9.7 percent were received from racial minority applicants. For the same period, Embrace received 214 or 10.0 percent of HMDA-reportable applications from ethnic groups of Hispanic or Latino origin. This compares to the 12.4 percent of mortgage loans originated by the aggregate in Massachusetts to racial minorities and 7.0 percent to ethnic minorities in 2018.

During 2019, Embrace received 1,415 HMDA-reportable mortgage loan applications from within the Commonwealth and purchased 760. Of these applications, 208 or 9.6 percent were received from racial minority applicants. For the same period, Embrace received 145 or 6.7 percent of HMDA-reportable applications from ethnic groups of Hispanic or Latino origin.

Demographic information for Massachusetts reveals the total racial and ethnic minority population stood at 25.7 percent of the total population as of the 2015 ACS. Racial minorities consisted of 6.5 percent Black; 6.0 percent Asian/Pacific Islander; 0.1 percent American Indian/Alaskan Native; and 2.6 percent identified as Other Race. Ethnic minorities consisted of 10.5 percent Hispanic or Latino.

Refer to the following table for information on the Lender's minority 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	2018 Lender		2018 Aggregate Data	2019 Lender	
	#	%	% of #	#	%
American Indian/ Alaska Native	4	0.2	0.3	4	0.2
Asian	57	2.7	5.9	66	3.0
Black/ African American	122	5.7	4.5	121	5.6
Hawaiian/Pac Isl.	1	0.1	0.2	2	0.1
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	24	1.1	1.4	15	0.7
Total Minority	208	9.7	12.4	208	9.6
White	1,609	75.1	66.6	1,557	71.6
Race Not Available	326	15.2	21.0	410	18.8
Total	2,143	100.0	100.0	2,175	100.0
ETHNICITY					
Hispanic or Latino	199	9.3	5.9	130	6.0
Not Hispanic or Latino	1,598	74.6	72.0	1,642	75.5
Joint (Hisp/Lat /Not Hisp/Lat)	15	0.7	1.1	15	0.7
Ethnicity Not Available	331	15.4	21.0	388	17.8
Total	2,143	100.0	100.0	2,175	100.0

Source: 1/1/2018 - 12/31/2019 Lender HMDA Data, 2018 HMDA Aggregate Data

In 2018, Embrace’s performance was below the aggregate’s performance for racial minorities and above the aggregate for ethnic minority applicants. This performance continued in 2019.

VI. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by Embrace by taking into account 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.

Embrace's Service Test performance was determined to be **"Satisfactory"** during the evaluation period.

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.

Embrace provided qualified community development services to homeowners in Massachusetts during the review period. Embrace's loan originators provided 20 home buying seminars in Massachusetts during the review period.

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 examination period, Embrace made approximately \$5,000 in donations to organizations within the Commonwealth that meet the definition of community development.

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.

Embrace provides an adequate level of mortgage lending services to LMI geographies and individuals through home purchase and refinance transactions in Massachusetts. During the examination period, Embrace provided mortgage lending services by internet and telephone as well as in-person through its seven Massachusetts locations. Overall, the Lender provides an adequate delivery of mortgage lending services throughout the Commonwealth.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the CRA regulation, require all mortgage lenders to take the following actions within 30 business days of receipt of the CRA evaluation of their mortgage lender:

- 1) Make its most current CRA performance evaluation available to the public.
- 2) Provide a copy of its current evaluation to the public, upon request. The mortgage lender is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the mortgage lender's evaluation, as prepared by the Division of Banks, may not be altered or abridged in any manner. The mortgage lender is encouraged to include its response to the evaluation in its CRA public file.

The Division of Banks will publish the mortgage lender's Public Disclosure on its website no sooner than 30 days after the issuance of the Public Disclosure.