

PUBLIC DISCLOSURE

July 31, 2018

**CRA FOR MORTGAGE LENDERS
PERFORMANCE EVALUATION**

**FIRST GUARANTY MORTGAGE CORPORATION
ML2917**

**1900 GALLOWS ROAD, SUITE 800
TYSONS CORNER, VIRGINIA 22182**

**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 **First Guaranty Mortgage Corporation (Lender or First Guaranty)** pursuant to the 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 **July 31, 2018**.

SCOPE OF EXAMINATION

An evaluation was conducted using examination procedures, as defined by CRA. A review of the Division's records did not reveal any complaints related to CRA.

The CRA examination included a comprehensive review and analysis, as applicable, of First Guaranty'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.

CRA examination procedures were used to evaluate First Guaranty's community investment performance. These procedures utilized one performance test: the Lending Test. This evaluation considered First Guaranty's lending for the period of January 1, 2016, through December 31, 2017. The data and applicable timeframes for the Lending Test as discussed below.

The Lending Test evaluates the Lender's community investment performance pursuant to the following six criteria: geographic distribution of loans, lending to borrower of different incomes, innovative and flexible lending practices, loss mitigation efforts, fair lending, and loss of affordable housing.

Home mortgage lending for 2016 and 2017 is presented in the geographic distribution, lending to borrowers of different incomes, and minority application flow tables. Comparative analysis of the mortgage lender's lending performance for 2017 is provided as those are the most recent year for which aggregate HMDA lending data is available. The aggregate lending data is used for

comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all HMDA reporting lenders which originated loans in the Commonwealth of Massachusetts.

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the CRA examination also reflects an in depth review of the entity's mortgage lending using qualitative analysis, which includes, but is not limited to: an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the 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.

MORTGAGE LENDER'S CRA RATING

This mortgage lender is rated “Satisfactory”

Lending Test: “Satisfactory”

- The geographic distribution of the Lender’s loan reflects a reasonable dispersion in low- and moderate-income census tracts as it is reflective of the distribution of owner occupied housing in those census tracts. Note, due to a significant portion of HMDA reportable loans without borrower income information, an analysis of loans by distribution of income of Commonwealth borrowers, could not be completed.
- First Guaranty offers flexible lending products, which are provided in a safe and sound manner to address the credit needs of low- and moderate-income level individuals.
- The 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 are considered adequate.

PERFORMANCE CONTEXT

Description of Mortgage Lender

First Guaranty was established in the Commonwealth of Virginia in 1987 and was granted a mortgage lender license by the Division in 2002. The Lender’s corporate headquarters is located in Tysons Corner, Virginia. The Lender is licensed in forty-three states and the District of Columbia with branches located in Maryland, New Jersey, North Carolina, Texas, and Utah. There are no branches in Massachusetts. The Lender is engaged in the originating, purchasing, and selling of residential first mortgages. Business is generated in the retail channel online through goodmortgage.com. The Lender also originates business through a wholesale and correspondent channel. Loans are funded through a warehouse line of credit and sold on a service released and retained basis.

The Lender is a US Department of Housing and Urban Development (HUD) approved lender, originating Federal Housing Administration (FHA) and Veterans Administration (VA) loans. Other offerings include United States Department of Agriculture (USDA) and Conventional loan products.

During the examination period of 2016 and 2017, First Guaranty originated 317 and purchased 428 loans totaling approximately \$172.5 million within Massachusetts.

Demographic Information

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

2010 CENSUS DEMOGRAPHIC INFORMATION						
Demographic Characteristics	Amount	Low %	Moderate %	Middle %	Upper %	N/A %
Geographies (Census Tracts)	1,474	11.1	19.0	40.6	27.9	1.4
Population by Geography	6,547,629	9.2	18.0	42.4	30.2	0.2
Owner-Occupied Housing by Geography	1,608,474	3.1	13.0	48.3	35.6	0.0
Family Distribution by Income Level	1,600,588	22.2	16.5	20.6	40.7	0.0
Distribution of Low and Moderate Income Families	619,565	15.7	25.9	40.9	17.5	0.0
Median Family Income	\$86,272	Median Housing Value				\$373,206
Households Below Poverty Level	11.1%	Unemployment Rate				3.5*
2016 HUD Adjusted Median Family Income	\$86,904	2017 HUD Adjusted Median Family Income				\$91,119

Source: 2010 US Census; *as of 12/31/2017

Based on the 2010 Census, the Commonwealth's population was above 6.5 million people with a total of 2.8 million housing units. Of the total housing units, 1.6 million or 57.7 percent are owner occupied, 904,078 or 32.5 percent are rental-occupied, and 9.8 percent are vacant units.

According to the 2010 Census there are 2.5 million households in the Commonwealth with a median of household income of \$69,101. Over 39 percent of households are now classified as low- and moderate-income. Over 11 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 1.6 million. Of all family households, 22.2 percent were low-income, 16.5 percent were moderate-income, 20.6 percent were middle-income, and 40.7 percent were upper-income. The median family income reported by the 2010 Census was \$86,272. The Housing and Urban Development (HUD) adjusted median family income was \$86,904 in 2016 and increased to \$91,119 in 2017. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth of Massachusetts contained 1,474 Census tracts. Of these, 164 or 11.1 percent are low-income; 281 or 19.0 percent are moderate-income; 598 or 40.6 percent are middle-income; 411 or 27.9 percent are upper-income; and 20 or 1.4 percent are NA or have no income designation. The tracts with no income designation are located in areas that contain no housing units and will not be included in this evaluation since they provide no lending opportunities. These

areas are made up of correctional facilities, universities, military installations, and uninhabited locations such as the Boston Harbor Islands.

Low-income is defined as individual income that is less than 50 percent of the area median income. Moderate-income is defined as individual income that is at least 50 percent and less than 80 percent of the area median income. Middle-income is defined as individual income that is at least 80 percent and less than 120 percent of the area median income. Upper-income is defined as individual that is more than 120 percent of the area median income.

The median housing value for Massachusetts was \$373,206 according to the 2010 Census. The unemployment rate for the Commonwealth of Massachusetts as of December 31, 2017, stood at 3.5 percent, which was an increase from December 31, 2016, at which time it stood at 3.1 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 TEST

LENDING TEST

Lending performance is rated under 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 First Guaranty.

First Guaranty'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 First Guaranty is addressing the credit needs throughout the Commonwealth of Massachusetts' 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 to the aggregate lending data and the percentage of owner-occupied housing units within the Commonwealth of Massachusetts within each respective group.

<i>Geographic Distribution of HMDA loans by Census Tract</i>						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	3.1	--	8	2.7	2,139	2.6
2017	3.4	4.8	19	6.0	4,829	5.4
Moderate						
2016	13.0	--	46	15.5	10,774	13.0
2017	13.8	15.9	68	21.6	17,643	19.6
Middle						
2016	48.3	--	166	55.9	46,439	56.2
2017	44.4	43.5	154	48.9	43,837	48.7
Upper						
2016	35.6	--	77	25.9	23,264	28.2
2017	38.3	35.7	74	23.5	23,665	26.3
Not Available						
2016	0.0	--	0	0.0	0	0.0
2017	0.1	0.1	0	0.0	0	0.0
Totals						
2016	100.0	--	297	100.0	82,616	100.0
2017	100.0	100.0	315	100.0	89,974	100.0

Source 2016 & 2017 HMDA Data and 2010 U.S. Census

First Guaranty’s geographic distribution of loans was compared to the distribution of owner-occupied housing units and the performance of the 2017 aggregate distribution of loans in the Commonwealth. The Lender’s geographic distribution of loans was above the distribution of owner occupied housing units and the performance of the 2017 aggregate for both low- and moderate-income census tracts at 6.0 percent and 21.6 percent, respectively. First Guaranty’s geographic distribution is considered reasonable.

II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the mortgage lender is addressing the credit needs of the Commonwealth’s residents. The table below shows First Guaranty’s 2016 and 2017 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 2017 aggregate lending data.

<i>Distribution of HMDA Loans by Borrower Income</i>						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	22.2	--	5	1.7	974	1.2
2017	23.3	5.2	1	0.3	200	0.2
Moderate						
2016	16.5	--	17	5.7	3,578	4.3
2017	16.4	17.6	11	3.5	2,407	2.7
Middle						
2016	20.6	--	20	6.7	5,624	6.8
2017	19.4	23.3	28	8.9	9,934	11.0
Upper						
2016	40.7	--	24	8.1	7,896	9.6
2017	40.9	40.8	37	11.7	12,911	14.4
Not Available						
2016	0.0	--	231	77.8	64,544	78.1
2017	0.0	13.0	238	75.6	64,522	71.7
Totals						
2016	100.0	--	297	100.0	82,616	100.0
2017	100.0	100.0	315	100.0	89,974	100.0

Source: 2016 & 2017 HMDA Data and 2010 U.S. Census

First Guaranty purchased and originated a total of 612 loans in 2016 and 2017, of which, 428 are purchased loans. Of the 184 loans originated by the Lender, 36 were streamline loan products. Both purchased and streamline loan products do not capture borrower income information as reflected in the table by the 77.8 and 75.6 percent of “Not Available”. Due to the significant number of loans with no borrower income information, an analysis of distribution of loans by borrower income levels to determine the extent to which the Lender is addressing the credit needs of the Commonwealth’s residents cannot be completed.

III. *Innovative or Flexible Lending Practices*

First Guaranty originates and purchases innovative or flexible lending products, which are provided in a safe and sound manner to address the credit needs of low- and moderate-income individuals and geographies.

First Guaranty has been an approved Housing and Urban Development direct endorsement mortgage lender of the Federal Housing Administration (FHA) insured mortgage since 1996. FHA products provide competitive interest rates and smaller down payment requirements for low- and moderate-income first time homebuyers and existing homeowners. During the review period, the Lender originated and purchased 378 FHA loans totaling \$103.3 million. Of these, 121 benefited low- and moderate-income individuals or low- and moderate-income geographies.

The Lender has been a Veterans Administration's (VA) Automatic Approval Agent since 1995. The VA program is designed specifically for the unique challenges facing service members, veterans, and their families. The VA program offers low closing costs, no down payment, and no private mortgage insurance requirement. During the review period, the Lender originated and purchased 92 VA loans totaling \$28.2 million. Of these, 18 benefited low- and moderate-income individuals or low- and moderate-income geographies.

First Guaranty has been approved to offer loan products guaranteed by the USDA Rural Housing program since 2008. USDA is an innovative loan program that provides 100 percent financing for eligible homebuyers in rural-designated areas. This program is for home purchase transactions which offers fixed rates, and does not require a down payment and includes low- and moderate-income requirements. During the review period, the Lender originated and purchased 27 USDA loans for \$2.5 million which benefited 5 low- and moderate-income individuals or low- and moderate-income geographies.

The Lender was recently approved to offer the FNMA HomeReady and Freddie Mac HomePossible programs. These programs are designed to provide consumers with flexible credit options to help them meet their home buying and refinancing needs, and help mortgage lenders to serve a market of creditworthy low- to moderate-income borrowers.

IV. *Loss Mitigation Efforts*

The Division reviews 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. As First Guaranty 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. Lending practices and products did not show an undue concentration or systematic pattern of lending resulting in mortgage loans that were not sustainable.

V. *Fair Lending*

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. The mortgage lender's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The review included, but was not limited to, review of written policies and procedures, interviews with First Guaranty's personnel, and individual file review. No evidence of disparate treatment was found.

First Guaranty has established an adequate record relative to Fair Lending policies and practices. Fair Lending is incorporated in First Guaranty's company-wide policies and procedures that apply to all staff. Employees regularly participate in corporate training and on-line courses regarding fair lending, equal credit opportunity act, and HMDA as well as agency and investor required trainings. First Guaranty also requires a second review for all denied loans. There is a complaint policy in place which detail procedures, escalation, and a tracking system for complaints. First Guaranty utilizes its internal review teams, to conduct periodic and annual audits for compliance with all regulatory standards.

Minority Application Flow

Examiners reviewed First Guaranty's HMDA data to determine whether the mortgage application flow from various racial and ethnic groups was consistent with the area demographics. During 2016 and 2017, First Guaranty received 819 HMDA-reportable mortgage loan applications from within the Commonwealth of Massachusetts. Of these applications, 52 or 6.3 percent were received from racial minority applicants, and 29 or 55.7 percent resulted in originations. For the same period, First Guaranty received 38 or 4.6 percent of HMDA-reportable applications from ethnic groups of Hispanic or Latino origin, and 20 or 52.6 percent were originated. This compares to the 74.7 percent overall ratio of mortgage loans originated by the Lender in Massachusetts, and the 74.2 percent approved by the aggregate group.

Included in the HMDA-reportable loans are 428 loans purchased and not originated by the Lender. Government monitoring information was not reported on these purchased loans resulting in approximately 54.7 percent in 2016 and approximately 50.0 percent in 2017 of applications being classified as race and ethnicity not available. Of the 317 loans that were originated by First Guaranty during 2016 and 2017, 27 or 8.5% were to racial minorities and 13 or 4.1% were to ethnic minorities. Government monitoring information was not reported on originated loans in streamline products resulting in approximately 13.4% in 2016 and approximately 27.5% in 2017 of applications being classified as race and ethnicity not available.

Demographic information for Massachusetts reveals the total racial and ethnic minority population stood at 23.9 percent of total population as of 2010 Census. Racial minorities consisted of 6.0 percent Black; 5.3 percent Asian/Pacific Islander; 0.2 percent American Indian/Alaskan Native; and 2.8 percent identified as Other Race. Ethnic minorities consisted of 9.6 percent Hispanic or Latino.

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	2016 Lender		2017 Lender		2017 Aggregate Data
	#	%	#	%	% of #
American Indian/ Alaska Native	0	0.0	0	0.0	0.2
Asian	7	1.8	14	3.3	5.5
Black/ African American	9	2.3	16	3.8	4.1
Hawaiian/Pac Isl.	1	0.2	0	0.0	0.2
2 or more Minority	0	0.0	0	0.0	0.1
Joint Race (White/Minority)	2	0.5	3	0.7	1.4
Total Minority	19	4.8	33	7.8	11.5
White	147	37.4	167	39.2	67.00
Race Not Available	227	57.8	226	53.00	21.5
Total	393	100.0	426	100.0	100.0
ETHNICITY					
Hispanic or Latino	23	5.8	8	1.9	5.3
Not Hispanic or Latino	139	35.4	188	44.1	72.4
Joint (Hisp/Lat /Not Hisp/Lat)	2	0.5	5	1.2	1.1
Ethnicity Not Available	229	0.5	225	52.8	21.2
Total	393	42.2	426	100.0	100.0

Source: 2016 & 2017 HMDA Data and 2010 U.S. Census

VI. Loss of Affordable Housing

The review concentrated on the suitability and sustainability of mortgage loans originated by First Guaranty by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the Lender was reviewed, as were statistics available on delinquency and default rates for mortgage loans.

A review of information and documentation, from both internal and external sources as partially described above, did not reveal lending practices or products that showed an undue concentration of a systematic pattern of lending, including a pattern of early payment defaults resulting in the loss of affordable housing units. Furthermore, delinquency rates were found to be consistent with industry averages.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the Mortgage Lender Community Investment (CRA) regulation, requires 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.