

PUBLIC DISCLOSURE

MARCH 26, 2019

**CRA FOR MORTGAGE LENDERS
PERFORMANCE EVALUATION**

**NEWREZ, LLC
d/b/a Shellpoint Mortgage Servicing and d/b/a Rate30
ML3013**

**1100 VIRGINIA DRIVE
SUITE 125
FORT WASHINGTON, PENNSYLVANIA 19034**

**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 **NewRez, LLC, d/b/a Shellpoint Mortgage Servicing and d/b/a Rate30 (NewRez or Lender)** 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 March 26, 2019.

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 NewRez'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 patterns of lending resulting in 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 NewRez's community investment performance. These procedures utilized two performance tests: The Lending Test and the Service Test. This evaluation considered NewRez's lending and community development activities for the period of January 1, 2017 through December 31, 2018. The data and applicable timeframes for the Lending Test and Service Test are discussed below.

The Lending Test evaluated the 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 2017 and 2018 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 2017 is provided because it is 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 mortgage lenders that 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 Lender's mortgage lending using qualitative analysis. This analysis includes, but is not limited to: an assessment of the suitability and sustainability of a mortgage lender's loan products by reviewing its 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 the Lender's 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 Lender's record of helping to meet the mortgage credit needs by analyzing the availability and effectiveness of the Lender's system 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 reflect an adequate dispersion in LMI census tracts as compared to the distribution of owner occupied housing in those census tracts.
- The distribution of borrowers, given the demographics of Massachusetts, reflects an adequate record of serving the credit needs among individuals of different levels, including those of LMI levels.
- NewRez offers flexible lending products, which are provided in a safe and sound manner to address the credit needs of the LMI 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.

Service Test: “Needs to Improve”

- Service delivery systems are reasonably accessible to geographies and individuals of different income levels in Massachusetts.
- NewRez participated in limited, qualified community development activities in Massachusetts.

PERFORMANCE CONTEXT

Description of Mortgage Lender

NewRez, formerly known as New Penn Financial, LLC, was organized in Delaware in 2007 and was converted to a limited liability company in 2008. The Lender also does business as Shellpoint Mortgage Servicing (SMS) and Rate30 and is a subsidiary of Shellpoint Partners, LLC. The Lender's name changed to NewRez, LLC on January 7, 2019. The Lender's corporate office is located in Fort Washington, Pennsylvania. The Lender was granted mortgage lender and debt collector licenses on March 4, 2014. It originates in forty-nine states and the District of Columbia and services residential mortgage loans nationwide. There are no branches in Massachusetts.

NewRez originates real estate loans through retail, wholesale, and correspondent lending channels. Business is generated through referrals, website advertising, and direct mail marketing. The Lender sponsors 137 mortgage loan originators licensed in Massachusetts. Loans are funded through warehouse lines of credit. SMS services loans originated by NewRez and by third parties. Servicing operations are located in South Carolina and Texas.

Demographic Information

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

2015 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				3.1*
2017 HUD Adjusted Median Family Income	\$91,119	2018 HUD Adjusted Median Family Income				\$95,779

Source: 2015 American Community Survey (ACS); *Bureau of Labor Statistics as of 12/31/2018

Based on the 2015 American Community Survey (2015 ACS), Massachusetts's population was above 6.7 million people with a total of 2.8 million housing units. Of the total housing units, 1.5

million or 56.0 percent are owner occupied, 966,054 or 34.0 percent are rental units, and 9.8 percent are vacant units.

According to 2015 ACS data, there are 2.5 million households in Massachusetts 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 of households is 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, 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 2015 ACS was \$93,145. The Housing and Urban Development (HUD) adjusted median family income was \$91,119 in 2017 and increased to \$95,779 in 2018. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

Massachusetts 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 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. The unemployment rate for Massachusetts as of December 31, 2018, was 3.1 percent, which was a decrease from December 31, 2017, at which time it was 3.6 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 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, and Loss of Affordable Housing. The following information details the data compiled and reviewed, and conclusions on the mortgage lending of NewRez.

NewRez’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 NewRez is addressing the credit needs throughout Massachusetts’ low-, moderate-, middle-, and upper-income census tracts. The table below shows the distribution of HMDA-reportable loans by census tract income level. Lending activity is compared with the percent of owner-occupied housing units based on the 2015 ACS demographics and NewRez’s 2017 and 2018 home mortgage lending performance. This lending performance is compared to aggregate lending performance in 2017.

<i>Geographic Distribution of HMDA loans by Census Tract</i>						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2017	3.4	4.8	29	4.1	7,060	3.5
2018	3.4	--	51	6.5	12,382	5.4
Moderate						
2017	13.8	15.9	138	19.7	32,500	16.3
2018	13.8	--	150	19.3	36,419	15.8
Middle						
2017	44.4	43.5	349	49.7	93,042	46.7
2018	44.4	--	373	47.9	103,996	45.1
Upper						
2017	38.3	35.7	186	26.5	66,630	33.5
2018	38.3	--	205	26.3	77,630	33.7
Not Available						
2017	0.1	0.1	0	0.0	0	0.0
2018	0.1	--	0	0.0	0	0.0
Totals						
2017	100.0	100.0	702	100.0	199,232	100.0
2018	100.0	--	779	100.0	230,427	100.0

Source: 2017 & 2018 HMDA Data and 2015 ACS

NewRez’s geographic distribution of loans in low-income tracts was below aggregate lending, but above the demographics in 2017. In 2018, the Lender’s performance of lending in low-income tracts improved from 4.1 percent to 6.5, which was also above the demographics in 2018. The Lender’s geographic distribution of loans in moderate-income tracts was above the aggregate lending and the demographics in 2017 and 2018. The Lender’s geographic distribution of residential mortgage is adequate in light of overall improvement in LMI tract origination.

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 NewRez during 2017 and 2018, and compares this activity to the 2017 aggregate lending data and the percentage of families by income level within the assessment area using the 2015 ACS demographics.

<i>Distribution of HMDA Loans by Borrower Income</i>						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2017	23.3	5.2	45	6.4	7,778	3.9
2018	23.3	--	61	7.8	9,563	4.2
Moderate						
2017	16.4	17.6	212	30.2	47,988	24.1
2018	16.4	--	237	30.4	53,221	23.1
Middle						
2017	19.4	23.3	216	30.8	59,573	29.9
2018	19.4	--	250	32.1	72,119	31.3
Upper						
2017	40.9	40.8	196	27.9	76,054	38.2
2018	40.9	--	221	28.4	92,949	40.3
Not Available						
2017	0.0	13.0	33	4.7	7,839	3.9
2018	0.0	--	10	1.3	2,575	1.1
Totals						
2017	100.0	100.0	702	100.0	199,232	100.0
2018	100.0	--	779	100.0	230,427	100.0

Source: 2017 & 2018 HMDA Data and 2015 ACS

NewRez achieved an adequate record of serving the mortgage credit needs among borrowers of different income levels based on the area’s demographics and a comparison to aggregate lending

in Massachusetts. Originations for 2017 show the Lender's lending to low-income borrowers was above the aggregate, but below the income demographic data.

Lending to moderate-income borrowers was above both the aggregate and borrower income demographic for 2017. Originations continued to show a positive trend in 2018.

III. *Innovative or Flexible Lending Practices*

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

The Lender has been an approved HUD direct endorsement mortgage lender since 2007. Federal Housing Administration (FHA) products provide competitive interest rates and smaller down payment requirements for LMI first time homebuyers and existing homeowners. During the review period, the Lender originated 557 FHA loans totaling \$151.6 million. Of these, 443 benefited LMI individuals or LMI geographies.

The Lender has been a United States Department of Veterans Affairs (VA) Automatic Approval Agent since 2009. 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. During the review period, the Lender originated 123 VA loans totaling \$38.1 million. Of these, 50 benefited LMI individuals or LMI geographies.

NewRez has been a United States Department of Agriculture (USDA) Rural Housing program lender since 2009. USDA is an innovative loan program that provides 100 percent financing for eligible homebuyers in rural-designated areas. The program is for home purchase transactions, which offers fixed rates, and does not require a down payment, however, income requirements do apply. During the review period, the Lender originated 32 USDA loans for \$7.4 million, which benefited 19 LMI individuals or geographies.

During the review period, NewRez originated 28 loans totaling \$4.4 million in the Home Affordable Refinance Program (HARP) and Freddie Mac Relief Refinance Mortgages – Open Access loans. These loans were created to help homeowners who are current on their mortgage payments, but have little to no equity in their homes, refinance their mortgages.

NewRez offers Freddie Mac Home Possible and Fannie Mae Home Ready Mortgage Programs, which are other low down-payment mortgage options for LMI borrowers with reduced mortgage insurance coverage levels. During the review period, 172 of these loan types were originated for approximately \$26.7 million.

Massachusetts Housing Finance Authority (MHFA) loans allow borrowers to buy homes with lower down payments. To be eligible for these loans, a borrower must meet the income and loan

limit requirements and restrictions. During the examination period, NewRez originated one MHFA loan for \$332,000.

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.

NewRez's originations are primarily serviced internally by SMS. SMS is responsible for loss mitigation and delinquency management and works with delinquent homeowners to facilitate a resolution of the delinquency. Various options may include forbearance, loan modifications, deed-in-lieu, and short sale. During the review period, SMS completed 374 Massachusetts mortgage loan modifications. The majority of loan modifications remain current. There were twenty foreclosure sales during the examination period recorded under the former name of NewPenn Financial. 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 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 (ECOA). The review included, but was not limited to, review of written policies and procedures and interviews with NewRez's personnel.

NewRez 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 NewRez's HMDA data to determine whether the mortgage application flow from various racial and ethnic groups was consistent with the area demographics. During 2017 and 2018, NewRez received 3,826 HMDA-reportable mortgage loan applications from within Massachusetts. Of these applications, 405 or 10.6 percent were received from racial minority applicants, and 141 or 35.6 percent resulted in originations. For the same period, NewRez received 426 or 11.1 percent of HMDA-reportable applications from ethnic groups of Hispanic or Latino origin, and 186 or 43.7 percent were originated. This compares to the 37.8 percent and 39.5 percent overall ratio of mortgage loans originated by the Lender in Massachusetts in 2017 and 2018 respectively, and the 72.3 percent originated by the aggregate group in 2017.

Demographic information for Massachusetts reveals the total racial and ethnic minority population stood at 25.7 percent of total population per 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 lenders throughout Massachusetts. 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	2017 Lender		2017 Aggregate Data	2018 Lender	
	#	%	% of #	#	%
American Indian/ Alaska Native	5	0.3	0.3	13	0.6
Asian	29	1.6	5.5	53	2.7
Black/ African American	104	5.6	4.1	145	7.4
Hawaiian/Pac Isl.	1	0.0	0.1	3	0.1
2 or more Minority	2	0.1	0.1	0	0.0
Joint Race (White/Minority)	9	0.5	1.4	16	0.8
Total Minority	150	8.1	11.5	230	11.6
White	1,482	79.8	67.0	1,455	73.9
Race Not Available	224	12.1	21.5	285	14.5
Total	1,856	100.0	100.0	1,970	100.0
ETHNICITY					
Hispanic or Latino	173	9.3	5.3	208	10.5
Not Hispanic or Latino	1,463	78.8	72.4	1,562	79.3
Joint (Hisp/Lat /Not Hisp/Lat)	18	1.0	1.1	27	1.4
Ethnicity Not Available	202	10.9	21.2	173	8.8
Total	1,856	100.0	100.0	1,970	100.0

Source: 2017 and 2018 HMDA Data and 2015 ACS

In 2017, NewRez’s performance was below the aggregate’s performance for racial minority applicants. For the same period, NewRez’s performance was above the aggregate’s performance for ethnic minority applicants of Hispanic origin. For 2018, NewRez showed a positive trend in both racial and ethnic minority application flow.

VI. Loss of Affordable Housing

The review concentrated on the suitability and sustainability of mortgage loans originated by NewRez 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 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.

SERVICE TEST

The Service Test evaluates a mortgage lender's record of helping to meet the mortgage credit needs in Massachusetts 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 Massachusetts or a broader regional area that includes Massachusetts.

NewRez's Service Test performance was determined to be **"Needs to Improve"** 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.

During the review period, NewRez participated in limited qualified community development services in Massachusetts.

NewRez's servicing division, SMS, organized a Massachusetts outreach event in 2018 for current customers. Borrowers met personally with SMS Representatives to discuss foreclosure prevention options and to apply for various offers. Twenty-eight Massachusetts consumers attended the event to receive assistance the majority of which were LMI borrowers.

SMS completed 374 Massachusetts mortgage loan modifications. This number is attributed to the borrowers' increasing use of SMS' on-line loss mitigation portal. Borrowers can use the on-line tool to apply for a modification, upload documents, and track the progress of the application. The majority of loan modifications remain current.

Management is encouraged to develop a pro-active commitment in community development activities or investments that meet the definition of community development under the CRA regulation throughout Massachusetts. Other activities may include, but are not necessarily limited to: financial literacy education initiatives targeted to LMI individuals; and foreclosure prevention counseling, and/or providing technical assistance to community organizations in a leadership capacity.

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.

NewRez provides an adequate level of mortgage lending services to LMI geographies and individuals through home purchase, refinance transactions, and mortgage loan servicing in Massachusetts. The Lender does not maintain a retail branch in Massachusetts. Business is generated using portfolio solicitations, telephone solicitations, third party loan brokers, social media, print advertisements, lead providers, and its website. Consumers can apply for a loan on line and by telephone.

The majority of originations are sold on the secondary market with servicing rights retained. The loans for which NewRez retains the mortgage servicing rights are primarily serviced internally by SMS. SMS is responsible for managing loss mitigations and delinquencies for the loans that it is servicing. SMS works with delinquent homeowners to facilitate a resolution of the delinquency and provides options, which may include repayment plans, offering Making Home Affordable Modifications (HAMP) and Home Affordable Foreclosure Alternatives (HAFA) programs, forbearances, loan modifications, deferments, settlements, deeds-in-lieu and short sales.

As described above, lending practices and products did not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable. Overall, the Lender provides an adequate delivery of mortgage lending services throughout Massachusetts.

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