

PUBLIC DISCLOSURE

JULY 28, 2020

**CRA FOR MORTGAGE LENDERS
PERFORMANCE EVALUATION**

**REPUBLIC STATE MORTGAGE CO.
MC62411**

**815 HAWTHORNE STREET
HOUSTON, TEXAS 77006**

**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 **Republic State Mortgage Co. (Republic State Mortgage 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 July 28, 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 Republic State Mortgage'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 Republic State Mortgage's community investment performance. These procedures utilize one performance test: the Lending Test. This evaluation considered Republic State Mortgage's lending for the period of January 1, 2018 through December 31, 2019. The data and applicable timeframes for the Lending Test are discussed below.

The Lending Test evaluates a 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 provided as it is the most recent year for which aggregate Home Mortgage Disclosure Act (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 entity'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 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.

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 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 income levels.
- Republic State Mortgage exhibited use of innovative or flexible lending products, which are provided in a safe and sound manner to address the credit needs of 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.

PERFORMANCE CONTEXT

Description of Mortgage Lender

Republic State Mortgage was granted a mortgage lender and broker license in 2015. The Lender is based in Houston, Texas, and licensed in fifteen states with branches in California, Florida, Georgia, Kentucky, Louisiana, Ohio, Tennessee, and Texas. There are two branches in Massachusetts, which are located in LMI geographies.

Republic State Mortgage is an approved lender for the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), and United States Department of Agriculture (USDA) in addition to offering conventional loan products and Massachusetts Housing Finance Authority (MHFA) loans. Loan processing is performed at the local branch. Underwriting is performed remotely through secured channels. Approved loans are funded through established warehouse lines of credit. Republic State Mortgage’s business development relies primarily on referrals and repeat business.

Originated loans are closed in the Lender’s name and sold immediately to secondary market investors, with servicing rights released. During the examination period, Republic State Mortgage originated 171 loans totaling approximately \$53.8 million within Massachusetts.

Demographic Information

The Division regulation 209 CMR 54.00 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			2.8%*
2018 HUD Adjusted Median Family Income	\$95,500		2019 HUD Adjusted Median Family Income			\$101,200

Source: 2015 American Community Survey (ACS); *Bureau of Labor Statistics as of 12/31/2019

Based on the 2015 American Community Survey (2015 ACS), Massachusetts’ 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 56.0 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 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, 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 Department of Housing and Urban Development (HUD) adjusted median family income was \$95,500 in 2018 and increased to \$101,200 in 2019. 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, 2019, was 2.8 percent, which was a decrease from December 31, 2018, at which time it was 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 correlate with 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, as well as conclusions on the mortgage lending of Republic State Mortgage.

Republic State Mortgage’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 Republic State Mortgage 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 the Lender’s 2018 and 2019 home mortgage lending performance. The 2018 lending performance is compared to aggregate lending performance in 2018.

<i>Geographic Distribution of HMDA loans by Census Tract</i>						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	3.4	4.8	9	11.7	2,514	9.7
2019	3.4	--	12	12.8	3,940	14.0
Moderate						
2018	13.8	15.5	19	24.7	6,788	26.3
2019	13.8	--	18	19.1	4,926	17.5
Middle						
2018	44.4	43.2	35	45.4	10,758	41.6
2019	44.4	--	47	50.0	13,322	47.2
Upper						
2018	38.3	36.3	14	18.2	5,586	22.4
2019	38.3	--	17	18.1	6,015	21.3
Not Available						
2018	0.1	0.2	0	0.0	0	0.0
2019	0.1	--	0	0.0	0	0.0
Totals						
2018	100.0	100.0	77	100.0	25,646	100.0
2019	100.0	--	94	100.0	28,203	100.0
<i>Source: 2018 & 2019 HMDA Data and 2015 ACS</i>						

Republic State Mortgage’s geographic distribution of loans in LMI tracts was above aggregate lending and demographics data in 2018. In 2019, the Lender’s performance of lending in LMI tracts decrease from 36.4 percent in 2018 to 31.9 percent in 2019. The Lender’s geographic distribution of residential mortgage is adequate.

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 Massachusetts’ residents. The table below illustrates HMDA-reportable loan originations and purchases, categorized by borrower income level that were reported by Republic State Mortgage during 2018 and 2019, and compares this activity to the 2018 aggregate lending data and the percentage of families by income level within Massachusetts using the 2015 ACS demographics.

<i>Distribution of HMDA Loans by Borrower Income</i>						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	23.3	6.2	7	9.1	1,997	7.7
2019	23.3	--	11	11.7	2,175	7.7
Moderate						
2018	16.4	18.1	22	28.6	6,282	24.3
2019	16.4	--	35	37.2	9,412	33.4
Middle						
2018	19.4	23.0	27	35.0	9,189	35.6
2019	19.4	--	29	30.9	9,904	35.1
Upper						
2018	40.9	39.9	21	27.3	8,378	32.4
2019	40.9	--	19	20.2	6,712	23.8
Not Available						
2018	0.0	12.8	0	0.0	0	0.0
2019	0.0	--	0	0.0	0	0.0
Totals						
2018	100.0	100.0	77	100.0	25,846	100.0
2019	100.0	--	94	100.0	28,203	100.0
<i>Source: 2018 & 2019 HMDA Data and 2015 ACS</i>						

Originations for 2018 show the Lender’s lending to low-income borrowers was above the aggregate, but below the borrower income level demographic. Lending to moderate-income borrowers was above both the aggregate and borrower income level demographic. Overall, the Lender’s performance among LMI borrowers increased from 2018 to 2019 from 37.7 percent to 48.9 percent. Lending to moderate-income borrowers continued to be above the borrower income level demographic. The Lender’s overall lending performance to LMI borrowers is considered adequate at this time.

III. *Innovative or Flexible Lending Practices*

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

The Lender is an approved HUD direct endorsement mortgage lender. FHA products provide competitive interest rates and smaller down payment requirements for LMI first time homebuyers and existing homeowners. During the review period, Republic State Mortgage originated 33 FHA loans totaling \$10.2 million. Of these, 37 benefited LMI individuals or geographies.

The Lender is a VA Automatic Approval Agent. 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, Republic State Mortgage originated four VA loans totaling \$1.8 million. These loans benefited LMI individuals or geographies.

Republic State Mortgage offers MHFA loans and MHFA down payment assistance loans. 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 review period, the Lender originated 12 loans for \$3.7 million.

The Lender offers the Freddie Mac Home Possible Mortgage Program, which is another low down-payment mortgage option for LMI borrowers with reduced mortgage insurance coverage levels. During the review period, the Lender originated six loans for approximately \$2.1 million.

The Lender offers the Fannie Mae Home Ready program designed to assist homeowners refinance their eligible mortgage to a more affordable mortgage with better terms. During the examination period, the Lender originated 17 loans for approximately \$4.7 million.

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. As Republic State Mortgage does not service mortgage loans in Massachusetts, it would not work directly with delinquent borrowers. Therefore, this review does not include an evaluation of loan mitigation and modification efforts as the Lender would not be accountable for such action.

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 ECOA. The review included, but was not limited to, review of written policies and procedures and interviews with Republic State Mortgage's personnel. Republic State Mortgage 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 Republic State Mortgage’s HMDA data to determine whether the mortgage application flow from various racial and ethnic groups was consistent with the area demographics. During 2018 and 2019, Republic State Mortgage received 217 HMDA-reportable mortgage loan applications within Massachusetts. Of these applications, 25 or 12 percent were received from racial minority applicants, and 20 or 80 percent resulted in originations. For the same period, Republic State Mortgage received 19 or 9 percent of HMDA-reportable applications from ethnic groups of Hispanic or Latino origin, and 11 or 58.9 percent were originated. This compares to the 82.8 percent and 75.8 percent overall ratio of mortgage loans originated by the Lender in Massachusetts in 2018 and 2019 respectively, and the 56.3 percent originated by the aggregate group in 2018.

Demographic information for Massachusetts reveals the total racial and ethnic minority population stood at 25.7 percent of the 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 self-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 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	2018 Lender		2018 Aggregate Data	2019 Lender	
	#	%	% of #	#	%
American Indian/ Alaska Native	0	0.0	0.3	0	0.0
Asian	3	3.2	5.9	5	4.0
Black/ African American	8	8.6	4.4	9	7.3
Hawaiian/Pac Isl.	0	0.0	0.2	0	0.0
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	0	0.0	1.4	0	0.0
Total Minority	11	11.8	12.3	14	11.3
White	81	87.1	66.4	108	87.1
Race Not Available	1	1.1	21.3	2	1.6
Total	93	100.0	100.0	124	100.0
ETHNICITY					
Hispanic or Latino	6	6.4	5.8	10	8.1
Not Hispanic or Latino	86	92.5	71.4	109	87.9
Joint (Hisp/Lat /Not Hisp/Lat)	0	0.0	1.1	3	2.4
Ethnicity Not Available	1	1.1	21.7	2	1.6
Total	93	100.0	100.0	124	100.0

In 2018, Republic State Mortgage's performance was below the aggregate's performance for racial minority applicants and slightly below ethnic minority applicants of Hispanic origin. For 2019, Republic State Mortgage's racial minority and ethnic minority application flows exhibited an upward trend.

VI. Loss of Affordable Housing

The review concentrated on the suitability and sustainability of mortgage loans originated by Republic State Mortgage 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.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

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