

PUBLIC DISCLOSURE

DECEMBER 18, 2023

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**TOLL BROTHERS MORTGAGE COMPANY
MC18154**

**1140 VIRGINIA DRIVE
FORT WASHINGTON, PA 19034**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MA 02118**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this mortgage lender. The rating assigned to this mortgage lender does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this mortgage lender.</p>
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GENERAL INFORMATION

This document is an evaluation of the Mortgage Lender Community Investment (CRA) performance of **Toll Brothers Mortgage Company (Lender or TBMC)** 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 **December 18, 2023**.

SCOPE OF EXAMINATION

An evaluation was conducted using examination procedures, as defined by CRA guidelines. A review of the Division's records, as well as the Lender's public CRA file, did not reveal any complaints.

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

- (a) origination of loans and other efforts to assist low- and moderate-income (LMI) residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the mortgage lender's history with similarly situated borrowers, the availability of mortgage loan products suitable for such borrowers, and consistency with safe and sound business practices;
- (b) origination of loans that show an undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units;
- (c) efforts working with delinquent residential mortgage customers to facilitate a resolution of the delinquency; and
- (d) other efforts, including public notice of the scheduling of examinations and the right of interested parties to submit written comments relative to any such examination to the Commissioner of Banks (Commissioner), as, in the judgment of the Commissioner, reasonably bear upon the extent to which a mortgage lender is complying with the requirements of fair lending laws and helping to meet the mortgage loan credit needs of communities in the Commonwealth of Massachusetts (Commonwealth or Massachusetts).

CRA examination procedures were used to evaluate TBMC's community investment performance. These procedures utilized one performance test: the Lending Test. This evaluation considered TBMC's lending activities for the period of January 1, 2021, through December 31, 2022. The data and applicable timeframes for the Lending 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 2021 and 2022 is presented in the geographic distribution, lending to borrowers of different incomes and the minority application flow tables. Comparative analysis of the Lender's lending performance for both years is provided. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all Home Mortgage Disclosure Act (HMDA) reporting mortgage lenders who originated loans in the Commonwealth.

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the CRA examination also reflects an in-depth review of the entity's mortgage lending using qualitative analysis. This analysis includes, but is not limited to, an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks and through local Registries of Deeds and through other sources available to the examination team. The examination included inspection of individual loan files for review of compliance with consumer protection provisions and scrutiny of these files for the occurrence of disparate treatment based on a prohibited basis.

MORTGAGE LENDER'S CRA RATING:

This mortgage lender is rated “Needs to Improve”

Lending Test: “Needs to Improve”

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

PERFORMANCE CONTEXT

Description of Mortgage Lender

TBMC was incorporated in the state of Delaware in 1988. The Lender was granted a mortgage broker license by the Division on September 25, 2002, and a subsequent mortgage lender license on December 31, 2008. TBMC is primarily engaged in the business of originating loans for consumers buying houses from its parent company, homebuilder Toll Brothers, Inc. (Toll Brothers). As of the date of the examination, the Lender was licensed or authorized to conduct business in 24 states nationwide. During the review period, TBMC operated one Massachusetts branch office located in Westborough. The Lender sells all loans on a servicing-released basis.

Demographic Information

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

DEMOGRAPHIC INFORMATION OF THE COMMONWEALTH						
Demographic Characteristics	Amount	% Low	% Moderate	% Middle	% Upper	% N/A
Geographies (Census Tracts)	1,620	10.5	19.1	37.0	30.0	3.4
Population by Geography	7,029,917	9.4	19.0	37.8	32.6	1.2
Owner-Occupied Housing by Geography	1,654,892	3.1	14.6	43.1	38.9	0.3
Family Distribution by Income Level	1,673,992	22.8	16.4	19.8	41.0	0.0
Distribution of Low- and Moderate-Income Families	655,582	15.8	27.3	37.1	19.1	0.7
Median Family Income	\$114,076	Median Housing Value			\$449,342	
Households Below Poverty Level	10.6%	2022 Unemployment Rate			3.8%*	
2021 HUD Adjusted Median Family Income	\$106,200	2022 HUD Adjusted Median Family Income			\$120,400	

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

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

According to the 2020 US Census, there are 2.6 million households in the Commonwealth with a median household income of \$91,426. Nearly 40 percent of households are classified as LMI. Over ten percent of the total number of households are living below the poverty level. Individuals in these categories may find it challenging to qualify for traditional mortgage loan products.

Households classified as "families" totaled slightly over 1.67 million. Of all family households, 22.8 percent were low-income, 16.4 percent were moderate-income, 19.8 percent were middle-income, and 41.0 percent were upper-income. The median family income according to the 2020 US Census data stood at \$114,076. The Department of Housing and Urban Development (HUD)

adjusted median family income was \$106,200 in 2021 and increased to \$120,400 in 2022. The HUD adjusted median family income is updated yearly and takes into account inflation and other economic factors.

Massachusetts contains 1,620 census tracts. Of these, 170 or 10.5 percent are low-income; 309 or 19.1 percent are moderate-income; 599 or 37.0 percent are middle-income; 486 or 30.0 percent are upper-income; and 56 or 3.4 percent are NA or have no income designation. The tracts with no income designation are located in areas that contain no housing units and will not be included in this evaluation since they provide no lending opportunities. These areas are made up of correctional facilities, universities, military installations, and uninhabited locations such as the Boston Harbor Islands.

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

The median housing value for Massachusetts was \$449,342 according to the 2020 US Census data. The unemployment rate for Massachusetts stood at an annual average of 3.8 percent for 2022, a decrease from the 2021 annual average rate of 5.5 percent, according to the Bureau of Labor Statistics. Employment rates would tend to affect a borrower's ability to remain current on mortgage loan obligations and also correlate with delinquency and default rates.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test evaluates a mortgage lender’s record of helping to meet the mortgage credit needs of the Commonwealth through its lending activities. TBMC’s lending efforts are rated under the six performance criteria: Geographic Distribution, Borrower Characteristics, Innovative or Flexible Lending Practices, Loss Mitigation Efforts, Fair Lending Policies and Procedures, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of TBMC.

TBMC’s Lending Test performance was determined to be “**Needs to Improve**”.

I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well TBMC is addressing credit needs throughout Massachusetts. The following table presents, by number, TBMC’s 2021 and 2022 HMDA reportable loans in low-, moderate-, middle-, and upper-income level geographies, in comparison to the percentage of owner-occupied housing units in each of the census tract income level categories, and the 2021 and 2022 aggregate lending data (inclusive of TBMC).

Geographic Distribution of HMDA Loans by Census Tract					
Tract Income Level	Year	% of MA Owner-Occupied Housing Units	Aggregate Performance % of #	TBMC #	TBMC %
Low	2021	3.1	4.2	0	0
	2022		4.4	0	0
Moderate	2021	14.6	14.3	0	0
	2022		16.0	0	0
Middle	2021	43.1	42.7	40	37.04
	2022		42.0	20	27.03
Upper	2021	38.9	38.6	68	62.96
	2022		37.1	54	72.97
Not Available	2021	0.3	0.2	0	0
	2022		0.5	0	0
Total	2021	100.0	100.0	108	100.0
	2022		100.0	74	100.0

Source: 2020 US Census; 1/1/2021 – 12/31/2022 Lender HMDA Data, 2021 and 2022 HMDA Aggregate Data

As reflected in the above table, of the total Massachusetts loans originated in 2021 and 2022, no loans were originated in low- and moderate-income level census tracts.

Even considering that over 80 percent of the area’s owner-occupied housing units are in middle- and upper-income level census tracts, TBMC’s overall geographic distribution of residential mortgage loans reflects a weak dispersion throughout low- and moderate-income level geographies within the Commonwealth. However, this is largely due to the Lender’s business model, which

serves primarily as the financing company for purchasers of Toll Brothers homes. These housing developments are located in middle- and upper-income census tracts in Massachusetts.

II. Borrower Characteristics

The distribution of loans by borrower income was reviewed to determine the extent to which the Lender is addressing the credit needs of the Commonwealth’s residents. The following table shows TBMC’s 2021 and 2022 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 2021 and 2022 aggregate lending data (inclusive of TBMC).

Distribution of HMDA Loans by Borrower Income					
Borrower Income Level	Year	% of MA Owner-Occupied Housing Units	Aggregate Performance % of #	TBMC #	TBMC %
Low	2021	22.8	5.9	0	0
	2022		7.4	0	0
Moderate	2021	16.4	17.8	11	10.19
	2022		19.7	4	5.41
Middle	2021	19.8	22.5	37	34.26
	2022		23.0	20	27.03
Upper	2021	41.0	39.9	60	55.56
	2022		37.5	50	67.57
Not Available	2021	0.0	13.9	0	0
	2022		12.4	0	0
Total	2021	100.0	100.0	108	100.0
	2022		100.0	74	100.0

Source: 2020 US Census; 1/1/2021 - 12/31/2022 Lender HMDA Data, 2021 and 2022 HMDA Aggregate Data

As shown in the above table, of the total Massachusetts loans TBMC originated in 2021 and 2022, 0 percent and 8.2 percent were made to low- and moderate-income borrowers, respectively. These percentages were far below the aggregate percentages, as well as below the demographic percentages for the Commonwealth. The Lender’s overall lending performance of providing mortgage loans to low- and moderate-income borrowers is poor.

III. Innovative or Flexible Lending Practices

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

TBMC maintains HUD-approved Non-Supervised Federal Housing Administration (FHA) Loan Correspondent status. Although they contain imbedded insurance premiums, FHA products provide generally competitive interest rates and smaller down payments for LMI first-time homebuyers and

existing homeowners. During the review period, TBMC originated no FHA loans to any Massachusetts borrowers.

The Lender is also a Department of Veterans Affairs (VA) Automatic Approval Agent. The VA Home Loan Guarantee Program is designed specifically for the unique challenges facing service members and their families. Through VA-approved lenders like TBMC, the program offers low closing costs, no down payment requirement, and no private mortgage insurance requirement. In addition, under certain circumstances the Service Members Civil Relief Act provides military personnel with rights and protections on issues relative to mortgage interest rates and foreclosure proceedings. During the review period, TBMC originated no VA loans to any Massachusetts borrowers.

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 TBMC does not service mortgage loans, it would not work directly with delinquent borrowers; therefore, this review does not include an evaluation of loan mitigation and modification efforts.

V. Fair Lending

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. The Lender's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The review included, but was not limited to, review of written policies and procedures, interviews with TBMC's personnel, and individual file review.

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

Minority Application Flow

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

During 2021 and 2022, TBMC received 304 HMDA-reportable mortgage loan applications from within Massachusetts. Thirty applications or 9.9 percent were received from racial minority applicants, and 12 or 40.0 percent resulted in originations. For the review period, TBMC received 10 or 3.3 percent of HMDA-reportable applications from ethnic groups of Hispanic or Latino origin, and 5 or 50 percent were originated.

This compares to the 64.3 percent overall ratio of mortgage loans originated by the Lender in Massachusetts in 2021 and the 61.7 percent approval ratio by the aggregate group in 2021. In 2022, the Lender originated 54.4 percent of applications and the aggregate group originated 58.3 percent.

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

Refer to the following table for information on the Lender’s minority loan application flow as well as a comparison to aggregate lending data throughout the Commonwealth. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Lender received from minority applicants.

Minority Application Flow						
Race	2021 Aggregate Data	2021 TBMC		2022 Aggregate Data	2022 TBMC	
	% of #	#	%	% of #	#	%
American Indian/ Alaska Native	0.3	0	0	0.3	0	0
Asian	6.6	8	4.76	6.6	15	11.03
Black/ African American	4.6	0	0	5.8	1	0.74
Hawaiian/Pacific Islander	0.1	0	0	0.2	0	0
2 or more Minority	0.1	0	0	0.2	0	0
Joint Race (White/Minority)	1.6	1	0.60	1.7	5	3.68
Total Minority	13.3	9	5.36	14.8	21	15.45
White	61.2	142	84.52	61.0	95	69.85
Race Not Available	25.5	17	10.12	24.2	20	14.71
Total	100.0	168	100	100.0	136	100
Ethnicity	% of #			% of #		
Hispanic or Latino	6.0	1	0.60	7.4	3	2.21
Joint (Hisp-Lat /Non-Hisp-Lat)	1.2	5	2.98	1.5	1	0.74
Total Hispanic or Latino	7.2	6	3.58	8.9	4	2.95
Not Hispanic or Latino	67.4	145	86.31	67.6	111	81.62
Ethnicity Not Available	25.4	17	10.11	23.5	21	15.44
Total	100.0	168	100	100.0	136	100

Source: 1/1/2021 - 12/31/2022 Lender HMDA Data, 2021 & 2022 HMDA Aggregate Data

In 2021, TBMC’s performance was below the aggregate’s performance for both racial and ethnic minority applicants, as well as being below the Census data. In 2022, TBMC’s performance was above the aggregate performance for racial applicants but below the aggregate for ethnic minority applicants. The racial minority applicant percentage increased from 2021 to 2022, while the ethnic minority applicant percentage decreased.

VI. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by TBMC by considering delinquency and default rates of the Lender and those of the overall marketplace. Information provided by the Lender was reviewed, as were statistics available on delinquency and default rates for mortgage loans.

A review of information and documentation, from both internal and external sources as partially described above, did not reveal lending practices or products that showed an undue concentration or a systematic pattern of lending, including a pattern of early payment defaults, resulting in the loss of affordable housing units.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

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

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

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

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