

## **PUBLIC DISCLOSURE**

**February 16 , 2016**

### **CRA FOR MORTGAGE LENDERS PERFORMANCE EVALUATION**

**RESIDENTIAL MORTGAGE SERVICES, INC.  
MC1760**

**24 CHRISTOPHER TOPPI DRIVE  
SOUTH PORTLAND, ME 04106**

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

**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.

## **GENERAL INFORMATION**

Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' (Division) regulation 209 CMR 54.00 et seq., Mortgage Lender Community Investment (CRA), require the Division to use its authority when examining mortgage lenders subject to its supervision who have made 50 or more home mortgage loans in the last calendar year, to assess the mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth, including low- and moderate-income neighborhoods and individuals, consistent with the safe and sound operation of the mortgage lender. Upon conclusion of such examination, the Division must prepare a written evaluation of the mortgage lender's record of meeting the credit needs of the Commonwealth.

This document is an evaluation of the CRA performance of **Residential Mortgage Services, Inc. (RMS)** prepared by the Division, the mortgage lender's supervisory agency, as of February 16, 2016.

### **SCOPE OF EXAMINATION**

An evaluation was conducted using examination procedures, as defined by CRA. A review of the Division's records, as well as the mortgage 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 RMS':

- (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 RMS' community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered RMS' lending and community development activities for the period of January 1, 2014 through December 31, 2015. The data and applicable timeframes for the Lending Test and the Service Test are discussed below.

The Lending Test evaluates the mortgage lender's community investment performance pursuant to the following five criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible lending practices, fair lending, and loss of affordable housing.

Home mortgage lending for 2014 and 2015 is presented in the geographic distribution, lending to borrowers of different incomes and the Minority Application Flow table. Comparative analysis is provided for the RMS's 2014 lending performance as this 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 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.

The Service Test evaluates the mortgage lender's record of helping to meet the mortgage credit needs by analyzing the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products, the extent and innovativeness of its community development services, and, if applicable, loss mitigation services to modify loans and/or efforts to keep delinquent home borrowers in their homes.

## **MORTGAGE LENDER'S CRA RATING:**

### **RMS is rated "Satisfactory"**

- The distribution of borrowers, given the demographics of Massachusetts, reflects a good record of serving the credit need among individuals of different income levels, including those of low- and moderate-income.
- The geographic distribution of the mortgage lender's loans 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.
- RMS offers a number of flexible lending products, which are provided in a safe and sound manner to address the credit needs of low- and moderate-income individuals.
- Fair lending policies and practices are considered adequate.
- RMS provides an effective delivery of mortgage lending and a reasonable level of Community Development Services within the Commonwealth.

## **PERFORMANCE CONTEXT**

### **Description of Mortgage Lender**

Residential Mortgage Services, Inc. was first licensed in the Commonwealth of Massachusetts by the Division of Banks in July 2002. RMS operates as a residential mortgage lender and is licensed in 16 states and the District of Columbia. Its primary focus is the origination of residential mortgage loans. The mortgage lender's corporate headquarters is located in South Portland, Maine and has over 20 branches throughout Massachusetts.

During the examination period of 2014 and 2015, RMS originated 7,490 loans totaling approximately \$2 billion in 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*			4.9%
2014 HUD Adjusted Median Family Income		\$83,700	2015 HUD Adjusted Median Family Income			\$87,300

Source: 2010 US Census; \*as of 12/31/2015

Based on the 2010 Census, the Commonwealth's population grew to just over 6.5 million people with a total of 2.7 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 household income of \$69,101. Thirty-nine percent of the households are now classified as low- and moderate-income. In addition, over 11 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 1.6 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 according to the 2010 census was \$86,272. The Housing and Urban Development (HUD) adjusted median family income was \$83,700 in 2014 and increased to \$87,300 in 2015. 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 income 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, 2015, was 4.9 percent which was a decrease from December 31, 2014, at which time it was 5.3 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 TESTS**

### **LENDING TEST**

Lending performance is rated under the five performance criteria: Borrower Characteristics, Geographic Distribution, Innovative or Flexible Lending Practices, 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 RMS.

RMS Lending Test performance was determined to be “Satisfactory” at this time.

#### **I. 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 illustrates HMDA loan originations, categorized by borrower income level, that were reported by RMS during 2014 and 2015, and compares this activity to the 2014 aggregate lending data (excluding RMS) and the percentage of families by income level within the assessment area using Census demographics.

<i>Distribution of HMDA Loans by Borrower Income</i>						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2014	22.2	5.0	207	6.5	29,811	3.5
2015	22.2	--	352	8.2	60,305	5.1
Moderate						
2014	16.5	15.9	805	25.3	172,013	20.2
2015	16.5	--	1,133	26.3	257,990	21.6
Middle						
2014	20.6	21.7	963	30.3	259,451	30.4
2015	20.6	--	1,311	30.4	359,476	30.1
Upper						
2014	40.7	40.9	1,192	37.5	388,835	45.5
2015	40.7	--	1,368	31.7	477,653	40.0
Not Available						
2014	0.0	16.5	13	0.4	3,553	0.4
2015	0.0	--	136	3.4	38,016	3.2
<b>Totals</b>						
<b>2014</b>	<b>100.0</b>	<b>100.0</b>	<b>3,180</b>	<b>100.0</b>	<b>853,663</b>	<b>100.0</b>
<b>2015</b>	<b>100.0</b>	<b>--</b>	<b>4,300</b>	<b>100.0</b>	<b>1,193,440</b>	<b>100.0</b>

Source: 2014 & 2015 HMDA Data and 2010 U.S. Census

RMS achieved a good 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 data in Massachusetts. As shown in the above table, the percentage of lending to low- and moderate-income borrowers was above the aggregate in both 2014 and 2015. Lending to moderate-income borrowers was also above the demographics in both years. Additionally, RMS' percentage of lending to low- and moderate-income borrowers increased in 2015.

## II. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well RMS 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 with the percent of owner-occupied housing units based on Census demographics and RMS' 2014 and 2015 home mortgage lending performance is compared to aggregate lending performance in each year.

<b><i>Geographic Distribution of HMDA Loans by Census Tract</i></b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Low						
2014	3.1	3.5	202	6.4	46,200	5.4
2015	3.1	--	279	6.5	69,566	5.8
Moderate						
2014	13.0	13.3	502	15.8	114,171	13.4
2015	13.0	--	709	16.5	171,187	14.3
Middle						
2014	48.3	46.7	1,502	47.2	393,886	46.1
2015	48.3	--	2,105	48.8	564,786	47.3
Upper						
2014	35.6	36.5	974	30.6	299,406	35.1
2015	35.6	--	1,207	28.0	387,901	32.5
Not Available						
2014	0.0	0.0	0	0.0	0	0.0
2015	0.0	--	10	0.2	0	0.0
<b>Totals</b>						
<b>2014</b>	<b>100.0</b>	<b>100.0</b>	<b>3,180</b>	<b>100.0</b>	<b>853,663</b>	<b>100.0</b>
<b>2015</b>	<b>100.0</b>	<b>--</b>	<b>4,310</b>	<b>100.0</b>	<b>1,193,440</b>	<b>100.0</b>

Source: 2014 & 2015 HMDA Data and 2010 U.S. Census

RMS' geographic distribution of loans in low- and moderate-income tracts was above both aggregate lending and the demographics in 2014. RMS increased its lending performance in 2015 in low- and moderate-income income tracts. RMS' distribution of lending is considered reasonable when compared to the demographics and aggregate lending data for the time period of January 1, 2014 through December 31, 2015.

### **III. Innovative or Flexible Lending Practices**

RMS originates, underwrites, 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.

During the evaluation period, RMS originated 501 MassHousing loans totaling 116.9 million. In 2015 RMS was recognized for originating the highest number of MassHousing loans in Massachusetts; 258 totaling \$60.6 million in financing. RMS was also the top producer in Bristol, Norfolk, Plymouth and Worcester Counties. MassHousing is an independent quasi-public agency that provides financing for the construction and preservation of affordable rental housing, and for affordable first and second mortgages for homebuyers and homeowners. MassHousing loans allow borrowers to buy or refinance with loan products allowing down payments as low as 3% and some products that do not require mortgage insurance. To be eligible for a MassHousing loan a borrower must meet income limits and loan limits, which vary by region.

RMS offers a variety of Federal Housing Administration (FHA) products which offer competitive interest rates and smaller down payments for low- and moderate-income first time homebuyers and existing homeowners. Between 2014 and 2015 RMS originated or purchased 1,889 FHA loans totaling \$483.2 million. Of these FHA loans, 1,016 or 54 percent were to low- and moderate-income borrowers, and 789 or 42 percent were originated in low-income census tracts.

The Veteran Affairs (VA) Home Loan Guarantee Program offered by RMS is designed specifically for the unique challenges facing service members and their families. Through VA-approved lenders, the program offers low closing cost, no down payment requirement, and no private mortgage insurance requirement. Between 2014 and 2015 RMS originated or purchased 268 VA loans totaling \$78.1 million. Of these VA loans, 90 or 34 percent were to low- and moderate-income borrowers, and 47 or 18 percent were originated in low-income census tracts.

United States Department of Agriculture (USDA) Home Loans are offered in rural areas as determined by the USDA. The USDA's mission is to help lower income households obtain home loans at reasonable mortgage rates. These loans offer many advantages to qualified borrowers such as 100% financing, no monthly mortgage insurance and no asset or automatic reserve requirements. Between 2014 and 2015, RMS originated or purchased 138 USDA loans totaling \$29.5 million. Of these USDA loans, 77 or 56 percent were to low- and moderate-income borrowers, and 8 or 5.8 percent were originated in low-income census tracts.

## **IV. 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 mortgage lender personnel, and individual file review.

RMS' compliance with the laws relating to discrimination and other illegal credit practices was reviewed. RMS has established an adequate record relative to fair lending policies and practices. No evidence of discriminatory or other illegal credit practices were identified.

### **Minority Application Flow**

RMS' Loan Application Registers for 2014 and 2015 were reviewed to determine if the application flow from the different racial and ethnic groups within the Commonwealth was reflective of the area's demographics.

Demographic information for Massachusetts showed the total ethnic and racial minority population stood at 23.8 percent of the total population as of the 2010 Census. This segment of the population is comprised of 9.6 percent Hispanic or Latino. 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.

For 2014 and 2015, RMS received 10,903 HMDA reportable loan applications from within the Commonwealth of Massachusetts of which 7,490 or 68.7 resulted in origination. Of these applications, 1,388 or 12.7 percent were received from racial minority applicants, of which 894 or 64.4 percent resulted in origination. RMS received 1,036 or 9.5 percent of HMDA reportable applications from ethnic groups of Hispanic origin, of which 694 or 67 percent resulted in origination. This compares to 68.7 percent overall ratio of mortgage loans originated by RMS in Massachusetts, and the 71.7 percent approval ratio for the aggregate.

Refer to the following table for information on the mortgage lender's minority application flow as well as a comparison to the 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	2014 RMS		2014 Aggregate Data	2015 RMS	
	#	%	% of #	#	%
American Indian/ Alaska Native	8	0.2	0.2	7	0.1
Asian	177	3.8	4.8	191	3.0
Black/ African American	270	5.8	3.1	469	7.5
Hawaiian/Pac. Isl.	16	0.3	0.1	29	0.4
2 or more Minority	5	0.1	0.1	2	0.1
Joint Race (White/Minority)	91	2.0	1.2	123	2.0
<b>Total Minority</b>	<b>567</b>	<b>12.2</b>	<b>9.5</b>	<b>821</b>	<b>13.1</b>
White	3,713	80.2	67.4	5,063	80.7
Race Not Available	349	7.6	23.1	390	6.2
<b>Total</b>	<b>4,629</b>	<b>100.0</b>	<b>100.0</b>	<b>6,274</b>	<b>100.0</b>
<b>ETHNICITY</b>					
Hispanic or Latino	363	7.9	3.7	530	8.4
Not Hispanic or Latino	3,875	83.7	72.4	5,281	84.2
Joint (Hisp/Lat /Not Hisp/Lat)	62	1.3	1.0	81	1.3
Ethnicity Not Available	329	7.1	22.9	382	6.1
<b>Total</b>	<b>4,629</b>	<b>100.0</b>	<b>100.0</b>	<b>6,274</b>	<b>100.0</b>

Source: 2010 U.S. Census Data, 2014 & 2015 HMDA Data

RMS' performance was above the aggregate's performance for racial minorities and ethnic minorities in 2014.

## V. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by RMS by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the mortgage lender was reviewed as were statistics available on delinquency and default rates for mortgage loans. Additionally, individual mortgage loans were tracked for their status through local Registries of Deeds and other available sources including public records of foreclosure filings.

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. Further, 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 the Commonwealth by analyzing both the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products; the extent and innovativeness of its community development services; and loss mitigation services to modify loans or otherwise keep delinquent home loan borrowers in their homes. Community development services must benefit the Commonwealth or a broader regional area that includes the Commonwealth.

RMS' Service Test performance was determined to be "Satisfactory" during the evaluation period.

### **Mortgage Lending Services**

RMS provides an effective level of mortgage lending services to low and moderate income geographies and borrowers through home purchase and refinance transactions in Massachusetts. RMS offers a variety of mortgage products including conventional, FHA, VA, and USDA and MassHousing loans. RMS generates most of its business in Massachusetts from referrals. The mortgage lender's website allows customers to view loan products available and apply online as well at any of RMS's many Massachusetts retail branches. RMS' branches in Fall River, Hyannis, Marlborough, Methuen, New Bedford, and Worcester are located in low- or moderate-income census tracts.

A portion of Massachusetts loans are sold to investors with servicing rights retained. RMS uses a third party sub-servicer to service these loans and handle loss mitigation, foreclosures, and bankruptcies.

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 effective delivery of mortgage lending services throughout the Commonwealth.

### **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.

RMS provided a reasonable level of Community Development Services in the Commonwealth. RMS staff participated in 16 home buyer seminars in Massachusetts

during the evaluation period. These seminars were mostly located in Worcester which has a number of low- and moderate-income census tracts.

In addition, employees spoke at a Buy Brockton Home Buyer Fair and at a New Bedford Re-development class for home buyers. The mortgage lender's staff also used their expertise to serve such organizations as the Buy Holyoke Now Steering Committee, Pioneer Valley Habitat for Humanity family selection committee, and City of Fall River Community Development Committee.

## **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.