

**PUBLIC DISCLOSURE**

**MARCH 1, 2017**

**CRA FOR MORTGAGE LENDERS  
PERFORMANCE EVALUATION**

**MEMBERS MORTGAGE COMPANY, INC.  
ML1292**

**10 CEDAR STREET, SUITE 11  
WOBURN, MASSACHUSETTS 01801**

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

<p><b>NOTE:</b> 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

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 **Members Mortgage Company, Inc. (Members Mortgage or Lender)** prepared by the Division, the mortgage lender's supervisory agency, as of March 1, 2017.

## 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 Members Mortgage's:

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

CRA examination procedures were used to evaluate Members Mortgage's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Members Mortgage's lending and community development activities for the period of January 1, 2015 through December 31, 2016. 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 2015 and 2016 is presented in the geographic distribution, lending to borrowers of different incomes and the minority application flow tables. Comparative analysis of the mortgage lender's lending performance for the year of 2015 is provided as 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 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:**

### **Members Mortgage is rated "Satisfactory"**

- The distribution of borrowers, given the demographics of Massachusetts, reflects a reasonable record of serving the credit needs 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.
- Members Mortgage offers 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.
- Members Mortgage provides an adequate delivery of mortgage lending and a reasonable level of community development services within the Commonwealth.

## **PERFORMANCE CONTEXT**

### **Description of Mortgage Lender**

Members Mortgage was established in Massachusetts in August of 1994 and was granted a license by the Division as a mortgage lender in November of 1994. Members Mortgage is also licensed in the states of Connecticut, Maine, New Hampshire, and Rhode Island. The Lender's headquarters and only office is located at 10 Cedar Street in Woburn, Massachusetts. Members Mortgage provides lending services to credit unions and their members across New England and focuses on retail origination of first lien conventional loans for purchase and refinance. Members Mortgage is considered a small servicer as it services a small percentage of loans on behalf of credit union partners. The majority of originations are sold on the secondary market with servicing rights released.

During the examination period of 2015 and 2016, Members Mortgage originated 1,121 loans totaling approximately \$340 million 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.

<b>2010 CENSUS DEMOGRAPHIC INFORMATION</b>						
<b>Demographic Characteristics</b>	<b>Amount</b>	<b>Low %</b>	<b>Moderate %</b>	<b>Middle %</b>	<b>Upper %</b>	<b>N/A %</b>
Geographies (Census Tracts)	1,474	11.1	19.0	40.6	27.9	1.4
Population by Geography	6,547,629	9.2	18.0	42.4	30.2	0.2
Owner-Occupied Housing by Geography	1,608,474	3.1	13.0	48.3	35.6	0.0
Family Distribution by Income Level	1,600,588	22.2	16.5	20.6	40.7	0.0
Distribution of Low and Moderate Income Families	619,565	15.7	25.9	40.9	17.5	0.0
Median Family Income	\$86,272	Median Housing Value			\$373,206	
Households Below Poverty Level	11.1%	Unemployment Rate*			3.1%	
2015 HUD Adjusted Median Family Income	\$87,300	2016 HUD Adjusted Median Family Income			\$86,000	

Source: 2010 US Census; \*as of 12/31/2016

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

According to the 2010 Census, there are 2.5 million households in the Commonwealth with a median household income of \$69,101. Over 39 percent of 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 \$87,300 in 2015 and decreased to \$86,000 in 2016. 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, 2016, was 3.1 percent which was a decrease from December 31, 2015, at which time it was 4.4 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 five 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 Members Mortgage.

Members 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 Members Mortgage 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 U.S. Census demographics, and Members Mortgage’ 2015 and 2016 home mortgage lending performance is compared to aggregate lending performance in 2015.

<i>Geographic Distribution of HMDA Loans by Census Tract</i>						
Tract Income Level	% of Owner-Occupied Housing Units	2015 Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2015	3.1	3.6	13	3.0	\$3,380	2.6
2016	3.1	--	23	3.4	\$7,565	3.6
Moderate						
2015	13.0	12.9	51	11.6	\$13,257	10.2
2016	13.0	--	95	14.0	\$25,612	12.2
Middle						
2015	48.3	46.5	212	48.2	\$59,098	45.5
2016	48.3	--	322	47.3	\$94,907	45.2
Upper						
2015	35.6	37.0	164	37.3	\$54,293	41.8
2016	35.6	--	241	35.4	\$81,959	39.0
Not Available						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>440</b>	<b>100.0</b>	<b>\$130,028</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>681</b>	<b>100.0</b>	<b>\$210,043</b>	<b>100.0</b>

Source: 2015 & 2016 HMDA Data and 2010 U.S. Census

Members Mortgage's geographic distribution of loans in moderate-income tracts was slightly below aggregate lending and the demographics in 2015 while lending in low-income tracts was generally on par with the aggregate and demographics. Members Mortgage increased its lending performance in 2016 in low- and moderate-income income tracts. Members Mortgage's distribution of lending is considered reasonable when compared to the demographics and aggregate lending data for the time period of January 1, 2015 through December 31, 2016.

## II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the mortgage lender is addressing the credit needs of the Commonwealth's residents. The table below illustrates HMDA-reportable loan originations, categorized by borrower income level, that were reported by Members Mortgage during 2015 and 2016, and compares this activity to the 2015 aggregate lending data and the percentage of families by income level within the assessment area using U.S. Census demographics.

<i>Distribution of HMDA Loans by Borrower Income</i>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
2015	22.2	4.8	6	1.4	\$735	0.6
2016	22.2	--	12	1.8	\$1,686	0.8
Moderate						
2015	16.5	15.9	57	13.0	\$12,410	9.5
2016	16.5	--	67	9.8	15,578	7.4
Middle						
2015	20.6	21.4	128	29.1	\$34,757	26.7
2016	20.6	--	199	29.2	\$54,620	26.0
Upper						
2015	40.7	39.2	222	50.5	\$76,570	58.9
2016	40.7	--	382	56.1	\$134,082	63.8
Not Available						
2015	0.0	18.8	27	6.1	\$5,556	4.3
2016	0.0	--	21	3.1	\$4,077	1.9
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>440</b>	<b>100.0</b>	<b>\$130,028</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>681</b>	<b>100.0</b>	<b>\$210,043</b>	<b>100.0</b>

Source: 2015 & 2016 HMDA Data and 2010 U.S. Census

Members Mortgage achieved a reasonable 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 below the aggregate in both 2015 and 2016. However, there were a number of loans for which income was not reported that affected the overall income distribution.



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

Members Mortgage 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. Members Mortgage primarily offers Fannie Mae products. Fannie Mae provides affordable mortgage options such as the HomeReady Mortgage, 3% Down Payment Mortgage for First Time Homebuyers, and HFA Preferred which can be combined with down-payment assistance programs.

### **IV. Loss Mitigation Efforts**

The Division reviews mortgage lender's efforts to work with delinquent home mortgage loan borrowers to facilitate a resolution of the delinquency, including the number of loan modifications, the timeliness of such modifications, and the extent to which such modifications are effective in preventing subsequent defaults or foreclosures.

Members Mortgage is considered a small servicer as it services a small percentage of loans on behalf of its credit union partners. The majority of originations are sold on the secondary market with servicing rights released. Lending and servicing practices did not show an undue concentration or systematic pattern of lending resulting in mortgage loans that were not sustainable.

### **V. Fair Lending**

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

Members Mortgage's compliance with the laws relating to discrimination and other illegal credit practices was reviewed. Members 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

Members Mortgage's Loan Application Registers (LAR) for 2015 and 2016 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 2015 and 2016, Members Mortgage received 1,363 HMDA-reportable loan applications from within the Commonwealth of Massachusetts, of which 1,121 or 82 percent resulted in origination. Of these applications, 127 or 9.3 percent were received from racial minority applicants, of which 103 or 81 percent resulted in origination. Members Mortgage received 57 or 4.2 percent of HMDA-reportable applications from ethnic groups of Hispanic origin, of which 45 or 79 percent resulted in origination. These percentages exceed the ratio of loans from racial and ethnic minorities originated by the aggregate which were 65 percent and 62 percent, respectively.

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.

<b>MINORITY APPLICATION FLOW</b>					
<b>RACE</b>	<b>2015 Members Mortgage</b>		<b>2015 Aggregate Data</b>	<b>2016 Members Mortgage</b>	
	#	%	% of #	#	%
American Indian/ Alaska Native	2	0.4	0.2	3	0.4
Asian	22	4.3	4.8	33	3.9
Black/ African American	17	3.4	3.3	19	2.2
Hawaiian/Pac. Isl.	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	11	2.2	1.3	20	2.3
<b>Total Minority</b>	<b>52</b>	<b>10.3</b>	<b>9.8</b>	<b>75</b>	<b>8.8</b>
White	276	54.5	67.6	457	53.3
Race Not Available	178	35.2	22.6	325	37.9
<b>Total</b>	<b>506</b>	<b>100.0</b>	<b>100.0</b>	<b>857</b>	<b>100.0</b>
<b>ETHNICITY</b>					
Hispanic or Latino	17	3.4	4.0	21	2.5
Not Hispanic or Latino	278	54.9	72.6	451	52.6
Joint (Hisp/Lat /Not Hisp/Lat)	7	1.4	1.0	12	1.4
Ethnicity Not Available	204	40.3	22.4	373	43.5
<b>Total</b>	<b>506</b>	<b>100.0</b>	<b>100.0</b>	<b>857</b>	<b>100.0</b>

Source: 2015 & 2016 HMDA Data and 2010 U.S. Census

Members Mortgage's performance was equivalent to the aggregate's performance for racial and ethnic minorities in 2015. The Lender's performance for racial and ethnic minorities decreased slightly in 2016.

## **VI. Loss of Affordable Housing**

This review concentrated on the suitability and sustainability of mortgage loans originated by Members Mortgage 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. 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 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.

Members Mortgage's Service Test performance was determined to be **"Satisfactory"** 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.

Members Mortgage provided a reasonable level of community development services in the Commonwealth. During the assessment period, the Lender's loan originators participated in 14 homebuyer seminars which took place in a low income census tract.

## **Mortgage Lending Services**

Members Mortgage provides an adequate level of mortgage lending services to low- and moderate-income geographies and individuals through home purchase and refinance transactions in Massachusetts. Members Mortgage primarily provides Fannie Mae products to borrowers through a network of partner credit unions throughout Massachusetts. Non-credit union members may also apply directly with Members Mortgage either through their online mortgage application portal or in person at their Woburn office.

Members Mortgage services a small percentage of loans on behalf of credit union partners. The majority of originations are sold on the secondary market with servicing rights released. Members Mortgage servicing department is responsible for loss mitigation and delinquencies for the small amount of loans that are being serviced.

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 the Commonwealth.

## **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.