

**PUBLIC DISCLOSURE**

**APRIL 10, 2018**

**MORTGAGE LENDER COMMUNITY INVESTMENT  
PERFORMANCE EVALUATION**

**GUIDANCE RESIDENTIAL LLC  
ML2908**

**11107 SUNSET HILLS ROAD, SUITE 100  
RESTON, VA 20190**

**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

This document is an evaluation of the Mortgage Lender Community Investment (CRA) performance of **Guidance Residential LLC (the Lender or Guidance)** 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 **April 10, 2018**.

### 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 mortgage lender's public CRA file, did not reveal any complaints.

The CRA examination included a comprehensive review and analysis, as applicable, of the Lender'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 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, 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 the Lender's community investment performance. These procedures utilized one performance test: the Lending Test. This evaluation considered The Lender's lending activated for the period of January 2016 through December 2017. The data and applicable timeframes are for the Lending test are discussed below.

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

Home mortgage lending for 2016 and 2017 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 the year of 2016 is provided because it is the most recent year for which aggregate HMDA lending data is available. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending

information from all HMDA reporting mortgage lenders 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 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's CRA performance is rated "Satisfactory".**

- The geographic distribution of the Lender's loans reflects an adequate dispersion in low- and moderate-income level census tracts.
- Given the demographics of Massachusetts, the loan distribution to borrowers reflects a reasonable record of serving the credit needs among individuals of different income levels.
- The Lender's fair lending policies and practices are considered adequate.
- Lending practices do not show 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 CONTEXT**

### **Description of Mortgage Lender**

The Lender was established as Delaware Limited Liability Company in 1999, and was granted a mortgage lender and mortgage broker license by the Division in 2002. The mortgage broker license was surrendered in 2008. The Lender is licensed or authorized to conduct mortgage lending business in 27 states and the District of Columbia. The Lender is a wholly-owned subsidiary of Guidance Financial Group, LLC.

The Lender provides Sharia-compliant home financing to primarily Muslim customers. Islamic law prohibits the paying or receiving of interest on loans, therefore the Lender's offers the 'Declining Balance Co-Ownership Program' as a home financing model compliant with both U.S. and Islamic legal systems.

All underwriting and major functions in the loan process are conducted at the Lender's main office. Approved loans are funded through established warehouse lines of credit and sold with servicing rights released as well as retained.

The Lender's business development relies primarily on internet, social media, direct mail marketing, and referrals. Originated loans are closed in Lender's name and sold immediately to secondary market investors. Servicing is retained on certain loans sold directly to an agency, remaining loans are sold with servicing rights released.

### **Demographic Information**

The 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	10.8	20.0	40.7	27.1	1.4
Population by Geography	6,547,629	8.9	18.9	42.8	29.2	0.2
Owner-Occupied Housing by Geography	1,608,474	2.9	13.7	48.9	34.5	0.0
Family Distribution by Income Level	1,600,588	19.2	17.8	24.4	38.6	0.0
Distribution of Low and Moderate Income Families Throughout AA Geographies	592,420	7.7	18.4	43.6	30.3	0.0
Median Family Income	\$86,272		Median Housing Value		373,206	
Households Below Poverty Level	11.1%		Unemployment Rate		3.5*	
2016 HUD Adjusted Median Family Income	\$86,904		2017 HUD Adjusted Median Family Income		\$91,119	

Source: 2010 US Census  
\*as of 12/31/2017

Based on the 2010 Census, the Commonwealth’s population stood at 6.55 million people with a total of 2.79 million housing units. Of the total housing units, 1.61 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 2.51 million households in the Commonwealth with a median household income of \$69,101. Nearly 40 percent of the households are 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 1.60 million. Of all family households, 19.2 percent were low-income, 17.8 percent were moderate-income, 24.4 percent were middle-income, and 38.6 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 is \$91,119 in 2017. 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, 160 or 10.8 percent are low-income; 295 or 20.0 percent are moderate-income; 600 or 40.7 percent are middle-income; 399 or 27.1 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 stood at 3.5 percent as of December 2017, which was a decrease from October 2017 when the unemployment rate was at 3.7 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

The lending test evaluates a mortgage lender’s record of helping to meet the mortgage credit needs of the Commonwealth through its lending activities. The Lender’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 the Lender.

The Lender’s Lending Test performance was determined to be “Satisfactory”.

#### *I. Geographic Distribution*

The geographic distribution of loans was reviewed to assess how well the Lender is addressing the credit needs throughout the Commonwealth of Massachusetts’ low, moderate, middle, and upper-income census tracts.

The following table presents, by number, the Lender’s 2016 and 2017 HMDA reportable loans in low, moderate, middle, and upper-income geographies, in comparison to the percentage of owner-occupied housing units in each of the census tract income categories, and the 2016 aggregate lending data (inclusive of the Lender).

<b>Distribution of HMDA Loans by Income Level Category of the Census Tract</b>						
<b>Census Tract Income Level</b>	<b>Total Owner- Occupied Housing Units</b>	<b>2016 Guidance</b>		<b>2016 Aggregate Lending Data</b>	<b>2017 Guidance</b>	
		<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>
	<b>%</b>	<b>#</b>	<b>%</b>	<b>% of #</b>	<b>#</b>	<b>%</b>
<b>Low</b>	3.1	3	3.0	3.5	6	6.5
<b>Moderate</b>	13.0	20	20.0	12.9	11	11.8
<b>Middle</b>	48.3	40	40.0	47.0	44	47.3
<b>Upper</b>	35.6	37	37.0	36.6	32	34.4
<b>Total</b>	<b>100.0</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>93</b>	<b>100.0</b>

*Source: 2016 & 2017 HMDA LAR Data and 2010 U.S. Census Data.*

As reflected in the above table, of the total loans originated in 2016 and 2017, 23.0 and 18.3 percent respectively, were in the low- and moderate-income census tracts. Lending in low-income geographies increased from 2016 to 2017, while lending in moderate-income geographies decreased during the same time. The Lender’s distribution of loans were comparable to the percentage of the area’s owner occupied housing units in low- and moderate-income census tracts and the aggregate performance.

Overall, the geographic distribution of residential mortgage loans reflects an adequate dispersion throughout low- and moderate-income geographies within the Commonwealth.

## II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the Lender is addressing the credit needs of the Commonwealth’s residents.

The following table shows the Lender’s 2016 and 2017 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 2016 aggregate lending data (inclusive of the Lender).

Distribution of HMDA Loans by Borrower Income Level						
Median Family Income Level	% of Families	2016 Guidance		2016 Aggregate Lending Data	2017 Guidance	
		#	%	% of #	#	%
<b>Low</b>	22.2	7	7.0	4.2	8	8.6
<b>Moderate</b>	16.5	25	25.0	14.9	26	28.0
<b>Middle</b>	20.6	31	31.0	22.5	33	35.4
<b>Upper</b>	40.7	37	37.0	44.4	26	28.0
<b>N/A</b>	0.0	0	0.0	14.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>93</b>	<b>100.0</b>

Source: 2016 & 2017 HMDA LAR Data and 2010 U.S. Census Data.

As shown in the above table, lending to low- and moderate-income borrowers in 2016 and 2017 was above the aggregate performance and in-line with the demographics data. The Lender’s overall performance of lending to low and moderate-income borrowers is reasonable.

## III. Innovative or Flexible Lending Practices

The Lender offers Sharia-compliant home financing as it’s only lending product. Islamic law prohibits the paying or receiving of interest on loans. The “Declining Balance Co-Ownership Program” works in a way that avoids such payments. These loans are provided in a safe and sound manner and lending distribution includes low- and moderate-income individuals and geographies.

The Lender is an approved seller/servicer for the Housing and Urban Development, however, at present does not engage in origination of other loan products.

## 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.



For the review period, lending practices and products do not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable. The Lender uses a third party to sub-service its retained servicing portfolio. The review of sub-servicer and investor score cards has revealed reasonable overall delinquency rates.

## **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, review of written policies and procedures, interviews with the Lender's personnel, and individual file review. No evidence of disparate treatment was identified.

The Lender has established an adequate record relative to fair lending policies and practices.

Fair lending is incorporated in the Lender's company-wide policies and procedures that apply to all employees. Training courses are primarily designed and delivered by outside vendors, and distributed to all personnel on periodic basis. In addition, employees are instructed not to engage in any inappropriate conduct, take any action based upon prohibited basis, or steer consumers to loan products unsuitable for their needs.

Senior management is responsible for ensuring that the Lender is in compliance with current laws and regulations, and for making necessary changes and updates to policies and procedures. The Lender utilizes its internal review team, as well as external vendors, to conduct targeted periodic reviews and annual audits for compliance with regulatory and credit risk standards.

### **Minority Application Flow**

The Division 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 2016 and 2017, the Lender had received 269 HMDA-reportable mortgage loan applications from within the Commonwealth of Massachusetts. The racial and ethnic identity was not specified in less than one percent of cases. Of the remaining applications, 134 or 49.8 percent were received from racial minority applicants, and 100 or 74.6 percent resulted in originations. For the period, the Lender received three or 1.1 percent of HMDA reportable applications from ethnic groups of Hispanic or Latino origin, and all three loan were originated. This compares to 71.7 percent overall ratio of mortgage loans originated by the Lender in Massachusetts, and the 70.8 percent approval ratio for the aggregate group.

Demographic information for Massachusetts reveals the total ethnic and racial minority population stood at 23.9 percent of the total population as of the 2010 Census. This segment of the population is comprised of 9.6 percent Hispanic or Latino ethnicities. At 14.3 percent, 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 self-identified as Other Race.

Refer to the following table for information on the mortgage lenders' minority loan application flow as well as a comparison to aggregate lending data 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>2016 Guidance</b>		<b>2016 Aggregate Data</b>	<b>2017 Guidance</b>	
	<b>#</b>	<b>%</b>	<b>% of #</b>	<b>#</b>	<b>%</b>
American Indian/ Alaska Native	0	0.0	0.2	0	0.0
Asian	54	38.9	5.4	58	44.6
Black/ African American	11	7.9	3.6	9	6.9
Hawaiian/Pacific Islander	0	0.0	0.2	0	0.0
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	1	0.7	1.3	1	0.8
<b>Total Minority</b>	<b>66</b>	<b>47.5</b>	<b>10.8</b>	<b>68</b>	<b>52.3</b>
White	73	52.5	68.9	61	46.9
Race Not Available	0	0.0	20.3	1	0.8
<b>Total</b>	<b>139</b>	<b>100.0</b>	<b>100.0</b>	<b>130</b>	<b>100.0</b>
<b>ETHNICITY</b>					
Hispanic or Latino	2	1.4	4.5	0	0.0
Joint (Hisp-Lat /Not Hisp-Lat)	1	0.7	1.1	0	0.0
<b>Total Hispanic or Latino</b>	<b>3</b>	<b>2.1</b>	<b>5.6</b>	<b>0</b>	<b>0.0</b>
Not Hispanic or Latino	136	97.9	74.5	129	99.2
Ethnicity Not Available	0	0.0	19.9	1	0.8
<b>Total</b>	<b>139</b>	<b>100.0</b>	<b>100.0</b>	<b>130</b>	<b>100.0</b>

Source: PCI Corporation CRA Wiz, Data Source: 2000 U.S. Census Data, 2016 & 2017 HMDA Data

In 2016 and 2017, the Lender's overall racial minority application flow was above the census data and the aggregate data, with concentration of Asian applicants. The ethnic minority flow was under the aggregate performance.

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

This review concentrated on the suitability and sustainability of mortgage loans originated by the Lender by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Pertinent information provided by the Lender was reviewed, as were statistics available on delinquency and default rates for mortgage loans.

An extensive review of information and documentation, from both internal and external sources as 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, at approximately two percent, overall delinquency rates do not pose regulatory concern.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the CRA regulation, requires 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.