

**PUBLIC DISCLOSURE**

**MAY 22, 2018**

**CRA FOR MORTGAGE LENDERS  
PERFORMANCE EVALUATION**

**STEARNS LENDING, LLC  
MC1854**

**4 HUTTON CENTRE DRIVE, 10TH FLOOR  
SANTA ANA CA. 92707**

**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 **Stearns Lending, LLC (the Lender or Stearns)** 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 **May 22, 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 Stearns':

- (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 Stearns' community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Stearns' lending and community development activities for the period of January 2016 through December 2017. 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 six criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible 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.

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:**

**This mortgage lender is rated “Satisfactory”**

### **Lending Test: “Satisfactory”**

- The geographic distribution of the Lender’s loans reflects adequate dispersion in low- and moderate-income level census tracts.
- Given the demographics of Massachusetts, the loan distribution to borrowers reflects reasonable record of serving the credit needs among individuals of different income levels.
- Stearns offers flexible lending products, which are provided in a safe and sound manner to address the credit needs of low- and moderate-income level individuals.
- Lending practices and products do 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.

### **Service Test: “Needs to Improve”**

- The Lender provides no community development services and qualified investments.
- Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the Commonwealth.

## **PERFORMANCE CONTEXT**

### **Description of Mortgage Lender**

Stearns was established in California in 1989, and was first granted a mortgage lender license by the Division in 2009. The Lender is a wholly-owned subsidiary of Stearns Ventures. Stearns is a retail/wholesale lender engaging in the origination and sale of residential first mortgage loans. As of the date of the examination, Stearns was licensed or authorized to conduct business throughout the United States. Currently, no branch offices are located within the Commonwealth of Massachusetts.

The Lender offers a variety of mortgage loan products to meet the needs of the Commonwealth's borrowers. Stearns is an approved lender for the Federal Housing Administration (FHA), Veteran Administration (VA), and US Department of Agriculture (USDA).

All underwriting and major functions in the loan process are conducted at Stearns' main office, as well as selected branch office locations. Approved loans are funded through established warehouse lines of credit.

Stearns' business development relies primarily on e-Marketing campaigns, social media strategies, and developed professional relationships. Originated loans are closed in Lender's name and sold to secondary market investors, 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.

<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				3.5*
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 was above 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 of household income of \$69,101. Over 39 percent of households are now classified as low- and moderate-income. Over 11 percent of the total number households are living below the poverty level. Individuals in these categories may find it difficult to qualify for traditional mortgage loan products.

Households classified as "families" totaled slightly over 1.6 million. Of all family households, 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 reported by the 2010 Census was \$86,272. The Housing and Urban Development (HUD) adjusted median family income was \$86,904 in 2016 and increased to \$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, 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 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, 2017, stood at 3.5 percent, which was an increase from December 31, 2016, at which time it stood at 3.1 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. Stearns' 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 Stearns.

Stearns' Lending Test performance was rated as "**Satisfactory**".

#### *I. Geographic Distribution*

The geographic distribution of loans was reviewed to assess how well Stearns is addressing the credit needs throughout the Commonwealth of Massachusetts' low, moderate, middle, and upper-income census tracts. The following table presents, by number, Stearns' 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 Stearns).

Distribution of HMDA Loans by Income Level Category of the Census Tract						
Census Tract Income Level	% Total Owner- Occupied Housing Units	2016 Stearns		2016 Aggregate Lending Data (% of #)	2017 Stearns	
		#	%		#	%
<b>Low</b>	3.1	55	3.2	3.5	51	5.2
<b>Moderate</b>	13.0	212	12.3	12.9	162	16.4
<b>Middle</b>	48.3	944	54.7	47.0	522	52.9
<b>Upper</b>	35.6	513	29.7	36.6	252	25.5
<b>N/A</b>		1	0.1	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>1,725</b>	<b>100.0</b>	<b>100.0</b>	<b>987</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, 15.5 percent were in the low- and moderate-income census tracts. The percentages were comparable to the percentage of the area's owner occupied housing units in low- and moderate-income census tracts, as well as the aggregate percentages. The Lender had a significant decrease in the number of originations from 2016 to 2017 caused primarily by a reduction in purchased loans. Despite the decrease in overall lending volume, the percentage of loans in both low- and moderate-income geographies increased.

Overall, the geographic distribution of residential mortgage loans reflects 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 Stearns' 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 Stearns).

Distribution of HMDA Loans by Borrower Income Level						
Median Family Income Level	% of Families	2016 Stearns		2016 Aggregate Lending Data (% of #)	2017 Stearns	
		#	%		#	%
<b>Low</b>	22.2	51	3.0	4.2	34	3.4
<b>Moderate</b>	16.5	230	13.3	14.9	257	26.1
<b>Middle</b>	20.6	273	15.8	22.5	311	31.5
<b>Upper</b>	40.7	358	20.8	44.4	310	31.4
<b>N/A</b>	0.0	813	47.1	14.0	75	7.6
<b>Total</b>	<b>100.0</b>	<b>1,725</b>	<b>100.0</b>	<b>100.0</b>	<b>987</b>	<b>100.0</b>

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

As shown in this table, Stearns' lending to low-income borrowers in 2016 and 2017 was consistent and generally in-line with the aggregate. Lending to moderate-income borrowers increased in 2017 and was also above the demographics. The overall lending performance of lending to low- and moderate-income borrowers is adequate.

## III. Innovative or Flexible Lending Practices

Stearns offers a variety of flexible lending products, which are provided in a safe and sound manner to address the credit needs of low and moderate-income individuals or geographies.

Stearns has been an approved Housing and Urban Development direct endorsement mortgage lender of the FHA insured mortgage since 1993. FHA mortgage loan products provide competitive interest rates, smaller down payments for low and moderate income first time homebuyers and existing homeowners. During the review period, Stearns originated 753 HMDA reportable FHA loans totaling \$221 million. Of these, 238 loans benefited low- to moderate-income borrowers, while 202 loans were originated in low- or moderate-income level geographies.

The Lender has been a VA Automatic Approval Agent since 1994. The VA Home Loan Guarantee Program is designed specifically for the unique challenges facing service members, veterans, and their families. The VA program offers low closing costs, no down payment, and no private mortgage insurance requirement. During the review period, Stearns originated 172 HMDA reportable VA loans totaling \$63 million. Of these, 20 loans benefited low- to moderate-income borrowers, while 21 loans were originated in low- or moderate-income level geographies.

Stearns offers loan products guaranteed by the USDA Rural Housing program. These innovative loan program provides 100 percent financing for eligible homebuyers in rural- designated areas. This program is for home purchase transactions which offers fixed rates, and does not require a down payment and includes low- and moderate-income requirements. During the review period, Stearns originated 28 loans totaling over \$6 million. Of these, 14 loans benefited moderate-income borrowers, while 3 loans were originated in moderate-income level geographies.

Stearns offers a variety of additional loan programs, including FNMA ‘HomeReady’ and FHLMC ‘Home Possible’. These programs are designed to provide consumers with flexible credit options to help them meet their home buying, refinance or renovation needs, and help the mortgage lenders to confidently serve a market of creditworthy low to moderate-income borrowers. During the review period, the Lender originated 70 loans with a total of approximately \$17 million dollar volume, under these flexible lending 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 or such modifications, and the extent to which such modifications are effective in preventing subsequent defaults or foreclosures

Prior to 2018, Stearns used a third party to sub-service its retained servicing portfolio. During 2017, Stearns made a decision to cease holding the servicing rights on funded loans, and in April 2018 completed the sale of its legacy mortgage servicing rights portfolio. The review of investor score cards revealed overall default rates to be consistent with industry averages.

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.

#### ***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 Stearns’ personnel, and individual file review. No evidence of disparate treatment was identified.

Stearns has established an adequate record relative to Fair Lending policies and practices.

Fair Lending is incorporated in Stearns’ company-wide policies and procedures that apply to all employees. The Lender provides a training which include HMDA, ECOA and Fair Lending topics. Mortgage Loan Officers are required to pass the National SAFE Exam, and then to complete the continuing education program, in line with the NMLS requirements, as well as any other courses required by Stearns’ senior management.

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. Stearns relies primarily on an internal compliance audit team to conduct targeted periodic reviews and audits for compliance with all regulatory standards, including CRA and Fair Lending.

### **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 2016 and 2017 Stearns received 3,144 HMDA-reportable mortgage loan applications from within the Commonwealth of Massachusetts. The racial and ethnic identity was not specified in approximately 25 percent of cases. Of the remaining applications, 224 or 7.1 percent were received from racial minority applicants, and 171 or 76.3 percent resulted in originations. For the period, Stearns received 233 or 7.4 percent of HMDA reportable applications from ethnic groups of Hispanic or Latino origin, and 187 or 80.2 percent were originated. This compares to 86.3 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.

MINORITY APPLICATION FLOW					
RACE	2016 Stearns		2016 Aggregate Data	2017 Stearns	
	#	%	% of #	#	%
American Indian/ Alaska Native	0	0.0	0.2	2	0.2
Asian	60	3.0	5.4	27	2.3
Black/ African American	51	2.6	3.6	47	4.0
Hawaiian/Pacific Islander	4	0.2	0.2	5	0.4
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	13	0.7	1.3	15	1.3
<b>Total Minority</b>	<b>128</b>	<b>6.5</b>	<b>10.8</b>	<b>96</b>	<b>8.2</b>
White	1,045	52.8	68.9	951	81.5
Race Not Available	804	40.7	20.3	120	10.3
<b>Total</b>	<b>1,977</b>	<b>100.0</b>	<b>100.0</b>	<b>1,167</b>	<b>100.0</b>
<b>ETHNICITY</b>					
Hispanic or Latino	64	3.2	4.5	150	12.8
Joint (Hisp-Lat /Not Hisp-Lat)	6	0.3	1.1	13	1.1
<b>Total Hispanic or Latino</b>	<b>70</b>	<b>3.5</b>	<b>5.6</b>	<b>163</b>	<b>13.9</b>
Not Hispanic or Latino	1,113	56.3	74.5	892	76.5
Ethnicity Not Available	794	40.2	19.9	112	9.6
<b>Total</b>	<b>1,977</b>	<b>100.0</b>	<b>100.0</b>	<b>1,167</b>	<b>100.0</b>

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

In 2016, Stearns' overall racial and ethnic minority application flow was below the census data and the aggregate data. The Lender's application flow in 2017 shows an increase in the percentage of applications received from racial minorities and applications from ethnic minorities exceeding census and aggregate data. In conclusion, Stearns' lending to racial and ethnic minorities is considered reasonable.

## VI. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by Stearns by taking into account delinquency and default rates of the mortgage 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.

An extensive review of information and documentation 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, overall 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.

Stearns' Service Test performance was determined to be "Needs to Improve" at this time.

### **Community Development Services & Qualified Investments**

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.

The Lender did not engage in any qualified community development services or investments during the review period.

Management is encouraged to apply a stronger focus and a pro-active commitment in community development activities or investments that meet the definition of community development under the CRA regulation throughout the Commonwealth. Other activities may include, but are not necessarily limited to: financial literacy education initiatives targeted to low and moderate-income individuals; and foreclosure prevention counseling and/or providing technical assistance to community organizations in a leadership capacity.

### **Mortgage Lending Services**

The Commissioner evaluates the availability and effectiveness of a mortgage lender's systems for delivering mortgage lending services to low and moderate-income geographies and individuals.

Stearns provides reasonable delivery of mortgage loans that are accessible to geographies and individuals of different income levels in the Commonwealth. Business development relies primarily on e-Marketing campaigns, social media strategies, and developed professional relationships.

## **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.