

**PUBLIC DISCLOSURE**

**JANUARY 17, 2014**

**CRA FOR MORTGAGE LENDERS  
PERFORMANCE EVALUATION**

**AMERICAN EQUITY MORTGAGE INC.**

**ML1899**

**11933 WESTLINE INDUSTRIAL DRIVE  
ST. LOUIS MO. 63146**

**DIVISION OF BANKS**

**1000 WASHINGTON STREET**

**BOSTON MA. 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>
--

## GENERAL INFORMATION

Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' (Division) regulation 209 CMR 54.00, 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 for Mortgage Lenders performance of **American Equity Mortgage Inc. (American Equity)** prepared by the Division, the mortgage lender's supervisory agency, as of **January 17, 2014**.

## 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 for Mortgage Lenders examination included a comprehensive review and analysis, as applicable, of American Equity'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 for Mortgage Lenders examination procedures were used to evaluate American Equity's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered American Equity's lending and community development activities for the period of January 1, 2012 through December 31, 2013. 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 2012 and 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 2012 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 lenders which originated loans in the Commonwealth of Massachusetts. Lending data for 2013 showed fewer than 50 originations; therefore, CRA would not be applicable so analysis is not provided.

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 FOR MORTGAGE LENDERS RATING:**

**This mortgage lender is rated "Satisfactory."**

- The geographic distribution of the 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.
- The distribution of borrower reflects, given the demographics of Massachusetts, an adequate record of serving the credit need among individuals of different income levels, including low- and moderate-income.
- American Equity offers a limited 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 reasonable.
- The Lender had no Community Development Services in the Commonwealth.

## PERFORMANCE CONTEXT

### Description of Mortgage Lender

American Equity was established in Missouri on March 13, 1992, and was granted a license by the Division in September 2009. American Equity's main office is located at 11933 Westline Industrial Drive in St. Louis, Missouri and no longer has branch offices located within Massachusetts. The company is authorized to do business throughout the United States.

American Equity offers a variety of mortgage loan products to meet the needs of the Commonwealth's borrowers, including FHA and VA loans.

Underwriting and major functions in the loan process are done at American Equity's main office. Approved loans are funded through established warehouse lines of credit. American Equity's business development relies primarily on referrals and repeat customers. Originated loans are closed in lender's name and sold immediately to secondary market investors, with servicing rights released.

### Demographic Information

The CRA for Mortgage Lenders 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	19.3	17.7	24.4	38.6	0.0
Distribution of Low and Moderate Income Families	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	11.14%	Unemployment Rate				7.0%*
2012 HUD Adjusted Median Family Income	\$87,891	2013 HUD Adjusted Median Family Income				\$84,208

Source: 2010 US Census

\*as of 12/31/2013

Based on the 2010 Census, the Commonwealth's population stood at 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. Over 39 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, 19.3 percent were low-income, 17.7 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 \$87,891 in 2012 and \$84,208 in 2013. 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 as of December 31, 2013, stood at 7.0 percent which was an increase from December 31, 2012 at 6.7 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**

American Equity's lending efforts are rated under five performance criteria: Geographic Distribution, Borrower Characteristics, 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 American Equity.

American Equity's Lending Test performance was determined to be "Satisfactory."

#### ***I. Geographic Distribution***

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

The following table presents American Equity's 2012 HMDA-reportable loans as well as the 2012 aggregate lending data (exclusive of American Equity). In addition, the table also reflects the percentage of owner-occupied housing units in each of the Census tract income categories.

<b>Distribution of HMDA Loans by Income Category of the Census Tract</b>				
<b>Census Tract Income Level</b>	<b>Total Owner-Occupied Housing Units</b>	<b>Aggregate Lending Data 2012</b>	<b>American Equity 2012</b>	
			<b>#</b>	<b>%</b>
	<b>%</b>	<b>%</b>		
<b>Low</b>	2.9	2.2	4	2.6
<b>Moderate</b>	13.7	10.2	20	12.7
<b>Middle</b>	48.9	45.1	77	49.0
<b>Upper</b>	34.5	42.5	56	35.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>157</b>	<b>100.0</b>

*Source: 2012 HMDA LAR Data and 2010 U.S. Census Data.*

As reflected in the above table, of the total loans originated in 2012, 15.3 percent were in the low and moderate-income geographies. The percentages in each category were comparable to the percentages of the area's owner occupied housing units in low and moderate-income level geographies, and exceeded the aggregate lending data percentage during that year.

The highest concentration of residential loans was originated in the middle and upper-income census tracts. Given that 83.4 percent of the area's owner-occupied housing units are in middle and upper-income level census tracts, it is reasonable to find the majority of loans originated within these designated census tracts.

In 2013, the Lender's Massachusetts loan application volume significantly decreased due in part to the closing of the local branch office. For 2013, originations totaled 15, not reaching the level for which CRA evaluation is applicable.

Overall, the geographic distribution of residential mortgage loans reflects an adequate dispersion throughout low and moderate-income level census tracts 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.

American Equity 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.

The following table shows American Equity's 2012 HMDA-reportable loans to low, moderate, middle, and upper-income borrowers in comparison to the 2012 aggregate data (exclusive of American Equity) and the percentage of total families within the Commonwealth in each respective income group.

<b>Distribution of HMDA Loans by Borrower Income</b>				
<b>Borrower Income Level</b>	<b>Total Families</b>	<b>Aggregate Lending Data 2012</b>	<b>American Equity 2012</b>	
	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	19.3	<b>5.2</b>	7	4.5
<b>Moderate</b>	17.7	<b>15.7</b>	48	30.6
<b>Middle</b>	24.4	<b>23.2</b>	49	31.2
<b>Upper</b>	38.6	<b>42.7</b>	53	33.7
<b>N/A</b>	0.0	<b>13.2</b>	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>157</b>	<b>100.0</b>

Source: 2012 HMDA LAR Data and 2010 U.S. Census Data.

American Equity's lending to low-income borrowers during 2012 was in line with the aggregate lending data. Lending to moderate-income borrowers during the same time period was significantly above the percentage of moderate-income families and the performance of the aggregate data.

Considering the high housing costs throughout Massachusetts, opportunities to lend to low and moderate-income borrowers are limited. However, the Lender's performance was considered reasonable.

## III. Innovative or Flexible Lending Practices

American Equity 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 or geographies.

American Equity became a HUD approved Non-Supervised Loan Correspondent at the beginning of 2006 for FHA loans. FHA products provide competitive interest rates, smaller down payments for low and moderate income first time homebuyers and existing homeowners. During 2012 and 2013, American Equity originated 62 loans totaling \$15.9 million. Of these, 14 loans benefited the low and moderate-income census tracts, while 25 loans were originated for low and moderate-income level consumers.



American Equity became a Veteran Administration agent in mid-2006 and gained automatic underwriting authority in 2011. The VA Home Loan Guarantee Program 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. American Equity did not originate any loans under this program during 2012 and 2013.

USDA Rural Housing Program is an innovative loan program for eligible homebuyers in rural-designated areas. For home purchase transactions, the program offers fixed interest rates, and 100 percent financing with no down payment requirement. Income requirements do apply and borrowers can earn no more than 115 percent of the HUD median income for their area, adjusted by family size. The property must be located in a rural development designated area. In 2012, American Equity originated two USDA loans totaling \$452,000.

#### ***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. No evidence of disparate treatment was identified.

American Equity has established an adequate record relative to fair lending policies and practices.

Fair lending is incorporated in American Equity's company-wide policy and procedures. Employees are instructed to not discriminate against loan applicants on the basis of race or color, national origin, religion or creed, sex, marital status, familial status, sexual orientation, handicap or disability, or age, or the fact that all or part of the applicant's income is derived from a public assistance program, or has in good faith exercised any right under the Consumer Credit Protection Act.

American Equity's lending policies and procedures apply to all employees and are monitored for updates in regard to regulatory changes.

American Equity conducts periodic staff meetings at all branch offices which includes a review of the existing HMDA and Fair Lending guidelines and address any changes.

#### **MINORITY APPLICATION FLOW**

During the period encompassing 2012 and 2013, American Equity received 341 HMDA-reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 32 or 10.7 percent were received from racial minority applicants, of which ten or 31.2 percent resulted in originations. American Equity received 16 or 4.7 percent of HMDA reportable applications from ethnic groups of Hispanic origin within its assessment area, of which nine or 56.3 percent were originated. This compares to a 50.3 percent overall ratio of mortgage loans originated by the lender in Massachusetts, and the 76.3 percent for the ratio of the 2012 aggregate. On the whole, Massachusetts originations represent only a fraction of American Equity's business volume.

Demographic information for Massachusetts reveals 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 9.59 percent Hispanic or Latino. Racial minorities consisted of 5.98 percent Black; 5.33 percent Asian/Pacific Islander; 0.16 percent American Indian/Alaskan Native; and 2.81 percent identified as Other Race.

Refer to the following table for information on the mortgage lender's 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>2012 American Equity</b>		<b>2012 Aggregate Data</b>
	<b>#</b>	<b>%</b>	<b>% of #</b>
American Indian/ Alaska Native	0	0.0	0.1
Asian	10	3.3	4.8
Black/ African American	9	3.0	1.7
Hawaiian/Pacific Islander	0	0.0	0.1
2 or more Minority	0	0.0	0.1
Joint Race (White/Minority)	4	1.3	1.2
<b>Total Minority</b>	<b>23</b>	<b>7.6</b>	<b>8.0</b>
White	278	92.4	69.6
Race Not Available	0	0.0	22.4
<b>Total</b>	<b>301</b>	<b>100.0</b>	<b>100.0</b>
<b>ETHNICITY</b>			
Hispanic or Latino	15	5.0	2.1
Not Hispanic or Latino	285	94.7	74.7
Joint (Hisp-Lat /Not Hisp-Lat)	1	0.3	0.8
Ethnicity Not Available	0	0.0	22.4
<b>Total</b>	<b>301</b>	<b>100.0</b>	<b>100.0</b>

Source: 2000 U.S. Census Data, 2012 HMDA Data

For 2013, American Equity received 40 applications, a significant decline from the prior year. Nine of these applications or 22.5 percent were received from minority applicants. There were no applications received from applicant's identifying as Hispanic.

American Equity's 2012 lending performance is generally comparable to the aggregate data for racial and ethnic minority applicants, and is considered adequate.

## **V. Loss of Affordable Housing**

This review concentrated on the suitability and sustainability of mortgage loans originated by American Equity 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. Additionally, individual mortgage loans could be tracked for their status through local Registries of Deeds and other available sources including public records of foreclosure filings.

An extensive 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, at overall 3.16 percent, delinquency rates were found to be slightly elevated but 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. American Equity's Service Test performance was determined to be "Needs to Improve."

### **Mortgage Lending Services**

American Equity provides an adequate level of mortgage lending services to low- and moderate-income geographies and borrowers through home purchase and refinance transactions in Massachusetts. The mortgage lender offers a variety of conventional and government insured mortgage products. Customers can apply to American Equity for a mortgage over the telephone and via the company's website. Applications are also accepted through third-party conduits such as internet based providers LendingTree or LowerMyBills.

Business development relies primarily on referrals, repeat customers and web based lead generators. American Equity does minimal advertising in Massachusetts.

As American Equity does not routinely service mortgage loans, it would not work directly with delinquent borrowers. Therefore, this review would not include an evaluation of loan mitigation and modification efforts as the mortgage lender would not be accountable for such action. However, 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.

American Equity is a member of the Mortgage Bankers Association, a national organization representing the entire real estate finance industry.

### **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..

American Equity is not engaged in any such activity.

### **Qualified Investments**

A Qualified Investment for the purposes of this CRA evaluation is a lawful investment, deposit, membership share, or grant that has as its primary purpose community development. The evaluation considers (1) the number of investments and grants, (2) the extent to which community development opportunities have been made available to the institution, and (3) the responsiveness of the institution's community development grants to the assessment area's needs.

American Equity does not currently engage in any qualified community development investments.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the CRA for Mortgage Lenders regulation, requires all mortgage lenders to take the following actions within 30 business days of receipt of the CRA for Mortgage Lenders evaluation of their mortgage lender:

- 1) Make its most current CRA for Mortgage Lenders 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 for Mortgage Lenders 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.