TESTIMONY OF A C WHARTON, JR.
MAYOR OF THE CITY OF MEMPHIS

BEFORE THE
SUBCOMMITTEE ON THE CONSTITUTION,
CIVIL RIGHTS, AND CIVIL LIBERTIES

COMMITTEE ON THE JUDICIARY

U.S. HOUSE OF REPRESENTATIVES

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PROTECTING THE AMERICAN DREAM PART II – COMBATING PREDATORY LENDING UNDER THE FAIR HOUSING ACT

I. Introduction

Chairman Nadler, Ranking Member Sensenbrenner and Members of the Subcommittee: My name is A C Wharton, and since 2009 I have had the privilege of serving the citizens of the City of Memphis, Tennessee as their Mayor. Before my election as Mayor of Memphis, I served as Mayor of Shelby County for almost eight years. I was elected to that position as Shelby County's first African American Mayor in 2002, and re-elected in 2006. My initial engagement with the issue that I will offer testimony on today started during my tenure as Mayor of Shelby County.

Leadership and public service have been the hallmark of my career. From my early life in Lebanon, Tennessee, in the foothills of the Cumberland Mountains, where it was assumed I was destined to be a farm laborer to my current status as Mayor of the largest municipality in the state of Tennessee, my life is an example of what anyone in our country can accomplish given the opportunity. With the help and encouragement of two student teachers and a scholarship, I was admitted to Tennessee State University, where I graduated with honors in 1962. Six years later I entered the University of Mississippi Law School, where I was one of the first African American students to serve on the Moot Court Board, and the first African American to serve on the Judicial Council. I graduated with honors in 1971, and then three years later became the University's first African American professor of law, a position I held for 25 years.

After law school I came to Washington, D.C. to work in the Office of General Counsel at the Equal Employment Opportunity Commission. Two years later I became head of the Public Employment Project at the Lawyers' Committee for Civil Rights under Law. In 1973 I moved to Memphis to serve as Executive Director of Memphis Area Legal Services, an organization facing

severe financial troubles. Under my leadership, Legal Services not only survived, but was recognized nationally for its innovative programs.

In 1980 I was appointed Chief Shelby County Public Defender. I am proud of my accomplishments in that position, which included creating a national model program for the mentally ill in the criminal justice system, and new ways to ease overcrowding in the jails without sacrificing public safety. In 1982 I wrote and passed one of the first state laws in the country to combat domestic violence, and at a national level worked for a special appropriation of one of the nation's first transitional living facilities for juveniles. At each post and position in my career I have sought to help those who need help, represent those who need representing and defend those who need defending. Therefore it should be no surprise that when I became aware of my citizens' treatment at the hands of predatory lenders, that I started the wheels into motion that resulted in the lawsuit filed this past December by the City of Memphis and Shelby County, Tennessee.

Following my election in 2002 as Mayor of one of the Southeast's largest county governments, I moved rapidly to turn around a county that was facing financial difficulty, which is all too common even today. I developed Shelby County's first long range financial plan, which has now decreased the County's debt payments; reduced the County payroll; kept critical hospital services open; expanded Head Start; developed the first smart growth and sustainability plan; initiated the first comprehensive crime-fighting plan in the County's history and limited our government to only one tax increase in seven years.

In October of 2009 I was elected Mayor of the City of Memphis, Tennessee. In the relatively short time that I have served as Mayor of Memphis, I have brought the same leadership and management skills to the challenges faced by our City. None of the challenges we face right

now, though, is greater than that posed by the current housing foreclosure crisis. As mentioned previously and discussed in detail below, I recognize that Memphis has been victimized by predatory lenders who have engaged in reverse redlining. These lenders targeted vulnerable minority home owners and minority neighborhoods to make a fast profit through abusive and discriminatory lending practices while the housing market was on the rise. My commitment to addressing this wrong has carried over into my new office and responsibilities. When the housing bubble broke, predatory lenders left Memphis and Shelby County with the ruins of their destructive practices – hundreds of vacant and foreclosed properties that now cost the City of Memphis, Shelby County and its residents dearly in terms of repairs, redressing code violations, and lost tax revenue.

Wells Fargo is one of the worst of these lenders. As discussed in detail below, Wells Fargo's foreclosure rate for loans in predominantly African American neighborhoods in Memphis and Shelby County is nearly seven times as high as its foreclosure rate for loans in predominantly white neighborhoods. We believe if Wells Fargo was properly and uniformly applying responsible underwriting practices in African American and white communities, it would have comparable foreclosure rates in both. Wells Fargo possesses sophisticated underwriting technology and data that allow it to predict with precision the likelihood of delinquency, default or foreclosure. The fact that Wells Fargo's foreclosure rate is so much higher in African American neighborhoods is not the product of chance events and is fully consistent with a practice of targeting African American neighborhoods and customers for discriminatory practices and predatory pricing and products. It is also consistent with a practice of failing to properly underwrite African American borrowers and of putting these borrowers into loans they cannot afford in order to maximize the company's profits.

Several former Wells Fargo employees who worked in the Memphis office and two who worked elsewhere but are knowledgeable about the Memphis market have given declarations setting out the practices they saw in the Wells Fargo offices. These former Wells Fargo employees have explained precisely how the company has used discretion in pricing and financial incentives to encourage its employees to target African-American customers and neighborhoods for deceptive, high priced loans that predictably result in unnecessary foreclosures. The former employees confirm that, among other things, Wells Fargo targeted African-Americans by developing lists of "leads" of people who made purchases at businesses in African-American neighborhoods; deceived African Americans by persuading them to consolidate non-housing debts into new subprime loans secured by their homes without telling them that their homes would be at risk; pushed high interest rate credit cards and other lines of credit that were secured by borrowers' homes; mailed live checks to the leads that became loans once cashed, and then tried to talk the new borrowers into refinancing such debt with subprime loans secured by their homes; made mortgage loans without regard for whether borrowers qualified for the loans or could repay them; failed to inform borrowers that their mortgages had adjustable interest rates and that their monthly payments could increase; charged borrowers for expensive add-on products and fees that did benefit them; gave loan officers broad discretion and large financial incentives to steer customers who qualified for prime and Federal Housing Administration ("FHA") mortgages into much more costly subprime products with increased interest rates, points, and fees that, in one declarant's words, put a "bounty" on African Americans targeted for subprime loans; deceived customers in order to give them subprime loans by, for example, telling them not to put any down payment on a property or not to submit full documentation for their loan, which would cause the loans to "flip" from prime to subprime;

deceived African Americans about the full range of more advantageous products that were available to them and that they qualified for; drafted subprime marketing materials on the basis of race by using software to "translate" the materials into what Wells Fargo literally defined as the "language" of "African American;" referred to subprime loans located in minority communities as "ghetto loans;" and generally fostered a discriminatory culture that was tolerated by management. These practices are described in greater detail below.

Wells Fargo's discriminatory practices have inflicted significant and substantial harm in the minority neighborhoods of Memphis and Shelby County. I describe these costs and harms in detail in the testimony below. Wells Fargo foreclosures cause homes to become vacant; and these vacancies result in very specific costs to our City and County, not just in property damage and repair, but in terms of lost tax revenue as well.

Faced with the overwhelming evidence of Wells Fargo's discriminatory conduct, both the City of Memphis and Shelby County decided to take legal action at the end of last year. We filed a lawsuit against Wells Fargo, alleging that its conduct violated the Fair Housing Act. The testimony that follows describes the facts underpinning our lawsuit, and what we hope to accomplish with this legal action. At a minimum, we want lenders like Wells Fargo to know that they cannot come into our community, exploit our citizens, City and County, cause enormous damage, and skate free with their ill-gotten profit. It is time for them to join with us in figuring out how to fix the damage that we face as caused in no small measure by their abusive practices. A just resolution of this lawsuit will require Wells Fargo's involvement in the creation of lending programs and victim funds designed to put our homeless residents back in homes, and keep those on the brink of foreclosure from losing their homes.

Other lenders who have engaged in similar practices in our City need to pay careful attention to this lawsuit. It is the first we have brought, but it is unlikely to be the last.

Time is of the essence. With each passing day, the crisis grows more acute and the damage done by Wells Fargo gets worse. All branches of government, whether it be the U.S. Department of Justice; State Attorneys General; municipalities like ours; or administrative agencies like HUD, need to come together to address these issues, ensure that violations of the law are fully redressed, and work together to make sure that lending institutions like Wells Fargo pay their fair share for the damage they have caused.

II. The Foreclosure Crisis Has Hit African-American Communities the Hardest In Cities around the Country

The impact of the foreclosure crisis is felt most acutely in minority communities. This is because of the prevalence of "reverse redlining." As used by Congress and the courts, the term "reverse redlining" refers to the practice of targeting residents in certain geographic areas for credit on unfair terms due to the racial or ethnic composition of the area. In contrast to "redlining," which is the practice of denying *prime* credit to specific geographic areas because of the racial or ethnic composition of the area, reverse redlining involves the targeting of an area for the marketing of deceptive, predatory or otherwise deleterious lending practices because of the race or ethnicity of the area's residents. This practice has repeatedly been held to violate the federal Fair Housing Act.[1]

A joint report on predatory subprime lending by the United States Department of Housing and Urban Development and the United States Department of the Treasury (the "HUD/Treasury Report") found that reverse redlining in subprime mortgage lending is a major problem: "Predatory lenders often engage in 'reverse redlining' – specifically targeting and aggressively soliciting homeowners in predominantly lower-income and minority communities

. . . ."[2] The report continues, "[t]estimony at the forums [held by the HUD/Treasury National Predatory Lending Task Force] strongly indicates that many predatory lenders may have engaged in reverse redlining, or targeting abusive practices to protected groups."[3]

There is a substantial body of empirical evidence that supports the HUD/Treasury finding and establishes that subprime mortgage lending and the predatory practices often associated with subprime lending are targeted at African Americans and African-American neighborhoods.

The Fannie Mae Foundation found that many borrowers who qualify for prime mortgage loans are instead given subprime loans, and that the problem is particularly acute for African-American borrowers.[4] Fannie Mae stated that "research by Freddie Mac reports that as much as 35 percent of borrowers in the subprime market could qualify for prime market loans" and that "Fannie Mae estimates that number closer to 50 percent."[5] Focusing on race, Fannie Mae concluded that "the level of subprime lending to black households and communities far exceeds the measured level of credit problems experienced by those households."[6]

A study by the National Community Reinvestment Coalition ("NCRC") reached the same conclusion.[7] The NCRC studied subprime mortgage loans in metropolitan areas across the country.[8] It combined data that lenders are required to release to the public under the federal Home Mortgage Disclosure Act ("HMDA") with credit scoring data on a census tract level that the authors obtained from one of the three major credit bureaus.[9] (Credit scores are not released under HMDA.) The NCRC controlled for differences in credit scores and found a statistically significant and positive correlation between the percentage of African Americans in a census tract and the percentage of subprime loans in the tract.[10]

HUD, though it did not have access to credit scores or other data about creditworthiness, studied 1998 HMDA data on almost 1 million mortgages and likewise concluded that the growth

of subprime lending was disproportionately concentrated in African-American neighborhoods. HUD also found that the disparity persisted across income lines and actually increased as neighborhood income increased and stated that the problem requires "closer scrutiny."[11] HUD observed with alarm that "only one in ten families in white neighborhoods [receive subprime loans and] pay higher fees and interest rates, but *five in ten families in African-American communities are saddled with higher rates and costs*."[12] Describing HUD's research in their subsequent joint report, HUD and Treasury stated that "the research consistently revealed that, controlling for income, predominantly non-white census tracts showed much higher subprime refinance penetration rates than predominantly white census tracts."[13]

A study of 2000 HMDA data covering every metropolitan statistical area in the country found a parallel racial disparity in the frequency of subprime loans.[14]

The studies discussed above show that African Americans and residents of African-American neighborhoods receive subprime loans at a much greater frequency than whites and residents of white neighborhoods, and that the disparity is much greater than legitimate underwriting factors can explain. The following studies provide empirical evidence that, after controlling for creditworthiness and other legitimate underwriting factors, there are likewise substantial disparities based on race in the terms and conditions of the subprime loans given to African Americans and residents of African-American neighborhoods.

A study by the Center for Responsible Lending ("CRL" or "the Center") found racial disparities in the pricing of loans. The study included loans made by Wells Fargo. The study found that African Americans receive higher-priced subprime mortgages than whites who are similarly situated with respect to credit and other underwriting criteria.[15] This study combined HMDA data with a proprietary database to determine whether race had a statistically significant

effect on the pricing of subprime loans in 2004.[16] The proprietary database covered 87% of the U.S. subprime market.[17] It included credit criteria such as the credit score and loan-to-value ratio for each loan; such data is not released under HMDA and is not publically available.[18] The CRL found that, after controlling for credit and other underwriting factors, the odds were 40% to 84% higher that an African-American borrower would receive a high-cost purchase loan than a similarly-situated white borrower.[19] The difference was statistically significant for most types of purchase loans.[20] Similarly, the study found that the odds were 4% to 62% higher that an African-American borrower would receive a high-cost refinance loan than a similarly-situated white borrower, also after controlling for credit and other underwriting factors.[21] The difference was statistically significant for refinance loans with prepayment penalties, which constituted nearly two-thirds of the refinance loans analyzed.[22]

Another study by the Center for Responsible Lending found that subprime borrowers in predominantly African-American and other minority neighborhoods are much more likely to be given loans with prepayment penalties than subprime borrowers in predominantly white neighborhoods who are similarly situated with respect to credit and other characteristics.[23] The Center analyzed proprietary data from The First American Corporation on 1.8 million subprime loans originated from 2000 to mid-2004. First American's proprietary database allowed the Center to control for a variety of underwriting factors, such as credit score, loan-to-value ratio, debt-to-income ratio, and more.[24] The study found that "[t]he odds of borrowers receiving prepayment penalties are consistently and positively associated with minority concentration, and the differences are statistically significant."[25] It concluded, "[i]n the simplest terms, the odds of avoiding a prepayment penalty on a subprime loan are significantly better for borrowers who live in predominantly white neighborhoods."[26]

Yet another study found racial disparities with respect to requiring borrowers to pay yield spread premiums.[27] The authors analyzed data on creditworthiness and other underwriting criteria, including credit scores and loan-to-value ratios, that was obtained in discovery in a mortgage lending lawsuit under the federal Real Estate Settlement Procedures Act, 12 U.S.C. § 2601, *et seq.*[28] They found that, after controlling for such criteria, African Americans (and Hispanics) paid substantially more in yield spread premiums than other borrowers, and that the disparity was statistically significant.[29] Moreover, they found that for every dollar paid by borrowers in yield spread premiums, the borrowers gained only 20 to 25 cents of value.[30]

III. Memphis Is No Exception to This National Pattern

Reverse redlining typically flourishes in cities where two conditions are met. First, the practice afflicts cities where minorities historically have been denied access to credit and other banking services. The legacy of historic discrimination, or redlining, often leaves the residents of minority communities without the means or resources required to identify loan products and lenders offering products with the most advantageous terms for which they might qualify. This makes them especially vulnerable to irresponsible subprime lenders who, instead of underwriting carefully to ensure that the loans they offer are appropriate for their customers, engage in an array of unscrupulous lending practices.

Second, reverse redlining arises in cities where there are racially segregated residential living patterns. This means that the people who are most vulnerable to abusive lending practices are geographically concentrated and therefore easily targeted by lenders.

Both of these conditions are present in Memphis and Shelby County. First, Memphis' and Shelby County's minority communities historically have been victimized by traditional redlining practices that persisted for decades.

Second, the City and County are highly segregated between African Americans and whites. As the map attached as Exhibit 1 shows, even though Memphis is 61% African-American and 34% white, and Shelby County is 52% African-American and 45% white, many neighborhoods have a much higher concentration of one racial group or the other.

IV. Wells Fargo Is a Big Part of the Problem in Memphis and Shelby County

Wells Fargo is one of the largest mortgage lenders in Memphis and Shelby County. It has made at least 1,000 mortgage loans in Shelby County in each of the last seven years for which data is available (2002-2008) with a collective value of more than $2 billion, and at least 400 mortgage loans a year with a collective value of more than $725 million in the City. Wells Fargo makes loans in both the white and African-American neighborhoods of Memphis and Shelby County.

Far from being a responsible provider of much-needed credit in minority communities, however, Wells Fargo is one of the leading causes of the disproportionately high rate of foreclosure in Memphis' and Shelby County's African-American neighborhoods. Its foreclosures since at least 2000 have been concentrated in South Memphis, Binghamton, Fox Meadows/Hickory Hill, Orange Mound, North Memphis, Whitehaven, and other neighborhoods with African-American populations exceeding 80%.

In the City, 54.2% of Wells Fargo's foreclosures from 2005 to 2009 were in census tracts that are predominantly African-American, but only 12.5% were in tracts that are predominantly white. In the County, 46.8% of Wells Fargo's foreclosures from 2005 to 2009 were in predominantly African-American census tracts but only 20.1% were in tracts that are predominantly white.

The figures are comparable for Wells Fargo's foreclosures in the City and County from 2000 to 2004. Half of the foreclosures in the City were in tracts that are predominantly African-American and only 7.1% were in tracts that are predominantly white. In the County 37.2% of the foreclosures were in tracts that are predominantly African-American and only 18.9% were in tracts that are predominantly white.

At the same time, Wells Fargo has the second largest number of foreclosures in Shelby County of any lender from 2000 to 2009. The map attached as Exhibit 2 represents the concentration of Wells Fargo's foreclosures in African-American neighborhoods.

The likelihood that a Wells Fargo loan from 2000 to 2008 in a predominantly African-American neighborhood will result in foreclosure is dramatically greater than the likelihood of foreclosure for a Wells Fargo loan in a predominantly white neighborhood. In the County, 17.7% of Wells Fargo's loans in predominantly African-American neighborhoods result in foreclosure, but the same is true for only 2.6% of its loans in neighborhoods that are predominantly white. In the City, 17.5% of Wells Fargo's loans in predominantly African-American neighborhoods result in foreclosure, but the same is true for only 3.3% of its loans in neighborhoods that are predominantly white. In other words, a Wells Fargo loan in a predominantly African-American neighborhood in Shelby County is almost seven times more likely to result in foreclosure as one in a predominantly white neighborhood. In Memphis, it is 5.3 times more likely to result in foreclosure.

Wells Fargo's failure to responsibly underwrite loans in minority and underserved communities has been the subject of public attention and concern for years. For example, its practices are the focus of a 2004 report from the Center for Responsible Lending. The report concluded that the company's customers "too often face the loss of their home or financial ruin

as a result" of its "predatory practices."[31] The predatory practices identified in the report include charging excessive fees; charging excessively high interest rates that are not justified by borrowers' creditworthiness; requiring large prepayment penalties while deliberately misleading borrowers about the penalties; using deceptive sales practices to wrap insurance products into mortgages; convincing borrowers to refinance mortgages into new loans that only benefit Wells Fargo; deceiving borrowers into believing that they are getting fixed rate loans when they are really getting adjustable rate loans, and more.

Wells Fargo's pattern or practice of failing to follow responsible underwriting practices in Memphis' and Shelby County's African-American neighborhoods is evident from the type of loans that result in foreclosure filings in those neighborhoods. Approximately 65% of Wells Fargo's County loans that result in foreclosure, and 67% of its City loans that result in foreclosure, are fixed rate loans. For both the City and County, this ratio is nearly the same in African-American and white neighborhoods. This establishes that there is no legitimate reason for the stark difference in Wells Fargo's foreclosure rates by race.

Unlike adjustable rate loans, where the price may fluctuate with changing market conditions, the performance of fixed rate loans is relatively easy to predict using automated underwriting models and loan performance data because monthly payments do not vary during the life of the loan. Using these sophisticated risk assessment tools, and relying on traditional underwriting criteria such as FICO scores, debt-to-income ratios, loan-to-value ratios, and cash reserves, any lender engaged in responsible underwriting practices designed to identify qualified borrowers can predict with statistical certainty the likelihood of default and/or delinquency. Lenders engaged in marketing fixed rate loans in a fair and responsible manner should have no

difficulty sifting out unqualified borrowers, or borrowers whose loans would likely result in delinquency, default or foreclosure.

Because the percentage of fixed rate loans is so high and the same in both African-American and white neighborhoods, Wells Fargo should, if it properly underwrites, have comparable foreclosure rates in both communities. The fact that Wells Fargo's underwriting decisions result in foreclosure six to eight times more often in African-American neighborhoods than in white neighborhoods means that it is not following fair or responsible underwriting practices with respect to African-American customers.

The disparate foreclosure rates are instead consistent with the type of unscrupulous subprime lending practices described above. Wells Fargo engages in these and similarly inappropriate practices when making loans to African Americans and in African-American neighborhoods. This pattern or practice of targeted activities fully explains the disparate rates of foreclosure. The disparities are not the result of or otherwise explained by legitimate non-racial underwriting criteria.

A closer look at Wells Fargo's lending practices and the characteristics of its loans in Memphis and Shelby County demonstrates that Wells Fargo is engaged in a pattern or practice of reverse redlining with respect to the City's African-American neighborhoods. As described below, information from former Wells Fargo employees and examination of Wells Fargo's loans indicate it is engaged in unfair, deceptive and discriminatory practices in Memphis' and Shelby County's African-American neighborhoods that have the effect and purpose of placing underserved borrowers in loans they cannot afford and that require higher monthly payments than loans for which they qualify. Wells Fargo's unfair, deceptive and discriminatory practices maximize short-term profit without regard to the borrower's best interest, the borrower's ability

to repay, or the financial health of underserved minority neighborhoods. This targeted pattern or practice has resulted in the disproportionately high rate of foreclosure found in Memphis' and Shelby County's African-American neighborhoods. These discriminatory and predatory practices cause foreclosures and vacancies because they make it more difficult for borrowers to stay current on their payments and remain in their homes.

A. Former Wells Fargo Employees Explain How the Company Targets African Americans in Memphis and Shelby County for Subprime Loans and Abusive Subprime Lending Practices

Four people who worked for Wells Fargo in Memphis between 2002 and 2008 – Doris Dancy, Michael Simpson, Mario Taylor, and Camille Thomas – confirm that Wells Fargo engaged in a myriad of deceptive, unfair, abusive, and predatory subprime lending practices in Memphis and Shelby County. Their testimony is corroborated by two other former Wells Fargo employees, Tony Paschal and Elizabeth Jacobson, who state that Wells Fargo engaged in these practices nationally. Declarations from all six former employees are attached to this statement as Exhibits 3-9. Ms. Dancy, Mr. Paschal, Mr. Taylor, and Ms. Thomas further confirm that Wells Fargo targeted its abusive subprime lending practices at residents of African-American neighborhoods in Memphis and Shelby County. This constitutes reverse redlining.

Simpson worked at the Wells Fargo Financial branch office on Park Avenue from November 2002 until January 2008. Simpson was a credit manager for approximately 1½ years and was then promoted to branch manager. As a credit manager, he was responsible for soliciting current Wells Fargo customers and others to apply for new subprime loans. As a branch manager, he supervised credit managers and loan processors.

Thomas worked as a loan processor at the Wells Fargo Financial branch offices in Bartlett, Cordova, Collierville, and on Winchester Street from January 2004 until January 2008.

These offices only handled subprime loans. Thomas was responsible for all of the paperwork for the loans in her office and submitted the files to Wells Fargo underwriters for approval and funding. Thomas was very familiar with Wells Fargo's practices and underwriting rules and guidelines because of her responsibilities as a loan processor.

Taylor worked at the Wells Fargo Financial branch offices in Cordova and Quince and on Park Avenue from June 2006 until February 2008. He was a credit manager and was responsible for soliciting people to apply for Wells Fargo loans.

Dancy was a credit manager at the Wells Fargo Financial branch office on Park Avenue from July 2007 until January 2008. She was responsible for soliciting people to apply for Wells Fargo loans.

Paschal was a Wells Fargo loan officer from September 1997 to September 2007 (with a hiatus of approximately 2½ years beginning in June 1999). Paschal worked in Virginia and Maryland but his job was to solicit Wells Fargo borrowers from throughout the country to refinance their home mortgage with a prime or Federal Housing Administration ("FHA") loan. FHA loans have interest rates that are closer to prime than subprime rates. Paschal worked with many applicants from Memphis and Shelby County. Paschal referred the borrowers who did not qualify for a prime or FHA loan to the Mortgage Resources division, known as "MORE." MORE originates subprime loans exclusively and does so across the country, including in Memphis and Shelby County. Paschal worked on the same floor of the same building as MORE employees and communicated with them daily.

Jacobson worked for Wells Fargo as a loan officer and then as a Sales Manager from August 1998 until December 2007. Jacobson made subprime loans exclusively and was one of Wells Fargo's top three subprime loan officers nationally year after year, and in some years was

the company's top subprime loan officer in the country. She was based in Maryland but is familiar with Wells Fargo's policies and practices nationally, including in Memphis and Shelby County.

1. Targeting African Americans for Subprime Mortgage Loans

Wells Fargo targeted African Americans in Memphis and Shelby County in different ways. The branch offices' primary goal was to solicit new subprime business, and the former Wells Fargo Memphis employees explain that they targeted their efforts at lists of "leads" who were predominantly and disproportionately African-American. Wells Fargo developed these lists by obtaining information about people who financed purchases like furniture and jewelry at businesses in African-American areas of Memphis and Shelby County and by identifying African Americans who previously had loans with Wells Fargo. Even at branch offices in neighborhoods with many white residents, the vast majority of the leads were African-American.

Credit managers in the branch offices were instructed to contact these predominantly African-American leads to persuade them to apply for new subprime loans with Wells Fargo. Credit managers "cold-called" the leads repeatedly and even showed up at their homes.

Wells Fargo's Memphis branches targeted African Americans for subprime loans because employees held negative views of African Americans. Taylor explains that "[t]he prevailing attitude was that African-American customers weren't savvy enough to know they were getting a bad loan, so we would have a better chance of convincing them to apply for a high-cost, subprime loan."

Likewise, Thomas explains that "[i]t was generally assumed that African-American customers were less sophisticated and intelligent and could be manipulated more easily into a subprime loan with expensive terms than white customers." She heard employees joke about

customers' race and say things like, "You know that guy isn't so smart – is it because he's black?" Elderly African Americans were thought to be particularly vulnerable and so were frequently targeted for subprime loans with high interest rates.

Paschal confirms based on his nationwide lending responsibilities that Wells Fargo targeted its subprime lending in Memphis and Shelby County at African Americans. Paschal explains that Wells Fargo targeted subprime marketing at predominantly African-American zip codes in the City and County, but did not target white zip codes. Paschal also heard employees in the MORE division, which makes subprime loans nationally, comment that white areas are not good for subprime loans.

Another way in which Wells Fargo targeted African Americans was by tailoring its subprime marketing materials on the basis of race. Wells Fargo devised software to print out subprime promotional materials in different languages, one of which it called "African American." A computer screen shot from 2006 showing this option is attached as Exhibit 10. These promotional materials were available to loan officers across the country, including in Memphis and Shelby County. Wells Fargo did not remove the African American "language" option until Tony Paschal complained.

Like the branch employees in Memphis, Wells Fargo's subprime loan officers in the MORE division held derogatory stereotypes of African Americans. This contributed to their targeting of African Americans in Memphis and Shelby County for subprime loans. Paschal heard subprime loan officers from MORE describe African-American and other minority customers as "mud people" and say that "those people have bad credit" and "those people don't pay their bills." They referred to loans in minority communities as "ghetto loans." Paschal's

manager, Dave Zoldak, was promoted even after Paschal complained to management about Zoldak's use of the slur "nigger."

2. Steering Customers into Subprime Loans They Cannot Afford

The former Wells Fargo Memphis employees state that Wells Fargo steered its customers into high-cost subprime loans they could not afford. These loans caused borrowers' financial conditions to deteriorate and needlessly increased the risk that borrowers would lose their homes. The branch offices in Memphis used a range of tactics to steer potential customers into bad subprime loans that the customers could not afford. Each of the former Memphis employees describes these practices as unethical. Employees were pressured to engage in these unethical and predatory practices by upper management even though it was apparent that the practices would cause people to lose their homes.

The leads were the starting point for many of Wells Fargo's predatory practices in Memphis. Credit managers were instructed to focus on leads for whom Wells Fargo had information regarding the value of their house and to get as many of the leads as possible to apply for loans. The managers worked to persuade these potential customers to consolidate different existing debts – such as credit cards, student loans, car loans, and loans for product purchases – into a new high-cost subprime loan secured by their house. Although the existing consumer debt did not place the customers' homes at risk, by consolidating debt in this manner and using the house as collateral, the borrowers now stood to lose their homes should they default on the loan. Employees would deceive customers about these loans by telling them that they were "getting rid of" the existing debts when they were really just refinancing and combining the debts into an expensive subprime loan, but now with the house at risk.

The managers likewise worked to persuade their potential customers to refinance any existing mortgage debt into the new high-cost subprime loan.

In addition to consolidating and refinancing existing debts in a subprime loan, the Memphis branches also jammed new high-cost debts onto their customers' homes. The Memphis employees confirm that Wells Fargo's goal was to get their customers to take on as many loans as possible. If employees convinced someone to consolidate their debts with a subprime home equity loan, for example, they would then try to persuade the borrower to take out an auto loan, too. Both the subprime home equity loan and the auto loan would be secured by the house.

Employees likewise pushed on borrowers new high interest rate credit cards that were secured by the borrower's house. They would bring all the credit card paperwork to the closing on another loan and say that the customer had "qualified" for a "preferred line of credit" as part of a "package deal."

Similarly, employees encouraged borrowers to take cash out of their homes. This would increase the size of their mortgages and make the mortgages more difficult to pay back.

Employees would also pressure borrowers to open a line of credit secured by their home. Some credit managers lied to customers about using the house as collateral, telling them that the line of credit was like an ordinary credit card and not telling them that it was actually a second mortgage secured by the customer's home.

Wells Fargo also solicited customers in the Memphis area by mailing live checks to leads. When deposited, the checks instantly became high interest loans, often with a rate of 20-29%. Wells Fargo would then pursue the people who deposited the checks to talk them into refinancing this loan. The new loan would be yet another subprime loan with an interest rate that

was only marginally lower, and this time the new customer's house would be placed at risk because it would be used as collateral.

The Memphis branches loaded all of this expensive subprime debt onto their customers without regard for whether their customers qualified for the loans or had the capacity to sustain them. Employees affirmatively and aggressively pushed unaffordable loans on customers. Customers were given high-priced subprime loans when they should not have been given any loan. Doris Dancy states that she saw Wells Fargo give subprime loans – sometimes with rates as high as 17% – to people with very poor credit scores and very high debt-to-income ("DTI") ratios. Dancy says that she "would shake my head in disbelief and ask myself, 'how could this happen?'"

Even though Wells Fargo's own rules prohibited loans with a DTI ratio above 50%, it violated these rules to make loans to customers with higher DTI ratios, even to customers with low credit scores. Mario Taylor was told to disregard customers' ability to repay loans and just "get the documents from them so we can send the deal up."

Likewise, the Memphis branches made loans with exorbitant loan-to-value ("LTV") ratios. First mortgage LTV ratios went as high as 110% and second mortgage LTV ratios went as high as 132%. Auto loan LTV ratios went as high as 160% because customers were not required to make any down payment and were given a large portion of the loan as a cash payment. These auto loans were secured by customers' homes.

Employees would deceive customers into believing they could repay these loans. One way was by only telling customers what their monthly payment would be under an initial "teaser rate." Rates on loans with teaser rates were adjustable and could go up significantly and become

unaffordable, but employees were instructed not to tell customers that the rate was adjustable. They would simply say, "This is your monthly payment."

The loans became even more harmful to Wells Fargo's customers – and more profitable for Wells Fargo – because employees included expensive add-ons that only benefited the company. For example, employees were instructed to include a "Home/Auto Security Plan" with many loans. This costly insurance product did not benefit the customer but drove up the price of the loan. Wells Fargo presented it as a necessary part of the loan even though it was actually optional.

Employees likewise pressured customers to buy other insurance products, such as life and health insurance, even if they already had sufficient insurance. Simpson states that the district manager, to whom he and the other branch managers reported, told subordinates to include as many features as possible with every loan, no matter what.

Many loans also included an exorbitant fee of four points, or 4% of the loan amount, as part of the closing costs. These points were profit for Wells Fargo.

The Memphis branches made these high-cost subprime loans without regard to whether their customers qualified for better loans. Even if a customer could qualify for a lower-priced loan, it was not offered. Wells Fargo had software that was supposed to filter loans to make sure applicants were offered the best loans for which they qualified, but the filters were regularly evaded and did not work. Employees knew how to manipulate the application data so that the filters would allow them to sell the higher-priced subprime loans instead.

The managers also misled their customers so they could sell them costly subprime loans instead of better loans for which they qualified. One way they did this was by encouraging borrowers to apply for "stated income" loans instead of submitting income documentation, even

though the borrowers were willing and able to provide the documentation. They did not tell borrowers this would disqualify them from getting a less expensive loan. Thomas explains that another technique used by managers to conceal what they were really doing from their clients was to talk quickly and shuffle lots of paper.

In addition to deceiving customers, employees in the Memphis branches deceived underwriters by falsifying documents. For example, white-out was used on pay records to change borrowers' incomes. When Thomas objected to the practice of falsifying income records, a branch manager responded, "we gotta do what we gotta do." Similarly, managers deliberately used inflated appraisals that they knew were not accurate to manipulate LTV calculations. Some managers falsified the mileage on car loan applications. These practices made it look like loans satisfied eligibility requirements when, in fact, they did not.

The Wells Fargo Memphis employees further state that Wells Fargo employees engaged in these abusive, predatory practices because they were both incentivized and pressured into doing so. Managers received large commissions and bonuses of up to $10,000 a month for meeting Wells Fargo's quotas for subprime loans. Managers who failed to meet their quota were put on probation or written up. District managers used this system to pressure credit managers into making loans that should not have been made. Wells Fargo created an atmosphere in the Memphis branch offices in which unethical practices were condoned and encouraged.

Some Memphis employees objected to Wells Fargo's predatory subprime lending practices, refused to engage in them, and raised their concerns with upper management. Nonetheless, the practices and the pressure to perpetrate them remained. Employees who objected to the practices were disfavored for promotion.

Based on their national and local experience, Jacobson and Paschal confirm that Wells Fargo engaged in predatory practices in Memphis and Shelby County, including steering borrowers who qualified for prime loans into subprime loans. They explain that Wells Fargo gave loan officers substantial financial incentives and the discretion to steer borrowers in this manner. Paschal was instructed by management to refer borrowers who could have qualified for more advantageous prime or FHA loans to the subprime unit. He was even reprimanded for giving too many people FHA loans instead of referring them for subprime loans.

One of the borrowers who Paschal was instructed to steer into a subprime loan was an African American from Memphis. The borrower had excellent credit but had been given a subprime 2/28 adjustable rate loan by Wells Fargo two years earlier. He wanted to refinance that loan to keep his monthly payment from suddenly rising. He qualified for a prime fixed-rate refinance loan, but Paschal's manager instructed him to give the borrower another adjustable rate subprime loan instead. Paschal refused and was disciplined as a result.

Although Jacobson was based in Maryland, she regularly communicated with and traveled to meet with Wells Fargo employees from across the country. She is knowledgeable about Wells Fargo's mortgage policies and practices nationally, including their application in Memphis and Shelby County. Jacobson states that Wells Fargo created very substantial financial incentives to steer people into subprime loans. "A reps," who made prime loans, generally made more money in referral fees by referring a person with prime credit to a subprime loan officer than by originating a prime loan. Subprime loan officers, whose pay was based on commissions and fees, likewise made more money by originating loans with higher interest rates and fees. Paschal describes the effect of Wells Fargo's compensation system for subprime loans as putting "bounties" on minority borrowers.

Wells Fargo also gave lavish gifts and trips to successful subprime loan officers, even as foreclosures increased in recent years. This was part of a culture, confirmed by Paschal and Jacobson, that focused only on making the most money possible and not on putting borrowers in loans that were appropriate for them.

Jacobson and Paschal also confirm that loan officers were able to steer people with good credit into subprime loans because Wells Fargo gave them broad discretion. Jacobson knows from regularly communicating with Wells Fargo employees around the country that in Memphis and Shelby County, Wells Fargo's underwriting guidelines and pricing rules gave ample discretion to A reps to allow them to steer customers who qualified for prime loans into subprime loans by referring them to subprime loan officers. She confirms that the subprime loan officers then had discretion to offer the customers higher-priced products.

Jacobson and Paschal explain that Wells Fargo loan officers developed a multitude of unscrupulous ways to apply their discretion to get away with steering subprime loans to people who qualified for prime or FHA loans. One method was to intentionally mislead customers by, for example, giving "stated income" loans to customers who could document their income (a practice also described by Camille Thomas), or telling customers not to make a down payment or to take more cash from their home equity, which would automatically cause a prime loan to "flip" into a subprime loan. Another was to intentionally mislead underwriters by saying that the customer chose not to provide documentation in support of a loan application, did not have verified assets, or wanted to close the loan quickly. Loan officers used such techniques to increase their commissions while discriminating against minority applicants. These techniques were applied by loan officers responsible for serving Memphis and Shelby County.

In 2004 Wells Fargo responded to public criticism by creating the "filters" discussed above that were supposed to prevent the steering of prime customers into subprime loans. Jacobson and Paschal confirm the former Memphis employees' statements that it was widely understood that the filters were not effective. Loan officers learned many ways to work around the filters by using the broad discretion they were afforded by Wells Fargo. These techniques were widely used. Senior managers were aware of their use and eventually made certain changes in response, but the loan officers continued to easily undermine the filters. The filters were also ineffective because Wells Fargo did not create disincentives to steering prime customers into subprime loans. To the contrary, employees continued to have substantial financial incentives to engage in such steering and continued to do so.

Wells Fargo's steering practices and techniques were applied regularly in Memphis and Shelby County and caused many customers who qualified for prime or FHA loans to receive subprime loans. Borrowers who were steered in this manner could be identified by reviewing Wells Fargo's loan files for loans in Memphis and Shelby County.

3. Other Abusive Subprime Lending Practices Engaged in by Wells Fargo

The former Wells Fargo employees further state that Wells Fargo routinely misled and deceived its customers in order to raise the cost of their loans. Dancy, Simpson, Taylor, and Thomas all explain the many ways this was done by the Memphis branches.

One way was by failing to inform borrowers that their loans had adjustable rates, which could cause their monthly payments to increase dramatically. When borrowers knew their rate was adjustable, credit managers would promise that the loan could be refinanced before the rate increased, even though they knew there was a good chance that the borrower would not be able to refinance the loan.

Memphis employees were also instructed to deceive customers about the addition of sizable closing costs and fees to their loans. These were added to increase Wells Fargo's profit, not to benefit the borrower.

Credit managers at Memphis branches also told borrowers that interest rates were locked prior to closing when they were not. This prevented borrowers from taking advantage of declining interest rates.

Employees were not supposed to inform customers about the details of their loans, telling them instead only the bottom-line monthly payment. For example, borrowers were not informed about the inclusion and significance of onerous prepayment penalties in the terms and conditions of their loans. Prepayment penalties typically made it difficult for borrowers to refinance into new and better loans. When the subject was raised, borrowers were told that prepayment penalties could be waived, even though this was not true.

The former Wells Fargo employees confirm that employees were given substantial discretion to increase the costliness of subprime loans and that they regularly used this discretion at the expense of subprime borrowers. Credit managers and loan officers had broad discretion to set the pricing, points, and fees for subprime loans. Even when Wells Fargo created some limits in 2007, employees retained significant discretion. Employees had strong financial incentives to increase the pricing, points, and fees because it would increase their commissions.

Employees also used their discretion to discriminate against minority borrowers in Memphis and Shelby County by not offering them Wells Fargo's newer and better loan products. Those products had lower fixed interest rates and fees than the products that were offered to minority borrowers.

Wells Fargo also qualified adjustable rate subprime loans in Memphis and Shelby County as if the borrower would be paying the teaser rate for the life of the loan instead of just the first two or three years. This means that it was or should have been apparent to Wells Fargo from the outset that many of the people to whom it gave adjustable rate mortgages did not have the ability to repay those loans. Foreclosures are a predictable result of this practice.

Dancy, Simpson, Taylor, and Thomas all found Wells Fargo's subprime lending practices to be unethical and all quit their jobs voluntarily to find other employment. Dancy explains that the practices were so bad that she would cry at the end of the day. She left to find a job "where I could feel good about what I was doing."

B. Publicly Available Home Mortgage Disclosure Act Data Shows that Wells Fargo's High-Cost Loans Are Disproportionately Located in African-American Neighborhoods in Memphis and Shelby County

Publicly available data reported by Wells Fargo to federal regulators pursuant to the Home Mortgage Disclosure Act ("HMDA") shows that from 2004 to 2008, Wells Fargo made high-cost loans (*i.e.*, loans with an interest rate that was at least three percentage points above a federally-established benchmark) to 51% of its African-American mortgage customers in Shelby County, but only 17% of its white customers in the County. In Memphis, it made high-cost loans to 63% of its African-American customers but to only 26% of its white customers. (HMDA data for 2009 is not yet available.)

Racial disparities in the pricing of Wells Fargo's mortgage loans are confirmed by a study released last year.[32] The study found that the disparity actually increased at higher income levels.[33]

The map attached as Exhibit 11 shows the geographic distribution of high-cost loans in African-American and white neighborhoods in Memphis and Shelby County. The map

demonstrates that Wells Fargo's high-cost loans are disproportionately located in Memphis' and Shelby County's African-American neighborhoods. The fact that Wells Fargo's high-cost loans are more heavily concentrated in Memphis' and Shelby County's African-American neighborhoods is consistent with the practice of reverse redlining and, upon information and belief, has contributed significantly to the disproportionately high rate of foreclosure in Memphis' and Shelby County's African-American communities.

The stark disparity in the location of Wells Fargo's high-cost or subprime mortgage loans in Memphis and Shelby County is especially disturbing when one considers the location of Wells Fargo's low-cost or prime mortgage loans. Almost 70% of those loans are located in predominantly white neighborhoods, which encompass 38.3% of the County's households, while only 6.9% of the loans are in predominantly African-American neighborhoods, which encompass 30.2% of County households. In other words, while Wells Fargo is targeting African-American neighborhoods for predatory subprime loans that disproportionately lead to foreclosure, it is also failing to allow residents of African-American neighborhoods to have access to prime loans. Wells Fargo is simultaneously engaged in reverse redlining and redlining of minority neighborhoods, exacerbating the harm caused by each unlawful practice. The map attached as Exhibit 12 demonstrates Wells Fargo's failure to make prime credit available in African-American neighborhoods.[34]

V. The Nature of the Injuries Suffered by Memphis

The foreclosures caused by Wells Fargo's discriminatory reverse redlining practices have caused, and continue to cause, multiple types of injuries to Memphis and Shelby County, including:

a. A significant decline in the value of homes that are in close proximity to the Wells Fargo foreclosure properties, resulting in a decrease in property tax revenue;

b. Increased expenditures for police and fire responses to Wells Fargo foreclosure properties that have become vacant and have turned into centers for squatting, drug use, drug distribution, prostitution, and other unlawful activities;

c. Increased expenditures to secure, stabilize, clean, acquire, and rehabilitate Wells Fargo foreclosure properties;

d. Additional expenditures for administrative, legal, and social services in connection with notices of foreclosure at Wells Fargo properties.

A. Memphis and Shelby County Have Been Injured by Having to Provide Costly Municipal Services at Properties in African-American Neighborhoods as a Direct Result of Discriminatory Loans Originated by Wells Fargo

Wells Fargo foreclosure properties that become vacant result in injuries that are especially costly to Memphis and Shelby County. Vacancies cause, among other harms, squatters, increased risk of crime and fire, and infrastructure damage such as burst water pipes and broken windows. Expensive responses by Memphis and Shelby County are required to address these harms at Wells Fargo foreclosure properties. The costs incurred by the City and County are the direct result of the foreclosures on Wells Fargo loans.

Even when a house is not vacant, foreclosures cause serious housing code violations. These violations likewise require expensive responses by the City and County. The costs of responding to these violations are also the direct result of the foreclosures on Wells Fargo loans. Housing code violations caused by Wells Fargo foreclosures occur disproportionately in predominantly African-American neighborhoods. These violations include environmental

problems, properties in need of repair, properties with structural damages, and properties that are extremely dilapidated. The City and County must respond to all of these problems.

The costs of taking these actions for each Wells Fargo foreclosure property constitute specific damages caused by Wells Fargo's illegal lending practices. Memphis and Shelby County will have to continue to provide increased municipal services at these properties in the future, particularly with respect to the many that remain vacant. Damages suffered by Memphis and Shelby County as a result of vacancies resulting from Wells Fargo's foreclosures at Wells Fargo properties are fully capable of empirical quantification.

Examples of the City and County's injuries related to specific representative properties are described in greater detail in paragraphs 149-198 of Memphis and Shelby County's First Amended Complaint against Wells Fargo.

B. Memphis and Shelby County Have Been Injured by a Reduction in Property Tax Revenues Caused by Wells Fargo Foreclosures

Wells Fargo foreclosure properties, and the problems associated with them, likewise cause especially significant declines in property values because the neighborhoods become less desirable. This reduces the property tax revenues collected by the City and County. Property tax losses suffered by Memphis and Shelby County as a result of vacancies resulting from Wells Fargo's foreclosures are fully capable of empirical quantification.

Routinely maintained property tax and other data allow for the precise calculation of the property tax revenues lost by Memphis and Shelby County as a direct result of particular Wells Fargo foreclosures. Using a well-established statistical regression technique that focuses on effects on neighboring properties, the City and County have isolated the lost property value attributable to each individual foreclosure or vacancy from losses attributable to other causes, such as neighborhood conditions. This technique, known as hedonic regression when applied to

housing markets, isolates the factors that contribute to the value of a property by studying thousands of housing transactions. Those factors include the size of a home, the number of bedrooms and bathrooms, whether the neighborhood is safe, whether neighboring properties are well-maintained, and more. Hedonic analysis determines the contribution of each of these house and neighborhood characteristics to the value of a home.

The number of foreclosures in a neighborhood is one of the neighborhood traits that hedonic analysis can examine. Hedonic analysis allows for the calculation of the impact of the first foreclosure in close proximity (*e.g.*, ⅛ or ¼ of a mile) on a property's value, the average impact of subsequent foreclosures, and the impact of the last foreclosure.

Foreclosures attributable to Wells Fargo in Memphis and Shelby County have been analyzed through hedonic regression to calculate the resulting loss in the property values of nearby homes. This loss has been distinguished from any loss attributable to non-Wells Fargo foreclosures or other causes. The loss in property value in Memphis and Shelby County attributable to Wells Fargo's unlawful acts and consequent foreclosures has been used to calculate Memphis' and Shelby County's corresponding loss in property tax revenues.

Recent studies establish that hedonic regression can be used for this purpose. A study published by the Fannie Mae Foundation, using Chicago as an example, determined that each foreclosure is responsible for an average decline of approximately 1.1% in the value of each single-family home within an eighth of a mile.[35]

Other studies have focused on the impact of abandoned homes on surrounding property values. A recent study in Philadelphia, for example, found that each home within 150 feet of an abandoned home declined in value by an average of $7,627; homes within 150 to 299 feet declined in value by $6,810; and homes within 300 to 449 feet declined in value by $3,542.[36]

Application of a hedonic regression methodology like the methodologies employed in these studies to data regularly maintained by Memphis and Shelby County has been used to quantify precisely the property tax injury to the City and County caused by Wells Fargo's discriminatory lending practices, including but not limited to those described above, and the Wells Fargo foreclosures that are the direct result of those practices.

VI. What Memphis and Shelby County Hope to Accomplish with Their Lawsuit against Wells Fargo

The City of Memphis filed a lawsuit on December 30, 2009, against Wells Fargo Bank, N.A., and two Wells Fargo subsidiaries to recover damages caused by Wells Fargo's discriminatory lending practices. The City's co-plaintiff is Shelby County. The lawsuit is captioned *City of Memphis v. Wells Fargo Bank, N.A.*, No. 2:09-cv-02857-STA-dkv (W.D. Tenn.). Memphis and Shelby County filed a First Amended Complaint on April 7, 2010, adding detailed information provided by the former Wells Fargo Memphis employees discussed above and detailed information about damages.

The lawsuit includes two causes of action. First, Memphis and Shelby County allege that by engaging in a pattern or practice of targeting deceptive, predatory, or otherwise unfair lending practices at African-American neighborhoods in the City and County – that is, by engaging in reverse redlining – Wells Fargo has violated the federal Fair Housing Act, 42 U.S.C. § 3601 *et seq*. Second, the suit alleges that these lending practices themselves violate the Tennessee Consumer Protection Act of 1977, Tenn. Code Ann. § 47-18-101 *et seq*.

It is our hope that this lawsuit will result in compensation for the damage Wells Fargo's predatory practices have caused our City and County, and create a catalyst for new lending programs and initiatives that will benefit our hardest hit neighborhoods and citizens.

Wells Fargo must begin by providing compensation to the City and County for the specific property costs we have incurred at Wells Fargo foreclosed properties. We also seek compensation for lost tax revenue that is directly and provably attributable to concentrations of Wells Fargo foreclosures in minority neighborhoods across Memphis and Shelby County. These funds will work to the benefit of our residents by restoring costs that the City and County have been forced to bear as a result of Wells Fargo's illegal lending practices. Shouldering these costs has depleted much needed funds that would otherwise have been spent to improve the lives of our residents in many necessary and important ways. We will use the funds we recover to help those residents who have lost their homes, or are in imminent danger of losing their homes.

But this case is about a lot more than recovering damages. If Wells Fargo is going to become a true partner with us in repairing the damage it has caused, new lending programs are required. The steps we would like to see Wells Fargo take as part of a just resolution of our lawsuit include the following:

- Make low cost home mortgage loans available across the City and County, with special focus on marketing these affordable loans in our hardest hit minority neighborhoods. This will create new housing opportunities for those who have lost their homes as a result of predatory practices.

- Modify existing loans for select borrowers who are in danger of losing their homes to foreclosure by writing down principal, adjusting loan terms, and reducing interest rates.

- Provide support for financial literacy programs at housing advocacy organizations that work in our underserved neighborhoods.

- Rehab Wells Fargo foreclosed properties and donate them to the City and County to provide housing to residents who have lost their homes.

- Construct new Wells Fargo storefronts in underserved neighborhoods to serve as "Loan Modification Centers" where borrowers in need of assistance in preventing foreclosure can obtain counseling and assistance.

These programs are just a few of the steps that Wells Fargo can and should take to help redress the damage that its actions have caused the City, County and its residents. Going forward we hope that this lawsuit will lead to a true partnership not just between Wells Fargo and the City and County, but also with other lenders who have profited from our community at the expense of our residents.

I hope this lawsuit will also serve to spur much needed enforcement action against predatory lenders who have targeted minority communities for abusive practices. Cities like Memphis need assistance from Assistant Attorney General Tom Perez at the Justice Department, as well as State Attorneys General with jurisdiction over the activities of lenders like Wells Fargo. Working together, we have the ability to ensure that homeowners are protected, new programs enacted, and compensation paid to those who have been wronged.

Finally, I hope our efforts will spur action by the United States Congress, after these hearings, on behalf of Americans in my city and across America who have been made to suffer and endure as the American Dream of "home ownership" is ripped from their grasp by unscrupulous and predatory lenders. Many families, many Memphians, and many Americans have been forced out of their homes by unfair loans with unreasonable terms that in the end virtually guaranteed failure and foreclosure. Congress has the power and the duty to fashion a remedy for these victims because they personify an American Dream that is truly too important to let fail.

Time is of the essence. Every day that we delay the effect of the damage inflicted by lenders like Wells Fargo gets worse. We filed our lawsuit because we believe the time for action is now. We hope others will follow our lead.

Thank you for allowing me to share these views with the Subcommittee.

[1] *See, e.g.*, *Barkley v. Olympia Mortgage Co.*, No. 04-cv-875, 2007 WL 2437810 (E.D.N.Y. Aug. 22, 2007); *Hargraves v. Capital City Mortgage Corp.*, 140 F. Supp. 2d 7 (D.D.C. 2000).

[2] HUD & Treasury, *Curbing Predatory Home Mortgage Lending* (2000) at 72 (available at http://www.huduser.org/Publications/pdf/treasrpt.pdf).

[3] *Id.*

[4] James H. Carr & Lopa Kolluri, Fannie Mae Foundation, *Predatory Lending: An Overview* (2001) (available at http://www.cra-nc.org/financial.pdf).

[5] *Id.* at 37.

[6] *Id.*

[7] National Community Reinvestment Coalition, *The Broken Credit System: Discrimination and Unequal Access to Affordable Loans by Race and Age – Subprime Lending in Ten Large Metropolitan Areas* (2003) (available at http://www.ncrc.org/images/stories/pdf/research/ncrcdiscrimstudy.pdf).

[8] *Id.* at 6, 24-25.

[9] *Id.* at 19-20, 25.

[10] *Id.* at 31-34.

[11] HUD, *Unequal Burden: Income and Racial Disparities in Subprime Lending in America* (2000) at 4-5 (available at http://www.huduser.org/Publications/pdf/unequal_full.pdf).

[12] *Id.* at 4 (emphasis in original).

[13] HUD/Treasury Report at 105.

[14] Calvin Bradford, Center for Community Change, *Risk or Race? Racial Disparities and the Subprime Refinance Market* (2002) at vii-ix (available at http://www.knowledgeplex.org/redir.html?id=1032&url=http%3A%2F%2Fwww.knowledgeplex.org%2Fkp%2Freport%2Freport%2Frelfiles%2Fccc_0729_risk.pdf).

[15] Center for Responsible Lending, *Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages* (2006) (available at http://www.responsiblelending.org/mortgage-lending/research-analysis/rr011-Unfair_Lending-0506.pdf).

[16] *Id.* at 3, 9.

[17] *Id.* at 9.

[18] *Id.*

[19] *Id.* at 16.

[20] *Id.*

[21] *Id.* at 17.

[22] *Id.*

[23] Center for Responsible Lending, *Borrowers in High Minority Areas More Likely to Receive Prepayment Penalties on Subprime Loans* (2005) (http://www.responsiblelending.org/mortgage-lending/research-analysis/rr004-PPP_Minority_Neighborhoods-0105.pdf).

[24] *Id.* at 5, App.-1.

[25] *Id.* at 1-2.

[26] *Id.* at 7.

[27] Howell E. Jackson & Jeremy Berry, "Kickbacks or Compensation: The Case of Yield Spread Premiums" (2002) (available at http://www.law.harvard.edu/faculty/hjackson/pdfs/january_draft.pdf).

[28] *Id.* at 7, 122-23 & n.147.

[29] *Id.* at 9, 125.

[30] *Id.* at 127.

[31] Center for Responsible Lending, *A Review of Wells Fargo's Subprime Lending* (Apr. 2004) at 10 (available at http://www.responsiblelending.org/mortgage-lending/research-analysis/ip004-Wells_Fargo-0404.pdf).

[32] National People's Action, *The Truth About Wells Fargo: Racial Disparities in Lending Practices* (2009) at 2 (available at http://www.npa-us.org/downloads/truthaboutwellsfargo.pdf).

[33] *Id.*

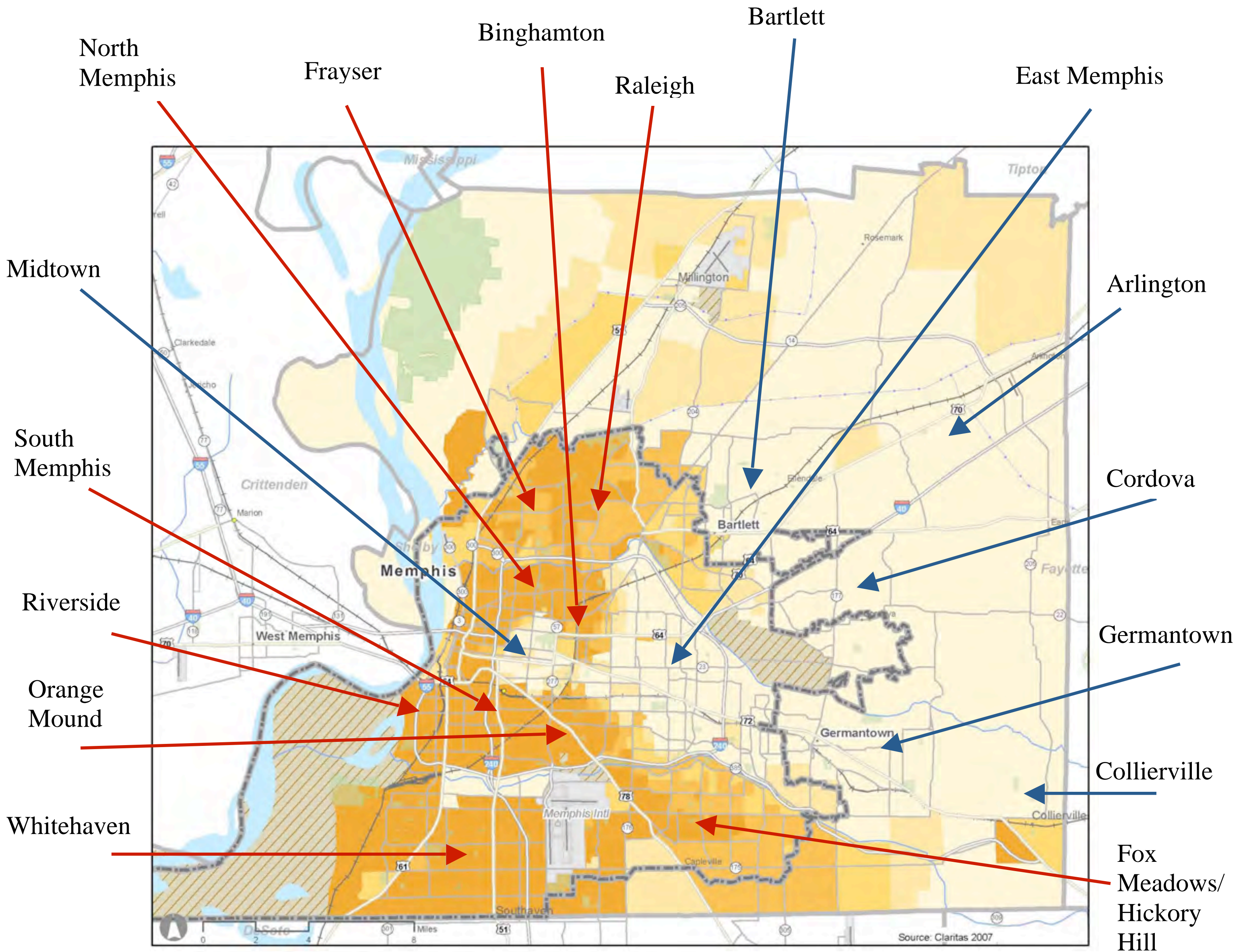
[34] There is substantial additional evidence that Wells Fargo has been engaged in reverse redlining in Memphis and Shelby County. This includes evidence concerning Wells Fargo's pricing sheets, pricing practices in Philadelphia, use of adjustable rate mortgages with "teaser" rates, and interest rate caps on adjustable rate mortgages, as well as the length of time between origination and foreclosure on Wells Fargo loans. This evidence is described in Memphis and Shelby County's First Amended Complaint against Wells Fargo, which is discussed in section VI of this statement.

[35] *See* Dan Immergluck & Geoff Smith, *The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values*, 17 Housing Policy Debate 57 (2006) at 69.

[36] Anne B. Shlay & Gordon Whitman, *Research for Democracy: Linking Community Organizing and Research to Leverage Blight Policy*, (2004) at 21.

EXHIBIT

1



Percent African American Households 2007

Claritas Estimate By Census Block Group

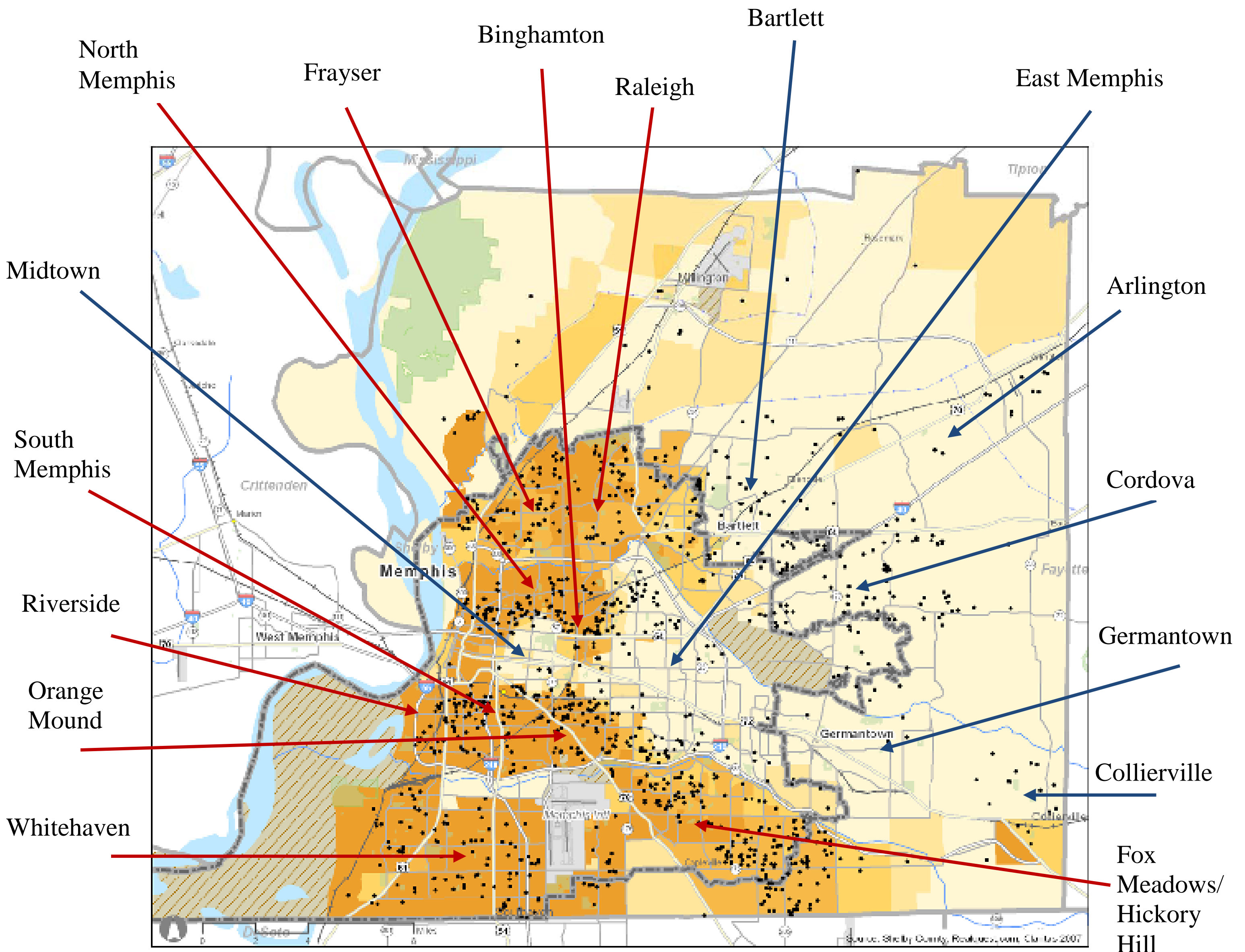
- 20% or Less
- 20.1% - 40%
- 40.1% - 60%
- 60.1% - 80%
- Over 80%
- Insufficient Data

→ Indicates Majority African-American Neighborhood

→ Indicates Majority White Neighborhood

EXHIBIT

2



• **Wells Fargo Foreclosure Filings 2000-2009**

Percent African American Households 2007

Claritas Estimate By Census Block Group

- 20% or Less
- 20.1% - 40%
- 40.1% - 60%
- 60.1% - 80%
- Over 80%
- Insufficient Data

→ Indicates Majority African-American Neighborhood

→ Indicates Majority White Neighborhood

EXHIBIT

3

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

CITY OF MEMPHIS and SHELBY COUNTY, Plaintiffs, v. WELLS FARGO BANK, N.A., WELLS FARGO FINANCIAL TENNESSEE, INC. and WELLS FARGO FINANCIAL TENNESSEE 1, LLC, Defendants.	Case No. 2:09-cv-02857-STA-dkv

DECLARATION OF DORIS DANCY

1. I, Doris Dancy, hereby attest that I am over the age of eighteen and I am competent to testify with respect to the matter below.

2. In July 2007, I was hired by Wells Fargo Financial ("Wells Fargo") as a credit manager. I worked in that capacity for Wells Fargo until January 2008 when I voluntarily left the company to seek other employment.

3. I worked at the branch office located at 5041 Park Avenue in Memphis for the entire time that I was employed at Wells Fargo.

4. As a credit manager, my job was to find as many potential borrowers for Wells Fargo as possible. I spent almost all of my time calling people from a list of "leads" provided to me. We were put under a lot of pressure to call these individuals repeatedly and encourage them to come into the office to apply for a loan.

5. Most (eighty percent (80%) or more) of the leads on the lists I was given were African American. I know this both from meeting these individuals, and from talking with them on the telephone. The people on the list of leads did not represent a random cross-section of the people who lived in the area around the branch office, because our office was located in an area where a lot of white people lived.

6. I know that Wells Fargo got many of these leads from lists of their previous borrowers who had car loans, home equity loans, or credit cards with Wells Fargo. We were supposed to try and refinance these individuals into new, expensive subprime loans with high interest rates and lots of fees and costs. The way we were told to sell these loans was to explain that we were eliminating the customer's old debts by consolidating their existing debts into one new one. This was not really true – we were not getting rid of the customer's existing debts; we were actually just giving them a new more expensive loan that put their house at risk.

7. Many of the leads had files that contained a fair bit of information about the borrower. I remember that my aunt, who had a home equity loan with Wells Fargo, once showed up on a call list in my office. When I typed her name into my computer, I was able to see all kinds of information about her, including the value of her home, her credit score, place of employment, and address.

8. Our district manager pressured the credit managers in my office to convince our leads to apply for a loan, even if we knew they could not afford the loan or did not qualify for the

loan. I was pressured into trying to get customers with credit scores as low as 504, and debt-to-income ("DTI") ratios of well above 50%, to apply for loans that I knew they could not afford and would not be able to pay back. I knew all this information about the customer before I even called them. I thought this was an unethical and dirty practice because I knew it was going to cause folks to lose their homes. To my shock, many of the people whom I saw with very bad credit scores and high DTI ratios walked out of the office with approved subprime loans at interest rates of 11% or 12% or even 13%. Some interest rates went as high as 17%. I would shake my head in disbelief and ask myself, "how could that happen?"

9. I was particularly upset at seeing customers with low credit scores and debt-to-income ratios above 50% being put into high interest rate subprime loans. I know that Wells Fargo violated its own underwriting guidelines in order to make loans to these customers. According to Wells Fargo's own rules, loans were not supposed to exceed a DTI ratio of 50%, and credit scores were supposed to be at least in the 580 to 600 range.

10. We were told to make as many loans to a customer as we could. Even if we were able to get the customer to apply for a home equity loan, we were also supposed to try to sell them a car loan. I saw customers placed in car loans with very high interest rates. Some of the car loans were at 100% LTV (no down payment) and the customers were given cash back on top of that. And in some cases, even after consolidating a customer's existing debt (including credit card debt) with a new high interest rate home equity loan, we were told to give the customers a *new* Wells Fargo credit card with a high interest rate on top of all the other loans. I thought this was a particularly dirty practice because it meant the customer was destined to get behind once again with revolving debt – this time from the Wells Fargo credit card – and now their home would be put at risk.

11. Another practice that I thought was especially unethical was the use of "live" draft checks. Wells Fargo would mail checks in the amount of $1,000 or $1,500 to leads. Once these checks were deposited or cashed, they instantly became loans with Wells Fargo at very high interest rates. Individuals who cashed these checks became an instant "lead" target for a home equity refinance loan, which of course would end up placing the borrower's home at risk.

12. Although I never witnessed it myself, I heard from other employees that some branch managers falsified information in order to get customers to qualify for subprime loans.

13. Many customers were told that they needed to purchase a Home/Auto Security Plan ("HASplan"), which added extra costs on to their loan. Wells Fargo told us to do this because it made the bank more money. The customers were not told that the HASplan was actually optional, and that it offered the borrower no additional value.

14. Many of the mostly African American customers who came into the office were not experienced in applying for loans. They did not understand a lot of the terms of the loans that managers wanted us to get them to apply for. Our district manager told us to conceal the details of the loan. He thought that these customers could be "talked into anything." The way he pressured us to do all of these unethical things was as aggressive as a wolf. There was no compassion for these individuals who came to us trusting our advice.

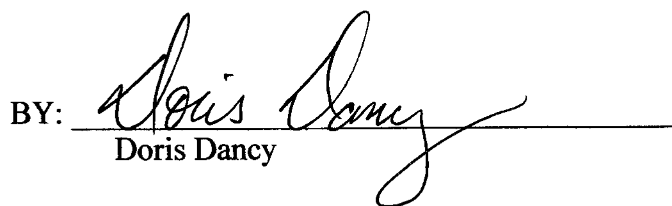
15. I tried to do right by my customers and would be honest with them about what they were getting themselves into. My district manager did not like this. He used the bonus system to pressure me to make loans that I thought should not be made. I received only one bonus, and that was for just $175. I know other managers made much bigger bonuses than this.

16. After six months working at Wells Fargo I decided that the practices were too unethical for me to participate in any longer. I hated to go to work, and found myself crying at

the end of the day. In January 2008 I voluntarily left Wells Fargo to find different employment where I could feel good about what I was doing.

I hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

EXECUTED WITHIN THE UNITED STATES ON: February 17, 2010

BY: 
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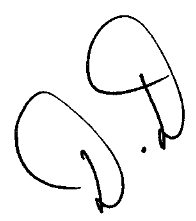

EXHIBIT

4

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

CITY OF MEMPHIS and SHELBY COUNTY, Plaintiffs, v. WELLS FARGO BANK, N.A., WELLS FARGO FINANCIAL TENNESSEE, INC. and WELLS FARGO FINANCIAL TENNESSEE 1, LLC, Defendants.	)	Case No. 2:09-cv-02857-STA-dkv

DECLARATION OF MICHAEL SIMPSON

1. I, Michael Simpson, hereby attest that I am over the age of eighteen and I am competent to testify with respect to the matter below.

2. I was hired by Wells Fargo Financial ("Wells Fargo") in November 2002 as a credit manager. After approximately a year and a half I was promoted to branch manager. I worked in that capacity for Wells Fargo until January 2008 when I voluntarily left the company to seek other employment.

3. I worked at the branch office located at 5041 Park Avenue in Memphis for the entire time that I worked at Wells Fargo.

4. I decided to go into the lending business because I wanted to help people and I thought this would be a good way to do it. Around the time that I was promoted to branch manager, I began to feel a lot of pressure from managers above me to participate in what I thought were unethical lending practices. I resisted this pressure as best I could, and in many instances refused to engage in practices that I thought were wrong. I know that others in the company went along with what the management wanted and participated in what I considered were unethical and deceptive lending activities.

5. We generated new potential customers by cold calling people from lists of "leads." Leads were generated by buying lists of customers who had financed the purchase of goods, like furniture or jewelry, at area stores. We would contact these individuals to see if we could get them to refinance their loans with us. We were encouraged to try and get these customers to consolidate all of their existing debt – credit card, auto loans, and other small loans on product purchases – with a new subprime loan through Wells Fargo. In many cases these new loans would be done through a home equity product that used the borrower's house as collateral for the loan.

6. The leads were inputted in a system called "E-leads." This was an electronic database of previous or existing Wells Fargo customers who already had a credit card, an auto loan, or some other type of loan with us. We would cold call these customers as well for the purpose of trying to get them to refinance their loans and consolidate their debt.

7. Credit managers were instructed to pursue customer leads with credit scores in the 500 to 680 FICO range, and for whom there was file information about the value of their house.

The assumption was that these would be ideal subprime loan customers. Based on my experience and observation, I would not be surprised if the customer leads in this FICO range were disproportionately African American.

8. There were a number of loan products and practices that I did not like and thought were wrong. While I was at Wells Fargo, the company was very aggressive about pushing an auto loan product that permitted the customer to borrow up to 160% of the car's value (e.g., 160% loan-to-value ratio or "LTV") at interest rates as high as 24%. I felt this product offered no benefit to the customer, and I refused to offer it. My objection to this product may have prevented me from being promoted above branch manager. We would later refinance these extremely high interest rate car loans at marginally lower subprime rates, many times using the borrower's house as collateral. This, of course, put the borrower's house at risk if the borrower got behind on loan payments.

9. I know that some Wells Fargo managers falsified the mileage on car loan applications so that the loan would be approved. This was done by listing the mileage on the car as lower than it actually was, and putting that false information in the loan file. This allowed the car loan to be both approved, and approved for a larger loan amount. Managers did this because they could get a bigger bonus if they completed more car loans. Twenty to thirty percent of the upper management (branch managers and district managers) knew that mileage records were being falsified. They just turned the other way. I know that one of my district managers knew that this was going on.

10. Wells Fargo was very aggressive in its mortgage lending. We were encouraged to make 110% LTV loans to customers with 680 FICO scores with interest rates between 10 and 13%. Debt-to-income ("DTI") ratios for these borrowers went as high as 55%. Some of our

second lien loans allowed LTVs as high as 132%. With credit profiles like this, it was not surprising to me that many borrowers would eventually default on their loans, given their existing debts. Wells Fargo turned a blind eye and made the loans anyhow. Often it was not just a matter of consolidating the borrower's existing debts and putting their house at risk, the sales process also involved jamming new debt on the borrower by getting them to take cash out or giving them a new credit card. In my view, this was like giving an alcoholic a beer. Wells Fargo did it because the loans were very profitable. We made an automatic 4 points (or four percent of the loan amount) as a fee at the time of closing.

11. My district manager instructed us to run every loan with as many features as possible, no matter what. This meant more profit for the company on each loan we made. For example, we were instructed to add the Home/Auto Security plan ("HASplan") on every car loan. This was a gimmick product and a rip-off. A large portion of the cost of the HASplan was profit for Wells Fargo. Managers were instructed to tell the customer that the HASplan came with the loan, when the truth was it was both optional and an unnecessary expense for the borrower.

12. We were also instructed to sell insurance plans, such as life and health insurance, with the loans we made. There was a lot of pressure to sell these plans, regardless of whether the customer needed them or not. I objected to the fact that many of these plans were pushed on customers who already had perfectly good insurance. Management made clear that branch managers would not advance unless they aggressively pushed these insurance plans on every customer.

13. I told my team to disclose all fees that the customer would have to pay at closing on the loan. I know, however, that managers were encouraged to tell customers that there were

no out-of-pocket fees, and no closing costs. Of course, this was not true. Many loans had an automatic fee of 4 points, or 4% of the loan amount, attached as a closing cost. This was highly profitable for Wells Fargo.

14. Credit managers and assistant managers were encouraged to tell customers with high interest rate loans that they should not worry because they could apply to refinance their loan later at a lower rate. This practice could be very deceptive.

15. Managers, including my district manager, instructed us to push "package deals." This meant, for example, that we were supposed to have the paperwork for a new high interest rate Wells Fargo credit card all done and set to go at the time we closed the loan. Then we were to tell the customer at closing that they had "qualified" for a "preferred line of credit" to encourage them to sign up for the card.

16. I know that some managers falsified information in the loan files, such as income documentation, in order to get loans approved. I have personal knowledge of managers who participated in this type of fraud.

17. From the time I came to Wells Fargo until about 2007, the company targeted customers in the 500 to 600 FICO range for "draft checks." These were checks that were mailed directly to customers, and once cashed, became a loan at rates as high as 29%. Cashing the check allowed us to identify the individual. We would then target these individuals for refinance loans at new, marginally lower subprime rates. These refinance loans would use the borrower's house as collateral for the loan and put the house at risk if the borrower could not make the payments on the loan. I know of instances where individuals other than the intended recipient cashed the check, leaving the unknowing addressee of the check on the line for the high interest loan.

18. The culture at Wells Fargo supported managers, like my district manager, who promoted aggressive and unethical practices. The culture was completely results driven. The attitude was that the ends justified the means. I think that money corrupted Wells Fargo, and clouded the judgment of upper management. Wells Fargo Financial was responsible for the majority of the bank's overall profits, and the enormous amounts of money coming in from subprime loans meant that unethical and dirty managers like my district manager were supported and rewarded.

19. I was constantly butting heads with my district manager. I told him repeatedly about the practices I objected to. He knew that loans were being falsified; and he knew that many of the aggressive practices he instructed us to follow were causing borrowers to get behind on their loans. Yet he still pressured us to engage in the most aggressive loan practices and threatened employees with their jobs if they did not do things his way. The bonus system was lucrative, so there was plenty of financial incentive to engage in high pressure and deceptive sales practices, even if one knew they were wrong.

20. I was not the only one who objected to Wells Fargo's practices. Mario Taylor worked under my supervision as a credit manager. He is a truthful and credible person whom I trust. I know he also refused to follow a lot of the practices that our district manager asked us engage in.

21. I left the company voluntarily in January 2008 to pursue other employment. At the time I left, I sent a lengthy email to much of the upper management discussing many of the concerns that I had about the Wells Fargo's practices and that I had raised with my district manager on many prior occasions.

I hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

EXECUTED WITHIN THE UNITED STATES ON: March 3, 2010

BY:
Michael Simpson

EXHIBIT

5

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

CITY OF MEMPHIS and SHELBY COUNTY, Plaintiffs, v. WELLS FARGO BANK, N.A., WELLS FARGO FINANCIAL TENNESSEE, INC. and WELLS FARGO FINANCIAL TENNESSEE 1, LLC, Defendants.	Case No. 2:09-cv-02857-STA-dkv

DECLARATION OF MARIO TAYLOR

1. I, Mario Taylor, hereby attest that I am over the age of eighteen and I am competent to testify with respect to the matter below.

2. In June 2006 I was hired by Wells Fargo Financial ("Wells Fargo") as a credit manager. I worked in that capacity for Wells Fargo until February 2008 when I voluntarily left the company to seek other employment.

3. During the time I was employed by Wells Fargo I worked at three different locations in the Memphis area. I primarily worked at the Cordova office, which is located at

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1785 North Germantown Parkway. I also worked at the Quince office and at an office on Park Avenue.

4. As a credit manager, my job was to find as many potential borrowers as I could for Wells Fargo and get them to apply for a loan. Credit managers were given a list of what were called "leads." These were names of people we were supposed to call to encourage them either to come into the office so we could get them to apply for a loan, or to apply directly over the telephone. We were instructed to make as many as 35 calls an hour and to call the same borrower multiple times each day.

5. Many of the people who were on the list of leads were individuals who already had loans with Wells Fargo. Some had auto loans; some had other types of home equity loans. I was supposed to try and get them to refinance their existing loan. Other names that we pursued from the list of leads were individuals for whom we were trying to consolidate their existing debt into one loan, for which the collateral would be their home. In these cases, we would typically try to get a person who had credit card debt, a car loan or a student loan, and convince them to consolidate all of these debts into one subprime loan with Wells Fargo at a high interest rate. We would tell these borrowers that we were "getting rid of" their existing debts when in fact all we were really doing was giving them a new subprime loan, this time with their house at risk.

6. Approximately 80-90 percent of the leads I was given turned out to be individuals who were African American. Although I don't know exactly how Wells Fargo came up with the leads, I believe that Wells Fargo targeted African Americans for these subprime loans. The prevailing attitude was that African-American customers weren't savvy enough to know they were getting a bad loan, so we would have a better chance of convincing them to apply for a high-cost, subprime loan.

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7. While I was at the Cordova office, I was put under pressure from the branch manager to do all kinds of things that I thought were unethical or just plain dirty. I know that a lot of this pressure came directly from a district manager.

8. The branch manager wanted us to get as many people to apply for loans as possible, regardless of whether they were qualified for the loan or could pay back the loan. I was told to just "get the documents from them so we can send the deal up." This meant that many individuals got high priced, subprime loans when they never should have gotten a loan. In some instances customers were given higher priced subprime loans when they could have qualified for a lower priced loan. Many people were taken advantage of just to satisfy the branch manager's insistence on reaching monthly quotas.

9. The branch manager directed us to make as many different loans to people as we could. For example, if we convinced someone to apply for a home equity loan, we were then supposed to try to get them to apply for an auto loan as well. On top of that, we would also try to give customers a Wells Fargo credit card with a very high interest rate.

10. I saw people turned "upside down" in auto loans. By that I mean they were put into auto loans at interest rates above twenty percent with no down payment and with a cash-out payment on top of that. Some of these auto loans were effectively at 160 percent loan-to-value ("LTV") ratios because there was no down payment required; the borrower was loaned the full amount of the car; and got an additional 50 percent of the loan amount again as a cash payment. These auto and home equity loans would be put together in consolidated packages so that the borrower's home was at risk if they couldn't make the payment.

11. I objected to many of these loans because I knew the borrower wouldn't be able to make the payments. I thought it was particularly unethical to take advantage of a borrower by

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turning a car loan into a home equity loan and placing their home at risk. Even though I made it known that I didn't want to take part in these practices, my branch manager pressured me relentlessly to get borrowers to apply for these types of loans.

12. Some branch managers told us how to mislead borrowers. For example, we were told to make "teaser rate" loans without informing the borrower that the loan was adjustable. Managers also promised borrowers that an adjustable rate loan would be refinanced, even if they knew this might not be possible.

13. Credit managers were supposed to only tell borrowers the bottom-line monthly payment without any other details. We were told not to tell the customer what was in the fine print.

14. In many cases income documents were falsified in order to qualify a borrower for a loan. I know that some managers, including one of my branch managers, changed pay stubs and used white-out on documents to alter the borrower's income so it would look like the customer qualified for the loan.

15. Borrowers were not told about prepayment penalties.

16. Borrowers were also not told about astronomical fees that were added to the loan and that Wells Fargo profited from. I remember that one of my branch managers specifically told me not to disclose these fees to borrowers.

17. Managers sometimes told borrowers that rates were locked prior to closing, when they were not.

18. Managers often misled borrowers by failing to tell them how to pay taxes and insurance as part of their monthly payments.

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19. Each office had what was called a "loan optimizer." This was a type of filter that was supposed to be used to make sure that the borrower qualified for the best loan available. Managers knew exactly how to manipulate the loan applicant's information, such as tweaking the value of the home, so that the borrower would qualify for a subprime loan.

20. Managers added expensive "extras" to loan applications even when the borrower did not need them. For example, I was instructed to tell every borrower that the Home/Auto Security Plan ("HASplan") came with their loan when in fact it was an unnecessary type of insurance that increased monthly payments. If I sent a loan to the underwriters without a HASplan, my branch manager would ask why I had not added the plan.

21. Managers discouraged customers from going to another bank to apply for a loan by telling them that their credit score had been pulled and their credit would be hurt if they applied again somewhere else. This was a pressure tactic designed to keep customers from comparative shopping for a better priced loan.

22. Managers had financial incentives to put borrowers into subprime loans. Managers were given large bonuses if they met quotas set by Wells Fargo. I remember one borrower, Edna Word, whose paystubs were falsified so that the manger could close the loan and make her bonus. If a manager met the monthly requirements for the number and size of loans closed, the bonus could be as much as $10,000 a month.

23. If a manager didn't make their monthly quota, they could be punished. Many managers were put on probation or written-up if they didn't make enough loans.

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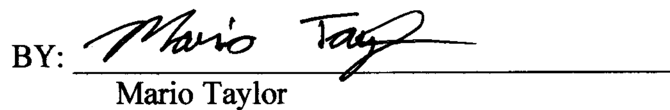
I hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

EXECUTED WITHIN THE UNITED STATES ON: February 17, 2010

BY: 
Mario Taylor

EXHIBIT

6

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

CITY OF MEMPHIS and SHELBY COUNTY, Plaintiffs, v. WELLS FARGO BANK, N.A., WELLS FARGO FINANCIAL TENNESSEE, INC. and WELLS FARGO FINANCIAL TENNESSEE 1, LLC, Defendants.	Case No. 2:09-cv-02857-STA-dkv

DECLARATION OF CAMILLE THOMAS

1. I, Camille Thomas, hereby attest that I am over the age of eighteen and I am competent to testify with respect to the matter below.

2. In January 2004 I was hired by Wells Fargo Financial ("Wells Fargo") as a loan processor. I worked in that capacity for Wells Fargo until January 2008 when I voluntarily left the company to seek other employment.

3. During the time that I was employed by Wells Fargo I worked at four different locations in the Memphis area. I primarily worked at the Cordova office, which is located at

1785 North Germantown Parkway. I also worked at the Bartlett office, an office on Winchester Street, and at the Collierville office.

4. In each of the offices where I worked there was one loan processor, several credit managers, and a branch manager. As a loan processor, I was responsible for handling all the paperwork. Customers would initially speak to a credit manager to apply for a loan. Credit managers also solicited customers for loans. Then the loan would be reviewed and approved by the branch manager. After that I would receive and process the file so that it could be submitted to Wells Fargo underwriters for approval and funding.

5. In order to do my job, I had to be familiar with all of the underwriting rules and guidelines that Wells Fargo was supposed to use to qualify borrowers for loans. I worked very closely with the credit managers and became familiar with the different things they did to qualify borrowers for loans.

6. At each of the offices where I worked, Wells Fargo Financial only made refinance loans. All of the loans that Wells Fargo Financial made at the branches where I worked were subprime loans.

7. It was the practice at the Wells Fargo offices where I worked to target African Americans for subprime loans. It was generally assumed that African-American customers were less sophisticated and intelligent and could be manipulated more easily into a subprime loan with expensive terms than white customers. I heard employees joking with one another about the race of customers, saying things like: "You know that guy isn't so smart – is it because he's black?"

8. Elderly African-American customers were thought to be particularly vulnerable and were frequently targeted for subprime loans with high interest rates. I remember one instance where an elderly African-American woman who was over 65 could not qualify for a

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subprime loan that a credit manager wanted to put her into, so the credit manager convinced her to transfer the property to her son so the subprime loan could be made in the son's name.

9. Credit managers targeted African-American borrowers in several different ways. One way was to partner with local businesses that were located in African-American areas, such as Royal Furniture and Flemings, to identify customers who had financed purchases at these stores. Credit managers would "cold-call" people off of these lists or simply show up at these individuals' homes or businesses. Managers identified African-American customers by talking to them over the telephone, or by meeting them in person. Most of the leads on the lists that managers were given to call were African-American.

10. Another way that credit managers targeted African-American customers was by working off of lists of borrowers who had previously had a loan with Wells Fargo. The race of these borrowers could be determined from information contained in the loan file. Managers would try to get these borrowers to re-finance their loans with higher interest rates and other fees and costs, or consolidate their debts at subprime rates using their house as the collateral for the loan. Wells Fargo used these same lists to solicit African-American borrowers with "draft checks." These checks were live, and when cashed instantly became a loan, usually at a very high interest rate, many times at or over 20 percent. When customers deposited these draft checks into their account, we would receive notice and would pursue them in an effort to refinance them with another subprime loan.

11. The higher-ups at Wells Fargo, including the branch managers, put a lot of pressure on credit managers to close loans with the highest possible interest rates and most expensive terms. This led to an environment in which unethical practices were condoned and encouraged. Credit managers and branch managers pushed African-American customers into

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loans they really could not afford. This was possible to do because the underwriting rules gave the managers lots of discretion that allowed them to engage in predatory practices. I know this happened, because I processed the paperwork and saw the loan files.

12. Many different practices were used to steer African-American customers into subprime loans. Many of these customers could have qualified for less expensive or prime loans, but because Wells Fargo Financial only made subprime loans, managers had a financial incentive to put borrowers into subprime loans with high interest rates and fees even when they qualified for better priced loans. Managers received commissions or a bonus based on how many loans they made during a month and whether they met quotas set by the company. Branch and district managers put a lot of pressure on credit managers to meet these goals. Credit managers would not get their bonus and would be written up if they failed to meet the goals. Branch managers used this threat to pressure credit managers into making loans that in many instances should not have been made.

13. There were lots of schemes used to steer African-American customers into subprime loans. For example, credit managers and branch managers made "teaser rate" loans without informing the borrower that the loan had an adjustable rate. They would just say: "this is your monthly payment." Managers also told borrowers that the teaser rate loans would be refinanced in 3 years to avoid paying a higher rate, even when they knew there was a significant risk that it couldn't be done.

14. Managers manipulated loan-to-value ("LTV") calculations in order to qualify borrowers for loans that were larger than they could afford by using inflated appraisals for homes that they knew were not accurate.

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15. In many cases documents were actually falsified to inflate a borrower's income so that the borrower would appear to meet debt-to-income ("DTI") requirements. I know that at least one branch manager engaged in this practice. On one occasion I objected to a falsification of income documents and the branch manager told me, "we gotta do what we gotta do."

16. Borrowers were encouraged to apply for "stated income" loans even when they had the necessary income documentation to qualify for a prime loan. By applying for a stated income loan, the borrower would qualify for a more expensive subprime product. Managers did not tell borrowers that if they submitted income documentation, they could get a less expensive loan.

17. Managers encouraged borrowers to increase the size of their loans by taking additional cash out of their homes when applying for a home equity loan. These "cash-out" refinance loans inflated the size of the loan beyond what the borrower needed, making it more expensive and more difficult to pay back.

18. Borrowers were not told about prepayment penalties.

19. In some instances managers told borrowers that rates were locked prior to closing, when they were not.

20. Managers often misled borrowers about the cost of their loan by failing to tell them that they would have to pay taxes and insurance as part of their monthly payments.

21. Each office had what was called a "loan optimizer." This was a type of filter that was supposed to be used to make sure that the borrower qualified for the best loan available. Managers knew exactly how to manipulate the loan applicant's information so that the borrower would qualify for a subprime loan.

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22. Managers added expensive "extras" to loan applications even when the borrower did not need them. For example, credit managers told borrowers that the Home/Auto Security Plan ("HASplan") came with the loan when in fact it was an unnecessary additional type of insurance that increased monthly payments. The only thing this extra did was drive up the cost of the loan. Wells Fargo made money by adding this extra on to the loan.

23. Managers even went so far as to lie to borrowers about whether their house would become the collateral for a debt consolidation. They told the borrower that they were simply applying for a line of credit, like a credit card, not that they were taking out a loan on their house. For example, managers pushed what we called the "NowLine" of credit without telling the borrower that this would be a second mortgage on their home.

24. In doing all of these things to manipulate African-American borrowers into subprime loans, managers would talk quickly and shuffle lots of papers to conceal what they were doing from the borrower and push the deal through faster.

25. Whenever I saw something that I thought was not right, I did my best to get it fixed. I remember one African-American borrower, Tyrone Banks, Sr., who came into the office to make payments on a debt consolidation loan. I became familiar with his situation, and at one point tried to help him modify his loan when he could no longer afford to make payments. I came to learn that his income documents were falsified in order to qualify him for the subprime loan that he could no longer make payments on. I also learned that Mr. Banks was never told that his loan was an adjustable loan, and that his payments could go up. Mr. Banks has had to file for bankruptcy in order to prevent his home from being foreclosed on.

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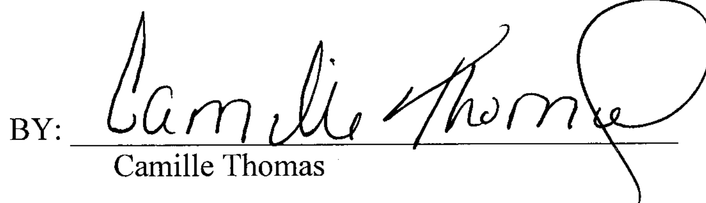
I hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

EXECUTED WITHIN THE UNITED STATES ON: February 4, 2010

BY: 
Camille Thomas

EXHIBIT

7

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MARYLAND
BALTIMORE DIVISION

MAYOR AND CITY COUNCIL OF BALTIMORE, Plaintiff, v. WELLS FARGO BANK, N.A. and WELLS FARGO FINANCIAL LEASING, INC., Defendants.	)	No. 1:08-cv-00062-BEL

1. I, Tony Paschal, hereby attest that I am over the age of 18 years and that I am competent to testify with respect to the matter below.

2. Between September, 1997 and September, 2007, during two separate periods of employment and for a total of eight years, I worked as a home mortgage consultant, or loan officer, in the Annandale, Virginia office of Wells Fargo Home Mortgage ("Wells Fargo").

3. My first period of employment with Wells Fargo was from September, 1997 to June, 1999. I was initially hired by Norwest Mortgage which merged with Wells Fargo in the middle of 1998. As a loan officer in Wells Fargo's Sales and Marketing section, my duties included contacting existing Wells Fargo borrowers in forty-eight (48) states to solicit them to refinance their home mortgage loan. Other Wells Fargo loan

officers also referred to me mortgage loan applicants that they were unable to qualify for "prime" loans because the applicants had blemished credit. I worked with these applicants to see if they would qualify for a prime conventional loan or a Federal Housing Administration ("FHA") loan. As loans insured by the federal government, FHA loans have interest rates that are a little higher than the prime rate, but are significantly less expensive than subprime loans.

4. I also worked during much of this period as a Community Development Representative. In this capacity, I contacted and worked with community groups with the goal of expanding Wells Fargo's business, particularly in minority communities. I am African American.

5. In June, 1999, I left Wells Fargo to take a position with Ardent Communication, a telecommunications business. I left Wells Fargo for two reasons. First, I was uncomfortable with how Wells Fargo treated its minority employees and customers. Wells Fargo's managers were almost entirely White and there was little to no opportunity for advancement for minorities. Wells Fargo also discriminated against minority loan applicants by advising them that the interest rate on their loan was "locked", when in fact, Wells Fargo had the ability to lower the interest rate for the applicant if the market rates dropped prior to the loan closing. I believe this was deceptive and discriminatory, particularly since Wells Fargo loan officers lowered interest rates for White loan applicants when market rates dropped after the application but prior to a loan closing. Even though I complained about this differential treatment of minorities to the branch manager, Jennifer Bowman, Wells Fargo did nothing to change

the practice. I also left Wells Fargo because Ardent Communications offered me a higher salary and more opportunities as a minority employee for advancement.

6. After Ardent Communications went out of business, in November 2001, I returned to work as a loan officer in the Sales and Marketing section of Wells Fargo's Annandale, Virginia office. Although I still had concerns about Wells Fargo's treatment of minority employees and customers, I thought that because there was a new branch manager, Dave Margeson, in the Annandale office, the working environment may have improved.

7. By the time I returned to Wells Fargo, the company was targeting existing customers for refinance loans to a much greater extent than it had during my first period of employment. As during my first period of employment, I contacted existing Wells Fargo borrowers nationally to solicit them to refinance their loans into a prime or FHA loan. When the borrower did not qualify for those loans, I would refer the borrower to the Mortgage Resource division, which is known by the acronym MORE and exclusively originates higher interest rate subprime loans. The employees working for MORE were located on the same floor as I was and I communicated with them every day.

8. In addition to taking referrals from other loan officers, MORE employees in the Annandale office targeted minority consumers for both purchase and refinance subprime loans. The MORE division targeted zip codes in Washington, D.C. east of the Anacostia River, Prince George's County, Maryland and the City of Baltimore with predominantly African-American populations. I heard employees in the MORE division comment that Howard County was not good for subprime loans because it has a predominantly White population. I also heard MORE employees on several occasions

mimic and make fun of their minority customers by using racial slurs. They referred to subprime loans made in minority communities as "ghetto loans" and minority customers as "those people have bad credit," "those people don't pay their bills," and "mud people."

9. In 2002, Dave Johnson, a former colleague with whom I had worked at Wells Fargo in 1997 and 1998, asked me if I could help him return to Wells Fargo. Mr. Johnson left Wells Fargo in 1998 to work at another mortgage lender. I spoke with Dave Margeson, my branch manager, and suggested that he hire Dave Johnson. Wells Fargo hired Mr. Johnson as a manager in the MORE division. Although I had also applied for a management position, Wells Fargo hired Mr. Johnson, who is White, instead of promoting me. I believe that Wells Fargo did not promote me for two reasons. First, Wells Fargo's management culture was White. Mr. Margeson is White and so is his immediate supervisor, area manager John Goulding. Indeed, I know of only one Wells Fargo African-American manager. Second, Wells Fargo management knew that I treated Wells Fargo customers well by offering to refinance them to prime and FHA loans when they qualified for those products. Wells Fargo management did not believe that I was doing enough to promote the subprime business, which was far more profitable because of the higher interest rates and fees. John Goulding told me that I was not doing enough to promote subprime loans and managers told me and others in the Sales and Marketing section that if we could not initially qualify a borrower for an FHA loan, we should refer them to the MORE division for a subprime loan even if with additional time or assistance the borrower would qualify a prime or an FHA loan.

10. Wells Fargo promoted its subprime business by targeting subprime loans to minorities. It did so in two ways, first, by sending marketing materials to minority

communities; second, by using minority subprime loan officers to solicit loans in those same communities. Wells Fargo targeted marketing materials to zip codes with predominantly minority populations. Wells Fargo's Annandale office targeted African American zip codes in Washington, D.C., Prince George's Country and Baltimore.

11. Wells Fargo even had software to generate marketing materials to minorities. For example, if a Wells Fargo loan officer anywhere in the United States wanted to send a flyer to consumers in an African-American neighborhood soliciting subprime loans, he could access software on his computer that would print out a flyer to persons speaking the language of "African American." I discovered this practice and attach a screen shot from my computer as an illustration of how a Wells Fargo employee could generate a flyer targeting African Americans. The document attached as Exhibit A is a true and accurate copy of the screen shot I printed on January 17, 2006. Only after I complained about this practice, did Wells Fargo agree to remove the African American option from the menu of languages.

12. Wells Fargo also marketed subprime loans to minorities by hiring minority employees to solicit these higher cost loans. Wells Fargo hired African-American loan officers exclusively from other subprime lenders. In the Annandale office, all the MORE loan officers were African-American, even though their two managers were White. In Silver Spring, Maryland, Wells Fargo had an "Affinity Group Marketing" section which consisted entirely of African-American employees. The Affinity Group targeted African-American churches and their members for loans. The Affinity Group Marketing section also hired an African-American employee specifically for the purpose of targeting African-American churches. Because the MORE group only had authority to make

subprime loans, they regularly originated subprime loans to African Americans and other minority borrowers who could have qualified for a lower cost prime loan or FHA loan. I had access to Wells Fargo customers' loan records and application files for my work in the Sales and Marketing division and regularly saw minority customers who had good credit scores and credit characteristics in subprime loans who should have qualified for prime or FHA loans.

13. Because Wells Fargo made a higher profit on subprime loans, the company put "bounties" on minority borrowers. By this I mean that loan officers received cash incentives to aggressively market subprime loans in minority communities. If a loan officer referred a borrower who should have qualified for a prime loan to a subprime loan, the loan officer would receive a bonus. Loan officers were able to do this because they had the discretion to decide which loan products to offer and to determine the interest rate and fees charged to the borrower. Since loan officers made more money when they charged higher interest rates and fees to borrowers, there was a great financial incentive to put as many minority borrowers as possible into subprime loans and to charge these borrowers higher rates and fees. I knew many loan officers who made more than $600,000 a year and a few who made more than $ 1 million.

14. Wells Fargo discriminated against minority loan applicants by not offering them its better or newer products which had lower fixed interest rates and fees. Instead, Wells Fargo offered its higher cost loan products, including its adjustable rate mortgage (ARM) loans to minority applicants. Wells Fargo's loan officers also discriminated against minority refinance applicants by encouraging them to take out more cash from their home equity. By taking out more cash, the borrower would unwittingly increase the

commission the loan officer received on the loan, while at the same time eliminating his ability to qualify for a prime or FHA loan. By encouraging the borrower to take out more cash, the loan officer knowingly increased the borrower's risk of foreclosure because of the higher loan amount.

15. In trainings, Wells Fargo loan officers were encouraged to omit pertinent information about a subprime loan in talks with applicants because discussing loan terms could cost a loan officer a sale. For example, it was implied in trainings that Wells Fargo loan officers should not mention that subprime loans included a prepayment penalty if the borrower paid off or refinanced his loan before the prepayment penalty period ended or that the monthly payments on ARM loans would substantially increase. When an applicant asked a loan officer about prepayment penalties or monthly payment increases, the loan officer would tell the applicant not to worry because Wells Fargo would later be able to refinance him into a prime or an FHA loan.

16. Wells Fargo's management also tolerated a culture of discrimination. In addition to being almost entirely White, the company promoted at least one manager who used racial slurs. Dave Zoldak, who succeeded Dave Margeson as my branch manager in 2005, used the word "nigger" at the office. Although Wells Fargo knew Mr. Zoldak used racial slurs, it promoted him to area manager after I complained about his discriminatory comments. On October 21, 2005, I complained by email to Mr. Zoldak directly about his use of the word "nigger" and speaking about how African Americans lived in "'hoods" and "slums." Mr. Zoldak replied that he had used the slurs in a humorous way, just as the African-American comedian Dave Chapelle did on television and thought that I would find the use of these terms humorous. I attach as Exhibit B a true and accurate

copy of my October 21, 2005 email to Mr. Zoldak and his response later the same day. On December 9, 2005, I complained by email to Joe Rogers, an Executive Vice President, and two Human relations employees at Wells Fargo about the use of the word "nigger" and other slurs by Wells Fargo employees. I also verbally informed Mr. Rogers's of Mr. Zoldak's racial slurs, including the use of the word "nigger." Although Mr. Rogers agreed with me by email that racial epithets were unacceptable, he questioned why I was raising the issue with him. I attach as Exhibit C a true and accurate copy of my December 9, 2005 email to Mr. Rogers and others, and his December 12, 2005 response. Despite these complaints, Wells Fargo promoted Mr. Zoldak.

17. Even the underwriting of subprime loans fostered their discriminatory impact on minorities. The subprime underwriting group was located in a different city than the prime underwriting group. The subprime underwriters were located initially in Baton Rouge, Louisiana and later Ft. Mill, South Carolina. Subprime loan officers with MORE and elsewhere within Wells Fargo pressured underwriters to approve subprime loans.

18. In late 2004 and early 2005, in response to the complaints of discrimination by such groups as ACORN (the Association of Community Organizations for Reform Now) and the Center for Responsible Lending, Wells Fargo implemented so-called "filters" in their lending programs that purportedly would discourage loan officers from steering minorities to subprime loans. Wells Fargo implemented these filters for public consumption only and not to actually restrict discriminatory practices. The filters were ineffective because they did not have any "teeth" (no punishment for violating) and because they were easy for loan officers to circumvent. I do not believe these filters had

any impact on steering because subprime loan officers continued to receive large financial incentives for making subprime loans to minority borrowers and were encouraged by their managers to do so because these loans were profitable. These filters also did not have an impact on steering because, notwithstanding any written rules, loan officers had discretion to make decisions about products and pricing.

19. Wells Fargo ultimately fired me in September, 2007 asserting that my loan production was low. My loan production was lower than many other loan officers because I tried to do the right thing by Wells Fargo customers by putting them in loans they could afford. If a customer did not qualify for a loan or could not afford an estimated monthly payment, I did not originate the loan. I was verbally reprimanded by John Goulding, my indirect supervisor, for placing too many customers in FHA loans, when the company wanted me to refer them to a subprime loan officer, for example in the MORE group, so that the company could make a greater profit on the loan.

I hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

EXECUTED WITHIN THE UNITED STATES ON: April 9, 2009

BY: ______________________
Tony Paschal

Exhibit A

Search for Items

Standard Search (* You must at least select a Type of Item or enter a Subject)

* What Type Of Item Are You Looking For?	Fast Flyer
* What Subject Are You Looking For?	
Personalized	Yes, Personalized
Strategy	Special Programs
Language	African American
Item Size	--Select One--
Item Color	--Select One--
Audience	--Select One--
Product / Program / Feature	--Select One--
High Trust Sales and Marketing	--Select One--
SALE ITEMS	--Select One--

Search

Searching Hints

Here are some helpful searching hints tl
you find the items you're looking for.

> For the fastest results, if you know the
number, enter it in the Quick Search secl

> For best results using Standard Searcl
minimum, select a Type of Item AND a St
such as "FAST Flyer - Consumer" and "F
Homebuyer".

> For more targeted results, also include
search criteria as appropriate, such as sı
language, etc. At a minimum, you must s
either a Type of Item or enter a Subject.

Quick Search (Use This When You Know the Item ID)

Item ID (do not include NMFL#, etc.)

Search

Custom Requests

For custom design requests, click on the button below. Please note that custom requests are not tracked as orders through Easy O
should contact Ad Services directly at 515-213-4000 or by email at adservices@wellsfargo.com for questions regarding custom requ

Custom Requests/Reviews

Exhibit B

Paschal, Tony

From:	Zoldak, David
Sent:	Friday, October 21, 2005 8:47 AM
To:	Paschal, Tony
Subject:	RE: Workflow

I'm only trying to provide you options to help lessen an obviously frustrating situation. I would rather suggest as many resources I know of to help you be proactive with your loans instead of making excuses to let these loans go to the wayside. As far as the rest of your comments are concerned, I believe you are referring to our many rehashings of the Dave Shappel(spelling) show...which, I assumed you enjoyed. If something I said had ever offended you, I'm sorry. They next time I say something that you feel is offensive to you or anyone, I would encourage you to address it at that time. I would like you to focus on working with me and our team in Ohio to resolve your loan problems instead of wasting your time and energy in some other direction.

David J. Zoldak
Branch Manager
Wells Fargo Home Mortgage
MAC M8602-031
7620 Little River Turnpike, Ste. 300
Annandale, VA 22003
703.333.5555 Tel
866.333.5540 ext. 5555 Toll Free
703.333.5590 Fax
david.zoldak@wellsfargo.com

For your protection, we remind you that this is an unsecured email service, which is not intended for sending confidential or sensitive information. Please do not include your social security number, account number, or any other personal or financial information in the content of the email. To see our privacy policy regarding how we use and protect customer information, please select the following link: http://www.wellsfargo.com/privacy/privacy.jhtml. To discontinue receiving all emails containing solicitation materials from Wells Fargo Bank N.A., including Wells Fargo Home Mortgage, please send an email to NoEmailRequest@wellsfargo.com with your name and email address.

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Wells Fargo Home Mortgage-2701 Wells Fargo Way-Minneapolis, MN 55467-8000

From: Paschal, Tony
Sent: Friday, October 21, 2005 6:49 AM
To: Zoldak, David
Subject: Workflow
Importance: High

As soon as my email functionality is restored I will forward the email I sent to Ms. Noble over a week ago informing her about my computer situation. If I were able to access the information she has been requesting in her email, (cell phone numbers, work numbers, etc) I would have used loan status not LIS to get that information. Since neither of those systems has been available on a consistent basis for the past two weeks, and since loans in apptaker are reciprocally linked to loan status, getting back to Ms. Noble has been difficult at best. I feel her emails have been returned in a timely fashion, however if this situation is being approached as Shirley Temple and Bill (Bojangles) Robinson we have a problem. Speaking of problems, since you were comfortable enough to use a quote in front of me several months ago using the word "nigger" you'll understand when I say that I am nobody's "nigger" and I do not live in anyone's "hood" and I am not from anyone's slums. If you have any questions feel free to contact me. Thank's

Tony Paschal
Home Mortgage Consultant
Wells Fargo Home Mortgage
M8602-031
7620 Little River Turnpike Suite 300
Annandale, Virginia 22003
703.333.5549 Office
866.333.5540 ext.5549 Toll Free

Exhibit C

Paschal, Tony

From: Rogers, Joe
Sent: Monday, December 12, 2005 10:34 AM
To: Paschal, Tony
Cc: White, Julie M. - HR; Williams, Mark S (HR)
Subject: RE:

Tony,

I believe all on this chain would agree with you. My question is one of context. What prompts you to ask that question at this time. While I would want to send an across the board agreement, questions like yours below, could be an example of the use of this word. In other words, indicating a totally unacceptable practice.

Joe Rogers
Ph: (410) 872-1935

-----Original Message-----
From: Paschal, Tony
Sent: Friday, December 09, 2005 4:03 PM
To: Rogers, Joe
Cc: White, Julie M. - HR; Williams, Mark S (HR)
Subject:
Importance: High

Is there any time when it is appropriate to use the word "Nigger" in the workplace? Is it ever appropriate to reference where an African American employee and his family live as the "slums" or the "hood"? This word is so vile and filthy that our email system will not allow it to leave our own network. After reading every employee handbook since Wells Fargo Home Mortgage was Norwest Mortgage, I cannot find any instance where any racial epithet is allowed at Wells Fargo. At least that what the handbook says.

Tony Paschal
Home Mortgage Consultant
Wells Fargo Home Mortgage
M8602-031
7620 Little River Turnpike Suite 300
Annandale, Virginia 22003
703.333.5549 Office
866.333.5540 ext.5549 Toll Free
703.333.5590 Fax
tony.paschal@wellsfargo.com

For your protection, we remind you that this is an unsecured email service, which is not intended for sending confidential or sensitive information. Please do not include your social security number, account number, or any other personal or financial information in the content of the email. To see our privacy policy regarding how we use and protect customer information, please select the following link: http://www.wellsfargo.com/privacy/privacy.jhtml. To discontinue receiving all emails containing solicitation materials from Wells Fargo Bank N.A., including Wells Fargo Home Mortgage, please send an email to NoEmailRequest@wellsfargo.com with your name and email address.

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Wells Fargo Home Mortgage-2701 Wells Fargo Way-Minneapolis, MN 55467-8000

EXHIBIT

8

DECLARATION OF TONY PASCHAL

1. I, Tony Paschal, hereby attest that I am over the age of 18 years and that I am competent to testify with respect to the matter below.

2. On April 9, 2009, I signed and submitted a declaration in the case of *Mayor and City Council of Baltimore v. Wells Fargo Bank, N.A.*, Civ. No. 08-00062 (D. Md.). ("April 9, 2009 Declaration"). My April 9, 2009 Declaration is attached as Exhibit A hereto.

3. In my April 9, 2009 Declaration, I described the work I did with Wells Fargo Home Mortgage ("Wells Fargo") between September 1997 and June 1999, and between November 2001 and September 2007, and the discriminatory practices I observed. During both periods of employment, I worked as a loan officer in Wells Fargo's Sales and Marketing Section in Annandale, Virginia. As a loan officer, my duties included contacting existing Wells Fargo's borrowers in forty-eight (48) states, including Tennessee, to solicit them to refinance their home mortgage loans. April 9, 2009 Declaration at ¶¶ 3-7.

4. Many of Wells Fargo's practices in the City of Memphis and Shelby County were the same as the company's practices in Baltimore that I described in my April 9, 2009 Declaration. For example, just as Wells Fargo targeted zip codes with African-American populations for high cost subprime loans in Baltimore (April 9, 2009 Declaration at ¶ 8), it targeted zip codes with African-American populations for these same products in the City of Memphis and Shelby County.

5. Wells Fargo used the same software to generate marketing materials to

Minorities in both Baltimore and Memphis. For example, if a Wells Fargo loan officer anywhere in the United States wanted to send a flyer to consumers in an African-American neighborhood soliciting subprime loans, he or she could access the same software on his computer that I have described in my April 9, 2009 Declaraion. This software included an option for printing flyers in the so-called language of "African American." I attached a true and accurate copy of a screen shot I printed on January 17, 2006 from my computer to my April 9, 2009 Declaration as an illustration of how a Wells Fargo employee could generate a flyer targeting African Americans. Wells Fargo only agreed to remove the African American option from the menu of languages after I complained about this practice.

6. As in Baltimore, Wells Fargo discriminated against minority loan applicants in the City of Memphis and Shelby County by not offering them its better or newer products which had lower fixed interest rates and fees. Instead, Wells Fargo offered its higher cost loan products, including adjustable rate mortgage (ARM) loans, to minority applicants. These ARM loans included loan products known as 2/28s and 3/27s which had a lower "teaser rate" during the first two or three years of the loan, but then the interest rate of the loan would reset to a much higher rate that can continue to rise based on market conditions.

7. Wells Fargo's loan officers also discriminated against minority refinance applicants in the City of Memphis and Shelby County by encouraging them to take out more cash from their home equity. By taking out more cash, the borrower would unwittingly increase the commission the loan officer received on the loan, while at the same time damaging his ability to qualify for a lower cost prime or Federal Housing

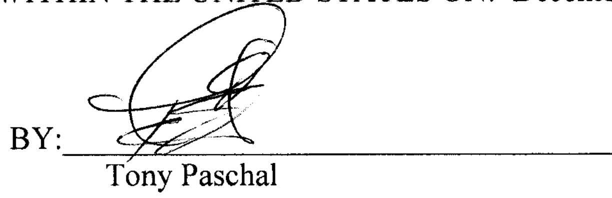
Administration ("FHA") loan. By encouraging the borrower to take out more cash, the loan officer increased the borrower's risk of foreclosure.

8. In my duties as a Wells Fargo loan officer, I worked with many loan applicants in the City of Memphis and Shelby County to see if they were qualified for a prime conventional loan or an FHA loan. FHA loans are insured by the federal government and have lower interest rates than subprime loans and are fixed. If a borrower was not qualified for a prime or FHA loan, I would refer the borrower to the Mortgage Resource division, which is known by the acronym MORE and exclusively originates higher interest rate subprime loans.

9. In 2006, I worked with a borrower in the City of Memphis to refinance his Wells Fargo ARM loan; to the best of my belief this borrower was African-American. The borrower had a 2/28 subprime ARM loan that was almost two years old and was seeking to refinance his loan before his "teaser rate" expired and reset to a much higher interest rate. I determined that the borrower qualified for a prime loan. The borrower had an excellent credit score, and for this reason I suspected that he had previously qualified for a prime loan in 2004 but had been inappropriately placed by Wells Fargo into a subprime ARM loan at that time. In working with the borrower in 2006, I informed my branch manager, Dave Zoldak that the borrower qualified to refinance into a prime fixed-rate loan. Mr. Zoldak told me that I should instead refinance the borrower into another subprime ARM loan. I refused to do this because I thought it was both unfair and discriminatory. After I refused, Mr. Zoldak "wrote me up" by putting a negative performance evaluation in my personnel folder.

I hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

EXECUTED WITHIN THE UNITED STATES ON: December 17, 2009



BY:______________________________
Tony Paschal

EXHIBIT

9

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MARYLAND
BALTIMORE DIVISION

MAYOR AND CITY COUNCIL OF BALTIMORE, Plaintiff, v. WELLS FARGO BANK, N.A. and WELLS FARGO FINANCIAL LEASING, INC., Defendants.	)	No. 1:08-cv-00062-BEL

DECLARATION OF ELIZABETH M. JACOBSON

1. I, Elizabeth M. Jacobson, hereby attest that I am over the age of eighteen and I am competent to testify with respect to the matter below.

2. In 1998, I was hired by Wells Fargo Home Mortgage as a "Home Mortgage Consultant" or loan officer. I worked for Wells Fargo Home Mortgage ("Wells Fargo") until December, 2007. After a period of time, I was promoted to Sales Manager.

3. For much of the time that I worked for Wells Fargo my office was located in Federalsburg, Maryland. I worked directly with loan applicants to make subprime loans. The geographic area that I covered was known as Region 12. This area included Northern Virginia, Baltimore, and Prince George's County, among other places. Much of my business came from referrals from Wells Fargo loan officers who were on the prime

side of the business. That means that they dealt with prime loan customers. These loan officers were known as "A reps." Many of these referrals came to me over the telephone from the A reps. Once I got the referrals, I would work directly with the loan customer to get them a subprime loan.

4. I was very successful in making subprime loans. I received many awards from Wells Fargo for originating a very high volume of subprime loans. For several years I was the top subprime loan officer at the company. In 2004 I made more subprime loans than any other loan officer at Wells Fargo anywhere in the country. I was always one of the top three Wells Fargo subprime loan producers in the country.

5. Between 2003 and 2007 I completed approximately $50 million in subprime loans per year. This translated to about 180 loans per year.

6. My pay was based on commissions and fees I got from making these loans. Fees and commissions were based on the size of the loan and the interest rate. In 2004, I grossed more than $700,000 in sales commissions. In 2005 I grossed more than $550,000 in commissions and pay. I was happy to remain a sales manager and not move any higher up at Wells Fargo because I could make more money working directly with customers to originate loans.

7. Because of the high volume of subprime loans that I made and the length of time that I worked at Wells Fargo, I learned all of the "ins and outs" of the subprime loan process at the company. I used this knowledge to find ways to qualify customers for subprime loans.

8. The commission and referral system at Wells Fargo was set up in a way that made it more profitable for a loan officer to refer a prime customer for a subprime

loan than make the prime loan directly to the customer. The commission and fee structure gave the A rep a financial incentive to refer the loan to a subprime loan officer. Initially, subprime loan officers had to give 40% of the commission to the A rep who made the referral; later on A reps received 50 basis points of the available commission. Because commissions were higher on the more expensive subprime loans, in most situations the A rep made more money if he or she referred or steered the loan to a successful subprime loan officer like me. A reps knew about my success in qualifying customers for subprime loans; as a result, I received hundreds of referrals.

9. When I got the referrals, it was my job to figure out how to get the customer into a subprime loan. I knew that many of the referrals I received could qualify for a prime loan. If I had access to Wells Fargo's loan files right now and could review these files, I could point out exactly which of these customers who got a subprime loan could have qualified for a prime loan.

10. Because I worked on the subprime side of the business, once I got the referral the only loan products that I could offer the customer were subprime loans. My pay was based on the volume of loans that I completed. It was in my financial interest to figure out how to qualify referrals for subprime loans. Moreover, in order to keep my job, I had to make a set number of subprime loans per month.

11. Wells Fargo, like any other mortgage company, had written underwriting guidelines and pricing rules for prime and subprime loans. There was, however, more than enough discretion to allow A reps to steer prime loan customers to subprime loan officers like me. Likewise, the guidelines gave me enough discretion to figure out how to qualify most of the referrals for a subprime loan once I received the referral.

12. In many cases A reps used their discretion to steer prime loan customers to subprime loan officers by telling the customer, for example, that this was the only way for the loan to be processed quickly; that there would be less paperwork or documentation requirements; or that they would not have to put any money down. Customers were not told about the added costs, or advised about what was in their best interest.

13. Once I received a referral from an A rep, I had discretion to decide which subprime loan products to offer the applicant. Most of the subprime loans I made were 2/28s. A 2/28 loan allowed the borrower to pay a lower fixed rate of interest for the first two years of the loan (the "teaser rate") and then the interest would reset periodically with the market for the remaining 28 years of the loan. These loans typically included a prepayment penalty for two or three years which ultimately made it more difficult for the borrower to refinance later out of the loan. For those loans where the prepayment penalty extended beyond the teaser rate period, the borrower would be unable to refinance her loan even after her interest rate re-set because she could not afford to pay the prepayment penalty. I know that some loan officers encouraged customers to apply for these loans by telling them that they should not worry about the pre-payment penalty because it could be waived. This was not true – the pre-payment penalty could not be waived.

14. According to company policy, we were not supposed to solicit 2/28 customers for re-finance loans for two years after we made a 2/28 subprime loan. Wells Fargo reneged on that promise; my area manager told his subprime loan officers to ignore this rule and go ahead and solicit 2/28 customers within the two year period, even though this violated our agreement with secondary market investors. The result was that Wells

Fargo was able to cash in on the pre-payment penalty by convincing the subprime customer to re-finance his or her 2/28 loan within the initial two year period. I complained to senior managers about this practice. I am not aware of any corrective action that was taken.

15. In addition to 2/28 loans, we had at least three types of low or no document subprime loan products that we marketed to customers: (1) "stated income" loans; (2) no income, no asset loans; and (3) no ratio loans. Stated income loans were ones in which the customer did not have to show what his or her income was with verifying documentation, but could merely say he or she made a certain amount of money. No income, no asset loans did not require the customer to list any employment. For a no ratio loan, the loan officer only had to put down the borrower's job title and did not have to list any income or debt-to-income ratio. Although the underwriting guidelines with respect to these products changed from time to time, loan officers always had discretion to use different compensating factors to get the customer into one of these subprime loan products. If, for example, a customer had a high credit score that would make them a good candidate for a prime loan, it was a simple matter to get them qualified for a subprime loan by telling the underwriting department that the customer did not want to provide documentation for the loan, had no source or seasoned assets, or needed to get the loan closed quickly.

16. Wells Fargo loan officers encouraged loan applicants to apply for stated income loans, no income – no asset loans, and no ratio loans because these loans had higher interest rates and fees and would allow the loan officer to receive a higher commission. Wells Fargo qualified borrowers for subprime loans by underwriting all

adjustable rate mortgage (ARM) loans, including 2/28 loans, with the assumption that the borrower would pay the teaser rate for the full life of the loan even though this lower rate only applied during the first two or three years of the loan. Wells Fargo also did not require subprime borrowers to escrow for taxes and insurance and most subprime borrowers did not.

17. There were various techniques that were used to qualify the A rep referrals for subprime loans. Each of the techniques involved taking advantage of the discretion we had in applying the underwriting guidelines. One way was to tell customers not to put any money down on the loan and borrow the entire amount, even if they could afford a big enough down payment to qualify for a prime loan. As soon as the loan was submitted without a down payment, it would "flip" from prime to subprime and a subprime loan officer would be able to get the loan qualified as a subprime loan. Another technique would be to tell the customer that the only way to get the loan closed quickly would be to submit it as a subprime loan. A third technique would be to put a person into a "stated income" loan, even if they had a W-2 statement that verified their income. By doing this, the loan was flipped from a prime to a subprime loan. I know that through some of these techniques borrowers with credit scores as high as 780 were steered into expensive subprime loans with as many as four points, even though they could have qualified for a prime loan.

18. I also know that there were some loan officers who did more than just use the discretion that the system allowed to get customers into subprime loans. Some A reps actually falsified the loan applications in order to steer prime borrowers to subprime loan officers. These were loan applicants who either should not have been given loans or who

MO

qualified for a prime loan. One means of falsifying loan applications that I learned of involved cutting and pasting credit reports from one applicant to another. I was aware of A reps who would "cut and paste" the credit report of a borrower who had already qualified for a loan into the file of an applicant who would not have qualified for a Wells Fargo subprime loan because of his or her credit history. I was also aware of subprime loan officers who would cut and paste W-2 forms. This deception by the subprime loan officer would artificially increase the creditworthiness of the applicant so that Wells Fargo's underwriters would approve the loan. I reported this conduct to management and was not aware of any action that was taken to correct the problem.

19. Prior to 2004, Wells Fargo did not make any effort to determine if subprime loans were being made to customers who qualified for prime loans. In 2004 a "filter" was put in place that was supposedly to help keep subprime loans from being made to prime customers. The filter did not work, and everyone knew it. There were lots of ways for loan officers to get around the filter because of the discretion that we had. If a subprime loan was flagged by the filter as one that had gone to a customer who qualified for a prime loan, the loan officer would simply give the underwriting department one of a set of stock responses, such as "the customer has no assets," or the customer's assets were not "sourced and seasoned." ("Sourced and seasoned" refers to verification of where the money comes from for the down payment and whether it has been in the customer's bank account long enough). These responses were widely used, and as soon as they were given to the underwriter, he or she would just override the filter and approve the subprime loan.

20. High ranking Wells Fargo managers knew that this practice was going on, because after about a year of these standby explanations being given, underwriters in the underwriting department were told to call the customers directly rather than contact the loan officer who was working with the customer. The loan officers quickly figured out how to work around this by warning customers that underwriters might call them and then coaching the customers about what to say. For example, customers were told that they should just tell the underwriter that they did not have much in the way of assets or documentation for their income, because otherwise the underwriter would deny their loan or force them to fill out additional paperwork to document their financials. The point was to get the customer to say whatever would allow them to qualify for a subprime loan, even if it was not true. The customers went along with this because they thought it would expedite the process of getting them the loan that they had been told was the right one for them.

21. Underwriters, like loan officers, had a financial incentive to approve subprime loans than, even if the customer could qualify for a prime loan, because they too got paid more if a subprime loan went through.

22. Wells Fargo charged higher interest rates and fees not only on its 2/28 and 3/27 subprime loans, but also on its subprime fixed-rate loans, than it did for prime loans. Subprime loan officers had discretion to decide what interest, points and fees to charge a borrower. For example, for approximately the first five years that I worked at Wells Fargo, I could charge as many points on a loan as I decided. Pricing sheets included different "add-ons" or fees that might be added to the price of the loan depending on the circumstances of the loan.

23. Federal Housing Administration (FHA) loans, like other government-insured loans, offered lower interest rates that are closer to prime rates. Subprime loan officers were required to have a subprime borrower sign a "Benefit to Borrower" Statement that stated that the borrower may qualify for a government-insured loan, but did not want it because it was too much paperwork. In fact, subprime loan officers were never trained in how to make FHA or government-insured loans. We asked for this training, but Wells Fargo refused to provide it.

24. For most of my employment, Wells Fargo did not restrict or regulate the fees that loan officers could charge. Only in 2007 did Wells Fargo begin to regulate and set the amount of fees such as processing fees and underwriting fees. Despite this regulation, subprime loan officers still had discretion to determine which fees to include as costs to the borrower and had a financial incentive to add fees because doing so increased their commission. There was always a big financial incentive to make a subprime loan wherever one could.

25. Once the subprime loan transaction with the customer was closed and we and Wells Fargo received our fees, closing costs and commissions, the loans were sold on the secondary market. This meant that Wells Fargo was no longer exposed to any risk of default or delinquency in payment on these subprime loans. In many cases, Wells Fargo continued to service these same subprime loans, and was paid a fee for doing that, but to my knowledge that did not expose the company to any risk beyond the first three months if the loans went bad. The risk of default rested with the companies that bought the loans from Wells Fargo, such as Fannie, Freddie, and Wall Street investment banks.

26. Many of the customers who were referred to me by A reps came from Prince George's County. Some came from Baltimore. I would estimate that a large majority of my customers were African American. Subprime managers joked that Prince George's County was the "subprime capitol of Maryland." I remember managers saying that they felt "so lucky to have P.G. County because it is the subprime capitol of Maryland."

27. I know that Wells Fargo Home Mortgage tried to market subprime loans to African Americans in Baltimore. I am aware from my own personal experience that one strategy used to target African-American customers was to focus on African-American churches. The Emerging Markets unit specifically targeted black churches. Wells Fargo had a program that provided a donation of $350 to the non-profit of the borrower's choice for every loan the borrower took out with Wells Fargo. Wells Fargo hoped to sell the African American pastor or church leader on the program because Wells Fargo believed that African American church leaders had a lot of influence over their ministry, and in this way would convince the congregation to take out subprime loans with Wells Fargo.

28. I remember being part of a conference call that took place in 2005 where Wells Fargo sales managers discussed the idea of going into black churches in Baltimore to do presentations about our subprime products. Everybody on that call was a subprime loan officer. Two of the individuals on the call were branch managers. On that call we were told that we "have to be of color" to come to the presentation. The idea was that since the churchgoers were black Wells Fargo wanted the loan officers to be black. I was

told that I could attend only if I "carried someone's bag." The point was clear to me: Wells Fargo wanted black potential borrowers talking to black loan officers.

29. Wells Fargo also targeted African Americans through special events in African-American communities called "wealth building" seminars. At some point in 2005 before the conference call discussed above, I remember preparing to participate in a wealth building seminar that was to be held in Greenbelt, Maryland. It was understood that the audience would be virtually all black. The point of the seminar was to get people to buy houses using Wells Fargo loans. At the seminar, the plan was to talk to attendees about "alternative lending." This was code language for subprime lending, but we were not supposed to use the word "subprime." I was supposed to be a speaker at this seminar, but was told by the Emerging Markets manager that I was "too white" to appear before the audience. I was offended by these statements and complained to several higher ranking managers about what had been said. The company did not respond to my complaints and no action was taken.

30. Subprime loan officers did not market or target white churches for subprime loans. When it came to marketing, any reference to "church" or "churches" was understood as a code for African-American or black churches.

31. I complained many times about what I thought were unethical or possibly predatory loan practices that Wells Fargo was engaged in. Managers never took any action to respond to my concerns. In my office we morbidly joked that we were "riding the stagecoach to Hell."

32. The culture at Wells Fargo was focused solely on making as much money as possible. Even as foreclosures were increasing in recent years, the company continued

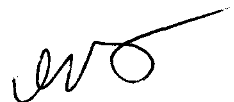
JP

to lavish expensive trips and gifts on successful subprime loan officers. I attended all expense paid trips to Cancun, Orlando, Palm Springs, Vancouver and the Bahamas where we were entertained by Aerosmith, the Beach Boys, the Eagles, Cheryl Crow, Elton John, Jimmy Buffett and James Taylor. When we would return to our rooms at night we would find gifts of artwork, crystal platters, steak of the month club memberships and IPODs left for us.

33. Although I did not work in the part of the company known as Wells Fargo Financial ("Financial"), I am aware that Financial did mainly re-finances, not home purchase loans. Many of Financial's loans were extremely high priced with lots of points and fees. Wells Fargo management did not allow loan officers to solicit customers with high-priced Wells Fargo Financial loans for purposes of refinancing, even though this would have been in the borrower's best interest.

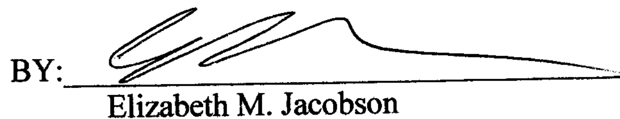
34. I left Wells Fargo in December 2007 because at that time the subprime market was contracting and I was getting fewer referrals. I wanted to move from Federalsburg to Easton, Maryland, but Wells Fargo said it wasn't opening any new offices. I gave my notice to the company at that point.

35. There are many other current and former Wells Fargo employees who have knowledge of the practices that I have discussed in this Declaration and, if compelled to testify, would, I believe, agree with what I have said. Many current and former Wells Fargo employees may well be reluctant to come forward voluntarily to tell what they know for fear of retaliation, reprisal or other actions that could adversely affect their future careers in the lending industry.



I hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

EXECUTED WITHIN THE UNITED STATES ON: April 20, 2009

BY: 

Elizabeth M. Jacobson

EXHIBIT

10

WHOLESALE - ALTERNATIVE LENDING/ SUBPRIME RATE SHEET

15 Day Best Effort Pricing - 7/13/05

Loan Programs with Prepayment Penalties

Fax on Demand: 888/208-7177 Doc #302

Grade	Credit Grade	LTV	2/28 ARM Caps 3/1/6 PAR	2/28 ARM 2 Year Prepay Penalty <1.00>	<2.00>	<3.00>	Index LIBOR 3.780 Margin	3/27 ARM Caps 3/1/6 PAR	3/27 ARM 3 Year Prepay Penalty <1.00>	<2.00>	<3.00>	Index LIBOR 3.780 Margin	30 Year Fixed 3 Year Prepay Penalty PAR	<1.00>	<2.00>	<3.00>
Y9	Credit Score 660+	70%	5.250	5.750	6.250	6.750	3.000	5.500	6.000	6.500	7.000	3.250	6.375	6.875	7.375	7.875
	Mtg. History 0x30	75%	5.375	5.875	6.375	6.875	3.125	5.625	6.125	6.625	7.125	3.375	6.500	7.000	7.500	8.000
	BK/FC 3/3	80%	5.500	6.000	6.500	7.000	3.250	5.750	6.250	6.750	7.250	3.500	6.625	7.125	7.625	8.125
	Debt Ratio <=55%	85%	5.750	6.250	6.750	7.250	3.500	6.000	6.500	7.000	7.500	3.750	6.875	7.375	7.875	8.375
		90%	5.875	6.375	6.875	7.375	3.625	6.125	6.625	7.125	7.625	3.875	7.000	7.500	8.000	8.500
		95%	6.500	7.000	7.500	8.000	4.250	6.750	7.250	7.750	8.250	4.500	7.625	8.125	8.625	9.125
		100%	7.125	7.625	8.125	8.625	4.875	7.375	7.875	8.375	8.875	5.125	8.250	8.750	9.250	9.750
Y8	Credit Score 640-659	70%	5.375	5.875	6.375	6.875	3.125	5.625	6.125	6.625	7.125	3.375	6.500	7.000	7.500	8.000
	Mtg. History 1x30	75%	5.500	6.000	6.500	7.000	3.250	5.750	6.250	6.750	7.250	3.500	6.625	7.125	7.625	8.125
	BK/FC 3/3	80%	5.625	6.125	6.625	7.125	3.375	5.875	6.375	6.875	7.375	3.625	6.750	7.250	7.750	8.250
	Debt Ratio <=55%	85%	5.875	6.375	6.875	7.375	3.625	6.125	6.625	7.125	7.625	3.875	7.000	7.500	8.000	8.500
		90%	6.000	6.500	7.000	7.500	3.750	6.250	6.750	7.250	7.750	4.000	7.125	7.625	8.125	8.625
		95%	6.625	7.125	7.625	8.125	4.375	6.875	7.375	7.875	8.375	4.625	7.750	8.250	8.750	9.250
		100%	7.250	7.750	8.250	8.750	5.000	7.500	8.000	8.500	9.000	5.250	8.375	8.875	9.375	9.875
Y7	Credit Score 620-639	70%	5.500	6.000	6.500	7.000	3.250	5.750	6.250	6.750	7.250	3.500	6.625	7.125	7.625	8.125
	Mtg. History 1x30	75%	5.625	6.125	6.625	7.125	3.375	5.875	6.375	6.875	7.375	3.625	6.750	7.250	7.750	8.250
	BK/FC 2/2	80%	5.750	6.250	6.750	7.250	3.500	6.000	6.500	7.000	7.500	3.750	6.875	7.375	7.875	8.375
	Debt Ratio <=55%	85%	6.000	6.500	7.000	7.500	3.750	6.250	6.750	7.250	7.750	4.000	7.125	7.625	8.125	8.625
		90%	6.125	6.625	7.125	7.625	3.875	6.375	6.875	7.375	7.875	4.125	7.250	7.750	8.250	8.750
		95%	6.750	7.250	7.750	8.250	4.500	7.000	7.500	8.000	8.500	4.750	7.875	8.375	8.875	9.375
		100%	7.500	8.000	8.500	9.000	5.250	7.750	8.250	8.750	9.250	5.500	8.625	9.125	9.625	10.125
Y6	Credit Score 600-619	70%	5.750	6.250	6.750	7.250	3.500	6.000	6.500	7.000	7.500	3.750	6.875	7.375	7.875	8.375
	Mtg. History 2x30	75%	5.875	6.375	6.875	7.375	3.625	6.125	6.625	7.125	7.625	3.875	7.000	7.500	8.000	8.500
	BK/FC 2/2	80%	6.000	6.500	7.000	7.500	3.750	6.250	6.750	7.250	7.750	4.000	7.125	7.625	8.125	8.625
	Debt Ratio <=55%	85%	6.250	6.750	7.250	7.750	4.000	6.500	7.000	7.500	8.000	4.250	7.375	7.875	8.375	8.875
		90%	6.375	6.875	7.375	7.875	4.125	6.625	7.125	7.625	8.125	4.375	7.500	8.000	8.500	9.000
		95%	7.250	7.750	8.250	8.750	5.000	7.500	8.000	8.500	9.000	5.250	8.375	8.875	9.375	9.875
		100%	7.625	8.125	8.625	9.125	5.375	7.875	8.375	8.875	9.375	5.625	8.750	9.250	9.750	10.250
Y5	Credit Score 580-599	70%	5.875	6.375	6.875	7.375	3.625	6.125	6.625	7.125	7.625	3.875	7.000	7.500	8.000	8.500
	Mtg. History 2x30	75%	6.000	6.500	7.000	7.500	3.750	6.250	6.750	7.250	7.750	4.000	7.125	7.625	8.125	8.625
	BK/FC 2/2	80%	6.125	6.625	7.125	7.625	3.875	6.375	6.875	7.375	7.875	4.125	7.250	7.750	8.250	8.750
	Debt Ratio <=55%	85%	6.375	6.875	7.375	7.875	4.125	6.625	7.125	7.625	8.125	4.375	7.500	8.000	8.500	9.000
		90%	6.750	7.250	7.750	8.250	4.500	7.000	7.500	8.000	8.500	4.750	7.875	8.375	8.875	9.375
		95%	7.500	8.000	8.500	9.000	5.250	7.750	8.250	8.750	9.250	5.500	8.625	9.125	9.625	10.125
Y4	Credit Score 560-579	70%	6.000	6.500	7.000	7.500	3.750	6.250	6.750	7.250	7.750	4.000	7.125	7.625	8.125	8.625
	Mtg. History 1x60	75%	6.125	6.625	7.125	7.625	3.875	6.375	6.875	7.375	7.875	4.125	7.250	7.750	8.250	8.750
	BK/FC 1/1	80%	6.375	6.875	7.375	7.875	4.125	6.625	7.125	7.625	8.125	4.375	7.500	8.000	8.500	9.000
	Debt Ratio <=55%	85%	6.875	7.375	7.875	8.375	4.625	7.125	7.625	8.125	8.625	4.875	8.000	8.500	9.000	9.500
		90%	7.625	8.125	8.625	9.125	5.375	7.875	8.375	8.875	9.375	5.625	8.750	9.250	9.750	10.250
Y3	Credit Score 540-559	70%	6.875	7.375	7.875	8.375	4.625	7.125	7.625	8.125	8.625	4.875	8.000	8.500	9.000	9.500
	Mtg. History 2x60;1x30&1x90	75%	7.000	7.500	8.000	8.500	4.750	7.250	7.750	8.250	8.750	5.000	8.125	8.625	9.125	9.625
	BK/FC 1/1	80%	7.250	7.750	8.250	8.750	5.000	7.500	8.000	8.500	9.000	5.250	8.375	8.875	9.375	9.875
	Debt Ratio <=55%	85%	8.000	8.500	9.000	9.500	5.750	8.250	8.750	9.250	9.750	6.000	9.125	9.625	10.125	10.625
Y2	Credit Score 520-539	70%	7.875	8.375	8.875	9.375	5.625	8.125	8.625	9.125	9.625	5.875	9.000	9.500	10.000	10.500
	Mtg. History 90+	75%	8.000	8.500	9.000	9.500	5.750	8.250	8.750	9.250	9.750	6.000	9.125	9.625	10.125	10.625
	BK/FC < 1 Year	80%	8.625	9.125	9.625	10.125	6.375	8.875	9.375	9.875	10.375	6.625	9.750	10.250	10.750	11.250
	Debt Ratio <=50%	85%	9.375	9.875	10.375	10.875	7.125	9.625	10.125	10.625	11.125	7.375	10.500	11.000	11.500	12.000
Y1	Credit Score 500-519	70%	9.000	9.500	10.000	10.500	6.750	9.250	9.750	10.250	10.750	7.000	10.125	10.625	11.125	11.625
	Mtg. History 90+	75%	9.125	9.625	10.125	10.625	6.875	9.375	9.875	10.375	10.875	7.125	10.250	10.750	11.250	11.750
	BK/FC <1 Year	80%	9.500	10.000	10.500	11.000	7.250	9.750	10.250	10.750	11.250	7.500	10.625	11.125	11.625	12.125
	Debt Ratio <=50%															

ARM Floor Rate = 5.00% | **Fixed Floor Rate = 5.95%**

Base rates may be posted below floor rates. Final rate, after all adjustors, including yield spread, must be at or above the floor rate.

General Notes:
- Loans may be locked upon clearance of all prior-to-doc conditions.
- Maximum margin is posted - No further margin buyup available.
- No Section 32 or state-specific high cost loans
- Lender Fees: $495 + Tax Service (State Specific)

Prepayment Penalty Adjustments:

Rate and Margin	1 Yr ARM	2/28 ARM	3/27 ARM	All Fixed
No Prepay	0.50	0.50	0.75	0.75
2 Years Prepay	n/a	0.00	0.25	0.25
3 Years Prepay	n/a	n/a	0.00	0.00

Maximum Broker Compensation:
- Broker Compensation is capped at a total of 5%
- 2/28 Libor, 3/27 ARM & Fixed Rate (w/out prepay penalty) =<1.00>
- 1 Year ARM(w/out prepay penalty) = PAR

Adjustments:	Rate/Margin
Interest Only Program	+.250
Purchase	-.125
Lite Doc	+.250
Second Home	+.250
Non-Owner Occupied	+.500
3-4 Units	+.500
High-Rise Condo	+.250
Loan Amounts <= $75,000	+.500
Loan Amounts $75,001 - $149,999	As Posted
Loan Amounts $150,000 - $400,000	-.125
Loan Amounts >= $400,001	-.250

SUBPRIME MORTGAGE REWARDS

Credit Grades Y2, Y3 & Y4 only

0 x 30 last 24 mos.	Reduce rate by 37.5 bps
0 x 30 last 12 mos.	Reduce rate by 25 bps
1 x 30 last 24 mos.	Reduce rate by 25 bps

See guidelines for additional information and restrictions

Loan Programs:	Rate/Margin
30/15 Balloon or 15 Year Fixed	Reduce 30 yr Fixed by .250
1 Year ARM	Reduce 2/28 ARM by .125

This Price Sheet valid for the following states and products:

ARM loans:

AL, AK, AZ (min loan: $5,000), AR, CA, CO, CT, DE, DC, FL
GA (o/o min loan: $359,650, investments, 2nd home), HI, ID, IN, IL
IA, KS, KY, LA, MD, MA (2nd home purchases & investement)
MI, MN, MS, MO, MT, NE, NH, NC (min loan: $150,001)
NJ (o/o purchase min loan: $365,875, investment, 2nd home)
NM (min loan: $359,650), ND, NV, NY, OH, OK, OR, PA, RI
SC (o/o min loan: $359,650; 2nd & investment min loan: $150,001)
SD, TN, TX, UT, VA, VT, WA, WI, WV, WY

Fixed Rates loans and 30/15 Balloon in:

AL, AZ (min loan: $5,000), AR, CA, CO, CT, DE, DC
FL, GA (o/o min loan: $359,650, investments, 2nd home), HI, ID, IN, KY
LA (min loan: $25,000), *MA (2nd home purch & inv), MD, ME, MI, MS, MO, MT
NE, NH, NV, NY (1yr max; Max YSP <2.00>), *NC (2yr max; min loan: $150,001)
ND, OH, OK, OR, PA (min loan: $50,001), RI (refinances)
SC (o/o min loan: $359,650; 2nd & investment min loan: $150,001)
SD, TN, TX (≤ 12%), UT, VA, WA, WV (purchases), WI, WY
*30/15 Balloon not available for loans in NC and MA (2nd homes)

Alternative Lending/Subprime Operations Centers:

Baton Rouge (800) 999-7574	4041 Essen Lane, Suite 200, Baton Rouge, LA 70809
Fort Mills (866) 403-5449	3480 Stateview Blvd, Fort Mills, SC 29715
Concord (866) 474-2044	1401 Willow Pass Road, Concord, CA 94520
Des Moines (866) 846-8110	One Home Campus, West Des Moines, IA 50328

To receive this via email, please contact your Account Executive. If this individual is unknown, please call (800) 340-0465.

If you received this fax in error, please call (866) 303-9669

PROGRAM TERMS & CONDITIONS SUBJECT TO CHANGE WITHOUT NOTICE. FOR USE BY MORTGAGE PROFESSIONALS ONLY AND SHOULD NOT BE DISTRIBUTED TO BORROWERS. EQUAL OPPORTUNITY HOUSING LENDER. RATES AND TERMS QUOTED ARE FOR FULL DOC SFR LOANS. REFER TO PRODUCT MATRIX FOR SPECIFIC LOAN AMOUNTS, PROPERTY TYPES & MAX LTVS. ALL PROGRAMS ARE SUBJECT TO CREDIT AND COLLATERAL APPROVAL.

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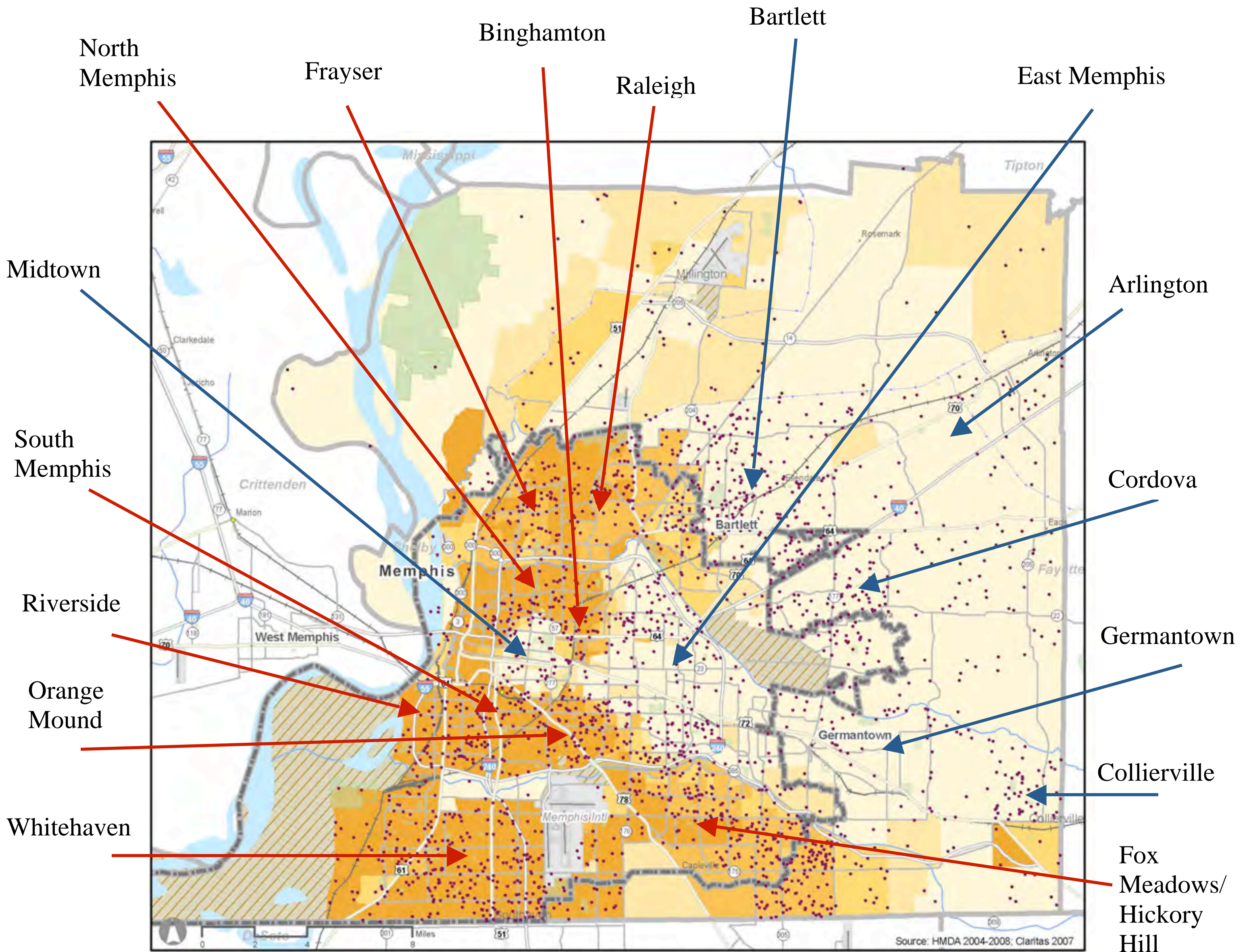
EXHIBIT

11



Wells Fargo Loan Originations 2004-2008
High Cost Purchase and Refinance Loans

· 1 Dot = 1 Loan Originated, Not Actual Address

Percent African American Households 2007

Claritas Estimate By Census Block Group

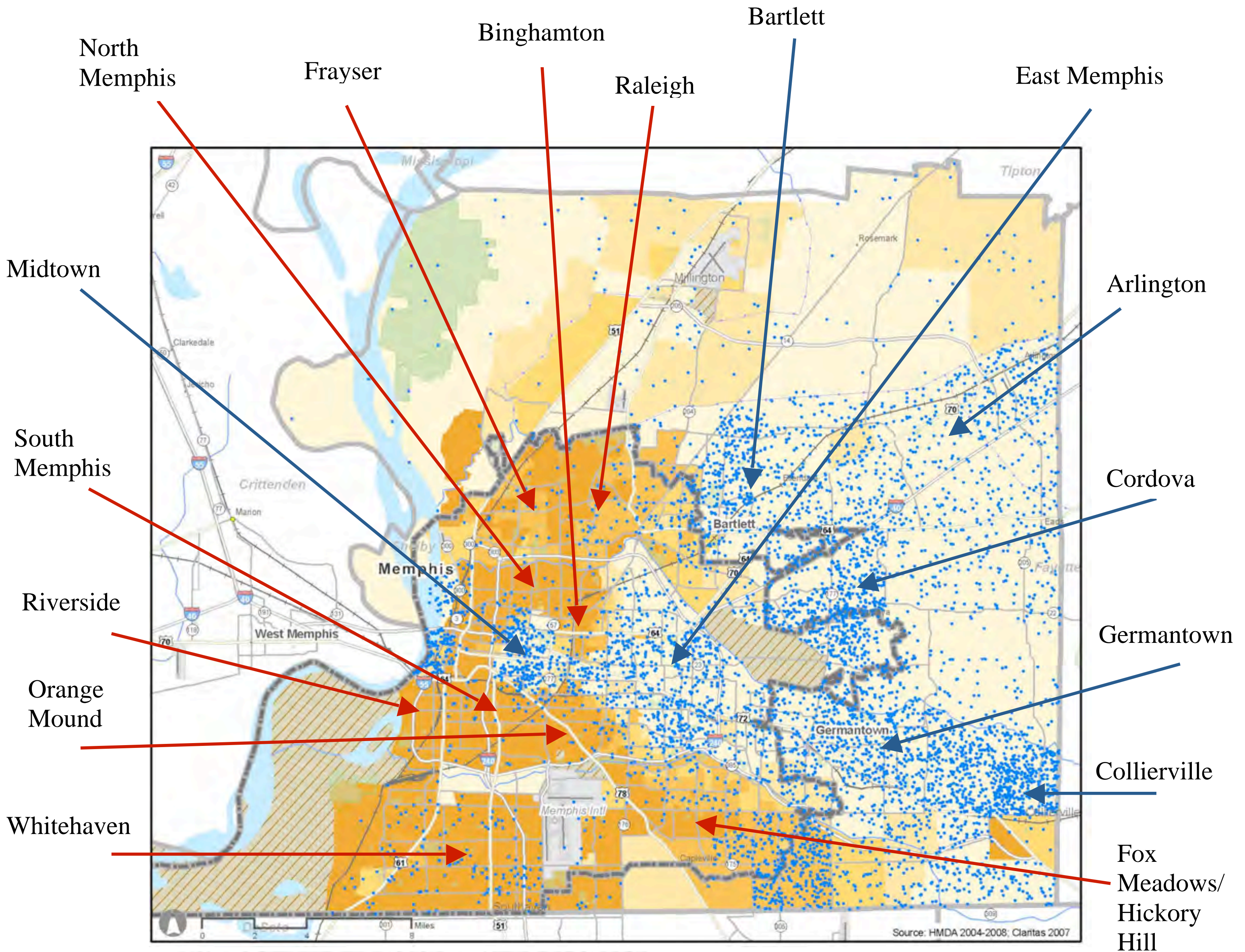
- 20% or Less
- 20.1% - 40%
- 40.1% - 60%
- 60.1% - 80%
- Over 80%
- Insufficient Data

→ Indicates Majority African-American Neighborhood

→ Indicates Majority White Neighborhood

EXHIBIT

12



Wells Fargo Loan Originations 2004-2008
Low Cost Purchase and Refinance Loans

1 Dot = 1 Loan Originated, Not Actual Address

Percent African American Households 2007

Claritas Estimate By Census Block Group

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- 40.1% - 60%
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→ Indicates Majority African-American Neighborhood

→ Indicates Majority White Neighborhood