Testimony of

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Chairman Towns, Ranking Member Issa and Members of the Committee, I'm Mike Heid, co-president of Wells Fargo Home Mortgage.

By way of background, Wells Fargo is the nation's largest mortgage lender, originating one of every five home loans in the country. We are the second largest home loan servicer, managing the customer service relationships for one of every six mortgage loans in America. About 86 percent of the home loans in our servicing portfolio are serviced for other investors such as Fannie Mae, Freddie Mac, Ginnie Mae or private securities. The remaining 14 percent are loans Wells Fargo owns.

Wells Fargo has long practiced responsible lending and servicing principles, including never having originated negative amortizing or Option ARM loans. Because of the product choices we have made, our disciplined underwriting, and the manner in which we approach foreclosure prevention, our delinquency and foreclosure rates in the first quarter of 2010 were three-fourths the industry average. About 92 percent of our first- and second-mortgage customers were current in their payments as of the first quarter of 2010 and less than 2 percent of our owner-occupied servicing portfolio has gone to foreclosure sale on an annual basis.

We appreciate the opportunity to share with you the action and the results Wells Fargo has achieved in assisting homeowners across America. For example since the beginning of 2009 through May of 2010:

- We have helped more than 2.2 million homeowners with new low-rate loans, either to purchase a home or refinance their existing mortgage.
- We have assisted about a half million loan customers facing financial hardships through a trial or completed loan modification; 17 percent of which were under the federal government's *Home Affordable Modification Program* (HAMP).
- We have assisted more than 100,000 unemployed customers with short-term modifications – well before the new government modification unemployment program was introduced.
- We have led the industry with more than $3 billion in principal forgiveness for customers facing financial hardship, permanently erasing on average 14 percent of the principal owed, amounting to more than $50,000 per loan for more than 55,000 customers. In addition, through loan modifications for investor-owned and Wells-owned loans, we have deferred more than $600 million of principal for more than 8,700 customers.
- As a result of these actions, for about two-thirds of the customers who fall more than 60 days behind in their payments, we provide an option that prevents foreclosure.

Wells Fargo will continue to strive to lead the industry in further improving methods and programs to assist homeowners. The challenges facing many American homeowners are very real. While some simply cannot afford their homes and will have to find alternative, less-costly housing, many more are obtaining the help they need to sustain homeownership.

With respect to our loan modification efforts, I'd like to begin by stating what we believe is an overarching issue that requires constant consideration. While very difficult to achieve, the needs and interests of homeowners in financial distress must be balanced with those who have remained diligent in making their mortgage payments. While much focus deservedly is directed to those consumers behind on their payments, we cannot lose sight of the fact I cited earlier: about 92 percent of Wells Fargo's first- and second-mortgage customers were current in their payments as of first quarter 2010.

With that perspective in mind, our focus from the beginning has been on doing everything reasonably possible to prevent foreclosure for people facing financial hardships who are willing to manage their overall debt and who can afford to be in their homes once their home payments are reduced.

Modifications for First- and Second-Lien Loans

With respect to the federal government's *Home Affordable Modification Programs*, Wells Fargo was one of the first to sign up for both the first-lien and second-lien programs. Since the program's inception, we have worked closely with the Treasury Department to appropriately implement this modification option in a manner that has enabled us to remain fully compliant – often exceeding expectations – and without need of any corrective action.

HAMP is a good option for people who meet certain criteria, but it is not the only option. Servicers have additional programs that address the vast number of customers in need who are not eligible for, or who likely will not qualify for, the federal government's programs. By the Treasury Department's own April 2010 estimates for Wells Fargo, only three of every ten customers who are 60 or more days in default are potential candidates for HAMP.

For at-risk customers who are not covered by HAMP, we have continued to work with investors to create other loan modification options that also focus on providing payment relief. For example, our non-HAMP modifications cover customers with FHA and VA loans, those who cannot meet the 31 percent debt-to-income ratio, and customers who have provided some but not all of the required HAMP documents yet demonstrate an ability and willingness to remain current on their new mortgage amounts.

As a standing practice, before we move a home to foreclosure sale, we ensure all options have been exhausted. Further, special consideration is routinely exercised in the event of natural disasters, such as we are providing for Gulf Coast residents affected by the oil spill.

While HAMP is the first tool that we consider for loan modifications, we have been very successful in identifying alternatives that address the customers' particular financial needs, through other modification programs or through a short sale or deed-in-lieu of foreclosure. Since the beginning of 2009, we have initiated or completed about a half million mortgage modifications – of which four out of five were done outside of HAMP. For the non-HAMP modifications we completed from June 2009 through May 2010, about 83 percent reduced customers' monthly payments by an average of about 20 percent. For the remainder, either the customer did not need a payment reduction to achieve affordability or a reduction was not possible under the terms of the specific servicing agreement.

Keeping all of this in mind, we believe HAMP has been a helpful program. While the number of borrowers helped by HAMP has not met the government's initial projections, the program has facilitated the industry's ability to deliver more streamlined solutions than ever before through both

HAMP, and the programs created by servicers and investors. Also as a result of HAMP, large investors – such as Fannie Mae and Freddie Mac – now make it possible for broad guidelines to be followed, instead of requiring servicers to call for authorization on every individual modification. This has had a significant, positive impact on our ability to streamline the process and provide customers with options much faster than we previously were able to do.

Like any program of this scale and complexity, HAMP also has experienced some challenges. For example, to drive to a goal of 500,000 trial starts by November 2009, the Treasury Department encouraged servicers in July 2009 to place customers into HAMP trial modifications before all the necessary documentation was received – a practice that Wells Fargo had not previously supported because we were concerned about the potential outcomes. On January 28, 2010, the Treasury Department reversed its request based on findings that customers' stated information often did not match what was in the final documentation. As a result, some customers were left with the expectation that they would get a federal government *Home Affordable Modification* when they ultimately would not qualify. Lack of documentation, ineligibility under HAMP requirements, and failure to make all the trial payments are the primary reasons that trial modifications are not converted to permanent modifications.

Since the introduction of HAMP, many changes have been made to the program. This has contributed to a level of complexity that has been difficult for customers to understand and for servicers to communicate and execute. This partial list describes the more significant changes that have been made over the past 16 months.

***Making Home Affordable* Timeline**	
Feb 18, 2009	President Obama announced HAMP (details not provided)
Mar 4, 2009	Treasury Dept. outlined some HAMP details (all details not provided)
Mar 4, 2009	Fannie Mae released HAMP guidelines
Mar 11, 2009	Freddie Mac released HAMP guidelines
Mar 26, 2009	Wells Fargo received Servicer Participation Agreement for 1st lien HAMP
Apr 6, 2009	Treasury Dept. released non-GSE guidelines
Apr 13, 2009	Wells Fargo signed Servicer Participation Agreement for 1st lien HAMP
Apr 21, 2009	Fannie Mae revised its HAMP guidelines
Jul 6, 2009	Treasury Dept. refined non-GSE guidelines including detailed trial plan
Jul 30, 2009	Treasury Dept. released HAMP guidelines for FHA-insured loans
Jul 31, 2009	Treasury Dept. refined non-GSE guidelines including home price depreciation incentives
Aug 19, 2009	Treasury Dept. updated HAMP guidelines (FAQs)
Oct 8, 2009	Treasury Dept. issued supplemental directive 09-07, streamlined modification evaluations
Nov 3, 2009	Treasury Dept. issued supplemental directive 09-08, directed specific notices to borrowers
Nov 30, 2009	Treasury Dept. issued supplemental directive 09-09, outlined *Home Affordable Foreclosure Alternatives*

Jan 28, 2010	Treasury Dept. issued supplemental directive 10-01, reversed decision to allow no-doc HAMP trials
Mar 12, 2010	Wells Fargo received amended and restated Servicer Participation Agreement for 2nd lien HAMP
Mar 16, 2010	Wells Fargo signed Servicer Participation Agreement for 2nd lien HAMP
Mar 24, 2010	Treasury Dept. issued supplemental directive 10-02, provided more direction on borrower outreach
Mar 26, 2010	Treasury Dept. announced unemployment program and principal reduction concepts (all details not provided)
Mar 26, 2010	Treasury Dept. issued supplemental directive 10-03, provided guidance for HAMP for FHA loans
May 11, 2010	Treasury Dept. issued supplemental directive 10-04, created Unemployment Forbearance Program
June 3, 2010	Treasury Dept. issued supplemental directive 10-05, provided guidance on principal reduction modifications

Principal Forgiveness for Certain Portfolio Assets

With respect to the use of principal forgiveness in modifications, we were one of the first to begin using this feature as an element of our Wells Fargo loan modification program for certain portfolio assets in January 2009, several months before the creation of HAMP. Over the last 17 months, we completed more than 55,000 such modifications with a total reduction in principal of more than $3 billion, which granted immediate and permanent forgiveness of principal for struggling homeowners, not an “earn out” over time. On average, customers received a 14 percent reduction in principal amounting to more than $50,000 per loan and, when combined with rate reductions and term extensions, their average monthly payments dropped by 25 percent under the terms of their loan modification agreements.

We do not believe that principal forgiveness is an across-the-board solution. Not every homeowner with a loan balance that exceeds the value of their home falls behind on their payments. We believe that payment affordability continues to be the key. Most homeowners in America are still very focused on doing what is necessary to stay current on their payment obligations and, in so doing, protecting their credit standing. For this reason, principal forgiveness needs to be used in a very careful manner and analyzed on a case-by-case basis.

Through experience, we have found that principal forgiveness is best used to assist customers who share certain distinct characteristics. Typically, their homes are owner-occupied and concentrated in geographic areas with severe price declines where there is a reduced prospect for full recovery of home values in the near future. They have suffered financial hardships, but continue to have sufficient, verifiable incomes to sustain homeownership with appropriately reduced payments, and they want to remain in their homes.

Face-to-Face Customer Outreach

You likely have heard much about the challenges that the industry has faced in engaging customers in discussing workout options and providing what is needed to complete them. Based on our experience, we have been successful in encouraging 80 percent of our customers who are 60 days or more delinquent to work with us. When customers do work with us, we are successful in helping 7 of every 10 avoid foreclosure. Unfortunately, for those who choose to manage the challenges on their own, only 4 of every 10 avoid foreclosure.

Aggressive initiatives are required to engage customers including letters, phone calls and, in some cases, door-to-door offers of assistance to help them with their documents. Overall, we believe that we have far exceeded what the Treasury Department has defined as best practices, in this regard. For instance, on average we call HAMP-eligible customers at a frequency five times what is required through the program.

Further, recognizing that personal contact can help some customers manage the sometimes complex modification process, in 2009 we introduced additional means to provide face-to-face assistance. Throughout last year and this year, Wells Fargo participated in more than 300 home preservation events including ten large-scale events hosted by our company solely for our customers. At the Wells Fargo hosted events, we provide a confidential setting for customers to discuss their credit issues with us and, if the customer so chooses, also with local counseling agencies. Generally speaking, about half of the more than 12,000 customers we have worked with at these events have received a decision on the spot or shortly thereafter. The events Wells Fargo has hosted and plans to host are listed below.

Event	Dates	Customers Invited	Customers Attending
Phoenix, AZ	09/08-10/09	7,574	1,947
Atlanta, GA	10/26-28/09	12,698	2,663
Chicago, IL	12/01-03/09	16,354	1,006
Baltimore, MD	01/11-13/10	9,648	751
St Paul, MN	02/17-18/10	4,328	591
Los Angeles, CA	03/21-23/10	16,473	1,634
Oakland, CA	04/27-29/10	14,144	1,749
Miami, FL	05/21-23/10	18,182	1,569
Minneapolis, MN	06/05-06/10	3,731	274
Cleveland, OH	06/17-18/10	6,955	161
Las Vegas, NV	07/09-11/10	5,241	TBD
Memphis, TN	08/07-08/10	TBD	TBD

Also in 2009, we established 27 Home Preservation Centers (see below) – in Arizona, California, Florida, Georgia, Nevada and Ohio where we have concentrations of at-risk customers – to work face-to-face with customers on viable home payment options. To date, we have helped more than 20,000 people through these centers.

Current Home Preservation Center Locations					
Arizona	**California**	**Florida**	**Georgia**	**Nevada**	**Ohio**
Peoria Phoenix	Antioch Bakersfield Campbell Clovis LaPuente Lathrop Long Beach Novato Oceanside Riverside Sacramento San Diego San Fernando San Ramon Santa Ana	Boynton Beach Jacksonville (East) Jacksonville (West) Miramar Pensacola Sanford	East Point Suwanee	Las Vegas	North Olmsted

Improving Customer Service

With the benefit of hindsight, it is clear the industry was not prepared for the significant number of customers that would face financial hardships as the economy rapidly became more challenging. And, we were not always consistent in providing the level of service we expect to deliver to our customers. We have committed tremendous resources, and believe we have come a long way over the last year. For example:

- By the end of this month, we will complete the process of assigning one person to manage a loan modification from beginning to end, with a back-up who continues the work when the primary contact is out. In other words, our customers will know exactly who they are working with from start to finish.
- We continue our work with other industry participants – such as investors and appraisers – to accelerate the credit decision process. We have set a 5-day decision time target for at-risk customers once all documents are in hand as compared to the HAMP standard of 30 days. We are currently achieving this target approximately half of the time, and continue to make process changes and work with investors to advance to this goal for all of our customers.
- To manage the increased volume of requests for help, since the beginning of 2009, we have grown our home preservation staff by more than 140 percent, hiring 10,000 people for a total of more than 17,800 U.S.-based home preservation jobs dedicated to these efforts. Growing this quickly required developing new processes to rapidly onboard, train and retrain people to manage the evolving, complex guidelines inherent to home retention programs.
- In addition, we have invested in improvements in workflow systems and document imaging including developing a Web portal that enables authorized counselors to gain access to secured, appropriate information about a customer's home mortgage profile.
- With respect to the process our customers can use to escalate concerns about or appeal a HAMP denial, we provide contact information for us and for our regulator on all billing statements,

correspondence, and our Web site. Each escalated case is assigned to a specialist who researches the issue and provides appropriate follow-up and response. For customers who need broad-based financial assistance beyond their home loan, we provide written guidance on how to engage a HUD-approved, non-profit, community-based credit counseling agency.

- And, we continue to have a dedicated phone line for congressional staff and caseworkers to use in the event one of your constituents – our customer – has an issue that needs resolution.

We will continue to work toward early and consistent engagement with customers going forward.

We also have improved our foreclosure prevention practices for customers who cannot afford to remain in their homes.

We now are able to give Wells Fargo Home Mortgage loan customers – who have identified a home buyer and have provided the necessary paperwork – a short-sale decision, on average, in less than 5 days. For the loans we service where we do not have full delegated authority to make decisions, we have been able to work with the third-parties who must be involved to provide a decision, on average, in less than 15 days.

In Florida, we are testing a new voluntary deed-in-lieu practice for first-lien mortgage holders, whereby we give borrowers who cannot afford their homes $10,000 to vacate their property in good condition within 30 days when they deed the home to us. This program is designed to help families avoid foreclosure and eases their transition to a new, more affordable residence. In three months, when the pilot is complete, we expect to be in a better position to share when and if this program will be expanded.

The Facts about Our Practices in Baltimore and Memphis

Before I close today, I'd also like to bring to this Committee's attention facts concerning the allegations contained in the lawsuits the cities of Baltimore and Memphis have brought against Wells Fargo. While not specifically requested for today's hearing, in my capacity as co-president of Wells Fargo Home Mortgage, I believe it is important to address the misperceptions that may exist.

Let me say at the outset that we expect our employees to obey all laws, as well as our own policies and standards relative to mortgage origination and engagement with customers.

With regard to Baltimore and Memphis – as the lawsuits state – both cities seek to increase revenue by holding Wells Fargo responsible for long-term socio-economic problems and urban deterioration. In dismissing Baltimore's initial complaint, Judge J. Frederick Motz stated that Wells Fargo was responsible for only a "negligible portion" of Baltimore's vacant housing stock and that it was "not plausible" to connect Wells Fargo's practices with the city's claimed damages, especially when considering the "background of other factors leading to the deterioration of the inner city."

The Baltimore and Memphis lawsuits are virtually identical to lawsuits brought against lenders in Birmingham and Cleveland that have been summarily dismissed. Given the facts in Baltimore and

Memphis, we are optimistic that the same outcome will occur there, as well.

The facts show that the challenges in these cities predate by decades the origination of the small number of Wells Fargo loans at issue in these actions, and that our foreclosures make up only a small percentage of the foreclosures by other lenders and the cities.

- Baltimore purports to have 45,000 foreclosure-notice filings during the time noted, of which only 640 were Wells Fargo notices. This means that by the city's own numbers, only 1.4 percent of the total number of notices filed were ours.
- Similarly in Memphis, the city has identified only 50 properties with Wells Fargo home loans that were noticed for foreclosure at some point over a ten-year period. This same area had more than 93,000 foreclosure filings, meaning that five-hundredths of one percent (0.05 percent) were Wells Fargo's.

In an attempt to discredit our company and seek damages, the lawsuits include claims of steering and predatory practices, citing studies that allege race is a factor in our lending. These studies are based on publicly-available data that do not include information about the full personal and transaction circumstances that impact a borrower's credit terms. We price for risk, and our analysis shows that virtually all of the pricing differences referenced in the studies are explained by well-established predictive risk factors – such as credit scores, debt load, and loan-to-value ratios.

In addition, the lawsuits include six affidavits from ex-Wells Fargo employees, five of whom have admitted under oath that they knowingly worked to defeat our many responsible lending policies and controls. We continually review, test, and enhance these controls. As you would expect, in response to being served with the Baltimore and Memphis complaints, we performed a comprehensive review of these controls to validate their effectiveness. As co-president of Wells Fargo Home Mortgage, I can tell you we have sought to introduce industry-leading controls that support our desired outcome – pricing for risk and ensuring customers have the ability to repay. Whenever we learn that a team member has attempted to defeat these controls, we take appropriate action with the team member and use those experiences in our standard business practice of regularly and continually strengthening our controls.

Further, the overall mortgage market has dramatically changed over the last several years in a direction that also will support broad-based responsible lending principles by all lenders. For example:

- A level playing field of regulatory oversight and effective enforcement covering all lenders would be a welcome outcome of the financial reform legislation now before Congress.
- We are pleased to see the overall mortgage market return to full documentation underwriting standards for purchase and cash-out refinances.
- We also welcome the general direction that the proposed financial reform legislation is taking with respect to originator compensation. Wells Fargo established mortgage broker pricing caps years ago and supports Congress' efforts to eliminate yield-spread premiums in compensation, because that change will help homeowners secure loans that are appropriately priced.

Home Preservation Assistance for Diverse Customers

You have asked for our comments on how we support diverse borrowers with home preservation assistance. We recognize and respect that many diverse communities are experiencing serious challenges with home retention related to unemployment and other credit-driven factors. Previously in my statements, I outlined the significant investments we have made in modifying loans, providing face-to-face customer assistance, and promoting financial education among other efforts under way. We also have engaged leaders of the diverse communities to obtain and leverage guidance on how best to make credit accessible and sustainable.

With the goal of achieving equitable customer treatment in our home preservation practices, our specialists – who manage the vast majority of customer requests via the phone – have no information on their systems that would indicate a customer's ethnicity. The only exception to this rule is HAMP, where applicants may voluntarily supply demographic information on the federally-required hardship affidavit. Regardless, we never consider this information and use the same policies and processes for every single customer.

Conclusion

Wells Fargo is committed to fair and responsible lending and servicing, and to effectively addressing the issues facing homeowners in financial distress in all communities. Through the federal government's programs and our own, we are helping an unprecedented number of people to sustain homeownership.

No one wins when a foreclosure takes place. Avoiding foreclosures, wherever possible, is in the best interests of our shareholders, our investors, and most importantly our customers and communities. This has and will continue to be our focus as time goes on.

We believe very strongly and feel very deeply about our responsibility to help homeowners across America in a balanced and fair way. We believe our actions and results demonstrate our commitment to achieving this goal.

Thank you for your time today. I look forward to your questions.