Testimony of

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Chairman Waters, Ranking Member Capito and Members of the Subcommittee, I'm Alan Jones and I manage operations for Wells Fargo Home Mortgage Servicing. I appreciate the opportunity to appear before you today to discuss Wells Fargo's efforts to respond to the unprecedented housing crisis and our work to keep American families in their homes.

As a company, Wells Fargo has followed three fundamental tenets:

> **First**, we view foreclosure as a measure of last resort. In unfortunate cases where a customer simply cannot afford the property, even with a modification, we actively look at other remedies – such as short sales – to prevent foreclosure and protect the surrounding community.
>
> **Second**, we hold ourselves accountable for the quality of our foreclosure data and we work to ensure our borrowers are protected from wrongful foreclosures.
>
> And **third**, we understand the necessity of having procedures that ensure our documents comply with industry regulations, as well as federal and state laws.

As our country's economy has continued to present new challenges, our goal is and always has been to keep as many customers in their homes as possible. From January 2009 through September 2010, we provided more than 2.45 million customers with mortgage payment relief through refinances and modifications. This included extending more than $3.5 billion in principal reductions to borrowers.

As of the third quarter of 2010, more than 92 percent of our entire servicing portfolio has remained current on their home payments. And, over the last twelve months, less than 2 percent of our owner-occupied servicing portfolio has gone to foreclosure sale. These statistics have remained, over time, the best among our peers and reflect a combination of sound underwriting, as well as the home payment relief efforts I previously mentioned.

We believe, as we have from the beginning of this crisis, that it is in our customers' and the country's best interests to assist customers who can afford their homes – with some help – to remain in them. And, it is our goal to exhaust all options before moving a home to foreclosure sale.

To achieve this, we have invested heavily in hiring and training more than 10,600 additional home preservation staff since the beginning of 2009 – for a current total of more than 16,000 people. And, we expect all of our team members to follow our policies and procedures 100 percent of the time.

- First, using automation, we create an electronic "system of record" for each mortgage customer we service. This information – which you could think of as a digital bank statement, of sorts – includes pertinent customer data such as the customer's name, the property address, the number and timing of payments made, as well as notes about the actions we have taken to jointly explore home retention options.
- We attempt to contact customers, on average, more than 75 times by phone and nearly 50 times by letter during the period of first delinquency to foreclosure sale. When customers choose to work with us, we prevent foreclosures for 7 of every 10 who are 60 days or more past due. The home retention process can take a period of weeks or months, depending on the customer's engagement, circumstances and the complexity of his or her financial challenges. For example, some customers enter bankruptcy which can considerably delay the process while the courts adjudicate the merits of the bankruptcy petition.
- Investor requirements often direct the timing for initiating foreclosure proceedings at a certain point in the loan delinquency. These proceedings sometimes begin while we are working with a customer on a mortgage modification or other foreclosure prevention option. Generally, we continue to work with customers on options – to do everything possible to prevent foreclosure – up to the point of the foreclosure sale date.
- Unfortunately, the hard reality remains that some customers simply are in homes they cannot afford – even with substantially reduced payments. In the month of September, Wells Fargo's customers who completed foreclosure were, on average, 16 payments behind on their mortgage loans and were facing financial circumstances related to debt and life events that made sustaining their mortgage contracts impossible.

  When there is no reasonable alternative, we believe it is best to transition people to affordable housing arrangements. And for the 25 percent of properties already vacant in the late stages of foreclosure, we repair and/or sell these homes to new owners to alleviate any further burden on the housing market, allowing whole neighborhoods and cities to revitalize.
- Wells Fargo has a rigorous system designed to ensure loan data quality throughout the

foreclosure process. As mentioned before, we maintain an electronic system of record that houses data used by Wells Fargo employees and outside foreclosure attorneys. In addition, we have instituted a series of controls to lessen the chances of error. As just one example, on a daily basis we pull a sample of the data we send electronically to external foreclosure lawyers, and do a manual check to ensure that the data provided to these lawyers – which they pass on to the judges in judicial states – is accurate.

- We continually work on improvements to our systems to reduce the likelihood of errors, and address errors when found. For example, we identified instances where we did not adhere to a final step relating to the execution of foreclosure affidavits, including a final review of the affidavit, as well as some aspects of the notarization process. While we do not believe any foreclosure affidavit signing or notary issues resulted in foreclosures that should not otherwise have occurred, we voluntarily opted to provide an additional level of assurance by electing to execute supplemental foreclosure affidavits for foreclosures pending before the courts in the judicial states.

- Finally, we retain and rely on the guidance provided by outside foreclosure attorneys – who are licensed by each respective state – to ensure we fully comply with the local rules, regulations and requirements which often differ by county within a state.

The complexities inherent to the home preservation and foreclosure processes can be difficult for customers to fully understand. To improve communication, this year we introduced a 1:1 customer service model to enable at-risk customers to work with one person from beginning to end on their home preservation options. While that effort has been largely successful, there are areas of improvement on which we continue to work.

In addition, we continue to expand the number of home preservation events we host in cities experiencing challenges with foreclosures. To date, we have hosted large-scale events in 15 cities at which we have met face-to-face with more than 15,000 customers in need. And through the 27 home preservation centers we opened, we have met face-to-face with an additional 25,000 customers.

Home Preservation Event Locations	Event Dates	Customers Invited
Phoenix, AZ	09/08-10/09	7,574
Atlanta, GA	10/26-28/09	12,698
Chicago, IL	12/01-03/09	16,354
Baltimore, MD	01/11-13/10	9,648
St Paul, MN	02/17-18/10	4,328
Los Angeles, CA	03/21-23/10	16,473
Oakland, CA	04/27-29/10	14,144
Miami, FL	05/21-23/10	18,182
Minneapolis, MN	06/05-06/10	3,731
Cleveland, OH	06/17-18/10	6,955
Las Vegas, NV	07/09-11/10	5,241
Memphis, TN	08/07-08/10	12,249
Philadelphia, PA	09/11-12/10	14,151
Tampa, FL	10/08-10/10	16,540
Houston, TX	11/9-10/10	6,096

Home Preservation Center Locations

AZ: Peoria, Phoenix

CA: Antioch, Bakersfield, Campbell, Clovis, La Puente, Lathrop, Long Beach, Novato, Oceanside, Riverside, Sacramento, San Diego, San Fernando, San Ramon, Santa Ana

FL: Boynton Beach, Jacksonville (2), Miramar, Pensacola, Sanford

GA: East Point, Suwanee

NV: Las Vegas

OH: North Olmsted

We also recently announced a joint effort with the Attorneys General in eight states to further help at-risk Wachovia Pick-a-Payment customers. Our new program enables eligible customers to earn principal forgiveness by making their reduced mortgage payments on time.

In conclusion, we remain fully committed to doing what we can to help stabilize the housing industry for the benefit of homeowners, individual communities and the overall general economy. We continue to work hard at helping people to stay in their homes, whenever realistically possible. And, as a standard business practice, we constantly review our policies and procedures to improve the quality of service we give to customers who engage with us in finding a way for them to remain in their homes. Thank you for your time, and I look forward to your questions.

APPENDIX I

October 25, 2010 – Modification Report News Release

Wells Fargo Reports Modification Activity through September 2010

556,868 active trial and completed modifications in place

DES MOINES, Iowa – Wells Fargo & Co. (NYSE: WFC) said today that of modifications started since the beginning of 2009, the company had 556,868 active trial and completed modifications in place as of Sept. 30, 2010. Included in that total were 495,026 of its own modifications and 61,842 modifications through the federal government's *Home Affordable Modification Program* (HAMP).

In the second quarter of 2010, about 92 percent of Wells Fargo's mortgage customers remained current on their loan payments, according to the Sept. 10 edition of *Inside Mortgage Finance,* and the company's delinquency and foreclosure rates were less than three-fourths that of the industry. As a result, fewer than 2 percent of the loans secured by owner-occupied homes and serviced by Wells Fargo proceeded to foreclosure sale in the last 12 months.

About Wells Fargo Home Mortgage
Wells Fargo Home Mortgage is the nation's leading mortgage lender and services one of every six mortgage loans in the nation. A division of Wells Fargo Bank, N.A., it has a national presence in mortgage and banking stores, and also serves the home financing needs of customers nationwide through its call centers, Internet presence and third-party production channels.

APPENDIX II

Explanation of Chain of Title and Assignment

Some have questioned the procedures the mortgage industry has traditionally used to transfer ownership of a home loan from the originator to another entity, for example, a securitization trust. These concerns primarily stem from procedural issues related to the specific steps required to document ownership of the mortgage as part of the foreclosure process.

These foreclosure-related steps, governed by state law, are not the same as those required to transfer actual ownership of the loan. This has led to confusion regarding the investor's right to recover the collateral following a borrower's default.

A review of the title chain and assignment process helps shed some light on the major issues that have been raised about this topic.

Loan Origination and Closing

At loan closing, a borrower signs both a "note" and a "mortgage" or "deed of trust" (depending on the state).

- The note represents the borrower's promise to repay the debt.
- The mortgage or deed of trust represents the borrower's pledge of property to secure the payment of the note. It is executed according to the requirements of laws in the state in which the property is located, and filed with the local Recorder of Deeds to establish its priority as related to other liens.

The only time the note holder needs to exercise its rights to the collateral represented by the mortgage or deed of trust, is when the borrower defaults on the note.

Transfers of Ownership Rights

Procedures used to transfer the ownership rights embedded in a mortgage loan are well established.

- Transfers of the note are governed by contract law and the Uniform Commercial Code.
- Assignments of the accompanying mortgage or deed of trust are covered by state real property laws.

Generally when a loan is sold:

- The original note is "endorsed" by the seller and physically transferred to the purchaser. If the loan is sold a second time, the note is again endorsed by the entity selling the note and physically delivered to the purchaser – in this case, the custodian of the Trust which holds the note on behalf of the investor. For operational purposes, notes are typically endorsed "in blank," that is, without identifying the purchaser's name, thus possession of the note is sufficient to establish ownership.

- Transfers of the security interest (mortgage or deed of trust) generally follow the note. When a loan is sold to another lender, the original mortgage is "assigned" to the purchaser and recorded in the purchaser's name. However, if the servicing remains with the seller – which is typical of most securitizations – the mortgage usually continues to be recorded under the servicer's name. In these instances, the seller prepares a "recordable assignment in blank" and delivers it to the Trust. In general, this assignment will only be recorded if the loan goes into foreclosure, or if it is deemed necessary by the trustee.

There are numerous reasons why the *recorded* lien typically remains with the mortgage servicer.

- Most mortgage loans pay back in full. Keeping the mortgage in the servicer's name saves the time and expenses that would otherwise be associated with assigning it to the investor, and then re-assigning it back to the servicer so that the servicer can execute the release of the lien.

- Maintaining the servicer as the party of record also enables the servicer to monitor any additional liens or encumbrances that may be placed on the property, since notification of such actions are sent to the recorded lien holder.

In some instances, the mortgage may be assigned to Mortgage Electronic Registration System (MERS) at origination or upon subsequent sale. Registration with MERS, which becomes the nominee for the beneficial owner of the loan, serves as a central system to track changes in ownership and servicing of the loan. While Wells Fargo no longer uses MERS in its retail business, some of the mortgages contained in our book may have liens that are registered under the name of MERS. Wells Fargo takes the added precautionary step of "deregistering" loans that are registered under MERS at the point foreclosure proceedings begin.

Loan Terminated Through Pay Off or Default

Customer Pays Off Loan

If a mortgage pays off in full, the mortgage servicer obtains the loan file from the document custodian, which includes the original note or a copy thereof. The note is then stamped "paid in full" and returned to the borrower for record keeping. The servicer also prepares a formal release of the lien, demonstrating that the note is satisfied and that there is no longer a lien on the property.

Customer Defaults

If a borrower defaults, the mortgage servicer requests the loan file from the document custodian and reviews the original note and copies of assignments, and matches the assignee of record with the holder of the note. Any disparity is not a basis to halt a foreclosure, since possession of the note generally demonstrates ownership. The holder of the note is deemed the owner of the mortgage loan with standing and right to foreclose.

Once the mortgage loan servicer receives the file from the document custodian, the file is provided to the foreclosure attorney. After reviewing the loan file, the foreclosure attorney files the appropriate complaint or notice of default. A judgment to foreclose or a foreclosure sale date is established. In most cases, the mortgage loan servicer completes the foreclosure.

Upon the foreclosure sale, a Court or Sheriff's Deed is obtained and then recorded in the mortgage loan servicer's name, assuming the servicer was the high bidder at the foreclosure sale. Once such a foreclosure sale has occurred, the mortgage loan servicer transfers the property to the owner of the loan, or markets the property for resale on their behalf. When the property is sold, the mortgage servicer returns the proceeds of the collateral to the investor.

APPENDIX III

Wells Fargo Home Mortgage Foreclosure Affidavit Review

The steps below describe what Wells Fargo Home Mortgage expects its team members to follow in processing foreclosure affidavits. Wells Fargo Home Mortgage manages 81 percent of Wells Fargo's foreclosures. The company's other home lending businesses may vary slightly.

- When a loan is referred to outside foreclosure counsel, the referral package (electronically transmitted from our automated system of record) contains information about the borrower and the appropriate foreclosing party. This information includes, for example, the number of payments the customer has missed and the actions we have taken to contact and work with the customer on home retention options.
- The outside foreclosure attorney reviews the chain of title to ensure that the foreclosing party is indeed authorized to foreclosure and/or will make corrections.
- At the appropriate point of the judicial foreclosure process, our foreclosure attorney submits to Wells Fargo Home Mortgage (WFHM) a request for mortgage loan information to produce judgment figures.
- WFHM receives the request and runs the foreclosure affidavit software program to collect the initial figures for the affidavit. The foreclosure affidavit program automatically sends the loan mortgage debt figures to the attorney via a secured communication tool (Vendorscape) and uploads the same loan mortgage debt figures to our foreclosure system of record (MSP).
- The outside foreclosure attorney receives, verifies, and adjusts (per the respective state rules) the judgment figures, and creates the judgment affidavit for submission to WFHM for verification and execution. Where applicable in certain states the attorney will submit a separate affidavit for their fees and costs.
- The WFHM foreclosure affidavit signer reviews the data on the affidavit and compares it to the data contained within the system of record.
- The affidavit is executed and properly notarized.
- The completed affidavit is returned to the requesting attorney via overnight mail.
- WFHM conducts a daily review of 35 randomly selected mortgage loans to ensure the foreclosure affidavit program is calculating the figures correctly, uploading to the system of record correctly, and sending the figures to the attorney properly.