Testimony of

Michael J. Heid
Co-president
Wells Fargo Home Mortgage

Before the

Committee on Financial Services
United States House of Representatives

April 13, 2010

Chairman Frank, Ranking Member Bachus and Members of the Committee, I'm Mike Heid, co-president of Wells Fargo Home Mortgage, and I'm here today with Kevin Moss, executive vice president of the Wells Fargo Home Equity group.

We appreciate the opportunity to come before you to discuss Wells Fargo's continued commitment to assist homeowners in financial distress across America. Today, I'll discuss:

- Wells Fargo's results in using our own modification programs developed with investors, as well as the *Home Affordable Modification Program*;
- the work we already have done to support customers during periods of under- or unemployment;
- the outcomes Wells Fargo achieved throughout 2009 applying principal forgiveness as a modification method; and,
- what we have done to improve service levels for our customers and your constituents in need of assistance.

I'd like to begin by stating what Wells Fargo believes 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 current in their mortgage payments. While much focus deservedly is directed to those consumers behind on their payments, we cannot lose sight of the fact that 91 percent of Wells Fargo's first- and second-mortgage customers were current in their payment status as of the fourth quarter of 2009. And, if we look only at home equity customers, just 3 percent were two or more payments past due.

We agree with the Treasury Department's statement in its recent release that said: "Our housing initiatives must balance the need to help responsible homeowners struggling to stay in their homes, with the recognition that we cannot and should not help everyone."

With that perspective in mind, we do believe there is an opportunity to move forward with a continuation of the assistance programs already underway and to supplement them with the programs announced in concept on March 26 by the U.S. Treasury and the Department of Housing and Urban Development. In fact, some of the recommended program enhancements appear to be quite similar to efforts Wells Fargo has had underway for some time.

First, I'll speak to the efforts we have used to modify loans for customers experiencing a loss of income.

We all agree that the challenges associated with unemployment and under-employment are of grave concern in today's economy. For years, Wells Fargo has offered a short-term relief option that, since January of 2009, has helped more than 100,000 customers manage their home payments while they sought to regain temporary losses in income. Given what we know of the Treasury's plans, it appears that the new federal temporary assistance program is consistent with our own. If the full program details prove this to be true, we could put this new *Home Affordable Modification Program* enhancement into practice in a matter of weeks. We are hopeful the details are released soon so we can move forward without delay.

Second, with respect to the use of principal forgiveness in modifications, more than a year ago Wells Fargo began using principal reduction as one method – in appropriate circumstances – to help consumers facing hardships. And, we have positive results to share with this Committee.

We began using principal forgiveness as an element of our Wells Fargo loan modification program for certain portfolio assets in January 2009, several months before the creation of the federal *Home Affordable Modification Program*. In fact, during 2009, we completed more than 50,000 such modifications with a total reduction in principal of more than $2.6 billion. Our program granted immediate and permanent forgiveness of principal for struggling homeowners, not an "earn out" over time. On average, customers received a 15 percent reduction in principal amounting to greater than $50,000, 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.

Principal forgiveness is not an across-the-board solution. Not every homeowner with a loan balance that exceeds the value of their home falls behind in their payments. 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.

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

We have been pleased with the performance to date of the loan modifications we have completed for customers who share these characteristics. In 2009, the redefault rates for these restructured mortgage loans were less than half the rate for similar loans in our industry.

In 2010, we have used and expect to continue to use principal forgiveness under the same basic tenets I've just described. In addition, absent any unexpected legal, regulatory or accounting issues that could arise from the Treasury's detailed description of its new principal forgiveness enhancements, we also plan to implement the enhancements for first- and second-lien modifications as rapidly as possible. We will review the program details when they become available to confirm our current conceptual understanding is accurate.

With respect to the *Home Affordable Modification Program* in general, Wells Fargo was one of the first to execute both the first-lien and second-lien programs. With that said, we also have been very consistent in stating that HAMP is only a part of the story when it comes to describing our efforts to help homeowners in financial distress.

Since the beginning of 2009, we have initiated or completed more than half a million mortgage modifications – three quarters of which were done outside of HAMP. For the last six months, 84 percent of our non-HAMP modification customers had their monthly payments reduced by an average of 19 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.

To provide some context for the results of our modification efforts, Wells Fargo is now doing three loan modifications for every completed foreclosure.

As a standing practice, before we move a home to foreclosure sale we ensure that all other options have been exhausted. HAMP is an important first tool in preventing foreclosures wherever possible, but it is not the only answer. When customers are ineligible for this federal program, we have been very successful in identifying an alternative to help them either through another modification option that addresses the customers' particular financial needs or through a short sale or deed-in-lieu of foreclosure.

Fewer than 2 percent of the loans secured by owner-occupied homes and serviced by Wells Fargo have proceeded to foreclosure sale in the last 12 months. And, our delinquency and foreclosure rates in the fourth quarter of 2009 were less than three-fourths that of the industry average.

Unfortunately, the harsh reality remains that some customers simply are in homes they cannot afford, even with substantially reduced payments. In such cases where there is no reasonable foreclosure prevention option, we believe extending the timeframes for foreclosure sales, especially on vacant properties, will simply further exacerbate the problems that some individuals and communities are experiencing. In these cases, we believe it is best to work to transition these customers and quickly sell the homes.

With respect to HUD's new FHA program – also announced in concept on March 26 – the steps to implementation still require significant work. As one of the two largest FHA lenders, we intend to offer these refinance opportunities to consumers across America. Once the program details become known, we can begin the technology system changes and training to make these loans available. We are encouraged that FHA has chosen to stay as close to their standard program as possible. This will certainly aid the implementation process.

In our Home Equity portfolio, we stand committed to ensuring second liens do not prevent such refinances from occurring. For first mortgages in our servicing portfolio, we plan to closely follow the guidelines of the first lien investors, including Fannie Mae and Freddie Mac, as the industry sorts out how to avoid the moral hazard implications that this new public policy option could unintentionally yield.

And finally, before I close today, I also want to share with you steps we have taken to improve service levels for Wells Fargo customers facing financial hardships. A couple of months ago, we started the transition of assigning one person to manage one loan modification from beginning to end. In other words, our customers will know exactly who they are working with from start to finish. This improved process will be fully in place by the end of June, and we expect it to have a substantial positive impact on our customers' experiences. In addition, we have been working with other industry collaborators – such as investors and appraisers – to institute a 5-day credit decision turnaround for customers in need. This practice will be instituted with all customers who provide the information necessary to quickly finalize a decision. Other measures include:

- Since the beginning of 2009, we have grown our home preservation staff by more than 135 percent, adding 10,000 U.S.-based home preservation jobs for a total of 17,400 people dedicated to these efforts. This required developing new processes to rapidly onboard, train and retrain people to manage the evolving, complex guidelines inherent to home retention programs.
- Also, in part to accelerate the learning curve in underwriting and process management, we have converted several origination fulfillment centers to loan modification assistance centers. This operations model now is appropriate in home preservation given volume increases and the fact that we must re-underwrite loans to make modifications possible.
- We have introduced improvements in workflow systems and document imaging.
- And we also have introduced new means to provide face-to-face assistance for customers. Last year and this year, Wells Fargo participated in more than 300 home preservation events including six large-scale events hosted by our company solely for our customers. We established 27 Home Preservation Centers – in Arizona, California, Florida, Georgia, Nevada, and Ohio – to help Wells Fargo customers experiencing difficulties with their mortgages.
- And, as your offices know, we continue to have a dedicated phone line for your staff to use in the event one of your constituents, who is our customer, has an issue that needs resolution.

Although there is still work ahead, we believe we are making progress in what has been a very difficult situation for all. Wells Fargo remains committed to working with the members of this Committee and others on balanced initiatives that consider the needs of all our customers, our investors and our country. Thank you, I look forward to your questions.