WELLS FARGO

Government and Private Initiatives to Address the Foreclosure Crisis

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Glossary of Government Programs

- **Home Affordable Modification Program (HAMP):** a national mortgage modification program that provides eligible homeowners the opportunity to modify their first lien mortgages to make them more affordable. Under HAMP, servicers apply a uniform loan modification process to provide eligible homeowners with affordable and sustainable monthly payments for their first lien mortgage loans. Affordability is achieved through the application of interest rate reduction, term extension, principal forbearance and principal forgiveness.
- **Principal Reduction Alternative (PRA)** – An enhanced program under HAMP that modifies the waterfall in which loan terms are adjusted placing more emphasis on principal reduction in achieving an affordable payment.
- **Home Affordable Foreclosure Alternatives Program (HAFA):** a program that provides opportunities for homeowners to transition to more affordable housing through a short sale or deed-in-lieu of foreclosure when they can no longer afford to stay in their home but want to avoid foreclosure.
- **Home Affordable Refinance Program (HARP) / Home Affordable Refinance Program 2 (HARP2):** a program that provides homeowners with loans owned or guaranteed by Fannie Mae or Freddie Mac an opportunity to refinance into more affordable monthly payments.

Glossary of Government Programs

- **Home Affordable Unemployment Program (UP):** a program that provides assistance to homeowners who are unable to make their mortgage payments as a result of unemployment. UP grants qualified homeowners a forbearance for a period of at least three months, during which mortgage payments are reduced or suspended, allowing the homeowner to seek employment without the fear that they will lose their homes to foreclosure.
- **Second Lien Modification Program (2MP):** a program that is designed to work in tandem with HAMP to offer homeowners with second mortgage liens even greater affordability. Under 2MP, when a homeowner's first lien is modified under HAMP and the servicer of the second lien is a 2MP participant, that servicer must offer to modify the homeowner's second lien according to a defined protocol and/or to accept a lump sum payment from Treasury in exchange for full or partial extinguishment of the second lien.
- **Hardest Hit Funds (HHF)** – a program that provides opportunities for homeowners in certain designated states that have been hit the hardest by the housing crisis and economic downturn. The federal funds received by the states will be utilized for innovative programs developed by state Housing Finance Agencies (HFAs) to prevent foreclosures and stabilize housing markets. HFAs have implemented a range of programs that include assistance to unemployed borrowers, principal reduction, funding to extinguish second liens, and programs that facilitate short sales and deeds-in-lieu of foreclosure. The HFA's are responsibility for reviewing and qualifying homeowners for the state specific programs, services do not determine eligibility.

Mortgage Servicing Settlement
Financial Relief for Homeowners

The servicers will dedicate $20 billion to various forms of relief to borrowers.

- ***Principal reduction.*** At least $10 billion will be dedicated to reducing principal for borrowers who, as of the date of the settlement, owe more on their mortgages than their homes are worth and are either delinquent or at imminent risk of default.
- ***Refinancing.*** At least $3 billion will be dedicated to a refinancing program for borrowers who are current on their mortgages but who owe more on their mortgages than their homes are worth. All borrowers who meet basic eligibility criteria will be eligible for the refinancing, which will reduce interest rates for borrowers who are currently paying much higher rates or whose adjustable rate mortgages are due to soon rise to much higher rates.
- ***Other forms of relief.*** Servicers will be required to dedicate up to $7 billion to other forms of relief, including forbearance of principal for unemployed borrowers, anti-blight programs, short sales and transitional assistance, benefits for servicemembers, and other programs.

To encourage servicers to provide relief quickly, there are incentives for relief provided within the first 12 months – and additional cash payments required for any servicer that fails to meet its obligation within three years.

Servicers will receive only partial credit for every dollar spent on some of the required activities, so the settlement will provide direct benefits to borrowers in excess of $20 billion.

Mortgage Servicing Settlement

Payments to State/Federal Governments

In addition to the $20 billion of financial relief for homeowners, the servicers will make $5 billion in cash payments to the states and federal government. Of the $5 billion:

- ***Payments to Foreclosed Borrowers****.* Through the settlement, a $1.5 billion Borrower Payment Fund will be established to provide cash payments to borrowers whose homes were sold or taken in foreclosure between and including Jan. 1, 2008 and Dec. 31, 2011, and who meet other criteria. This program is distinct from, but complimentary to, the restitution program currently being administered by federal banking regulators to compensate those who suffered direct financial harm as a result of wrongful servicer conduct.

- ***State and federal payments****.* The remaining funds will go to state and federal governments. The funds coming to the federal government will primarily be allocated to the FHA Capital Reserve Account, with portions also going to the Veterans Housing Benefit Program Fund and to the Rural Housing Service.

Mortgage Servicing Settlement
Financial Obligations of Individual Servicers

INSTITUTION	FEDERAL / STATE PAYMENTS	RELIEF TO BORROWERS (Principal Writedown, Refinancing, and other Programs)
Ally Financial, Inc.	$110 million	$200 million
Bank of America Corp. *including EDNY FHA origination settlement	$3.24 billion	$8.58 billion
Citigroup, Inc.	$415 million	$1.79 billion
J.P. Morgan Chase & Co.	$1.08 billion	$4.21 billion
Wells Fargo & Co.	$1.01 billion	$4.34 billion

Mortgage Servicing Settlement
New Servicing Standards

Servicers are agreeing to implement extensive new servicing standards.

- Reform loan documentation processes through new mortgage servicing standards.
- Require strict oversight of foreclosure processing, including of third-party vendors.
- Impose new standards to ensure the accuracy of information provided in federal bankruptcy court, including pre-filing reviews of certain documents.
- Make foreclosure a last resort, by requiring servicers to evaluate homeowners for other loan mitigation options first.
- Restrict servicers from foreclosing while the homeowner is being considered for a loan modification.
- Set procedures and timelines for reviewing loan modification applications, and give homeowners the right to appeal denials.
- Create a single point of contact for borrowers seeking information about their loans and adequate staff to handle calls.

Mortgage Servicing Settlement

Enforcement

Compliance with the settlement will be overseen by Joseph A. Smith, who will serve as Monitor in enforcing the consent judgment. As North Carolina's banking commissioner since 2002, Smith oversaw implementation of a leading foreclosure-prevention program; he has also served as Chairman of the Conference of State Banks Supervisors and was President Obama's nominee to serve as Director of the Federal Housing Finance Agency. The Monitor will oversee implementation of the extensive servicing standards and delivery of the various forms of consumer relief required by the settlement; impose penalties of up to $1 million per violation (or up to $5 million for certain repeat violations); and publish regular public reports that identify any quarter in which the Servicer fell short of the standards imposed in the settlement. The settlement was entered as a Consent Judgment in the United States District Court for the District of Columbia on April 5, 2012 and will remain in effect for three-and-a-half years.

Qualified Mortgages (QM) and Qualified Residential Mortgages (QRM)

	QM	QRM
How does it relate to the Financial Reform Act?	Ability to Repay/QM (Section 1411/1412)	Risk Retention (Section 941(b))
Policy Objective	Ensure that borrowers have the ability to repay their loans	Improve the quality of lending and securitization by requiring "skin in the game"
What QM/QRM is Designed to Do	Establish specific procedures and criteria to determine a borrower's "ability to repay"	Identify the characteristics of loans that will be exempt from 5% risk retention
When was the proposed rule released?	April 19, 2011	March 29, 2011
Who will finalize the rule?	Bureau of Consumer Financial Protection (CFPB)	Federal Banking Agencies, SEC, HUD
When will the final rule be released?	April 2012 (based on CFPB announcement)	Unknown
Will the rule be applied to GSE loans?	Yes	Fannie and Freddie are excepted while in govt. conservatorship

Qualified Mortgages (QM) and Qualified Residential Mortgages (QRM)

	QM	QRM
What Happens if Requirements Are Not Met	Consumer has a defense against foreclosure, investor's security interest is threatened, and lender is subject to substantial penalties. Since such risk cannot be quantified, lenders and investors will tend to avoid it	Mortgage becomes subject to risk retention Credit risk can be quantified and priced into the mortgage rate
Challenge to Policymakers	• Creating a meaningful "good loan" standard that accommodates a wide range of borrowers who can afford to make the mortgage payment • Ensure a continuous flow of safe and affordable mortgage credit by providing sufficient legal certainty at origination to protect the security interests of investors & avoid frivolous litigation	• Striking the right balance between "skin in the game" and cost of credit • Preserving the liquidity of both the QRM and non-QRM markets • Enabling private capital to compete with FHA and the GSEs
Risks if Policymakers Get It Wrong	• If QM defined too narrowly, borrowers who could afford to repay their loans will be denied access to mortgage credit or receive it at a substantially higher cost • If QM defined too broadly, some borrowers may get loans that they cannot afford and will not have the remedies that Congress intended • If QM standards are unclear, lenders will not approach the "bounds of regulation" and lending will decline at the margin	• If QRM defined too broadly, non-QRM market will be illiquid, with rates that are unnecessarily high • If QRM is defined too narrowly, the desired alignment may not be achieved, potentially weakening investor demand