Wells Fargo Funding

Repurchase and Rescission Process Overview

October15, 2010

A New Reality for Repurchase and Rescission Requests

In today's mortgage market, repurchase and rescission requests from investors and mortgage insurance companies (MI companies) have become commonplace. This has been driven by the increase in delinquent borrower accounts, as well as the liquidation of foreclosed properties. These macro-economic changes have prompted increased investigation into potential breaches of representations and warranties.

Wells Fargo is committed – just like you are - to honoring contractual obligations with investors and mortgage insurance (MI) companies*. We want to ensure that the resolution process for Repurchase and Rescissions is as smooth and swift as possible.

Some demands can be rectified simply by obtaining missing documents. But more often, as you know, the demand process is more complex. Demands are generally received in connection with misrepresentation of income, occupancy, employment, or regarding undisclosed debt or mortgages, and valuation concerns.

Improvements to the Process

Because of the complexity of each demand, the numerous ways to resolve them, and the seriousness of these issues to both of our businesses, Wells Fargo is taking steps to improve the demand process.

Here are some changes and tools we're implementing to improve the process:

- **Enhancing communication and collaboration** with our clients by:
  - Engaging you as early as possible.
  - Working closely with you to clear deficiencies discovered on the loan during investor audits.
- **Repurchase and Rescission Scenarios Exhibit** – This document provides insight on how Wells Fargo approaches many of the most common demand issues.
- Improving our demand process (outlined below), effective October 18, 2010

**In this communication, investors and MI companies are collectively referred to as "investors" and reference will be made to both repurchase demands and MI rescissions jointly as "demands".*

Overview of Wells Fargo's Demand Process – Effective October 18, 2010

Step 1

Wells Fargo receives a deficiency notice or demand from the investor. Typically, Wells Fargo has 60 days to resolve the issue.

Step 2

Wells Fargo notifies the Seller and provides supporting documentation when available. At this time, the **Seller is given twenty-one calendar days to provide an explanation**, facts or documentation to demonstrate that the mortgage loan complies with the requirements. If the Seller does not respond within 14 days of the initial notice, Wells Fargo will follow up with the Seller.

<Return to Top>

(Continued on page 2)

This information is for use by mortgage professionals only and should not be distributed to or used by consumers or other third-parties. Information is accurate as of date of printing and is subject to change without notice. © 2010 Wells Fargo Bank, N.A. All Rights Reserved.

Repurchase and Rescission Process Overview

October15, 2010

Overview of Wells Fargo's Demand Process *(Continued)*

Step 3

Wells Fargo will begin internal research (concurrently with Step 2) to resolve the loan issues. During this process, Wells Fargo will **determine if there is a missing document** and if the document can be located.

For all other issues, Wells Fargo will perform research to determine if there is evidence that proves or disproves the validity of the issue. For example, if the investor provided a review appraisal indicating a value deviation, Wells Fargo will order an independent appraisal review of the origination appraisal and the investor's review appraisal from a third party vendor.

Step 4

The Seller responds to Wells Fargo's request and either agrees with the investor's findings or provides an explanation, missing documents or information for Wells Fargo to utilize in drafting an appeal to the demand or MI rescission notification.

If an appeal is not practical, based on all the information collected, Wells Fargo will notify the Seller, allowing them a final opportunity to provide additional documentation.

If an appeal is submitted to an investor, the Seller will be notified of the result of the appeal. If the Seller provided a response that specifically addressed the investor's issues and the investor deems the information to be insufficient to rescind the repurchase demand or MI rescission, **the Seller will be given** seven (7) **calendar days** to provide **new documentation** to support a second appeal. *(Please note: Even if documents are provided by the Seller, the appeal may not be successful).*

If attempts to refute the demand or MI rescission are unsuccessful, Wells Fargo will be obligated to repurchase the loan from the investor or accept the MI rescission. Likewise, Wells Fargo will issue a demand to the Seller for the repurchase of the mortgage loan pursuant to the provisions of the Loan Purchase Agreement or reimbursement for costs and expenses, if applicable.

Questions?

- Send repurchase letter questions to our mailbox at IRMRepurchaseResponses@wellsfargo.com. The mailbox is monitored daily with replies to inquiries completed within 3 business days, or
- You may contact a member of your regional sales team.

<Return to Top>

Shared Vision, Shared SuccessSM. Together, we can achieve long-term industry success. Learn more today.

This information is for use by mortgage professionals only and should not be distributed to or used by consumers or other third-parties. Information is accurate as of date of printing and is subject to change without notice. © 2010 Wells Fargo Bank, N.A. All Rights Reserved.

Repurchase and Rescission Scenarios Exhibit

When an MI rescission or repurchase demand is received by our Wells Fargo Repurchase Operations team, Wells Fargo will research the issues to determine if there was a breach of a representation or warranty, or non-compliance with a term of the Mortgage Insurance policy.

- If there is **no** breach, the analyst will appeal the repurchase demand or MI company decision.
- If there **is a** breach, the analyst will recommend the loan for repurchase. If the loan is recommended for repurchase, the recommendation is escalated for a second level review. The final determination to repurchase or appeal the demand is made in the second level review.

The matrix on the following pages provides insight into how Wells Fargo analysts review each demand to help determine if there is a breach of a representation and warranty. Examples provided in the matrix are not all inclusive, but represent some of the more common and complicated types of MI rescissions or repurchase demands.

Note: *This information is provided as general guidance only and does not change, alter or modify any contractual obligations between Wells Fargo and the Correspondent Seller. Individual cases may vary. Information provided below is subject to change at any time and without notice.*

	Scenario	Action/test performed by Wells Fargo	How you can help
1	**Undisclosed Debt** **Definition:** The borrower has additional debt that was obtained prior to the closing of the subject loan, but it is not reflected on the origination credit report or application. It is not included in the qualifying ratios for the subject loan.	▪ Was debt included in the original underwriting calculations? ▪ What date was the debt opened? If it was opened in the same month as the loan closing date, the exact date must be verified to ensure that the debt was opened **prior to closing.** ▪ Does the new DTI, including the undisclosed debt, exceed the allowable DTI for the program?	▪ Provide evidence that the debt was included in the qualifying debt ratio. ▪ Provide documentation that the debt was opened after the subject loan closing date. ▪ Provide debt ratio calculations documenting that the debt ratio would have remained at an acceptable level. ▪ Provide documentation that the debt or a portion of the debt was eligible for exclusion from the debt ratio (e.g. provide lease if the property was a rental).

Repurchase and Rescission Scenarios Exhibit

	Scenario	Action/test performed by Wells Fargo	How you can help
2	**Occupancy Misrepresentation** **Definition:** The occupancy of the subject property is misrepresented in an effort to obtain more favorable financing options.	The decision to repurchase for this breach is based on an evaluation or weighting of the evidence presented. As a general principle, Wells Fargo considers occupancy misrepresentation documented if the answer is "yes" to at least two of the following: **Closing Documentation** 1. Does the appraisal indicate that the property is tenant-occupied? 2. Is the homeowner's declaration page reflecting a landlord policy? 3. For a refinance - is the documentation provided to verify income and/or assets reflecting a different address for the borrower? 4. Is the distance between the subject property and the borrower's employment unreasonable for commuting? **Post-closing Documentation** 5. Is the property tax statement for the borrower reflecting a different mailing address? 6. Did the borrower change their mailing address for servicing communication? 7. Does a reverse directory search of the borrower's home phone reflect a different home address? 8. Is there documented verification that the utilities are not and have not been in the borrower's name? 9. Are there public records (driver's license, voter registration, homestead exemption) that indicate the borrower never moved into the property? 10. Do the bankruptcy discharge papers indicate a different home address for the borrower for the timeframe following closing? 11. Is there documented communication between the borrower and a third party investigator indicating the borrower never occupied the subject property?	▪ Provide documentation that proves that the borrower occupied/ occupies the subject property. ▪ If the borrower intended to occupy the property, but did not, provide an explanation for the extenuating circumstances that prohibited the borrower from moving into the property. ▪ Offer an explanation and documentation to refute the evidence provided (e.g. the address that the borrower is utilizing for servicing correspondence and property tax records is actually their business address).

Repurchase and Rescission Scenarios Exhibit

	Scenario	Action/test performed by Wells Fargo	How you can help:
3	**Income Misrepresentation** **Definition:** The income information and/or documentation that were provided at origination were either altered or falsified.	▪ Does the new income documentation provided reflect the same time period as the 1003 application? ▪ Is the new income documentation re-verifiable? If re-verification is not possible, is the investor's documentation clear and complete? ▪ Was the original documentation altered or falsified? ▪ Does the DTI utilizing the new income exceed an allowable DTI for the program?	▪ Provide documentation that the verification provided does not represent the same time period as the 1003 application. ▪ Provide new documentation (verbal or written) that supports the original income documentation.
4	**Employment Misrepresentation** **Definition:** The employment status (self employed vs. W-2; Full time vs. Part time), dates or job title are misrepresented on the loan application and supporting documentation.	▪ Does the documentation provided reflect the same time period as the 1003? ▪ Are the differences in employment substantial? E.g. was the verified profession essentially the same as the stated profession (supervisor vs. manager). ▪ Is the documentation re-verifiable? If re-verification is not possible, is the investor's documentation clear and complete?	▪ Provide documentation that the verification provided does not represent the same time period as the application. ▪ Provide new documentation that supports the original verification.

Repurchase and Rescission Scenarios Exhibit

	Scenario	Action/test performed by Wells Fargo	How you can help:
5	**Valuation/Appraisal Misrepresentation** **Definition:** The original appraiser did not follow USPAP or FIRREA standards when developing the origination appraisal.	Wells Fargo will order an independent third party review of the origination appraisal and the review appraisal from a vendor (at Wells Fargo expense). As part of the review process, the vendor will: ▪ Obtain a property detail report for the subject property that contains an aerial photo of the subject property and additional sales, ▪ Verify the sale date, price and history for all sales referenced within any of the appraisal reports provided, ▪ Verify the appraiser's licensure, ▪ Ensure that the appraiser was appropriately licensed as of the effective date of the appraisal and make note if the license had been revoked at any time, ▪ Analyze market conditions as of the effective date of the appraisal and pull additional market trend data if necessary, ▪ Summarize all items of note, in the form of an e-mail, to be addressed by the original appraiser. MLS sheets for the sales that have been utilized will also be requested, in addition to any other additional local market support that is available. Items of note will include, but are not limited to: o Concerns or discrepancies noted by the local market review, o Concerns noted within the MI Rescission letter or Demand Request, o Reviewer concerns not noted by the local market review or rescission letter. After a response is received from the original appraiser, the vendor makes a determination about whether or not the value was supported as of the effective date of the appraisal. The Wells Fargo analyst will determine the following: ▪ Does the review support the original value? ▪ Does the reviewer state that the original appraisal contains USPAP or FIRREA violations?	▪ Encourage the origination appraiser to provide the Wells Fargo vendor with all requested documentation. ▪ Provide an independent review appraisal that supports the original appraisal.

Repurchase and Rescission Scenarios Exhibit

	Scenario	Action/test performed by Wells Fargo	How you can help:
6	**Missing Docs** **Definition:** One or more required documents were not delivered to the investor.	▪ Was the document applicable or required? ▪ Can the document be located on the Wells Fargo imaging system? ▪ Can the document be retrieved by contacting the original provider (e.g. missing title policy)?	▪ Provide the document that is being requested. ▪ Provide evidence that the document was not required or applicable. ▪ Can the document be retrieved by contacting the original provider or a third party vendor (e.g. missing title policy)?
7	**Compliance** **Definition:** Investor determines that the loan did not meet State, Federal or Agency guidelines or regulations.	Wells Fargo's Compliance Department will conduct a compliance review specific to the compliance issue raised by the investor. Their review includes: ▪ A determination as to whether the cited regulation applies to the loan, ▪ Testing the loan according to the appropriate regulations. Wells Fargo determines the following: ▪ Did the loan pass the compliance test? ▪ If the loan did not pass, do the specified regulations provide for a curing of the issue?	▪ Provide the original compliance testing calculations and results indicating a pass for the issue identified by the investor. ▪ Provide evidence that the regulation is not applicable to the loan. ▪ Provide proof that the issue was cured prior to delivery, if allowable and applicable. ▪ Provide documentation to prove that the loan passes the compliance test (For example, if failure is fee based, provide documentation that certain fees can be excluded from the test, such as bona fide discount points).

Repurchase and Rescission Scenarios Exhibit

Frequently Asked Questions

1) Why wasn't my response used in the appeal to the investor?

Answer: Wells Fargo has a direct contractual relationship with its end-investors, and Wells Fargo believes it is more effective and efficient for Wells Fargo to communicate directly with the end-investors with one concise message. Your responses are instrumental in the analysis of the repurchase demands, as well as the drafting of thorough appeals to the end-investors' findings.

2) Why can't Wells Fargo share servicing notes and/or any subsequently pulled borrower credit reports with the correspondent clients?

Answer: Servicing notes and borrower credit reports contain the borrower's sensitive, non-public financial information. The disclosure of this information is heavily regulated. Wells Fargo takes its responsibility to protect this sensitive borrower information very seriously. Wells Fargo's disclosure policies ensure compliance with consumer privacy laws and the Fair Credit Reporting Act.

3) Why is there sometimes such a significant period of time between when Wells Fargo purchases the loan and when they advise me of a breach?

Answer: Frequently, issues that occurred during the origination of the loan are not apparent until much later (often times during the foreclosure process).

4) On a loan where the underwriting was completed on a "prior approved" basis, why am I liable for defects with the appraisal such as appraiser fraud?

Answer: For these loans, under the terms of the contract between the Seller and Wells Fargo, the Seller retains liability for issues connected with the appraisal that are not underwriter error.

The information contained here is confidential and proprietary to Wells Fargo. Wells Fargo does not authorize further distribution or publication of this material by Seller. It is provided for illustration and example purposes only, and in no way affects, waives or modifies the contract between Wells Fargo and Seller. This information is subject to change in Wells Fargo's sole discretion without notice. Completion of the example actions contained here is not a guarantee of a successful repurchase demand appeal.

This information is for use by mortgage professionals only and should not be distributed to or used by consumers or other third-parties. Information is accurate as of date of printing and is subject to change without notice. © 2010 Wells Fargo Bank, N.A. All Rights Reserved. Revised October 2010.