Issue Date
March 24, 2005
Audit Report Number
2005 SE 1004

TO: John C. Weicher, Assistant Secretary for Housing-Federal Housing Commissioner, H

FROM: Frank E. Baca, Regional Inspector General for Audit, Northwest Region, 0AGA

SUBJECT: Wells Fargo Bank NA, Fife Branch
Fife, WA
Supervised Single Family Mortgagee - Loan Underwriting

HIGHLIGHTS

What We Audited and Why

We audited Wells Fargo Bank NA's Fife Branch Office (Wells Fargo-Fife) because of the high rate of claims on defaulting Federal Housing Administration-insured single-family loans approved by this branch. Our audit objective was to determine whether Wells Fargo-Fife acted in a prudent manner and complied with HUD regulations, procedures, and instructions in its approval of the Federal Housing Administration-insured single-family mortgages selected for review and whether the mortgagee's quality control plan, in relation to the loans reviewed, met HUD requirements.

What We Found

Wells Fargo-Fife did not always process and approve the defaulting Federal Housing Administration-insured loans in accordance with HUD regulations and guidance. Of the 20 loans reviewed, Wells Fargo-Fife approved 13 Federal Housing Administration-insured loans totaling over $1.7 million, which did not meet HUD underwriting requirements. The underwriting deficiencies included approving loans with unsupported income, unsupported assets, underreported liabilities, unexplained derogatory credit information, inadequate qualifying ratios, and unclear and/or inadequate documentation of important file discrepancies. We also determined that Wells Fargo-Fife's quality control plan, as implemented, complied with HUD requirements.

What We Recommend

We recommend that HUD take appropriate administrative action up to and including recovery of losses on $667,181 in paid claims and indemnification against future losses on loans totaling $882,319 identified in appendixes C and D of this report.

Auditee's Response

We provided Wells Fargo Home Mortgage, Wells Fargo-Fife's home office, a draft report on February 18, 2005, and held an exit conference with them on March 2, 2005. Wells Fargo Home Mortgage provided written comments on March 11, 2005. The written comments generally agreed with our report findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in Appendix B of this report.

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BACKGROUND AND OBJECTIVES

The National Housing Act, as amended, established the Federal Housing Administration, an organizational unit within the U.S. Department of Housing and Urban Development (HUD). The Federal Housing Administration provides insurance to private mortgagees against loss on mortgages financing homes. The basic home mortgage insurance program is authorized under Title II, section 203(b), of the National Housing Act and governed by regulations in Title 24, Code of Federal Regulations, section 203.

Under the Direct Endorsement program, the mortgagee underwrites and closes the mortgage loan without prior HUD review or approval. The purpose of mortgage credit analysis is to determine the borrowers' ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. The four major elements typically evaluated in assessing a borrower's ability and willingness to repay the mortgage debt are stability and adequacy of income, funds to close, credit history, and qualifying ratios and compensating factors. The lender is responsible for asking sufficient questions to elicit a complete picture of the borrower's financial situation, source of funds for the transaction, and the intended use of the property.

Wells Fargo Bank NA is a supervised direct endorsement lender with its home office located in Des Moines, IA. Wells Fargo Bank NA's Fife Branch Office (Wells Fargo-Fife) is one of Wells Fargo Bank NA's 98 currently active HUD-approved direct endorsement mortgagee branch offices nationwide. HUD approved Wells Fargo-Fife, lender ID number 2299503873, on February 25, 1994.

Wells Fargo-Fife, located at 5005 Pacific Highway East, Fife, WA, is a loan processing and underwriting center for loans originated by various Wells Fargo Bank branches in the State of Washington. According to HUD's Neighborhood Watch system, Wells Fargo-Fife originated 2,764 Federal Housing Administration-insured loans with beginning amortization dates from May 1, 2002, to April 30, 2004. Wells Fargo-Fife's 2.17-percent (60 of 2,764 loans) default rate within the first 2 years for this period was only 67 percent of the 3.17 percent national average default rate. However, 16.67 percent of Wells Fargo-Fife's defaulting loans (10 of 60) went into claims status, nearly double the national average claims-to-defaults rate of 8.99 percent.

The audit objectives were to determine whether Wells Fargo-Fife acted in a prudent manner and complied with HUD regulations, procedures, and instructions in its approval of the Federal Housing Administration-insured single-family mortgages selected for review and whether the mortgagee's quality control plan met HUD requirements for the loans reviewed.

RESULTS OF AUDIT

Finding 1: Wells Fargo-Fife Did Not Always Comply with HUD Underwriting Requirements

We reviewed 20 single-family loans processed by Wells Fargo-Fife and found that 13 of these loans, totaling over $1.7 million, had serious underwriting deficiencies. The deficiencies included unsupported income, unsupported assets, underreported liabilities, unexplained derogatory credit information, inadequate qualifying ratios, and/or inadequate explanations of significant file discrepancies. According to Wells Fargo-Fife, the underwriting problems occurred because it did not have enough staff to accommodate an increasing volume of mortgage business. As a result, HUD was put at risk for over $1.7 million in loans to unqualified borrowers approved by Wells Fargo-Fife.

HUD Handbook Requirements

Paragraph 2-5 of HUD Handbook 4000.4, REV-1, "Single Family Direct Endorsement Program," requires the mortgagee to obtain and verify information with at least the same care that would be exercised in originating the loan in which the mortgagee would be entirely dependent on the property as security to protect its investment.

HUD Handbook 4155.1, REV-4, "Mortgage Credit Analysis for Mortgage Insurance," describes the basic mortgage credit underwriting requirements for single family mortgage loans insured under the National Housing Act. For each loan HUD insures, the lender must establish that the borrower has the ability and willingness to repay the mortgage debt. This decision must be predicated on sound underwriting principles consistent with the guidelines, rules, and regulations described throughout the Handbook and must be supported by sufficient documentation.

Wells Fargo-Fife Approved Federal Housing Administration Loans with Serious Underwriting Deficiencies.

We reviewed 20 loans underwritten by Wells Fargo-Fife that were in default within the first 6 months, in claims status, in the process of foreclosure, and/or given a "poor" underwriting mortgage credit rating by HUD's Processing and Underwriting Division. For 13 of these loans, we found that Wells Fargo-Fife did not comply with HUD underwriting requirements. Wells Fargo-Fife did not

- Provide valid or sufficient compensating factors when the borrower's debt to income ratios exceeded HUD's benchmark ratios of 29 and 41 percent (2 loans),

- Document the stability of borrower income in accordance with HUD underwriting requirements (4 loans),

- Properly verify the source of funds used for the downpayment and/or closing costs (5 loans),

- Ensure compliance with HUD borrower credit requirements (5 loans), or

- Clarify and/or adequately document important file discrepancies (7 loans).

As of March 21, 2005, the status of the 13 loans was as follows:

Status of Loans	Number of Loans	Loan Amounts
Current - reinstated or partially reinstated by mortgagor	4	$ 542,097
In process of foreclosure	1	$ 123,621
Foreclosure completed	1	$ 216,601
Accelerated claim disposition	3	$ 290,325
Property conveyed to insurer	4	$ 595,458
Total loans	**13**	**$ 1,768,102**

Appendix C to this report provides details of the loan underwriting deficiencies for each of the 13 loans. These deficiencies have caused Federal Housing Administration fund losses totaling $667,181 and potential losses of $882,319.

According to Wells Fargo-Fife's Production Manager, the underwriting problems occurred because the mortgage industry was growing during our audit period, and Wells Fargo-Fife did not have sufficient staffing to meet the increased demand for Federal Housing Administration loans.

Recommendations

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner, Chairman, Mortgagee Review Board

1 A. Take appropriate administrative action up to and including recovery of losses on $667,181 in paid claims and indemnification against future losses on loans totaling $882,319 identified in appendixes C and D of this report.

SCOPE AND METHODOLOGY

Our review covered the period from April 1, 2002 to March 31, 2004, and was modified as needed to achieve our objectives.

To accomplish our objectives, we reviewed relevant HUD rules, regulations, and guidance regarding mortgage underwriting and quality assurance review, 33 HUD loan files and 18 lender loan files, and the lender's quality assurance plans for Federal Housing Administration loans. We interviewed Wells Fargo-Fife's Production Manager, Quality Control Analyst, Quality Assurance Manager, and underwriting staff and conducted conferences with officials from Wells Fargo Bank NA national headquarters.

To determine our sample of loans for review we

- Downloaded from HUD's Neighborhood Watch system a list of all loans underwritten by Wells Fargo-Fife with beginning amortization dates from April 1, 2002, to March 31, 2004, which defaulted within the first 3 years. The list contained 101 loans.

- Selected 35 loans from the 101 loans identified above that were either early payment defaults, in claims status, in the process of foreclosure, and/or given a "poor" underwriting mortgage credit rating by HUD's Processing and Underwriting Division. We reviewed the HUD files for 33 of these loans (two of the loan files were unavailable for review and dropped from our sample).

- Selected 20 of the 33 loans that had indications of underwriting deficiencies.

The sample selection method resulted in our review of 20 loans underwritten and approved by Wells Fargo-Fife.

We performed our audit work from June 17 through October 26, 2004. We conducted the field work at the Wells Fargo-Fife located in Fife, WA.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Control

We determined the following internal control was relevant to our audit objectives:

- Underwriting - Policies and procedures that management has in place to reasonably ensure that the loan underwriting process complies with HUD program requirements.

We assessed the relevant control identified above. It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weakness

Wells Fargo-Fife did not underwrite 13 loans in accordance with all applicable HUD requirements (finding 1).

Appendix A

SCHEDULE OF QUESTIONED COSTS
AND FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Type of Questioned Cost		Funds To Be Put to Better Use 3/
	Ineligible 1/	Unsupported 2/	
1A	$ 66,455	$ 600,726	$882,319

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program/activity that the auditor believes are not allowable by law; contract; or Federal, State, or local polices or regulations. The amount shown includes loss mitigation incentive payments and net claims. A net claim is the total claim paid by HUD, including loss mitigation incentives, less any proceeds from HUD's sale of the insured property.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. The amount shown is for gross claims. A gross claim is the amount of the claim paid by HUD before any recovery from the sale of the property by HUD. At the time of the audit, HUD had not yet sold the properties.

3/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings. For this review, these funds consist of loans and guarantees not made because of indemnification.

Appendix A

13 Loans Containing Serious Underwriting Deficiencies

Case Number	Ineligible		Unsupported (Gross Claim)	Funds To Be Put to Better Use (Loan Amount on currently insured loans)
	Net Claims	Loss Mitigation Incentives		
561-7398861				$ 216,601
561-7489470			$114,404	
561-7498935			$139,671	
561-7504396				$ 123,621
561-7529976		$500		$ 106,823
561-7532917	$31,106			
561-7534924				$ 125,130
561-7535676	$33,899			
561-7539777			$ 88,598	
561-7587020		$950		$ 150,143
561-7658705			$ 98,173	
561-7787311				$ 160,001
561-7870953			$159,880	
TOTALS	**$65,005**	**$1,450**	**$600,726**	**$882,319**

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

Comment 1

WELLS FARGO | HOME MORTGAGE

Wells Fargo Home Mortgage
One Home Campus
Des Moines, IA 50328

March 11, 2005

Frank E. Baca
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General for Audit
Northwest/Alaska Region 10
909 First Avenue, Suite 126
Seattle, WA 98104-1000

Dear Mr. Baca

Wells Fargo Home Mortgage (WFHM) is committed to originating Federal Housing Administration (FHA) loans that conform to the Department of Housing and Urban Development's (HUD) origination, underwriting and servicing requirements. As the leading originator of Government National Mortgage Association (GNMA) loans over the past few years, WFHM values its relationship with HUD and is committed to continuing to improve its origination, underwriting and servicing operations and processes.

We are proud of the fact that the quality of WFHM's FHA-insured originations, as measured by the industry standard default and claims compare ratio from HUD's Single Family Data Warehouse, is better than the industry average, both nationally and for the Fife center. In fact, the default and claims compare ratio for the Fife center has been on a steady decline over the past 12 months trending downward from a high of 101 percent in January, 2004, which is par with the industry, to 66 percent, January 2005, which is significantly below the industry average. WFHM also is one of only two high-volume servicers (an FHA portfolio of more than 100,000 loans) with a Tier 1 servicer ranking, reflecting our success in loss mitigation and the underlying quality of our originations.

This letter is in response to the draft report of the Office of Inspector General (OIG) dated February 18, 2005 which details the findings from the review of a small number of WFHM FHA-insured loans originated between April 1, 2002 and March 31, 2004. While we are confident that our overall quality record as an FHA originator and servicer is among the best in the industry, we take the draft findings outlined in the OIG's review very seriously and have proactively initiated processes to address the issues related to the draft finding.

Wells Fargo Home Mortgage consistently strives to meet all of HUD's guidelines when originating, processing and closing loans. We have a series of quality controls and measures in place to ensure that errors are detected and addressed. WFHM has taken numerous steps to identify opportunities, determine root causes and create action plans to appropriately address the issues. Action plans have been implemented to support increased quality both nationally and at local sales fulfillment centers, and the improvement in the material finding rate at Wells Fargo-Fife demonstrates that those measures have been effective.

Ref to OIG Evaluation	Auditee Comments

Comment 1

Wells Fargo Home Mortgage Has Improved Its Processes and Controls

WFHM continuously implements improvements in its process and controls for FHA originations and underwriting. On a monthly basis, random and targeted samples of FHA originations and loans submitted for endorsement are assessed for adherence to HUD guidelines. These results are reviewed with senior management from the business units to identify opportunities for improvement and the root causes of any errors. In the event the business units do not produce loans that conform to HUD guidelines within established benchmarks, the business units receive direct feedback and the directive to address any deficiencies.

In addition, on a quarterly basis, each business unit's management team performs an assessment of its risks and internal controls. In the event that any high-risk area is identified as less than satisfactory, management immediately commits to action plans to address any control weaknesses.

Summary of the OIG Draft Audit Report and WFHM's Response

The OIG draft audit report was issued February 18, 2005, for review and comment. The audit period covered by the report was from April 1, 2002, through March 31, 2004.

The background and objectives section of the report states that Wells Fargo-Fife has a claim to default rate nearly double the national average. While Wells Fargo agrees that the default to claim ratio calculation used by the Seattle OIG is accurate, it is not a standard calculation used by HUD to measure lender performance and needs to be understood in the proper context. It certainly is not indicative of Wells Fargo-Fife's overall origination quality. There are two key issues to consider:

- First, the Wells Fargo-Fife had only 10 total claims—a very small number—during the two year period of May 01, 2002 to April 30, 2004. To put that in context, the 10 claims represent approximately 0.36 percent of total Fife originations during the time period; in line with the current national HUD claim rate of approximately 0.40 percent.
- Second, the higher claim-to-total default ratio is driven in part by better than average default performance, not only by a higher number of claims. Wells Fargo-Fife's success in achieving a lower than average total default rate, which should be viewed as a strength by HUD, actually makes the claim-to-total default ratio higher, since OIG is working with a smaller denominator.

Finding 1: Wells Fargo-Fife Did Not Always Comply with HUD Underwriting Requirements.

According to data from HUD's Single Family Data Warehouse as of December 2004, WFHM does a better job of adhering to prudent lending practices than the industry average. In addition, WFHM has performed at the industry average since the third quarter of 2002. While we agree that the error rate reported in the OIG's sample of 20 defaulted loans would appear to be high, it needs to be evaluated in this broader industry context. In addition, we are confident that the error rate of a small, adverse sample of 20 defaulted loans is not indicative of the overall quality of WFHM's FHA originations.

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Ref to OIG Evaluation **Auditee Comments**

Comment 1

Because of our commitment to leadership in FHA lending, WFHM has taken steps to improve its originations and underwriting processes and controls. We believe that these changes are producing positive results, as measurement and analysis by WFHM's internal quality control group finds that the error rate in adhering to HUD requirements and prudent lending practices for FHA originations has improved significantly for the 2003-2004 period compared to 2001-2002. The Wells Fargo-Fife site ended 2004 with a material finding rate (significant errors) of 8.33 percent, a three fold improvement from 2002 results. We will continue to take actions necessary to ensure ongoing improvement in the quality of our FHA originations and underwriting processes.

WFHM agrees that we will work with HUD on indemnification parameters on 13 of the 20 loans cited in the study as not having adhered to HUD requirements and prudent lending practices.

Overview of Loan Origination Issues

The OIG audit found compliance issues with 13 of the 20 defaulted loans that it examined. While we do not believe the findings based on this small, adverse sample of defaulted loans are indicative of the overall quality of WFHM's FHA originations, the feedback helps strengthen our origination and production capabilities. We take seriously the responsibility of being the nation's No. 1 FHA lender, and WFHM will continue to generate high-quality FHA loans through its partnership with HUD.

We agree with the findings that the record volume of loan originations experienced in the loan review period of 2002-2004 created challenges to our origination and production processes. Those challenges served as an impetus for measures that we have already taken to strengthen our production quality and risk management controls.

WFHM's Actions to Strengthen Origination Practices

As the following initiatives have been implemented, we have seen improvement in our overall FHA loan quality. Based on our internal quality assurance results, loan originations in 2003-2004 have experienced a significant decrease in material defects compared to loan originations within the April 1, 2002 – March 31, 2004 timeframe of this audit.

Nationally and in our Fife office, Wells Fargo Home Mortgage has fortified its culture of risk governance by instituting quarterly enterprise-wide management assessments of risk controls and immediately addressing areas considered marginal or insufficient. In addition, we have taken specific action toward the enhancement of compliance with HUD requirements, which include:

- Improving controls within our loan origination systems,
- Articulating and validating underwriter and closer competencies,
- Enhancing production workflow,
- Creating and implementing needs-based training programs and job aids,
- Implementing compensation programs with a specific orientation toward quality,

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Ref to OIG Evaluation	**Auditee Comments**

Comment 1

- Instituting a post-fund review to identify and reimburse unallowable fees.
- Implementing a five module training syllabus, created to support national training, to address the five primary defect areas of:
  - Required Compensating Factors for manually underwritten loans exceeding benchmark ratios of 29 / 41.
  - Income Calculations
  - Asset Verification
  - Credit Requirements
  - Minimum Required File Documentation

Conclusion

We reviewed the 20 loans tested for technical compliance and agree with the factual content of the findings that there were compliance issues within the small group of 13 loans identified in the audit. The audit findings will be integrated within our ongoing quality assurance performance feedback, providing a meaningful gauge to our origination and production offices.

We appreciate the opportunity to review and comment on the draft report prepared by the Office of the Inspector General. While we are confident that WFHM's overall performance as an FHA originator is among the best in the industry, we also understand that there always are opportunities for improvement. This response includes details on a number of specific steps we have taken to address the issues raised in the audit; steps that already have helped us further improve the quality of our FHA originations.

Wells Fargo Home Mortgage is proud of its role as the nation's premier FHA lender and servicer. We are committed to a strong, long-term partnership with the Department of Housing and Urban Development. Please contact either of us if you have any additional questions or need clarification on anything that is included in this response.

Sincerely,

Cara K. Heiden
Division President, Wells Fargo Home Mortgage,
a division of Wells Fargo Bank, N.A.

Michael J. Heid
Division President, Wells Fargo Home Mortgage,
a division of Wells Fargo Bank, N.A.

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OIG Evaluation of Auditee Comments

Comment 1 Wells Fargo Home Mortgage officials agreed with the audit finding on the Wells Fargo-Fife branch.

Appendix C

SUMMARY OF UNDERWRITING DEFICIENCIES

Case No.	Loan Amount	Deficiencies A	B	C	D	E	Default Status Per Neighborhood Watch 3/21/05
561-7398861	$ 216,601			X			Foreclosure completed
561-7489470	$ 107,758				X	X	Accelerated claim disposition
561-7498935	$ 135,584		X	X		X	Conveyed to insurer
561-7504396	$ 123,621	X				X	Foreclosure started
561-7529976	$ 106,823			X		X	Current – reinstated by mortgagor
561-7532917	$ 155,190				X		Conveyed to insurer
561-7534924	$ 125,130	X		X			Current – partial reinstatement
561-7535676	$ 156,291				X	X	Conveyed to insurer
561-7539777	$ 87,066				X		Accelerated claim disposition
561-7587020	$ 150,143		X	X		X	Current – reinstated by mortgagor
561-7658705	$ 95,501		X				Accelerated claim disposition
561-7787311	$ 160,001		X				Current – reinstated by mortgagor
561-7870953	$ 148,393				X	X	Conveyed to insurer
Total	**$1,768,102**						

Deficiencies

A. Wells Fargo-Fife did not provide valid or sufficient compensating factors when HUD's benchmark debt to income ratios of 29 and 41 percent were exceeded.

B. Wells Fargo-Fife did not document the stability of income in accordance with HUD requirements.

C. Wells Fargo-Fife did not properly verify the source of funds used for the downpayment and/or closing costs.

D. Wells Fargo-Fife did not fully comply with HUD credit requirements.

E. Wells Fargo-Fife did not clarify and/or adequately document important file discrepancies.

Appendix D

NARRATIVE CASE PRESENTATIONS

Case Number: 561-7398861
Original Loan Amount: $216,601
Endorsement Date: 08/13/02
Insurance Status: Active
Loan Status: Foreclosure completed

Wells Fargo-Fife did not properly verify the source of funds used for the downpayment and/or closing costs.

The lender failed to adequately verify that a donor had the available funds to provide a downpayment gift to the borrower as required by HUD Mortgagee Letter 00-28. The files did not contain adequate documentation that the funds were received directly from the donor and not the seller. The HUD and lender case files contained a copy of a cashier's check for $7,000 to support a downpayment gift from a relative of the borrower. However, there was no documentation in the loan files showing that the $7,000 gift came from the donor's personal savings account.

Other Details:

The lender did not adequately assess the probability that the borrower would be able to repay the mortgage by analyzing layers of risk in accordance with Section 5 of HUD Handbook 4155.1, REV-4, CHG-1. Our review disclosed that the borrowers had an $826 increase in housing costs and did not have any documented savings, indicating a lack of resources to absorb such a large increase in housing costs.

Case Number: 561-7489470
Original Loan Amount: $107,758
Endorsement Date: 04/30/02
Insurance Status: Claim
Loan Status: Accelerated claim disposition

Wells Fargo-Fife did not fully comply with HUD credit requirements.

The lender did not obtain the borrower's nonparticipating spouse's credit report as required by HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-1D and 2-2D. The mortgaged property for this case is located in Washington, a community property state. As noted below, the underwriter did not establish the borrower's true marital status. The Deed of Trust for the mortgaged property shows the borrower as married. However, there were no documents included in the HUD or lender files to support that the marriage was dissolved. Without such documentation, the lender should have included the nonparticipating spouse's credit report in its analysis of the borrower's ratios.

Wells Fargo-Fife did not clarify and/or adequately document important file discrepancies.

The lender failed to clarify loan file documentation discrepancies as required by Mortgagee Letter 92-5. The Deed of Trust indicated the borrower was married; other documentation in the file indicated the borrower was single. The underwriter approved the loan without verifying the borrower's marital status, which would affect the borrower's liabilities from a current or previous marriage. There was no documentation of valid marriage dissolution or divorce decree.

Case Number:	561-7498935
Original Loan Amount:	$135,584
Endorsement Date:	05/07/02
Insurance Status:	Claim
Loan Status:	Conveyed

Wells Fargo-Fife did not document the stability of income in accordance with HUD requirements.

The lender did not document the stability of the borrower's income as required by Chapter 2, Section 2 of HUD Handbook 4155.1, REV-1, CHG-1. The ratios for this loan were calculated by the Loan Prospector automated underwriting system using inadequately supported income amounts. Total monthly income shown on the Mortgage Credit Analysis Worksheet was $4,237, consisting of $2,500 of borrower income, $1,151 of coborrower income, and $586 of other income earned by the coborrower. The borrower's monthly income was based on the $1,250 shown on each of two handwritten biweekly pay stubs containing no information identifying the borrower. However, the borrower's Internal Revenue Service W-2 forms only support a monthly income of $1,981. The support for the coborrower's other income was incomplete as it did not contain a verbal Verification of Employment form or pay stubs required by the Loan Prospector system. Thus, total borrower and coborrower income was overstated by $1,105 since the total supported income was only $3,132 ($1,981 plus $1,151).

Wells Fargo-Fife did not properly verify the source of funds used for the downpayment and/or closing costs.

The lender failed to follow paragraph 2-10 of HUD Handbook 4155.1, REV-4, CHG-1 and did not adequately verify the source of the funds used to close. According to the Mortgage Credit Analysis Worksheet, $6,052 was required from the borrower to close. The borrower's Verification of Deposit form verified a balance of $1,919. The remaining support for the amount needed to close was an undated deposit receipt from the borrower's bank for $4,640 with the handwritten comment, "Deposit Made From Employer Bonus." The loan files contained no other documentation to support that the borrower had received a bonus from his employer, nor was there any other documentation to verify the source of this deposit to the borrower's account.

<u>Wells Fargo-Fife did not clarify and/or adequately document important file discrepancies.</u>

The lender did not process the loan in accordance with Mortgagee Letter 92-5 because it failed to document discrepancies between the incomes listed on the Loan Profile that was generated by the Loan Prospector automated underwriting system and the income documentation in the loan files. The Loan Profile printout shows $4,237 in total monthly income for the borrower and coborrower, $1,105 higher that the income supported by the loan file documents.

Case Number:	561-7504396
Original Loan Amount:	$123,621
Endorsement Date:	06/26/02
Insurance Status:	Active
Loan Status:	Foreclosure started

<u>Wells Fargo-Fife did not provide valid or sufficient compensating factors when HUD's benchmark debt to income ratios of 29 and 41 percent were exceeded.</u>

Although this loan was approved by the Loan Prospector automated underwriting system, it should have been manually underwritten since there were discrepancies in the amounts shown for borrower debt (see below). Using a figure of $141 for borrower installment debt, the automated underwriting system calculated a total fixed payment to income ratio of 39.7 percent. Our review found that the credit report and credit-consulting agency documents in the loan files show actual total monthly installment debt of $1,238. The correct total fixed payment to income ratio using the $1,238 monthly installment debt is 76.96 percent. The loan files contained no compensating factors to support the approval of this loan as required by paragraph 2-13 of HUD Handbook 4155.1, REV-4, CHG-1.

<u>Wells Fargo-Fife did not clarify and/or adequately document important file discrepancies.</u>

The Loan Profile printout from the Loan Prospector automated underwriting system showed $141 of borrower installment debt; however, the credit report and other credit documentation in the loan files disclosed $1,238 of installment debt. The Credit Report Processing Information section of the Loan Profile printout states, "…if you determine a significant inaccuracy on the in-file credit report, downgrade to REFER and order RMCR, merged credit report or third party documentation to clarify." This loan received an approval from the Loan Prospector automated underwriting system since the lender did not downgrade the accepted loan to a "REFER" or obtain further documentation as required.

Case Number:	561-7529976
Original Loan Amount:	$106,823
Endorsement Date:	06/25/02
Insurance Status:	Active
Loan Status:	Current

Wells Fargo-Fife did not properly verify the source of funds used for the downpayment and/or closing costs.

The lender failed to follow the requirements of Mortgagee Letter 00-28 because it did not verify that $2,997 in downpayment gift funds from a nonprofit organization were deposited into the loan escrow account before closing.

Wells Fargo-Fife did not clarify and/or adequately document important file discrepancies.

The lender failed to clarify loan file documentation discrepancies as required by Mortgagee Letter 92-5. Our review disclosed that the amount of income contained on the Mortgage Credit Analysis Worksheet is overstated by $397 per month from the amounts found in the supporting income documentation provided in the file. In addition, the credit report shows the current housing payment as $495 while the Mortgage Credit Analysis Worksheet and Uniform Residential Loan Application show the current housing payment as $550.

Other Details:

The lender did not adequately assess the probability that the borrower would be able to repay the mortgage by analyzing layers of risk as required by Section 5 of HUD Handbook 4155.1, REV-4, CHG-1. Our review disclosed that the borrowers had a $435 increase in monthly housing costs and did not have a documented history of sufficient savings or other resources to absorb such a large increase in housing costs.

Case Number:	561-7532917
Original Loan Amount:	$155,190
Endorsement Date:	08/09/02
Insurance Status:	Claim
Loan Status:	Conveyed

Wells Fargo-Fife did not fully comply with HUD credit requirements.

The lender did not analyze the borrower's credit as required by Chapter 2 of HUD Handbook 4155.1, REV-4, CHG-1. Two of the coborrowers were cosigners for a conventional mortgage for their daughter's home, but the lender did not include this obligation in the calculation of the total payment to income ratio for the subject loan. The credit report for these coborrowers disclosed three late payments on the cosigned mortgage with the latest delinquency occurring in February 2002, only 3 months before the approval of the subject loan. The lender obtained copies of the checks used to make the payments on the cosigned loans, but a check was missing for the February 2002 payment. The missing payment was made up on March 14, 2002. Since the cosigned loan was a contingent obligation of two of the coborrowers, it should have been included in the calculation of the total payment to income ratio. Doing so increases the total fixed payment to income ratio from 44.5 to 67.89 percent.

Case Number:	561-7534924
Original Loan Amount:	$125,130
Endorsement Date:	07/23/02
Insurance Status:	Active
Loan Status:	Current

<u>Wells Fargo-Fife did not provide valid or sufficient compensating factors when HUD's benchmark debt to income ratios of 29 and 41 percent were exceeded.</u>

According to the Mortgage Credit Analysis Worksheet for this loan, the total fixed payment to income ratio was 50.3 percent; however, there were no compensating factors shown as required by paragraph 2-13 of HUD Handbook 4155.1, REV-4, CHG-1. Furthermore, the interest rate was a buy down rate. The initial interest rate of 6.375 percent was to increase by 1 percent the next year. Mortgagee Letter 97-26 states that when buy down rates are used, ratios should rarely be exceeded, and consideration must be given to the borrower’s ability to absorb future payment increases. The lender disregarded this requirement.

<u>Wells Fargo-Fife did not properly verify the source of funds used for the downpayment and/or closing costs.</u>

The lender failed to adequately verify that a donor had the available funds to provide a downpayment gift to the borrower as required by HUD Mortgagee Letter 00-28. The lender obtained a copy of a cashiers check for $4,000 to evidence the deposit of gift funds into the loan escrow account. However, the lender was unable to produce documentation showing that the $4,000 gift came from the donor’s personal savings.

<u>Other Details:</u>

The lender did not adequately assess the probability that the borrower would be able to repay the mortgage by analyzing layers of risk as required by Section 5 of HUD Handbook 4155.1, REV-4, CHG-1. Our review disclosed that the borrower had a $577 increase in monthly housing costs. The borrower’s bank statements disclosed multiple overdrafts and did not show a history of sufficient savings to absorb such a large increase in housing costs.

Case Number:	561-7535676
Original Loan Amount:	$156,291
Endorsement Date:	10/17/02
Insurance Status:	Claim
Loan Status:	Conveyed

<u>Wells Fargo-Fife did not fully comply with HUD credit requirements.</u>

The lender did not properly analyze the borrower’s credit as required by HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-3. The underwriter did not include the monthly payment of $53 from the second mortgage or a $10 monthly payment with a balance of $115 as shown on the credit report; these were not considered in the borrower’s debt to income ratio.

Additionally, the lender did not obtain sufficient written explanations from the borrowers for derogatory credit problems. The borrowers' credit report disclosed two collection accounts established within 2 years of the mortgage loan application. The credit report also contained two student loans with histories of recent late payments. Another account showed two 30-day late payments, two 60-day late payments, and four 90-day late payments.

Further, the lender did not determine the purpose of a debt opened only 4 months before closing. The credit report disclosed a debt of $14,223 that was opened in March 2002; the settlement date for the home purchase was July 9, 2002.

<u>Wells Fargo-Fife did not clarify and/or adequately document important file discrepancies.</u>

The borrowers' tax returns disclosed that the coborrower was self-employed and had experienced significant business losses that were not used for the calculation of borrower income. The underwriter did not obtain documentation explaining that the coborrower had discontinued the self-employment, nor was there clarification as to why her business losses were not used to reduce household income for the calculation of the borrowers' debt to income ratios.

<u>Other Details:</u>

Wells Fargo-Fife did not adequately assess the probability that the borrower would be able to repay the mortgage by analyzing layers of risk as required by Section 5 of HUD Handbook 4155.1, REV-4, CHG-1. Our review disclosed that the borrowers had a $423 increase in monthly housing costs. The two bank statements in the loan file disclosed numerous overdrafts and did not support any pattern of savings.

Case Number:	561-7539777
Original Loan Amount:	$87,066
Endorsement Date:	07/30/02
Insurance Status:	Claim
Loan Status:	Accelerated claim disposition

<u>Wells Fargo-Fife did not fully comply with HUD credit requirements.</u>

The lender did not properly analyze the borrower's credit as required by HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-3. The lender did not obtain sufficient written explanations from the borrower for derogatory credit problems. The borrower's credit report disclosed eight collection accounts. The loan file contained a written explanation of the collection accounts, but the borrower's explanation, claiming he was not aware of any of the collections, was incomplete. There was no other documentation in the loan files indicating that the lender followed up on the borrower's incomplete explanation of his derogatory credit history.

Case Number: 561-7587020
Original Loan Amount: $150,143
Endorsement Date: 03/25/03
Insurance Status: Active
Loan Status: Current

Wells Fargo-Fife did not document the stability of income in accordance with HUD requirements.

The loan was approved by the Loan Prospector automated underwriting system. According to the Employment Information section of the Loan Profile printout, the lender is required to "obtain most recent YTD [year-to-date] pay stub documenting 1 full month earnings and a verbal Verification of Employment form to verify current employment."

The loan file contained incomplete documentation and verification of the borrower's income. The Verification of Employment form in the loan file was incomplete, as it did not contain any salary information. The loan files contained the prior 2 years' Internal Revenue Service W-2 forms; however, they did not include any pay stubs.

Wells Fargo-Fife did not properly verify the source of funds used for the downpayment and/or closing costs.

The lender failed to follow the requirements of Mortgagee Letter 00-28 because it did not verify that $4,575 in downpayment gift funds from a nonprofit organization were deposited into the loan escrow account before closing.

Wells Fargo-Fife did not clarify and/or adequately document important file discrepancies.

The lender did not follow the requirements of Mortgagee Letter 92-5 because it failed to document discrepancies between the income listed on the Loan Profile that was generated by the Loan Prospector automated underwriting system and the income documentation in the loan files. The Loan Profile printout shows $2,667 in total monthly income for the borrower; however, the documentation in the loan file was incomplete and only supports a monthly income of $2,588 (see above).

Other Details:

The lender did not adequately assess the probability that the borrower would be able to repay the mortgage by analyzing layers of risk as required by Section 5 of HUD Handbook 4155.1, REV-4, CHG-1. Our review disclosed that the borrowers had an $818 increase in housing payments and did not have sufficient savings to absorb such a payment increase.

Case Number: 561-7658705
Original Loan Amount: $95,501
Endorsement Date: 02/03/03
Insurance Status: Claim
Loan Status: Accelerated claim disposition

<u>Wells Fargo-Fife did not document the stability of income in accordance with HUD requirements.</u>

The lender did not document the stability of the borrower's income as required by chapter 2, Section 2 of HUD Handbook 4155.1, REV-1, CHG-1. The loan file contained incomplete documentation and verification of the borrowers' incomes. The verbal Verification of Employment forms for both the borrower and coborrower were incomplete, as neither verification form contained salary information. The Internal Revenue Service W-2 forms for the borrower and coborrower covered only 1 year. Further, the loan files for both the borrower and coborrower contained only one pay stub each.

<u>Other Details:</u>

We noted that Wells Fargo-Fife did not adequately assess the probability that the borrower would be able to repay the mortgage by analyzing layers of risk as required by Section 5 of HUD Handbook 4155.1, REV-4, CHG-1. Our review disclosed that the borrowers had a $342 increase in monthly housing costs and did not have a documented history of sufficient savings or other resources to absorb this increase.

Case Number:	561-7787311
Original Loan Amount:	$160,001
Endorsement Date:	07/08/03
Insurance Status:	Active
Loan Status:	Current

<u>Wells Fargo-Fife did not document the stability of income in accordance with HUD requirements.</u>

The lender did not document the stability of the borrower's income as required by Chapter 2, Section 2 of HUD Handbook 4155.1, REV-1, CHG-1. The income shown on the Mortgage Credit Analysis Worksheet was overstated by $263. Although the borrower had only been working at her current job for approximately 4 months, the underwriter improperly included overtime pay as part of the borrower's monthly income. Without the inclusion of the overtime pay in the borrower's income, the ratios would have been 47.61 and 57.1. Further, the lender did not establish the borrower's employment stability. The loan files documented that, for the previous 2 years, the borrower had been employed by temporary agencies and had numerous gaps in employment history.

Case Number:	561-7870953
Original Loan Amount:	$148,393
Endorsement Date:	09/19/03
Insurance Status:	Claim
Loan Status:	Conveyed

Wells Fargo-Fife did not fully comply with HUD credit requirements.

The lender did not include all of the installment debts of the borrower in the calculation of the total payment to income ratio as required by HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-11A. The borrower's credit report included a loan with a $398 monthly payment with a greater than 10-month payoff. This obligation was not input into the Loan Prospector automated underwriting system and, therefore, was not used in the calculation of the total fixed payment to income ratio. If this debt had been properly included, the total fixed payment to income ratio would have increased from 52.1 to 65.95 percent. The lender provided us documentation that the $398 debt was paid off 10 months after the closing date; however, the subject loan went into foreclosure 4 months before the payoff of the $398 debt.

Wells Fargo-Fife did not clarify and/or adequately document important file discrepancies.

A $398 installment debt that was present on the borrower's credit report was not included in the amount of debt shown on the Loan Profile printout generated by the Loan Prospector automated underwriting system. The lender failed to document or otherwise justify this discrepancy as required by Mortgagee Letter 92-5.

Criteria cited in the above narrative case presentations

HUD Handbook 4155.1, REV-4, CHG-1

Paragraph 2-2D, requires lenders to consider the debts of nonparticipating spouses of borrowers in the qualifying ratios if the insured property is located in a community property state. Paragraph 2-1D further requires the lender to obtain a credit report on the nonparticipating spouse.

Chapter 2, Section 2 requires that the anticipated amount of income and likelihood of its continuance must be established to determine the borrower's capacity to repay the mortgage debt. Income from any source that cannot be verified, is not stable, or will not continue may not be used in calculating the borrower's income for use in the debt ratios for qualifying the borrower. Documentation of income must be in accordance with paragraph 3-1 of this handbook.

Paragraph 2-10 states "The cash investment in the property must equal the difference between the amount of the insured mortgage, excluding any upfront MIP [Mortgage Insurance Premium], and the total cost to acquire the property, including prepaid expenses, etc. (see paragraph 1-9). All funds for the borrower's investment in the property must be verified."

Paragraph 2-11B defines borrower contingent liabilities that the lender must consider and states, "… 2) Co-signed obligations. If the individual applying for a FHA [Federal Housing Administration]-insured mortgage is a cosigner or otherwise co-obligated on a car loan, student load, or any other obligation including a mortgage, contingent liability applies unless the lender obtains documentation that the primary obligor has been making payments on a regular basis and does not have a history of delinquent payments on the loan over the past twelve months."

Chapter 2, Section 5 states "…Conversely, we also recognize the danger of 'layering flexibilities' in assessing mortgage insurance risk and that simply establishing that a loan transaction meets minimal standards does not necessarily constitute prudent underwriting. The lender is responsible for adequately analyzing the probability that the borrower will be able to repay the mortgage obligation in accordance with the terms of the loan."

Paragraphs 2-12A and B, allow the borrower mortgage payment expense to effective income ratio to exceed 29 percent and the total fixed payment expense to effective income ratio to exceed 41 percent only in the presence of compensating factors. Paragraph 2-13 lists acceptable compensating factors and requires lenders to list these factors on the Mortgage Credit Analysis Worksheet.

Paragraph 2-20 requires lenders to document the transfers of gift funds from the donor to the borrower.

Mortgagee Letters

Mortgagee Letter 92-5 states, "Processing loans without reconciling discrepancies in file documentation. Too often on-site monitoring reviews identify situations where there is conflicting information regarding a mortgagor's income/assets/liabilities/credit or where the file documentation simply does not make sense. For example, debts on the credit report, original application and HUD92900 [Uniform Residential Loan Application] must all be consistent. It is the mortgagee's responsibility to resolve any and all discrepancies of this nature."

Mortgagee Letter 00-28 states, "Regardless of when the gift funds are made available to the homebuyer, the lender must be able to determine that the gift funds were not ultimately provided from an unacceptable source and were indeed the donor's own funds. When the transfer occurs at closing, the lender remains responsible for obtaining verification that the closing agent received funds from the donor for the amount of the purported gift."