



**CALIFORNIA IN CRISIS:
HOW WELLS FARGO'S
FORECLOSURE PIPELINE
IS DAMAGING LOCAL
COMMUNITIES**

ABOUT THE AUTHORS



The Alliance of Californians for Community Empowerment is a multi-racial, democratic, non-profit community organization building power in low to moderate income neighborhoods to stand and fight for social, economic, and racial justice. ACCE is a statewide community organization working with thousands of members in eleven counties creating transformative change by helping ordinary citizens to organize and take action. We are dedicated to raising the voices of everyday Californians, neighborhood by neighborhood, so that our children have stronger communities and expanded opportunities. For more information about ACCE, please visit www.calorganize.org.



The Center for Popular Democracy promotes equity, opportunity, and a dynamic democracy in partnership with innovative base-building organizations, organizing networks and alliances, and progressive unions across the country. CPD builds the strength and capacity of democratic organizations to envision and advance a pro-worker, pro-immigrant, racial justice agenda.



The Home Defenders League is a membership organization of tens of thousands of underwater homeowners and other Americans affected by the mortgage crisis. The Home Defenders League and its two-dozen partner organizations are pressing Wall Street banks and public officials for a just and equitable resolution to the housing crisis including the resetting of mortgages to current market value (principal correction) and policies to end needless foreclosures and evictions. For more information about the HDL please visit www.homedefendersleague.org.

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EXECUTIVE SUMMARY

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**Every month,
more homes fall
into the foreclo-
sure pipeline,
compounding
this disaster.**

Five years after the housing market collapsed, California's economy remains weak. The unemployment rate is nearly 10 percent, twice what it was in 2006, and in 2012 the State's underemployment rate averaged an astonishing 19.3 percent. Millions of Californians are struggling to make ends meet.

The continuing housing crisis remains a key cause of this widespread misery. Nearly two million California homeowners are underwater, owing more on their mortgage than their home is worth. This tremendous mortgage debt is severely crippling the State's economy by holding back consumer spending and preventing a robust recovery.

And the mortgage debt is devastating the lives of too many Californians. Since 2008, banks have foreclosed on approximately 1.7 million homes in the state. Right now, about 65,000 California homeowners are in the "foreclosure pipeline" – they've received a Notice of Default or a Notice of Trustee Sale. Every day, more and more families get added to this list.

Wells Fargo is the biggest mortgage servicer in California, responsible for nearly one in five of these impending foreclosures. This report shows the tremendous damage that will befall California's communities if Wells Fargo continues to foreclose on so many families. As of February 2013, Wells Fargo had 11,616 homes in its foreclosure pipeline. If all of these homes were to go through foreclosure:

- *Each home would lose approximately 22 percent of its value, for a total loss of approximately \$1.07 billion,*
- *Homes in the surrounding neighborhood would lose value as well, for an additional loss of about \$2.2 billion, and*
- *Government tax revenues would be cut by \$20 million, as a result of that depreciation.*

Every month, more homes fall into the foreclosure pipeline, compounding this disaster. The foreclosure crisis has hit African-American and Latino borrowers and communities particularly hard. The pages below highlight the concentration of distressed loans handled by Wells Fargo that are in African-American and Latino neighborhoods. These communities have already suffered tremendous wealth loss due to the recession and this report shows that far more harm will occur in the coming months unless Wells Fargo changes its policies.

But Californians do not have to accept this bleak future. Economists and policy experts across the political spectrum agree that an alternative

approach to the housing crisis can be a win-win-win for homeowners, mortgage holders, and California's economy. As this report explains, widespread modification of home mortgages to current market value would prevent tens of thousands of needless foreclosures, inject billions of dollars into the economy, create hundreds of thousands of new jobs – and would even be in the financial interest of the investors who own the mortgages.

Wells Fargo is a pivotal actor in determining whether principal reduction becomes a widespread solution. Its failure to lead on this issue is clear. The most recent report from the national monitor of the multi-state Attorneys General mortgage servicing settlement shows that in California, Wells Fargo is providing far less principal reduction than Bank of America, despite the fact that it services more loans.

The solutions are clear: Wells Fargo should (1) commit to a broad program of principal reduction, (2) be honest with Californians by reporting data on its principal reduction, short sales, and foreclosures by race, income, and zip code, and (3) immediately stop all foreclosures until the first two solutions are implemented.

After years of predatory lending and heartless foreclosures, it is time for Wells Fargo to stop. Stop the needless foreclosures. Stop the needless evictions. End this housing crisis.



If Wells Fargo carries through on its current foreclosure threats, California homeowners will experience a \$3.3 billion property value hit.



HOW THE HOUSING CRISIS CONTINUES TO CRIPPLE OUR ECONOMY

After the housing bubble burst in 2007 and the prices of homes around the country fell steeply, the United States was plunged into a Great Recession. Millions of workers lost their jobs, businesses shut down, families saw their savings disappear, and crucial government services were cut because of collapsing tax revenue.

More than five years later, our economy still has not recovered. Why not? A central reason is the unrelenting housing crisis. There were 767,000 completed foreclosures in 2012.¹ Over 10 million homes are underwater – which means that their owners owe more on their mortgages than their properties are worth.² In late 2012, there were 3.3 million US homes with seriously delinquent mortgages, which means that the housing crisis is far from over.³ It remains the primary drag on our country’s economy.

The crippling debt is hindering economic growth because families spend their incomes paying down high-priced mortgages rather than purchasing goods and services that stimulate the economy and generate new jobs.⁴ Without robust consumer demand, businesses do not hire new workers, unemployment rates remain high, and wages stagnate – so the vicious cycle continues, and homeowners don’t have sufficient income to dig their way out of debt.

The crisis has hit California particularly hard: Since 2008, banks have foreclosed on an estimated 1.7 million homes in the state.⁵ And because foreclosures reduce the value of neighbors’ properties, as well as the value of the home going through foreclosure itself, communities have seen approximately \$597 billion in wealth evaporate. Our State and local governments have lost about \$11 billion in tax revenue and localities have been forced to spend \$16 billion on the maintenance of blighted properties, sheriff evictions, inspections, public safety, trash removal, and other foreclosure costs.⁶ All told, the foreclosure crisis has cost California \$625 billion.

The banks’ mortgage practices have been particularly harmful to African-American and Latino families. Americans lost 40 percent of their wealth from 2007 to 2010 and the collapse of the housing market was the central cause. The value of Americans’ stake in their homes fell by 42 percent in those three years to just \$55,000.⁷ From 2005 to 2009, inflation-adjusted median wealth fell by 66 percent among Latino households and 53 percent among African-American households, compared with just 16 percent

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Our economy still has not recovered. Why not? A central reason is the unrelenting housing crisis.

among white households.⁸ In late 2011, 25 percent of loans in low-income neighborhoods and 20 percent of loans in high-minority neighborhoods had been foreclosed upon or were seriously delinquent.⁹



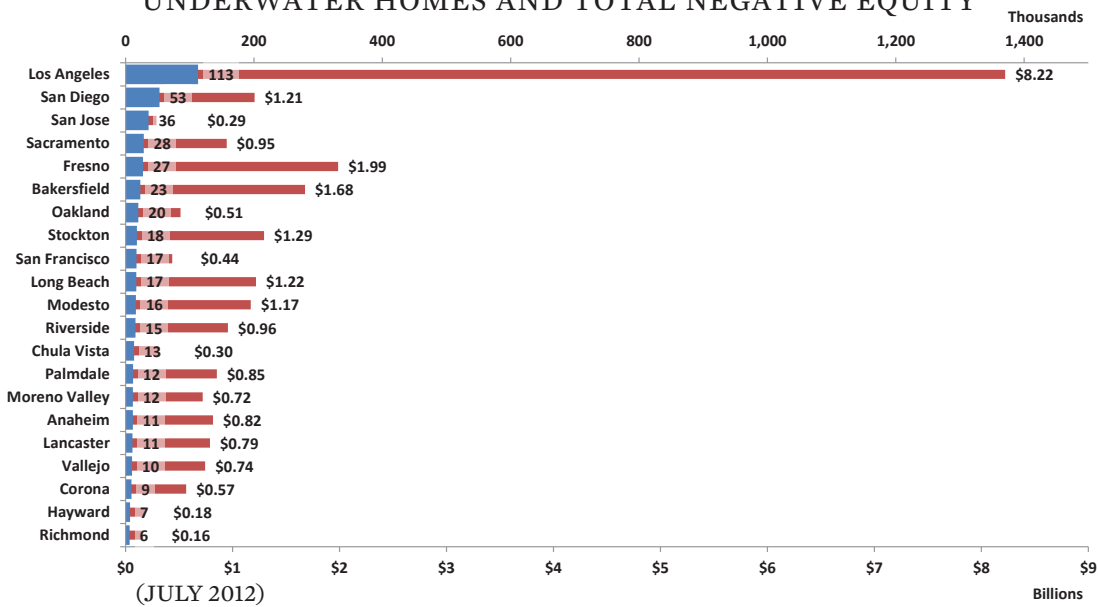
MORE DAMAGE IN THE MONTHS TO COME

The past five years have been bad enough. But for tens of thousands of California families, 2013 threatens even more misery. According to data from the third quarter of 2012, 1.9 million California homes are still underwater – over 28 percent of the total in the United States.¹⁰ Furthermore, as of February 2013 there are some 65,466 homeowners in the foreclosure pipeline, which means that they’ve received a Notice of Default (NOD) or a Notice of Trustee sale (NTS). This number does not include homeowners who are delinquent but have not yet received a default notice or homeowners who are in bankruptcy.

If the banks foreclose on these 65,466 homes, faultless neighbors will lose approximately \$15.6 billion of value in their own homes.

More families fall into this pipeline every day. Although not all of these borrowers will ultimately be foreclosed on, far too many will. And all of them will experience severe stress and hardship as they try to navigate the banks’ byzantine bureaucracy – disappearing paperwork, incoherent decision making processes, and endless reviews.

UNDERWATER HOMES AND TOTAL NEGATIVE EQUITY

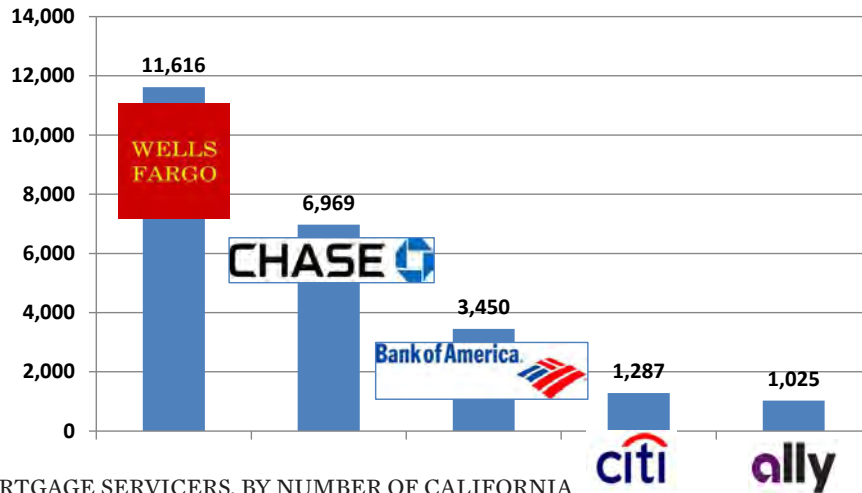


If these 65,466 homes do go into foreclosure, California’s economy will pay the price. Simply as a result of going through the foreclosure process, the homes will lose an average of 22 percent of their value, causing an entirely wasteful loss of approximately \$7.6 billion to California’s communities. If the homes sit vacant, each will cost California’s state and local governments \$19,227 in maintenance, for a total direct cost of about \$467 million to taxpayers. And, because each foreclosure further reduces the property value of surrounding homes, they will cost faultless neighbors approximately \$15.6

billion in wealth. As every day passes, more California homes fall into this foreclosure pipeline.

Wells Fargo will be more responsible than any other single mortgage servicer if this economic storm hits California in 2013. The bank is responsible for servicing 11,616 of the mortgages that are in the foreclosure pipeline—nearly one in five of all California homes in this foreclosure pipeline.

THE CALIFORNIA FORECLOSURE PIPELINE



TOP US MORTGAGE SERVICERS, BY NUMBER OF CALIFORNIA HOMES IN FORECLOSURE PIPELINE AS OF FEBRUARY 2013

But there is an alternative. Economists and policy experts from across the political spectrum are calling for the widespread reduction of the principal on these mortgages. As we explain below, principal reduction is the fair and common sense solution to this crisis and the key to digging the economy out of its five year slump.

WELLS FARGO HAS EARNED RECORD PROFITS OFF THE SUFFERING OF DISADVANTAGED COMMUNITIES

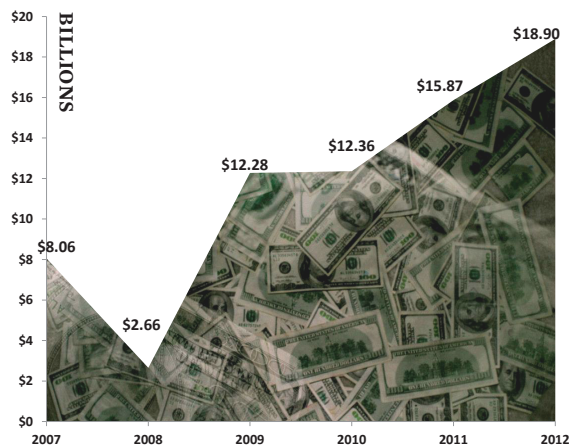
Wells Fargo is the largest mortgage lender, one of the largest mortgage servicers, and one of the four largest banks in the country. It earned nearly \$19 billion in profit in 2012 and is worth \$188 billion. Wells Fargo earned these profits at the expense of the thousands of California families whom it foreclosed on – leaving them without savings or a home – and neighborhoods that have been left with vacant and often blighted houses and depressed property values. The \$19 billion that it earned in 2012 is more than double the annual profit that it earned during the boom years of 2003-2007. During the crisis years of 2009-2012, Wells Fargo earned a combined \$59 billion, while millions lost their homes.

Wells Fargo's CEO is John Stumpf. The bank paid him \$19.8 million in 2011. Since 2007, when the housing market collapsed, Stumpf has raked in nearly \$84 million! Wells Fargo's other executives have also done exceedingly well, while California's families suffer: In 2011, its seven key executives were

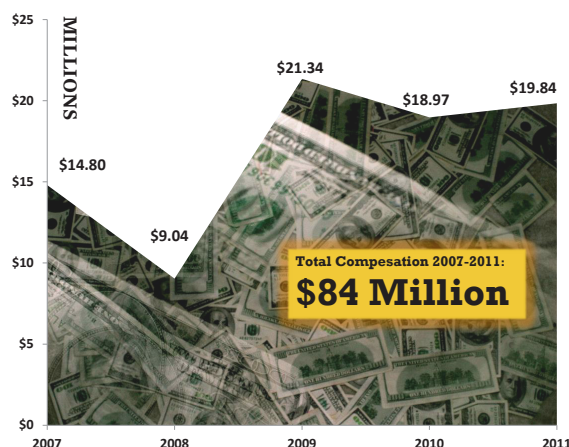
together paid over \$72 million.¹⁴ The average homeowner in the foreclosure pipeline is approximately \$95,000 underwater – which means that, on average, each of Wells Fargo’s key executives could keep a one million dollar salary and still have enough left over to personally save nearly 100 homes.

Wells Fargo’s conduct would be atrocious enough if it applied to everyone equally, but the bank has come under intense scrutiny in recent years because its practices have been specifically targeted at African-Americans and Latinos. The U.S. Department of Justice’s Civil Rights Division determined that mortgage brokers working with Wells Fargo had charged higher fees and rates to tens of thousands of minority borrowers across the country than they had to white borrowers who posed the same credit risk – selling what Wells Fargo employees in Baltimore referred to as “ghetto loans.”¹⁵ The discrimination continued even after the housing bubble burst: From 2007 to 2009, Wells Fargo (and mortgage lenders it has since acquired) was 188% more likely to put African-American and 117% more likely to put Latino borrowers into higher-cost, subprime loans.¹⁶ While mortgage lending to white borrowers increased 34% during this time period, it dropped 44% for African-American borrowers and 38% for Latinos.¹⁷

Mortgages are not the only way in which Wells Fargo profits off of vulnerable communities. It is a major funder of the payday loan industry that preys on cash-strapped working families. According to a 2007 report, Wells Fargo was providing credit to six of the seven largest publicly traded payday lenders in the country.¹⁸ Indeed, Wells Fargo functions as a predatory payday lender itself, offering direct deposit cash advances with annualized interest rates of 120%.¹⁹



WELLS FARGO’S ANNUAL PROFITS, 2007-2012



TOTAL COMPENSATION OF WELLS FARGO CEO JOHN STUMPF, 2007-2011

Who caused this crisis?

Wall Street’s reckless and predatory lending practices have devastated California. In pursuit of ever higher profits, bankers pushed homeowners into high-cost loans that they could not afford and kept inflating the housing bubble. They packaged the mortgages together as securities so the debt could be sold and

the risk of widespread default offloaded to other investors. Even worse, bankers created absurdly complicated financial instruments betting on the chances that the borrowers would default. As one critic has pointed out, these credit default swaps were equivalent to “banks selling a lot of cars with faulty brakes and then buying life insurance policies on everyone who bought the cars.”¹¹

A massive financial sector was built on inflated housing prices. When the housing bubble burst and real estate prices plummeted, tens of millions of homeowners

were left with mortgage debt higher than the value of their homes. The banks said that the survival of the entire economy depended on their getting bailed out, so US taxpayers bought \$418 billion in bad mortgages and other rotten assets from the banks.¹² The Federal Reserve made available to the banks super low-interest loans and guarantees worth an astonishing \$7.7 trillion and the banks earned \$13 billion in profit from that money!¹³ Homeowners, of course, never received that kind of support. The bankers got bailed out and American families were hung out to dry.



WELLS FARGO'S FORECLOSURE PIPELINE IN LOCAL COMMUNITIES



The impact of Wells Fargo's current foreclosure pipeline correlates strongly with the racial demographics of these cities.

Wells Fargo is one of the worst culprits of the foreclosures crisis, and right now it holds the future of many communities in its hands.

Currently, Wells Fargo is servicing the mortgages of some 11,616 homes in California that are in the foreclosure pipeline. As a result of going through foreclosure, each home would lose approximately 22 percent of its value, for a total loss of approximately \$1.07 billion. Homes in the surrounding neighborhood would lose value as well, for an additional loss of about \$2.2 billion. And as a result of that depreciation, government tax revenues would be cut by \$20 million. Most of these foreclosures – and these losses – do not need to happen. There is a better solution.

This section summarizes current data. It is a snapshot of time in Wells Fargo's foreclosure pipeline. Communities have already sustained significant harm from the foreclosure crisis; unless Wells Fargo changes its practices, more harm will be done in coming months and years. New homes continue to enter the pipeline, inflicting tremendous stress and damage on homeowners and communities until Wells Fargo adopts significant new policies.

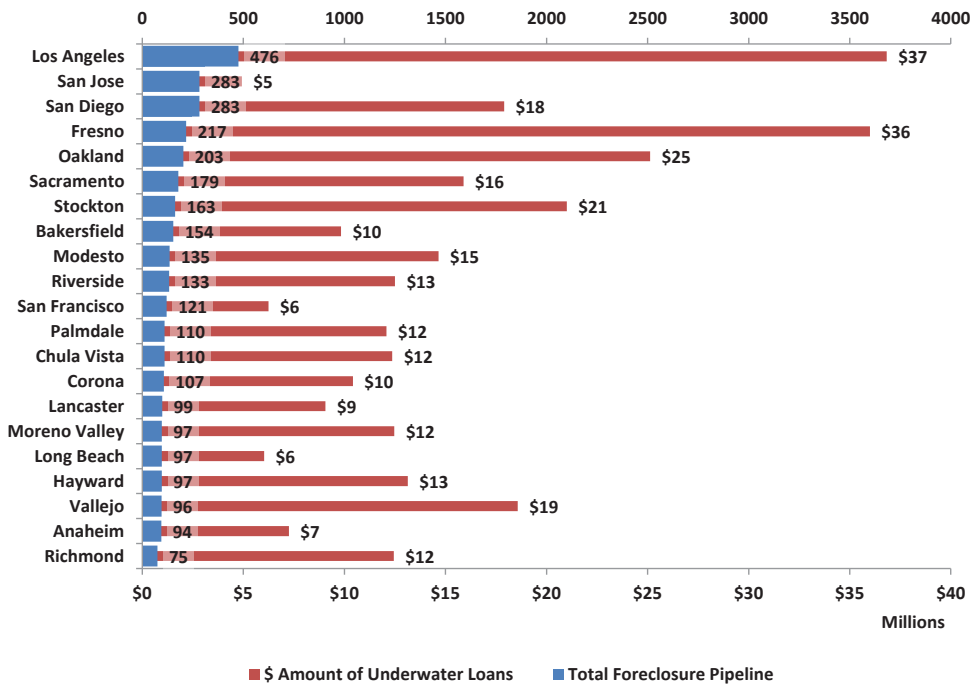
The illustrations below summarize the consequences of Wells Fargo's practices across the state. In the next few pages, we highlight cities in California that have been particularly hard hit and show how the impact of Wells Fargo's current foreclosure pipeline correlates strongly with the racial demographics of these cities. The dark green areas on the map correspond to neighborhoods with larger minority populations; the prevalence of distressed homes in those communities is clear.

We've also calculated the financial harm that will befall each city if the homes in the pipeline are in fact foreclosed upon. And, in some cities, we highlight the stories of real homeowners whose lives have been derailed by Wells Fargo's greedy and cruel practices. For detailed information about the foreclosure pipeline in 21 major California cities, see Appendix 1 at the end of this report.

WELLS FARGO FORECLOSURE PIPELINE

11,616 homes currently in the foreclosure pipeline	\$1,299,875,358 total delinquent underwater amount	\$1,077,407,232 decline in value if foreclosed	\$2,203,787,520 loss for 50 surrounding homes
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THE WELLS FARGO PIPELINE



WELLS FARGO HOMES IN FORECLOSURE PIPELINE AS OF FEBRUARY 2013 AND TOTAL AMOUNT UNDERWATER, CERTAIN MAJOR CALIFORNIA CITIES



“I’m retired, I’m disabled, I’m a cancer survivor. I’ve been through so much. I can’t let Wells Fargo steal my home.”

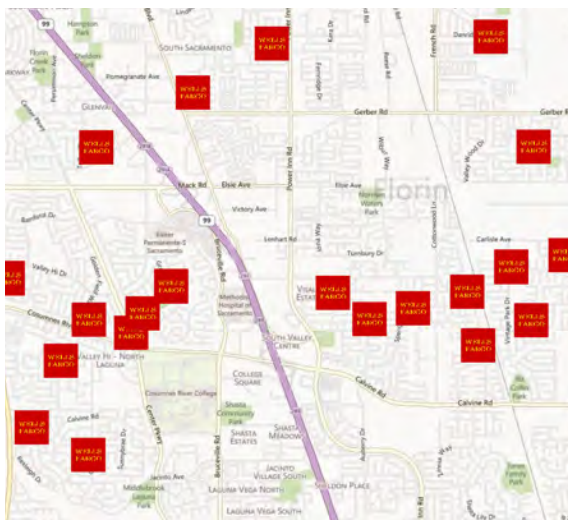
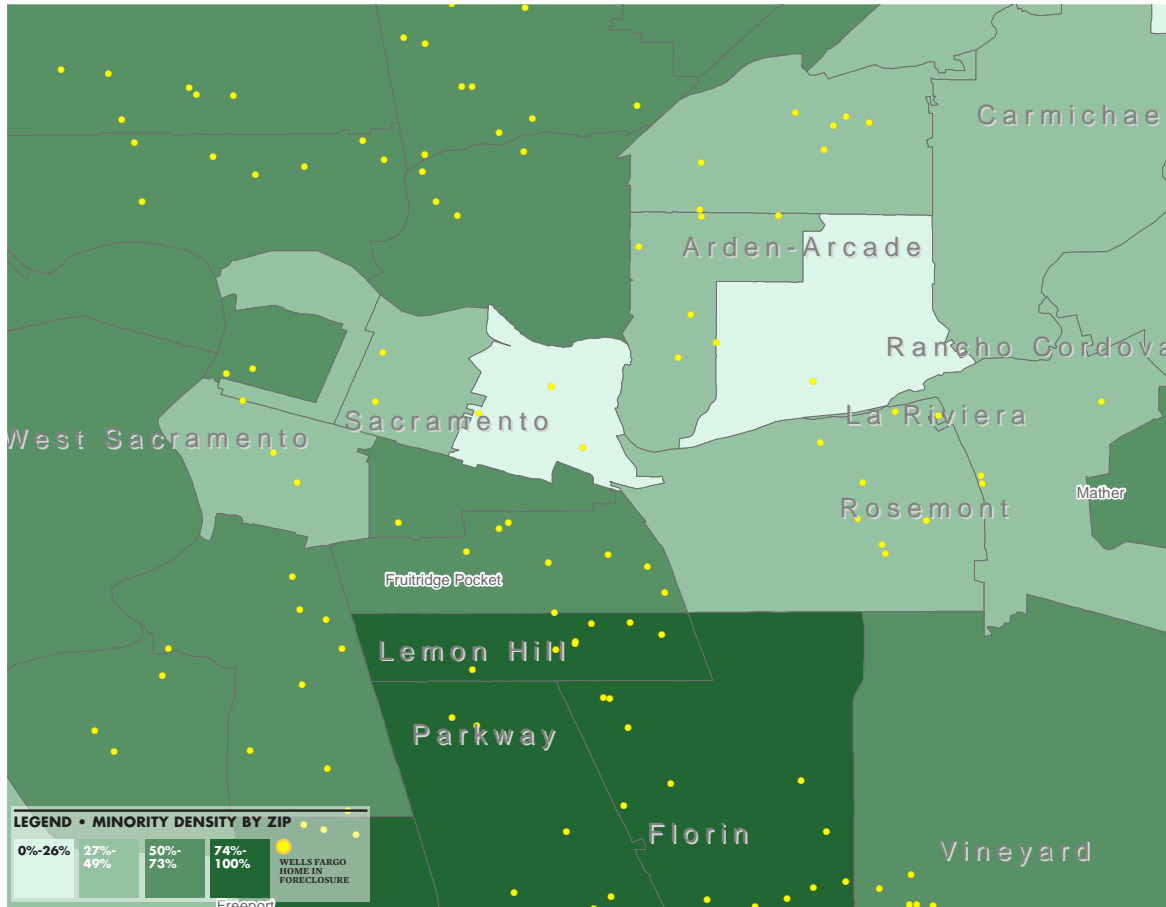
BERNETTA ADOLPH



Sacramento

The following map and graph is a snapshot in time of Wells Fargo's foreclosure pipeline in Sacramento. As of February 2013, Wells Fargo had 103 borrowers with Notices of Default and 76 borrowers with notices of Trustee Sale. Of

these 179 homes, 83% are underwater. Barring major changes from Wells Fargo, too many homeowners will face foreclosure and more will enter the pipeline every day.

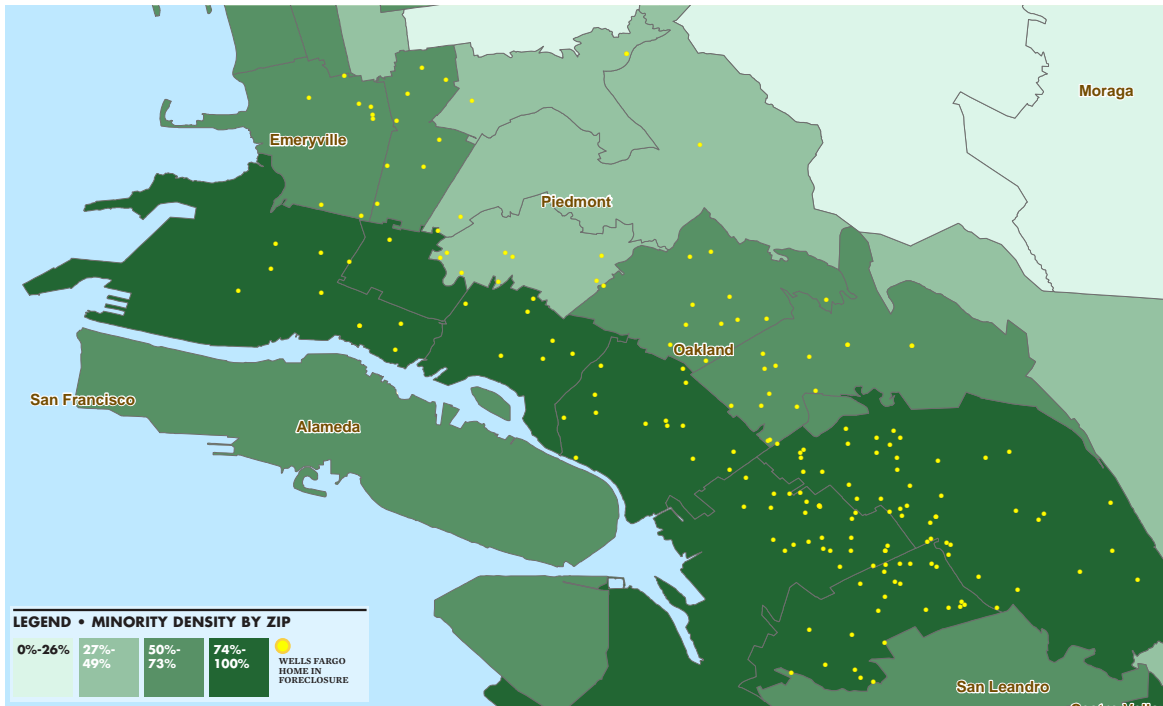


Wells Fargo Foreclosure Pipeline
In Sacramento, as of February 2013:
179 homes currently in the foreclosure pipeline
\$15,893,121 total delinquent underwater amount
\$10,861,004 decline in value if foreclosed
\$22,215,690 loss for 50 surrounding homes

Oakland

The following map and graph is a snapshot in time of Wells Fargo's foreclosure pipeline in Oakland. As of February 2013, Wells Fargo had 99 borrowers with Notices of Default and 104 borrowers with Notices of Trustee Sale. Of

these 203 homes, 78% are underwater. Barring major changes from Wells Fargo, too many homeowners will face foreclosure and more will enter the pipeline every day.



JOETTA JONES-REDMOND

Joetta and her husband have owned their Oakland home since 1989. Over that time they've always managed to make their mortgage payments. But when the economic crisis hit, things became harder. "Our home value dropped significantly." They now owe \$409,000 for a \$275,000 house. They've applied 10 times to Wells Fargo for modifications, but each time they get form letters back saying the same thing – there is no proof of hardship. It doesn't matter to Wells that Joetta's husband was diagnosed with cancer or that his mother is bed ridden. "A Wells Fargo representative told us that even with the cancer and illness in our family, we don't qualify for hardship," she said. "If cancer isn't hardship, what is? We struggle each month to pay." Joetta and her husband are just one story of thousands of homeowners who Wells Fargo refuses to help with principal reduction. "If the roof starts



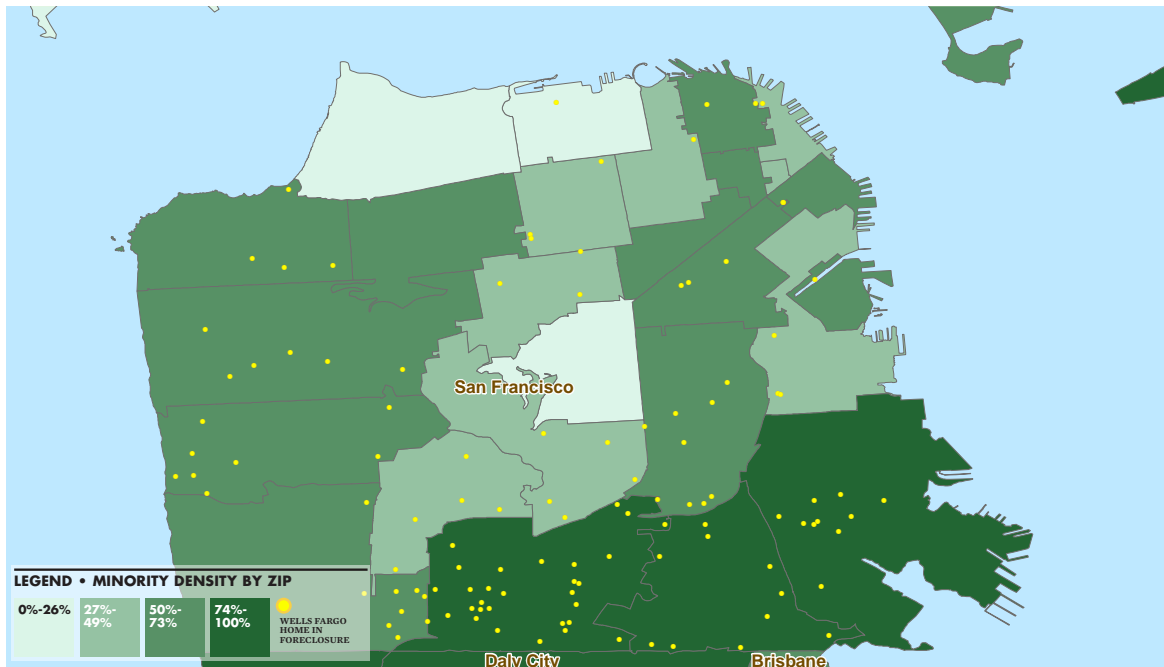
Wells Fargo Foreclosure Pipeline
In Oakland, as of February 2013:
203 homes currently in the foreclosure pipeline
\$25,120,620 total delinquent underwater amount
\$21,981,652 decline in value if foreclosed
\$44,962,470 loss for 50 surrounding homes

leaking, or more health issues arise, I'm not sure what we'll do. We just want Wells to work with us."

San Francisco

The following map and graph is a snapshot in time of Wells Fargo's foreclosure pipeline in San Francisco. As of February 2013, Wells Fargo had 55 borrowers with Notices of Default and 66 borrowers with Notices of

Trustee Sale. These 121 homes are, collectively, over \$6 million underwater. Barring major changes from Wells Fargo, too many homeowners will face foreclosure and more will enter the pipeline every day.



BERNETTA ADOLPH

Bernetta, a retired city employee, has lived in her San Francisco home for almost 20 years. As a single mother, she was proud to be able to take out a loan against her house to send her only son to college. But she says that it's almost as if the high cost loan she got from Wells Fargo to provide for her son's future was designed to steal her home. "I reached out to Wells Fargo to fix the loan, but the modification they offered was so small, it didn't make any difference." As Wells Fargo proceeds to foreclose on her home, she says the stress has hastened blindness and several other health problems. "I'm retired, I'm disabled, I'm a cancer survivor. I've been through so much. I can't let Wells Fargo steal my home."



Wells Fargo Foreclosure Pipeline

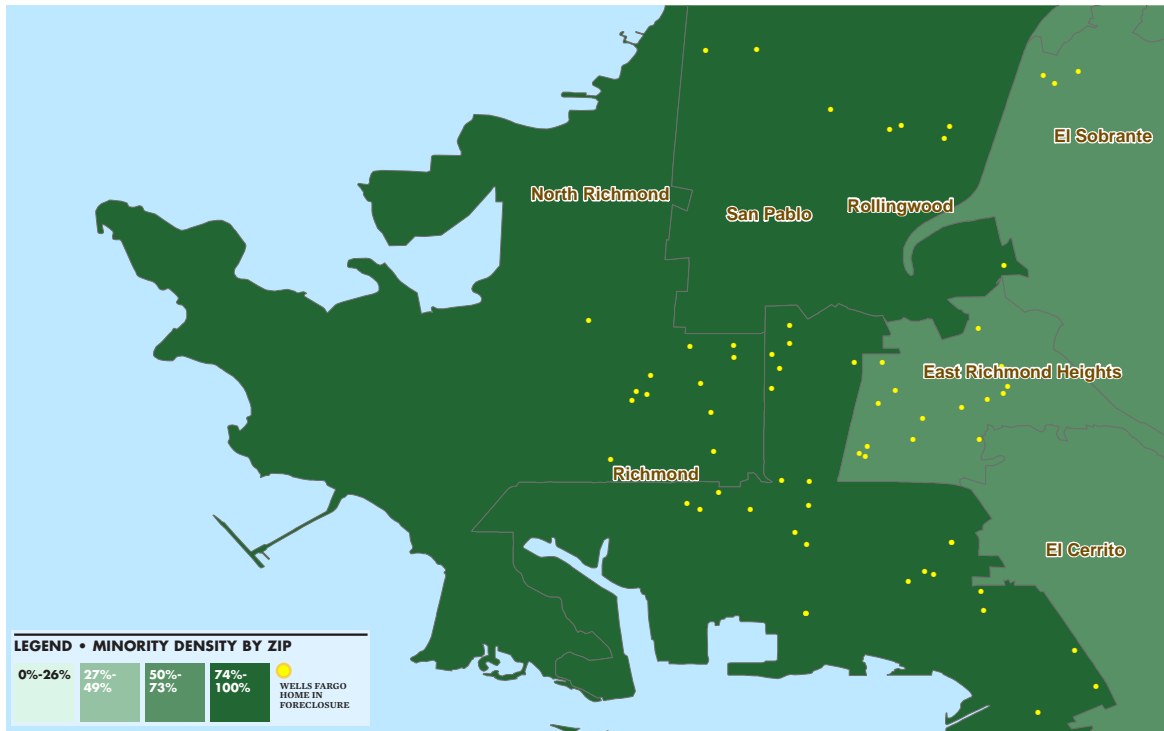
In San Francisco, as of February 2013:

- 121** homes currently in the foreclosure pipeline
- \$6,248,912** total delinquent underwater amount
- \$20,425,526** decline in value if foreclosed
- \$41,779,485** loss for 50 surrounding homes

Richmond

The following map and graph is a snapshot in time of Wells Fargo's foreclosure pipeline in Richmond. As of February 2013, Wells Fargo had 39 borrowers with Notices of Default and 36 borrowers with Notices of Trustee Sale. Of

these 75 homes, 91% are underwater. Barring major changes from Wells Fargo, too many homeowners will face foreclosure and more will enter the pipeline every day.



ELOISA MENDOZA

Eloisa works for the State of California. After years of living in her home, Eloisa went through a bad divorce, her ex-husband defaulted on the mortgage payments, and she was then scammed by a lawyer who promised help, only to trick her and disappear after pocketing her money. When she contacted Wells Fargo for help, she says she found more of the same. "I was expecting that with the police report and records of my ability to pay, they would consider me for a loan modification," she says. "They denied me, saying that my job as a state worker didn't meet their requirements!" Eloisa joined ACCE and was able to stop the sale of her home. In January, after months of applications and run-around and public actions with ACCE, she received a loan modification from Wells Fargo. "It shouldn't be such a fight – Wells Fargo should be trying to help people stay in their homes, not



Wells Fargo Foreclosure Pipeline

In Richmond, as of February 2013:

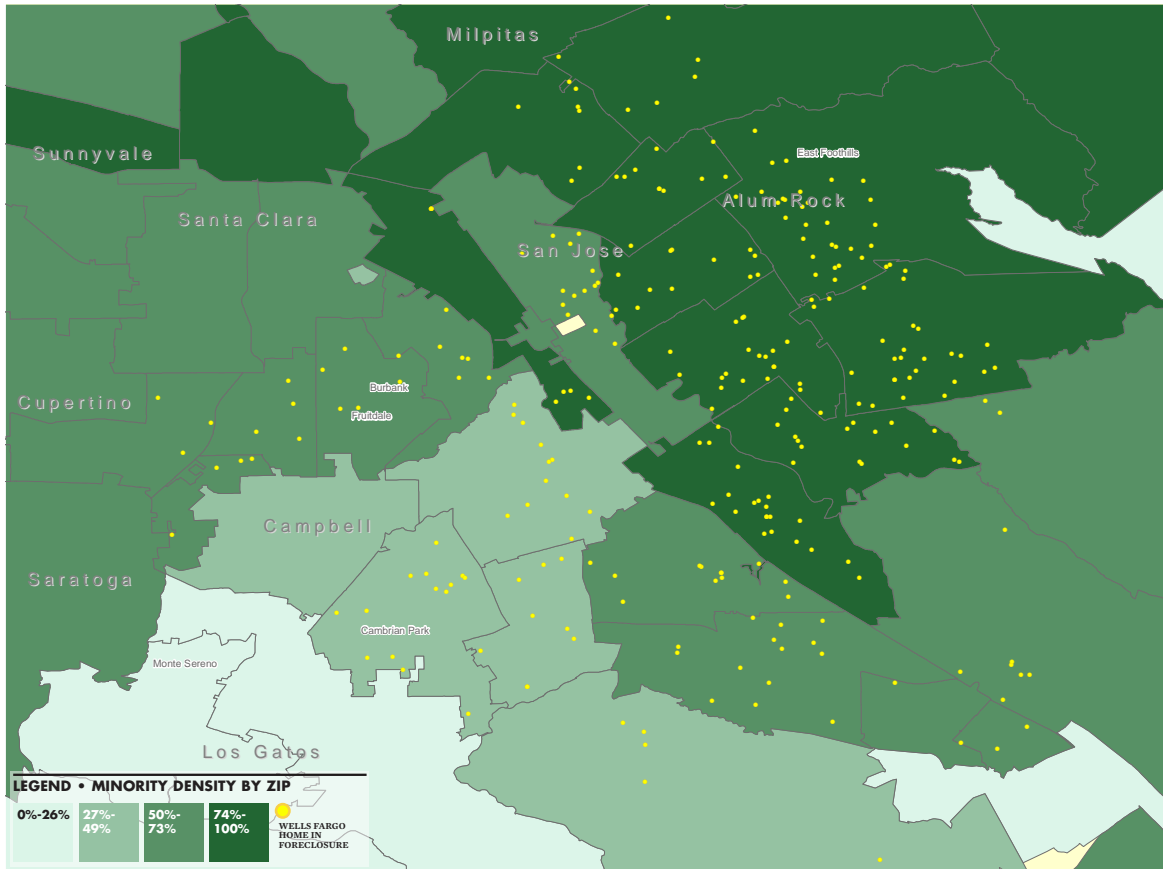
- 75** homes currently in the foreclosure pipeline
- \$12,448,587** total delinquent underwater amount
- \$5,817,900** decline in value if foreclosed
- \$11,900,250** loss for 50 surrounding homes

push us out. I stay involved and help to get others involved. We can't let Wells Fargo do this to our communities."

San Jose

The following map and graph is a snapshot in time of Wells Fargo's foreclosure pipeline in San Jose. As of February 2013, Wells Fargo had 120 borrowers with Notices of Default and 163 borrowers with Notices of Trustee Sale. Of

these 283 homes, 57% are underwater. Barring major changes from Wells Fargo, too many homeowners will face foreclosure and more will enter the pipeline every day.



Wells Fargo Foreclosure Pipeline

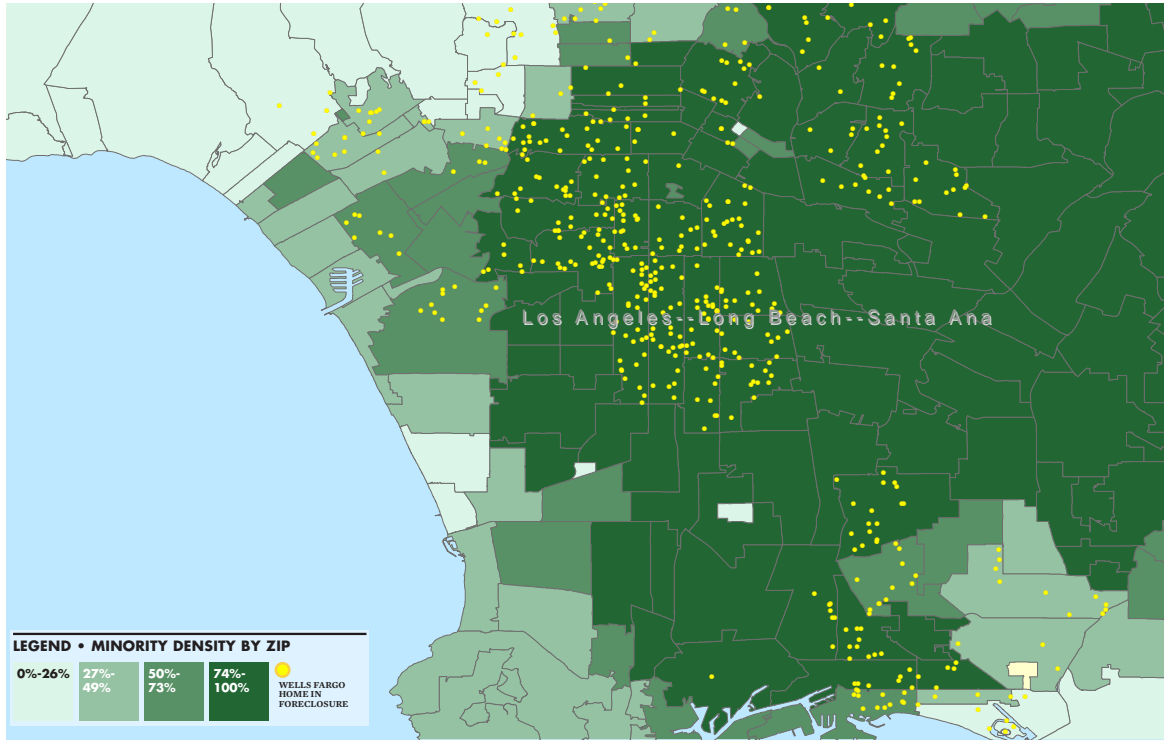
In San Jose, as of February 2013:

- 283** homes currently in the foreclosure pipeline
- \$4,927,226** total delinquent underwater amount
- \$37,692,204** decline in value if foreclosed
- \$77,097,690** loss for 50 surrounding homes

Los Angeles

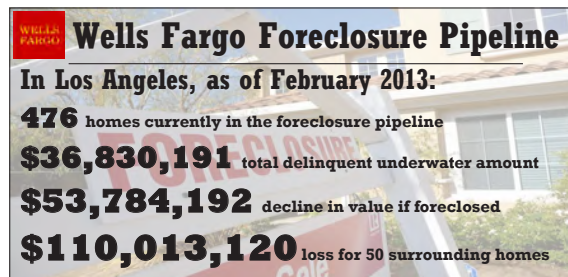
The following map and graph is a snapshot in time of Wells Fargo's foreclosure pipeline in Los Angeles. As of February 2013, Wells Fargo had 208 borrowers with Notices of Default and 268 borrowers with Notices of Trustee

Sale. Of these 476 homes, 70% are underwater. Barring major changes from Wells Fargo, too many homeowners will face foreclosure and more will enter the pipeline every day.



BETTY BADRO

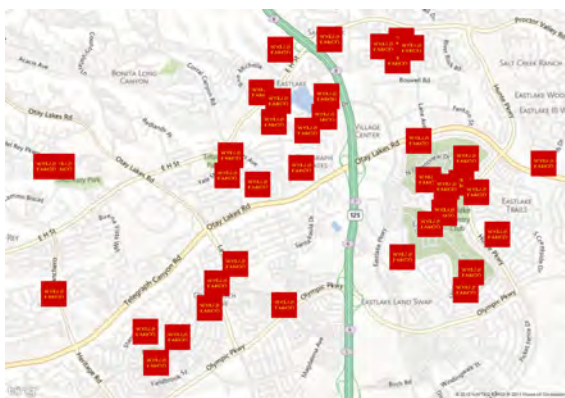
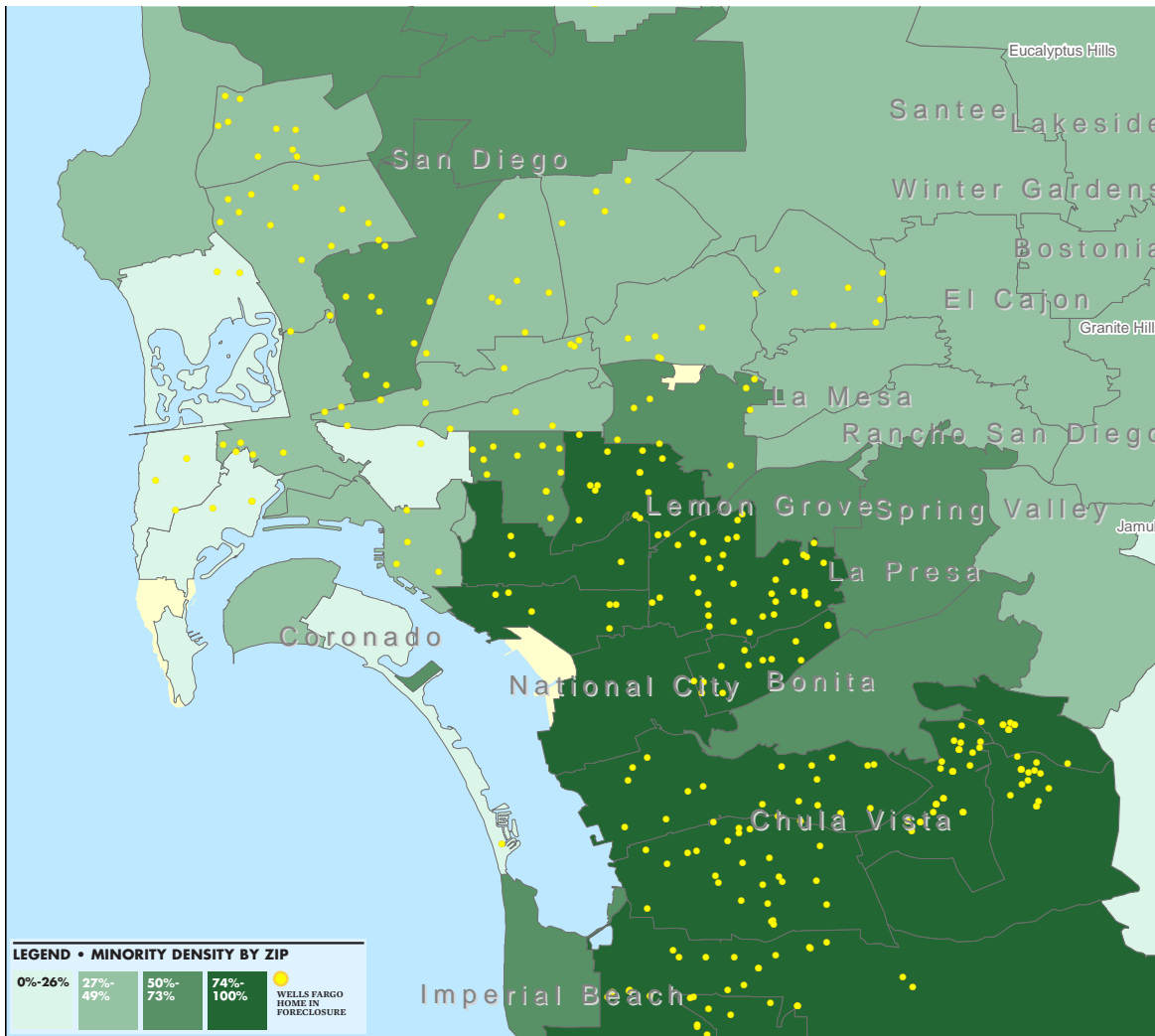
Betty has lived in her Glendale home since 1994. She says that when she faced a partial loss of income she tried to explain the situation to Wells Fargo and applied for a modification – five times. Each time she was denied – with a seemingly different problem – even though she has steady income and employment. “Each time they said I was missing something different, or did not qualify for some other reason,” she says. “I just want a modification with principal reduction so that I can stay in my home. It is everything to me.” Wells Fargo instead gave her a sale date for her house, which was only postponed as a result of action from her fellow ACCE Home Defenders. “Even now they say that their decision on the modification application will only come a week before my new sale date. The stress is really affecting my health.”



San Diego

The following map and graph is a snapshot in time of Wells Fargo's foreclosure pipeline in San Diego. As of February 2013, Wells Fargo had 145 borrowers with Notices of Default and 138 borrowers with Notices of Trustee Sale. Of

these 283 homes, 74% are underwater. Barring major changes from Wells Fargo, too many homeowners will face foreclosure and more will enter the pipeline every day.



Wells Fargo Foreclosure Pipeline

In San Diego, as of February 2013:

- 283** homes currently in the foreclosure pipeline
- \$17,908,540** total delinquent underwater amount
- \$29,704,246** decline in value if foreclosed
- \$60,758,685** loss for 50 surrounding homes



“I just want a modification with principal reduction so that I can stay in my home. It is everything to me.”

BETTY BARDO, WHO HAS LIVED IN
HER GLENDALE HOME SINCE 1994





PRINCIPAL REDUCTION IS A WIN-WIN SOLUTION

Wells Fargo does not have to foreclose on the eleven thousand families who are currently in its foreclosure pipeline and the additional thousands who will head towards foreclosure in the coming months. Instead, it can adopt a straight-forward, reasonable, and fair solution that represents a win for every party involved: For those loans where Wells Fargo has the authority, it should offer affordable modifications that include a reduction of the principal on these mortgages down to the current market value of the property. When the loan is owned by Fannie Mae or Freddie Mac, the servicer is prohibited from using principal reduction as a core modification strategy. This may be true of some mortgages held by private label bondholders as well. But for all the rest of the loans, the only entities standing in the way are the bank servicers, who earn more profit by foreclosing than they do by modifying loans.



Principal reduction is a crucial tool for ending the housing crisis and stimulating the economy.

Economists across the political spectrum agree that principal reduction is a crucial tool for ending the housing crisis and stimulating the economy through an injection of new consumer spending and confidence.²⁰

Putting a house through foreclosure is a costly and time-consuming process. And at the end of the process, after the home is sold at auction, the investors who hold the mortgage will only recover the value that the property was sold for. Ample evidence shows that these prices are significantly lower than what the house is worth on the market, pre-foreclosure.²¹ Thus, after a foreclosure, the mortgage holders receive less than the fair market value of the house and much less than the full unpaid amount on the mortgage (which represented the market value before the housing crash). As the Mortgage Bankers Association notes, “foreclosure is a lengthy and extremely costly process and, generally, a losing financial proposition for lenders and investors” who typically lose “over \$50,000 per foreclosed home or as much as 30 to 60 percent of the outstanding loan balance.”²²

Principal reduction acknowledges this reality by lowering the homeowner’s mortgage to the fair market value of the home, benefiting all involved. Take the following example: A homeowner owes \$300,000 on a mortgage, but because of the crash in prices, her home is only worth \$200,000 on the open market. Foreclosure would bring the value of the home down to about \$150,000 – which is the very most the mortgage holders could recover, since foreclosure costs could bring the value much lower. Rather than foreclose, the smart option for both parties is to write down the

mortgage to \$200,000. At that level, the homeowner's monthly payments will be dramatically lower and likely manageable. And the mortgage holder will have an asset worth \$200,000 rather than \$150,000.

With principal reduction, the mortgage holder owns an asset that is worth more than what it would get during a foreclosure and it does not have to pay the high costs of the foreclosure process. And the family gets to stay in their home and begin acquiring equity by paying down the new, more affordable mortgage. As experts at the University of Chicago explain, when a bank writes down the principal of an underwater mortgage, "the homeowner ends up with positive equity in his house, so that he will either maintain the house or sell it outside foreclosure, and the creditor ends up with a claim of greater value than the foreclosure price of the house."²³

Principal reduction is a simple way to stimulate the country's economy. Writing down underwater mortgages to market value and reducing homeowners' monthly bills would put nearly \$6,900 into the pockets of the average underwater homeowner each year. With an extra \$6,900, families could afford expenses, big and small, that they have been putting off – infusing the local economy with additional spending. This would have a ripple effect throughout the economy, pumping \$95 billion into the national economy and creating an estimated 1.4 million jobs.²⁴ It would be a win for families, a win for lenders, and a win for the American public.

THE BANK'S GREED IS PREVENTING THIS LOGICAL STRATEGY TO SAVE HOMES

So why haven't the banks taken this common-sense approach? The answer is unsurprising. Greed. After it makes a mortgage, Wells Fargo does not usually hold on to the debt. Instead, it packages it as a tradable security and sells the security to bondholders, including big pension funds and individual investors, and to Fannie Mae and Freddie Mac. Wells Fargo makes money by servicing the loan – collecting the monthly payment, forwarding the payment to the bondholder, dealing with any issues that arise, and, of course, foreclosing if a homeowner defaults.

Because of convoluted fee arrangements, Wells Fargo and other major loan servicers have an incentive to foreclose on borrowers rather than to reduce their principals. Unlike homeowners and unlike the lenders and bondholders who own the mortgages, the servicers often make more money when underwater families default on loans, and are foreclosed on, than if those same families continue to pay a lower monthly rate on a smaller principal. Furthermore, foreclosures typically do not cost servicers like Wells Fargo anything, but loan modifications do. As the National Consumer Law Center explains, "a servicer deciding between a foreclosure and a loan modification faces the prospect of near certain loss if the loan is modified and no penalty, but potential profit, if the home is foreclosed."²⁵

Many experts believe that even servicers like Wells Fargo would eventually benefit from widespread principal reduction. By clarifying the value of the mortgage-backed securities that are owed the banks, the bondholders,



Widespread principal reduction would create about 1.4 million new jobs.



Wells Fargo remains committed to a short-sighted and selfish approach.

and Fannie Mae and Freddie Mac, and by significantly stimulating the economy, principal reduction would stabilize the housing market and it would effectively put a floor on securities prices. This would help all investors, including banks.

At the moment, however, Wells Fargo remains committed to a short-sighted and selfish approach. Notably, several other banks, including Bank of America, *have* pursued broader principal reduction as a strategy for maintaining their profits while also helping families retain their homes. But while thousands of California families struggle daily to make ends meet and face the terrifying prospect of losing their homes, Wells Fargo and its multi-millionaire executives prioritize their short-term profit margins, and the American people are paying the price.

WELLS FARGO LAGS BEHIND ON CALIFORNIA INITIATIVES TO SAVE HOMES



In 2012, Wells Fargo's average principal reduction was half as large as Bank of America's.

In February of 2012, housing advocates and struggling homeowners joined with California Attorney General Kamala Harris to celebrate the signing of a \$25 billion settlement between Attorneys General from around the country and the five major mortgage servicers (Wells Fargo, Bank of America, Citigroup, JPMorgan Chase, and Ally/GMAC). Though it was a drop in the bucket compared to the damage these banks had done, the settlement did promise \$18 billion in relief for California, which will help many people and neighborhoods hard-hit by the foreclosure crisis.

The settlement requires that the five signatory banks provide a certain amount of principal reduction on first and second lien mortgages. According to a recent progress report from the Monitor of the Attorney General settlement, Wells Fargo's average principal reduction on first-lien mortgage modifications was \$74,837, compared to Bank of America's \$192,090. And, during this period, Bank of America gave out nearly \$1 billion more in principal reduction in California than Wells Fargo did!

Much of Wells Fargo reported "relief" to homeowners was in the form of short sales. The bank "helped" 8,976 borrowers into short sales between March and December of 2012. In a short sale, the property is sold at a price that is lower than the outstanding amount of the mortgage. The bank then "forgives" the remaining deficiency. The homeowner still loses the home and the home is often purchased by an out-of-state investor who often turns it into a rental.²⁶ California is seeing a surge of short sales, now 25% of the market.²⁷ The intent of the Attorneys General settlement is to save more homes and help to stabilize communities, not to sell their homes to investors.

It is also worth noting that California passed landmark foreclosure prevention legislation in 2012 called the Homeowner Bill of Rights, which went into effect on January 1, 2013. The Homeowner Bill of Rights expands upon servicing standards established by the AG Settlement: it prohibits dual tracking (where a lender continues to pursue foreclosure even though the homeowner is applying for a mortgage modification) and robo-signing of foreclosure documents and it provides a private right of action for

homeowners to seek legal recourse if their rights are violated. Several of the case studies highlighted above appear to indicate that Wells Fargo continues to dual-track borrowers.

THE ATTORNEYS GENERAL SETTLEMENT

		AGGREGATE RELIEF AMOUNT	NUMBER OF BORROWERS	AVERAGE RELIEF AMOUNT
Wells Fargo	<i>1st lien modifications with principal reduction</i>	\$753,383,608	10,067	\$74,837
	<i>Short sales complete/ deficiency forgiven</i>	\$985,493,744	8,976	\$109,792
Bank of America	<i>1st lien modifications with principal reduction</i>	\$1,726,312,683	8,987	\$192,090
	<i>Short sales complete/ deficiency forgiven</i>	\$5,477,457,155	34,876	\$157,055
Chase	<i>1st lien modifications with principal reduction</i>	\$815,890,751	6,179	\$132,043
	<i>Short sales complete/ deficiency forgiven</i>	\$2,151,865,570	13,787	\$156,079

CALIFORNIA PROGRESS REPORT (MARCH - DECEMBER 2012).

**WELLS FARGO SHOULD ADOPT NEW POLICIES TO
SAVE HOMES & OUR ECONOMY**

In 2012, Wells Fargo was the eighth most profitable company in America.²⁸ It needs to do right by the thousands of California families who are struggling to stay in their homes – and it clearly can afford to do so.

➔ **First, Wells Fargo should commit to a broad principal reduction program.**

This means that every homeowner facing hardship should be offered a loan modification when Wells Fargo has the legal authority to do so. The modification should be based on an affordable debt-to-income ratio, achieved through a waterfall that prioritizes principal reduction and interest rate reductions. Junior liens must also be modified.

Although principal reduction won't work for all borrowers, it will permit a large majority of homeowners to make their monthly payments. This would let them stay in their homes, would protect neighbors and communities from further home value depreciation, would save mortgage holders money, and would protect the public from further cuts in government services.

➔ **Second, Wells Fargo should report data on its principal reduction, short sales, and foreclosures by race, income, and zip code.**

Wells Fargo must be more transparent about its mortgage practices. The bank has an egregious history of harming California's

African-American and Latino communities through predatory and discriminatory lending. To show the public that it has reformed, Wells Fargo must make this data available. The people of California need to know that Wells Fargo is no longer discriminating against people of color and is fairly and equitably providing relief to homeowners and to the hardest hit communities.

➡ **Third, Wells Fargo should immediately stop all foreclosures until the first two policies are implemented.**

In the event that it takes a few months to set up a fully functioning principal reduction program, Wells Fargo needs to immediately stop all foreclosures. Wells Fargo has done enough harm. It's time to stop. California deserves a break.

APPENDIX 1

City	Total in Wells Fargo Foreclosure Pipeline	Total Delinquent Underwater Amount	Total Home Loss Due to Foreclosure*	Loss in Value of Neighboring Homes Due to Foreclosure**	Total Value Lost***	Property Taxes Lost****
Anaheim	94	\$7,256,358	\$9,467,304	\$19,364,940	\$28,832,244	\$175,877
Bakersfield	154	\$9,833,877	\$7,392,616	\$15,121,260	\$22,513,876	\$137,335
Chula Vista	110	\$12,369,911	\$9,704,200	\$19,849,500	\$29,553,700	\$180,278
Corona	107	\$10,420,761	\$6,939,592	\$14,194,620	\$21,134,212	\$128,919
Fresno	217	\$35,997,112	\$10,688,986	\$21,863,835	\$32,552,821	\$198,572
Hayward	97	\$13,139,632	\$8,132,674	\$16,635,015	\$24,767,689	\$151,083
Lancaster	99	\$9,065,484	\$4,678,344	\$9,569,340	\$14,247,684	\$86,911
Los Angeles	476	\$36,830,191	\$53,784,192	\$110,013,120	\$163,797,312	\$999,164
Long Beach	97	\$6,032,668	\$10,209,056	\$20,882,160	\$31,091,216	\$189,656
Moreno Valley	97	\$12,470,128	\$5,021,302	\$10,270,845	\$15,292,147	\$93,282
Palmdale	110	\$12,077,660	\$5,500,660	\$11,251,350	\$16,752,010	\$102,187
Modesto	135	\$14,654,972	\$6,839,910	\$13,990,725	\$20,830,635	\$127,067
Oakland	203	\$25,120,620	\$21,981,652	\$44,962,470	\$66,944,122	\$408,359
Richmond	75	\$12,448,587	\$5,817,900	\$11,900,250	\$17,718,150	\$108,081
Riverside	133	\$12,504,242	\$8,766,296	\$17,931,060	\$26,697,356	\$162,854
Sacramento	179	\$15,893,121	\$10,861,004	\$22,215,690	\$33,076,694	\$201,768
San Diego	283	\$17,908,540	\$29,704,246	\$60,758,685	\$90,462,931	\$551,824
San Francisco	121	\$6,248,912	\$20,425,526	\$41,779,485	\$62,205,011	\$379,451
San Jose	283	\$4,927,226	\$37,692,204	\$77,097,690	\$114,789,894	\$700,218
Stockton	163	\$20,998,267	\$7,968,092	\$16,298,370	\$24,266,462	\$148,025
Vallejo	96	\$18,575,169	\$6,333,888	\$12,955,680	\$19,289,568	\$117,666

*22% decline in median value multiplied by total number in foreclosure pipeline
 **0.9% decline in median value multiplied by 50 impacted surrounding homes multiplied by total number in foreclosure pipeline
 ***Value Lost Due to Foreclosure plus Impact to Value of Surrounding Homes
 ****Total Value Lost multiplied by effective tax rate in CA (0.61%)

APPENDIX 2: METHODOLOGY

This section explains how we determined the potential economic impact on California communities if the homes in Wells Fargo’s foreclosure pipeline (as of February 2013) are foreclosed. The term “foreclosure pipeline” refers to all mortgages serviced by Wells Fargo as of February 2013 that have received either a notice of default or a notice of trustee sale, which means that the homeowners are at least 60 days delinquent on their mortgages. To arrive at the total cost of foreclosures of each of the homes in the pipeline, we added together three figures:

- *the decline in the property value of the home itself if the foreclosure process is completed;*
- *the decline in the value of other homes in the neighborhood as a result of the foreclosure; and*
- *the decline in property tax revenues to state and local governments as a result of these declines in property values.*

We used data from Foreclosure Radar to determine the number of homeowners in each city and across California that have either received a notice of default or a notice of trustee sale. According to *The Value of Foreclosed Property*, a 2006 study by Anthony Penning-Cross in the Journal of Real Estate Research, homes lose roughly 22% of their value when they are foreclosed upon. We used 2010 one-year data from the U.S. Census American Community Survey to determine the median home value in each city and across the state, and calculated 22% of that value for each home in the foreclosure pipeline to determine the loss in the property value of the home itself.

According to *The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values*, a 2006 study by Dan Immergluck and Geoff Smith, homes that are near a foreclosed property lose 0.9%-1.4% of their value as a result of the foreclosure. The study conservatively estimates that homes within one-eighth of a mile of the foreclosed home are impacted, but that the impact could reach as far as a quarter of a mile. We conservatively estimated that the 50 homes closest to the foreclosed property would lose 0.9% of their value (based on the median home value in the city) to determine the decline in the values of other homes in the neighborhood as a result of foreclosure to the pipeline houses.

The Tax Foundation estimates that the effective property tax rate in California is 0.78%. To determine the potential decline in tax revenues if these homes are foreclosed upon, we multiplied the total decline in property value to the homes themselves and the neighboring homes by the effective property tax rate.

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