



## **Servicer Evaluation: Wells Fargo Home Mortgage**

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### **Opinion**

The rankings assigned to Wells Fargo Home Mortgage (WFHM), a division of Wells Fargo Bank N.A., which is a subsidiary of Wells Fargo & Co., are affirmed at STRONG for residential mortgage servicing and residential mortgage subprime servicing. The outlook is stable.

Despite undergoing challenges related to a large acquisition by its parent company and a marketplace with rising delinquencies, WFHM is taking appropriate actions to maintain its well-designed control environment. One such change involved establishing a dedicated senior manager to oversee defaults on the bank-owned portfolio, a function the company previously centralized, thus allowing for better segregation and management of risk between the investor portfolio and Wells' portfolio. Additional segmentation was also implemented in the default department to account for specificity of certain functions to better separate any repetitive tasks and focus more on specific processes. Overall turnover remains quite low, and management is redesigning many aspects of its default program to make it more accommodating to new and existing staff. The dual auditing mechanisms remain well controlled and help ensure that servicing complies with company, regulatory, and investor guidelines. WFHM revised certain IT programs and software to enhance the systems environment, increase employee productivity, and improve data collection.

Despite some increases in call center metrics due to a large increase in call volume, the statistics continue to reflect good performance. Additionally, WFHM delinquency statistics reflect respectable performance when compared with relevant averages as reflected by the Mortgage Bankers Association of America. Data that WFHM provided through Standard & Poor's Servicer Evaluation Analytical Methodology (SEAM) questionnaire shows that it remains a very competitive servicer both in the marketplace and compared with its relevant peers. Tax penalties are somewhat elevated due to the increase of new loan volume and should be a focus for improvement over the next year.

Turnover has decreased dramatically in the collections department, thus contributing to an experienced employee base. Management has expanded and established new relationships with third-party vendors to appropriately enhance communication efforts with its delinquent borrower base. Additional controls were established through an auditor position in the foreclosure department, which provides a second-level of oversight over its attorney base to quickly identify any potential issues affecting legal actions. The company maintains its fine historical performance rankings with certain large investors.

## Outlook

The outlook is stable for residential mortgage servicing and subprime servicing. Management will continue to increase staff as applicable to address current market conditions while similarly undertaking any efforts to improve the infrastructure through additional automation or process improvements. We expect WFHM to remain a proficient residential mortgage servicer and residential mortgage subprime servicer for a wide variety of investors in the residential mortgage marketplace.

Chart 1

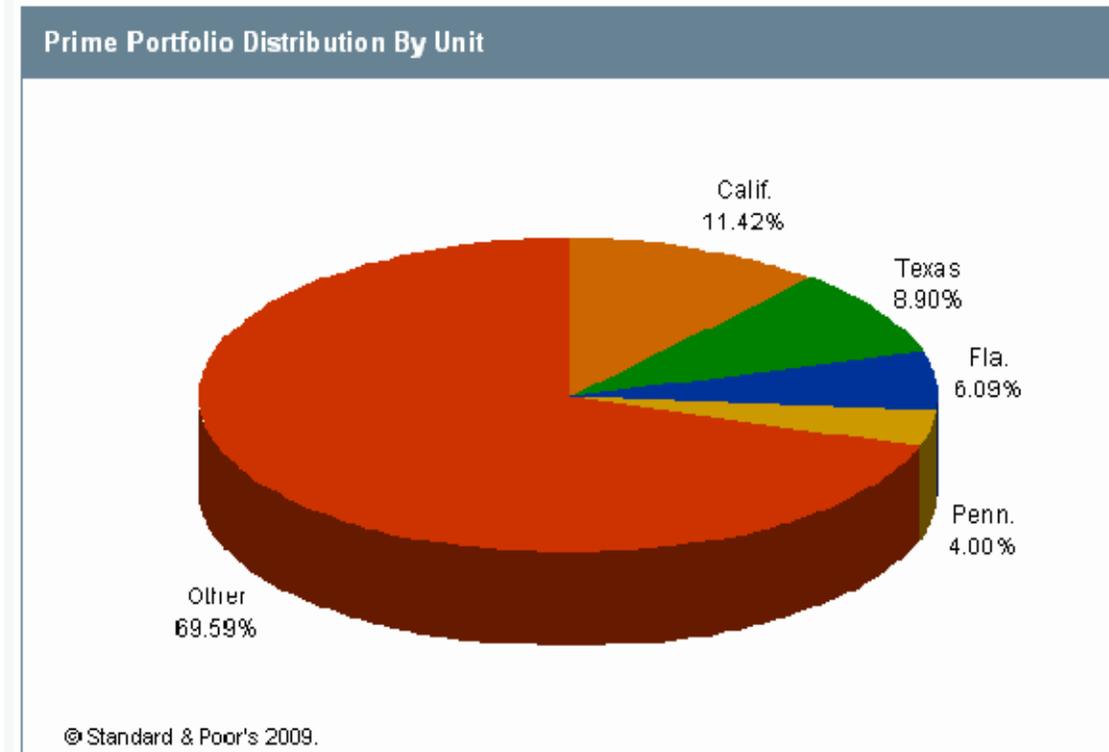


Chart 2

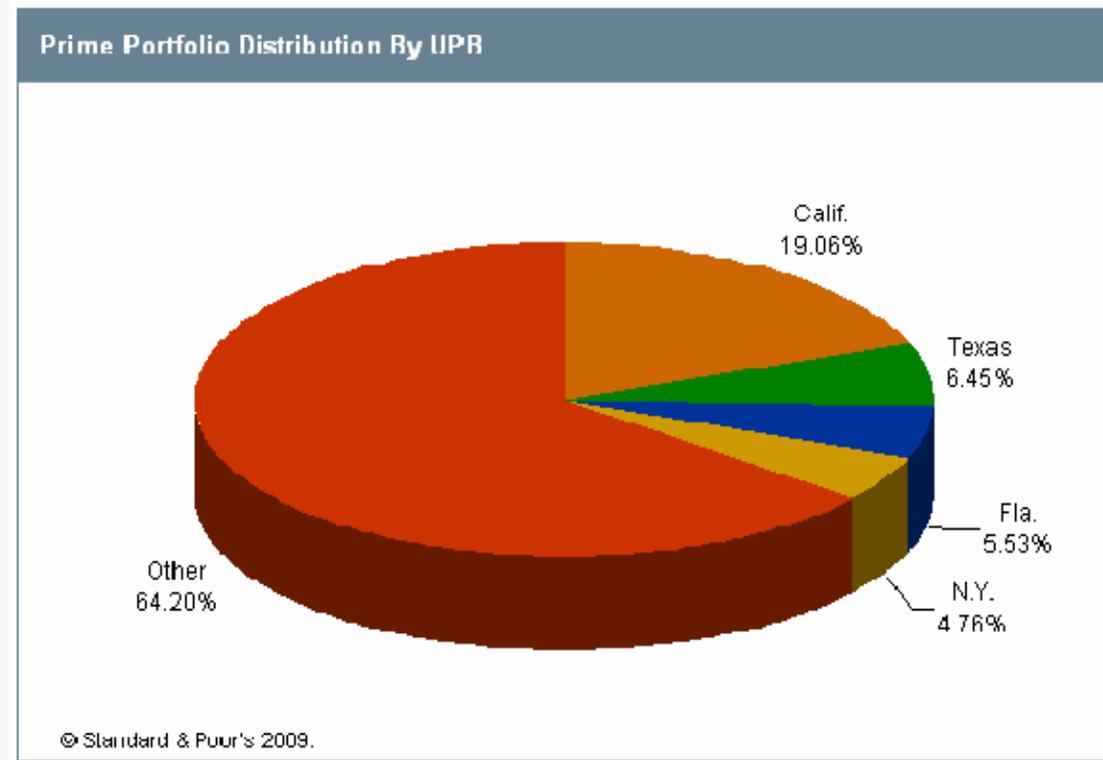


Table 1

**Key Statistics - Loan Administration 2009\***

**Loan portfolio total**

Volume (mil. \$)	1,280,197
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Assets (No.)	7,427,223
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**Delinquency (% of loans)**

Total	5.32
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30-day	2.48
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60-day	0.97
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90-plus day	1.87
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Foreclosure	1.37
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Bankruptcy\*\* 0.71

Real estate owned (No.) 4,647

\*June 30. \*\*Included in individual delinquency buckets.

Chart 3

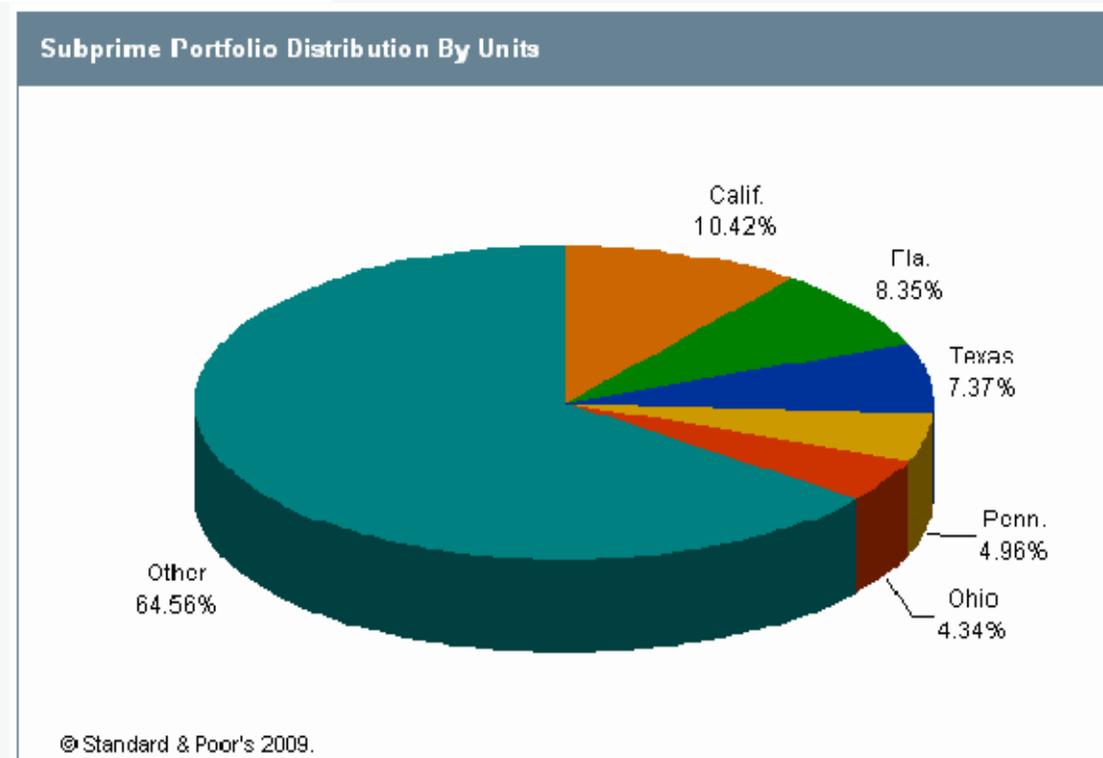


Chart 4

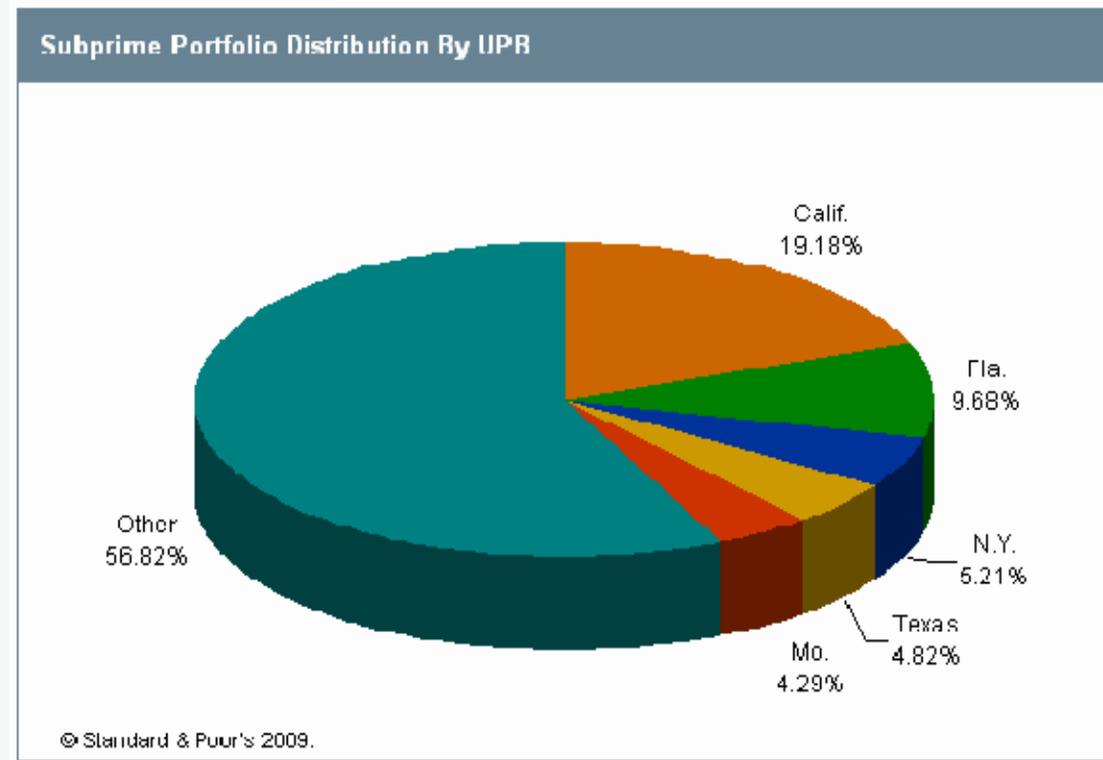


Table 2

**Key Statistics - Subprime Loan Administration 2009\***

**Loan portfolio total**

Volume (mil. \$)	27,485
Assets (No.)	181,636
<b>Delinquency (% of loans)</b>	
Total	20.08
30-day	6.97
60-day	3.83
90-plus day	9.28
Foreclosure	10.93

Bankruptcy**	2.98
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Real estate owned (No.)	5,279
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\*June 30. \*\*Included in individual delinquency buckets.

## Profile

WFHM was originally formed in 1906 as Iowa Securities Co., but Northwest Bank Corp. acquired it in 1969 and changed its name to Banco Mortgage in 1974. In 1983, the company became known as Norwest Mortgage Inc. Norwest Corp., then the parent organization, merged with Wells Fargo & Co. in November 1998. This resulted in a subsequent name change to Wells Fargo Home Mortgage, primarily to capitalize on the name recognition of its parent.

The parent company announced its intention of acquiring Wachovia Corp., which included all its businesses and obligations, in October 2008, with the merger formally completed Dec. 31, 2008. As of Sept. 30, 2008, Wachovia Mortgage FSB serviced an approximate \$200 billion residential portfolio representing almost 900,000 accounts per data compiled by National Mortgage News, which also ranked the company as a top 10 servicer.

WFHM employs 9,807 servicing staff throughout its eight servicing centers, which are located in Fort Mill, S.C., Frederick, Md., Minneapolis, Minn., Des Moines, Iowa, San Bernardino, Calif., Anchorage, Ala., Milwaukee, Wis., and San Antonio, Texas. The latter location resulted from the company's acquisition of another mortgage operation, Wachovia Mortgage FSB, the then subsidiary of Wachovia Corp. The company had about 6,200 employees at approximately year-end 2007 before management embarked on a substantial hiring program to address increased delinquencies in the portfolio and concurrently deal with the implementation of new government programs designed to assist homeowners.

As of March 31, 2009, WFHM was the second-largest prime servicer by unpaid principal balance (UPB) and second-largest servicer by number of accounts per data compiled by National Mortgage News. WFHM is an approved seller/servicer for Fannie Mae, Freddie Mac, VA, FHA, and many private investors.

The company will continue its focus of moderately growing the portfolio through both organic growth and possible acquisitions. Due to market conditions, management expects there will be a continuing increase in its FHA loan portfolio over the next year.

Management states there is no servicing related litigation directed against the company that would have a material adverse affect on its operations. For more information, please review the parent company's recent SEC filings.

All statistics referenced in the report reflect SEAM data received for the semiannual period ending June 30, 2009, unless otherwise noted. When applicable, comparison data is year over year.

## Management And Organization

The ranking for management and organization is affirmed at STRONG.

### Management and staff recruitment, development and training

WFHM displays excellent management depth. Due to the favorable locations of its servicing sites, management is able to recruit from a large pool of qualified applicants.

- Senior managers average 17 years of industry experience and 13 years with the company;
- Middle management averages 19 years of expertise and 13 years tenure with WFHM; and
- The turnover rate for senior management was excellent, at less than 1%, and a very good 13% for staff.

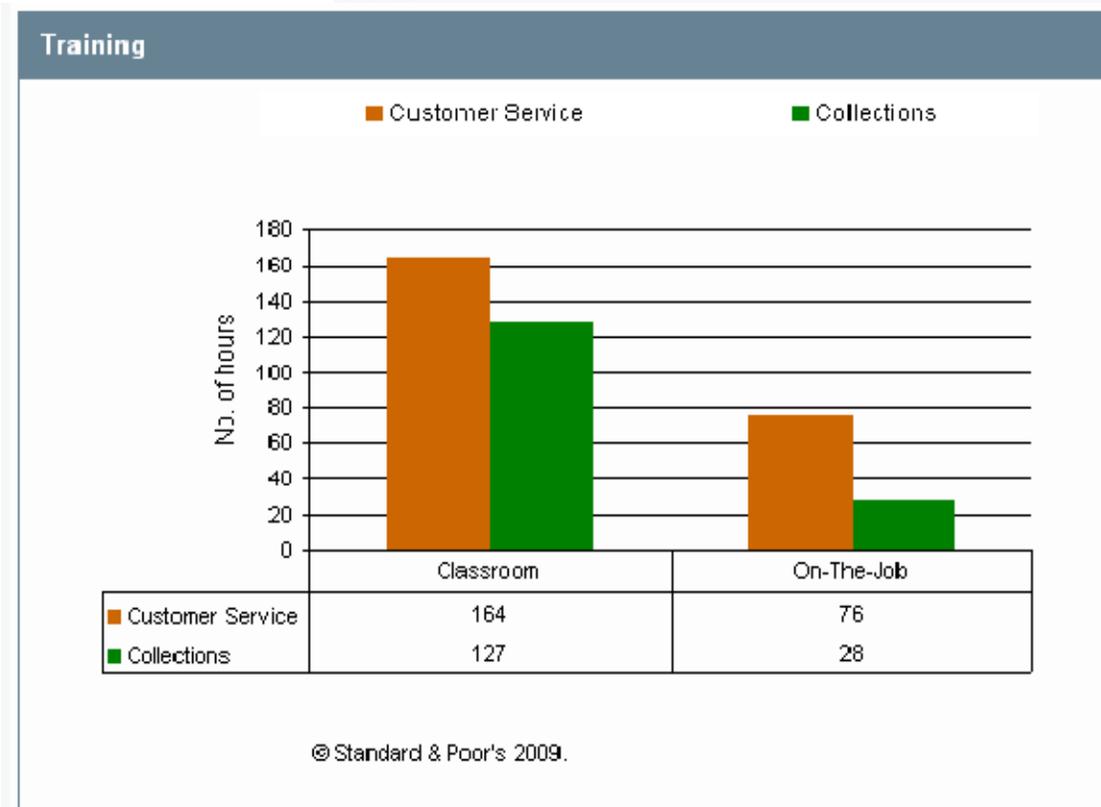
WFHM's excellent training regimen provides a sound foundation for new and existing employees to develop expertise with their respective job responsibilities. The Home and Consumer Finance Group (HCFG) learning and development program is the company's main educational forum, which is under the direction of seven senior managers responsible for various aspects of the regimen. Two dedicated areas support mortgage servicing. Of the 22 servicing trainers, 14 are responsible for default training, three are responsible for customer contact, one is a relationship manager, another is a consultant (handles project/program management), and three are training managers. The servicing group also uses the services of other professionals in HCFG. For instance, a separate leadership management professional development area handles organizational learning topics. Training personnel are on site at all locations. Approximately 75% of new hire training is classroom-based, with the remainder using eLearning methods. The compliance area works with the various trainers to further develop any existing compliance training and ensure employees are cognizant of the requirements. WFHM indicated that there were no issues in training the former Wachovia Mortgage FSB staff, as most had good experience levels. Attributes of the program include:

- Management averages nine years experience;
- Trainers average more than six years experience and 12 years with the company;
- An approximate 15-hour new hire orientation introduces new team members to WFHM and the mortgage banking environment;
- An average of 100 hours of formal new hire training per employee;
- Each site maintains numerous training facilities for in-room routing of customer calls so employees can experience borrower contact in a regulated setting;
- Customer service personnel and collection personnel undergo more structured training due to the customer facing nature of their functions;
- Both programs include self-paced and Web-based instruction;

- Prime and subprime collectors attend 90 minutes of Fair Debt Collection Practices Act training and are recertified annually;
- The customer service and default trainers address escrow training through a modular approach;
- Staff may register for courses online, with an automatic e-mail notification to the appropriate supervisor requesting approval;
- There are more than 250 mandatory and/or optional courses that encompass all servicing areas;
- A centralized library houses books, videos, and other relevant self-study medium on servicing topics;
- Refresher training based on quality assurance (QA) monitoring results, which may be individually tailored or encompass a department wide initiative based on recurring trends;
- The company's learning management system tracks completed courses;
- Mandatory compliance training involves instruction in Fair Lending, Information Security, Ethics, the Bank Secrecy Act, Privacy, and Regulation AB;
- Dedicated staff members design training materials for the organization, with appropriate approval by the respective business units, training department, and legal area.

The department is currently redesigning aspects of its training curriculum for collections, loss mitigation, real-estate owned (REO), and certain customer service positions, with the goal of it being more modular and flexible. They are adopting a phased approach for each area, with initial piloting to begin in the fourth quarter of 2009.

Chart 5



### Internal controls

WFHM has well-written policies and procedures. There are solid controls in place for drafting, disseminating, reviewing, and updating guidelines as evidenced by the following:

- The manuals are available online, resulting in a more knowledgeable staff that uniformly apply servicing practices per company, investor, and regulatory guidelines;
- In many instances, the policies are especially detailed, referencing state and federal statutes. Many offer screen prints, which serve as an auxiliary training mechanism for the staff;
- Each business unit has a hybrid QA group that performs at least annual reviews of the manuals to ensure they are up to date;
- Proposed revisions must be approved by a change/control committee, QA, and possibly legal counsel;
- A separate business process support group inputs changes into the Intranet;
- E-mail notifications of major revisions allow for immediate implementation of new policies or procedures, which helps promote consistency in servicing tasks; and
- Investor agreements are online to assist personnel in case of questions.

WHFM's exemplary audit program relies on dual-review processes that effectively safeguard the company against risk of loss due to noncompliance with investor or regulatory requirements. Both the Enterprise Risk Management Group (ERMG) and Wells Fargo Audit and Security Management (WFAS) are responsible for loan-servicing reviews. ERMG consists of 28 personnel (based in eight locations) who, through their routine testing group, examine non-FHA loans based on Housing and Urban Development (HUD) quality control guidelines and investor/insurer regulations. Wachovia's transitioned its compliance team to ERMG in June 2009. WFAS has 25 auditors dedicated to WFHM, who perform audits encompassing originations, servicing, capital markets, and finance. Three individuals serve as subject matter experts for servicing, although the department uses all its staff resources when auditing an entity. This includes eight auditors from the former Wachovia. Approximately 64% of the staff has a professional certification and 28% have more than one such designation. Auditors average six years of experience and are based in Des Moines (eight), Minneapolis (eight), Charlotte (six) , and San Antonio (three). WFAS also has IT auditors to review the systems environment and disaster recovery planning. Highlights of the audit methodology include:

#### **ERMG:**

- Three separate teams address compliance, routine testing, and a specialized testing team that focuses on emerging risk issues identified in prior internal examinations, regulatory requirements, etc.;
- Management averages 25 years experience, compliance consultants have 17 years, and testing analysts have 13 years;
- A routine testing area performs annual reviews of all key servicing departments;
- All test data is now stored on a Web-based application;
- Trending analysis is used to ascertain changes from the preceding audit;
- A dedicated person within ERMG conducts a second-level review to ensure consistency in the testing, and to reexamine 100% of exceptions and between 2% to 5% of remaining items;
- Final reports reflect an error ratio based on the file sampling;
- An integrated compliance forum, consisting of servicing and origination personnel, reviews test results and escalates issues to senior management if results exceed the allowable threshold;
- The dedicated compliance relationship managers (CRM), assigned to a specific business unit, communicate pertinent regulatory revisions on a weekly basis and liaison between legal and ERMG;
- CRMs perform many other functions, including approving procedural changes to testing, verifying corrective action plans are in place, partnering in the development of the

- servicing compliance program, confirming any policy changes resulting from regulatory requirements, etc.;
- Production of monthly compliance activity reports that detail testing results;
  - A specialized team convenes monthly meetings with the business unit (BU) risk managers and legal to discuss testing initiatives, which may be proposed by ERMG, BU, or legal;
  - A specialized testing group does perform annual/periodic reviews and meets monthly to discuss scheduling;
  - Tracking of all corrective action plans in proprietary CICAT database;
  - ERMG is independent of servicing and reports to another area of the company;
  - Assisted the training department in developing the servicing compliance training program; and
  - A data acquisition and analytics group within ERMG assists in building audit models and statistical validity reports.

#### **WFAS:**

- Examinations are performed on a 15 - to 48-month cycle depending on the inherent risk rating of the auditable unit and previous audit results;
- Audits generally average 800 to 1,500 hours, but the 2009 default review was approximately 2,000 hours due to market conditions;
- WFAS reports to the audit and examination committee of the board of directors;
- WFAS reviews its risk-based audit plan annually;
- The plan is monitored throughout the year and adjusted as necessary to incorporate emerging risks;
- There is a timeframe for responding to discrepancies, which are carefully tracked via a separate database for resolution;
- Resolved issues that were identified as high risk are retested within 90 days to ensure proper controls now in place;
- Review all ERMG monthly and quarterly reports; and
- Each audit is formally graded on a numeric basis.

There were no exceptions noted on the 2008 Reg AB statement. A review of audit reports issued by ERMG and WFAS reflected that any findings were addressed and resolved in a timely manner.

In addition to ERMG and WFAS, there exists an additional control through separate personnel.

Approximately four operational risk managers, who work closely with an assigned CRM, are tasked with identifying operational and cross-organizational items (e.g., between customer service and collections) for discussion and resolution, as they pertain to common issues affecting borrowers. Operational risk managers also review many different items, such as policies/procedures, compliance changes, and key operational issues.

Additionally, outside of its regular auditing components, there is also a dedicated compliance/quality assurance department that audits the default department and performs some call monitoring.

## Technology

WFHM operates in a superior automation environment, with excellent systems and support. Systems architecture and business recovery features include:

- The LPS system, offered by Lender Processing Services Inc., is the primary system of record;
- WFHM automation workflow software, an integrated rules-based workflow product that enhances productivity and efficiency, is used in several servicing areas;
- Behavioral scoring helps collectors target accounts that pose a higher risk of default;
- Integrated best time to call software enhances contact and penetration rates;
- Imaging technology allows staff to view documents at their desktops, which facilitates resolution of customer inquiries;
- Electronic communication with legal counsel assists in timeline management;
- A collection/workout software package allows for earlier identification of loss mitigation candidates;
- CASPER, a Web-based application used to apply claim funds (e.g. FNMA/FHLMC, private investors, pool, etc.), was enhanced to accept short sale, third-party, and redemption funds; and
- A satisfactory disaster recovery and business resumption plan is tested annually, and backup tapes are stored off-site. A dedicated person manages the plan for WFHM.

Management is developing an LPS Desktop Automation Tool, which, when implemented, will improve the foreclosure and bankruptcy processes by improving existing workflow mechanisms and automating other processes. Management also enhanced the I-Clear system, used to disburse funds to vendors, and plans to further improve it by adding new work rules that will reduce manual exceptions.

The disaster recovery and business resumption plans are comprehensive, and senior site managers must reapprove them at least annually. The plans acknowledge that critical functions must be operational within 48 hours. The company relies on its other sites and a separate contract with an outside vendor to provide facilities and equipment in case of a

business interruption. As an added control, WFHM also retains an agreement with a separate vendor to deliver mobile units if necessary.

## **Residential Mortgage Administration**

### **Residential Subprime Mortgage Administration**

The rankings of STRONG are affirmed for residential mortgage servicing and residential subprime servicing loan administration.

Mary Coffin, executive vice president, oversees WFHM's servicing and post-closing divisions, which have almost 10,000 employees. WFHM remains a member of FHLMC's "Hall of Fame," which is awarded for overall sustained excellent performance as a servicer and has maintained Tier 1 status for 42 consecutive quarters as of March 31, 2009. There are eight senior vice presidents, each responsible for a particular operation, who report to the executive vice president of mortgage servicing. Previously, there were seven such vice presidents, but management added a dedicated individual to specifically address default matters on the company's owned portfolio, which consists of Wells and Wachovia accounts. Management established this new position due to the growth in the portfolio resulting from the Wachovia acquisition and the continued turbulent market conditions that are affecting delinquencies nationwide. This individual also is responsible for managing the REO functions, inclusive of its affiliate, Premiere Asset Services.

The servicing post closing business unit has operations at eight campuses across the country. This allows the business to service customers across all time zones and offers the ability to continue operating during a weather disaster or service disruption in one sector of the country. All of the sites serve as customer service centers, providing frontline contact with its borrower base, and all offices with the exception of San Antonio and Milwaukee address REO. Specifically, Des Moines handles payment processing, claims and property preservation, insurance, taxes, sales and acquisitions, training, marketing, and investor reporting. It is also the largest campus. The Frederick servicing center is responsible for new loan boarding, collateral review, file management, sales and acquisitions, training, and some post-closing activities. Minneapolis oversees escrow analysis and insurance, lien release, new loan management, collections, and training, and this site is the main hub for the business unit's post-closing functions. The West Coast operation in San Bernardino provides lien release, file management, collections/loss mitigation, training, quality and compliance management, and real-estate owned operational support. This center also is the central facility for servicing functions related to WFHM's Home Asset Management Account product. The Anchorage center handles all servicing functions related to the Alaska housing portfolio and bond loans. The team also provides servicing for construction loans. The Carolina campus in Fort Mill, S.C., is the main site responsible for borrower counseling, loan collections, loss mitigation, foreclosure, bankruptcy, and special loans. The Milwaukee site handles collections on FHA and subprime accounts, bankruptcies, foreclosures, claims/property preservation, and loss mitigation. San Antonio has 400 personnel servicing approximately 480,000 accounts and reports to the SVP of Business Development and Acquisitions. There are no plans to grow the San Antonio facility, and it will remain a separate servicing entity as this location handles most of the

payment option adjustable-rate mortgages (ARMs). Management has also secured an additional 285 seats in Columbia, Md., for extra default capacity (mainly collections and loss mitigation) through 2010 as needed.

Management leverages its existing platforms for all servicing functions, regardless of product, so that only significant differences among the products will be discussed. Conforming FNMA/FHLMC product accounts for more than 67% of the prime portfolio.

**Table 3**

**Key Statistics - Loan Administration**

	2009*	2008	2007	2006	2005
<b>Loan portfolio total</b>					
Volume (mil. \$)	1,280,197	1,239,817	1,147,547	1,002,458	834,292
Assets (No.)	7,427,223	7,285,194	6,890,903	6,210,845	5,302,826
<b>Delinquency (% of loans)</b>					
Total	5.32	5.21	4.09	4.93	4.09
30-day	2.48	2.67	2.29	2.89	2.24
60-day	0.97	1.05	0.75	0.84	0.72
90-plus day	1.87	1.49	1.05	1.20	1.13
Foreclosure	1.37	0.90	0.48	0.46	0.39
Bankruptcy**	0.71	0.63	0.62	0.73	0.84
Real estate owned (No.)	4,647	4,711	2,633	4,417	3,600

\*June 30. \*\*Delinquent bankruptcies included in the individual delinquency buckets.

**Table 4**

**Key Statistics - Subprime Loan Administration**

2009*	2008	2007	2006	2005
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### Loan portfolio total

Volume (mil. \$)	27,485	29,948	35,631	30,063	26,702
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Assets (No.)	181,636	195,618	233,772	210,227	184,326
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### Delinquency (% of loans)

Total	20.08	21.58	15.86	10.52	8.90
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30-day	6.97	8.25	7.05	6.55	5.30
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60-day	3.83	4.52	3.21	2.00	1.69
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90+ day	9.28	8.81	5.60	1.97	1.91
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Foreclosure	10.93	8.15	4.59	2.51	1.63
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Bankruptcy**	2.98	2.60	1.94	1.34	1.60
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Real estate owned (No.)	5,279	7,579	5,404	1,541	852
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\*June 30. \*\*Delinquent bankruptcies included in the individual delinquency buckets.

Standard & Poor's reviewed all areas of loan servicing, and key areas of risk are discussed below in more detail.

### Loan boarding and rate administration

WFHM has appropriate controls and procedures in place for loan boarding. A data integrity team oversees this function. This includes a document-to-system review of information to ensure accuracy. Any loans identified with possible inaccurate data are transferred to a Web-based queuing system for additional review. Almost 100% of prime and subprime loans are boarded electronically. Welcome calls for subprime loans begin from the collection area.

The 34 staff members in the special loans department have an average of 13 years of experience. Approximately 23% of subprime ARMs are scheduled to reset in 2009. WFHM recently began servicing option ARMs as a result of its acquisition of Wachovia. There are dual reviews of the indices to ensure the correct information is input into the system.

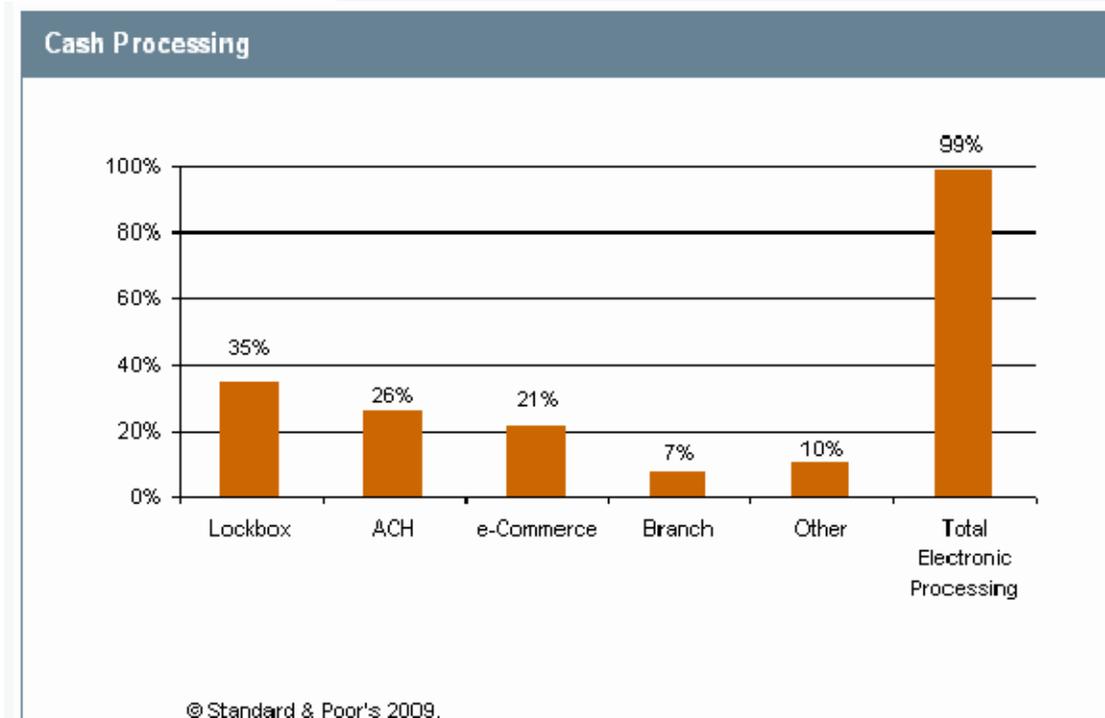
### Cash management and investor accounting

WFHM's prudent controls in its cash management department minimize risk of loss resulting from fraud or human error. The 212 staff members average six years of experience, while management averages eight years expertise. The department is divided into separate units to address the multiple payment mediums. Different personnel handle customer loan payoffs, payment research, electronic payments, reversals, and other special transactions for customers. This

permits the staff to develop a level of expertise and specialization for each function, although cross training allows for reallocation of resources depending on volume levels. Highlights and controls include:

- Four vendor lockbox facilities located throughout the U.S., and payments are directed to the nearest site in order to expedite processing of funds;
- A superior 99% electronic processing rate;
- The lockbox reject rate is excellent, at 0.14%;
- Annualized turnover is 8%, a reduction from the prior 14%;
- Effective accounts receivable conversion (ARC) conversion rate of 89%;
- An electronic interface between the branches and servicing system further enhances posting productivity;
- Check images are immediately available online in case there is a need for further research;
- Cashiering operates from a secure area that requires card key access;
- A spreadsheet detailing posting exceptions or questions is forwarded to the appropriate area for comment, thus reducing the risk of lost or misappropriated checks;
- Cash application processes all claim funds per investor guidelines; and
- (Vendor) Management closely monitors lockbox performance through service-level agreements with its provider and annual on-site audits of the lockbox.

Chart 6



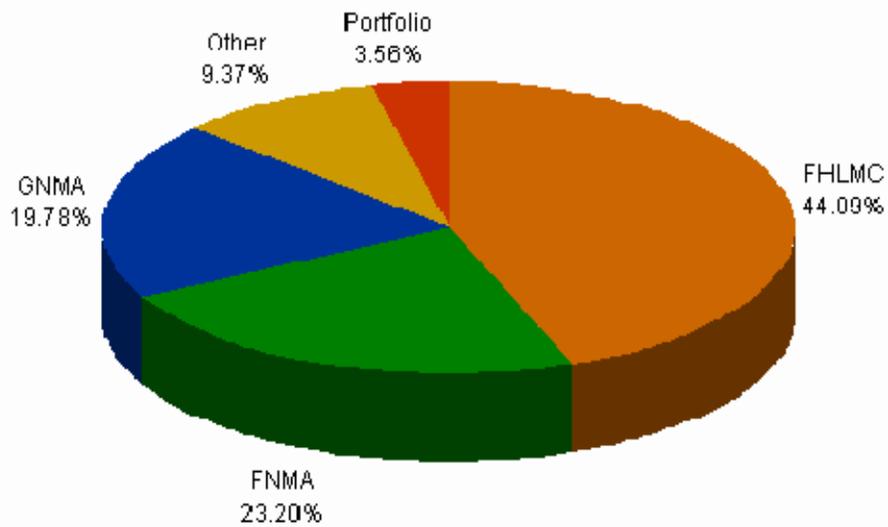
The department also has dedicated business analysts whose primary duty is to analyze opportunities to further augment and/or develop technology that will increase processing efficiencies. Management has already completed pilot testing of a new system that can automatically draft forbearance payments from the borrowers account, and it expects to introduce a new application in 2010 that will automate both payoff and payment processing in one central module versus using multiple systems.

The 200-person investor services department handles investor reporting and remitting functions. Separate personnel generate investor reports, while remaining individuals perform reconciliation activities on the custodial and operational accounts. The treasury department completes wire transfers. In addition to FNMA, GNMA, and FHLMC, the department also has relationships with more than 400 private investors and several different bond programs. FHLMC is the largest investor by UPB, followed by FNMA and GNMA. There are dedicated teams to handle these entities, as well privates and ASC business. The company's good risk management policies, along with sensible controls, ensure timely and accurate reporting to its diverse investor base. Attributes in place include:

- Management and staff average 14 and 11 years experience, respectively;
- Reports, reconciliations, and remittances undergo management review before data is finalized;
- The electronic reporting and remitting rate is an efficient 96% and 99%, respectively;
- Approximately 70% of the 5,500 custodial bank accounts undergo an electronic monthly reconciliation;
- Online access to the bank statements facilitates daily/monthly balancing;
- Various internal QC reviews ensure that controls are functioning properly;
- Adoption of a new modification processing system to improve efficiencies;
- Two full-time trainers in the department support and maintain the training process;
- Minimal-aged open items; and
- WFHM has maintained quarterly Tier 1 performance rating from FHLMC since the programs inception in 1998 (most recent score was March 2009) and has maintained Tier 1 Platinum status since the programs inception (2005).

Chart 7

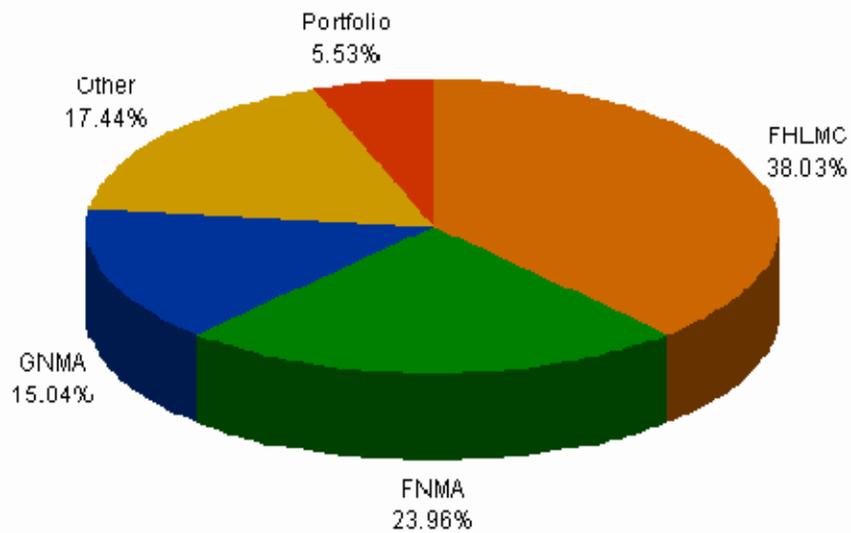
Prime Investor Distribution By Units



© Standard & Poor's 2009.

Chart 8

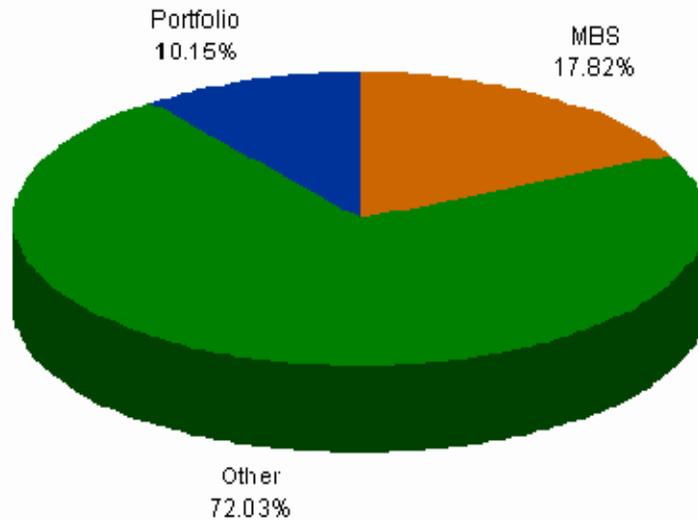
Prime Portfolio Distribution By UPB



© Standard & Poor's 2009.

Chart 9

### Subprime Investor Distribution By Units



© Standard & Poor's 2009

The company's robust Web site, known as SecuritiesLink, provides performance data on mortgage-backed securities (MBS) issued by Wells Fargo. The site provides loan-level information, such as prepayment and remittance reports, to its clientele on nonconforming jumbo, Alternative-A (Alt-A), and subprime MBS transactions. This is an excellent way to keep the company's large investor base apprised of the most recent performance on each respective MBS pool. Web site security restrictions prohibit unauthorized personnel from obtaining proprietary data.

Management plans to implement a Web-based application known as Clara to store existing online servicing agreement data. It will also enhance automation for its private and agency reporting.

### Customer relations

WFHM provides a superior level of customer service to its large borrower base. The 1,400 customer service representatives operate from all sites, except for Fort Mill, although Alaska handles its own respective portfolio. Additionally, WFHM has an agreement with a third-party vendor (ICT) that provides additional outsourced representatives (now numbering 140) that handle simpler borrower inquiries and assist during heavy call volume times. The vendor resource FTE is managed on a month-to-month basis. For the six-month period ending June 30, 2009, ICT handled 22% of WFHM's total call volume, which is similar to the most recent prior year trend. Although there has been some deterioration in call center metrics, this is attributable to the sudden large increase in call volume and concurrent attempts to increase the staff accordingly. Web site usage continues to increase, which management attributes to augmented

statement messages and representatives making borrowers aware of the site and what it provides. Service indicators are as follows:

- A satisfactory turnover rate in the department;
- Skills-based routing, along with other task queue management tools, improve customer satisfaction;
- Balance routing to direct calls to a different call center so borrowers do not have extended hold times;
- A dedicated Spanish-speaking group eases communications with the company's large Spanish-speaking borrower base;
- A customer impact team that meets daily to discuss operational issues and trends;
- A disaster team that focuses on natural disasters affecting an area so the department can conduct special calling campaigns and initiatives, often in tandem with other departments;
- Digital call recording;
- Recent implementation of new telephony technology that will allow for better management reporting and screen saving technology when monitoring calls;
- The VRU is available 24/7, has bilingual capabilities, and can transfer calls to a bilingual customer service representative;
- A VRU capture rate of 42.6%;
- First call resolution rate of 90%;
- Good abandonment rate of 3.04% and an average speed of answer (ASA) of 42 seconds;
- Continued superior performance by the vendor, which averaged a 1.73% abandonment rate and 24 second ASA;
- Vendor conducts surveys on 2,000 customers monthly;
- An additional internal customer survey immediately after the call, which averaged over 24,000 monthly;
- A quality focus business group (QFBG) that combines its former QA functions related to call monitoring along with an additional function dedicated to improving operational efficiencies;
- Executive summary reports based on results completed by QFBG for further management discussion;
- A well-defined monitoring program in which supervisors silently monitor each representative on eight calls monthly, with verbal and written feedback provided to discuss areas for improvement;
- There is a dedicated executive correspondence group that handles customer disputes referred to senior management, and other regulatory items;

- A customer resolution team at each site to address escalated calls requiring additional research;
- A dedicated e-business manager oversees various aspects of the Web site;
- No RESPA or FCRA timeline compliance issues in 2009; and
- The Web site has approximately 3.2 million registered users, which represents yet another large increase from approximately 2 million users in 2008.

Chart 10

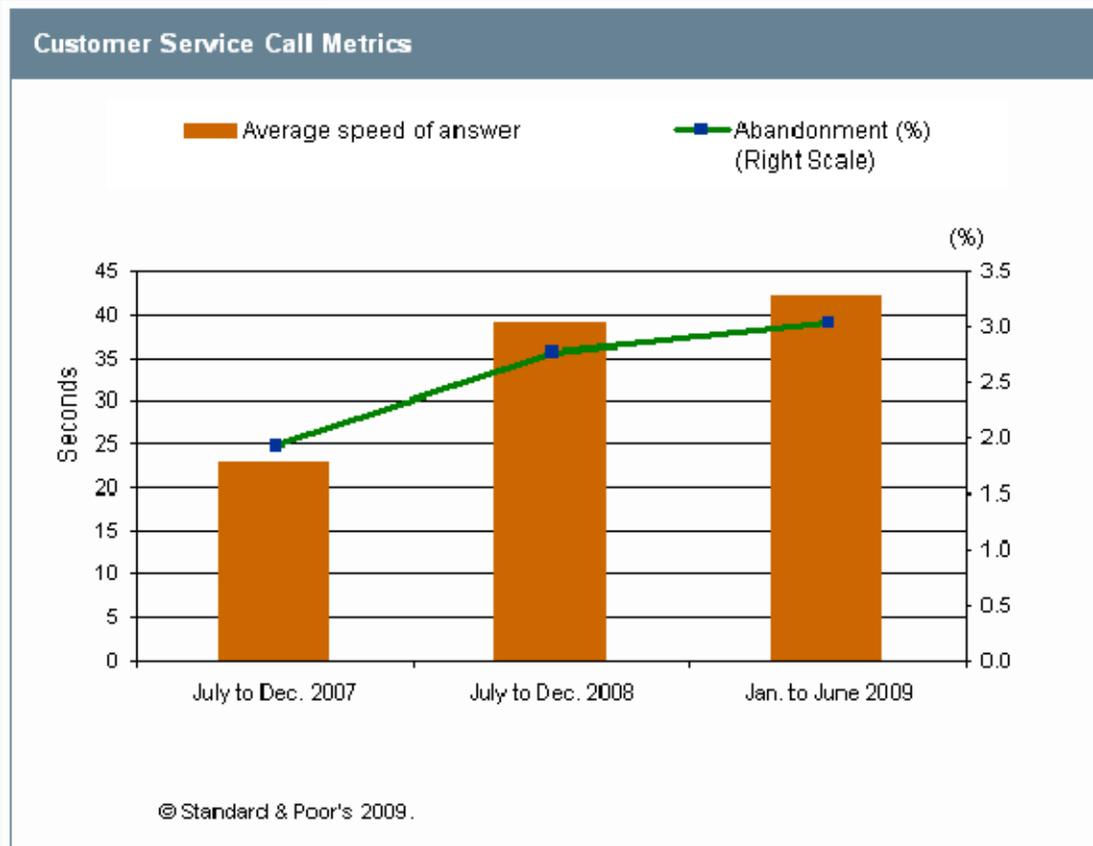
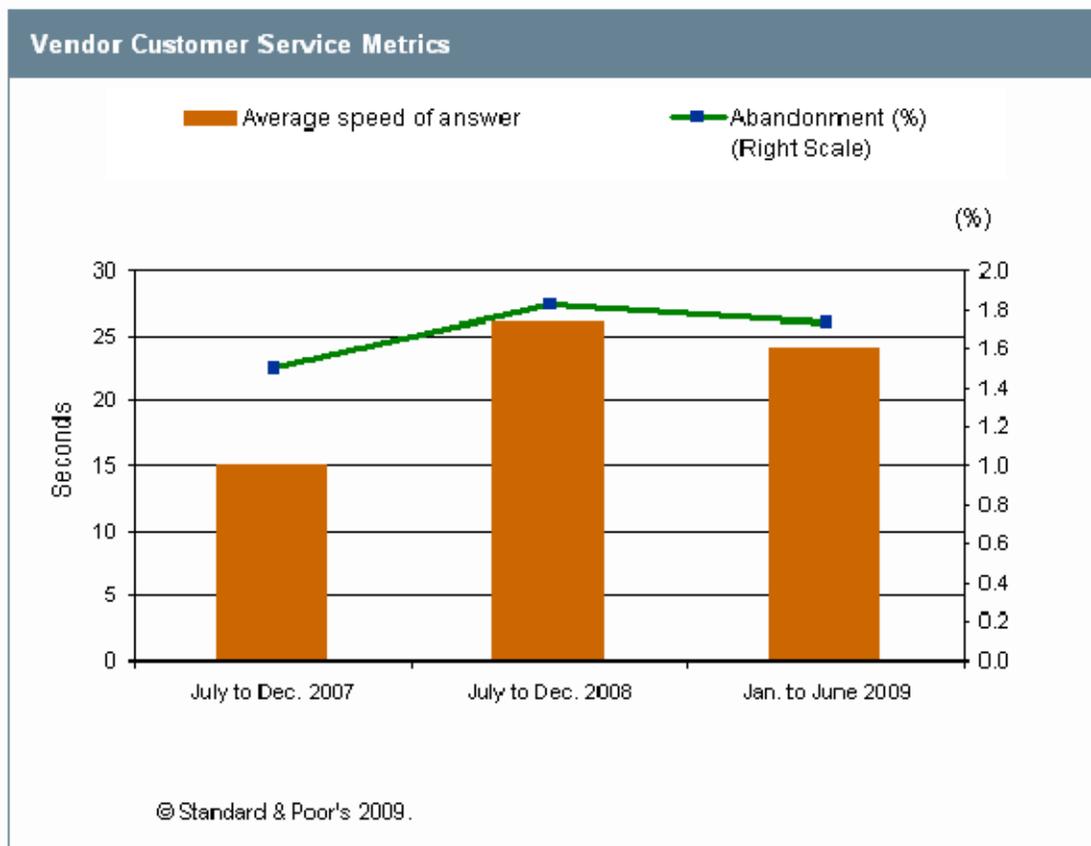


Chart 11



The company's customer impact team is responsible for formally convening meetings with all department managers whenever there is an issue that affects its customer base. This includes circumstances such as natural disasters, delayed posting of tax payments by the municipality, and other servicing-related discrepancies. Resolving the issue may encompass establishing a special VRU message to answer forthcoming customer inquiries or ad hoc letter campaigns.

The company's business integration unit provides various support services for different business lines. This includes assistance related to acquisitions, audit administration, business development, quality management, and communications/business processing.

### Escrow management

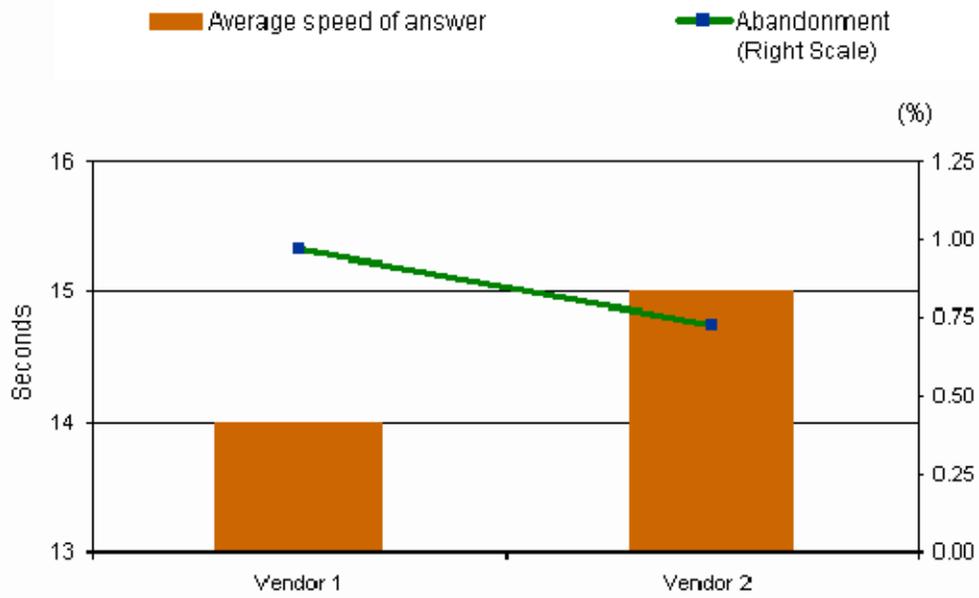
WFHM escrows on approximately 79% of its portfolio. About 414 team members handle tax functions and 127 members address escrow/insurance matters. Tax personnel average eight years of experience. The company uses its own affiliate, Wells Fargo Real Estate Tax Service, to manage all tax-related issues, and outsources its insurance functions inclusive of customer service and claims processing to two third-party vendors. The reasonable controls in place to manage escrow administration tasks include:

- A proprietary tax system, TSS, tracks taxes on escrowed and nonescrowed loans;

- An escrow-specific work queuing and tracking system allows for better reporting on escrow issues, as well as automatic assignment of escrow items to appropriate staff;
- Separate tax sale and nonescrow teams to monitor and research issues related to their areas;
- Dedicated team known as financial support deposits all returned/refund checks;
- Tax penalties averaged \$0.19 per loan, a slight increase from the prior year due to new loan volume and should be a focus for improvement for the next year.
- The penalty analysis and recovery team reviews the root causes of any penalty, request reimbursement for recoverable items, and stores the data for future analysis;
- Imaging technology allows for automatic uploads of information into the system, reducing the time-consuming task of manually inputting data;
- Approximately 42% of premiums are paid electronically with the carrier;
- WFHM insurance vendor management personnel and the insurance vendor(s) perform call monitoring sessions of each vendor staff monthly, using a common form to gauge results;
- The vendor(s) proactively contacts the carrier eight days before policy expiration to ascertain the status of the billing, followed by a series of calls/letters over 60 days before obtaining a lender-placed policy;
- The insurance vendors reflect excellent call center metrics;
- A separate flood compliance unit monitors the portfolio for adherence with applicable federal flood insurance regulations; and
- A vendor management team uses a database system to monitor the insurance vendor's performance and perform annual on-site audits, and it forwards quality report cards assessing the performance to the vendor.

Chart 12

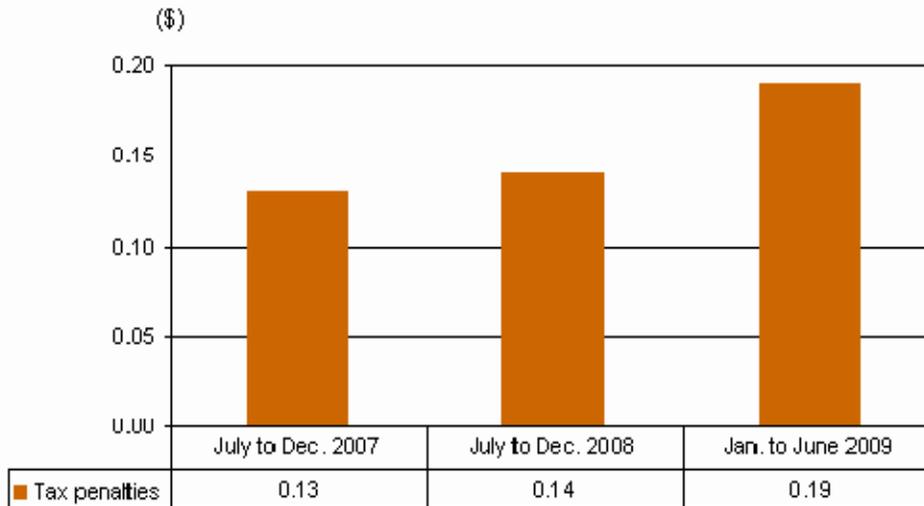
### Insurance Vendor Call Metrics



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Chart 13

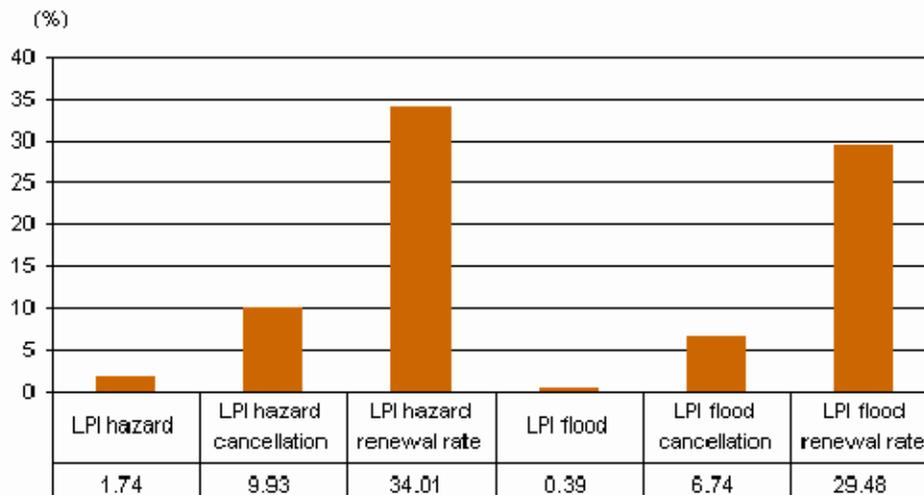
**Tax Penalties Per Loan**



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Chart 14

**Insurance Placement Metrics**



LPI--Lender placed insurance.

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A key indicators report monitors staff for compliance with stated goals and thresholds as they pertain to various escrow processes, with monthly and year-to-date comparisons.

Lien-release functions reside in San Bernardino, Minneapolis, and Milwaukee. The 157 lien-release staff members average eight years of experience. Lien release documents are tracked for return from the respective municipality to WFHM to verify that it was properly recorded, which helps minimize any reconveyance issues. The department uses eRecording in 12 states affecting 191 counties, with plans to implement it in another two to six states by year-end 2009. There have been minimal late release penalties in 2009. The department has also become more active using eRecording where available, completing over 5,000 such releases in first-quarter 2009.

### **Default management**

The department has undergone some organizational changes over the last year to better delineate and focus on various aspects of default management, as well as manage risk better, especially since the Wachovia acquisition. There are now two separate default areas, one of which is responsible for loans serviced for others (LSO) and the other addresses the owned portfolio, inclusive of Wachovia owned accounts. LSO consists of 10 departments overseen by separate (senior) vice presidents that report to a senior vice president of default/retention operations. Additionally, the collections/loss mitigation department previously was under one vice president, but that has since been further segmented into three areas under different managers. The owned portfolio division consists of three departments, inclusive of all REO functions for the entire portfolio, with the respective SVP's reporting to an executive vice president. Although separate, there is sharing of common functions such as the previously mentioned REO, as well as foreclosure, bankruptcy, and default strategy support (e.g. analyzes planning, program management, etc.). Staffing levels within the default area have grown by 90% year-over-year through June 2009.

As part of the company's overall initiatives, management meets monthly to update its set of key indicators that measure departmental performance and compliance attributes. An additional compliance mechanism concerns the company's RCSA (risk control self assessment) report, which tracks and measures the controls in place to mitigate risk. A score is assigned to the report, and management must explain any deviations to the assigned CRMs.

WFHM uses its excellent technology, strict controls, and assertive collection methodology to maintain delinquency statistics that are better than industry averages as reported by the Mortgage Bankers Association's National Delinquency Survey.

### **Table 5**

#### **Delinquency Statistics**

**WFHM delinquency statistics (%)    MBA delinquency statistics (%)\***

Prime	3.13?	6.41
FHA	8.80	14.42
VA	5.30	8.06
Subprime	20.08	25.35

\*Seasonally adjusted. ?FNMA/FHLMC loans. As of June 30, 2009.

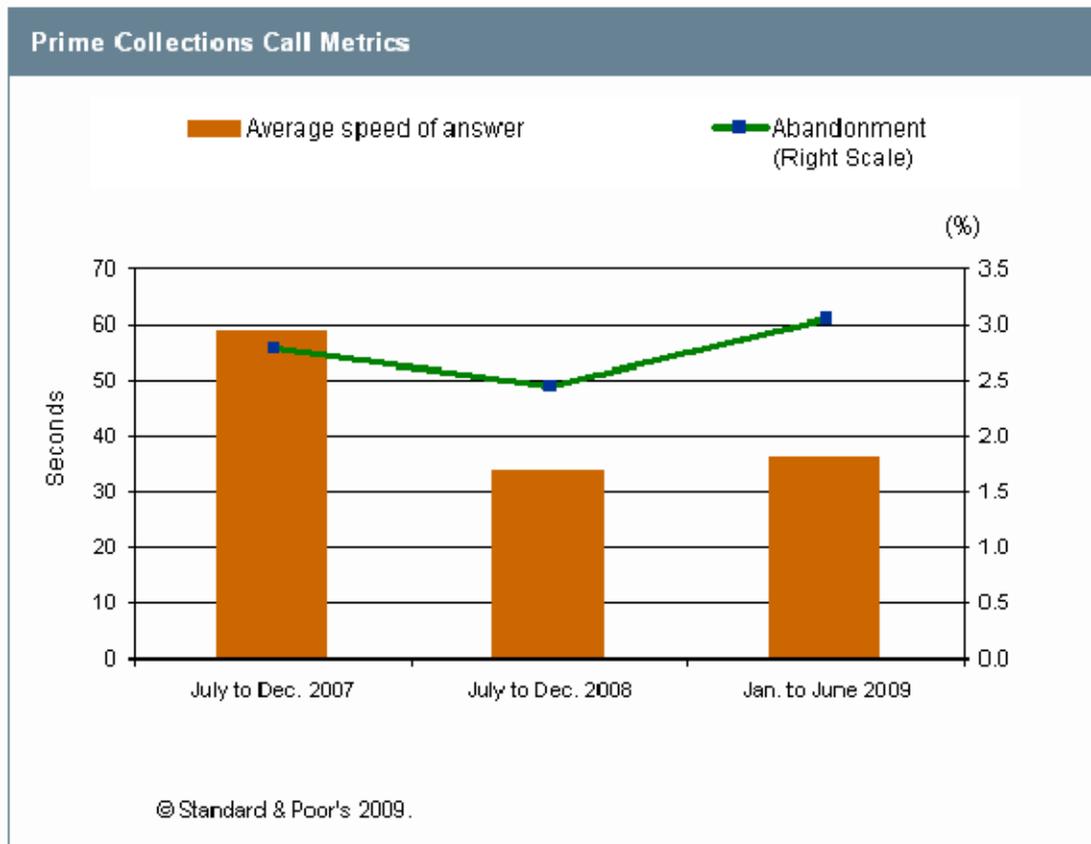
Approximately 19.5% of the portfolio consists of higher delinquency FHA and VA mortgages, a slight increase from 15% in 2008. The 606 full-time collectors (a significant increase from the prior 437 staff) operate mainly from South Carolina and Milwaukee, but have smaller groups in Minneapolis and California. Additionally, there are another 400 part-time or temporary staff that also assist with collection calls.

The company uses a proprietary outbound call management and compliance system, known as CCP, in conjunction with other software modules to enhance borrower contact. After initially scoring a loan using other software, the program employs a work rules methodology that applies investor guidelines to prioritize borrower contact and frequency of calls based on various loan characteristics. The application retains a historical record of call attempts and reasons regarding why contact was not initiated all on a loan-level basis. Turnover has decreased significantly in 2009, which management attributes to a renewed focus on training for both staff and leadership. ICT, its vendor, now initiates early stage outbound collection calls as well as overflow on inbound volume. Collectors, regardless of product type, assist in prequalifying the customers for loss mitigation options. Features of the company's collection processes and controls include:

- The part-time and temporary staff members receive the same training regimen as full-time staff and provide much of the extended coverage for evening hours;
- Prime management averages 11 years industry expertise and more than eight years company tenure;
- Collectors average almost two years experience and tenure;
- The prime turnover rate is very low, at 12.68%, which represents a substantial decrease from the prior 42.35%;
- A good abandonment rate of 3.05% and 36 second ASA;
- ICT handles approximately 13% of call volume;
- Vendor call center metrics remain solid, with a 1.60% abandonment rate and 30-second ASA;
- There are separate early stage and late stage inbound/outbound collectors. Early stage consists of accounts that are between one day and 89 days delinquent;

- All inbound/outbound calls in the default area are recorded for reference in case of future issues;
- Silent monitoring of collectors depends on the previous quality scores, which ranges from a low of three to a high of 10 depending on the employee and length of service;
- FNMA's Risk Profiler? and FHLMC's EarlyIndicatorSM scoring models are used to identify loans that pose a higher risk of default for earlier collection contact, which may begin by the fifth day in arrears;
- FHLMC Tier 1 status as a default performer;
- All Western Union? payment transactions are completed via automated cash handling (ACH) system;
- The ability to obtain online credit reports on delinquent borrowers;
- Skip-trace success rate of 20.23%, of which 23% eventually reperform;
- Call quality and accuracy of data input are tracked for future trending and improvement purposes;
- Skills-based routing is used for calls received via the VRU, with transfer to an appropriately experienced collector depending on the age of delinquency, method of payment, and language preference;
- The ability to make promise-to-pay arrangements through the VRU for early stage delinquent accounts; and
- An automation unit works with IT and the business units to implement systems improvements.

Chart 15



Through the use of planet coding of the coupon statement, which is scanned by the post office, management knows when to expect a borrower's payment. This represents an excellent productivity and cost savings tool. The process also reduces collection calls and letters based on the payment mailing date. Currently, WFHM ceases collection efforts for three days after notification. At that point, if the funds are not received, further collection contact resumes.

With regard to call monitoring, a collector must score consistently within a predetermined range for a three-month cycle to determine the amount of additional monitored training sessions that he or she may need to receive. The average number of graded calls stands at seven based on historical average scores. Nevertheless, it is recommended that management establish a uniform methodology to monitor 10 calls for both part- and full-time collectors, as this is the standard followed by the industry and its competitors.

The 50-person default information management and analytics department, based mainly in Fort Mill and Minneapolis, generates ad hoc reports meant to monitor key changes, assess risk, and evaluate effectiveness of any changes to the division. This group discusses the results of these analyses with various affected departments so each business can better identify possible issues and oversee their areas more effectively. This includes analyses to see how portfolios are affected by various market conditions and other indicators (e.g., tax increases, interest rate hikes, etc.). Each manager

has its own Web page of commonly generated data reports, although the internal default Web site has over 500 such documents for selection.

A default risk management group also performs some root cause analysis for the entire default area, as well as conducting audit reviews that seek to analyze the entire default process involved when loans become delinquent and then reinstate. This area also performs some compliance reviews to ensure the department adhered to investor guidelines.

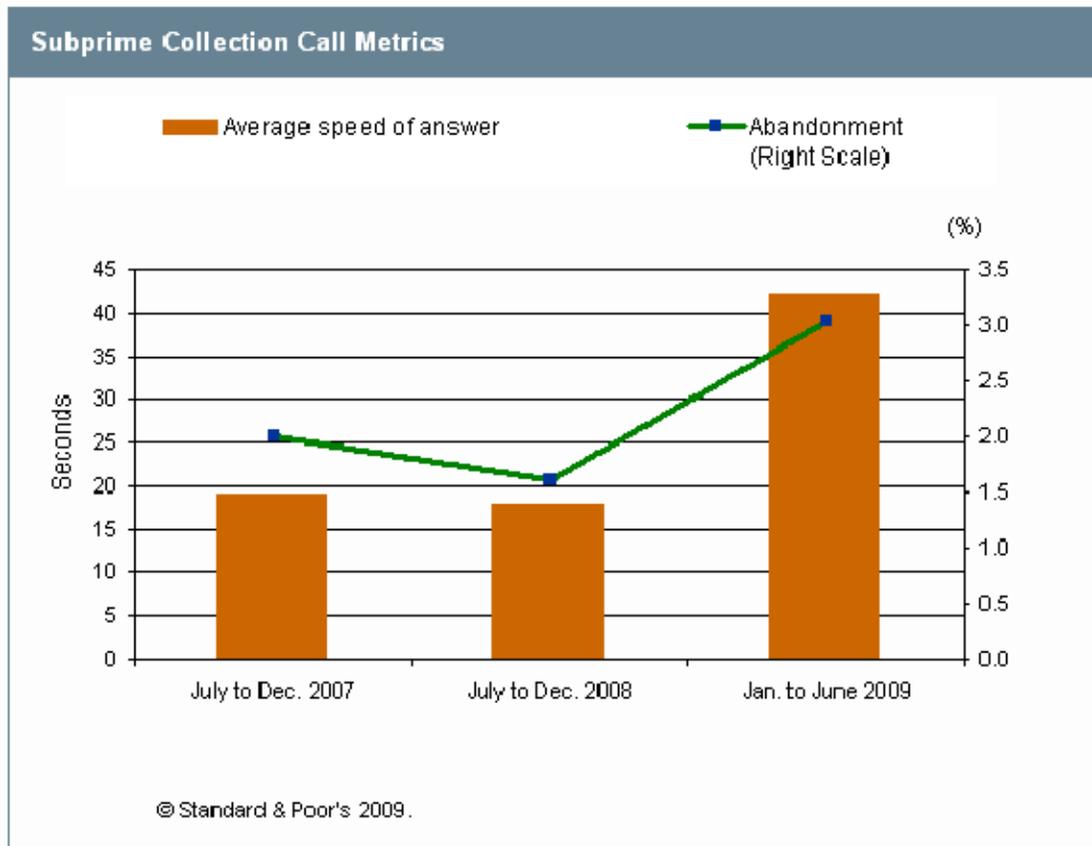
There are 121 full-time and 100 part-time/temporary subprime collection personnel mainly based in Ft. Mill, with a small staff in San Bernardino. Management and staff average 13 and two years of industry experience, respectively. Approximately 15% of the portfolio consists of loans made to borrowers with FICO scores of less than 580. Management indicated that there has been stabilization in delinquency rates on this portfolio throughout 2009.

Though not actively originating subprime mortgages at this time, department policy indicates that the company forward a general welcome letter 15 days before the payment due date that reminds the borrower of the mortgage terms and provides a telephone number for the company. The letter also asks the borrower to contact WFHM to confirm receipt of the letter. Assuming there is no response from the borrower, collectors attempt to contact the customer on two separate occasions five days before the payment due date to verify receipt. Highlights of the subprime default management controls and process include:

- Turnover averages a low 7.62%, a large decline from the prior figure of 45.07%;
- Collectors begin contact as early as the second day of default;
- There are daily collection calls attempting borrower contact, and every three days thereafter if acceptable payment arrangements are not completed;
- The company forwards reminder letters by the 10th day of delinquency, along with a series of other correspondence, culminating in a notice of intent to foreclose by the 32nd day of delinquency;
- Property inspections are ordered at the 25th day of default;
- The abandonment rate is good, at 3.04% with a 42-second ASA, which is higher than in prior periods, but is due to the large increase in call volume prior to adding staff;
- Collectors may offer up to a 10-month forbearance agreement without supervisory approval using the EarlyResolution<sup>SM</sup> (ER) system, which reviews the plan details based on investor guidelines;
- Monthly audits by the supervisor encompass reviewing the entire default process on selected accounts to ensure compliance with company requirements;
- A default reporting group to address ancillary functions such as letter campaigns and reporting requirements; and

- A skip-trace locate rate of 38% and a 25% recovery rate.

Chart 16



WFHM's well-controlled workout function promptly solicits delinquent borrowers for potential loss mitigation options. Two areas, consisting of loss mitigation contact and loss mitigation fulfillment, comprise the workout area. The former initially receives the account once collections refers it, and they are responsible for interfacing with borrower to receive applicable documents and deciding whether to approve the workout or suggest alternatives. The latter area then handles any remaining negotiations. The company continues to remain very involved with various outreach efforts through Hope Now, Consumer Credit Counseling Services?, local organizations, and its own homeownership preservation initiatives. A separate department known as client and community relations staffed by seven individuals addresses these matters, as well as interacting with all investors and acting as liaisons with state/federal government entities. To date, WFHM has been engaged in more than 104 events designed to assist delinquent homeowners. These all include a series of mailings, calling campaigns, and on-site events to contact the customer.

As a result of recent government initiatives, WFHM is implementing more automation regarding the HAMP program so it can quickly accommodate any requirements. They also conducted special letter campaigns that encourage borrowers to contact the company to ascertain whether they qualify under HAMP. Concurrently, loss mitigation policies and procedures were appropriately updated to reflect changes in the marketplace.

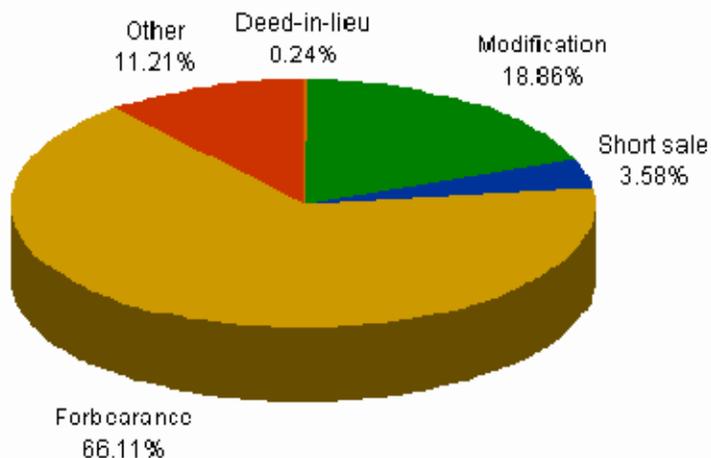
The department achieved a Tier 1 ranking from HUD in 2008 (based on information encompassing Oct. 1, 2007, through Sept. 30, 2008); this made it eligible for increased incentives regarding special forbearance agreements, extension of preforeclosure sale timeframes, and automatic reimbursement of a certain percentage of foreclosure costs beginning in 2009. Through month-end July 2009, the company modified more than 240,000 accounts, which included more than 20,000 trial modifications under HAMP. They have also implemented a similar program (effective May 2009) for nonagency and Wells owned-loans in consultation with the Treasury Department. The 1,990 loss mitigators (a dramatic increase from the 128 in late 2007) average four years expertise and two years company tenure. Thirty-two separate staff members are responsible for subprime workout functions and follow the same general processes followed in the prime mortgage area. The main difference involves earlier and more proactive contact with its subprime borrower base, with loss mitigation counseling beginning as early as the 31st day of delinquency. Loss mitigation processes include:

- Separate inbound loss mitigation staff members handle borrower calls and address workout options;
- A new relationship with a vendor, WEST, who assists with outbound loss mitigation calls, HAMP campaigns, and other workout matters;
- A separate vendor maintains 165 staff on-site at different locations to assist with personal borrower contact regarding counseling and workout solutions;
- The ability to submit workout information via a dedicated Web site link;
- Additional information on loss mitigation options available on the Web site;
- Workout efforts continue during the foreclosure process in an attempt to resolve the default and reduce future losses;
- A liquidation team that assists with short sales and also initially counsels borrowers to determine if any other options are available;
- A separate group responsible for coordinating workout efforts on mortgages in which WFHM services the first and second liens;
- The ER software uses tailored questions directed toward the borrower to assist in determining the appropriate workout strategy during the collection/workout process;
- ER limits workout options to applicable investor guidelines using its rules-based format. It has logical online scripting and determines which loss mitigation option presents the best chance of success based on the input information;
- Quarterly meetings are held to calibrate ER for business purposes;
- An abandonment rate of 3.24%, which includes internally transferred calls;
- Recidivism rate of 27.16% for prime accounts and 29.22% for subprime accounts;
- Modification approval timeframes upon receipt of documents range from 30 to 45 days depending on loan type;

- A separate entity is used to obtain borrower signatures on loss mitigation documents as necessary;
- A proprietary decision optimizing tool, which, assuming there is not a viable workout option available through ER, provides broader parameters to possibly qualify the customer;
- Proactive workout solicitation mailing when the account is 45 days past due;
- Attempting to remodify all 2008 modifications that redefaulted (became 60-days delinquent within six months), while also analyzing the reason for the redefault;
- Two on-site FNMA employees to assist WFHM staff in reviewing non-HAMP solutions if the borrower does not qualify under the program;
- Implemented a six-month forbearance program for borrowers current on their mortgages, but deemed likely to default due to financial circumstances;
- An on-site vendor orders property inspections and other administrative functions, which allows staff the opportunity to concentrate on maximizing timeline management;
- Exceeded FNMA workout ratios in first quarter of 2009;
- Delegated workout authority from FNMA, FHLMC, and certain mortgage insurance companies expedites approval timeframes;
- Establishment of a dedicated telephone number that allows government officials to immediately contact the office of the president with any borrower issues brought to their attention;
- A special team of 30 to 40 staff that work with nonprofit groups to assist borrowers;
- File imaging, inclusive of declinations, serve as a permanent reference source in case of discrepancies; and
- A quality review team performs audits on approved workouts, thus serving as a dual control to ensure compliance with investor and company requirements.

Chart 17

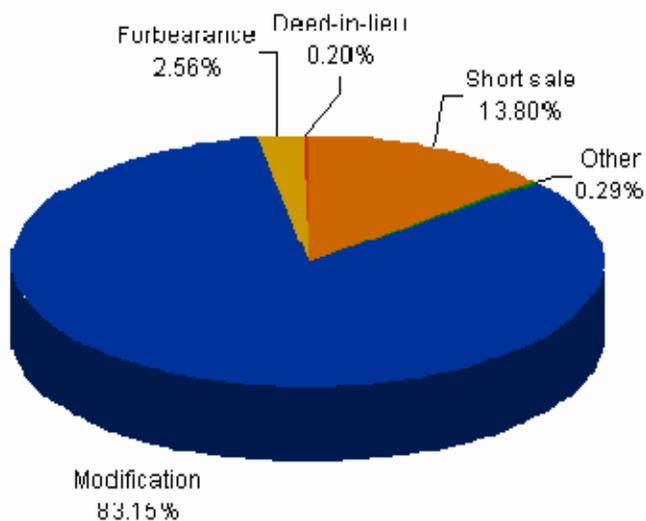
Prime Workouts



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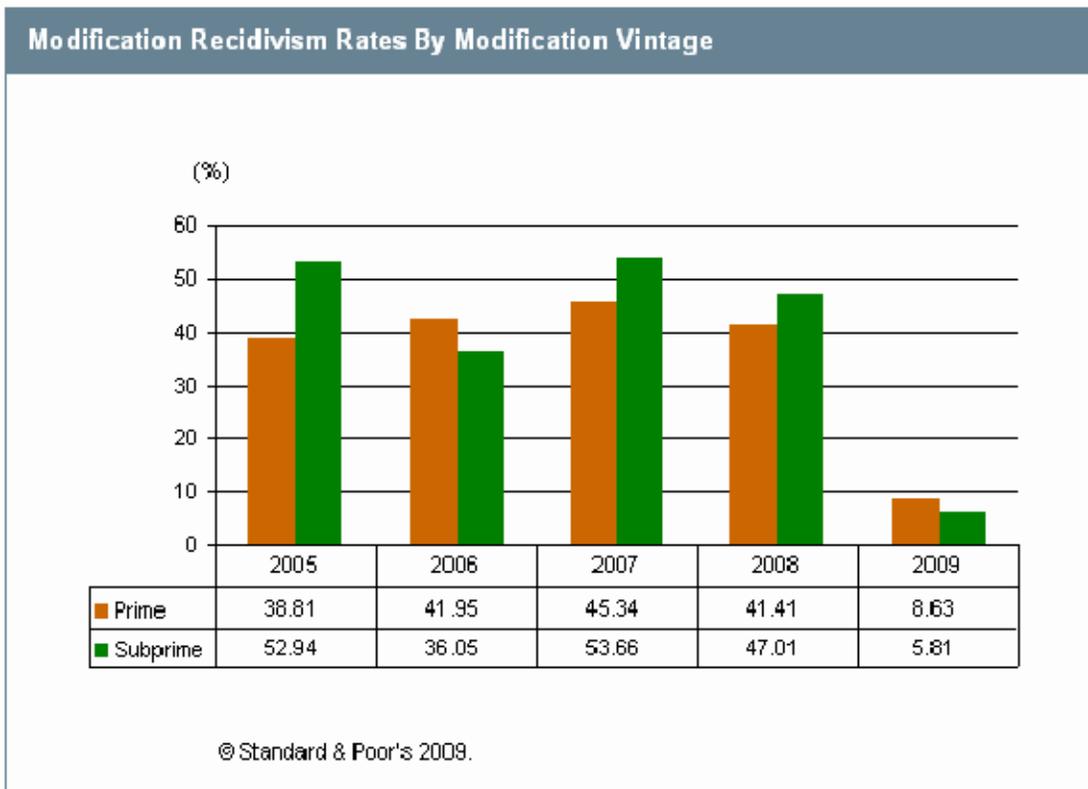
Chart 18

Subprime Workouts



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Chart 19



WFHM maintains prudent oversight over its foreclosure and bankruptcy accounts under the auspices of the loss control department based in Fort Mill and Milwaukee. The Loss Control department also handles claims functions which are performed in Des Moines and Milwaukee. The department added counsel to its existing approved list due to the large increase in these actions over the last year. Additionally, with the onset of HAMP, the department created a solicitation program in which they contact the borrower while in foreclosure to discuss a possible HAMP-related solution to the delinquency. In-house personnel handle foreclosure functions, although the bankruptcy department uses the services of three third-party providers. The experienced foreclosure staff average more than eight years experience and four years company tenure, while bankruptcy staff average nine years experience and four years tenure. Controls and timeline management characteristics include:

- Dedicated foreclosure and bankruptcy personnel;
- Proprietary software analyzes key items such as collection call communication, workout attempts, and investor and state regulations to ensure the loan is eligible for foreclosure proceedings;
- The VendorScape system is used for efficient EDI exchange of bankruptcy/foreclosure legal information;
- Documents are automatically transmitted once files are referred to an attorney;

- Quarterly report cards are issued assessing performance, which attorneys receive via e-mail;
- To further enhance surveillance, the establishment of an attorney auditor position who reviews processes undertaken by counsel during the legal action;
- Approximately 89% of prime foreclosures and 85% of subprime foreclosures are completed within prescribed timeframes;
- A default accounts payable group scrutinizes invoices for payment to various default vendors, thus helping ensure compliance with applicable investor guidelines regarding costs and fees;
- Approximately 13.08% of prime loans cure while in foreclosure, while the subprime foreclosure cure rate is 10.15%;
- Foreclosure bidding instructions designed to encourage third party sales through analysis of various pricing and marketing analysis (e.g. might bid 80% to 85% of broker price opinion [BPO] value depending on the state/area);
- Subprime foreclosure recommendations commence on the 62nd day of delinquency, with formal approval granted by no later than the 90th day;
- Though not frequently used anymore, a toll-free number was established in January 2008 for mayors' offices (approximately 1,500 with unique identifier codes) to contact the department for any issues concerning abandoned or foreclosed properties;
- Less than a 1% mortgage insurance denial/curtailment rate, and management indicated that the denials related more to origination issues versus servicing performance;
- Auto-population of bankruptcy filings and case statuses through American Information Services;
- Cash automation function for appropriate application of pre- and post-petition payments;
- Escrow analysis is performed while a loan is in bankruptcy; and
- The company uses the NDC trustee database, which allows staff members to access bankruptcy information pertaining to electronic payment application from one centralized locale versus different trustee Web sites.

Premiere, a division of WFHM (doing business as Premiere Asset Services [PAS]) is responsible for all REO functions. PAS has staff in Iowa, Maryland, South Carolina, and California. PAS handles various marketing and evaluation services for different clients in addition to WFHM, with team division by client and/or investor. Within each unit, there are separate premarketers, asset managers, and closers to handle specific responsibilities. There is 460 total staff (up from 236), with management averaging 15 years experience and staff 10 years experience. The initial listing period is no longer than 90 days with a 5% commission structure, with a minimum commission of \$2,000. Due to the current environment,

management has been aggressive when pricing an asset (e.g., in select markets, at 90% of market value with investor approval), which has resulted in lower returns. The practical controls and oversight in place include:

- Financial incentives to encourage recalcitrant borrowers to vacate the premises, which help reduce the likelihood of having to commence a costly and time-consuming eviction action;
- Implementation of a REO transaction database that has resulted in better communication flow with agents and improved storage of information;
- Selling discounted REOs to nonprofit agencies to assist in neighborhood revitalization by working with the Neighborhood Stabilization Program;
- An average eviction time of 57 days;
- A database of approved realtors for easier selection, as well as separate tracking of insurance coverage, licensing, and other relevant information;
- Realtors may electronically submit updates to PAS through a Web-based portal;
- A dedicated construction, bid, and repair analysis team;
- In select markets, implemented a new repair process that emphasizes cosmetic repairs (i.e. paint/carpet), while in the early stages of REO in an effort to decrease marketing time;
- A broker manual is available on the Web site detailing approval requirements and policies;
- The requirement for two valuations, since multiple assessments serve as a better guide when formulating a list price;
- List price is at "fair market value," which is determined by evaluating the REO appraisal and BPO;
- Established an eight-person in-house BPO audit done by in-house appraisers who review valuations on high UPB properties, new agents, for specific clients, and if there are large variances;
- The requirement that brokers must submit monthly status reports detailing marketing activity;
- Established authority levels for list price and subsequent negotiations;
- Ad hoc inspections of REO properties by PAS ensure that brokers are competently marketing each asset;
- REO properties are listed on the PAS Web site, which serves as an additional marketing mechanism;
- All invoices processed electronically;
- Both auctions and bulk sales are used as marketing tools, although the latter is generally reserved for aged and distressed assets;
- Fine average marketing times of 123 days for prime and 136 days for subprime; and

- Prime and subprime returns average a low 75.4% and 69.8% net proceeds-to-market value, respectively.

Chart 20

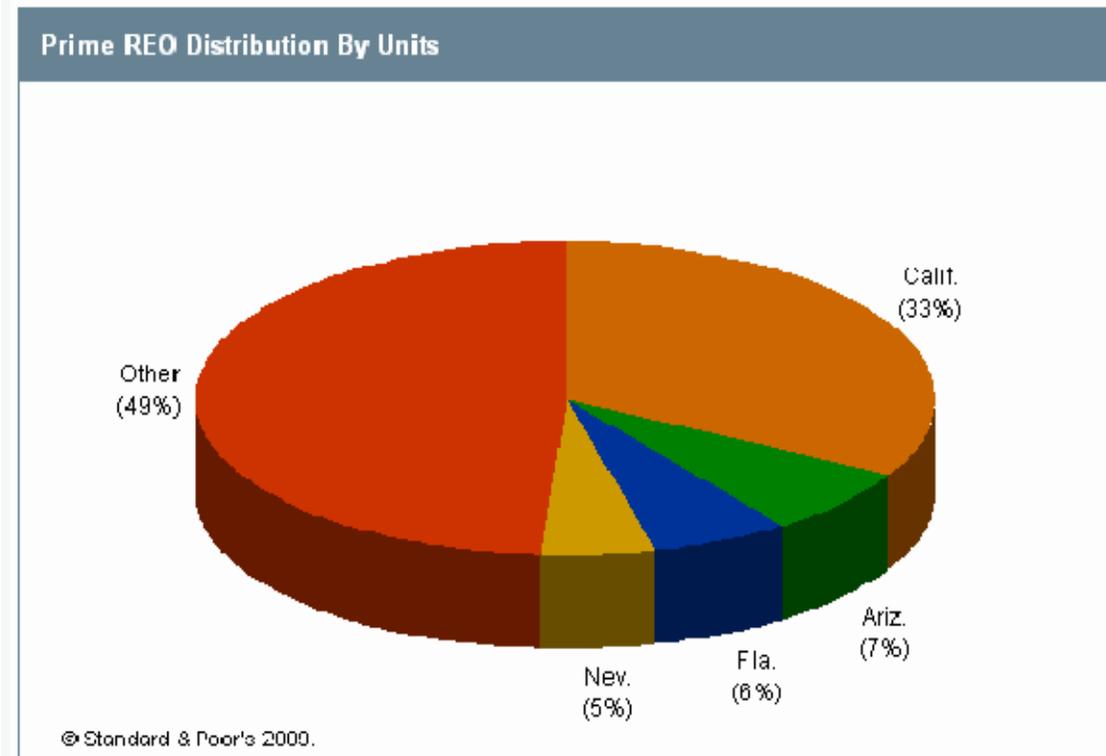
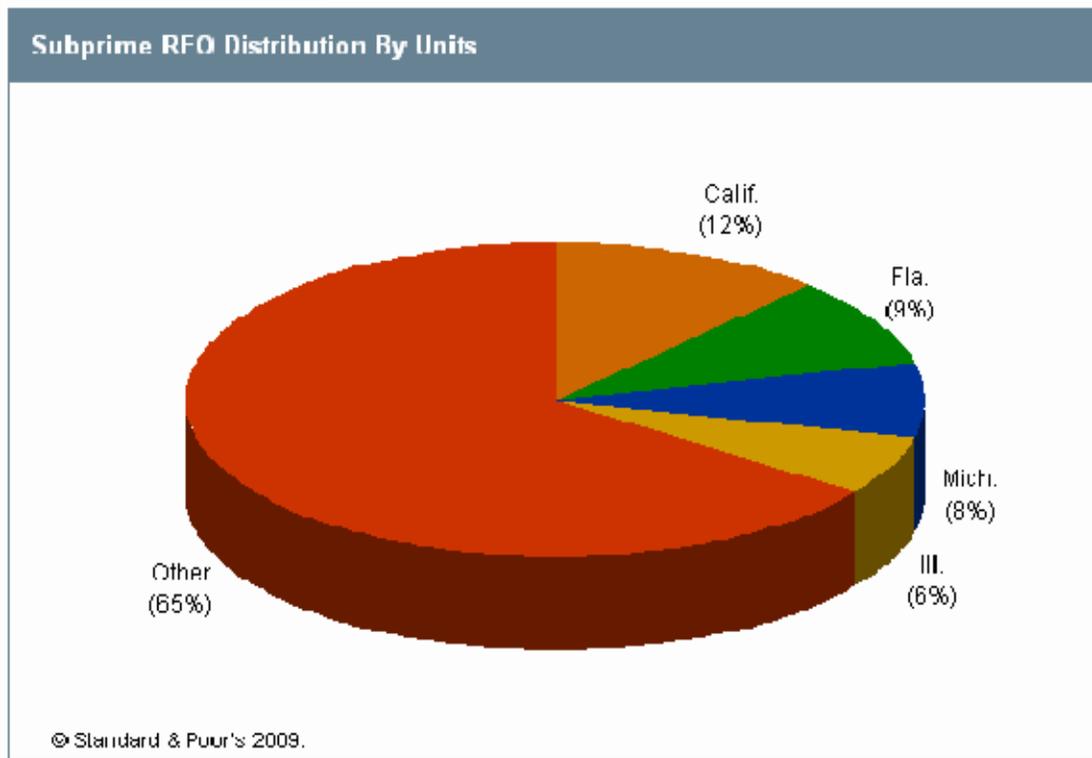


Chart 21



Management indicated that the continued low returns on its properties are due to the geographic regions where they are situated, which suffered large home price depreciation. Additionally, the department continues to notice large discrepancies in several instances between the original appraisals and current REO values, some of which is the result of market depreciation and others due to inflated origination values.

Due to a June 2009 ruling by the Illinois Insurance Commissioner, TRIAD, a mortgage insurer, is required to only pay 60% of any MI claim, with the remainder deferred. WFHM is actively tracking the 40% deferred amount for possible payment in the future.

PAS management is able to achieve efficiencies through the application of the Aspen Grove workflow management program. The software automatically assigns caseloads per representative and tracks realtor performance through a formal grading mechanism, along with other useful features.

## Financial Position

The financial position is considered sufficient based on the financial strength rating of Wells Fargo & Co.

For more information, please refer to RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis.

## Contact Information

WFHM maintains six servicing centers located throughout the U.S. Wells Fargo Bank N.A. is headquartered in San Francisco.

Wells Fargo Home Mortgage

Servicing and Post Closing

Mary Coffin, EVP

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## Related Research

- "[Servicer Evaluation Ranking Criteria: U.S.](#)," published Sept. 21, 2004.

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