

This Settlement Agreement (“Agreement”) is entered into between the United States, acting through the United States Department of Justice (“Department of Justice”), and Wells Fargo Bank, N.A. The United States and Wells Fargo are collectively referred to as “the Parties.”

### **RECITALS**

A. Wells Fargo Bank, N.A. (“WFB”) is a national commercial bank headquartered in Sioux Falls, South Dakota, with its principal place of business in San Francisco, California. It is a direct and wholly owned subsidiary of Wells Fargo & Company. WFB served as the Sponsor for residential mortgage-backed securities (“RMBS”) that it issued. WFB also served as the Originator of loans in certain RMBS offered by third-party banks, and it made representations and warranties regarding the loans in those offerings.

B. Wells Fargo Home Mortgage (“WFHM”) is the home mortgage division of WFB, with its principal place of business in Des Moines, Iowa. Between 2005 and 2007 (the “Relevant Period”), WFHM was the second largest originator of residential mortgage loans in the United States.

C. Wells Fargo Asset Securities Corporation (“WFASC”) is a direct and wholly owned subsidiary of WFB with its principal offices in Frederick, Maryland. WFASC served as the Depositor for RMBS issued by WFB, and it made representations and warranties to investors about the loans it included in the RMBS. Executives of WFASC also certified that representations and warranties made by WFASC were true and correct in all material respects.

D. WFB, WFHM, and WFASC are collectively referred to as “Wells Fargo.”

E. During the Relevant Period, Wells Fargo issued 118 RMBS (“Wells Shelf Deals”). It also sold hundreds of thousands of additional loans that were then placed into RMBS

issued by third-parties (“Agency Deals”). A list of RMBS issued by Wells Fargo or containing Wells Fargo’s loans is attached as Annex 1.

F. In connection with the Wells Shelf and Agency Deals, Wells Fargo made numerous representations and warranties about the loans in the RMBS and the accuracy of information it provided about those loans.

G. The United States contends that it has certain civil claims against Wells Fargo specified in Paragraph 3 of the Terms and Conditions section below, including those under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”), 12 U.S.C. § 1833a. The United States contends that these civil claims are predicated on Wells Fargo’s violations of 18 U.S.C. § 1341 (mail fraud), 18 U.S.C. § 1343 (wire fraud), 18 U.S.C. § 1014 (false statements to financial institutions), and 18 U.S.C. § 1344 (financial institutions fraud). These civil claims are based on the alleged “Covered Conduct” described in Paragraph H below.

H. “Covered Conduct” as used in this Agreement is defined as follows:

(1) Prior to January 1, 2008, Wells Fargo, including its current or former subsidiaries and affiliates, served in one or more of the following roles for the RMBS listed in Annex 1: originator, sponsor, depositor, issuer, and underwriter. It made representations, disclosures, or non-disclosures to RMBS investors, or to third-parties that were passed through to RMBS investors, about or in connection with the RMBS listed in Annex 1, where the representation or non-disclosure involved information about or obtained during the process of originating, selling, underwriting or securitizing residential mortgage loans included in the RMBS identified in Annex 1.

(2) More specifically, the United States contends that, from January 1, 2005, to December 31, 2007, Wells Fargo engaged in the following conduct:

a. As Wells Fargo saw its retail market share of loan origination decrease, it aimed to double its production of subprime and Alt-A loans from 2005 to 2006. Toward that end, Wells Fargo took a number of steps. First, it instituted a campaign in 2005 called “Courageous Underwriting,” a philosophy that encouraged Wells Fargo’s underwriters to take more chances, and be more aggressive, in approving loans that were outside of Wells Fargo’s underwriting guidelines. Also, in 2005, Wells Fargo changed the way that certain of its credit risk professionals were compensated, adding new categories of compensation for “Market Share Growth” and “Competitive Positioning to Drive Volume.”

b. Wells Fargo then sought to and did expand its stated income loan programs and loosened requirements for these loans, including allowing less money down, lower credit scores, blemished credit histories, higher debt-to-income ratios, and lower asset and reserve requirements, as well as offering an interest-only payment option. A stated income loan, as the name suggests, is a loan on which a borrower states his or her income. The lender determines whether the income that the borrower states is reasonable, in light of the borrower’s stated occupation, location, experience, and other factors. The lender, however, does not verify the income or require the borrower to provide supporting income documentation (*e.g.*, W2 forms, pay stubs) and instead relies on the income the borrower states. Stated income loans can take a variety of forms, including stated income verified asset (“SIVA”) loans, on which the lender verifies the borrower’s assets but not income, and stated income stated asset (“SISA”) loans, on which the lender verifies neither the borrower’s assets nor income.

c. In 2005, at the same time that the expansion of the stated income loan programs was occurring, the Risk Asset Review group (“RAR”), an independent risk group at WFB, warned WFHM that its risk of loan defaults was increasing substantially from its loosening of guideline requirements and its approval of more stated income loans.

d. The Corporate Consumer Credit Administration group at Wells Fargo (“Corporate Credit”) had authority over the approval of most new loan products or expansions to existing products, including the stated income programs. In 2005, as a condition to expanding certain stated income programs, Corporate Credit required that WFHM’s Quality Assurance group begin testing “[a] statistically valid sampling of filed 4506’s” and then report the results back to Corporate Credit.

e. A 4506-T form is a government document signed by the borrower during the loan approval process that allows the lender to obtain the borrower’s tax transcripts from the Internal Revenue Service (“IRS”). 4506-T testing involves comparing the tax transcripts of the borrower with the income stated on the loan application.

f. Wells Fargo implemented 4506-T testing on certain of its stated income loan programs. Between August 2005 and October 2007, Wells Fargo tested 1,211 stated income loans in two of its prime stated income loan programs (the SIVA and SISA programs) through the 4506-T testing process. For each of these loans, the 4506-T testing occurred after the loan funded, but often prior to the loan being securitized. According to Wells Fargo’s monthly reports, more than 70% of these loans had an “unacceptable” variance, a greater than 20% discrepancy between the borrower’s stated income and the income information reflected in the borrower’s most recent tax returns filed with the IRS. The average variance was approximately

65% (*i.e.*, the borrower's stated income was 65% more than the income information for that borrower that was returned by the IRS).

g. For the loans that had an "unacceptable variance," Wells Fargo sought to identify the reason for the variance, and, for at least 45% of those loans, Wells Fargo found no "plausible" reason to explain the variance. Based on this testing, Wells Fargo knew that a substantial portion of its stated income loans contained income misrepresentations and/or materially inaccurate statements of income.

h. The results of the 4506-T testing were included in monthly reports that were widely distributed among Wells Fargo employees, including to one of WFHM's co-presidents and other executives. A risk manager at WFHM observed that the "4506T results are astounding" yet "instead of reacting in a way consistent with what is being reported WF is expanding stated programs in all business lines." Another manager asked his supervisor "[w]hat addition[al] responsible lending . . . risk is there knowing the results but not taking action . . . ."

i. When submitting the initial 4506-T results to Corporate Credit, as had been required as a condition of the stated income program expansion, WFHM misrepresented the number of loans that had "unacceptable" variances without any "plausible" explanation for the discrepancies in income, and, instead, represented to Corporate Credit that they had obtained "satisfactory quality assurance results." This was done to allow Wells Fargo's creation and sale of stated income loans to continue, and they did.

j. Even though Wells Fargo knew that stated income loans had false income information, Wells Fargo continued to report debt-to-income ("DTI") ratios in RMBS based on those false incomes.

k. Wells Fargo heralded its quality and fraud controls to investors and rating agencies while failing to disclose the findings of its 4506-T testing. Wells Fargo did not share its 4506-T testing or the results of that testing with RMBS investors.

l. Wells Fargo also took steps to protect itself. It screened out many of its stated income loans from its own portfolio of loans that it held for investment. And it changed a representation and warranty that it provided to investors on certain deals to carve out any liability related to the accuracy of stated income, thereby removing the investors' ability to demand that Wells Fargo buy back loans with misrepresented stated incomes.

m. Wells Fargo falsely stated in prospectus supplements that it had not verified borrower incomes in its stated income programs, even though Wells Fargo knew it was conducting 4506-T testing on certain of its stated income programs and was engaged in qualitative testing that revealed significant percentages of the sampled stated income loans contained both an "unacceptable" variance and no "plausible" reason to explain it.

n. Wells Fargo sold at least 73,529 stated income loans in RMBS during the Relevant Period, and nearly half of those loans have defaulted. Investors, including federally insured financial institutions, have suffered billions of dollars in losses as a result of Wells Fargo's sale of stated income loans.

(3) The Covered Conduct does not include: (i) representations or non-disclosures made in connection with collateralized debt obligations, other derivative securities, or the secondary trading by Wells Fargo of RMBS, except to the extent that the representations or non-disclosures are related to the offering materials for the underlying RMBS listed in Annex 1; and (ii) the servicing of residential mortgage loans, except representations or non-disclosures to investors in

the RMBS listed in Annex 1 about servicing or about information obtained in the course of servicing such loans prior to securitization.

I. To avoid the delay, uncertainty, inconvenience, and expense of protracted litigation of the above claims, and in consideration of the mutual promises and obligations of this Agreement, the Parties reach a full and final settlement pursuant to the terms and conditions below. This settlement agreement is neither an admission of any facts or liability or wrongdoing by Wells Fargo nor a concession by the United States that its claims are not well-founded. Wells Fargo disputes the contentions of the United States set forth in Paragraph H.

### **TERMS AND CONDITIONS**

1. Wells Fargo shall pay a total amount of \$2,090,000,000 (the “Settlement Amount”) to the United States pursuant to the Agreement no later than 15 days after the Effective Date of this Agreement by electronic funds transfer pursuant to written instruction to be provided by the Civil Division of the United States Department of Justice.
2. The entirety of the Settlement Amount is a civil monetary penalty recovered pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act (“FIRREA”), 12 U.S.C. § 1833a.
3. **Releases by the United States.** Subject to the exceptions in Paragraph 4 (“Excluded Claims”) and conditioned upon Wells Fargo’s full payment of the Settlement Amount, the United States fully and finally releases Wells Fargo, each of its current and former subsidiaries and affiliated entities, and each of their respective successors and assigns (collectively, the “Released Entities”), from any civil claim the United States has against the Released Entities for the Covered Conduct arising under FIRREA, 12 U.S.C. § 1833a; the False Claims Act, 31 U.S.C.

§§ 3729, *et seq.*; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801, *et seq.*; the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §§ 1961, *et seq.*; the Injunctions Against Fraud Act, 18 U.S.C. § 1345; common law theories of negligence, gross negligence, payment by mistake, unjust enrichment, money had and received, breach of fiduciary duty, breach of contract, misrepresentation, deceit, fraud, and aiding and abetting any of the foregoing; or that the Civil Division of the Department of Justice has actual and present authority to assert and compromise pursuant to 28 C.F.R. § 0.45(d).

4. **Excluded Claims.** Notwithstanding the releases in Paragraph 3 of this Agreement, or any other term(s) of this Agreement, the following claims are specifically reserved and not released by this Agreement:

- a. Any conduct other than the Covered Conduct;
- b. Any criminal liability;
- c. Any liability of any individual;
- d. Any liability arising under Title 26 of the United States Code (the Internal Revenue Code);
- e. Any liability to or claims of the National Credit Union Administration, any Federal Home Loan Bank, or the Federal Deposit Insurance Corporation (including in its capacity as a corporation, receiver, or conservator) (the “FDIC”);
- f. Any liability to or claims of the United States of America, the Department of Housing and Urban Development/Federal Housing Administration, the Department of Veterans Affairs, the Department of Agriculture, or any other agency of the United States, or Fannie Mae or Freddie Mac, relating to whole loans insured, guaranteed, or

- purchased by the Department of Housing and Urban Development/Federal Housing Administration, the Department of Veterans Affairs, the Department of Agriculture, or any other agency of the United States, or Fannie Mae or Freddie Mac;
- g. Any administrative liability, including the suspension and debarment rights of any federal agency;
  - h. Any liability based upon obligations created by this Settlement Agreement;
  - i. Any liability for the claims or conduct alleged in the following *qui tam* actions, and no setoff related to amounts paid under this Agreement shall be applied to any recovery in connection with any of these actions:
    - (i) *United States ex rel. Brooks v. Wells Fargo Bank, N.A., et al.*, No. 1:17-cv-01237 (N.D. Ill.);
    - (ii) *United States ex rel. Fisher v. Wells Fargo Bank, N.A.*, No. 4:16-cv-394 (E.D. Tex.);
    - (iii) *United States ex rel. Grubea v. Rosicki, Rosicki & Assoc., P.C., et al.*, No. 1:12-cv-7199 (S.D.N.Y.);
    - (iv) *United States ex rel. Houpt v. Wells Fargo Bank, N.A.*, No. 4:17-cv-377 (D. Idaho);
    - (v) *Sealed v. Sealed*, No. XX CIV XXXX (E.D. Tex.); and
    - (vi) *Sealed v. Sealed*, No. XX CIV XXXX (E.D.N.Y).

5. **Releases by Wells Fargo.** Wells Fargo and any current or former affiliated entity and any of their respective successors and assigns fully and finally release the United States and its officers, agents, employees, and servants, from any claims (including attorney's fees, costs, and

expenses of every kind and however denominated) that Wells Fargo has asserted, could have asserted, or may assert in the future against the United States and its officers, agents, employees, and servants, related to the Covered Conduct to the extent released hereunder and the investigation to date thereof.

6. **Waiver of Potential FDIC Indemnification Claims by Wells Fargo.** Wells Fargo hereby irrevocably waives any right that it otherwise might have to seek (and in any event agrees that it shall not seek) any form of indemnification, reimbursement or contribution from the FDIC in any capacity, including the FDIC in its Corporate Capacity or the FDIC in its Receiver Capacity for any payment under this Agreement.

7. **Waiver of Potential Defenses by Wells Fargo.** Wells Fargo and any current or former affiliated entity and any of their respective successors and assigns waive and shall not assert any defenses Wells Fargo may have to any criminal prosecution or administrative action relating to the Covered Conduct that may be based in whole or in part on a contention that, under the Double Jeopardy Clause in the Fifth Amendment of the Constitution, or under the Excessive Fines Clause in the Eighth Amendment of the Constitution, this Agreement bars a remedy sought in such criminal prosecution or administrative action.

8. **Unallowable Costs Defined.** All costs (as defined in the Federal Acquisition Regulation, 48 C.F.R. § 31.205-47) incurred by or on behalf of Wells Fargo, and its present or former officers, directors, employees, shareholders, and agents in connection with:

- a. The matters covered by this Agreement;
- b. The United States' audit(s) and civil investigation(s) of the matters covered by this Agreement;

c. Wells Fargo's investigation, defense, and corrective actions undertaken in response to the United States' audit(s) and civil and any criminal investigation(s) in connection with the matters covered by this Agreement (including attorney's fees);

d. The negotiation and performance of this Agreement; and

e. The payment Wells Fargo makes to the United States pursuant to this Agreement

are unallowable costs for government contracting purposes (hereinafter referred to as "Unallowable Costs").

9. **Future Treatment of Unallowable Costs.** Unallowable Costs will be separately determined and accounted for by Wells Fargo, and Wells Fargo shall not charge such Unallowable Costs directly or indirectly to any contract with the United States. Nothing in this Agreement shall constitute a waiver of the rights of the United States to audit, examine, or re-examine Wells Fargo's books and records to determine that no Unallowable Costs have been claimed in accordance with the provisions of this paragraph.

10. This Agreement is governed by the laws of the United States. The Parties agree that the exclusive jurisdiction and venue for any dispute relating to this Agreement is the United States District Court for the Northern District of California.

11. This Agreement is intended for the benefit of the Parties only and does not create any third-party rights.

12. The Parties acknowledge that this Agreement is made without any trial or adjudication or judicial finding of any issue of fact or law, and is not a final order of any court or governmental authority.

13. Each Party shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.
14. Each Party and signatory to this Agreement represents that it freely and voluntarily enters into this Agreement without any degree of duress or compulsion.
15. For the purposes of construing this Agreement, this Agreement shall be deemed to have been drafted by all Parties and shall not, therefore, be construed against any Party for that reason in any subsequent dispute.
16. This Agreement constitutes the complete agreement between the Parties. This Agreement may not be amended except by written consent of the Parties.
17. The undersigned counsel represent and warrant that they are fully authorized to execute this Agreement on behalf of the persons and entities indicated below.
18. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same Agreement.
19. This Agreement is binding on Wells Fargo's successors, transferees, heirs, and assigns.
20. All Parties consent to the disclosure of this Agreement, and information about this Agreement, to the public.
21. This Agreement is effective on the date of signature of the last signatory to the Agreement (Effective Date of this Agreement). Facsimiles of signatures shall constitute acceptable, binding signatures for purposes of this Agreement.

For Wells Fargo:

Dated: 8/1/18



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C. Allen Parker  
Senior Executive Vice President, General Counsel  
Wells Fargo & Company

For the United States:

Dated: 8/1/18



Chad A. Readler  
Acting Assistant Attorney General  
Civil Division

Dated: 8/1/18



Alex G. Tse  
Acting United States Attorney  
Northern District of California

## ANNEX 1

ARMT 2006-2	HEAT 2006-3	WFHET 2006-2	WFMBBS 2005-AR8	WFMBBS 2006-AR7
BAFC 2006-1	HEAT 2006-4	WFHET 2006-3	WFMBBS 2005-AR9	WFMBBS 2006-AR8
BAFC 2006-2	JPMAC 2006-WF1	WFHET 2007-1	WFMBBS 2006-1	WFMBBS 2007-1
BAFC 2006-A	LXS 2006-17	WFHET 2007-2	WFMBBS 2006-10	WFMBBS 2007-10
BAFC 2006-F	LXS 2007-9	WFHM 2007-M11	WFMBBS 2006-11	WFMBBS 2007-11
BAFC 2006-G	MABS 2006-AB1	WFHM 2007-M4	WFMBBS 2006-12	WFMBBS 2007-12
BAFC 2007-1	MALT 2007-1	WFMBBS 2005-1	WFMBBS 2006-13	WFMBBS 2007-13
BAFC 2007-C	NAAC 2006-WF1	WFMBBS 2005-10	WFMBBS 2006-14	WFMBBS 2007-14
BAFC 2007-D	NHELI 2006-WF1	WFMBBS 2005-11	WFMBBS 2006-15	WFMBBS 2007-15
BCAP 2007-AA2	RBSGC 2007-A	WFMBBS 2005-12	WFMBBS 2006-16	WFMBBS 2007-16
BCAP 2007-AA3	RBSGC 2007-B	WFMBBS 2005-13	WFMBBS 2006-17	WFMBBS 2007-17
BCAPB 2007-AB1	SARM 2006-4	WFMBBS 2005-14	WFMBBS 2006-18	WFMBBS 2007-2
CMLTI 2007-2	SARM 2006-5	WFMBBS 2005-15	WFMBBS 2006-19	WFMBBS 2007-3
CMLTI 2006-AR6	SARM 2006-6	WFMBBS 2005-16	WFMBBS 2006-2	WFMBBS 2007-4
CMLTI 2006-AR9	SARM 2006-8	WFMBBS 2005-17	WFMBBS 2006-20	WFMBBS 2007-5
CMLTI 2006-WF1	SASCO 2006-3H	WFMBBS 2005-18	WFMBBS 2006-3	WFMBBS 2007-6
CMLTI 2006-WF2	SASCO 2006-WF1	WFMBBS 2005-2	WFMBBS 2006-4	WFMBBS 2007-7
CMLTI 2006-WFHE1	SASCO 2006-WF2	WFMBBS 2005-3	WFMBBS 2006-5	WFMBBS 2007-8
CMLTI 2006-WFHE2	SASCO 2006-WF3	WFMBBS 2005-4	WFMBBS 2006-6	WFMBBS 2007-9
CMLTI 2006-WFHE3	SASCO 2007-WF1	WFMBBS 2005-5	WFMBBS 2006-7	WFMBBS 2007-AR10
CMLTI 2006-WFHE4	SASCO 2007-WF2	WFMBBS 2005-6	WFMBBS 2006-8	WFMBBS 2007-AR3
CMLTI 2007-AR4	SVHLT 2006-WF1	WFMBBS 2005-7	WFMBBS 2006-9	WFMBBS 2007-AR4
CMLTI 2007-AR5	SVHLT 2006-WF2	WFMBBS 2005-8	WFMBBS 2006-AR1	WFMBBS 2007-AR5
CMLTI 2007-WFHE1	WFALT 2005-1	WFMBBS 2005-9	WFMBBS 2006-AR10	WFMBBS 2007-AR6
CMLTI 2007-WFHE2	WFALT 2005-2	WFMBBS 2005-AR1	WFMBBS 2006-AR11	WFMBBS 2007-AR7
CMLTI 2007-WFHE3	WFALT 2007-PA1	WFMBBS 2005-AR10	WFMBBS 2006-AR12	WFMBBS 2007-AR8
CMLTI 2007-WFHE4	WFALT 2007-PA2	WFMBBS 2005-AR11	WFMBBS 2006-AR13	WFMBBS 2007-AR9
CSAB 2006-4	WFALT 2007-PA3	WFMBBS 2005-AR12	WFMBBS 2006-AR14	WMLT 2005-A
DBALT 2006-AB1	WFALT 2007-PA4	WFMBBS 2005-AR13	WFMBBS 2006-AR15	WMLT 2005-B
ECR 2005-3	WFALT 2007-PA5	WFMBBS 2005-AR14	WFMBBS 2006-AR16	WMLT 2005-WMC1
FSPC T-74	WFALT 2007-PA6	WFMBBS 2005-AR15	WFMBBS 2006-AR17	WMLT 2006-A
FSPC T-77	WFHM 2007-M9	WFMBBS 2005-AR16	WFMBBS 2006-AR18	WMLT 2006-ALT1
GSAA 2006-18	WFHM 2007-M14	WFMBBS 2005-AR2	WFMBBS 2006-AR19	WMLT 2006-AMN1
GSAA 2007-10	WFHET 2005-1	WFMBBS 2005-AR3	WFMBBS 2006-AR2	WMLT 2007-A <sup>1</sup>
GSAA 2007-7	WFHET 2005-2	WFMBBS 2005-AR4	WFMBBS 2006-AR3	
GSAA 2007-9	WFHET 2005-3	WFMBBS 2005-AR5	WFMBBS 2006-AR4	
HALO 2007-WF1	WFHET 2005-4	WFMBBS 2005-AR6	WFMBBS 2006-AR5	
HASCO 2007-WF1	WFHET 2006-1	WFMBBS 2005-AR7	WFMBBS 2006-AR6	

<sup>1</sup> Should a residential mortgage-backed securitization issued before January 1, 2008 be inadvertently omitted notwithstanding that Wells Fargo or one of its current or former subsidiaries or affiliates served as the issuer, sponsor, depositor, underwriter, loan originator, or loan seller, that securitization will be treated as if it was listed.