Attorney General Frosh Announces $20 Million Settlement with Wells Fargo

Settlement Resolves Claims Wells Fargo Misrepresented Quality of Purchased Residential Mortgage Backed Securities

BALTIMORE, MD (June 16, 2020) – Maryland Attorney General Brian E. Frosh announced today that his Securities Division entered into a $20 million settlement with Wells Fargo. The Consent Order resolves financial crisis-era claims that Wells Fargo misled investors in its issuance of residential mortgage-backed securities (RMBS). The $20 million settlement is the largest reached by a state for Wells Fargo’s financial-crisis era RMBS issuance.

“Wells Fargo allegedly misrepresented the quality of some of the loans backing its RMBS,” said Attorney General Frosh. “Wells Fargo’s misconduct contributed to the 2008 financial crisis. This settlement will recoup losses that Maryland suffered through Wells Fargo RMBS investments while also providing additional funds for the State.”

Between January 1, 2005 and January 1, 2009, Wells Fargo issued 119 RMBS, the majority containing prime mortgages, with some consisting of Alt-A and subprime mortgage loans. As an issuer, Wells Fargo was required to disclose complete and accurate information about the loans backing its securities. But through two channels, Wells Fargo received information that its disclosures were inaccurate with respect to certain loans.

First, Wells Fargo tested a statistically valid sample of some of its stated income loans and learned that many borrowers’ stated income exceeded the income these borrowers provided to the IRS. Many of Wells Fargo’s RMBS contained stated income loans, and 43 of its deals contained at least one loan with a negative sampling review.

Second, Wells Fargo received information that many of its deals contained loans that did not meet its mortgage origination standards. This information came from due diligence samples commissioned by third-party RMBS underwriters and performed by vendors using information at Wells Fargo’s Frederick, Maryland office. In some cases, around 10% of the sampled loans did not meet these origination criteria. While Wells Fargo did not securitize the offending loans identified by due diligence, they did not search their mortgage pools to identify and remove other non-complying loans, nor did they revise their disclosures to note that some loans did not meet origination criteria.
In making today’s announcement, Attorney General Frosh thanked Assistant Attorney General Max F. Brauer and Investigator Trinity Gainey for their work on the case.