# Article Side

Wells Fargo trading practices: Victory or vice by Apil Gupta

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Even as Wells Fargo, one of Americaâ€™s largest mortgage firms, maintains its stronghold over the mortgage market, there are doubts over its practices that are somewhat risky. However, the firm also supports smaller banks in their mortgage practices, which are of the opinion that if the bank scales down its operations, they would lose out on a huge source of liquidity. Many market experts also see this as a tactic on the part of Wells Fargo to control smaller banks. However, nevertheless, the fact is that the firm is helping smaller entities, which essentially helps the entire economy. Correspondent lending, which is essentially the backbone of the operations of smaller banks, could be risky for Wells Fargo as well. This is because loans that are written in house are of much superior quality than those which it buys from other banks. This could also be the reason so many of its competitors have refrained from correspondent lending. However, Wells Fargo got 42 percent of its mortgages last year from correspondent banks, and stated that its procedure for partner selection is based on many parameters like net worth and performance requirements.

Wells Fargo had benefited tremendously for showing restraint against not offering riskier mortgages that its competitors were indulging in, which included subprime loans wherein little was known about the borrowerâ€™s income. This move paid off, and Wells became the top mortgage lender in2008, and by 2009, it had close to 25 percent of the market, which was double its market share in2007. Last year, the firm also became the top mortgage payment collector. The firm also bought over Wachovia Corp, a North Carolina based company, in 2008, which gave it a portfolio of risky adjustable rate mortgages which are being liquidated over a period of time. However, it got more presence on the US East Coast as a result of this move.

The bank is today one of the very few firms that are investing in the mortgage business even as its competitors are pulling out. It now plans to add around 1,000 loan officers on a national level and is also in the process of hiring hundreds of underwriters, developing new systems for underwriting simultaneously. Till date, the investment is paying off pretty nicely, as the mortgage income climbed by 42 percent to $2.9 billion. However, only time will tell whether this is a sustained or short term profit.



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