

Despite Rigorous Lending Standards, Wells Fargo to Write Down \$1.4B

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Wells Fargo announced after the bell Tuesday it has set aside \$1.4 billion to cover a Q4 pretax charge related to increased losses on its portfolio of acquired home equity loans, sending its shares lower by more than 4% in after-hours action. Until Tuesday, Wells Fargo had been the largest U.S. financial institution to avoid the subprime mess and ensuing writedowns being faced by other major U.S. financial institutions (see [The Writedown Leaderboard](#)). The company is the fourth largest U.S. bank by market cap.

Despite its own more rigorous lending practices, Wells Fargo is being forced to take the writedown on unpaid home equity loans it acquired from outside lenders with looser lending practices. The company plans to place "the portfolios that have been acquired through these indirect channels... [into] liquidating status under the direction of a dedicated management team." The portfolios in question total \$11.9 billion, those



with the "highest risk" among the company's \$83 billion home equity portfolio, since they are not tied to a Wells Fargo primary mortgage and are located in geographical regions facing the steepest declines in housing prices, including California and the Midwest.

Earlier this month, Wells Fargo CEO John Stumpf conceded that while his company had "minimal" exposure to subprime mortgage fallout, it is "not immune" to the housing slowdown entirely ([full summary](#)). In the wake of its latest disclosure, Wells Fargo "believe[s] it's prudent to further tighten our standards, to stop acquiring new loans in these [riskier] segments." While Wells Fargo has maintained a strong capital position relative to other major U.S. lenders and

financial institutions, due to what CFO Howard Atkins called a focus "on our core customers," economist Christopher Thornberg believes even the most conservative lenders like Wells Fargo are not in the clear yet: "It's going to become much worse. Prices went up way too high and now they are coming down. The foreclosures are just starting to hit." The company plans to continue issuing mortgages to its own customers, albeit with tighter standards.

Sources: [Press release](#), [Bloomberg](#), [AP](#), [Dow Jones Newswires](#), [MarketWatch](#), [TheStreet.com](#)

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Earnings call transcript: [Wells Fargo Q3 2007](#)

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