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Wells Fargo's profit slips to 6-year quarterly low

Mortgage crisis, declining home values weigh on bottom line

Michael Liedtke, Associated Press
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Wells Fargo & Co. ended 2007 with its lowest quarterly profit in six years, dragged down by the declining home values and mortgage mess that's tormenting most of the banking industry.

The San Francisco company said Wednesday that it earned $1.36 billion (41 cents per share) during the final three months of the year. That was 38 percent below net income of $2.18 billion (64 cents) at the same time in 2006.

The results matched the earnings estimates of analysts, who had already factored in a series of charges and loan loss reserves that Wells Fargo announced in November.

It marked Wells Fargo's weakest profit since the final three months of 2001, when the fifth-largest U.S. bank earned $1.18 billion.

Wells Fargo's revenue growth in the fourth quarter was more impressive, rising 8 percent to $10.21 billion from $9.41 billion a year ago.

Investors seemed relieved that the report didn't contain any new warnings about loan problems that Wells Fargo hadn't already disclosed. Wells Fargo shares rose 88 cents, or 3 percent, to $27.37 Wednesday.

In another vote of confidence, Moody's Investors Service affirmed its credit ratings for Wells Fargo on Wednesday after concluding the bank is well positioned to weather the economic turbulence ahead. Moody's rates Wells Fargo as Aaa for depositors - a positive sign that could help lure new customers rattled by the huge losses being wracked up by other big banks.

Like its peers, Wells Fargo is having trouble getting repaid by borrowers saddled with mortgage loans that they no longer can afford or are choosing to walk away from as home values plunge below the amount of debt owed.

But Wells Fargo so far has been able to avoid the monumental troubles that have led several banks to post their worst losses in decades and replace their chief executive officers.

In the fourth quarter alone, the banking industry's write-downs are expected to total more than $65 billion as lenders account for all the bad loans that were made to millions of subprime borrowers with tarnished credit records.

Most of Wells Fargo's troubles are concentrated in home equity loans made to borrowers looking to draw on the value of their property to pay bills, finance more comfortable lifestyles or, in some cases, cover part of their down payments.

With more home equity borrowers in California and the Midwest defaulting on their loans, Wells Fargo set aside $1.4 billion during the fourth quarter to cover its anticipated losses in the portfolio during 2008 and 2009. The bank also is jettisoning about $12 billion of its shakiest home equity loans, leaving about $72 billion in the remaining portfolio.

Wells Fargo wrote off $595 million in home equity loans in 2007.

"We expect the environment to remain challenging in 2008, particularly in the consumer sector," Wells Fargo CEO John Stumpf said in a statement.

More than one-third of Wells Fargo's remaining home equity loans are in California, where rapidly rising foreclosure rates and eroding real estate values have caused some analysts to conclude the state's economy already has fallen into a recession.

With California sagging so badly, many investors were bracing for more bad news in Wells Fargo's fourth-quarter earnings report, Goldman Sachs & Co. analyst Lori Appelbaum wrote in a research note Wednesday.

In a sign that the mortgage misery could be infectious, more Wells Fargo customers have stopped paying their credit card bills. The bank wrote off $223 million, or 5 percent, of its credit card loans in the fourth quarter, up from $176 million, or 4.3 percent, in the previous quarter.

The amount of Well Fargo's consumer loans at least 90 days behind in repayments totaled $1.44 billion at the end of 2007, a 32 percent increase from $1.1 billion at the end of 2006.

For 2007, Wells Fargo earned $8.06 billion ($2.38), a 4 percent decline from $8.42 billion ($2.47) in 2006. Revenue climbed 10 percent to $39.4 billion from $35.69 billion a year ago.

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