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# Wells Fargo's Earnings Top Estimates as Loan Losses Ease

By ERIC DASH

**Wells Fargo**, the nation's largest consumer bank, said Wednesday that second-quarter earnings fell 3 percent, to \$3.06 billion, as a slowdown in lending was offset by the improvement in the financial health of consumer and corporate borrowers.

Wells Fargo released about \$500 million it had previously set aside to cover losses and suggested the worst of its troubles were over. Bank executives said that a stronger economy and tighter lending standards had helped control losses and that as long as conditions did not significantly worsen, they expected to release more reserves in coming quarters.

"We believe credit quality has indeed turned the corner," Howard Atkins, Wells Fargo's chief financial officer, said [in a statement](#).

Unlike many of the biggest banks, Wells does not have a large trading operation, so it sidestepped the shaky market conditions that caused sharp declines in profit at [Goldman Sachs](#), [Bank of America](#) and [Citigroup](#). But just as at other consumer giants, the bank's executives warned that the new financial legislation could significantly lower revenue.

"We remain concerned that some aspects of [regulatory reform](#) may have unintended negative impacts

for America's financial system, consumers and businesses," John G. Stumpf, Wells Fargo's chief executive, said in a statement.

The bank's \$3.06 billion profit, which amounts to 55 cents a share, beat analyst expectations. However, it compares with a profit of \$3.17 billion, or 57 cents a share, a year earlier. Revenue in the quarter was \$21.4 billion, down 5 percent. Net income applicable to common shareholders rose 12 percent, to \$2.88 billion.

Mr. Stumpf said that the bank was making "strong progress" on its merger with the Wachovia Corporation, the troubled lender it acquired during the financial crisis to give it a foothold in the eastern United States. The process, Mr. Stumpf said, was about half finished and had already achieved about 80 percent of the projected annual cost savings. By the end of July, Wells Fargo expects to have converted Wachovia branches in markets like California, Texas and Kansas, where the two banks competed. The bank is expected to convert Wachovia branches in the New York area in early 2011.

Bank executives were also pleased with the improvement in credit performance. The bank said charge-offs fell 16 percent in its consumer and corporate loan books, and fewer borrowers were falling behind on their credit card, home equity and mortgage loans.

"We have seen credit quality improve earlier and to a greater extent than we had previously expected," Michael J. Loughlin, Well Fargo's chief credit and risk officer, said.

In particular, the so-called Pick-a-Pay option-ARM mortgages and commercial loans that it acquired with the purchase of Wachovia are performing better than expected. That will allow the bank to book a gain of \$506 million in the quarter, and could result in at least another \$1.8 billion in additional income over the next several years.

The company's shares closed up 15 cents to \$ 26.06.

*This article has been revised to reflect the following correction:*

**Correction: July 23, 2010**

*A headline on Thursday about Wells Fargo's quarterly earnings misstated the company's results in some editions. Wells Fargo reported earnings of \$3.06 billion and beat analysts' expectations; it did not post a loss.*



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