Wells Fargo

S&P cuts Wells Fargo credit rating after Fed sanctions

Downgrade deprives bank of ratings advantage it enjoyed over leading rivals

Tim Sloan, Wells Fargo chief executive, was appointed after the exit of John Stumpf in the wake of the phoney accounts scandal © Bloomberg

Alistair Gray and Eric Platt in New York FEBRUARY 8, 2018

Wells Fargo has been downgraded by Standard & Poor's after regulatory sanctions from the Federal Reserve, depriving it of a ratings advantage it had over its two biggest rivals JPMorgan Chase and Bank of America.

S&P cited "unprecedented" restrictions from the Fed, which is preventing Wells from expanding its $2tn balance sheet until officials are satisfied the bank has improved governance.

Executives at the third-largest US bank by assets, which is led by chief executive Tim Sloan, have acknowledged that thousands of employees were under so much pressure to meet sales targets that they turned to fraud, setting up as many as 3.5m phoney accounts for customers.

"The duration and severity of these regulatory, governance, and reputational issues are not commensurate with the previously peer-leading ratings on Wells," wrote Barbara Duberstein, S&P credit analyst.

S&P downgraded Wells one notch to an A-minus rating, in line with JPMorgan and BofA. It remains better than Citigroup, which is rated BBB-plus.

S&P is the only one of the big three credit agencies so far to respond to the Fed's constraints with a downgrade.

Moody's earlier this week stopped short of a downgrade but put the bank on notice of a possible cut by placing a "negative" outlook on its A2 rating. Fitch downgraded its rating on Wells in October to A-plus, its lowest level since 1996.

The Fed's punishment has already prompted several equity analysts to downgrade their view of Wells shares, which have lost 10 per cent since last Friday. Executives estimated the regulatory restrictions could cost the bank as much as $400m in net income this year.

In a statement, Wells said that it was "disappointed" and that its debt rating "remains among the highest ratings of any financial services company".

"We take the consent order very seriously and are confident in our ability to meet the requirements while continuing to serve customers' financial needs."

Kathy Shanley, analyst at the corporate bond research house Gimme Credit, said: "It is certainly a black eye for Wells Fargo that they have not been able to put the sales incentive scandal behind them, but the growth restrictions are a greater concern for equity investors than for bondholders."

Four Wells directors are being shown the door after Fed officials accused the board of failing to prevent "widespread consumer abuses".

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