

California Suspends 'Business Relationships' With Wells Fargo

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- State is largest muni issuer, has \$75 billion in investments
- Bank is facing mounting criticism over bogus accounts

California, the nation's largest issuer of municipal bonds, is barring Wells Fargo & Co. from underwriting state debt and handling its banking transactions after the company admitted to opening potentially millions of bogus customer accounts.

The suspension, in effect immediately, will remain in place for 12 months, State Treasurer John Chiang said Wednesday. "Complete and permanent severance" between his office and the bank will occur if it doesn't change its practices, he said. The treasurer is also suspending his office's investment in Wells Fargo securities.

"Wells Fargo's fleecing of its customers by opening fraudulent accounts for the purpose of extracting millions in illegal fees demonstrates, at best, a reckless lack of institutional control and, at worst, a culture which actively promotes wanton greed," the treasurer said in a statement.

The move by California is the latest to punish the bank, which is facing a national furor over the fraudulent accounts. San Francisco, the home of Wells Fargo, last week removed it from a banking program for low-income residents. Authorities including the U.S. Consumer Financial Protection Bureau fined Wells Fargo \$185 million on Sept. 8 for potentially opening about 2 million deposit and credit-card accounts without authorization. Chief Executive Officer John Stumpf has forfeited \$41 million in pay.

Underwriter Rankings

Federal prosecutors in New York and San Francisco have opened criminal inquiries, a person familiar with the matter has said. Wells Fargo already faces a raft of lawsuits by fired or demoted workers, customers and investors.

The loss of work with California will further hurt. Chiang, a Democrat who's running for governor in 2018, oversees about \$2 trillion in banking transactions a year and manages a \$75 billion investment pool. The bank served as the lead underwriter of five of the past 13 bond offerings from the state this year.

Gabriel Boehmer, a spokesman for Wells Fargo, said the bank has "diligently" worked with the state for the past 17 years.

"We certainly understand the concerns that have been raised. We are very sorry and take full responsibility for the incidents in our retail bank," Boehmer said in an e-mailed statement. "We have already taken important steps, and will continue to do so, to address these issues and rebuild your trust."

Wells Fargo was the second-largest underwriter of municipal debt in California in the first half of the year, according to data compiled by Bloomberg. The firm, which trailed Citigroup Inc., handled sales of \$3.9 billion in securities, or 11 percent of total issuance.

The bank ranked fifth in overall municipal-bond underwriting this year through June, selling \$13.7 billion in debt, for 5.9 percent market share.