ADVISOR PERSPECTIVES

Wells Fargo Plunges After First Quarterly Loss Since 2008

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Wells Fargo & Co. plummeted after reporting its first quarterly loss since 2008 as loan-loss provisions soared with the bank expecting a more severe downturn from the coronavirus pandemic.

The firm set aside a record $9.5 billion for credit losses, about $4 billion more than analysts had expected. Wells Fargo executives had warned they would earmark more for soured loans than the first quarter's $4 billion as the pandemic continues to rage throughout the U.S. and weigh on companies and workers.

The San Francisco-based lender also cut its dividend to 10 cents a share from 51 cents. Wells Fargo said last month it would lower the payout after the Federal Reserve implemented a new rule tying dividends to earnings. The bank's $2.4 billion loss in the second quarter was a stark turnaround from the near-record $6.2 billion in profit it posted a year ago.

"We are extremely disappointed in both our second-quarter results and our intent to reduce our dividend," Chief Executive Officer Charlie Scharf said in a statement Tuesday. "Our view of the length and severity of the economic downturn has deteriorated considerably from the assumptions used last quarter."

New Reality

The bank's shares dropped 7.5% to $23.51 at 9:38 a.m. in New York, the biggest decline in the S&P 500 Financials Index. They've fallen 56% this year, more than double the index's 24% slump.

Wells Fargo’s results show how bad the bank predicts things could get following a surge in unemployment and nationwide stay-at-home orders in the second quarter. Soured-loan provisions are spiking across the industry for the second straight quarter.

The dividend cut to 10 cents was worse than the 20 cents that Bloomberg’s Dividend Forecast team had projected. One analyst, Erika Najarian at Bank of America Corp., warned Monday that Wells Fargo could eventually cut its dividend to zero.

Non-interest expenses rose to $14.6 billion from $13.4 billion a year ago. Costs in the second quarter were boosted by $1.2 billion that the firm attributed primarily to customer remediation tied to scandals in recent years. It also reported $382 million in personnel, occupancy and technology expenses tied to Covid-19.

Wells Fargo is under pressure to dramatically reduce costs and is planning thousands of job cuts to start this year, Bloomberg reported last week. The move has the potential to set a bleak precedent for an industry that’s been largely resisting mass layoffs during the pandemic.

JPMorgan Chase & Co. and Citigroup Inc. reported results Tuesday that were helped by volatile equity and debt markets. JPMorgan, the largest U.S. bank, said second-quarter profit fell 51%, a smaller drop than forecast, as record trading revenue helped counter the biggest loan-loss provision in the firm’s history. Citigroup had a $1.3 billion profit as revenue from fixed-income trading surged 68%, beating the most optimistic analyst estimates. Wells Fargo has a much smaller investment-banking presence than peers and hasn’t gotten the same aid to earnings.

Nonperforming assets jumped 22% from the first quarter, largely driven by soured loans to the oil and gas and commercial real estate industries. The bank boosted its reserve for credit losses by $8.4 billion in the period, with more than three-quarters of the increase coming on the commercial side.

Also in Wells Fargo’s second-quarter results:

Revenue fell to $17.8 billion, missing analysts’ average estimate of $18.5 billion.

The bank’s efficiency ratio, a measure of profitability, worsened to 81.6% from 73.6% in the first quarter, according to Tuesday’s statement.

Net interest income fell by $2.2 billion from a year earlier to $9.9 billion. Chief Financial Officer John Shrewsberry said last month that NII will decline more than 11% this year after the Fed slashed interest rates.

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