NORTH COUNTY TIMES NCTIMES.com THE CALIFORNIAN

Friday, November 16, 2007 Contact Us

Send News Blogs A/V Media Subscribe Calendar Homes Job

News Search Web Search Classified Search Advertising Home Delivery Reader Services Traffic Stocks

Home News Sports Business Opinion Entertainment Features Community Mark

Top Stories • Coastal • Inland • Californian • San Diego • State • National • Military • Politics • Columns • Specia

Business

Last modified Thursday, November 15, 2007 10:26 PM PST

Email this story Print this story Comment On This Story

TEXT SIZE Comment in our Blog

Wells Fargo CEO: Housing slump is worst since Great Depression

By: MICHAEL LIEDTKE - Associated Press

SAN FRANCISCO ---- Evoking Depression-era memories, Wells Fargo & Co. President John Stumpf on Thursday became the latest banker to predict continuing difficulties in the U.S. housing market as risky mortgages made to overextended borrowers disintegrate into large loan losses.

Speaking at an investment conference in New York, Stumpf said the current real estate conditions are the worst he has experienced during his 30-year career. He then punctuated his gloomy assessment by harking back to the deepest downturn of the 20th century.

"We have not seen a nationwide decline in housing like this since the Great Depression," he said.

Stumpf, who became Wells Fargo's chief executive officer 4 1/2 months ago, isn't the first prominent banker to liken the housing market's current slump to the financial despair of the 1930s.

Angelo Mozilo, CEO of Countrywide Financial Corp., made a similar comparison in July as his mortgage company sank deeper into a morass of losses that forced it to raise billions of dollars and lay off thousands of workers to stay afloat.

Wells Fargo shares dropped $1.28, or 3.9 percent, to close at $31.97 Thursday. Countrywide closed down $1.16, at $12.21.

San Francisco-based Wells Fargo, the fifth-largest U.S. bank, so far has fared far better than virtually all of its peers.

That's because Wells Fargo sold most of the $2 trillion in home loans that it has originated since 2001 and invested relatively little money in the mortgage-backed securities that have been saddling other big banks with huge losses. In contrast, Wells Fargo ended September with $581 million in unrealized investment gains on its books.

Stumpf said he didn't even know about some of the exotic mortgage investments that enticed other banks until he read about them in the newspaper.

"It's interesting that the industry has invented new ways to lose money when the old ways seemed to work just fine," Stumpf said.

He blamed much of the real estate turmoil on low interest rates, unscrupulous lending practices and outright greed as housing prices steadily climbed until 2006.

Wells Fargo's biggest exposure to the troubled real estate market is concentrated in its $83 billion portfolio of home equity loans. The bank recognized $153 million in losses on home equity loans in the third quarter, up more than fivefold from $27 million in losses at the same time last year.

"The losses have turned out to be greater than expected because home prices have declined faster and deeper than expected," Stumpf said. He cited the Midwest's "auto-belt" states and California's Central Valley ---- a swath stretching from Sacramento to Bakersfield ---- as Wells Fargo's biggest headaches.

Reiterating guidance released last month, Stumpf said the home equity losses are likely to rise during the current quarter and remain at "elevated" levels in 2008.

Despite the recent trouble, the payments on 98.7 percent of Wells Fargo's home equity loans are still being made on time.

Sticking to the banking basics helped Wells Fargo earn $2.28 billion in the third quarter. That was up by just 4 percent from the same 2006 period, marking the slowest growth in the bank's quarterly profit in more than six years.

Stumpf indicated that 2008 will be even more challenging, particularly if home prices continue to erode while more adjustable-rate mortgages reset to higher payments. The result is that some families can't pay ---- or stop paying ---- their mortgages.

"I don't think we're in the ninth inning of unwinding this," Stumpf said. "If we are, it's an extra-inning game."

- **Previous Story:**
- **Next Story: Tiny car turning heads at auto show**

Comments On This Story

Note: Comments reflect the views of readers and not necessarily those of the North County Times or its staff.

Thislittlepiggyhasabrickhouse wrote on Nov 16, 2007 7:05 AM:

" All hail the great prophet?? No! Wells Fargo and Countrywide CEO's (whose salaries exceed some state and county budgets) are adding their prognostications of economonic doom. Why? To explain to their disappointed stockholders and justify their cushy jobs! Gosh, and I wonder why equity lines are the big problem. I just got one myself to refinance debt, and I have a friend who is about on the verge of losing her house because she used her equity line for living expenses. Yikes, these loans area a Faustian bargain! At the same time, the banks (and the eager stockholders behind them) are just as responsible for our current "readjustment" as consumers trying to make ends meet. Remember, banks make a killing on all mortgages! Tons of money in profit. In exchange, we get a place to live, and if we manage well, some equity or profit. I guess we can't expect someone like Stumpf to speak or act on behalf of the consumers' best interest (heck, we can't even expect our President to do that!) His job is to make money for the bank he's working for at the moment. I just resent the fear tactics - not helpful and rather insulting. Call me Machiavellian, but I think much of the hysteria about the housing crisis comes not from the media, but from people with stock (literally) in the excessive mortgage and real estate profits they got addicted to these last few years. I am more concerned about all the people who are losing their homes...because in our fair land, there are precious few safety nets once you start a downward spiral. While we all "adjust," let's help the people in this crazy mix who are the real heroes, America's shrinking middle class, and let the high-flyin' investors and slick CEO's learn how to surf a downturn. "

Vista Granny wrote on Nov 16, 2007 7:10 AM:

" Do ya think maybe the price of homes got out of hand a bit? When the average wage offered today (except for a few exotic fields)is not much higher than it was when houses cost $50,000, it's ridiculous to expect a person to pay ten times that, or more, for an old tract house. And, let's not forgot those homeowners who traded a $30,000 mortgage for a $300,000 one. Then, out they went to buy two SUV's, new clothes, huge diamonds, huge TV sets, etc. etc. Are we really prepared to bail these people out of the mess they're in? I'm not. And, it still goes on!! "

rich people will get richer wrote on Nov 16, 2007 7:19 AM:

" Heck of a job bushie. "

Concerned-1 wrote on Nov 16, 2007 11:15 AM:

" I was shocked by this headline. We all know the market is down. This kerosene headline does nothing but fuel fear, and ultimately make everything worse. It is based on one person's opinion. Are there facts based on depression dollars versus today's dollars that equate? I doubt it. Houses were over priced. Wages were not keeping pace. The result was / is a major adjustment. The banks, lenders and some agents made it worse by offering smorgasbord loans. We all know this. So Well Fargo wants to make it worse? AP wants to make it worse? NCT wants us to do worse? Try reading an article on Money Central (MSN) today on the market. A much better perspective. ArrrrrrG! "

Steve wrote on Nov 16, 2007 1:07 PM:

" It is bad 'cos with the baby-boomer "tip of the iceberg" retiring (empty nest) a lot of them will sell their over inflated California homes and move to very affordable retirement areas where the job market isn't a concern.... "

True American wrote on Nov 16, 2007 2:35 PM:

" I've struggled to buy a home because of the prices and not signing up for these shady loans. Now I can afford a house. Funny what good credit and a down can do. Unfortunately, when you have good credit and a down and they are skipping you to run towards someone who will sign up for a shady loan with no down and bad credit. I've looked at a lot of foreclosures lately, and you can tell the quality of the previous buyer. If they won't save a down and have good credit, then why would they take care of the house when they are in it. We better not bail these people out. They prevented me from getting a decent loan, now my taxes better not go toward helping them keep the loan they couldn't afford in the first place. Sham, what a sham. "

Add Your Comments or Letter to the Editor

First name only. Comments including last names, contact addresses, email addresses or phone numbers will be deleted. All comments are screened before they appear online. Please keep comments brief. Click here to view additional comment policies.

Name:

Comments:

Post Comment

To send your comment as a Letter to the Editor click here

Letter to the Editor

If you would also like your comments published in our newspaper as a letter to the editor, please include it below with the required contact information. Click here for our letters policy.

Submitter Information

Name:Required

Email: Required

City: Required

Phone: Required

Letter Information

Letter subject: Required

Enter your letter to the editor here: Required