

June 17, 2009

Research Update:

**S&PCORRECT: Wells Fargo & Co.
Downgraded To 'AA-/A-1+' From
'AA/A-1+'; Outlook Negative**

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(**Editor's Note:** The previous version of this release contained incorrect figures in the Rationale section. A corrected version follows.)

Overview

- We believe Wells will likely perform better than peers amid the increased industry risk.
- We have lowered our rating on Wells Fargo to 'AA-/A-1+'.
- Wells' capital increase of \$8.6 billion served to limit the extent of the downgrade.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services downgraded Wells Fargo & Co. to 'AA-/A-1+' from 'AA/A-1+'. We also lowered our counterparty credit ratings on related entities to 'AA/A-1+' from 'AA+/A-1+', and removed them from CreditWatch Negative, where they were placed May 4, 2009. The outlook is negative.

Rationale

The downgrade follows an industry review and our recent criteria on stress testing and U.S. banks. We expect Wells Fargo to continue to weather the problems of the industry in better shape than many others. Preprovision earnings should remain strong, thanks to the strong client franchises in retail and middle-market lending of both Wells and Wachovia.

However, in our view, Wells is not immune to the deteriorating consumer and commercial credit cycle. Although its high ratings reflect its continued relative strength, the downgrade reflects our reassessment of ratings levels and ratings relativities in the industry as a whole. Mounting loan-loss provision expenses will likely be a drag on earnings to a degree that would not be commensurate with the previous assessment of Wells's creditworthiness.

We do not, however, expect bottom-line losses, in part because of protection from severe write-downs represented by purchase accounting adjustments made to asset values in connection with the Wachovia acquisition. These include \$40 billion for \$93 billion unpaid principal of Wachovia loans and \$7 billion on its already marked down securities. Strategically, the Wachovia acquisition could, in our view, strengthen the bank's prospects in the long term. The brokerage and other wealth-management businesses complement the retail offering, and the branch network is extended coast to coast, with a deposit share boosted to more than 10% of U.S. banking system deposits.

The \$8.6 billion capital increase boosts adjusted common equity ratios to 4.1% from 3.3% of risk-weighted assets. These ratios are stronger than they appear because of the purchase accounting adjustments related to Wachovia, which significantly reduce balance-sheet risk.

Outlook

If the economy deteriorates further than we currently expect or if the bank experiences losses higher than the levels indicated by our base-case stress tests, we could lower the ratings. We may raise the ratings if we see continued superior performance through the cycle and capital maintained at higher levels than had previously been the norm.

Related Research

- "Credit Stress Testing For Financial Institutions," April 29, 2009
- "Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Foothill Capital Corp. Counterparty Credit Rating	AA-/Negative/--	AA/Watch Neg/--
Wachovia Bank, N.A. Wells Fargo Bank, NA Wells Fargo Bank Northwest, NA Certificate Of Deposit Local Currency	AA/A-1+	AA+/Watch Neg/A-1+
Wells Fargo & Co. Senior Unsecured Subordinated Preferred Stock	AA- A+ A-	AA/Watch Neg AA-/Watch Neg A/Watch Neg
Central Fidelity Capital Trust I Corestates Capital III First Union Capital I First Union Capital II First Union Institutional Capital I First Union Institutional Capital II Wachovia Capital Trust I Wachovia Capital Trust II Wachovia Capital Trust III Wachovia Capital Trust IV Wachovia Capital Trust IX Wachovia Capital Trust V		

Wachovia Capital Trust X		
Wells Fargo Capital II		
Wells Fargo Capital VIII		
Wells Fargo Capital IV		
Wells Fargo Capital IX		
Wells Fargo Capital VII		
Wells Fargo Capital X		
Wells Fargo Capital XI		
Wells Fargo Capital XII		
Wells Fargo Capital XIII		
Wells Fargo Capital XIV		
Wells Fargo Capital XV		
Preferred Stock	A-	A/Watch Neg
Greater Bay Bancorp		
Senior Unsecured	AA-	AA/Watch Neg
Wachovia Bank, N.A.		
Senior Unsecured	AA	AA+/Watch Neg
Subordinated	AA-	AA/Watch Neg
Wachovia Mortgage, FSB		
Senior Unsecured	AA	AA+/Watch Neg
Wells Fargo Bank Northwest, NA		
Senior Unsecured	AA	AA+/Watch Neg
Wells Fargo Bank, NA		
Subordinated	AA-	AA/Watch Neg
Wells Fargo Financial Canada Corp.		
Wells Fargo Financial Inc.		
Senior Unsecured	AA-	AA/Watch Neg
Downgraded; CreditWatch/Outlook Action	To	From
Wells Fargo & Co.		
WFC Holdings Corp.		
Greater Bay Bancorp		
Counterparty Credit Rating	AA-/Negative/A-1+	AA/Watch Neg/A-1+
Wachovia Bank, N.A.		
Wells Fargo South Central N.A.		
Wells Fargo Bank, NA		
Wells Fargo Bank Northwest, NA		
Wachovia Mortgage, FSB		
Counterparty Credit Rating	AA/Negative/A-1+	AA+/Watch Neg/A-1+
Ratings Affirmed		

Wells Fargo South Central N.A.
Certificate Of Deposit
Local Currency

A-1+

Ratings Affirmed; CreditWatch Action

To

From

Wells Fargo & Co.
WFC Holdings Corp.
Commercial Paper

A-1+

A-1+/Watch Neg

Wells Fargo Financial Canada Corp.

Commercial Paper

A-1(HIGH)

A-1(HIGH)/Watch Neg

Commercial Paper

A-1+

A-1+/Watch Neg

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