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California Suspends 'Business Relationships' With Wells Fargo.

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. A "permanent severance" will occur if the bank doesn't change its practices, State Treasurer John Chiang said Wednesday. The state also won't add to its investments in Wells Fargo securities. Chiang already replaced Wells Fargo with Loop Capital for two muni deals totaling about $527 million that will be sold next week.

"Wells Fargo's venal abuse of its customers by secretly opening unauthorized, illegal accounts illegally extracted millions of dollars between 2011 and 2015," Chiang said in a news conference in San Francisco. "This behavior cannot be tolerated and must be denounced publicly in the strongest terms."

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.

Connecticut decided last week to add Morgan Stanley to serve as lead underwriter with Wells Fargo on a state bond issue planned for next month to help ensure a successful sale, according to the state treasurer's office. Connecticut is reviewing its relationship with the bank. New York's Metropolitan Transportation Authority voted to hold off on approving Wells Fargo as a underwriter until the agency completes its analysis of the company's practices, according to an online broadcast of a board meeting Wednesday.

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.

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 that includes $800 million in Wells Fargo securities. Chiang said the effect on the bank is "significant" since he targeted the most profitable lines of business. Wells Fargo made $1.7 million from underwriting three bond deals, according to his office.

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

Underwriter Rankings

“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.

Chiang, who called for the resignation of Stumpf, said other state treasurers should also withhold business from the company. “Those that have the financial wherewithal, those who have the courage, I think they ought to follow suit,” he said.

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