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Facing Sanctions, Wells Fargo Aggressively Pursuing Competitive Muni Bond Deals.

LOS ANGELES — Wells Fargo appears to be countering restrictions on its ability to act as senior manager on negotiated bond deals by going after competitive deals more aggressively.

When the news broke last year that the bank's employees had secretly created accounts without clients' approval, public officials in California, Illinois, Washington, Massachusetts and New York implemented restrictions limiting business with the bank on negotiated bond sales and institutional investments.

The bank has risen in the rankings both nationally and in California for competitive municipal bond deals, while its volume on the negotiated side has fallen dramatically.

"We suspended them from being senior underwriter on negotiated sales where the Treasurer picks the underwriter," said Marc Lifsher, a treasurer's spokesman. "Wells didn't have the ability to get that business."

Wells Fargo's winning bid Tuesday on a $557.2 million competitive, tax-exempt chunk of California general obligation bonds shows that the bank "will continue Wells Fargo's strong, decades-long commitment to the State of California in order to support its issuers and state residents," Phillip Smith, Wells Fargo's head of government and institutional banking, said in a prepared statement. The auction was one of three pieces of $1.6 billion in bonds the state sold competitively Tuesday.

"By law we cannot stop them from being the lowest bidder on competitive sales," Lifsher said. "There's more than money here. The sanctions caused Wells Fargo much reputational damage; and still is doing so."

Wells fell nationally from a fifth-place ranking crediting it with $26.1 billion of municipal bond underwriting in 2016 to seventh with $15.8 billion so far this year, according to Thomson Reuters data. On the competitive side, nationally it rose to a sixth-place ranking with $7.1 billion so far this year compared to fourth place with $7.6 billion in 2016.

In California, it's soared to the top slot on competitive deals with $2.6 billion in 2017 from a fifth place rank with $674.1 billion last year. In Golden State negotiated deals, it fell from No. 6 with $3.8 billion in 2016 to seventh place with $3.3 billion.

Just Tuesday, Wells Fargo won $557.22 million of California general obligation bonds out of $1.6 billion sold in an auction by California.

This year alone, Wells Fargo has purchased $1.3 billion in competitive bond sales from the state of California, according to Wells Fargo. The bank currently holds a 56% market share of the state's debt sold competitively in 2017.

The treasurer's restrictions do not apply to auctioned competitive sales, so although it wasn't able to

act as a senior manager on the $15.9 billion in negotiated bond deals for fiscal 16-17, the bank has been able to participate in competitive deals.

One Midwest trader opined that Wells “really paid” to win Tuesday’s competitive deal to stay in the state’s “good graces” and preserve the relationship with the state while it works through its troubles.

“It’s hard to speculate that that would be their intention,” said Matt Fabian, a partner at Municipal Market Analytics.

“California bonds do have a fair bit of upside relative to a lot of things out there right now, and the market has a decent chance of tightening further,” Fabian said. “It could simply be a market call on their part.”

Fabian added that double-A-rated California debt is going for a steep price now — and the market in general is pricing higher.

“Unfortunately, the current market context favors having the bonds to sell versus buying the bonds at the right price, so things like this will happen even without Wells or California being involved,” Fabian said of what Wells Fargo paid to be the winning bidder.

On Monday, Chiang, who is touting his toughness on Wells Fargo as he campaigns for governor, extended sanctions on the San Francisco-based bank another year.

“California is our headquarters state,” said the statement in response from Wells Fargo’s Smith. “It is where more than 43,000 of our team members work and call home. And it’s where since 1852 we have invested billions of dollars to help millions of homeowners, automobile owners, and small, midsize and large businesses.”

He failed to return calls seeking further comment on how the sanctions have impacted the bank’s business.

Chiang has also asked federal regulators to look into the bank’s institutional banking practices. The focus of federal investigations thus far has been on controversies surrounding the retail banking business.

Including the cities of Los Angeles, San Francisco and Santa Clara, Wells Fargo has purchased $2.6 billion year-to-date of California state and local debt, including more than $1.2 billion of debt offerings just since September 2017. That equals about 31% of total state and local debt sold competitively in 2017, according to the bank.

The Bond Buyer

By Keeley Webster

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Markets reporter Aaron Weitzman contributed to this report.

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