



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 20, 2009

Mr. Paul R. Ackerman  
Executive Vice President and Treasurer  
Wells Fargo & Company  
420 Montgomery Street  
San Francisco, California 94104

Dear Mr. Ackerman:

This is in response to the request by Wells Fargo & Company (“Wells Fargo”), San Francisco, California, for temporary relief from the Board’s risk-based and leverage capital guidelines for bank holding companies (“Capital Rules”)<sup>1</sup> in connection with its acquisition of Wachovia Corporation (“Wachovia”), Charlotte, North Carolina.

Wells Fargo has acquired a substantial amount of deferred tax assets (“DTAs”) in the Wachovia acquisition that are dependent on future taxable income. The Capital Rules limit the amount of DTAs that a bank holding company may include in tier 1 capital to the lesser of (i) 10 percent of tier 1 capital or (ii) the amount of DTAs that the bank holding company expects to realize within one year of the calendar quarter-end date based on projections of future taxable income for that year (“look-forward period”).<sup>2</sup> Wells Fargo requests approval to include in tier 1 capital the DTAs it has acquired in the Wachovia acquisition based on projections of future taxable income for a three-year look-forward period during 2009 and for a two-year look-forward period during 2010. The Board has broad authority to provide exemptions from the Capital Rules.<sup>3</sup>

The Board has concluded that granting the limited look-forward periods requested by Wells Fargo, while maintaining a DTA ceiling of 10 percent of tier 1 capital, would allow Wells Fargo to employ a substantial portion of the large amount of DTAs generated by its acquisition of Wachovia, which was a financial institution with significant financial difficulties. At the same time, look-forward

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<sup>1</sup> 12 CFR part 225, Appendices A and D.

<sup>2</sup> See 12 CFR part 225, Appendix A, § II.A.4.a.

<sup>3</sup> See 12 CFR part 225, Appendix A, § III.A.; 12 CFR part 225, Appendix D, § II.b.; 12 CFR part 225, Appendix G, § 1(c).

periods of two to three years provide reasonable certainty that Wells Fargo would obtain capital relief only for those DTAs that it would be able to use based on actual future earnings. Furthermore, granting Wells Fargo's request would be consistent with relief from the Capital Rules that the Board has previously granted to other banking organizations that have acquired institutions with similar financial difficulties.<sup>4</sup>

In accordance with these determinations, the Board hereby grants Wells Fargo's request to include in tier 1 capital -- from the consummation of its acquisition of Wachovia until January 1, 2010 -- an aggregate amount of DTAs equal to the lesser of (i) 10 percent of tier 1 capital or (ii) the sum of (A) the amount of DTAs acquired as a result of its acquisition of Wachovia that Wells Fargo expects to realize within three years of the date of the end of the calendar quarter in which the acquisition was completed, based on projections of future taxable income for those three years, plus (B) the amount of DTAs not related to Wachovia that Wells Fargo expects to realize within one year of the date of the end of the calendar quarter in which the acquisition was completed, based on projections of future taxable income for that year. From January 1, 2010, to January 1, 2011, Wells Fargo may apply a look-forward period of two years, rather than three years, in the manner described above for DTAs acquired as a result of the Wachovia acquisition. This temporary DTA relief will expire on January 1, 2011.

These determinations are specifically conditioned on compliance by Wells Fargo with all the commitments and representations made to the Board in connection with this request. These commitments and representations are deemed to be conditions imposed in writing by the Board in connection with granting the request and, as such, may be enforced in proceedings under applicable law. These determinations are also based on the specific facts and circumstances of the existing relationship between Wells Fargo and Wachovia. Any material change in those facts or circumstances or any failure by Wells Fargo to observe any of its commitments or representations may result in a different determination or in revocation of the exemptions.

Sincerely yours,

*(signed)*

Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>4</sup> See Board letter to James S. Keller, Esq. (The PNC Financial Services Group, Inc.), December 22, 2008.

