WELLS FARGO & CO/MN
Form 10-Q
May 07, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010
Commission file number 001-2979

WELLS FARGO & COMPANY
(Exact name of registrant as specified in its charter)

Delaware	No. 41-0449260
(State of incorporation)	(I.R.S. Employer Identification No.)

420 Montgomery Street, San Francisco, California 94163
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: 1-866-249-3302

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

	Shares Outstanding April 30, 2010
Common stock, $1-2/3 par value	5,210,152,080

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PART I FINANCIAL INFORMATION
FINANCIAL REVIEW
SUMMARY FINANCIAL DATA

($ in millions, except per share amounts)			Quarter ended	% Change Mar. 31, 2010 from	
	Mar. 31, 2010	Dec. 31, 2009	Mar. 31, 2009	Dec. 31, 2009	Mar. 31, 2009
For the Quarter					
Wells Fargo net income	**$ 2,547**	2,823	3,045	(10)%	(16)
Wells Fargo net income applicable to common stock	**2,372**	394	2,384	502	(1)
Diluted earnings per common share	**0.45**	0.08	0.56	463	(20)
Profitability ratios (annualized):					
Wells Fargo net income to average assets (ROA)	**0.84%**	0.90	0.96	(7)	(13)
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders equity (ROE)	**8.96**	1.66	14.49	440	(38)
Efficiency ratio (1)	**56.5**	56.5	56.2		1
Total revenue	**$ 21,448**	22,696	21,017	(5)	2
Pre-tax pre-provision profit (PTPP) (2)	**9,331**	9,875	9,199	(6)	1
Dividends declared per common share	**0.05**	0.05	0.34		(85)
Average common shares outstanding	**5,190.4**	4,764.8	4,247.4	9	22
Diluted average common shares outstanding	**5,225.2**	4,796.1	4,249.3	9	23
Average loans	**$ 797,389**	792,440	855,591	1	(7)
Average assets	**1,226,120**	1,239,456	1,289,716	(1)	(5)
Average core deposits (3)	**759,169**	770,750	753,928	(2)	1
Average retail core deposits (4)	**573,653**	580,873	590,502	(1)	(3)
Net interest margin	**4.27%**	4.31	4.16	(1)	3
At Quarter End					
Securities available for sale	**$ 162,487**	172,710	178,468	(6)	(9)
Loans	**781,430**	782,770	843,579		(7)
Allowance for loan losses	**25,123**	24,516	22,281	2	13
Goodwill	**24,819**	24,812	23,825		4
Assets	**1,223,630**	1,243,646	1,285,891	(2)	(5)
Core deposits (3)	**756,050**	780,737	756,183	(3)	
Wells Fargo stockholders equity	**116,142**	111,786	100,295	4	16
Total equity	**118,154**	114,359	107,057	3	10
Tier 1 capital (5)	**98,329**	93,795	88,977	5	11
Total capital (5)	**137,600**	134,397	131,820	2	4
Capital ratios:					
Total equity to assets	**9.66%**	9.20	8.33	5	16
Risk-based capital (5)					
Tier 1 capital	**9.93**	9.25	8.30	7	20

Total capital		**13.90**	13.26	12.30	5	13
Tier 1 leverage (5)		**8.34**	7.87	7.09	6	18
Tier 1 common equity (6)		**7.09**	6.46	3.12	10	127
Book value per common share	$	**20.76**	20.03	16.28	4	28
Team members (active, full-time equivalent)		**267,400**	267,300	272,800		(2)
Common stock price:						
High	$	**31.99**	31.53	30.47	1	5
Low		**26.37**	25.00	7.80	5	238
Period end		**31.12**	26.99	14.24	15	119

(1) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).

(2) Pre-tax pre-provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a useful financial measure because it enables investors and others to assess the Company s ability to generate capital to cover credit losses through a credit cycle.

(3) Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, certain market rate and other savings, and certain foreign deposits (Eurodollar sweep balances).

(4) Retail core deposits are total core deposits excluding Wholesale Banking

core deposits and retail mortgage escrow deposits.

(5) See Note 18 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.

(6) See the Capital Management section in this Report for additional information.

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This Report on Form 10-Q for the quarter ended March 31, 2010, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Some of these factors are described in the Financial Review and in the Financial Statements and related Notes. For a discussion of other factors, refer to the Forward-Looking Statements and Risk Factors sections in this Report and to the Risk Factors and Regulation and Supervision sections of our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K), filed with the Securities and Exchange Commission (SEC) and available on the SEC s website at www.sec.gov. See the Glossary of Acronyms at the end of this Report for terms used throughout the Financial Review, and Financial Statements and related Notes of this Report.

FINANCIAL REVIEW

OVERVIEW

Wells Fargo & Company is a $1.2 trillion diversified financial services company providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage and consumer finance through banking stores, the internet and other distribution channels to individuals, businesses and institutions in all 50 states, the District of Columbia (D.C.) and in other countries. We ranked fourth in assets and third in the market value of our common stock among our peers at March 31, 2010. When we refer to Wells Fargo, the Company, we, our or us Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the Parent, we mean Wells Fargo & Company. When we refer to legacy Wells Fargo, we mean Wells Fargo excluding Wachovia Corporation (Wachovia), which was acquired by Wells Fargo on December 31, 2008.

Our vision is to satisfy all our customers financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America s great companies. Our primary strategy to achieve this vision is to increase the number of products our customers buy from us and to give them all of the financial products that fulfill their needs. Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles, as we can grow by expanding the number of products our current customers have with us, gain new customers in our extended markets, and increase market share in many businesses. All of our business segments contributed to the strong earnings results in first quarter 2010.

Our company earned $2.5 billion in first quarter 2010, or $0.45 diluted earnings per common share. This earnings performance is an example of how our business model is capable of producing solid results in different stages of the economic cycle. While loan demand remained soft in first quarter 2010, businesses as diverse as asset-based lending, debit card, insurance, merchant services, student lending and retirement services all showed solid revenue gains. Credit metrics in many portfolios including loss rates and early loss indicators performed better than our previous expectations for first quarter 2010. Based on results for the last few quarters and current loss projections, we believe that credit at Wells Fargo has turned the corner with provision expense having peaked in third quarter 2009 and net charge-offs having peaked in fourth quarter 2009.

Our cross-sell at legacy Wells Fargo set a record in first quarter 2010 with 6.0 Wells Fargo products for retail banking households. Our goal is eight products per customer, which is approximately half of our estimate of potential demand. One of every four of our legacy Wells Fargo retail banking households has eight or more products and our average middle-market commercial banking customer has almost eight products. Wachovia retail bank households had an average of 4.85 Wachovia products. We believe there is potentially significant opportunity for growth as we increase the cross-sell to Wachovia retail bank households. For legacy Wells Fargo, our average middle-market commercial banking customer reached an average of 7.7 products and an average of 6.4 products for Wholesale Banking customers. Business banking cross-sell offers another potential opportunity for growth, with a record cross-sell of 3.79 products at legacy Wells Fargo.

Wells Fargo remained one of the largest providers of credit to the U.S. economy in first quarter 2010. We continued to lend to credit-worthy customers and, during first quarter 2010, made $128 billion in new loan commitments to consumer, small business and commercial customers, including $76 billion of residential mortgage originations. We are an industry leader in loan modifications for homeowners, with over half a million active and completed trial modifications between January 2009 and March 31, 2010, 144,932 *Home Affordability Modification Program* (HAMP) active trial and completed modifications, including 30,014 permanent HAMP modifications and nearly 380,000 proprietary trial and completed modifications. On March 17, 2010, we announced our participation in the government s *Second-Lien Modification Program* under HAMP to help struggling homeowners with a reduction in their home equity loan payments.

As we have stated in the past, to consistently grow over the long term, successful companies must invest in their core businesses and maintain strong balance sheets. In first quarter 2010, we opened 11 retail banking stores for a retail network total of 6,590 stores. We converted Wachovia banking stores in Arizona, Illinois and Nevada in March 2010 and Wachovia s credit card business and California banking store conversions took place in April 2010.

We continued taking actions to build capital and further strengthen our balance sheet, including reducing previously identified non-strategic and liquidating loan portfolios by $4.3 billion in first quarter 2010 and $23.2 billion cumulatively since the Wachovia acquisition. We reduced the value of our debt and equity investment portfolios through $197 million of other-than-temporary impairment (OTTI) write-downs in first quarter 2010. We significantly built capital in first quarter 2010 and in the last 18 months since announcing our merger with Wachovia, driven by record retained earnings and other sources of internal capital generation, as well as three common stock offerings totaling over $33 billion. Our capital ratios at March 31, 2010, were higher than they were prior to the Wachovia acquisition. Tier 1 common equity increased to $70.2 billion, 7.09% of risk-weighted assets. The Tier 1 capital ratio increased to 9.93% and Tier 1 leverage ratio increased to 8.34%. See the Capital Management section in this Report for more information regarding Tier 1 common equity.

We believe it is important to maintain a well controlled operating environment as we complete the integration of the Wachovia businesses and grow the combined company. We manage our credit risk by setting what we believe are sound credit policies for underwriting new business, while monitoring and reviewing the performance of our loan portfolio. We manage the interest rate and market risks inherent in our asset and liability balances within established ranges, while ensuring adequate liquidity and funding. We maintain strong capital levels to facilitate future growth.

We continued to see signs of stability in our credit portfolio, as credit losses were modestly lower on a linked-quarter basis. Credit losses in first quarter 2010 of $5.3 billion were down from $5.4 billion in fourth quarter 2009, even after $123 million of charge-offs recorded in first quarter 2010 upon adoption of new consolidation accounting guidance and $145 million due to newly issued regulatory guidance requiring us to charge-off certain collateral-dependent residential real estate loans that have been modified. The costs related to this charge had previously been reserved.

Our credit picture has improved earlier than we had anticipated. In the consumer portfolio, lower early stage delinquencies, better delinquency roll rates, and improved values for residential real estate and autos were evident in the first quarter. In the commercial portfolio (including commercial real estate) losses declined $356 million from fourth quarter 2009 and may indicate stabilization and an earlier-than-expected loss peak.

This improvement in credit quality can be partly attributed to actions we took as early as 2007, including significant investment in collections, loss mitigation and workout teams; a refined consumer credit policy that reduced maximum loan-to-value requirements and virtually eliminated stated income as an acceptable element of loan applications; and the establishment of a number of run-off/liquidating portfolios. These actions have produced high quality subsequent vintages, and allowed us to focus our loss remediation efforts in an efficient fashion.

Nonperforming assets (NPAs) continued to increase in first quarter 2010, although at a slower rate than in the past three quarters, with over $900 million of the increase related to assets brought on the balance sheet upon adoption of new consolidation accounting guidance. All of the first quarter 2010 increase came from consumer real estate loans and commercial real estate (CRE) loans. We expect NPAs to continue to increase gradually and peak before year end. The peak in NPAs should lag the credit loss peak, reflecting an environment where retaining these assets is our most viable economic option and the best way to help borrowers recover financially.

Our provision for credit losses in first quarter 2010 equaled net charge-offs. Our loan loss reserve increase from year end 2009 was fully attributable to assets brought on balance sheet due to the adoption of new consolidation accounting guidance. While losses remained elevated as expected, a more favorable economic outlook and improved credit statistics in several portfolios further increase our confidence that the credit cycle is turning, provided economic conditions do not deteriorate. In the commercial portfolios, we saw some signs that credit quality may be improving, as the pace of commercial and CRE nonaccrual growth slowed toward the end of 2009, in part reflecting our historically strong underwriting and the purchase accounting adjustments taken on the Wachovia portfolio at the time of the merger.

EARNINGS PERFORMANCE

Revenue in first quarter 2010 was $21.4 billion, up 2% from $21.0 billion in first quarter 2009, despite a 7% decline in average loans. Although average loans declined $58 billion from a year ago, revenue grew 2% over the same period, reflecting the diversity of our revenue sources. Revenue growth from first quarter 2009 was driven by 20% growth in trust and investment fees, 7% growth in insurance fees, 14% growth in processing and other fees, and an 11 basis point increase in the net interest margin. Mortgage banking revenues were flat from the prior year. Net interest income of $11.1 billion declined only 2% from a year ago despite the 7% decline in average loans.

There were four primary reasons why revenue increased from a year ago. First, the net interest margin was 4.27%, up 11 basis points from a year ago, largely due to substantial growth in core consumer and business checking and savings accounts. Second, we are already realizing revenue synergies from the Wachovia merger. Third, the breadth of our business model continued to contribute to our overall revenue as the decline in net interest income from a year ago was more than offset by higher fee income. Fourth, our revenue continued to benefit from our cross-sell efforts, with legacy Wells Fargo record cross-sell reaching over 6 products per retail banking household in first quarter 2010.

Noninterest expense of $12.1 billion in first quarter 2010 was up 3% from a year ago. First quarter 2010 expenses included $380 million of merger integration costs, compared with $205 million a year ago. Credit resolution costs, including expenses associated with foreclosed assets, loan modifications and other home preservation activities, were approximately $250 million higher than a year ago. In addition to merger integration and credit resolution expenses, we continued to invest for long-term growth, adding people in regional and commercial banking as we apply the Wells Fargo business model throughout legacy Wachovia markets, and investing in technology to improve service across the franchise. As of first quarter 2010, we have also already realized over 70% of our targeted projected run-rate savings from the Wachovia merger. The efficiency ratio was 56.5% in first quarter 2010, compared with 56.2% a year ago.

NET INTEREST INCOME

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid for deposits, short-term borrowings and long-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented on a taxable-equivalent basis to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% federal statutory tax rate.

Net interest income on a taxable-equivalent basis was $11.3 billion in first quarter 2010 and $11.5 billion in first quarter 2009, reflecting a decline in average loans. Average earning assets were $1.1 trillion in first quarter 2010, flat compared with first quarter 2009. Average loans decreased to $797.4 billion in first quarter 2010 from $855.6 billion a year ago. We continued to supply significant amounts of credit to consumers and businesses in first quarter 2010, although loan demand remained soft. We continued to reduce high-risk/non-strategic consumer loans, which were down $18.8 billion in first quarter 2010 from a year ago. Average mortgages held for sale (MHFS) of $31.4 billion in first quarter 2010 were essentially flat compared with $31.1 billion a year ago. Average debt securities available for sale was $160.8 billion in first quarter 2010, also essentially flat compared with $160.4 billion a year ago.

Core deposits are a low-cost source of funding and thus an important contributor to net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, certain market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose to $759.2 billion in first quarter 2010 from $753.9 billion in first quarter 2009, and funded 95% and 88% of average loans in the same periods, respectively. Average checking and savings deposits, typically the lowest cost deposits, represented about 88% of our average core deposits, one of the highest percentages in the industry. Of average core deposits, $664.4 billion represent transaction accounts or low-cost savings accounts from consumer and commercial customers, which increased 14% from $583.8 billion in first quarter 2009. Total average retail core deposits, which exclude Wholesale Banking core deposits and retail mortgage escrow deposits, decreased to $573.7 billion for first quarter 2010 from $590.5 billion a year ago. Average mortgage escrow deposits were $24.6 billion in first quarter 2010, compared with $24.7 billion a year ago. Average certificates of deposits decreased to $94.8 billion in first quarter 2010 from $170.1 billion a year ago and average checking and savings deposits increased to $664.4 billion from $583.8 billion a year ago. Total average interest-bearing deposits decreased to $632.0 billion in first quarter 2010 from $635.4 billion a year ago.

The following table presents the individual components of net interest income and the net interest margin.

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AVERAGE BALANCES, YIELDS AND RATES PAID (TAXABLE-EQUIVALENT BASIS) (1)(2)

	Quarter ended March 31,					
	2010			2009		
(in millions)	**Average balance**	**Yields/ rates**	**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 40,833**	**0.33%**	**$ 33**	24,074	0.84%	$ 50
Trading assets	**27,911**	**3.91**	**272**	22,203	4.97	275
Debt securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	**2,278**	**3.62**	**20**	2,899	0.93	7
Securities of U.S. states and political subdivisions	**13,696**	**6.60**	**221**	12,213	6.43	213
Mortgage-backed securities:						
Federal agencies	**79,730**	**5.39**	**1,023**	76,545	5.71	1,068
Residential and commercial	**32,768**	**9.67**	**790**	38,690	8.57	1,017
Total mortgage-backed securities	**112,498**	**6.67**	**1,813**	115,235	6.82	2,085
Other debt securities (4)	**32,346**	**6.51**	**492**	30,080	6.81	551
Total debt securities available for sale (4)	**160,818**	**6.59**	**2,546**	160,427	6.69	2,856
Mortgages held for sale (5)	**31,368**	**4.93**	**387**	31,058	5.34	415
Loans held for sale (5)	**6,406**	**2.15**	**34**	7,949	3.40	67
Loans:						
Commercial and commercial real estate:						
Commercial	**156,466**	**4.51**	**1,743**	196,923	3.87	1,884
Real estate mortgage	**104,971**	**3.61**	**936**	104,271	3.47	894
Real estate construction	**28,848**	**3.16**	**225**	34,493	3.03	258
Lease financing	**14,008**	**9.22**	**323**	15,810	8.77	347
Total commercial and commercial real estate	**304,293**	**4.29**	**3,227**	351,497	3.89	3,383
Consumer:						
Real estate 1-4 family first mortgage	**245,024**	**5.26**	**3,210**	245,494	5.64	3,444
Real estate 1-4 family junior lien mortgage	**105,640**	**4.47**	**1,168**	110,128	5.05	1,375
Credit card	**23,345**	**13.15**	**767**	23,295	12.10	704
Other revolving credit and installment	**90,526**	**6.40**	**1,427**	92,820	6.68	1,527
Total consumer	**464,535**	**5.70**	**6,572**	471,737	6.03	7,050

Foreign	**28,561**	**3.62**	**256**	32,357	4.36	349
Total loans (5)	**797,389**	**5.09**	**10,055**	855,591	5.09	10,782
Other	**6,069**	**3.36**	**50**	6,140	2.87	43
Total earning assets	**$ 1,070,794**	**5.06%**	**$ 13,377**	1,107,442	5.22%	$ 14,488
Funding sources						
Deposits:						
Interest-bearing checking	**$ 62,021**	**0.15%**	**$ 23**	80,393	0.15%	$ 30
Market rate and other savings	**403,945**	**0.29**	**286**	313,445	0.54	419
Savings certificates	**94,763**	**1.36**	**317**	170,122	0.92	387
Other time deposits	**15,878**	**2.03**	**80**	25,555	1.97	124
Deposits in foreign offices	**55,434**	**0.21**	**29**	45,896	0.35	39
Total interest-bearing deposits	**632,041**	**0.47**	**735**	635,411	0.64	999
Short-term borrowings	**45,081**	**0.18**	**19**	76,068	0.66	123
Long-term debt	**209,008**	**2.45**	**1,276**	258,957	2.77	1,783
Other liabilities	**5,664**	**3.43**	**49**	3,778	3.88	36
Total interest-bearing liabilities	**891,794**	**0.94**	**2,079**	974,214	1.22	2,941
Portion of noninterest-bearing funding sources	**179,000**			133,228		
Total funding sources	**$ 1,070,794**	**0.79**	**2,079**	1,107,442	1.06	2,941
Net interest margin and net interest income on a taxable-equivalent basis (6)		**4.27%**	**$ 11,298**		4.16%	$ 11,547
Noninterest-earning assets						
Cash and due from banks	**$ 18,049**			20,255		
Goodwill	**24,816**			23,183		
Other	**112,461**			138,836		
Total noninterest-earning assets	**$ 155,326**			182,274		
Noninterest-bearing funding sources						
Deposits	**$ 172,039**			160,308		
Other liabilities	**44,739**			50,566		
Total equity	**117,548**			104,628		
Noninterest-bearing funding sources used to fund earning assets	**(179,000)**			(133,228)		
Net noninterest-bearing funding sources	**$ 155,326**			182,274		
Total assets	**$ 1,226,120**			1,289,716		

(1) Our average prime rate was 3.25% for

the quarters ended March 31, 2010 and 2009. The average three-month London Interbank Offered Rate (LIBOR) was 0.26% and 1.24% for the same quarters, respectively.

(2) Interest rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.

(3) Yields and rates are based on interest income/expense amounts for the period, annualized based on the accrual basis for the respective accounts. The average balance amounts include the effects of any unrealized gain or loss marks but those marks carried in other comprehensive income are not included in yield determination of affected earning assets. Thus yields are based on amortized cost balances computed on a settlement date basis.

(4)

Includes certain preferred securities.

(5) Nonaccrual loans and related income are included in their respective loan categories.

(6) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate was 35% for the periods presented.

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NONINTEREST INCOME

(in millions)	Quarter ended March 31, 2010	2009	% Change
Service charges on deposit accounts	**$ 1,332**	1,394	(4)%
Trust and investment fees:			
Trust, investment and IRA fees	**1,049**	722	45
Commissions and all other fees	**1,620**	1,493	9
Total trust and investment fees	**2,669**	2,215	20
Card fees	**865**	853	1
Other fees:			
Cash network fees	**55**	58	(5)
Charges and fees on loans	**419**	433	(3)
Processing and all other fees	**467**	410	14
Total other fees	**941**	901	4
Mortgage banking:			
Servicing income, net	**1,366**	906	51
Net gains on mortgage loan origination/sales activities	**1,104**	1,598	(31)
Total mortgage banking	**2,470**	2,504	(1)
Insurance	**621**	581	7
Net gains from trading activities	**537**	787	(32)
Net gains (losses) on debt securities available for sale	**28**	(119)	NM
Net gains (losses) from equity investments	**43**	(157)	NM
Operating leases	**185**	130	42
All other	**610**	552	11
Total	**$ 10,301**	9,641	7

NM Not meaningful

Noninterest income represented 48% of total revenues for first quarter 2010, compared with 46% for first quarter 2009. Noninterest income was up 7% year over year, largely due to increases in trust and investment fees, and insurance revenues.

The Federal Reserve Board (FRB) announced regulatory changes to debit card and ATM overdraft practices in fourth quarter 2009. In third quarter 2009, we also announced policy changes that should help customers limit overdraft and returned item fees. We currently estimate that the combination of these changes is expected to reduce our 2010 fee revenue by approximately $500 million (after tax). The actual impact could vary due to a variety of factors, including changes in customer behavior.

We earn trust, investment and IRA (Individual Retirement Account) fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. At March 31, 2010, these assets totaled $2.0 trillion, up 33% from $1.5 trillion a year ago, reflecting a 46% increase in the S&P 500 over the same period. Trust, investment and IRA fees are primarily based on a tiered scale relative to the market value of the assets under management or administration. These fees increased to $1.0 billion in first quarter 2010 from $722 million a year ago.

We received commissions and other fees for providing services to full-service and discount brokerage customers of $1.6 billion in first quarter 2010 and $1.5 billion a year ago. These fees include transactional commissions, which are based on the number of transactions executed at the customer s direction, and asset-based fees, which are based on the market value of the customer s assets. Client assets totaled $1.1 trillion at March 31, 2010, up from $930 billion a year ago. Commissions and other fees also include fees from investment banking activities including equity and bond underwriting.

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Card fees were $865 million in first quarter 2010 compared with $853 million a year ago. Recent legislative and regulatory changes limit our ability to increase interest rates and assess certain fees on card accounts. The anticipated net impact in 2010 related to these changes are estimated to be between $75 million and $100 million (after tax) before accounting for potential offsets in performance, the economy and other factors. The actual impact could vary due to a variety of factors.

Mortgage banking noninterest income was $2.5 billion in first quarter 2010, flat compared with $2.5 billion a year ago. In addition to servicing fees, net servicing income includes both changes in the fair value of mortgage servicing rights (MSRs) during the period as well as changes in the value of derivatives (economic hedges) used to hedge the MSRs. Net servicing income for first quarter 2010 included a $989 million net MSRs valuation gain ($777 million decrease in the fair value of the MSRs offsetting a $1.8 billion hedge gain) and for first quarter 2009 included a $875 million net MSRs valuation gain ($2.8 billion decrease in the fair value of MSRs partially offsetting a $3.7 billion hedge gain). See the Risk Management Mortgage Banking Interest Rate and Market Risk section of this Report for additional information regarding our MSRs risks and hedging approach. Our portfolio of loans serviced for others was $1.87 trillion at March 31, 2010, down from $1.88 trillion at December 31, 2009. At March 31, 2010, the ratio of MSRs to related loans serviced for others was 0.89% compared with 0.91% at December 31, 2009.

Net gains on mortgage loan origination/sales activities of $1.1 billion for first quarter 2010 were down from $1.6 billion a year ago, primarily due to lower origination volumes (25% decline in originations) and a net increase in the mortgage loan repurchase reserve. Residential real estate originations were $76 billion in first quarter 2010, compared with $101 billion a year ago. The 1-4 family first mortgage unclosed pipeline was $59 billion at March 31, 2010, and $57 billion at December 31, 2009. For additional detail, see the Risk Management Mortgage Banking Interest Rate and Market Risk section; and Note 1 (Summary of Significant Accounting Policies), Note 8 (Mortgage Banking Activities) and Note 12 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include the cost of any additions to the mortgage repurchase reserve as well as adjustments of loans in the warehouse/pipeline for changes in market conditions that affect their value. Mortgage loans are repurchased based on standard representations and warranties and early payment default clauses in mortgage sale contracts. Additions to the mortgage repurchase reserve that were charged against net gains on mortgage loan origination/sales activities during first quarter 2010 totaled $402 million. For additional information about mortgage loan repurchases, see the Risk Management Credit Risk Management Process Reserve for Mortgage Loan Repurchase Losses section and Note 7 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

Insurance revenue was $621 million in first quarter 2010, up 7% from a year ago, due to higher crop insurance revenues.

Income from trading activities was $537 million in first quarter 2010, down from $787 million a year ago. This decrease was driven by lower investment activity and higher credit-valuation adjustment charges, partially offset by higher customer-related revenues.

Aggregate net gains on debt securities available for sale and equity securities totaled $71 million in first quarter 2010, compared with net losses of $276 million a year ago. The year-over-year improvement was due to lower impairment write-downs of $197 million in first quarter 2010, down $319 million from $516 million a year ago. For additional detail, see the Balance Sheet Analysis Securities Available for Sale section and Note 4 (Securities Available for Sale) to Financial Statements in this Report.

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NONINTEREST EXPENSE

	Quarter ended March 31,		%
(in millions)	**2010**	2009	Change
Salaries	**$ 3,314**	3,386	(2)%
Commission and incentive compensation	**1,992**	1,824	9
Employee benefits	**1,322**	1,284	3
Equipment	**678**	687	(1)
Net occupancy	**796**	796	
Core deposit and other intangibles	**549**	647	(15)
FDIC and other deposit assessments	**301**	338	(11)
Outside professional services	**484**	410	18
Contract services	**347**	216	61
Foreclosed assets	**386**	248	56
Outside data processing	**272**	212	28
Postage, stationery and supplies	**242**	250	(3)
Operating losses	**208**	172	21
Insurance	**148**	267	(45)
Telecommunications	**143**	158	(9)
Travel and entertainment	**171**	105	63
Advertising and promotion	**112**	125	(10)
Operating leases	**37**	70	(47)
All other	**615**	623	(1)
Total	**$ 12,117**	11,818	3

Noninterest expense was $12.1 billion in first quarter 2010 compared with $11.8 billion in first quarter 2009, and included $380 million and $205 million of merger integration costs for the same periods, respectively. The $131 million increase in contract services from a year ago was primarily merger related. First quarter 2010 credit resolution costs, including expenses associated with foreclosed assets, loan modifications and other home preservation activities, were approximately $250 million higher than a year ago. Of our approximately $5 billion of estimated total integration costs, we expect to incur approximately $2 billion in 2010, as we convert banking stores and lines of business, and continue to build infrastructure. In addition to merger integration, we continued to invest for long-term growth throughout the Company, adding people in regional banking and commercial banking as we apply Wells Fargo s model to the eastern markets, and investing in technology to improve service across our franchise.

INCOME TAX EXPENSE

Our effective income tax rate was 35.5% in first quarter 2010, up from 33.8% in first quarter 2009. The increase was attributable in part to $53 million in tax expense related to the new health care legislation impacting the deductibility of future health care expenses.

The Patient Protection and Affordable Care Act that was signed into law on March 23, 2010, combined with the Health Care and Education Reconciliation Act of 2010 (enacted March 30, 2010), changed the tax treatment related to our health care expenses for retirees. Under this new legislation, our tax deduction for retiree health care expenses will be reduced by future reimbursements received under the Medicare Part D retiree drug subsidy program. The change in law results in a reduction of the deferred tax asset associated with the retiree health care liabilities that is recognized as a one-time non-cash charge in the period of legislative enactment.

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OPERATING SEGMENT RESULTS

We have three lines of business for management reporting: Community Banking; Wholesale Banking; and Wealth, Brokerage and Retirement. We define our operating segments by product and customer. Our management accounting process measures the performance of the operating segments based on our management structure and is not necessarily comparable with similar information for other financial services companies. In first quarter 2010, we conformed certain funding and allocation methodologies of legacy Wachovia to those of Wells Fargo; in addition integration expense related to mergers other than the Wachovia merger are now included in segment results. Prior periods have been revised to reflect both changes.

The table below and the following discussion present our results by operating segment. For a more complete description of our operating segments, including additional financial information and the underlying management accounting process, see Note 16 (Operating Segments) to Financial Statements in this Report.

OPERATING SEGMENT RESULTS   HIGHLIGHTS

	Community Banking		Wholesale Banking		Wealth, Brokerage and Retirement	
(in billions)	**2010**	2009	**2010**	2009	**2010**	2009
Quarter ended March 31,						
Revenue	**$ 14.1**	14.4	**5.3**	4.9	**2.9**	2.5
Net income	**1.5**	1.9	**1.2**	1.2	**0.3**	0.2
Average loans	**555.2**	567.8	**232.2**	278.2	**43.8**	46.6
Average core deposits	**532.2**	555.0	**160.9**	139.6	**121.1**	102.8

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including investment, insurance and trust services in 39 states and D.C., and mortgage and home equity loans in all 50 states and D.C.

Community Banking s net income decreased 25% to $1.5 billion in first quarter 2010 from $1.9 billion a year ago. Revenue decreased 2% to $14.1 billion from $14.4 billion a year ago. Net interest income decreased $360 million, or 4%, due to loan run-off portfolios and lower securities yields and balances. Average loans decreased $12.6 billion, or 2%, due to run-off portfolios and low demand. Average core deposits decreased $22.8 billion, or 4%, primarily due to Wachovia high yield certificates of deposit maturing. Noninterest income was $5.8 billion in first quarter 2010, almost flat compared with $5.7 billion a year ago. In first quarter 2010, the provision for credit losses of $4.5 billion, which equaled net charge-offs, was up from $4.0 billion a year ago, which included a $1 billion credit reserve build. Noninterest expense decreased $180 million, or 2%, due to lower Federal Deposit Insurance Corporation (FDIC) assessments and Wachovia merger-related cost saves.

Wholesale Banking provides financial solutions to businesses across the United States with annual sales generally in excess of $10 million and financial institutions globally. Products include middle market banking, corporate banking, commercial real estate, treasury management, asset-based lending, insurance brokerage, foreign exchange, correspondent banking, trade services, specialized lending, equipment finance, corporate trust, investment banking, capital markets, and asset management.

Wholesale Banking s net income of $1.2 billion in first quarter 2010 was flat compared with first quarter 2009. Net interest income of $2.5 billion in first quarter 2010 increased 7% from $2.3 billion a year ago. Average loans of $232.2 billion declined 17% from first quarter 2009 driven by declines across most lending areas. Core deposits of $160.9 billion in first quarter 2010 increased 15% from $139.6 billion a year ago driven by growth in both interest-bearing and non-interest bearing deposits primarily in global financial institutions, government and institutional banking and commercial banking. In first quarter 2010, total provision for credit losses was $799 million. First quarter 2009 provision included a credit reserve build of $277 million. Noninterest income of $2.8 billion in first quarter 2010 increased 11% from $2.6 billion a year ago. Noninterest expense of $2.7 billion in first quarter 2010 increased 5% from $2.5 billion a year ago due primarily to expenses associated with foreclosed assets as well as higher operating losses.

Wealth, Brokerage and Retirement provides a full range of financial advisory services to clients using a planning approach to meet each client s needs. Wealth Management provides affluent and high net worth clients with a complete range of wealth management solutions including financial planning, private banking, credit, investment management and trust. Family Wealth meets the unique needs of the ultra high net worth customers. Retail brokerage s financial advisors serve customers advisory, brokerage and financial needs as part of one of the largest full-service brokerage firms in the U.S. Retirement is a national leader in providing institutional retirement and trust services (including 401(k) and pension plan record keeping) for businesses, retail retirement solutions for individuals, and reinsurance services for the life insurance industry.

Wealth, Brokerage and Retirement s net income increased 60% to $282 million in first quarter 2010 from $176 million a year ago reflecting the strong equity market performance and growth in deposit balances. Revenue was up 16% to $2.9 billion in first quarter 2010 from $2.5 billion a year ago. Net interest income increased 4% to $664 million from $641 million a year ago as growth in average deposits was offset by the continued negative impact of low short-term interest rates. Noninterest income increased 20% to $2.2 billion from $1.9 billion a year ago driven by the strong equity market environment and improved investor confidence leading to greater client transaction activity. Average loans decreased 6% to $43.8 billion in first quarter 2010 from $46.6 billion a year ago. The provision for credit losses increased to $63 million in first quarter 2010 from $23 million a year ago, primarily due to higher loan charge-offs. Noninterest expense increased to $2.4 billion (7%) in first quarter 2010 from $2.2 billion a year ago.

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BALANCE SHEET ANALYSIS

During first quarter 2010, our total assets, loans and core deposits each decreased slightly from December 31, 2009, but we continued to grow capital. Loan demand remained soft during the quarter and we continued to hold excess cash in more liquid lower-yielding assets to guard against the expected rise in interest rates that would cause a decline in market value in interest-sensitive asset-backed securities. Overall, we believe our balance sheet has strengthened with the continued strong liquidity, increased reserves and timely charge-offs for losses and our improving capital.

See the following sections for more discussion and details about the major components of our balance sheet. Capital is discussed in the Capital Management section of this Report.

SECURITIES AVAILABLE FOR SALE

	March 31, 2010			December 31, 2009		
(in billions)	**Cost**	**Net unrealized gain**	**Fair value**	Cost	Net unrealized gain	Fair value
Debt securities available for sale	**$ 150.2**	**6.6**	**156.8**	162.3	4.8	167.1
Marketable equity securities	**4.9**	**0.8**	**5.7**	4.8	0.8	5.6
Total securities available for sale	**$ 155.1**	**7.4**	**162.5**	167.1	5.6	172.7

Securities available for sale consist of both debt and marketable equity securities. We hold debt securities available for sale primarily for liquidity, interest rate risk management and long-term yield enhancement. Accordingly, this portfolio consists primarily of very liquid, high-quality federal agency debt and privately issued mortgage-backed securities (MBS). The total net unrealized gains on securities available for sale of $7.4 billion at March 31, 2010, were up from $5.6 billion at December 31, 2009, due to general decline in long-term yields and narrowing of credit spreads. Comparative detail of average balances of securities available for sale is provided in the table under Earnings Performance Net Interest Income earlier in this Report.

We analyze securities for OTTI on a quarterly basis, or more often if a potential loss-triggering event occurs. The initial indication of OTTI for both debt and equity securities is a decline in the market value below the amount recorded for an investment, and the severity and duration of the decline. In determining whether an impairment is other than temporary, we consider the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions within its industry, and whether it is more likely than not that we will be required to sell the security before a recovery in value.

At March 31, 2010, we had approximately $6 billion of investments in securities, primarily municipal bonds, which are guaranteed against loss by bond insurers. These securities are almost exclusively investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer s guarantee in making the investment decision. These securities will continue to be monitored as part of our on-going impairment analysis of our securities available for sale, but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers.

The weighted-average expected maturity of debt securities available for sale was 5.8 years at March 31, 2010. Since 71% of this portfolio is MBS, the expected remaining maturity may differ from contractual maturity because borrowers generally have the right to prepay obligations before the

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underlying mortgages mature. The estimated effect of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available for sale are shown in the following table.
MORTGAGE-BACKED SECURITIES

(in billions)	Fair value	Net unrealized gains (losses)	Expected remaining maturity (in years)
At March 31, 2010	$ 111.1	4.2	4.5
At March 31, 2010, assuming a 200 basis point:			
Increase in interest rates	101.3	(5.6)	6.1
Decrease in interest rates	117.8	10.9	3.1

See Note 4 (Securities Available for Sale) to Financial Statements in this Report for securities available for sale by security type.
LOAN PORTFOLIO

	March 31, 2010			December 31, 2009		
(in millions)	**PCI loans**	**All other loans**	**Total**	PCI loans	All other loans	Total
Commercial and commercial real estate:						
Commercial	**$ 1,431**	**149,156**	**150,587**	1,911	156,441	158,352
Real estate mortgage	**5,252**	**99,262**	**104,514**	5,631	99,167	104,798
Real estate construction	**3,538**	**24,299**	**27,837**	3,713	25,994	29,707
Lease financing		**13,887**	**13,887**		14,210	14,210
Total commercial and commercial real estate	**10,221**	**286,604**	**296,825**	11,255	295,812	307,067
Consumer:						
Real estate 1-4 family first mortgage	**37,378**	**203,150**	**240,528**	38,386	191,150	229,536
Real estate 1-4 family junior lien mortgage	**315**	**103,485**	**103,800**	331	103,377	103,708
Credit card		**22,525**	**22,525**		24,003	24,003
Other revolving credit and installment		**89,463**	**89,463**		89,058	89,058
Total consumer	**37,693**	**418,623**	**456,316**	38,717	407,588	446,305
Foreign	**1,593**	**26,696**	**28,289**	1,733	27,665	29,398

Total loans	**$ 49,507**	**731,923**	**781,430**	51,705	731,065	782,770

A discussion of average loan balances and a comparative detail of average loan balances is included in Earnings Performance Net Interest Income earlier in this Report; period-end balances and other loan related information are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

As of December 31, 2008, certain of the loans acquired from Wachovia had evidence of credit deterioration since origination, and it was probable that we would not collect all contractually required principal and interest payments. Such loans identified at the time of the acquisition were accounted for using the measurement provisions for purchased credit-impaired (PCI) loans. PCI loans were recorded at fair value at the date of acquisition, and any related allowance for loan losses was not permitted to be carried over.

PCI loans were written down to an amount estimated to be collectible. Accordingly, such loans are not classified as nonaccrual, even though they may be contractually past due, because we expect to fully collect the new carrying values of such loans (that is, the new cost basis arising out of our purchase accounting). PCI loans are also not included in the disclosure of loans 90 days or more past due and still accruing interest even though a portion of them are 90 days or more contractually past due.

The nonaccretable difference was established in purchase accounting for PCI loans to absorb losses expected at that time on those loans. Amounts absorbed by the nonaccretable difference do not affect the income statement or the allowance for credit losses. The following table provides an analysis of changes in the nonaccretable difference related to principal that is not expected to be collected.

CHANGES IN NONACCRETABLE DIFFERENCE FOR PCI LOANS

(in millions)		Commercial, CRE and foreign	Pick-a-Pay	Other consumer	Total
Balance, December 31, 2008	$	(10,410)	(26,485)	(4,069)	(40,964)
Release of nonaccretable difference due to:					
Loans resolved by payment in full (1)		330			330
Loans resolved by sales to third parties (2)		86		85	171
Loans with improving cash flows reclassified to accretable yield (3)		138	27	276	441
Use of nonaccretable difference due to:					
Losses from loan resolutions and write-downs (4)		4,853	10,218	2,086	17,157
Balance, December 31, 2009		**(5,003)**	**(16,240)**	**(1,622)**	**(22,865)**
Release of nonaccretable difference due to:					
Loans resolved by payment in full (1)		**146**			**146**
Loans resolved by sales to third parties (2)		**36**			**36**
Loans with improving cash flows reclassified to accretable yield (3)		**92**	**549**	**27**	**668**
Use of nonaccretable difference due to:					
Losses from loan resolutions and write-downs (4)		**728**	**1,177**	**183**	**2,088**
Balance, March 31, 2010	**$**	**(4,001)**	**(14,514)**	**(1,412)**	**(19,927)**

(1) Release of the nonaccretable difference for payments in full increases interest income in the period of payment. Pick-a-Pay and Other consumer PCI loans do not reflect

nonaccretable difference releases due to pool accounting for those loans.

(2) Release of the nonaccretable difference as a result of sales to third parties increases noninterest income in the period of the sale.

(3) Reclassification of nonaccretable difference for increased cash flow estimates to the accretable yield will result in increasing income and thus the rate of return realized. Amounts reclassified to accretable yield are expected to be probable of realization over the estimated remaining life of the loan.

(4) Write-downs to net realizable value of PCI loans are charged to the nonaccretable difference when severe delinquency (normally 180 days) or other indications of severe borrower financial stress exist that

indicate there will be a loss of contractually due amounts upon final resolution of the loan.

Since the Wachovia acquisition, we have released $1.8 billion in nonaccretable difference, including $1.1 billion transferred from the nonaccretable difference to the accretable yield and $683 million released through loan resolutions. We provided $1.0 billion in the allowance for credit losses in excess of the initial expected levels on certain PCI loans; the net result is a $774 million improvement in our initial projected losses on PCI loans. The following table analyzes the actual and projected loss results since the acquisition of Wachovia on December 31, 2008, through March 31, 2010.

(in millions)	Commercial, CRE and foreign	Pick-a-Pay	Other consumer	Total
Release of unneeded nonaccretable difference due to:				
Loans resolved by payment in full (1)	$ 476			476
Loans resolved by sales to third parties (2)	122		85	207
Reclassification to accretable yield for loans with improving cash flow (3)	230	576	303	1,109
Total releases of nonaccretable difference due to better than expected losses	828	576	388	1,792
Provision for worse than originally expected losses on PCI loans (4)	(1,002)		(16)	(1,018)
Actual and projected losses better (worse) than originally expected	$ (174)	576	372	774

(1) Release of the nonaccretable difference for payments in full increases interest income in the period of payment. Pick-a-Pay and Other consumer PCI loans do not reflect nonaccretable difference releases due to pool accounting for those loans.

(2) Release of the nonaccretable difference as a result of sales to third parties increases

noninterest income in the period of the sale.

(3) Reclassification of nonaccretable difference for increased cash flow estimates to the accretable yield will result in increasing income and thus the rate of return realized. Amounts reclassified to accretable yield are expected to be probable of realization over the estimated remaining life of the loan.

(4) Provision for additional losses recorded as a charge to income, when it is estimated that the expected cash flows for a PCI loan or pool of loans have decreased subsequent to the acquisition.

For further detail on PCI loans, see Note 1 (Summary of Significant Accounting Policies Loans) to Financial Statements in the 2009 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

DEPOSITS

Deposits totaled $804.9 billion at March 31, 2010, compared with $824.0 billion at December 31, 2009. Comparative detail of average deposit balances is provided in the table under Earnings Performance Net Interest Income earlier in this Report. Total core deposits were $756.1 billion at March 31, 2010, down $24.7 billion from December 31, 2009.

(in millions)	**March 31, 2010**	Dec. 31, 2009	% Change
Noninterest-bearing	**$ 170,518**	181,356	(6)%

Interest-bearing checking	**64,521**	63,225	2
Market rate and other savings	**401,950**	402,448	
Savings certificates	**91,560**	100,857	(9)
Foreign deposits (1)	**27,501**	32,851	(16)
Core deposits	**756,050**	780,737	(3)
Other time and savings deposits	**20,355**	16,142	26
Other foreign deposits	**28,488**	27,139	5
Total deposits	**$ 804,893**	824,018	(2)

(1) Reflects Eurodollar sweep balances included in core deposits.

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OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in financial transactions that are not recorded in the balance sheet, or may be recorded in the balance sheet in amounts that are different from the full contract or notional amount of the transaction. These transactions are designed to (1) meet the financial needs of customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources, and/or (4) optimize capital. These are described below as off-balance sheet transactions with unconsolidated entities, and guarantees and certain contingent arrangements.

Beginning in 2010, the accounting rules for off-balance sheet transactions with unconsolidated entities changed. We adopted changes in consolidation accounting effective January 1, 2010, and, accordingly, consolidated certain variable interest entities (VIEs) that were not included in our consolidated financial statements at December 31, 2009. We discuss the impact of those changes in this section and in Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report.

OFF-BALANCE SHEET TRANSACTIONS WITH UNCONSOLIDATED ENTITIES

In the normal course of business, we enter into various types of on- and off-balance sheet transactions with special purpose entities (SPEs), which are corporations, trusts or partnerships that are established for a limited purpose. Historically, the majority of SPEs were formed in connection with securitization transactions. For more information on securitizations, including sales proceeds and cash flows from securitizations, see Note 7 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

In connection with our securitization activities, we have various forms of ongoing involvement with SPEs, which may include:

- underwriting securities issued by SPEs and subsequently making markets in those securities;
- providing liquidity to support short-term obligations of SPEs issued to third party investors;
- providing credit enhancement to securities issued by SPEs or market value guarantees of assets held by SPEs through the use of letters of credit, financial guarantees, credit default swaps and total return swaps;
- entering into other derivative contracts with SPEs;
- holding senior or subordinated interests in SPEs;
- acting as servicer or investment manager for SPEs; and
- providing administrative or trustee services to SPEs.

SPEs are generally considered to be VIEs. A VIE is an entity that has either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. We consolidate a VIE when, under the new consolidation accounting guidance, we have both the power to direct the activities that most significantly impact the VIE and a variable interest that could potentially be significant to the VIE. A variable interest is a contractual, ownership or other interest that changes with fluctuations in the fair value of the VIE s net assets. To determine whether or not a variable interest we hold could potentially be significant to the VIE, we consider both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIE.

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The following table presents our unconsolidated VIEs with which we have significant continuing involvement, but do not meet both the power and significant variable interest indicators required for consolidation.
UNCONSOLIDATED VIEs

	March 31, 2010			December 31, 2009		
(in millions)	**Total entity assets**	**Carrying value**	**Maximum exposure to loss**	Total entity assets	Carrying value	Maximum exposure to loss
Residential mortgage loan securitizations (1):						
Conforming	**$ 1,052,147**	**17,117**	**21,920**	1,150,515	18,926	24,362
Other/nonconforming	**92,535**	**3,884**	**3,898**	251,850	13,222	13,469
Commercial mortgage securitizations	**205,353**	**6,094**	**6,360**	345,561	4,945	5,222
Collateralized debt obligations:						
Debt securities	**20,577**	**2,644**	**4,773**	45,684	4,770	6,643
Loans (2)	**10,081**	**9,833**	**9,833**	10,215	9,964	9,964
Multi-seller commercial paper conduit (3)				5,160		5,263
Asset-based finance structures	**13,639**	**8,002**	**9,655**	17,467	9,867	11,227
Tax credit structures	**20,390**	**2,628**	**3,277**	27,537	4,006	4,663
Collateralized loan obligations	**14,700**	**2,932**	**3,409**	23,830	3,666	4,239
Investment funds	**16,678**	**1,420**	**1,420**	84,642	1,702	2,920
Other (4)	**19,703**	**5,002**	**6,297**	23,538	4,398	7,268
Total unconsolidated VIEs	**$ 1,465,803**	**59,556**	**70,842**	1,985,999	75,466	95,240

(1) Conforming residential mortgage loan securitizations are those that are guaranteed by government-sponsored entities (GSEs), including Government National Mortgage Association (GNMA). We have concluded that conforming mortgages are not subject to consolidation under the new consolidation

accounting guidance. Total entity assets at December 31, 2009 includes $20.9 billion of nonconforming residential mortgage securitizations that were consolidated in first quarter 2010.

(2) Represents senior loans to trusts that are collateralized by asset-backed securities. The trusts invest in senior tranches from a diversified pool of primarily U.S. asset securitizations, of which all are current, and over 95% were rated as investment grade by the primary rating agencies at March 31, 2010. These senior loans were acquired in the Wachovia business combination and are accounted for at amortized cost as initially determined under purchase accounting and are subject to the Company s allowance and credit charge-off policies.

(3) The multi-seller commercial paper conduit was consolidated in first quarter 2010.

(4) Includes student loan securitizations, auto loan securitizations and credit-linked note structures. Also contains investments in auction rate securities (ARS) issued by VIEs that we do not sponsor

and, accordingly, are unable to obtain the total assets of the entity.

The balances presented for March 31, 2010, represent our unconsolidated VIEs for which we consider our involvement to be significant. The balances presented for December 31, 2009, include unconsolidated VIEs with which we have continuing involvement that we no longer consider significant. Accordingly, we have excluded these transactions from the balances presented for March 31, 2010. We have refined our definition of significant continuing involvement in accordance with new consolidation accounting guidance to exclude unconsolidated VIEs when our continuing involvement relates to third-party sponsored VIEs for which we were not the transferor, and unconsolidated VIEs for which we were the sponsor but do not have any other significant continuing involvement. Significant continuing involvement includes transactions where we were the sponsor or transferor and have other significant forms of involvement. Sponsorship includes transactions with unconsolidated VIEs where we solely or materially participated in the initial design or structuring of the entity or marketing of the transaction to investors. When we transfer assets to a VIE and account for the transfer as a sale, we are considered the transferor. We consider investments in securities held outside of trading, loans, guarantees, liquidity agreements, written options and servicing of collateral to be other forms of involvement that may be significant. We have excluded certain transactions with unconsolidated VIEs from the March 31, 2010, balances presented in the table above where we have determined that our continuing involvement is not significant due to the temporary nature and size of our variable interests because we were not the transferor or because we were not involved in the design or operations of the unconsolidated VIEs.

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In the previous table, Total entity assets represents the total assets of unconsolidated VIEs. Carrying value is the amount in our consolidated balance sheet related to our involvement with the unconsolidated VIEs. Maximum exposure to loss from our involvement with off-balance sheet entities, which is a required disclosure under generally accepted accounting principles (GAAP), is determined as the carrying value of our involvement with off-balance sheet (unconsolidated) VIEs plus the remaining undrawn liquidity and lending commitments, the notional amount of net written derivative contracts, and generally the notional amount of, or stressed loss estimate for, other commitments and guarantees. It represents estimated loss that would be incurred under severe, hypothetical circumstances, for which we believe the possibility is extremely remote, such as where the value of our interests and any associated collateral declines to zero, without any consideration of recovery or offset from any economic hedges. Accordingly, this required disclosure is not an indication of expected loss.

NEWLY CONSOLIDATED VIE ASSETS AND LIABILITIES

Effective January 1, 2010, we adopted new consolidation accounting guidance and, accordingly, consolidated certain VIEs that were not included in our consolidated financial statements at December 31, 2009. On January 1, 2010, we recorded the assets and liabilities of the newly consolidated VIEs and derecognized our existing interests in those VIEs. We also recorded a $183 million increase to beginning retained earnings as a cumulative effect adjustment and recorded a $173 million increase to other comprehensive income (OCI).

The following table presents the net incremental assets recorded on our balance sheet by structure type upon adoption of new consolidation accounting guidance.

(in millions)		Incremental assets
Structure type:		
Residential mortgage loans nonconforming (1)	$	11,479
Commercial paper conduit		5,088
Other		2,002
Total	$	18,569

(1) Represents certain of our residential mortgage loans that are not guaranteed by GSEs (nonconforming).

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The following table presents the net incremental assets and liabilities recorded upon adoption of new consolidation accounting guidance.

	January 1, 2010		
(in millions)	Total VIE assets and liabilities (1)	Derecognition of existing VIE interests (2)	Net increase (decrease)
Assets			
Cash and due from banks	$ 154		154
Trading assets	18	137	155
Securities available for sale	1,178	(8,768)	(7,590)
Loans, net of $693 allowance for credit losses	25,657		25,657
Other assets	164	29	193
Total assets	$ 27,171	(8,602)	18,569
Liabilities			
Short-term borrowings (3)	$ 5,161	(34)	5,127
Accrued expenses and other liabilities	38	(70)	(32)
Long-term debt	13,134		13,134
Total liabilities	$ 18,333	(104)	18,229

(1) Excludes VIE assets and liabilities that are eliminated in the consolidated financial statements of Wells Fargo.
(2) Includes derecognition of existing interests in newly consolidated VIEs and net impacts of deconsolidating certain VIEs.
(3) Includes commercial paper liabilities

of our multi-seller asset-based commercial paper conduit with recourse to the general credit of Wells Fargo.

In accordance with the transition provisions of the new consolidation accounting guidance, we initially recorded newly consolidated VIE assets and liabilities at their carrying amounts, except for those VIEs for which the fair value option was elected. The carrying amount for loans approximate the outstanding unpaid principal balance, adjusted for allowance for loan losses, short-term borrowings and long-term debt approximate the outstanding par amount due to creditors.

Upon adoption of new consolidation accounting guidance on January 1, 2010, we elected fair value option accounting for certain nonconforming residential mortgage loan securitization VIEs. This election requires us to recognize the VIE s eligible assets and liabilities on the balance sheet at fair value with changes in fair value recognized in earnings. Such eligible assets and liabilities consisted primarily of loans and long-term debt, respectively. The fair value option was elected for those newly consolidated VIEs for which our interests, prior to January 1, 2010, were predominantly carried at fair value with changes in fair value recorded to earnings. Accordingly, the fair value option was elected to effectively continue fair value accounting through earnings for those interests. Conversely, fair value option was not elected for those newly consolidated VIEs that did not share these characteristics. At January 1, 2010, the fair value of loans and long-term debt for which the fair value option was elected was $1.0 billion and $1.0 billion, respectively. The incremental impact of electing fair value option (compared to not electing) on the cumulative effect adjustment to retained earnings was an increase of $15 million.

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CHANGES IN VIE ASSETS AND LIABILITIES

Consolidated VIEs include VIEs consolidated prior to the adoption of the new consolidation accounting guidance as well as VIEs newly consolidated upon adoption. This guidance requires that companies continually reassess whether they are the primary beneficiary of a VIE. As a result of events that occurred during the quarter, we deconsolidated certain VIEs. The following table presents the detail of changes in the assets and liabilities of all consolidated VIEs from January 1, 2010, through March 31, 2010.

	January 1, 2010					March 31, 2010
(in millions)	Newly consolidated VIEs (1)	Previously consolidated VIEs (1)(2)	Total	Reconsider-ations (3)	VIE activity (1)	Total
Assets						
Cash and due from banks	$ 154	267	421	(11)	(51)	359
Trading assets	18	77	95	(15)		80
Securities available for sale	1,178	980	2,158		(325)	1,833
Loans, net	25,657	561	26,218	(1,551)	(1,278)	23,389
Other assets	164	2,432	2,596	(431)	104	2,269
Total assets	$ 27,171	4,317	31,488	(2,008)	(1,550)	27,930
Liabilities						
Short-term borrowings (4)	$ 5,161	317	5,478		(331)	5,147
Accrued expenses and other liabilities (4)	38	689	727	(137)	105	695
Long-term debt (4)	13,134	1,396	14,530	(1,942)	(1,293)	11,295
Total liabilities	$ 18,333	2,402	20,735	(2,079)	(1,519)	17,137

(1) Excludes VIE assets and liabilities that are eliminated in the consolidated financial statements of Wells Fargo.

(2) Reflects the impact of deconsolidation of certain VIEs upon adoption of new consolidation accounting

guidance.

(3) Due to events that occurred during first quarter 2010, we deconsolidated certain residential mortgage-backed securitizations and other VIEs.

(4) Includes the following VIE liabilities at March 31, 2010, with recourse to the general credit of Wells Fargo: Short-term borrowings, $4.8 billion; Accrued expenses and other liabilities, $104 million; and Long-term debt, $175 million.

RISK MANAGEMENT

All financial institutions must manage and control a variety of business risks that can significantly affect their financial performance. Key among these are credit, asset/liability and market risk.

For further discussion about how we manage these risks, see pages 54 71 of our 2009 Form 10-K. The discussion that follows is intended to provide an update on these risks.

CREDIT RISK MANAGEMENT

Our credit risk management process is governed centrally, but provides for decentralized management and accountability by our lines of business. Our overall credit process includes comprehensive credit policies, judgmental or statistical credit underwriting, frequent and detailed risk measurement and modeling, extensive credit training programs, and a continual loan review and audit process. In addition, regulatory examiners review and perform detailed tests of our credit underwriting, loan administration and allowance processes. For more information on our credit risk management process, please refer to page 54 in our 2009 Form 10-K.

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Credit Quality Overview

We are encouraged by signs of improvement in the credit cycle and believe that credit at Wells Fargo has turned the corner.

Credit losses in first quarter 2010 of $5.3 billion were down from $5.4 billion in fourth quarter 2009, even after $123 million charge-offs recorded in first quarter 2010 upon adoption of new consolidation accounting guidance and $145 million due to newly issued regulatory guidance requiring us to charge-off certain collateral-dependent residential real estate loans that have been modified. The costs related to this charge had previously been reserved. All other credit losses were $5.1 billion, down from $5.4 billion in fourth quarter 2009.

In the consumer portfolio, lower early stage delinquencies, better delinquency roll rates, and improved values for residential real estate and autos were evident in the first quarter. This improvement in credit quality can be partly attributed to actions we took as early as 2007, including significant investment in collections, loss mitigation and workout teams; a refined consumer credit policy that reduced maximum loan-to-value requirements and virtually eliminated stated income as an acceptable element of loan applications; and the establishment of a number of run-off/liquidating portfolios. These actions have produced high quality subsequent vintages, and allowed us to focus our loss remediation efforts in an efficient fashion.

Losses in the commercial portfolio (including commercial real estate) declined $356 million from fourth quarter 2009 as these portfolios showed stabilizing credit metrics.

NPAs continued to increase in first quarter 2010, although at a slower rate than in the past three quarters, with all of the first quarter increase coming from consumer real estate loans and commercial real estate loans, in part due to the addition of nonaccrual loans related to loans brought on the balance sheet upon adoption of new consolidation accounting guidance. We believe that the loss content of NPAs is materially reduced by previous write-downs, as well as significant collateral support.

Measuring and monitoring our credit risk is an ongoing process that tracks delinquencies, collateral values, economic trends by geographic areas, loan-level risk grading for certain portfolios (typically commercial) and other indications of risk to loss. Our credit risk monitoring process is designed to enable early identification of developing risk to loss and to support our determination of an adequate allowance for loan losses. During the current economic cycle our monitoring and resolution efforts have focused on loan portfolios exhibiting the highest levels of risk including mortgage loans supported by real estate (both consumer and commercial), junior lien, commercial, credit card and subprime portfolios. The following sections include additional information regarding each of these loan portfolios and their relevant concentrations and credit quality performance metrics.

The following table identifies our non-strategic and liquidating consumer portfolios as of March 31, 2010, and December 31, 2009.

NON-STRATEGIC AND LIQUIDATING CONSUMER PORTFOLIOS

	Outstanding balances	
(in billions)	**March 31, 2010**	Dec. 31, 2009
Pick-a-Pay mortgage	**$ 82.9**	85.2
Liquidating home equity	**8.0**	8.4
Legacy Wells Fargo Financial indirect auto	**9.7**	11.3
Total non-strategic and liquidating consumer portfolios	**$ 100.6**	104.9

Commercial Real Estate (CRE)

The CRE portfolio consists of both commercial real estate mortgages and construction loans. The combined CRE loans outstanding totaled $132.4 billion at March 31, 2010, which represented 17% of total loans. Construction loans totaled $27.8 billion at March 31, 2010, or 4% of total loans. Permanent CRE loans totaled $104.5 billion at March 31, 2010, or 13% of total loans. The portfolio is diversified both geographically and by product type. The largest geographic concentrations are found in California and Florida, which represented 21% and 11% of the total CRE portfolio, respectively. By product type, the largest concentrations are office buildings and industrial/warehouse, which represented 23% and 11% of the portfolio, respectively.

At legacy Wells Fargo our underwriting of CRE loans has been focused primarily on cash flows and creditworthiness, not solely collateral valuations. Our legacy Wells Fargo management team is overseeing and managing the CRE loans acquired from Wachovia. At merger closing, $19.3 billion of Wachovia CRE loans were accounted for as PCI loans and we recorded an impairment write-down of $7.0 billion in our purchase accounting, which represented a 37% write-down of the PCI loans included in the Wachovia CRE loan portfolio. To identify and manage newly emerging problem CRE loans we employ a high level of surveillance and regular customer interaction to understand and manage the risks associated with these assets, including regular loan reviews and appraisal updates. As issues are identified, management is engaged and dedicated workout groups are in place to manage problem assets. At March 31, 2010, the remaining balance of PCI CRE loans totaled $8.8 billion. This balance reflects the refinement of the impairment analysis and reduction from loan resolutions and write-downs.

The following table summarizes CRE loans by state and product type with the related nonaccrual totals. At March 31, 2010, the highest concentration of non-PCI CRE loans by state was $27.2 billion in California, about double the next largest state concentration, and the related nonaccrual loans totaled about $1.7 billion, or 6.4% of CRE loans in California. Office buildings, at $28.6 billion of non-PCI loans, were the largest property type concentration, nearly double the next largest, and the related nonaccrual loans totaled $1.3 billion, or 4.4% of CRE loans for office buildings. Of CRE mortgage loans (excluding construction loans), 43% related to owner-occupied properties at March 31, 2010. In aggregate, nonaccrual loans totaled 6.2% of the non-PCI outstanding balance at March 31, 2010.

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CRE LOANS BY STATE AND PROPERTY TYPE

								March 31, 2010
	Real estate mortgage		Real estate construction				Total	% of
	Nonaccrual	Outstanding balance	Nonaccrual	Outstanding balance	Nonaccrual	Outstanding balance	total
(in millions)	loans	(1)	loans	(1)	loans	(1)	loans
By state:							
PCI loans:							
Florida	$	1,008		679		1,687	*%
California		1,055		150		1,205	*
North Carolina		250		501		751	*
Georgia		375		328		703	*
Virginia		421		256		677	*
Other		2,143		1,624		3,767(2)	*
Total PCI loans		5,252		3,538		8,790	1
All other loans:							
California	1,093	23,118	655	4,118	1,748	27,236	3
Florida	908	10,946	342	2,016	1,250	12,962	2
Texas	279	6,998	262	2,468	541	9,466	1
North Carolina	246	5,290	163	1,412	409	6,702	*
Georgia	310	4,223	79	826	389	5,049	*
Virginia	84	3,477	107	1,529	191	5,006	*
Arizona	205	3,923	220	982	425	4,905	*
New York	56	3,811	31	1,086	87	4,897	*
New Jersey	114	2,935	14	623	128	3,558	*
Colorado	96	2,297	105	898	201	3,195	*
Other	1,366	32,244	937	8,341	2,303	40,585(3)	5
Total all other loans	4,757	99,262	2,915	24,299	7,672	123,561	16
Total	$ 4,757	104,514	2,915	27,837	7,672	132,351	17%
By property:							
PCI loans:							
Apartments	$	919		923		1,842	*%
Office buildings		1,591		190		1,781	*
1-4 family land		513		742		1,255	*
1-4 family structure		128		574		702	*
Land (excluding 1-4 family)		525		159		684	*
Other		1,576		950		2,526	*
Total PCI loans		5,252		3,538		8,790	1

All other loans:							
Office buildings	**1,055**	**25,697**	**206**	**2,931**	**1,261**	**28,628**	**4**
Industrial/warehouse	**644**	**13,926**	**28**	**890**	**672**	**14,816**	**2**
Real estate other	**602**	**13,564**	**82**	**760**	**684**	**14,324**	**2**
Apartments	**264**	**7,950**	**236**	**4,253**	**500**	**12,203**	**2**
Retail (excluding shopping center)	**726**	**10,727**	**116**	**1,008**	**842**	**11,735**	**2**
Land (excluding 1-4 family)	**227**	**2,602**	**537**	**6,052**	**764**	**8,654**	**1**
Shopping center	**248**	**6,294**	**220**	**2,075**	**468**	**8,369**	**1**
Hotel/motel	**357**	**5,430**	**119**	**1,064**	**476**	**6,494**	*****
1-4 family land	**179**	**747**	**674**	**2,488**	**853**	**3,235**	*****
Institutional	**75**	**2,798**	**36**	**220**	**111**	**3,018**	*****
Other	**380**	**9,527**	**661**	**2,558**	**1,041**	**12,085**	**2**
Total all other loans	**4,757**	**99,262**	**2,915**	**24,299**	**7,672**	**123,561**(4)	**16**
Total	**$ 4,757**	**104,514**	**2,915**	**27,837**	**7,672**	**132,351**	**17%**

* Less than 1%

(1) For PCI loans amounts represent carrying value.

(2) Includes 39 states; no state had loans in excess of $560 million.

(3) Includes 40 states; no state had loans in excess of $3.1 billion.

(4) Includes $45.5 billion of loans to owner-occupants where 51% or more of the property is used in the conduct of their business.

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							December 31, 2009
	Real estate mortgage		Real estate construction			Total	% of
(in millions)	Nonaccrual loans	Outstanding balance (1)	Nonaccrual loans	Outstanding balance (1)	Nonaccrual loans	Outstanding balance (1)	total loans
By state:							
PCI loans:							
Florida	$	1,022		722		1,744	*%
California		1,116		150		1,266	*
North Carolina		283		485		768	*
Georgia		385		364		749	*
Virginia		396		303		699	*
Other		2,429		1,689		4,118(5)	*
Total PCI loans		5,631		3,713		9,344	1
All other loans:							
California	1,141	23,214	865	4,549	2,006	27,763	4
Florida	626	10,999	311	2,127	937	13,126	2
Texas	231	6,643	250	2,509	481	9,152	1
North Carolina	205	5,468	135	1,594	340	7,062	*
Georgia	225	4,364	109	952	334	5,316	*
Virginia	65	3,499	105	1,555	170	5,054	*
New York	54	3,860	48	1,187	102	5,047	*
Arizona	187	3,958	171	1,045	358	5,003	*
New Jersey	66	3,028	23	644	89	3,672	*
Colorado	78	2,248	110	879	188	3,127	*
Other	1,106	31,886	898	8,953	2,004	40,839(6)	5
Total all other loans	3,984	99,167	3,025	25,994	7,009	125,161	16
Total	$ 3,984	104,798	3,025	29,707	7,009	134,505	17%
By property:							
PCI loans:							
Apartments	$	1,141		969		2,110	*%
Office buildings		1,650		192		1,842	*
1-4 family land		531		815		1,346	*
1-4 family structure		154		635		789	*
Land (excluding 1-4 family)		553		206		759	*
Other		1,602		896		2,498	*
Total PCI loans		5,631		3,713		9,344	1

All other loans:							
Office buildings	904	25,542	171	3,151	1,075	28,693	4
Industrial/warehouse	527	13,925	17	999	544	14,924	2
Real estate other	564	13,791	88	877	652	14,668	2
Apartments	259	7,670	262	4,570	521	12,240	2
Retail (excluding shopping center)	620	10,788	85	996	705	11,784	2
Land (excluding 1-4 family)	148	2,941	639	6,264	787	9,205	1
Shopping center	172	6,070	242	2,240	414	8,310	1
Hotel/motel	208	5,214	123	1,162	331	6,376	*
1-4 family land	164	718	677	2,670	841	3,388	*
1-4 family structure	90	1,191	659	2,073	749	3,264	*
Other	328	11,317	62	992	390	12,309	2
Total all other loans	3,984	99,167	3,025	25,994	7,009	125,161(7)	16
Total	$ 3,984	104,798	3,025	29,707	7,009	134,505	17%

(5) Includes 38 states; no state had loans in excess of $605 million.
(6) Includes 40 states; no state had loans in excess of $3.0 billion.
(7) Includes $46.6 billion of loans to owner-occupants where 51% or more of the property is used in the conduct of their business.

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Commercial Loans and Lease Financing

For purposes of portfolio risk management, we aggregate commercial loans and lease financing according to market segmentation and standard industry codes. The following table summarizes commercial loans and lease financing by industry with the related nonaccrual totals. This portfolio has experienced less credit deterioration than our CRE portfolio as evidenced by its lower nonaccrual rate of 2.7% compared with 5.8% for the CRE portfolios. We believe this portfolio is well underwritten and is diverse in its risk with relatively even concentrations across several industries. A majority of our commercial loans and lease financing portfolio is secured by short-term liquid assets, such as accounts receivable, inventory and securities, as well as long-lived assets, such as equipment and other business assets. Our credit risk management process for this portfolio primarily focuses on a customer s ability to repay the loan through their cash flow. Generally, collateral securing this portfolio represents a secondary source of repayment.

COMMERCIAL LOANS AND LEASE FINANCING BY INDUSTRY

	March 31, 2010			December 31, 2009		
(in millions)	**Nonaccrual loans**	**Outstanding balance (1)**	**% of total loans**	Nonaccrual loans	Outstanding balance (1)	% of total loans
PCI loans:						
Media	**$**	**276**	***%**	$	314	*%
Real estate investment trust		**179**	*		351	*
Insurance		**125**	*		118	*
Investors		**114**	*		140	*
Airlines		**79**	*		87	*
Leisure		**74**	*		110	*
Other		**584**(2)	*		791(2)	*
Total PCI loans		**1,431**	*		1,911	*
All other loans:						
Financial institutions	**355**	**12,736**	**2**	496	11,111	1
Cyclical retailers	**52**	**8,420**	**1**	71	8,188	1
Healthcare	**86**	**8,141**	**1**	88	8,397	1
Food and beverage	**80**	**8,036**	**1**	77	8,316	1
Oil and gas	**214**	**7,878**	**1**	202	8,464	1
Industrial equipment	**119**	**7,224**	*	119	7,524	*
Business services	**91**	**6,366**	*	99	6,722	*
Transportation	**40**	**6,073**	*	31	6,469	*
Utilities	**10**	**6,007**	*	15	5,752	*
Real estate other	**163**	**5,864**	*	167	6,570	*
Technology	**36**	**5,008**	*	72	5,489	*
Hotel/restaurant	**181**	**4,939**	*	195	5,050	*
Other	**3,031**	**76,351**(3)	**10**	2,936	82,599(3)	11
Total all other loans	**4,458**	**163,043**	**21**	**4,568**	170,651	22
Total	**$ 4,458**	**164,474**	**21%**	$ 4,568	172,562	22%

* Less than 1%

(1) For PCI loans amounts represent carrying value.

(2) No other single category had loans in excess of $71 million at March 31, 2010, or $87 million at December 31, 2009.

(3) No other single category had loans in excess of $4.5 billion at March 31, 2010, or $5.8 billion (public administration) at December 31, 2009. The next largest categories included investors, public administration, media, leisure, non-residential construction, securities firms, trucking, dairy, gaming and contractors.

During the recent credit cycle, we have experienced an increase in requests for extensions of construction and commercial loans which have repayment guarantees. All extensions are granted based on a re-underwriting of the loan and our assessment of the borrower s ability to perform under the agreed upon terms. At the time of extension, borrowers are generally performing in accordance with the contractual loan terms. Extension terms generally range from six to thirty-six months and may require that the borrower provide additional economic support in the form of partial repayment, amortization or additional collateral or guarantees. In cases where the value of collateral or financial condition of the borrower is insufficient to repay our loan, we may rely upon the support of an outside repayment guarantee in providing the extensions. In considering the impairment status of the loan, we evaluate the collateral, future cash flow as well as the anticipated support of any repayment guarantor. When performance under a loan is not reasonably assured, including the performance of the guarantor, we charge-off all or a portion of a loan based on the fair value of the collateral securing the loan.

Our ability to seek performance under the guarantee is directly related to the guarantor s creditworthiness, capacity and willingness to perform. We evaluate a guarantor s capacity and willingness to perform on an annual basis, or more frequently as warranted. Our evaluation is based on the most current financial information available and is focused on various key financial metrics, including net worth, leverage, and current and future liquidity. We consider the guarantor s reputation, creditworthiness, and willingness to work with us based on our analysis as well as other lenders experience with the guarantor. Our assessment of the guarantor s credit strength is reflected in our loan risk ratings for such loans. The loan risk rating is an important factor in our allowance methodology for commercial and commercial real estate loans.

Real Estate 1-4 Family Mortgage Loans

As part of the Wachovia acquisition, we acquired residential first mortgage and home equity loans that are very similar to the Wells Fargo core originated portfolio. We also acquired the Pick-a-Pay portfolio, which is composed primarily of option payment adjustable-rate mortgage (ARM) and fixed-rate mortgage products. Under purchase accounting for the Wachovia acquisition, we made purchase accounting adjustments to the Pick-a-Pay loans considered to be impaired under accounting guidance for PCI loans.

Pick-a-Pay Portfolio

Our Pick-a-Pay portfolio, which describes one of the consumer mortgage portfolios that we acquired in the Wachovia merger, had an unpaid principal balance of $100.8 billion and a carrying value of $82.9 billion at March 31, 2010. The Pick-a-Pay portfolio is a liquidating portfolio, as Wachovia ceased originating new Pick-a-Pay loans in 2008. Equity lines of credit and closed-end second liens associated with Pick-a-Pay loans are reported in the Home Equity core portfolio. The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of our modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product. The following table provides balances over time related to the types of loans included in the portfolio.

	March 31, 2010		December 31, 2009		December 31, 2008	
(in millions)	**Outstandings**	**% of total**	Outstandings	% of total	Outstandings	% of total
Option payment loans	**$ 69,161**	**69%**	$ 73,060	70%	$ 101,297	86%
Non-option payment ARMs and fixed-rate loans	**13,674**	**13**	14,178	14	15,978	14
Loan modifications - Pick-a-Pay	**17,943**	**18**	16,420	16		
Total unpaid principal balance	**$ 100,778**	**100%**	$ 103,658	100%	$ 117,275	100%
Total carrying value	**$ 82,938**		$ 85,238		$ 95,315	

PCI loans in the Pick-a-Pay portfolio had an unpaid principal balance of $53.3 billion and a carrying value of $36.2 billion at March 31, 2010. The carrying value of the PCI loans is net of purchase accounting write-downs to reflect their fair value at acquisition. Upon acquisition, we recorded a $22.4 billion write-down in purchase accounting on Pick-a-Pay loans that were impaired. Losses to date on this portfolio are in line with management s expectations at the time of the Wachovia acquisition. Our most recent quarterly cash flow assessment, which includes life-of-loan expectations, shows an improvement driven in part by extensive and currently successful modification efforts as well as improving delinquency roll rate trends and further stabilization in the housing market.

Pick-a-Pay option payment loans may be adjustable or fixed rate. They are home mortgages on which the customer has the option each month to select from among four payment options: (1) a minimum payment as described below, (2) an interest-only payment, (3) a fully amortizing 15-year payment, or (4) a fully amortizing 30-year payment.

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The minimum monthly payment for substantially all of our Pick-a-Pay loans is reset annually. The new minimum monthly payment amount generally increases by no more than 7.5% of the then-existing principal and interest payment amount. The minimum payment may not be sufficient to pay the monthly interest due and in those situations a loan on which the customer has made a minimum payment is subject to negative amortization, where unpaid interest is added to the principal balance of the loan. The amount of interest that has been added to a loan balance is referred to as deferred interest. Total deferred interest was $3.5 billion at March 31, 2010, down from $3.7 billion at December 31, 2009, due to loan modification efforts as well as falling interest rates resulting in the minimum payment option covering the interest and some principal on many loans. At March 31, 2010, approximately 63% of customers choosing the minimum payment option did not defer interest. In situations where the minimum payment is greater than the interest only option, the customer has only three payment options available: (1) a minimum required payment, (2) a fully amortizing 15-year payment, or (3) a fully amortizing 30-year payment.

Deferral of interest on a Pick-a-Pay loan may continue as long as the loan balance remains below a pre-defined principal cap, which is based on the percentage that the current loan balance represents to the original loan balance. Loans with an original loan-to-value (LTV) ratio equal to or below 85% have a cap of 125% of the original loan balance, and these loans represent substantially all the Pick-a-Pay portfolio. Loans with an original LTV ratio above 85% have a cap of 110% of the original loan balance. Most of the Pick-a-Pay loans on which there is a deferred interest balance re-amortize (the monthly payment amount is reset or recast) on the earlier of the date when the loan balance reaches its principal cap, or the 10-year anniversary of the loan. There exists a small population of Pick-a-Pay loans for which recast occurs at the five-year anniversary. After a recast, the customers new payment terms are reset to the amount necessary to repay the balance over the remainder of the original loan term.

Due to the terms of this Pick-a-Pay portfolio, we believe there is minimal recast risk over the next three years. Based on assumptions of a flat rate environment, if all eligible customers elect the minimum payment option 100% of the time and no balances prepay, we would expect the following balances of loans to recast based on reaching the principal cap: $2 million in the remaining nine months of 2010, $1 million in 2011 and $3 million in 2012. In first quarter 2010, the amount of loans recast based on reaching the principal cap was insignificant. In addition, we would expect the following balances of loans to start fully amortizing due to reaching their recast anniversary date and also having a payment change at the recast date greater than the annual 7.5% reset: $22 million in the remaining nine months of 2010, $36 million in 2011 and $45 million in 2012. In first quarter 2010, the amount of loans reaching their recast anniversary date and also having a payment change over the annual 7.5% reset was $9 million.

The following table reflects the geographic distribution of the Pick-a-Pay portfolio broken out between PCI loans and all other loans. In stressed housing markets with declining home prices and increasing delinquencies, the LTV ratio is a useful metric in predicting future real estate 1-4 family first mortgage loan performance, including potential charge-offs. Because PCI loans were initially recorded at fair value written down for expected credit losses, the ratio of the carrying value to the current collateral value for acquired loans with credit impairment will be lower as compared with the LTV based on the unpaid principal. For informational purposes, we have included both ratios in the following table.

PICK-A-PAY PORTFOLIO

	PCI loans				All other loans		
(in millions)	Unpaid principal balance	Current LTV ratio (2)	Carrying value (3)	Ratio of carrying value to current value	Unpaid principal balance	Current LTV ratio (2)	Carrying value (3)
March 31, 2010							
California	**$ 36,113**	**135%**	**$ 24,447**	**91%**	**$ 23,285**	**88%**	**$ 22,953**
Florida	**5,594**	**142**	**3,169**	**80**	**4,942**	**106**	**4,776**
New Jersey	**1,621**	**99**	**1,249**	**76**	**2,829**	**81**	**2,818**
Texas	**428**	**82**	**379**	**72**	**1,908**	**66**	**1,913**
Washington	**618**	**102**	**531**	**87**	**1,409**	**84**	**1,398**
Other states	**8,967**	**115**	**6,398**	**81**	**13,064**	**87**	**12,907**
Total Pick-a-Pay loans	**$ 53,341**		**$ 36,173**		**$ 47,437**		**$ 46,765**
December 31, 2009							
California	$ 37,341	141%	$ 25,022	94%	$ 23,795	93%	$ 23,626
Florida	5,751	139	3,199	77	5,046	104	4,942
New Jersey	1,646	101	1,269	77	2,914	82	2,912
Texas	442	82	399	74	1,967	66	1,973
Washington	633	103	543	88	1,439	84	1,435
Other states	9,283	116	6,597	82	13,401	87	13,321
Total Pick-a-Pay loans	$ 55,096		$ 37,029		$ 48,562		$ 48,209

(1) The individual states shown in this table represent the top five states based on the total net carrying value of the Pick-a-Pay loans at the beginning of 2010. The December 31, 2009 table has

been revised to conform to the 2010 presentation of top five states.

(2) The current LTV ratio is calculated as the unpaid principal balance plus the unpaid principal balance of any equity lines of credit that share common collateral divided by the collateral value. Collateral values are generally determined using automated valuation models (AVM) and are updated quarterly. AVMs are computer-based tools used to estimate market values of homes based on processing large volumes of market data including market comparables and price trends for local market areas.

(3) Carrying value, which does not reflect the allowance for loan losses, includes purchase accounting adjustments, which, for PCI

loans are the nonaccretable difference and the accretable yield, and for all other loans, an adjustment to mark the loans to a market yield at date of merger less any subsequent charge-offs.

To maximize return and allow flexibility for customers to avoid foreclosure, we have in place several loss mitigation strategies for our Pick-a-Pay loan portfolio. We contact customers who are experiencing difficulty and may in certain cases modify the terms of a loan based on a customer s documented income and other circumstances.

We also have taken steps to work with customers to refinance or restructure their Pick-a-Pay loans into other loan products. For customers at risk, we offer combinations of term extensions of up to 40 years (from 30 years), interest rate reductions, to charge no interest on a portion of the principal for some period of time and, in geographies with substantial property value declines, we will even offer permanent principal reductions. In first quarter 2010, we completed 4,800 Pick-a-Pay loan modifications and have completed over 57,000 modifications since acquisition. The majority of the loan modifications were concentrated in our PCI Pick-a-Pay loan portfolio. Nearly 25,000 modification offers were proactively sent to customers in first quarter 2010. As part of the modification process, the loans are re-underwritten, income is documented and the negative amortization feature is eliminated. Most of the modifications result in material payment reduction to the customer. In fourth quarter 2009, the U.S. Treasury Department s HAMP was rolled out to the customers in this portfolio. As of March 31, 2010, over 22,000 HAMP applications were being reviewed by our loan servicing department and an additional 6,200 loans have been approved for the HAMP trial modification. We believe a key factor to successful loss mitigation is tailoring the revised loan payment to the customer s sustainable income. We continually reassess our loss mitigation strategies and may adopt additional or different strategies in the future.

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Because of the write-down of the PCI loans in purchase accounting, which have been aggregated in pools, our post merger modifications to PCI Pick-a-Pay loans have not resulted in any modification-related provision for credit losses. To the extent we modify loans not in the PCI Pick-a-Pay portfolio, we establish an impairment reserve in accordance with the applicable accounting requirements for loan restructurings.

Home Equity Portfolios

The disproportionate deterioration in specific segments of the legacy Wells Fargo Home Equity portfolios required a targeted approach to managing these assets. In fourth quarter 2007, a liquidating portfolio was identified, consisting of home equity loans generated through the wholesale channel not behind a Wells Fargo first mortgage, and home equity loans acquired through correspondents. The liquidating portion of the Home Equity portfolio was $8.0 billion at March 31, 2010, compared with $8.4 billion at December 31, 2009. The loans in this liquidating portfolio represent about 1% of total loans outstanding at March 31, 2010, and contain some of the highest risk in our $125.5 billion Home Equity portfolio, with a loss rate of 12.43% compared with 4.34% for the core portfolio. The loans in the liquidating portfolio are largely concentrated in geographic markets that have experienced the most abrupt and steepest declines in housing prices. The core portfolio was $117.4 billion at March 31, 2010, of which 97% was originated through the retail channel and approximately 18% of the outstanding balance was in a first lien position. The following table includes the credit attributes of these two portfolios. California loans represent the largest state concentration in each of these portfolios and have experienced among the highest early-term delinquency and loss rates.

HOME EQUITY PORTFOLIOS (1)

	Outstanding balances		% of loans two payments or more past due		Loss rate (annualized) Quarter ended	
(in millions)	**March 31, 2010**	Dec. 31, 2009	**March 31, 2010**	Dec. 31, 2009	**March 31, 2010**	Dec. 31, 2009
Core portfolio (2)						
California	**$ 29,335**	30,264	**3.88%**	4.12	**6.56**	6.12
Florida	**12,923**	12,038	**5.11**	5.48	**7.14**	6.98
New Jersey	**9,033**	8,379	**2.53**	2.50	**2.31**	1.51
Virginia	**6,023**	5,855	**2.10**	1.91	**2.34**	1.13
Pennsylvania	**5,629**	5,051	**1.90**	2.03	**1.34**	1.81
Other	**54,491**	53,811	**2.76**	2.85	**3.34**	3.04
Total	**117,434**	115,398	**3.21**	3.35	**4.34**	3.90
Liquidating portfolio						
California	**3,022**	3,205	**8.12**	8.78	**17.18**	17.94
Florida	**386**	408	**9.22**	9.45	**17.10**	19.53
Arizona	**180**	193	**9.70**	10.46	**21.33**	19.29
Texas	**148**	154	**1.96**	1.94	**2.98**	2.40
Minnesota	**104**	108	**4.44**	4.15	**9.36**	7.53
Other	**4,179**	4,361	**4.65**	5.06	**8.55**	7.33
Total	**8,019**	8,429	**6.24**	6.74	**12.43**	12.16
	$ 125,453	123,827	**3.40**	3.58	**4.86**	4.48

Total core and liquidating portfolios

(1) Consists of real estate 1-4 family junior lien mortgages and lines of credit secured by real estate from all groups, excluding PCI loans.

(2) Includes equity lines of credit and closed-end second liens associated with the Pick-a-Pay portfolio totaling $1.8 billion at March 31, 2010, and December 31, 2009.

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Credit Cards

Our credit card portfolio, a portion of which is included in the Wells Fargo Financial discussion below, totaled $22.5 billion at March 31, 2010, which represented only 3% of our total outstanding loans and was smaller than the credit card portfolios of each of our large bank peers. Delinquencies of 30 days or more were 5.6% of credit card outstandings at March 31, 2010, up from 5.5% at December 31, 2009. Net charge-offs were 11.17% (annualized) for first quarter 2010, up from 10.61% (annualized) in fourth quarter 2009, reflecting high bankruptcy filings and the current economic environment. Enhanced underwriting criteria and line management initiatives instituted in previous quarters continued to have positive effects on loss performance.

Wells Fargo Financial

Wells Fargo Financial s portfolio consists of real estate loans, substantially all of which are secured debt consolidation loans, and both prime and non-prime auto secured loans, unsecured loans and credit cards.

Wells Fargo Financial had $24.7 billion and $25.8 billion in real estate secured loans at March 31, 2010 and December 31, 2009, respectively. Of this portfolio, $1.5 billion and $1.6 billion, respectively, was considered prime based on secondary market standards and has been priced to the customer accordingly. The remaining portfolio is non-prime but has been originated with standards to reduce credit risk. These loans were originated through our retail channel with documented income, LTV limits based on credit quality and property characteristics, and risk-based pricing. In addition, the loans were originated without teaser rates, interest-only or negative amortization features. Credit losses in the portfolio have increased in the current economic environment compared with historical levels, but performance remained similar to prime portfolios in the industry with overall loss rates of 4.62% in first quarter 2010 on the entire portfolio. At March 31, 2010, $8.1 billion of the portfolio was originated with customer FICO scores below 620, but these loans have further restrictions on LTV and debt-to-income ratios intended to limit the credit risk.

Wells Fargo Financial also had $14.7 billion and $16.5 billion in auto secured loans and leases at March 31, 2010 and December 31, 2009, respectively, of which $4.0 billion and $4.4 billion, respectively, were originated with customer FICO scores below 620. Loss rates in this portfolio in first quarter 2010 were 4.31% for FICO scores of 620 and above, and 5.80% for FICO scores below 620. These loans were priced based on relative risk. Of this portfolio, $9.7 billion represented loans and leases originated through its indirect auto business, a channel Wells Fargo Financial ceased using near the end of 2008.

Wells Fargo Financial had $7.6 billion and $8.1 billion in unsecured loans and credit card receivables at March 31, 2010 and December 31, 2009, respectively, of which $1.0 billion and $1.0 billion, respectively, was originated with customer FICO scores below 620. Net loss rates in this portfolio were 12.77% in first quarter 2010 for FICO scores of 620 and above, and 17.62% for FICO scores below 620. Wells Fargo Financial has tightened credit policies and managed credit lines to reduce exposure during the recent economic environment.

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Nonaccrual Loans and Other Nonperforming Assets

The following table shows the comparative data for nonaccrual loans and other NPAs. We generally place loans on nonaccrual status when:

the full and timely collection of interest or principal becomes uncertain;

they are 90 days (120 days with respect to real estate 1-4 family first and junior lien mortgages and auto loans) past due for interest or principal (unless both well-secured and in the process of collection); or

part of the principal balance has been charged off and no restructuring has occurred.

Note 1 (Summary of Significant Accounting Policies Loans) to Financial Statements in our 2009 Form 10-K describes our accounting policy for nonaccrual loans.

NONACCRUAL LOANS AND OTHER NONPERFORMING ASSETS

(in millions)	Consolidated VIEs (2)	All other	March 31, 2010 Total balances	Dec. 31, 2009 (1) Total balances
Nonaccrual loans:				
Commercial and commercial real estate:				
Commercial (3)	$	4,273	4,273	4,397
Real estate mortgage	7	4,750	4,757	3,984
Real estate construction (4)		2,915	2,915	3,025
Lease financing		185	185	171
Total commercial and commercial real estate	7	12,123	12,130	11,577
Consumer:				
Real estate 1-4 family first mortgage (5)	821	11,526	12,347	10,100
Real estate 1-4 family junior lien mortgage	79	2,276	2,355	2,263
Other revolving credit and installment	2	332	334	332
Total consumer	902	14,134	15,036	12,695
Foreign		135	135	146
Total nonaccrual loans (6)	909	26,392	27,301	24,418
As a percentage of total loans			3.49%	3.12
Foreclosed assets:				
GNMA loans (7)		1,111	1,111	960
Other	95	2,875	2,970	2,199
Real estate and other nonaccrual investments (8)		118	118	62
Total nonaccrual loans and other nonperforming assets	$ 1,004	30,496	31,500	27,639
As a percentage of total loans			4.03%	3.53

(1)

The Company consolidated certain VIEs prior to the adoption of new consolidation accounting guidance on January 1, 2010. At December 31, 2009, consolidated VIE loans totaled $561 million, of which there were no loans on nonaccrual status.

(2) The majority of losses associated with consolidated VIE loans on nonaccrual status will ultimately be borne by third party security holders in future periods.

(3) Includes no loans held for sale at March 31, 2010, and $19 million at December 31, 2009.

(4) Includes $7 million of loans held for sale at March 31, 2010, and $8 million at December 31, 2009.

(5) Includes $412 million of mortgages held for sale at

March 31, 2010, and $339 million at December 31, 2009.

(6) Includes $9.9 billion and $9.5 billion at March 31, 2010, and December 31, 2009, respectively, of loans classified as impaired. See Note 5 to Financial Statements in this Report and Note 6 (Loans and Allowance for Credit Losses) to Financial Statements in our 2009 Form 10-K for further information on impaired loans.

(7) Consistent with regulatory reporting requirements, foreclosed real estate securing GNMA loans is classified as nonperforming. Both principal and interest for GNMA loans secured by the foreclosed real estate are collectible because the GNMA loans are insured by the Federal Housing Administration (FHA) or

guaranteed by the Department of Veterans Affairs (VA).

(8) Includes real estate investments (contingent interest loans accounted for as investments) that would be classified as nonaccrual if these assets were recorded as loans, and nonaccrual debt securities.

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Total NPAs were $31.5 billion (4.03% of total loans) at March 31, 2010, and included $27.3 billion of nonaccrual loans and $4.2 billion of foreclosed assets, real estate, and other nonaccrual investments. Growth in nonaccrual loans slowed in first quarter 2010, increasing from fourth quarter 2009 by $2.9 billion, including $909 million related to assets brought on the balance sheet upon adoption of new consolidation accounting guidance. In first quarter 2010, substantially all of the change in nonaccrual loans related to consumer and commercial real estate loans, and inflows of new nonaccruals declined on a linked-quarter basis, including declines in consumer real estate inflows not related to newly consolidated VIEs and total commercial and commercial real estate inflows, with a 27% decline in commercial real estate inflows.

Typically, changes to nonaccrual loans period-over-period represent inflows for loans that reach a specified past due status, offset by reductions for loans that are charged off, sold, transferred to foreclosed properties, or are no longer classified as nonaccrual because they return to accrual status. During 2009, because of purchase accounting, the rate of growth in nonaccrual loans was higher than it would have been without PCI loan accounting. The impact of purchase accounting on our credit data will diminish over time. In addition, we have also increased loan modifications and restructurings to assist homeowners and other borrowers in the current difficult economic cycle. This increase is expected to result in elevated nonaccrual loan levels for longer periods because consumer nonaccrual loans that have been modified remain in nonaccrual status until a borrower has made six consecutive contractual payments, inclusive of consecutive payments made prior to the modification. Loans are re-underwritten at the time of the modification in accordance with underwriting guidelines established for governmental and proprietary loan modification programs. For an accruing loan that has been modified, if the borrower has demonstrated performance under the previous terms and shows the capacity to continue to perform under the restructured terms, the loan will remain in accruing status. Otherwise, the loan will be placed in a nonaccrual status until the borrower has made six consecutive contractual payments.

Loss expectations for nonaccrual loans are driven by delinquency rates, default probabilities and severities. While nonaccrual loans are not free of loss content, we believe that the estimated loss exposure remaining in these balances is significantly mitigated by four factors. First, 91% of nonaccrual loans are secured. Second, losses have already been recognized on 37% of the consumer nonaccruals and 29% of commercial nonaccruals and, when a residential nonaccrual loan reaches 180 days past due, it is our policy to write these loans down to net realizable value. Third, as of March 31, 2010, 45% of commercial nonaccrual loans were current on interest. Fourth, there are certain nonaccruals for which there are loan level reserves in the allowance, while others are covered by pool level reserves.

Commercial and CRE nonaccrual loans, net of write-downs, amounted to $12.1 billion at March 31, 2010, up $553 million, or 5%, from $11.6 billion at December 31, 2009. On a linked-quarter basis, both the dollar amount of the increase and the rate of growth have slowed. The related reserves and write-downs for commercial and CRE nonaccrual loans at March 31, 2010, were as follows:

- Reserves
  - $7.6 billion have $1.0 billion in life-of-loan loss impairment reserves in addition to any charge-offs; and
  - the remaining $4.5 billion have reserves as part of the allowance for loan losses.
- Write-downs
  - $4.1 billion are net of write-downs of $2.1 billion; and
  - the remaining $8.0 billion have not been written down.

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Of the $12.1 billion of commercial and CRE nonaccrual loans, $11.0 billion (91%) are secured, of which $7.7 billion (63%) are secured by real estate, and the remainder secured by other assets such as receivables, inventory and equipment. Over 45% of these nonaccrual loans are paying interest that is being applied to principal.

Consumer nonaccrual loans (including nonaccrual troubled debt restructurings (TDRs)) amounted to $15.0 billion at March 31, 2010, compared with $12.7 billion at December 31, 2009. The $2.3 billion increase in nonaccrual consumer loans from December 31, 2009, represented an increase of $2.2 billion in 1-4 family first mortgage loans and an increase of $92 million in 1-4 family junior liens. Residential mortgage nonaccrual loans increased largely due to slower disposition, not increased quarterly inflow. In addition, the increase in nonaccrual loans included $902 million related to assets brought on the balance sheet upon consolidation of VIEs. Federal government programs, such as HAMP, and Wells Fargo proprietary programs, such as the Company s Pick-a-Pay Mortgage Assistance program, require customers to provide updated documentation and complete trial repayment periods before the loan can be removed from nonaccrual status. In addition, for loans in foreclosure, many states, including California and Florida where Wells Fargo has significant exposures, have enacted legislation that significantly increases the time frames to complete the foreclosure process, meaning that loans will remain in nonaccrual status for longer periods. At the conclusion of the foreclosure process, we continue to sell real estate owned in a very timely fashion.

When a consumer real estate loan is 120 days past due, we move it to nonaccrual status and when the loan reaches 180 days past due it is our policy to write these loans down to net realizable value. Thereafter, we revalue each loan in nonaccrual status regularly and recognize additional charges if needed. Our quarterly market classification process, employed since late 2007, indicates as of March 31, 2010, that home values in most metropolitan statistical areas have stabilized and we anticipate manageable additional write-downs while properties work through the foreclosure process.

Of the $15.0 billion of consumer nonaccrual loans:

- 99% are secured, substantially all by real estate; and
- 21% have a combined LTV ratio of 80% or below.

In addition to the $15.0 billion of consumer nonaccrual loans, there were also accruing consumer TDRs of $7.5 billion at March 31, 2010. In total, there were $22.5 billion of consumer nonaccrual loans and accruing TDRs at March 31, 2010. The related reserves and write-downs for consumer nonaccrual loans at March 31, 2010, were as follows:

- Write-downs
  - $9.8 billion have $2.1 billion in life-of-loan TDR loss impairment reserves in addition to any charge-offs; and
  - the remaining $12.7 billion have reserves as part of the allowance for loan losses;
- Reserves
  - $6.7 billion are net of write-downs of $3.0 billion; consumer loans secured by real estate are charged-off to the appraised value, less cost to sell, of the underlying collateral when these loans reach 180 days delinquent; and
  - the remaining $15.8 billion have not been written down.

NPAs at March 31, 2010, included $1.1 billion of loans that are FHA insured or VA guaranteed, which have little to no loss content, and $3.0 billion of foreclosed assets, which have been written down to the value of the underlying collateral. Foreclosed assets included $446 million that resulted from PCI loans.

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Foreclosed assets increased 29% in first quarter 2010. The majority of the inherent loss content in these assets has already been accounted for, and increases to this population of assets should have minimal additional impact to expected loss levels.

Given our real estate-secured loan concentrations and current economic conditions, we anticipate continuing to hold a high level of NPAs on our balance sheet. We expect the rate of growth in NPAs to continue to decline, but expect balances to continue increasing modestly near term. We believe the loss content in the nonaccrual loans has either already been realized or provided for in the allowance for credit losses at March 31, 2010. We remain focused on proactively identifying problem credits, moving them to nonperforming status and recording the loss content in a timely manner. We ve increased staffing in our workout and collection organizations to ensure these troubled borrowers receive the attention and help they need. See the Risk Management Allowance for Credit Losses section in this Report for additional discussion. The performance of any one loan can be affected by external factors, such as economic or market conditions, or factors affecting a particular borrower.

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Troubled Debt Restructurings (TDRs)

The following table provides the detail of the recorded investment in loans modified in TDRs.

(in millions)	**March 31, 2010**	Dec. 31, 2009
Consumer TDRs:		
Real estate 1-4 family first mortgage	**$ 7,972**	6,685
Real estate 1-4 family junior lien mortgage	**1,563**	1,566
Other revolving credit and installment	**310**	17
Total consumer TDRs	**9,845**	8,268
Commercial and commercial real estate TDRs	**386**	265
Total TDRs	**$ 10,231**	8,533
TDRs on nonaccrual status	**$ 2,738**	2,289
TDRs on accrual status	**7,493**	6,244
Total TDRs	**$ 10,231**	8,533

We establish an impairment reserve when a loan is restructured in a TDR. The impairment reserve for TDRs was $2.2 billion at March 31, 2010, and $1.8 billion at December 31, 2010.

Total charge-offs related to loans modified in a TDR that were still held in the balance sheet at period end were $322 million and $36 million for first quarter 2010 and 2009, respectively. The TDR charge-offs for first quarter 2010 included $145 million due to newly issued regulatory guidance requiring charge-off of certain collateral-dependent residential real estate loans that have been modified.

Our nonaccrual policies are generally the same for all loan types when a restructuring is involved. We underwrite loans at the time of restructuring to determine if the borrower has the capacity to continue to perform under the restructured terms. If the borrower has demonstrated performance under the previous terms and the underwriting process shows capacity to continue to perform under the restructured terms, the loan will remain in accruing status. Otherwise, the loan will be placed in nonaccrual status until the borrower demonstrates a sustained period of performance which we believe to be six consecutive monthly payments. Loans will also be placed on nonaccrual, and a corresponding charge-off recorded to the loan balance, if we believe that principal and interest contractually due under the modified agreement will not be collectible.

We do not forgive principal for a majority of our TDRs. In those situations where principal is forgiven, the performance on the remaining balance will generally improve, which may justify continued accrual or returning the loan to accrual after the borrower demonstrates a sustained period of performance.

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Loans 90 Days or More Past Due and Still Accruing

Loans included in this category are 90 days or more past due as to interest or principal and still accruing, because they are (1) well-secured and in the process of collection or (2) real estate 1-4 family first mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual. PCI loans are excluded from the disclosure of loans 90 days or more past due and still accruing interest. Even though certain of them are 90 days or more contractually past due, they are considered to be accruing because the interest income on these loans relates to the establishment of an accretable yield under the accounting for PCI loans and not to contractual interest payments.

Loans 90 days or more past due and still accruing totaled $21.8 billion at March 31, 2010, and $22.2 billion at December 31, 2009. The totals included $15.9 billion and $15.3 billion for the same dates, respectively, in advances pursuant to our servicing agreements to GNMA mortgage pools and similar loans whose repayments are insured by the FHA or guaranteed by the VA. At March 31, 2010, loans 90 days or more past due and still accruing included $107 million associated with consolidated VIE loans.

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING (EXCLUDING INSURED/GUARANTEED GNMA AND SIMILAR LOANS)

(in millions)	**Consolidated VIEs (2)**	**All other**	**March 31, 2010 Total balances**	Dec. 31, 2009(1) Total balances
Commercial and commercial real estate:				
Commercial	**$**	**561**	**561**	590
Real estate mortgage		**1,129**	**1,129**	1,183
Real estate construction		**605**	**605**	740
Total commercial and commercial real estate		**2,295**	**2,295**	2,513
Consumer:				
Real estate 1-4 family first mortgage (3)	**94**	**1,187**	**1,281**	1,623
Real estate 1-4 family junior lien mortgage	**10**	**404**	**414**	515
Credit card		**719**	**719**	795
Other revolving credit and installment	**3**	**1,216**	**1,219**	1,333
Total consumer	**107**	**3,526**	**3,633**	4,266
Foreign		**29**	**29**	73
Total	**$ 107**	**5,850**	**5,957**	6,852

(1) We consolidated certain VIEs prior to the adoption of new consolidation accounting guidance on

January 1, 2010. At December 31, 2009, consolidated VIE loans totaled $561 million, of which there were no loans 90 days or more past due and still accruing.

(2) The majority of losses associated with consolidated VIE loans that are 90 days or more past due and still accruing will ultimately be borne by third party security holders in future periods.

(3) Includes mortgage loans held for sale 90 days or more past due and still accruing.

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Net Charge-offs

NET CHARGE-OFFS

						Quarter ended March 31,	
					2010		2009
(in millions)	**Consolidated VIEs (1)**	**Collateral-dependent modified loans (2)**	**All other**	**Total net loan charge-offs**	**As a % of average loans (3)**	Net loan charge-offs	As a % of average loans (3)
Commercial and commercial real estate:							
Commercial	**$**		**650**	**650**	**1.68%**	$ 556	1.15%
Real estate mortgage			**327**	**327**	**1.27**	21	0.08
Real estate construction			**338**	**338**	**4.74**	103	1.21
Lease financing			**29**	**29**	**0.85**	17	0.43
Total commercial and commercial real estate			**1,344**	**1,344**	**1.79**	697	0.80
Consumer:							
Real estate 1-4 family first mortgage	**97**	**46**	**1,168**	**1,311**	**2.17**	391	0.65
Real estate 1-4 family junior lien mortgage	**15**	**99**	**1,335**	**1,449**	**5.56**	847	3.12
Credit card			**643**	**643**	**11.17**	582	10.13
Other revolving credit and installment	**11**		**536**	**547**	**2.45**	696	3.05
Total consumer	**123**	**145**	**3,682**	**3,950**	**3.45**	2,516	2.16
Foreign			**36**	**36**	**0.52**	45	0.56
Total	**$ 123**	**145**	**5,062**	**5,330**	**2.71%**	$ 3,258	1.54%

(1) The majority of losses associated with consolidated VIE loans on nonaccrual status will ultimately be borne by third party security holders in future periods.

(2) Comptroller of the Currency CNBE Policy Guidance 2010-11, *Policy Interpretation* Supervisory Memorandum 2009-7, *Guidance for the Treatment of Residential Real Estate Loan Modifications.*

(3) Quarterly net charge-offs as a percentage of average loans are annualized.

Net charge-offs in first quarter 2010 were $5.3 billion (2.71% of average total loans outstanding, annualized) compared with $5.4 billion (2.71%) in fourth quarter 2009, and $3.3 billion (1.54%) a year ago. Based on results for the last few quarters and current loss projections, we believe quarterly total credit losses have peaked. Total credit losses included $1.3 billion of commercial and commercial real estate loans (1.79%) and $4.0 billion of consumer loans (3.45%) in first quarter 2010 as shown in the table above. First quarter charge-offs included $123 million in losses associated with assets brought onto the balance sheet upon adoption of new consolidation accounting guidance and $145 million in losses associated with newly issued regulatory charge-off guidance applicable to collateral-dependent real estate loan modifications. The costs related to these charge-offs had previously been reserved. Our credit view has improved earlier than we had anticipated. In the consumer portfolio, lower early stage delinquencies, better delinquency roll rates, and improved values for residential real estate and autos were evident in the first quarter. In the commercial portfolio (including CRE) losses declined $356 million from fourth quarter 2009 and may indicate stabilization and an earlier-than-expected loss peak.

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Allowance for Credit Losses

The allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, is management s estimate of credit losses inherent in the loan portfolio at the balance sheet date and excludes loans carried at fair value. The detail of the changes in the allowance for credit losses, including charge-offs and recoveries by loan category, is in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

We employ a disciplined process and methodology to establish our allowance for loan losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade specific loss factors. The process involves difficult, subjective, and complex judgments. In addition, we review several credit ratio trends, such as the ratio of the allowance for loan losses to nonaccrual loans and the ratio of the allowance for loan losses to net charge-offs. These trends are not determinative of the adequacy of the allowance as we use several analytical tools in determining the adequacy of the allowance.

For individually graded (typically commercial) portfolios, we generally use loan-level credit quality ratings, which are based on borrower information and strength of collateral, combined with historically based grade specific loss factors. The allowance for individually rated nonaccruing commercial loans with an outstanding exposure of $5 million or greater is determined through an individual impairment analysis. For statistically evaluated portfolios (typically consumer), we generally leverage models which use credit-related characteristics such as credit rating scores, delinquency migration rates, vintages, and portfolio concentrations to estimate loss content. Additionally, the allowance for TDRs is based on the risk characteristics of the modified loans and the resultant estimated cash flows discounted at the pre-modification effective yield of the loan. While the allowance is determined using product and business segment estimates, it is available to absorb losses in the entire loan portfolio.

At March 31, 2010, the allowance for loan losses totaled $25.1 billion (3.22% of total loans), compared with $24.5 billion (3.13%), at December 31, 2009. The allowance for credit losses was $25.7 billion (3.28% of total loans) at March 31, 2010, and $25.0 billion (3.20%) at December 31, 2009. The allowance for credit losses included $247 million at March 31, 2010, and $333 million at December 31, 2009, related to PCI loans acquired from Wachovia. Loans acquired from Wachovia are included in total loans net of related purchase accounting write-downs. The reserve for unfunded credit commitments was $533 million at March 31, 2010, and $515 million at December 31, 2009. In addition to the allowance for credit losses there was $19.9 billion of nonaccretable difference at March 31, 2010, and $22.9 billion at December 31, 2009, to absorb losses for PCI loans.

The ratio of the allowance for credit losses to total nonaccrual loans was 94% at March 31, 2010, and 103% at December 31, 2009. In general, this ratio may fluctuate significantly from period to period due to such factors as the mix of loan types in the portfolio, borrower credit strength and the value and marketability of collateral. Over half of nonaccrual loans were home mortgages, auto and other consumer loans at March 31, 2010.

Total provision expense in first quarter 2010 was $5.3 billion compared with $4.6 billion a year ago. The provision for credit losses in first quarter 2010 equaled charge-offs, compared with a net build to the allowance for credit losses of $1.3 billion for first quarter 2009. Our loan loss reserve increase from year end 2009 is fully attributable to assets brought on balance sheet due to the adoption of new consolidation accounting guidance.

We believe the allowance for credit losses of $25.7 billion was adequate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at March 31, 2010. The allowance for credit losses is subject to change and we consider existing factors at the time, including economic and market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economic environment, it is possible that unanticipated economic deterioration would create incremental credit losses not anticipated as of the balance sheet date. Our process for determining the adequacy of the allowance for credit losses is discussed in the Financial Review Critical Accounting Policies Allowance for Credit Losses section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in our 2009 Form 10-K.

Reserve for Mortgage Loan Repurchase Losses

We sell mortgage loans to various parties, including GSEs, under contractual provisions that include various representations and warranties which typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, and similar matters. We may be required to repurchase the mortgage loans with identified defects, indemnify the investor or insurer, or reimburse the investor for credit loss incurred on the loan (collectively repurchase) in the event of a material breach of such contractual representations or warranties. On occasion, we may negotiate global settlements in order to resolve a pipeline of demands in lieu of repurchasing the loans. We manage the risk associated with potential repurchases or other forms of settlement through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards.

We establish mortgage repurchase reserves related to various representations and warranties that reflect management s estimate of losses based on a combination of factors. Such factors incorporate estimated levels of defects based on internal quality assurance sampling, default expectations, historical investor repurchase demand and appeals success rates (where the investor rescinds the demand based on a cure of the defect or acknowledges that the loan satisfies the investor s applicable representations and warranties), reimbursement by correspondent and other third party originators, and projected loss severity. We establish a reserve at the time loans are sold and continually update our reserve estimate during their life. Although investors may demand repurchase at any time, the majority of repurchase demands occurs in the first 24 to 36 months following origination of the mortgage loan and can vary by investor. Currently, repurchase demands primarily relate to 2006 through 2008 vintages.

During first quarter 2010, we continued to experience elevated levels of repurchase activity measured by number of loans, investor repurchase demands and our level of repurchases. We repurchased or otherwise settled mortgage loans with balances of $600 million and incurred net losses on repurchase activity of $172 million. Our reserve for repurchases, included in Accrued expenses and other liabilities in our consolidated financial statements, was $1.3 billion at March 31, 2010, and $1.0 billion at December 31, 2009. In first quarter 2010, a $402 million addition to the reserve was included in gains on mortgage loan origination/sales. To the extent that repurchased loans are nonperforming, the loans are classified as nonaccrual. Nonperforming loans included $390 million of repurchased loans at March 31, 2010, and $308 million at December 31, 2009.

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The following table summarizes the changes in our reserve for mortgage loan repurchase losses.

(in millions)		Quarter ended Mar. 31, 2010	Year ended Dec. 31, 2009
Balance, beginning of period	$	**1,033**	620(1)
Additions:			
Loan sales		**44**	302
Change in estimate primarily due to credit deterioration		**358**	625
Total additions		**402**	927
Net losses		**(172)**	(514)
Balance, end of period	$	**1,263**	1,033

(1) Reflects purchase accounting refinements.

The reserve for mortgage loan repurchase losses of $1.3 billion at March 31, 2010, represents our best estimate of the probable loss that we may incur for various representations and warranties in the contractual provisions of our sales of mortgage loans. There may be a range of reasonably possible losses in excess of the estimated liability that cannot be estimated. The factors that influence our reserve for mortgage loan repurchase losses are dependent on economic, investor demand strategies, and other external conditions that may change over the life of the underlying loans, are difficult to estimate and require considerable management judgment. We maintain regular contact with the GSEs and other significant investors to monitor and address their repurchase demand practices and concerns.

A majority of our repurchases were government agency conforming loans from Freddie Mac and Fannie Mae. Our repurchase and settlement activity during first quarter 2010 was elevated primarily related to weaker economic conditions as investors, predominantly GSEs, made increased demands associated with higher levels of defaulted loans.

To the extent that economic conditions and the housing market do not recover or future investor repurchase demand and appeals success rates differ from past experience, we could continue to have increased demands and increased loss severity on repurchases, causing future additions to the repurchase reserve. However, some of the underwriting standards that were permitted by the GSEs for conforming loans in the 2006 through 2008 vintages, which significantly contributed to recent levels of repurchase demands, were tightened starting in mid to late 2008. Accordingly, we do not expect a similar rate of repurchase requests from the 2009 and prospective vintages, absent deterioration in economic conditions or changes in investor behavior.

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ASSET/LIABILITY MANAGEMENT

Asset/liability management involves the evaluation, monitoring and management of interest rate risk, market risk, liquidity and funding. The Corporate Asset/Liability Management Committee (Corporate ALCO) which oversees these risks and reports periodically to the Finance Committee of the Board of Directors consists of senior financial and business executives. Each of our principal business groups has its own asset/liability management committee and process linked to the Corporate ALCO process.

Interest Rate Risk

Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary. We assess interest rate risk by comparing our most likely earnings plan with various earnings simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, as of March 31, 2010, our most recent simulation indicated estimated earnings at risk of less than 1% of our most likely earnings plan over the next 12 months using a scenario in which the federal funds rate rises to 3.75% and the 10-year Constant Maturity Treasury bond yield rises to 5.10%. Simulation estimates depend on, and will change with, the size and mix of our actual and projected balance sheet at the time of each simulation. Due to timing differences between the quarterly valuation of MSRs and the eventual impact of interest rates on mortgage banking volumes, earnings at risk in any particular quarter could be higher than the average earnings at risk over the 12-month simulation period, depending on the path of interest rates and on our hedging strategies for MSRs. See the Risk Management Mortgage Banking Interest Rate and Market Risk section in this Report for more information.

We use exchange-traded and over-the-counter (OTC) interest rate derivatives to hedge our interest rate exposures. The notional or contractual amount, credit risk amount and estimated net fair value of these derivatives as of March 31, 2010, and December 31, 2009, are presented in Note 11 (Derivatives) to Financial Statements in this Report.

For additional information regarding interest rate risk, see pages 66-67 of our 2009 Form 10-K.

Mortgage Banking Interest Rate and Market Risk

We originate, fund and service mortgage loans, which subject us to various risks, including credit, liquidity and interest rate risks. For a discussion of mortgage banking interest rate and market risk, see pages 67-69 of our 2009 Form 10-K.

In first quarter 2010, a $777 million decrease in the fair value of our MSRs and $1.8 billion gain on free-standing derivatives used to hedge the MSRs resulted in a net gain of $1.0 billion. This net gain was largely due to hedge-carry income which reflected the low short-term interest rate environment. The net gain on the MSR of $1.0 billion was down from $1.9 billion in fourth quarter 2009 due to a change in the composition of the hedge toward more interest rate swaps and lower coupon mortgage forwards designed to maintain ongoing hedge effectiveness.

While our hedging activities are designed to balance our mortgage banking interest rate risks, the financial instruments we use may not perfectly correlate with the values and income being hedged. For example, the change in the value of ARMs production held for sale from changes in mortgage interest rates may or may not be fully offset by Treasury and LIBOR index-based financial instruments used as economic hedges for such ARMs. Additionally, the hedge-carry income we earn on our economic hedges for the MSRs may not continue if the spread between short-term and long-term rates decreases, we shift the composition of the hedge to more interest rate swaps, or there are other changes in the market for mortgage forwards that impact the implied carry.

For additional information regarding other risk factors related to the mortgage business, see pages 67-69 of our 2009 Form 10-K.

The total carrying value of our residential and commercial MSRs was $16.6 billion at March 31, 2010, and $17.1 billion at December 31, 2009. The weighted-average note rate on our portfolio of loans serviced for others was 5.59% at March 31, 2010, and 5.66% at December 31, 2009. Our total MSRs were 0.89% of mortgage loans serviced for others at March 31, 2010, compared with 0.91% at December 31, 2009.

Market Risk Trading Activities

From a market risk perspective, our net income is exposed to changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices and their implied volatilities. The credit risk amount and estimated net fair value of all customer accommodation derivatives are included in Note 11 (Derivatives) to Financial Statements in this Report. Open, at risk positions for all trading businesses are monitored by Corporate ALCO.

The standardized approach for monitoring and reporting market risk for the trading activities consists of value-at-risk (VaR) metrics complemented with factor analysis and stress testing. VaR measures the worst expected loss over a given time interval and within a given confidence interval. We measure and report daily VaR at a 99% confidence interval based on actual changes in rates and prices over the past 250 trading days. The analysis captures all financial instruments that are considered trading positions. The average one-day VaR throughout first quarter 2010 was $38 million, with a lower bound of $23 million and an upper bound of $52 million. For additional information regarding market risk related to trading activities, see page 69 of our 2009 Form 10-K.

Market Risk Equity Markets

We are directly and indirectly affected by changes in the equity markets. For additional information regarding market risk related to equity markets, see page 69 of our 2009 Form 10-K.

The following table provides information regarding our marketable and nonmarketable equity investments.

(in billions)	**March 31, 2010**	Dec. 31, 2009
Private equity investments:		
Cost method	**$ 3.8**	3.8
Equity method	**6.4**	5.1
Principal investments	**0.4**	1.4
Marketable equity securities:		
Cost	**4.9**	4.7
Fair value	**5.7**	5.6

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Liquidity and Funding

The objective of effective liquidity management is to ensure that we can meet customer loan requests, customer deposit maturities/withdrawals and other cash commitments efficiently under both normal operating conditions and under unpredictable circumstances of industry or market stress. To achieve this objective, Corporate ALCO establishes and monitors liquidity guidelines that require sufficient asset-based liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. We set these guidelines for both the consolidated balance sheet and for the Parent to ensure that the Parent is a source of strength for its regulated, deposit-taking banking subsidiaries.

Debt securities in the securities available-for-sale portfolio provide asset liquidity, in addition to the immediately liquid resources of cash and due from banks and federal funds sold, securities purchased under resale agreements and other short-term investments. Asset liquidity is further enhanced by our ability to sell or securitize loans in secondary markets and to pledge loans to access secured borrowing facilities through the Federal Home Loan Banks, the FRB, or the U.S. Treasury.

Core customer deposits have historically provided a sizeable source of relatively stable and low-cost funds. Additional funding is provided by long-term debt (including trust preferred securities), other foreign deposits and short-term borrowings (federal funds purchased, securities sold under repurchase agreements, commercial paper and other short-term borrowings).

Liquidity is also available through our ability to raise funds in a variety of domestic and international money and capital markets. We access capital markets for long-term funding through issuances of registered debt securities, private placements and asset-backed secured funding. Investors in the long-term capital markets generally will consider, among other factors, a company s debt rating in making investment decisions. Wells Fargo Bank, N.A. is rated Aa2, by Moody s Investors Service, and AA, by Standard & Poor s (S&P) Rating Services. Rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, the level and quality of earnings, and rating agency assumptions regarding the probability and extent of Federal financial assistance or support for certain large financial institutions. Material changes in these factors, including the enactment of proposed legislation that may lessen the probability of future Federal assistance or support for large financial institutions, could result in a different debt rating; however, a change in debt rating would not cause us to violate any of our debt covenants. See the Risk Factors section of this Report for additional information regarding recent legislative proposals and our credit ratings.

Parent. Under SEC rules, the Parent is classified as a well-known seasoned issuer, which allows it to file a registration statement that does not have a limit on issuance capacity. Well-known seasoned issuers generally include those companies with a public float of common equity of at least $700 million or those companies that have issued at least $1 billion in aggregate principal amount of non-convertible securities, other than common equity, in the last three years. In June 2009, the Parent filed a registration statement with the SEC for the issuance of senior and subordinated notes, preferred stock and other securities. The Parent s ability to issue debt and other securities under this registration statement is limited by the debt issuance authority granted by the Board. The Parent is currently authorized by the Board to issue $60 billion in outstanding short-term debt and $170 billion in outstanding long-term debt.

At March 31, 2010, the Parent had outstanding short-term and long-term debt under these authorities of $9.9 billion and $112.6 billion, respectively. During first quarter 2010, the Parent issued a total of $1.3 billion in non-guaranteed registered senior notes. Effective August 2009, the Parent established an SEC registered $25 billion medium-term note program (MTN), under which it may issue senior and subordinated debt securities. Also, effective April 2010, the Parent established an SEC registered $25 billion MTN, under which it may issue senior debt securities linked to one or more market indices. In December 2009, the Parent established a $25 billion European medium-term note programme (EMTN), under which it may issue senior and subordinated debt securities. In March 2010, the Parent increased its Australian medium-term note programme (AMTN) from A$5 billion to A$10 billion, under which it may issue senior and subordinated debt securities. The EMTN and AMTN securities are not registered with the SEC and may not be offered in the United States without applicable exemptions from registration. The Parent has $21.8 billion, $25.0 billion and A$6.8 billion available for issuance under the MTN, EMTN and AMTN, respectively. The proceeds from securities issued in first quarter 2010 were used for general corporate purposes, and we expect that the proceeds from securities issued in the future will also be used for general corporate purposes. The Parent also issues commercial paper from time to time, subject to its short-term debt limit.

Wells Fargo Bank, N.A. Wells Fargo Bank, N.A. is authorized by its board of directors to issue $100 billion in outstanding short-term debt and $125 billion in outstanding long-term debt. In December 2007, Wells Fargo Bank, N.A. established a $100 billion bank note program under which, subject to any other debt outstanding under the limits described above, it may issue $50 billion in outstanding short-term senior notes and $50 billion in long-term senior or subordinated notes. At March 31, 2010, Wells Fargo Bank, N.A. had remaining issuance capacity on the bank note program of $50 billion in short-term senior notes and $50 billion in long-term senior or subordinated notes. Securities are issued under this program as private placements in accordance with Office of the Comptroller of the Currency (OCC) regulations. Effective March 20, 2010, Wachovia Bank, N.A. merged with and into Wells Fargo Bank, N.A.

Wells Fargo Financial. In January 2010, Wells Fargo Financial Canada Corporation (WFFCC), an indirect wholly-owned Canadian subsidiary of the Parent, qualified with the Canadian provincial securities commissions CAD$7.0 billion in medium-term notes for distribution from time to time in Canada. At March 31, 2010, CAD$7.0 billion remained available for future issuance. All medium-term notes issued by WFFCC are unconditionally guaranteed by the Parent.

Federal Home Loan Bank Membership

We are a member of the Federal Home Loan Banks based in Dallas, Des Moines and San Francisco (collectively, the FHLBs). Each member of each of the FHLBs is required to maintain a minimum investment in capital stock of the applicable FHLB. The board of directors of each FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Board. Because the extent of any obligation to increase our investment in any of the FHLBs depends entirely upon the occurrence of a future event, potential future payments to the FHLBs are not determinable.

CAPITAL MANAGEMENT

We have an active program for managing stockholders equity and regulatory capital and we maintain a comprehensive process for assessing the Company s overall capital adequacy. We generate capital internally primarily through the retention of earnings net of dividends, and through the issuance of common stock to certain benefit plans. Our objective is to maintain capital levels at the Company and its bank subsidiaries above the regulatory well-capitalized thresholds by an amount commensurate with our risk profile. Our potential sources of stockholders equity include retained earnings and issuances of common and preferred stock. Retained earnings increased $2.1 billion from December 31, 2009, predominantly from Wells Fargo net income of $2.5 billion, less common and preferred dividends of $444 million. During first quarter 2010, we issued approximately 28 million shares of common stock, with net proceeds of $464 million, including 7 million shares from time to time during the period under various employee benefit (including our employee stock option plan) and director plans, as well as under our dividend reinvestment and direct stock purchase programs.

On April 29, 2010, following stockholder approval, the Company amended its certificate of incorporation to provide for an increase in the number of shares of the Company s common stock authorized for issuance from 6 billion to 9 billion.

In connection with our participation in the Troubled Asset Relief Program Capital Purchase Program, we issued to the U.S. Treasury Department a warrant to purchase 110,261,688 shares of our common stock with an exercise price of $34.01 per share. The Treasury Department has announced plans to hold an auction to sell the warrant. We will not receive any of the proceeds from the sale of the warrant. We will be allowed to bid in the auction process. If we bid, we will not receive any preferential treatment, and will participate in the auction process on the same basis as all other bidders except that we will be required to submit any final bid earlier than other participants.

From time to time the Board authorizes the Company to repurchase shares of our common stock. Although we announce when the Board authorizes share repurchases, we typically do not give any public notice before we repurchase our shares. Various factors determine the amount and timing of our share repurchases, including our capital requirements, the number of shares we expect to issue for acquisitions and employee benefit plans, market conditions (including the trading price of our stock), and regulatory and legal considerations. The FRB published clarifying supervisory guidance in first quarter 2009, *SR 09-4 Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies,* pertaining to the FRB s criteria, assessment and approval process for reductions in capital. As with all 19 participants in the FRB s SCAP, under this supervisory letter, before repurchasing our common shares, we must consult with the Federal Reserve staff and demonstrate that the proposed actions are consistent with the existing supervisory guidance, including demonstrating that our internal capital assessment process is consistent with the complexity of our activities and risk profile. In 2008, the Board authorized the repurchase of up to 25 million additional shares of our outstanding common stock. During first quarter 2010, we repurchased 1 million shares of our common stock, all from our employee benefit plans. At March 31, 2010, the total remaining common stock repurchase authority was approximately 5 million shares.

Historically, our policy has been to repurchase shares under the safe harbor conditions of Rule 10b-18 of the Securities Exchange Act of 1934 including a limitation on the daily volume of repurchases. Rule 10b-18 imposes an additional daily volume limitation on share repurchases during a pending merger or acquisition in which shares of our stock will constitute some or all of the consideration. Our management may determine that during a pending stock merger or acquisition when the safe harbor would otherwise be available, it is in our best interest to repurchase shares in excess of this additional daily volume limitation. In such cases, we intend to repurchase shares in compliance with the other conditions of the safe harbor, including the standing daily volume limitation that applies whether or not there is a pending stock merger or acquisition.

The Company and each of our subsidiary banks are subject to various regulatory capital adequacy requirements administered by the FRB and the OCC. Risk-based capital (RBC) guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. At March 31, 2010, the Company and each of our subsidiary banks were well capitalized under applicable regulatory capital adequacy guidelines. See Note 18 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.

Current regulatory RBC rules are based primarily on broad credit-risk considerations and limited market related risks, but do not take into account other types of risk a financial company may be exposed to. Our capital adequacy assessment process contemplates a wide range of risks that the Company is exposed to and also takes into consideration our performance under a variety of economic conditions, as well as

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regulatory expectations and guidance, rating agency viewpoints and the view of capital market participants.

At March 31, 2010, stockholders equity and Tier 1 common equity levels were higher than the quarter ending prior to the Wachovia acquisition. During 2009, as regulators and the market focused on the composition of regulatory capital, the Tier 1 common equity ratio gained significant prominence as a metric of capital strength. There is no mandated minimum or well capitalized standard for Tier 1 common equity; instead the RBC rules state voting common stockholders equity should be the dominant element within Tier 1 common equity. Tier 1 common equity was $70.2 billion at March 31, 2010, or 7.09% of risk-weighted assets, an increase of $4.7 billion from December 31, 2009. The following table provides the details of the Tier 1 common equity calculation. The implementation of new consolidation accounting guidance did not significantly impact capital ratios; the addition of $6 billion of risk-adjusted assets reduced the Tier 1 common ratio by less than 1 basis point.

TIER 1 COMMON EQUITY (1)

(in billions)			**March 31, 2010**	Dec. 31, 2009
Total equity		$	**118.1**	114.4
Less: Noncontrolling interests			**(2.0)**	(2.6)
Total Wells Fargo stockholders equity			**116.1**	111.8
Less: Preferred equity			**(8.1)**	(8.1)
Goodwill and intangible assets (other than MSRs)			**(37.2)**	(37.7)
Applicable deferred assets			**5.2**	5.3
Deferred tax asset limitation				(1.0)
MSRs over specified limitations			**(1.5)**	(1.6)
Cumulative other comprehensive income			**(4.0)**	(3.0)
Other			**(0.3)**	(0.2)
Tier 1 common equity	(A)	$	**70.2**	65.5
Total risk-weighted assets (2)	(B)	$	**990.1**	1,013.6
Tier 1 common equity to total risk-weighted assets	(A)/(B)		**7.09%**	6.46

(1) Tier 1 common equity is a non-GAAP financial measure that is used by investors, analysts and bank regulatory agencies, to assess the capital position of

financial services companies. Tier 1 common equity includes total Wells Fargo stockholders equity, less preferred equity, goodwill and intangible assets (excluding MSRs), net of related deferred taxes, adjusted for specified Tier 1 regulatory capital limitations covering deferred taxes, MSRs, and cumulative other comprehensive income. Management reviews Tier 1 common equity along with other measures of capital as part of its financial analyses and has included this non-GAAP financial information, and the corresponding reconciliation to total equity, because of current interest in such information on the part of market participants.

(2) Under the regulatory

guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

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CRITICAL ACCOUNTING POLICIES

Our significant accounting policies (see Note 1 (Summary of Significant Accounting Policies) to Financial Statements in this Report) are fundamental to understanding our results of operations and financial condition, because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Six of these policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

- the allowance for credit losses;
- purchased credit-impaired (PCI) loans;
- the valuation of residential mortgage servicing rights (MSRs);
- the fair valuation of financial instruments;
- pension accounting; and
- income taxes.

Management has reviewed and approved these critical accounting policies and has discussed these policies with the Audit and Examination Committee of the Company s Board. These policies are described in the Financial Review Critical Accounting Policies section and Note 1 (Summary of Significant Accounting Policies) to Financial Statements in our 2009 Form 10-K.

FAIR VALUATION OF FINANCIAL INSTRUMENTS

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. See our 2009 Form 10-K for the complete critical accounting policy related to fair valuation of financial instruments.

For the securities available-for-sale portfolio, we typically use independent pricing services and brokers to obtain fair value of based upon quoted prices. We determine the most appropriate and relevant pricing service for each security class and generally obtain one quoted price for each security. For securities in our trading portfolio, we typically use prices developed internally by our traders to measure the security at fair value. Internal traders base their prices upon their knowledge of current market information for the particular security class being valued. Current market information includes recent transaction prices for the same or similar securities, liquidity conditions, relevant benchmark indices and other market data. For both trading and available-for-sale securities, we validate prices using a variety of methods, including but not limited to, comparison to pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices and, for securities valued using external pricing services or brokers, review of pricing by Company personnel familiar with market liquidity and other market-related conditions. We believe the determination of fair value for our securities is consistent with the accounting guidance on fair value measurements.

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The table below presents the summary of the fair value of financial instruments recorded at fair value on a recurring basis, and the amounts measured using significant Level 3 inputs (before derivative netting adjustments). The fair value of the remaining assets and liabilities were measured using valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements.

	March 31, 2010		December 31, 2009	
($ in billions)	**Total balance**	**Level 3 (1)**	Total balance	Level 3 (1)
Assets carried at fair value	**$ 262.3**	**49.3**	277.4	52.0
As a percentage of total assets	**21%**	**4**	22	4
Liabilities carried at fair value	**$ 18.4**	**8.4**	22.8	7.9
As a percentage of total liabilities	**2%**	**1**	2	1

(1) Before derivative netting adjustments.

See Note 12 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for a complete discussion on our use of fair valuation of financial instruments, our related measurement techniques and its impact to our financial statements.

Current Accounting Developments

The following accounting pronouncement was issued by the Financial Accounting Standards Board, but is not yet effective:

Accounting Standards Update (ASU) 2010-11, *Scope Exception Related to Embedded Credit Derivatives.* ASU 2010-11 addresses when entities should evaluate embedded credit derivative features in financial instruments. The Update clarifies that bifurcation and separate accounting is not required for embedded credit derivative features that are only related to the transfer of credit risk that occurs when one financial instrument is subordinate to another. Embedded derivatives related to other types of credit risk must be analyzed to determine the appropriate accounting treatment. The guidance also allows companies to elect fair value option upon adoption for retained and purchased interests in securitized financial assets. By making this election, companies would not be required to evaluate whether embedded credit derivative features exist for those interests. This guidance is effective for us in third quarter 2010. We are evaluating the impact these accounting changes may have on our consolidated financial statements.

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FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as anticipates, intends, plans, seeks, believe estimates, expects, projects, outlook, forecast, will, may, could, should, can and similar reference Examples of forward-looking statements in this Report include, but are not limited to, statements we make about: (i) future results of the Company; (ii) future credit quality and expectations regarding future loan losses in our loan portfolios and life-of-loan estimates, including our belief that quarterly provision expense and quarterly total credit losses have peaked and are expected to decline; the level and loss content of nonperforming assets and nonaccrual loans, including our expectation that nonperforming assets will continue to increase gradually and peak before year end; the sufficiency of our credit loss allowance to cover future credit losses; and the reduction or mitigation of risk in our loan portfolios and the effects of loan modification programs; (iii) the merger integration of the Company and Wachovia, including expense savings, merger costs and revenue synergies; (iv) the expected outcome and impact of legal, regulatory and legislative developments; and (v) the Company s plans, objectives and strategies.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

- current and future economic and market conditions, including the effects of further declines in housing prices and high unemployment rates;
- the terms of capital investments or other financial assistance provided by the U.S. government;
- our capital requirements and the ability to raise capital on favorable terms;
- legislative and regulatory financial services reform;
- legislative proposals to allow mortgage cram-downs in bankruptcy or require other loan modifications;
- legislative and regulatory developments relating to overdraft fees, credit cards, and other bank services, as well as changes to our overdraft practices, which could have a negative effect on our revenue and other financial results;
- the extent of our success in our loan modification efforts, as well as the effects of regulatory requirements or guidance regarding loan modifications or changes in such requirements or guidance;
- our ability to successfully integrate the Wachovia merger and realize the expected cost savings and other benefits and the effects of any delays or disruptions in systems conversions relating to the Wachovia integration;
- our ability to realize the efficiency initiatives to lower expenses when and in the amount expected;
- recognition of OTTI on securities held in our available-for-sale portfolio;
- the effect of changes in interest rates on our net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale;
- hedging gains or losses;
- disruptions in the capital markets and reduced investor demand for mortgage loans;
- our ability to sell more products to our customers;
- the effect of the economic recession on the demand for our products and services;

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- the effect of the fall in stock market prices on our investment banking business and our fee income from our brokerage, asset and wealth management businesses;
- our election to provide support to our mutual funds for structured credit products they may hold;
- changes in the value of our venture capital investments;
- changes in our accounting policies or in accounting standards or in how accounting standards are to be applied or interpreted;
- mergers, acquisitions and divestitures;
- changes in the Company s credit ratings and changes in the credit quality of the Company s customers or counterparties;
- the impact of current, pending and future legislation and regulation;
- reputational damage from negative publicity, fines, penalties and other negative consequences from regulatory violations and legal actions;
- the loss of checking and saving account deposits to other investments such as the stock market, and the resulting increase in our funding costs and impact on our net interest margin;
- fiscal and monetary policies of the Federal Reserve Board; and
- the other risk factors and uncertainties described under Risk Factors in our 2009 Form 10-K and under Risk Factors in this Report.

In addition to the above factors, we also caution that there is no assurance that our allowance for credit losses will be adequate to cover future credit losses, especially if credit markets, housing prices and unemployment do not continue to stabilize or improve. Increases in loan charge-offs or in the allowance for credit losses and related provision expense could materially adversely affect our financial results and condition.

Any forward-looking statement made by us in this Report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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RISK FACTORS

An investment in the Company involves risk, including the possibility that the value of the investment could fall substantially and that dividends or other distributions on the investment could be reduced or eliminated. We discuss above under Forward-Looking Statements and elsewhere in this Report, as well as in other documents we file with the SEC, risk factors that could adversely affect our financial results and condition and the value of, and return on, an investment in the Company. We refer you to the Financial Review section and Financial Statements (and related Notes) in this Report for more information about credit, interest rate, market and litigation risks and to the Risk Factors and Regulation and Supervision sections in our 2009 Form 10-K for a detailed discussion of risk factors.