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## Wells Fargo—A Timeline of Recent Consumer Protection and Corporate Governance Scandals

Wells Fargo Bank, N.A., is a large federally chartered depository bank. It is a subsidiary of Wells Fargo and Company, a bank holding company (hereinafter, Wells Fargo or the bank). Wells Fargo is the fourth-largest bank in the United States with \$1.9 trillion in assets at the end of 2019. In 2016, a scandal involving Wells Fargo creating fake accounts—which may have harmed more than 2 million consumers—increased scrutiny of the bank by Congress, financial regulators, and the public. Since this revelation, certain Wells Fargo business practices have continued to raise concerns relating to consumer protection and corporate governance, leading to additional congressional oversight and interest.

This In Focus provides a brief overview of federal regulation of Wells Fargo and a timeline of key events involving the company. It then discusses a few relevant policy issues, including consumer protection, corporate governance, and recent congressional oversight of the bank.

### Overview of Regulation

Similar to other large banks, several federal financial regulators have overlapping oversight authority of Wells Fargo. Although the Office of the Comptroller of the Currency (OCC), Federal Reserve, and Federal Deposit Insurance Corporation (FDIC) each have safety and soundness authority, the OCC is the primary prudential regulator of Wells Fargo's bank subsidiary. The OCC regulates Wells Fargo's internal controls, its management of operational and reputational risks, and its deposit and lending activities. The Federal Reserve has authority over the bank holding company. The Consumer Financial Protection Bureau (CFPB) regulates and supervises Wells Fargo for consumer protection compliance.

### Key Events

The following provides a timeline of selected events since the Wells Fargo fake accounts scandal broke.

#### 2016

- *September 2016:* Wells Fargo pays \$185 million in fines to the CFPB, OCC, and the City and County of Los Angeles for creating about 1.5 million unauthorized deposit and 623,000 credit card accounts in customers' names without their knowledge. Wells Fargo also discloses that it previously fired 5,300 employees for their involvement in creating these fake accounts.

In coordination with the Department of Justice (DOJ), the OCC assesses \$20 million in civil money penalties against Wells Fargo for violating the Servicemembers Civil Relief Act (SCRA; P.L. 108-189). Violations

include failure to accurately disclose servicemembers' active-duty status to the court prior to evicting those servicemembers and failure to obtain court orders prior to repossessing 413 servicemembers' automobiles. In November 2017, Wells Fargo admitted it had illegally repossessed another 450 servicemembers' cars.

- *October 2016:* Wells Fargo's chief executive officer (CEO), John Stumpf, retires. Between forfeiture and clawbacks, he surrendered \$69 million in compensation. Another key executive, Carrie Tolstedt, surrendered \$67 million in compensation. Wells Fargo's board names the chief operating officer, Timothy Sloan, as the new CEO.
- *December 2016:* As a consequence of deficiencies in Wells Fargo's "living will," regulators restrict Wells Fargo's ability to grow its business. P.L. 111-203 (often called the Dodd-Frank Act) requires certain companies to submit a living will to regulators to show how large banks would unwind themselves in the event of a large financial loss.

#### 2017

- *March 2017:* The OCC downgrades Wells Fargo's Community Reinvestment Act (CRA) rating to "needs to improve," from "outstanding" due to Wells Fargo's discriminatory and illegal credit practices, including the fake accounts scandal.
- *April 2017:* The *Sales Practices Investigation Report* (SPIR) issued by Wells Fargo reveals that the bank's board of directors and bank executives knew of many of the issues underlying the fake accounts scandal as far back as 2002.
- *July 2017:* Wells Fargo admits that it charged about 570,000 customers for auto insurance on car loans without verifying whether these customers already had existing insurance. As a consequence, up to 20,000 customers may have defaulted on their car loans.
- *October 2017:* Wells Fargo admits it wrongly fined 110,000 mortgage clients for missing a deadline, even though the delays were the bank's fault.

#### 2018

- *February 2018:* The Federal Reserve restricts Wells Fargo's growth until it improves its governance and controls. Wells Fargo announces it will replace four members of its board by the end of the year.

- *April 2018:* Wells Fargo, CFPB, and OCC reach a \$1 billion settlement of issues related to Wells Fargo's auto-loan insurance and mortgage practices.
- *July 2018:* Reportedly, Wells Fargo refunded millions of dollars for charges related to add-on services, such as pet insurance and legal services, it added onto customers' accounts without the customers' full knowledge.
- *August 2018:* Wells Fargo pays a \$2.1 billion fine to DOJ for misrepresenting the type of mortgages it sold to investors between 2005 and 2007. Wells Fargo discloses that it incorrectly denied loan modifications for 625 people, 400 of whom had their homes foreclosed.

## 2019

- Timothy Sloan resigns as CEO in March, after the OCC made a rare public rebuke of the bank. Throughout 2019 other key executives leave the company. Charles W. Scharf becomes the CEO and president in October.

## 2020

- *January 2020:* The OCC issues lifetime prohibition from participating in the banking industry and new civil money penalties (CMPs) to two former senior executives; John Stumpf (\$17.5 million) and Carrie Tolstedt (\$25 million). OCC also issues other prohibitions or cease and desist orders along with CMPs to other former key executives.

It is reported that the Treasury Department's Office of Inspector General (IG) has been assessing OCC's actions in connection with sales practices at Wells Fargo and expects to release its report sometime in 2020.

- *February 2020:* Wells Fargo agrees to pay \$3 billion to resolve criminal and civil investigations into its past sales practices to the Department of Justice (DOJ) and the Securities and Exchange Commission (SEC). The SEC is expected to distribute about \$500 million of the \$3 billion to the investors. As part of the settlement, DOJ has agreed to defer prosecution for three years if Wells Fargo abides by certain conditions.

## Consumer Protection

As a result of the various issues described above, federal regulators entered into multiple consent orders with the bank to address the harm to consumers and to strengthen Wells Fargo's consumer compliance risk management.

These consent orders required Wells Fargo to set aside funds to compensate harmed consumers. Some forms of financial harm caused by Wells Fargo may be relatively straightforward to identify, such as fees that individuals paid on unauthorized accounts. Other forms of harm, however, may be more difficult to identify and measure, like effects on a consumer's credit score.

As part of these consent orders, Wells Fargo has also agreed to take actions to improve the bank's consumer compliance risk management. In 2016, the bank agreed to

undergo an independent consultant's review of its consumer compliance practices, including its sales practices, and develop a plan to improve its consumer compliance management. In 2018, as additional consumer protection concerns were revealed, the consent order required Wells Fargo to develop a robust enterprise-wide compliance risk management plan and perform an internal audit.

## Corporate Governance

Wells Fargo is a publicly traded firm, which means that it must comply with securities laws and corporate governance rules from the SEC. A major component of corporate governance is the business environment created by the board of directors and senior management.

As a result of the events described above, some have raised issues with how Wells Fargo's senior leadership emphasized cross-selling products and meeting specific sales goals. Reportedly, employees felt pressure to sell unneeded products to customers and open unauthorized accounts due to an aggressive sales culture and performance management that focused on cross-selling. The report suggests Wells Fargo's decentralized corporate structure might have obscured the scale and nature of the underlying problems. This structure allowed parts of the bank to operate without oversight, impeding corporate risk management functions. A second area of concern is how late Wells Fargo disclosed to investors the potential damage to the bank from these events.

In addition to the departure of several key executives, to address concerns about the bank's corporate governance issues, the majority of the board members have been replaced.

## Congressional Oversight

The various Wells Fargo developments highlight a number of issues for potential congressional oversight relating to the performance of federal financial regulators and banks that are considered "too big to fail." On the one hand, several regulators, such as the OCC and the CFPB, had supervisory authority over Wells Fargo, yet did not detect widespread fraudulent practices that occurred over an extended period of time. On the other hand, since 2016, the OCC, the CFPB, and the Federal Reserve have issued consent orders limiting the bank's growth and requiring it to make changes in its consumer protection and corporate governance practices. Critics continue to assert that regulatory enforcement measures against Wells Fargo have been too focused on assessing fines rather than on other measures, including breaking up the bank. Regulators also have increased their scrutiny of financial institutions' culture and compliance management practices for all examined institutions. Congress continues to examine issues surrounding Wells Fargo by holding hearings and taking testimony from Wells Fargo executives and from bank regulators.

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