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IN FOCUS

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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 (hereafter, 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 2018. 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 the scandal was revealed to the public, certain of Wells Fargo's 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 since the scandal's disclosure. It then discusses a few relevant policy issues, including consumer protection and corporate governance, and highlights recent instances of 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 the phases of its deposit and lending activities. The Federal Reserve has authority over the bank holding company. The Bureau of Consumer Financial Protection (CFPB) regulates and supervises Wells Fargo for consumer protection compliance.

Key Events

The following provides a timeline of selected events involving Wells Fargo since the reveal of the fake accounts scandal. Most of the consumer protection issues discussed below came to light as a result of consumer complaints or lawsuits that were eventually disclosed by the bank.

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 deposits 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). The OCC also orders the bank to make restitution to servicemembers who were harmed. 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 CEO John Stumpf retires. Between forfeiture and eventual clawbacks, he surrenders $69 million in compensation. Another key executive, Carrie Tolstedt, surrenders $67 million in compensation.

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 but did not take corrective action and did not fully disclose the issues until September 2016.

- *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

- *January 2019:* Wells Fargo releases its annual financial results for 2018. The bank earned as profits $22.4 billion in 2018 and $22.2 billion in 2017. It recorded $86.4 billion in revenue in 2018 as compared with $88.4 billion in 2017. The bank spent $25.8 billion on share repurchases and dividend payments in 2018.

Consumer Protection

As a result of the various issues described above, federal financial 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 structures.

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 of its practices.

Corporate Governance

Wells Fargo is a publically traded firm, which means that it must comply with securities laws and corporate governance rules from the Securities and Exchange Commission. 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's emphasized cross-selling products and meeting specific sales goals. According to the SPIR, employees felt pressure to sell unwanted or 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. According to the SIPR, 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. Such disclosures are governed by securities laws. Wells Fargo argues that it was not required to disclose these issues earlier, because the related fines were small and not material compared with its earnings. Others argue that the reputational risk to Wells Fargo made these issues material and thus they should have been disclosed earlier.

The bank has made efforts to address concerns with its corporate governance. In October 2016, Wells Fargo's board named the Chief Operating Officer, Timothy Sloan, as the new CEO. Also, the board separated the role of the chairman and CEO and fired other key executives related to the fake accounts scandal. In addition to the new CEO, seven of the thirteen board members have been replaced since 2016, including the chair of the board.

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. During this time, regulators also have increased their scrutiny of financial institutions' culture and compliance management practices for all examined institutions.

Congress has continued to express interest in issues surrounding Wells Fargo. Between 2016 and 2018, both the previous CEO, John Stumpf, and the current CEO, Timothy Sloan, have testified before Congress. The House Financial Services Committee has scheduled a hearing with Timothy Sloan for March 12, 2019.

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