EXECUTIVE SUMMARY

The following report is the third in a series of reports by the House Financial Services Committee Republicans regarding Wells Fargo. Previous reports detailed how the Obama administration and Consumer Financial Protection Bureau Director Richard Cordray obstructed the Committee's multi-year investigation. Nevertheless, Committee Republicans found numerous failings by Director Cordray and the CFPB in detecting and remedying Wells Fargo's fraudulent sales practices.

Thanks to greater transparency and more engaged oversight by financial regulators under President Trump, the Committee finally gained access to evidence that was withheld by the prior administration. The new evidence will allow the public to see how and why Wells Fargo's previous management and Board of Directors failed to repair the damage from the sales practices scandal that came to light in 2016.

The evidence shows how Wells Fargo failed to adopt even the most common industry practices in risk management and protocols. What is more, even after Wells Fargo's fraudulent sales practices came to light and the resignation of John Stumpf as CEO was finalized, Wells Fargo's Board of Directors seemed to double down on its status as an outlier by selecting a company-insider as its new CEO.

For years, Wells Fargo got away with ignoring standard practices for a bank of its size, but beginning in 2017, financial regulators began making up for lost time.

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On October 12, 2016, the Wells Fargo Board of Directors elected Timothy Sloan to serve as Chief Executive Officer. Sloan, a 29-year company veteran, was tasked with leading the bank's response to scrutiny from lawmakers, regulators, and investors in the wake of a scandal in which bank employees opened credit card and deposit accounts without customers' permission.

On his first day as CEO, Sloan declared he would "pursue largely the same strategy in restoring the bank's reputation that his predecessor had begun."[1] Sloan also shared "good news"—he would be surrounded by an experienced team that could help move the company forward.[2]

Sloan's strategy failed. In fact, evidence shows Sloan and his team provided misleading and exceedingly optimistic information to Congress, the public, and the Board of Directors. Wells Fargo was no closer to complying with the regulators' consent orders when Tim Sloan resigned in March 2019 than when his team took over in 2016.

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Contrary to Sloan's day one assessment, the management team of company insiders failed to understand the scope of the company's problems. A deficit of in-house risk management expertise stalled the company's efforts to remediate customers and develop a risk management plan. Between 2016 and 2019, the company routinely

1 Michael Corkery and Stacy Cowley, *Wells Fargo's New Boss Is Same as the Old Boss to Congress*, N.Y. TIMES, Oct. 13, 2016.
2 Jonnelle Marte, *What we know about Tim Sloan, the new CEO of Wells Fargo*, WASH. POST, Oct. 13, 2016.

submitted incomplete plans to the regulators and missed deadlines. Documents and testimony show Sloan's team paid third party consultants to develop key aspects of the company's plans.

The evidence also shows the Board of Directors failed to hold management accountable. Consent orders require the Board of Directors to review the company's plans before they are submitted to the regulators. According to regulators who provided information to the Committee, under Sloan, the bank's submissions under the consent orders typically amounted to "a plan for a plan." The submissions were frequently late or incomplete, or both.

The bank's prudential regulators expected the Board to "provide a credible challenge to management," among other things.[3] The documents show the Board continued to support management despite warnings that the consent order compliance program was inadequate.

However, Wells Fargo's unprecedented compliance challenges trace back to conditions that pre-date Sloan. The company's obsolete structure and extreme sales culture metastasized because Obama-era regulators were slow to recognize risk at the bank and congressional Democrats rushed to the wrong conclusion that the bank is too big to manage.

WELLS FARGO DID NOT ADAPT WITH THE INDUSTRY

On October 13, 2008, the chief executives of the country's nine largest banks met at the Treasury Department to discuss the terms of a government bailout. Treasury Secretary Henry Paulson Jr. laid out the government's plan to inject $250 billion of capital into the American banking system.[4] The chairman of Wells Fargo, Richard M. Kovacevich, "protested strongly that, unlike his New York rivals, his bank was not in trouble because of investments in exotic mortgages, and did not need a bailout."[5]

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Kovacevich's reluctance to participate in the Troubled Asset Relief Program (TARP) was rooted in the fact that prior to 2008, Wells Fargo had avoided the industry's riskiest products, including structured investment vehicles and no-documentation loans.[6] While the Obama administration's focus was on expanding the TARP program beyond large banks, it ignored signs that Wells Fargo's business model was deeply flawed. Trump administration regulators are still picking up the pieces.

In the wake of the financial crisis, Wells Fargo "emerg[ed] as one of the best banking franchises in the country."[7] Wells Fargo's perceived core strength—retail banking—and reputation for responsible lending established the company as "the darlings of the financial crisis," according to a former member of the bank's Board of Directors.[8]

3 Comptroller's Handbook, *available at:* https://www.occ.treas.gov/publications-and-resources/publications/comptrollers-handbook/files/corporate-risk-governance/pub-ch-corporate-risk.pdf
4 Mark Landler and Eric Dash, *Drama Behind a $250 Billion Banking Deal*, N.Y. TIMES, Oct. 14, 2008.
5 *Id.*
6 Adam Lashinksy, *Riders on the Storm*, FORTUNE, Apr. 20, 2009.
7 *Id.*
8 Interview of Amanda Peetz, former member, Wells Fargo Board of Directors (Jan. 31, 2020). [hereinafter Peetz]

But there were red flags everywhere. In 2004, an internal investigation found an increase in sales misrepresentation and manipulation cases in the company's Community Bank.[9] In 2009, customer satisfaction surveys showed Wells Fargo customers chafed at constantly being asked to buy additional products.[10] But the Community Bank division did not change its strategy of relentless cross-selling. There was "no appetite to change the model."[11] Each retail customer was persuaded to buy an average of almost six products.[12]

Following the financial crisis, large banks that engaged in risky lending practices prior to 2008 recognized that management needed visibility throughout the entire firm, to detect and prevent financial and other forms of risk. Unlike the rest of the industry, Wells Fargo maintained its fragmented model, which relied on "strong deference" to the leaders of the company's siloed business lines, who were told to "run it like you own it."[13] Wells Fargo's lack of a fully integrated compliance and risk management program allowed the individual business lines to pursue aggressive sales strategies.

OBAMA-ERA REGULATORS WERE SLOW TO ACT

Wells Fargo's systemic problems were ignored by federal regulators for years. The firm's regulators—the CFPB, the Office of the Comptroller of the Currency (OCC), and the Federal Reserve—are making up for lost time under new leadership.

Federal regulators identified issues related to Wells Fargo's sales practices as early as 2009, when the OCC issued a Supervisory Letter requiring an enterprise-wide system for complaint management.[14] The OCC's Wells Fargo team received information indicating "the highest level of EthicsLine internal complaint cases [and] employee terminations . . . were related to sales integrity violations."[15] But the OCC did not take any meaningful action.

The CFPB entered the bank's regulatory complex on July 21, 2011 under Director Richard Cordray. At that time, Wells Fargo employees who missed their sales targets started filing wrongful termination lawsuits, alleging they were fired for refusing to open fraudulent accounts and engage in improper sales tactics. Approximately 5,300 Wells Fargo employees were fired over a five-year period between 2011 and 2016.[16] The CFPB, like the OCC, failed to notice.

In December 2013, the *Los Angeles Times* reported that "relentless pressure to sell has battered employee morale and led to ethical breaches" at Wells Fargo.[17] According to the story, "To meet quotas, employees have opened unneeded accounts for customers, ordered credit cards without customers' permission, and forged client signatures on paperwork."[18]

After the *Los Angeles Times* broke the story, CFPB supervisory staff were embedded at Wells Fargo in early

9 Board Report at 31.
10 Adam Lashinksy, *Riders on the Storm*, FORTUNE, Apr. 20, 2009.
11 Board Report at 31.
12 *Id.*
13 Independent Directors of the Board of Wells Fargo & Company, Sales Practices Investigation Report (Apr. 10, 2017), *available at:* https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/Board-report.pdf. [hereinafter Board Report]
14 OCC Supervisory Letter SL 2009-46 – Compliance and Enterprise Risk Management (2009).
15 OCC Office of Enterprise Governance and the Ombudsman, "Lessons Learned Review of Supervision of Sales Practices at Wells Fargo," Apr. 19, 2017.
16 *Id.* at 109.
17 E. Scott Reckard, *Wells Fargo's pressure-cooker sales culture comes at a cost*, L.A. TIMES, Dec. 21, 2013.
18 *Id.*

2014.[19] The bank's aggressive cross-selling strategy and customer abuse continued, unabated, until May 4, 2015, when Wells Fargo notified the CFPB that the Los Angeles City Attorney's office filed a civil complaint related to the company's sales practices. The Los Angeles Times reported on the complaint the following day. Committee Republicans found that days later, on May 8, 2015, the CFPB finally initiated a supervisory review.

The documents also show that under Director Cordray, the CFPB sought to substitute the bank's internal investigation for its own. In May 2016, the CFPB asked the L.A. City Attorney's Office "to slow down its settlement/action a little" until "the CFPB is satisfied that it has sufficient information from the Bank that there is no need for a full investigation."[20]

On September 8, 2016—nearly three years after Wells Fargo's sales practices came to light—the CFPB announced a $100 million fine against Wells Fargo for "widespread unlawful sales practices."[21] On the same day, the L.A. City Attorney and the OCC announced related settlements with Wells Fargo totaling $85 million.[22]

TRUMP ADMINISTRATION REGULATORS ARE MAKING UP FOR LOST TIME

The evidence shows federal regulators have adopted a more aggressive posture with respect to Wells Fargo during the Trump administration. In 2018, the OCC, CFPB, and Federal Reserve issued new consent orders limiting the bank's growth and requiring it to make changes to the company's consumer protection and corporate governance practices.

The consent orders covered a litany of transgressions unrelated to the original sales practices scandal, including: illegally repossessing service members' cars (September 2016); charging customers for unneeded auto insurance (July 2017); unjustifiable fines for mortgage customers (October 2017); and pushing investment products that were likely to lose money (October 2017), among others.

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The evidence shows under current leadership, federal regulators are engaged with Wells Fargo's management and the Board of Directors regarding the consent orders, which remain in effect. To date, Wells Fargo has paid more than $4 billion in fines and settlements with federal regulators and the Department of Justice during the Trump administration.

19 *The Semi-Annual Report of the Bureau of Consumer Financial Protection, Hearing Before the H. Comm. on Fin. Services*, 115th Cong. (2016) (testimony of Hon. Richard Cordray, Director, CFPB).

20 Email from Jennifer LaRoche to Gerard Sexton *et al*. (May 26, 2016) (OCC-LD-00002794).

21 Consumer Fin. Protection Bureau Blog, "Hundreds of thousands of accounts secretly created by Wells Fargo Bank employees leads to historic $100 million fine from the CFPB" (Sept. 8, 2016), *available at:* https://www.consumerfinance.gov/about-us/blog/hundreds-thousands-accounts-secretly-created-wells-fargo-bank-employees-leads-historic-100-million-fine-cfpb/

22 Office of the L.A. City Attorney Press Release (Sept 8, 2016), *available at:* https://www.lacityattorney.org/post/2016/09/08/los-angeles-city-attorney-mike-feuer-achieves-historic-result-in-consumer-action-against

CONGRESSIONAL DEMOCRATS RUSHED TO THE WRONG CONCLUSION

In September 2016, Financial Services Committee Republicans opened an investigation of the bank's sales and incentive plans and the role of the bank's regulators in detecting and preventing the conduct in question. Then-CEO John Stumpf appeared before the Committee on September 29, 2016 at a public hearing, entitled "Holding Wall Street Accountable: Investigating Wells Fargo's Opening of Unauthorized Customer Accounts."

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At the hearing, when the Committee's investigation was just days old and before the Committee had obtained a single document, Maxine Waters stated: "I have come to the conclusion that Wells Fargo should be broken up; it's too big to manage."[23] Waters urged Congress to require the company's regulators to revoke the bank's charter and "put them out of business."[24] Waters repeated that Wells Fargo is "too big to manage" when Tim Sloan appeared before the Committee in March 2019.[25]

Other Democrats in the House and Senate rushed to the same conclusion. In 2016, Rep. Brad Sherman concluded Wells Fargo and other large banks are "too big to manage, too big to regulate. It's time to break them up."[26] Sen. Elizabeth Warren similarly wondered whether Wells Fargo "is simply a bank that is too big to manage."[27]

The evidence tells a different story. The documents and testimony obtained since 2016 show Wells Fargo's ongoing inability to address the root causes of widespread sales practice abuses and other consumer-facing scandals are attributable to acute deficiencies in the firm's structure and leadership that made Wells Fargo an outlier among large banks. Simply, the evidence shows Wells Fargo was not "too big to manage," it was grossly mismanaged.

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The company's Chief Risk Officer, who joined Wells Fargo in 2018 from JPMorgan Chase, said the company's size is "less important" than its capacity to detect and fix problems. Documents and testimony show Wells Fargo lacked that capacity, compared to its competitors. The evidence shows new management is focused on implementing that capacity by importing the industry's best practices related to risk management.

23 *Holding Wall Street Accountable: Investigating Wells Fargo's Opening of Unauthorized Customer Accounts, Hearing Before the H. Comm. on Fin. Services*, 115th Cong. (2016) (statement of Hon. Maxine Waters, Ranking Member).
24 *The Case for Holding Megabanks Accountable: An Examination of Wells Fargo's Egregious Consumer Abuses, H. Comm. on Fin. Services Minority Staff Report*, 115th Cong. (2017).
25 *Holding Megabanks Accountable: An Examination of Wells Fargo's Pattern of Consumer Abuses, Hearing Before the H. Comm. on Fin. Services*, 115th Cong. (2019) (statement of Hon. Maxine Waters, Chairwoman).
26 *Holding Wall Street Accountable: Investigating Wells Fargo's Opening of Unauthorized Customer Accounts, Hearing Before the H. Comm. on Fin. Services*, 115th Cong. (2016) (statement of Rep. Brad Sherman).
27 Matt Egan, *Wells Fargo scandal: Elizabeth Warren wants answers*, CNN, Sept. 12, 2016.

The evidence also shows the Board of Directors was slow to recognize the scope of the firm's problems and management's inability to solve them. In fact, Karen Peetz, who was named to the board in February of 2017 and chaired the Board's risk committee, resigned in January 2019 out of frustration with her colleagues' unwillingness to hold management accountable, among other reasons. Peetz told the Committee the Board should have moved sooner to remove certain members of the management team, including Tim Sloan, who was standing in the way of the bank's progress under the consent orders.

GOING FORWARD

The new CEO's emphasis on regulatory compliance above all else gives the bank its best chance to move beyond the sales practices scandal and other consumer abuses that have plagued the bank for nearly 20 years. Wells Fargo's inability to implement an enterprise-wide risk management framework is putting the bank's customers at risk.

The evidence is clear that federal regulators were slow to take action that could have prevented further consumer abuses by Wells Fargo. The Committee and Congress must continue to provide oversight of federal regulators to ensure they are enforcing existing laws and regulations that apply to Wells Fargo. Those laws are in place to protect consumers and require leadership at large financial institutions to manage risk.