



SENATE BANKING COMMITTEE HEARING

OVERVIEW

For questions please contact [Daniel Austin](#) at (202) 547-3035.

Today, the Senate Banking Committee met in open session to conduct a [hearing](#) on “An Examination of Wells Fargo’s Unauthorized Accounts and the Regulatory Response.”

Key Takeaways

- Panel I
 - Wells Fargo Chairman and CEO John Stumpf reiterated that he would not participate in board deliberations and decisions regarding compensation and human resources issues.
 - Stumpf apologized and accepted responsibility for the bank’s conduct and announced new remedial measures to address outstanding issues.
- Panel II
 - Senators on both sides of the aisle agreed that the bank’s culture was the cause of the widespread opening of unauthorized accounts.
 - All three witnesses from the regulatory community agreed that Stumpf’s testimony was inconsistent with what was found during their investigations.

SUMMARY

Opening Statement and Testimony

[Chairman Richard Shelby \(R-AL\)](#)

- More than two million unauthorized accounts were opened and as a result, many employees were terminated. The bank’s corporate culture led employees to opening fraudulent accounts.
- We want to know: when did this conduct start and why regulators were not aware; when did Wells Fargo executives become aware of this conduct and how did they respond?

[Ranking Member Sherrod Brown \(D-OH\)](#)

- Wells Fargo did not treat this as a big problem until it appeared in newspapers. The bank needs to change.
- There needs to be a reliable way for legitimate complaints to end up in the executive suite. This was fraud that was not found or not fixed quickly enough.

[Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Co.](#)

- I am deeply sorry that we failed to fulfill our responsibilities to our customers, team members, and the American public. Our culture is centered on serving our customers, and this conduct was not representative of Wells Fargo as a whole.
- I accept full responsibility for all unethical sales practices in our retail business and am committed to taking the necessary actions and restoring customer trust. We have added new initiatives to discover what went wrong and how to remedy those harmed.

The Honorable Tom Curry, Comptroller of the Currency, Office of the Comptroller of the Currency

- The Wells Fargo practices were driven by misplaced incentives.
- The OCC action requires a \$135 million penalty and corrective action.
- We will continue to review misconduct and sales practices of all large and midsized banks. If the structural elements at the OCC had functioned effectively, we could have avoided or prevented this event.

The Honorable Richard Cordray, Director, Consumer Financial Protection Bureau

- Wells Fargo opened at least 1.5 million deposit accounts that may not have been authorized. They also initiated 500,000 credit card accounts. Wells Fargo built and refined an incentive compensation program to boost cross selling, and the bank's culture was the cause.
- The bank was fined \$100 million and lawsuits from other states and entities may be forthcoming.

Mr. James Clark, Chief Deputy, Office of the Los Angeles City Attorney

- We conducted many interviews with former Wells Fargo employees and consumers, poured over voluminous amounts of public records, and consulted the CFPB and FTC complaint databases.
- We found that Wells Fargo's business model imposed unrealistic sales quotas that resulted in numerous unwanted accounts.
- We filed a civil enforcement action in May 2015, and reached a settlement earlier this month, which provides for retrospective and prospective remedial action.

Panel I Discussion

Cross-Selling

Menendez (D-NJ): Is cross-selling industry-wide? How was cross-selling not a material event that required disclosure? *Stumpf:* I do not know what other companies do.

Toomey (R-PA): Do you acknowledge that the employees engaged in this activity were committing fraud? When thousands of employees engage in the same kind of fraudulent activity, is it not probable that there was some orchestration at a higher level to authorize this conduct? *Stumpf:* They broke our code of ethics and what these employees did was absolutely wrong. Their behavior has no place in our culture. I do not know why some people did this. The vast majority of employees did what they are supposed to do, and we have taken sales goals off the table.

Heller (R-NV): Do my constituents have the right to be insulted by your response to this practice?

Stumpf: I am sorry and should be held accountable.

Warren (D-MA): Is it correct that cross-selling is all about pumping up stock prices? When investors saw good cross-selling numbers, was this good for you personally and how much did the value of your stock go up? Will you personally support crawling back all of Carrie Tolstedt's pay or other compliance personnel? *Stumpf:* It is not about pumping up stock. I am not going to be a part of the compensation process for Ms. Tolstedt, and will accept the board's decision.

Wells Fargo Culture

Menendez: Do you believe senior executives are responsible for the companywide culture? When you were holding ethics sessions, did this information every come up or did you say we do not want to open unauthorized accounts? *Stumpf:* Yes, senior executives are responsible for the culture. When an authorized account is opened, it does not help us nor the customer. We should not open accounts that customers do not want.

Vitter (R-LA): Wasn't this practice, by the numbers, part of the Wells Fargo culture? What level of confidence do you have that this type of fraudulent activity does not exist in other business lines?

Stumpf: This was not part of our culture, and the vast majority of Wells Fargo employees abide by the rules. We have looked at other parts of our business, and confident we have this problem solved. To my knowledge, we do not have product goals in any other divisions, and have doubled down on compliance reviews in other divisions.

Merkley (D-OR): Did Wells Fargo create a culture that put bankers in between a rock and a hard place? How do you justify managers saying they were taught to open multiple accounts or employees being discouraged from reporting this activity? Employees are written up, among other consequences, for not meeting certain quotas. How can a culture not cause these problems? *Stumpf:* The bank did not create that culture. The demands by some management personnel have no part in our culture, and we did nothing to encourage that. We wish we could have caught this earlier.

Accountability and Third Party Review

Crapo (R-ID): Did the third-party analysis determine if accounts were created throughout the U.S. or was it concentrated? *Stumpf:* Most of the conduct was concentrated in California and Arizona. Managers and the size of the businesses in these communities contributed to greater unauthorized conduct.

Scott (R-SC): Why are these employees who reported this conduct not able report it up the corporate chain or why not have a safe haven to report? *Stumpf:* Each employee is encouraged to raise his or her hand if something is not right and go to a manager to report. There is also an anonymous ethics line to report behavior.

Warren: What have you done to hold yourself accountable? Have you resigned or returned any compensation? Have you fired a single senior executive? *Stumpf:* No.

Board of Directors' Actions and Executive Compensation

Shelby: What does it look like when an executive like Carrie Tolstedt receives a large compensation package after being responsible for this business division? *Stumpf:* Executive performance is measured by many factors, but in this instance, she did not perform well enough. The board compensation committee is independent in determining compensation.

Brown: As chairman of the board, will you make a recommendation that executive compensation be clawed back? Are you not willing to say publicly that executive compensation should be clawed back?

Stumpf: I am not on the compensation committee; it is independent and I do not want to prejudice that committee's activity and will respect their decision.

Reed (D-RI): Will you formerly recuse yourself from board deliberations? *Stumpf:* I am not involved with the human resources and compensation committees, so no recusal is required.

Corker (R-TN): Was Carrie Tolstedt's departure a result of her overseeing the division that opened these unauthorized accounts? *Stumpf:* She chose to retire after the bank decided to go in a different direction in the retail business.

Menendez: How much did you make last year? *Stumpf:* \$19.3 million.

Heller: Did you or any board members have any unauthorized accounts opened your names? If the compensation committee sent you \$100 million package for Ms. Tolstedt, would you approve it?

Stumpf: I do not think I had an account opened in my name, and would be disappointed if that happened. Part of her compensation structure is made up of stock, stock options, and future grants that will be vest over the following years. I will respect their decision.

Court Proceedings, Arbitration, and Investigation

Brown: Will Wells Fargo continue to pursue mandatory arbitration to address these fraudulent accounts? What do 39 enforcement actions say about the Wells Fargo culture? Are banks required to report fraudulent behavior? *Stumpf:* I would have to discuss our litigation strategy with the legal team, and we have more work to do and build out compliance.

Remedial Action and Credit Scores

Crapo: What can people do who want a quick remedy? How do you make it right for those who had unauthorized credit cards opened and their credit rating was harmed? *Stumpf:* We're contacting all credit card and deposit customers and providing them with a means to get in touch with us. Opening an account does affect one's credit rating. We have begun the process analyzing credit effects.

Tester (D-MT): Was negative credit information turned into credit bureaus? What are you going to do for those who may have had purchases impacted by credit scores as a result of incorrect credit scores? *Stumpf:* We are going back to see if the credit cards opened were legitimate. Credit information did get forwarded. We are reaching out to these people, and if they did not want the credit card, we will go to credit bureau to make it right.

Timeline

Shelby: When did you and senior management find out that your employees were opening fraudulent accounts? Does it bother you that systemic fraud wasn't brought to your attention sooner? *Stumpf:*

We cannot guarantee it that these event didn't happen before 2013, and that is why we are going back to 2009 to review. We found out in 2013, but before that it was being dealt with within the business unit. I wish we could have done something earlier.

Brown: Could you be more precise about when in 2013 you learned of this practice? What year was the Norwest merger with Wells Fargo? Why are you stopping at 2009 in the review of cross selling and sales goals? How often did you talk with Ms. Tolstedt and did none of this conduct or firings come up?

Stumpf: We became aware probably in the second half of 2013. The Norwest merger was in 1998. We agreed with our regulators to go back to 2009, but we will consider going back further. Ms. Tolstedt and I had weekly meetings and around 2013 is when this discussion began to come up.

Crapo: When did each regulator contact you or when did you notify them? *Stumpf:* The Los Angeles lawsuit was around May 2015. The OCC was probably involved first, and CFPB was informed around May 2015.

Reed: Did you inform regulators and the board of directors when you learned of these unauthorized accounts? *Stumpf:* Yes, we informed our regulator when we learned of it, and I informed the board in 2013. There were many different meetings about reducing sales goals, sales efficacy, and putting more controls in place.

Corker: Did you find out about these practices in the newspaper? When did the board of directors realize that it had a unit committing fraud? *Stumpf:* I learned about it in 2013, and it became newsworthy after we took action. The board learned about it in late 2013 and 2014.

Vitter: Is 2013 the earliest the issue became a focus of board discussion or did you know about it sooner? *Stumpf:* 2013.

Toomey: When did you notify your regulators and law enforcement of this fraudulent behavior? When did you disclose this information in SEC filings? *Stumpf:* We notified regulators and law enforcement when it was required, but I don't know when we disclosed to the SEC.

Donnelly (D-IN): How did this unauthorized cross-selling practice go on for so long? *Stumpf:* We didn't move fast enough and we should've done better.

Moran (R-KS): What regulators did you notify and when? What steps did the regulators take? *Stumpf:* OCC was notified, involved, and active in the 2013 period, and the CFPB became involved after the reports in the news. The bank dealt with the issue, fired people, and informed the regulators.

Panel II Discussion

Wells Fargo Culture

Merkley: Was this a high-pressured sales culture? *Curry and Clarke:* Yes; *Cordray:* Yes, excruciatingly high pressured.

Accountability and Third Party Review

Menendez: What would it mean for the CFPB to be subject to the annual appropriations process? Should the OCC have been notified earlier? Were the firings and conduct material for reporting

purposes? *Curry*: It's not clear at what point OCC was clearly notified. The termination of 5,300 employees and unauthorized accounts were material. We are conducting a horizontal review of sales practices at large and midsized banks; *Cordray*: The appropriations process would compromise our independent structure. It will make it more difficult for us to do our job.

Merkley: Was the Stumpf testimony inconsistent with your findings? Should the SEC launch an investigation pertaining to Sarbanes-Oxley violations? In the settlement agreement, Wells Fargo was allowed to neither admit nor deny wrongdoing, was that debated or wrestled with? *Curry*: Yes, it is inconsistent. Decision should be left up to the SEC; *Cordray*: Yes, it differs from what we found in our investigation. The order speaks for itself and tells the facts uncovered in the investigation; *Clark*: Yes, the testimony was inconsistent. It would have taken years to litigate this case, and we thought consumers needed immediate relief and the practices needed to stop.

Warren: Are forced arbitration clauses making it easier for big banks to cover up misconduct? Did the Los Angeles City Attorney use the CFPB database and was it helpful? *Cordray*: Arbitration does make it easier to cover up. Wells Fargo first sought a protective order to keep the proceeding from public view; *Clark*: We used the CFPB database and it was helpful.

Court Proceedings, Arbitration, and Investigation

Shelby: Are the fraudulent account numbers based on the PriceWaterhouseCoopers or the CFPB investigation? Did CFPB accompany Los Angeles' investigators when they met with former Wells Fargo employees and others? Has the CFPB learned anything through LA investigation? *Cordray*: Our investigation revealed the number of fraudulent accounts, and we initiated our own investigation. We first heard about these practices in 2013 through whistleblower tips. We learned a lot from Los Angeles attorneys and vice versa.

Brown: How will the arbitration clause affect Wells Fargo customers? Does it strain the credibility of the board of directors or Stumpf when they say they did not know what was going on? *Cordray*: Banks are not legally required to report fraudulent behavior. It is difficult to get any relief in this type of case other than through a class action suit. We cannot disclose whether criminal referrals have been made; *Clark*: We do not know what Stumpf and Tolstedt knew and when they knew it. It is difficult to believe that knowledge of this did not extend beyond regional manager level.

Reed: When you filed the initial complaint, were you anticipating extensive litigation? Did the OCC and the CFPB assist in the outcome and speed up the process? Was there deliberate or negligent treatment of customers? *Curry*: We are looking for whether the institution has an understanding of the importance of culture and reputation. We focus on that they have the appropriate oversight and compensation structures; *Cordray*: The CFPB brought the unique ability to engage in supervisory and enforcement activities. We have separate laws we can enforce, a consumer-focused perspective, and the ability to use powers to acquire and process information; *Clark*: We negotiated with Wells Fargo, and they cooperated with the reforms and penalties.

Timeline

Menendez: At what point should Wells Fargo executive have been aware of this behavior, and how far back does it go? *Clarke:* Back to 2009.