

February 22, 2019

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Dear Chairman Powell:

I write to bring to your attention a deeply troubling new report regarding Wells Fargo & Company (Wells Fargo). According to the report, employees in the Wholesale Banking division of Wells Fargo, beginning in 2016, “routinely falsified clients’ signatures and otherwise doctored paperwork” in order to comply with a legal settlement with the Office of the Comptroller of the Currency (OCC) related to violations of anti-money laundering laws.”¹ Wells Fargo CEO Timothy Sloan led the Wholesale Banking division during the initial illegal activity related to money laundering and during the period when the report alleges that Wells Fargo falsified documents to cover up non-compliance with the OCC consent order.² The ability of the Wells Fargo Board of Directors to “ensure senior management’s ongoing effectiveness in managing the Firm’s activities and related risks and promoting strong risk management across the Firm” is a required precursor for the Federal Reserve Board of Governors (the Fed) lifting the growth gap it has imposed on Wells Fargo. This report, if accurate, provides further evidence that the Wells Fargo Board of Directors cannot comply with this requirement as long as Mr. Sloan serves as President and CEO.

New Allegations of Misconduct Under Timothy Sloan’s Watch

The latest report of misconduct appears to be a case first of failure, and then of fraud. Mr. Sloan became head of Wells Fargo’s Wholesale Banking Group on April 2, 2014.³ Less than a year later, on November 19, 2015, Wells Fargo entered into a consent order with the OCC covering “deficiencies in ... internal control ... of the Bank’s program for Bank Secrecy Act/Anti-Money Laundering ... compliance covering the Wholesale Banking Group.”⁴ The order notes that, prior to the enforcement action, OCC examiners had raised problems with Wells Fargo and “the Bank

¹ The Capitol Forum, “Wells Fargo: Employees Doctored Signatures, Raising Possibility of Federal Penalties,” February 14, 2019.

² Housing Wire, “Wells Fargo Shuffles Leadership Positions,” Brena Swanson, April 2, 2014, <https://www.housingwire.com/articles/29529-wells-fargo-shuffles-leadership-positions>; Wells Fargo, “Tim Sloan Names Wells Fargo’s President and Chief Operating Office,” press release, November 17, 2015, <https://newsroom.wf.com/press-release/leadership-announcements/tim-sloan-named-wells-fargos-president-and-chief-operating>.

³ Wells Fargo, “Tim Sloan Names Wells Fargo’s President and Chief Operating Office,” press release, November 17, 2015, <https://newsroom.wf.com/press-release/leadership-announcements/tim-sloan-named-wells-fargos-president-and-chief-operating>.

⁴ Wells Fargo, “Timothy J. Sloan,” <https://www.wellsfargo.com/about/corporate/governance/sloan/>.

... failed to make acceptable substantial progress toward” fixing them.⁵ It required the Bank to create a “comprehensive” action plan to address the violations.

Despite the shortcomings that had led to the imposition of consent order, and which had occurred under Mr. Sloan’s leadership of the Wholesale Banking Group, Wells Fargo promoted Mr. Sloan to President and Chief Operating Officer on November 17, 2015, two days before the OCC settlement was signed. According to the press release announcing his promotion, Mr. Sloan also “retained” his role as the head of the Wholesale Bank during the period in which it was to implement new anti-money laundering controls.

According to the new report, Wells Fargo employees began falsifying signatures and doctoring papers “in early 2016, when the bank tried to improve its anti-money laundering system in the wake of the OCC consent decree.”⁶ Because the compliance effort was “time-consuming and irksome to small business clients ... [b]ank employees began altering documents without clearance from the client”—for example, by “plac[ing] client signatures on new documents by cutting and pasting from existing forms.”⁷ Mr. Sloan continued to lead Wholesale Banking during this time, and did so until he became the company’s CEO in October 2016.⁸

The Federal Reserve Cannot Lift the Wells Fargo Growth Cap if Mr. Sloan Continues to Head the Company

On February 2, 2018, the Federal Reserve Board of Governors entered a Cease and Desist order with Wells Fargo and imposed a growth restriction that requires the company to maintain total consolidated assets below the level it reported at the end of 2017.⁹ In order to lift the growth cap, the Fed must approve plans developed by Wells Fargo to “improve its firmwide compliance and operational risk management” and explain how the Board will “enhance [its] effectiveness in carrying out its oversight and governance of WFC.”¹⁰ The second plan must identify “actions the Board will take to ensure senior management’s ongoing effectiveness in managing the Firm’s activities and related risks and promoting strong risk management across the Firm.”¹¹

I have written to you before that the Wells Fargo Board cannot meet its obligations under the Order to remove the cap while it retains Mr. Sloan as CEO. In Mr. Sloan’s 31 years at Wells Fargo—many of them in senior positions at the bank—he has presided over a litany of unlawful actions that reveal little to no “effectiveness in managing the Firm’s activities and related risks.” These include:

⁵ The Office of the Comptroller of the Currency, “Consent Order 2015-125,” November 19, 2015, <https://www.occ.gov/static/enforcement-actions/ea2015-125.pdf>.

⁶ The Capitol Forum, Wells Fargo: Employees Doctored Signatures, Raising Possibility of Federal Penalties, Feb. 14, 2019.

⁷ The Capitol Forum, Wells Fargo: Employees Doctored Signatures, Raising Possibility of Federal Penalties, Feb. 14, 2019.

⁸ Wells Fargo, “Wells Fargo Chairman, CEO John Stumpf Retires; Board of Directors Elects Tim Sloan CEO, Director; Appoints Lead Director Stephen Sanger Chairman, Director Elizabeth Duke Vice Chair,” press release, October 12, 2016, <https://newsroom.wf.com/press-release/corporate-and-financial/wells-fargo-chairman-ceo-john-stumpf-retires-board-directors>.

⁹ *In the Matter of Wells Fargo & Company*, Docket No. 18-007-B-HC, “Order to Cease and Desist Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as Amended,” <https://www.federalreserve.gov/newsevents/pressreleases/files/enf20180202a1.pdf>, ¶ 5.

¹⁰ *Id.* ¶ 3.

¹¹ *Id.* ¶ 2(b).

- Wells Fargo employees opened more than three million fake customer bank and credit accounts over a five-year period, resulting in millions of dollars in fines and regulatory restrictions.¹²
- Between January 2012 and July 2016, “[m]ore than 800,000 people who took out car loans from Wells Fargo were charged for auto insurance they did not need,” pushing “roughly 274,000 Wells Fargo customers into delinquency and resulted in almost 25,000 wrongful vehicle repossessions.”¹³
- Wells Fargo failed to refund money owed to tens of thousands of customers who had paid off their car loans early.¹⁴
- For years, Wells Fargo “charged monthly fees to customers for dozens of products they didn’t understand or know how to use.”¹⁵
- Between 2008 and 2015, Wells Fargo repossessed vehicles belonging to 450 members of the military in violation of the Servicemembers Civil Relief Act (SCRA).¹⁶
- Between 2010 and 2015, Wells Fargo admittedly made “calculation errors” that denied loan modifications to 625 eligible homeowners, leading to approximately 400 wrongful foreclosures.¹⁷
- Between March 2013 and August 2017, Wells Fargo failed to properly compensate certain lower-level employees for legally required break periods. A federal judge ordered the bank to pay more than \$97 million in damages.¹⁸

¹² CNN, “5,300 Wells Fargo employees fired over 2 million phony accounts,” Matt Egan, September 9, 2016, <https://money.cnn.com/2016/09/08/investing/wells-fargo-created-phony-accounts-bank-fees/?iid=EL>; CNN, “Wells Fargo uncovers up to 1.4 million more fake accounts,” Matt Egan, August 31, 2017, <https://money.cnn.com/2017/08/31/investing/wells-fargo-fake-accounts/index.html>.

¹³ New York Times, “Wells Fargo Forced Unwanted Auto Insurance on Borrowers,” Gretchen Morgenson, July 27, 2017, <https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html>. The bank later said 570,000 customers might be eligible for a refund. *See* Vanity Fair, “Oops: Wells Fargo Admits Charging 800,000 People for Car Insurance They Didn’t Need,” Bess Levin, July 28, 2017, <https://www.vanityfair.com/news/2017/07/wells-fargo-insurance-scandal>.

¹⁴ New York Times, “Wells Fargo, Awash in Scandal, Faces Violations Over Car Insurance Refunds,” Gretchen Morgenson, August 7, 2017, <https://www.nytimes.com/2017/08/07/business/wells-fargo-insurance.html?ref=todayspaper>.

¹⁵ Wall Street Journal, “Wells Fargo’s Latest Challenge: Refunds for Pet Insurance, Legal Services,” Emily Glazer, July 19, 2018, <https://www.wsj.com/articles/wells-fargos-latest-challenge-refunds-for-pet-insurance-legal-services-1532009933>.

¹⁶ U.S. Department of Justice, “Justice Department Obtains \$5.4 Million in Additional Relief to Compensate Servicemembers for Unlawful Repossessions by Wells Fargo Dealer Services,” press release, November 14, 2017, <https://www.justice.gov/opa/pr/justice-department-obtains-54-million-additional-relief-compensate-servicemembers-unlawful>

¹⁷ Wells Fargo Form 10-Q. Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, for the Quarterly Period Ending June 30, 2018, <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/sec-filings/2018/second-quarter-10q.pdf>.

¹⁸ CNN Money, “Wells Fargo Owes \$97 million to California Workers,” Matt Egan, May 10, 2018, <http://money.cnn.com/2018/05/10/news/companies/wells-fargo-worker-lawsuit-97-million/index.html>.

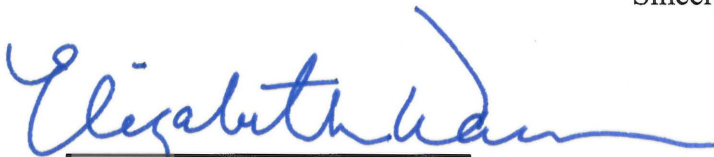
- Wells Fargo disclosed in March 2018 that federal agencies were looking into the bank’s wealth management business.¹⁹ The federal agencies were examining “whether there [had] been inappropriate referrals or recommendations, including with respect to rollovers for 401(k) plan participants, certain alternative investments, or referrals of brokerage customers to the company’s investment and fiduciary services business.”²⁰
- A previously undisclosed analysis by the Consumer Financial Protection Bureau found that Wells Fargo was charging exorbitant fees—three times higher than average—for financial products marketed to them through agreements with their colleges.²¹

On December 10, 2018, you informed me that the Fed “[does] not intend to lift the asset cap until remedies to these issues have been adopted and implemented to our satisfaction.”²² This latest report of Wells Fargo misconduct, if true, provides evidence that the bank, under Mr. Sloan’s leadership, failed to comply with anti-money laundering laws and then falsified documents to cover up non-compliance with a government order when the company got caught. The falsification of documents reportedly began in 2016 and continued through 2017—when Mr. Sloan was Wells Fargo’s CEO and was frequently and publicly claiming that the company would clean up its act and change the “culture throughout our organization and ensure we are always doing the right thing for our customers.”²³

Conclusion

This recent report provides more evidence that Wells Fargo is fundamentally broken, and there is no evidence whatsoever that these problems can be fixed under Mr. Sloan’s watch. The Federal Reserve should take no action to remove the growth cap until Wells Fargo replaces Mr. Sloan as CEO.

Sincerely,



Elizabeth Warren
 Ranking Member
 Senate Subcommittee on Financial Institutions and Consumer Protection

¹⁹ Wells Fargo Form 10-Q. Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, for the Quarterly Period Ending March 31, 2018,:

<https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/sec-filings/2018/first-quarter-10q.pdf>?<https://www.wellsfargo.com/assets/pdf/about/investor-relations/sec-filings/2018/first-quarter-10q.pdf>.

²⁰ *Id.*

²¹ U.S. Senator Elizabeth Warren, “Warren Questions Wells Fargo CEO Tim Sloan on Excessively High Fees the Bank Charged College Students,” press release, January 17, 2019, <https://www.warren.senate.gov/newsroom/press-releases/warren-questions-wells-fargo-ceo-tim-sloan-on-excessively-high-fees-the-bank-charged-college-students>.

²² Reuters, “Wells Fargo won’t be allowed to grow unless problems fixed: Fed’s Powell,” December 10, 2018, <https://www.reuters.com/article/us-wells-fargo-fed-warren/wells-fargo-wont-be-allowed-to-grow-unless-problems-fixed-feds-powell-idUSKBN1O92CP>.

²³ DS News “Reshaping a Culture: An Exclusive Interview With Wells Fargo’s Incoming CEO Tim Sloan,” October 28, 2016, <https://dsnews.com/daily-dose/10-28-2016/reshaping-culture-exclusive-interview-wells-fargos-incoming-ceo-tim-sloan>.