

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

August 1, 2017

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Mr. Chairman:

We write to request that you convene a public hearing to enable all Committee Members to hear directly from Mr. Timothy J. Sloan, the Chief Executive Officer and President, and Mr. Stephen W. Sanger, the Chairman of the Board of Wells Fargo & Company (Wells Fargo), about ongoing violations of consumer rights, any lessons learned from the egregious behavior of the bank's fraudulent opening of millions of unauthorized accounts, and what concrete steps are being taken to address all of the problems that have come to light. It would also be helpful to get more specifics from the bank's executives on which of their customers were harmed and measures taken to provide adequate redress.

For example, the Independent Directors of the Board of Wells Fargo issued an extensive "Sales Practices Investigation Report" (Report) on April 10, 2017.¹ The Report found that:

"The root cause of sales practice failures was the distortion of the [bank's] sales culture and performance management system, which, when combined with aggressive sales management, created pressure on employees to sell unwanted or unneeded products to customers and, in some cases, to open unauthorized accounts. Wells Fargo's decentralized corporate structure gave too much autonomy to the [bank's] senior leadership, who were unwilling to change the sales model or even recognize it as the root cause of the problem.... leadership resisted and impeded outside scrutiny or oversight and, when forced to report, minimized the scale and nature of the problem. The former Chief Executive Officer, relying on Wells Fargo's decades of success with cross-sell and positive customer and employee survey results, was too slow to investigate or critically challenge sales practices in the [bank]. He also failed to appreciate the seriousness of the problem and the substantial reputational risk to Wells Fargo."

This Report provides an extensive description of the bank's wrongdoing along with the enforcement actions taken by the Consumer Financial Protection Bureau (Consumer Bureau), the Office of the Comptroller of the Currency (OCC) and the Los Angeles Office of the City Attorney.

In addition to this illicit conduct by the bank, there have been seemingly never-ending developments about additional customers who have been harmed in a number of ways by the

¹ <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf>, see "Principal Findings" on introduction page.

bank that clearly warrant Committee scrutiny. Mr. Sloan and Mr. Sanger should testify on these issues as well. For example, it has been alleged that Wells Fargo enrolled customers in Prudential life insurance policies without their consent.² It has also been reported that Wells Fargo modified borrower mortgages without authorization to possibly collect government subsidies,³ and delayed mortgage closing dates until after the expiration of the borrower's interest rate lock to levy additional fees.⁴ Relatedly, it has also come to light that Wells Fargo provided its branches with 24-hour notice in advance of inspections, providing plenty of time for employees to destroy documents containing evidence of wrongdoing.⁵

Furthermore, it was appalling to see reports that Wells Fargo went to court to enforce the forced pre-dispute arbitration clauses for customers who had fake accounts set up in their name to prevent them from seeking the redress they deserve through our judicial system.⁶ The bank should explain to the Committee the logic of this decision in light of the fact that the bank's customers did not ask them to open these accounts in the first place. Thankfully, the Consumer Bureau recently finalized a rule to ban these kind of abusive forced pre-dispute arbitration clauses, which will finally restore consumers' due process rights through our court system, and empower consumers with the choice to use arbitration or join in a class action in a court of law depending what is in their best interests provided that the misguided efforts by the Majority to block the rule are not successful.⁷ A *USA Today* editorial underscored that, "Ultimately, the payoff from class actions is not the small check an individual may get, but the revelations of the rip-offs and the pressure they place on companies to stop cheating consumers."⁸ And a *Times-Tribune* editorial echoed, "Forced arbitration allows [financial services companies] to act with

² Matt Egan, "Wells Fargo scandal spreads to Prudential insurance," CNN MONEY (December 12, 2016), available at <http://money.cnn.com/2016/12/12/investing/wells-fargo-insurance-scandal-prudential/index.html>.

³ See Gretchen Morgenson, "Wells Fargo Is Accused of Making Improper Changes to Mortgages," NEW YORK TIMES (June 14, 2017), available at <https://www.nytimes.com/2017/06/14/business/wells-fargo-loan-mortgage.html>.

⁴ Jesse Eisinger, "Wells Fargo Places L.A. Exec on Leave Amid Rate-Lock Fee Inquiry," PRO PUBLICA (February 22, 2017), available at <https://www.propublica.org/article/wells-fargo-places-la-exec-on-leave-amid-rate-lock-fee-inquiry>

⁵ Matt Egan, "Wells Fargo branch inspections come with a 24-hour heads up," CNN MONEY (January 25, 2017), available at <http://money.cnn.com/2017/01/25/investing/wells-fargo-branch-inspections/index.html>.

⁶ See NEW YORK TIMES, "Wells Fargo Asks Court to Force Customers to Arbitration in Fake Accounts Cases," (Nov. 24, 2016), available at <https://www.nytimes.com/2016/11/24/business/wells-fargo-asks-court-to-force-customers-to-arbitration-in-fake-accounts-cases.html>; Michael Corkery and Stacy Cowley, "Wells Fargo Killing Sham Account Suits by Using Arbitration," NEW YORK TIMES (Dec. 6, 2016), available at <https://www.nytimes.com/2016/12/06/business/dealbook/wells-fargo-killing-sham-account-suits-by-using-arbitration.html>; Chris Morran, "Wells Fargo Tries, Fails To Explain Why Customers Shouldn't Be Allowed To Sue Over Fake Accounts," CONSUMERIST (March 1, 2017) available at <https://consumerist.com/2017/03/01/wells-fargo-tries-fails-to-explain-why-customers-shouldnt-be-allowed-to-sue-over-fake-accounts/>; Michael Hiltzik, "No surprise: Wells Fargo is leveraging its arbitration clause to win an advantageous scandal settlement," LOS ANGELES TIMES (March 31, 2017), available at <http://www.latimes.com/business/hiltzik/la-fi-hiltzik-wells-settlement-20170331-story.html>, and Michael Hiltzik, "Here's why Wells Fargo forces its customers into arbitration: It wins most of the time," LOS ANGELES TIMES (April 7, 2017), available at <http://www.latimes.com/business/hiltzik/la-fi-hiltzik-wells-arbitration-20170407-story.html>.

⁷ Consumer Financial Protection Bureau, Press Release, "CFPB Issues Rule to Ban Companies From Using Arbitration Clauses to Deny Groups of People Their Day in Court," (July 10, 2017), available at <https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-rule-ban-companies-using-arbitration-clauses-deny-groups-people-their-day-court/>. Also see Press Release, "Democratic Staff Report Documents Successes of Consumer Financial Protection Bureau, Importance of Rulemaking on Forced Arbitration," (July 23, 2017), available at <https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400699>; and Press Release, "Waters Condemns Republican Effort to Repeal Forced Arbitration Rule," (July 25, 2017) available at <https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400717>.

⁸ USA TODAY Editorial Board, "Let consumers sue banks - Arbitration shields financial institutions from class action lawsuits: Our View," (July 23, 2017), available at <https://www.usatoday.com/story/opinion/2017/07/23/let-consumers-sue-banks-editorials-debates/493084001/>.

impunity; class actions raise the prospect of real penalties.”⁹ Allowing consumers that option has proven to be an effective means to expose system-wide compliance failures deterring banks from continuing bad practices that put profits before their customers’ financial well-being.

And within the past few days, two more troubling revelations came to light. According to a report, more than 800,000 Wells Fargo customers who took out car loans were charged for auto insurance policies they did not need, and some of those customers are still paying for it. Of those customers who were hurt, some were active duty service members.¹⁰ In response to the report, the bank quickly claimed that only “approximately 570,000 customers” were ripped off by their misdeeds.¹¹ If it is 570,000 customers that were harmed, that is still 570,000 too many of our fellow citizens who were abused by the bank.

It was also reported that the bank shared personal and financial information of thousands of bank customers with an outside party, to which you and Congresswoman Wagner wrote Mr. Sloan requesting Wells Fargo’s General Counsel brief Committee staff.¹² In your letter you wrote, “The Committee is very concerned by these serious allegations, and is investigating Wells Fargo’s handling of customer information.” Since these are serious allegations, however, Members of the Committee and the public should hear directly from the bank’s executives on this and the previously mentioned developments instead of holding a closed-door briefing for staff.

Since the hearing with Mr. John G. Stumpf, the former CEO and Chairman, last year, it has been incredibly disappointing that the Majority has used the tremendous harm imposed by the bank on millions of consumers across the country as a means of trying to tear down the Consumer Bureau, which took decisive action to stop the bank from violating our consumer protection laws, as it should have. Indeed, although the Majority claims the Consumer Bureau was slow to stop the fraud, it was not even established until roughly a *decade after* Wells Fargo employees’ began creating fake accounts to meet sales goals. Rather, the OCC was the bank’s supervisor during this period, so it was not surprising after conducting an internal review, the OCC recently issued a report describing all of their supervision failures.¹³ And yet, the Majority ignores these critical failures of supervision and the ongoing misdeeds of the bank, and instead relentlessly attacks the only federal watchdog consumers have to better protect them from banks like Wells Fargo that recklessly violate consumer financial protection laws.

The Majority has taken a partisan approach to this investigation thus far and is not utilizing the Committee’s resources and time in a bipartisan way to conduct vigorous oversight of the institution that actually harmed our constituents. As you know, on December 5th, 6th and 7th of 2016, four Wells Fargo executives -- specifically Mr. Sloan; Mr. John R. Shrewsbury, Chief Financial Officer; James M. Strother, General Counsel; and Michael J. Loughlin, Chief Risk

⁹ THE TIMES TRIBUNE Editorial Board, “Shield Consumers,” (July 24, 2017), available at <http://thetimes-tribune.com/opinion/shield-consumers-1.2222165>.

¹⁰ Gretchen Morgenson, “Wells Fargo Forced Unwanted Auto Insurance on Borrowers,” NEW YORK TIMES (July 27, 2017), available at <https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html>.

¹¹ Wells Fargo Press Release, “Wells Fargo Announces Plan To Remediate Customers For Auto Insurance Coverage,” (July 27, 2017), available at <https://newsroom.wf.com/press-release/consumer-lending/wells-fargo-announces-plan-remediate-customers-auto-insurance>.

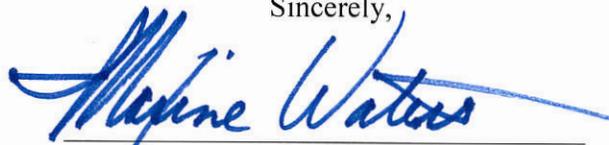
¹² Serge F. Kovaleski and Stacy Cowley, “Wells Fargo Accidentally Releases Trove of Data on Wealthy Clients,” NEW YORK TIMES (July 21, 2017), available at <https://www.nytimes.com/2017/07/21/business/dealbook/wells-fargo-confidential-data-release.html>.

¹³ Office of Enterprise Governance and the Ombudsman, Office of the Comptroller of the Currency, “Lessons Learned Review of Supervision of Sales Practices at Wells Fargo,” (Apr. 19, 2017) available at <https://www.occ.gov/publications/publications-by-type/other-publications-reports/pub-wells-fargo-supervision-lessons-learned-41917.pdf>.

Officer -- participated in secret, unrecorded interviews with Republican staff of the Committee regarding the Committee's investigation. Despite repeated requests from me and my staff to receive the same courtesy, our request for an equal opportunity at interviews has consistently been rejected.

Mr. Chairman, the Committee's responsibility should be focused on the public's interest and not on shielding the nation's biggest banks from scrutiny when they break the law. In the words of your spokesperson, "The customers of Wells Fargo deserve justice and they deserve accountability."¹⁴ We agree, so if the Committee is to attempt to have a fair approach to oversight and investigations, and better understand what went wrong at Wells Fargo to prevent pervasive fraud that harms millions of consumers from ever happening again, all Committee Members should be given a chance to hear directly from and question Mr. Sloan and Mr. Sanger as soon as possible.

Sincerely,



Representative Maxine Waters
Ranking Member



Representative Daniel T. Kildee
Vice Ranking Member



Representative Al Green
Ranking Member
Subcommittee on Oversight and Investigations

¹⁴ Zachary Warmbrodt, "Auto insurance scandal keeps heat on Wells Fargo," POLITICO PRO (July 28, 2017)