United States Senate
WASHINGTON, DC 20510

March 22, 2019

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

Dear Chairman Powell,

I write to bring to your attention to two new reports of systemic misconduct that provide additional evidence to the voluminous record indicating that the Federal Reserve Board of Governors (the Fed) should not lift restrictions on Wells Fargo & Company's (Wells Fargo) growth until Timothy Sloan is replaced as President and CEO.

On February 2, 2018, the Fed imposed a growth restriction on Wells Fargo & Company (Wells Fargo) due to the company's "widespread consumer abuses and other compliance breakdowns."[1] This restriction requires the company to maintain its total consolidated assets below the level it reported at the end of 2017. The ability of the Wells Fargo Board of Directors to "ensure senior management's ongoing effectiveness in managing the [bank's] activities and related risks and promoting strong risk management across the [bank]" is a requirement for the Fed lifting the growth cap it has imposed on Wells Fargo.

Due to ongoing revelations of misconduct, we have requested a further hearing with Wells Fargo's CEO and Chair of the Board.[2] We have written letters summarizing the troubling pattern of unlawful activity at Wells Fargo that occurred while Mr. Sloan was in a senior leadership positions at the bank and [3] highlighting a new and troubling report of misconduct that took place at Wells Fargo under Mr. Sloan's the watch, including the bank's failure to comply with anti-money laundering laws and falsification of documents to cover up non-compliance with a government order. The two new cases we report to you today provide additional evidence for the inability of Wells Fargo to move forward under Mr. Sloan's watch.

[1] The Board of Governors of the Federal Reserve System, "Responding to widespread consumer abuses and compliance breakdowns by Wells Fargo, Federal Reserve restricts Wells' growth until firm improves governance and controls. Concurrent with Fed action, Wells to replace three directors by April, one by year end," press release, February 2, 2018, https://www.federalreserve.gov/newsevents/pressreleases/enforcement20180202a.htm.

[2] Letter from Democratic Senators of the Committee on Banking, Housing and Urban Affairs to Chairman Crapo, October 4, 2018, https://www.banking.senate.gov/imo/media/doc/Wells%20Fargo%20Letter%2010.4.2018.pdf

[3] Letter from Senator Elizabeth Warren to Federal Reserve Board Chairman Jerome Powell, October 18, 2018, https://www.warren.senate.gov/imo/media/doc/2018.10.18%20Letter%20to%20Fed%20Chairman%20Powell%20on%20Growth%20Restriction.pdf.

New Report Reveals Wells Fargo's Failed Efforts to Compensate Customers Forced to Purchase Unnecessary Car Insurance

In July 2017, Wells Fargo announced that its auto dealer services division had forced hundreds of thousands of customers to purchase car insurance they did not need.[4] The bank, failing to "sufficiently monitor" its insurance vendor and its "internal processes," required up to 570,000 customers with auto insurance to pay for "duplicate or unnecessary" force-placed insurance policies. These customers were "charged substantial premiums—typically just over $1,000 a policy—for" this unnecessary insurance—potentially resulting in the repossession of at least 27,000 customers' vehicles.[5]

A March 6, 2018, reporting by the *Capital Forum* indicated that, under Mr. Sloan's watch, Wells Fargo has failed to compensate customers affected by the bank's illegal auto-lending practices. In fact, according to the report, "there has been no sweeping outreach. There has been no independent review. And Wells Fargo does not intend to repay all the victims."[6]

In April 2018, the OCC and the CFPB announced a $1 billion settlement with Wells Fargo related to its auto-lending activities and a separate scandal involving its administration of rate-lock mortgages.[7] In addition to assessing a civil penalty, the OCC and CFPB "ordered the bank to make restitution to customers harmed by its unsafe or unsound practices."[8] Wells Fargo agreed to develop a "Remediation Program"—outlining its plans to identify affected customers, provide them with financial compensation, and help them amend credit reports affected by the bank's behavior—and submit it to the OCC and CFPB for review and approval.[9]

Wells Fargo, however, appears to have made minimal progress in its efforts to compensate customers. According to *Capitol Forum,* Wells Fargo's initial steps to identify and compensate

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[4] CNN Money, "Wells Fargo may have forced 570,000 customers into unneeded auto insurance," July 28, 2017, https://money.cnn.com/2017/07/28/investing/wells-fargo-auto-insurance-car-loans/index.html; Consumer Financial Protection Bureau, Administration Proceeding, File No. 2018-BCFP-0001, *Consent Order in the Matter of Wells Fargo Bank, N.A.,* April 20, 2018, https://files.consumerfinance.gov/f/documents/cfpb_wells-fargo-bank-na_consent-order_2018-04.pdf.

[5] CNN Money, "Wells Fargo may have forced 570,000 customers into unneeded auto insurance," July 28, 2017, https://money.cnn.com/2017/07/28/investing/wells-fargo-auto-insurance-car-loans/index.html; Consumer Financial Protection Bureau, Administration Proceeding, File No. 2018-BCFP-0001, *Consent Order in the Matter of Wells Fargo Bank, N.A.,* April 20, 2018, https://files.consumerfinance.gov/f/documents/cfpb_wells-fargo-bank-na_consent-order_2018-04.pdf.

[6] The Capitol Forum, "Wells Fargo: Customer Cheated on Car Insurance May Get Nothing in Confused Payout," March 6, 2019.

[7] Office of the Comptroller of the Currency, "OCC Assesses $500 Million Penalty Against Wells Fargo, Orders Restitution for Unsafe or Unsound Practices," April 20, 2018, https://www.occ.gov/news-issuances/news-releases/2018/nr-occ-2018-41.html.

[8] Office of the Comptroller of the Currency, "OCC Assesses $500 Million Penalty Against Wells Fargo, Orders Restitution for Unsafe or Unsound Practices," April 20, 2018, https://www.occ.gov/news-issuances/news-releases/2018/nr-occ-2018-41.html.

[9] Consumer Financial Protection Bureau, Administration Proceeding, File No. 2018-BCFP-0001, *Consent Order in the Matter of Wells Fargo Bank, N.A.,* April 20, 2018, https://files.consumerfinance.gov/f/documents/cfpb_wells-fargo-bank-na_consent-order_2018-04.pdf; Office of the Comptroller of the Currency, "Consent Order, In the Matter of Wells Fargo Bank, N.A.: #2018-025," April 20, 2018, https://www.occ.gov/static/enforcement-actions/ea2018-025.pdf.

harmed customers—taken prior to the OCC and CFPB settlement—were rushed and disorganized. The bank "handed off much of the job to a few dozen laid-off employees who were brought back to meet daily quotas for their work," and managers encouraged them to "examine as many as 120 files per eight-hour shift—or one file every four minutes." According to the employees, "the pressure…made a thorough investigation impossible."[10] And since the April 2018 settlement, problems have persisted. The OCC rejected an initial remediation plan in September 2018.[11] Even now, according to Wells Fargo workers, "problems remain;" bank employees are "relying on co-workers instead of an independent auditor to check each other's reviews, compounding the chances for errors," and the bank is "hindering the remediation efforts by not seeking input from the affected drivers."[12]

Last week, an OCC spokesperson took the unusual step of rebuking Wells Fargo saying "[w]e continue to be disappointed with Wells Fargo Bank N.A.'s performance under our consent orders and its inability to execute effective corporate governance and a successful risk-management program. We expect national banks to treat their customers fairly, operate in a safe and sound manner, and follow the rules of law.[13]"

Wells Fargo Fined for Overcharging Retail Mutual Fund Investors

One week after the report of the problems with Wells Fargo's insurance reimbursements, the Securities and Exchange Commission (SEC) identified a new problem at Wells Fargo, fining the bank for violations of the Investment Advisers Act that took place in 2014-2015, when Mr. Sloan was a senior-level bank executive.[14] [15]

Investment advisers registered under the Investment Advisers Act "have a fundamental obligation to act in the best interests of [their] clients and to provide investment advice in [their] clients' best interests."[16] On March 11, 2019, the SEC announced that it had "settled charges against 79 investment advisers," including Wells Fargo Clearing Services, LLC, and Wells Fargo Advisors Financial Network, LLC, for failing to adhere to their fiduciary duties. The advisers "failed to adequately disclose conflicts of interest related to the sale of higher-cost mutual fund share classes when a lower-cost share class was available," leading their clients to invest in higher-fee mutual funds—"creating a conflict of interest…as the investment advisers stood to benefit from the clients' paying higher fees." Wells Fargo "purchased, recommended, or held for

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[10] The Capitol Forum, "Wells Fargo: Customer Cheated on Car Insurance May Get Nothing in Confused Payout," March 6, 2019.
[11] Reuters, "Exclusive: U.S. regulators reject Wells Fargo's plan to repay customers—sources," Patrick Rucker, September 11, 2018, https://www.reuters.com/article/us-wells-fargo-insurance-exclusive/exclusive-u-s-regulators-reject-wells-fargos-plan-to-repay-customers-sources-idUSKCN1LR2LG.
[12] The Capitol Forum, "Wells Fargo: Customer Cheated on Car Insurance May Get Nothing in Confused Payout," March 6, 2019.
[13] Bloomberg, "As Wells Fargo CEO Draws Bipartisan Rebuke, OCC Takes Swipe Too," March 12, 2019, https://www.bloomberg.com/news/articles/2019-03-12/wells-fargo-gets-occ-rebuke-during-ceo-s-congressional-hearing.
[14] Wells Fargo, "Timothy J. Sloan," https://www.wellsfargo.com/about/corporate/governance/sloan/.
[15] Wells Fargo Advisors, "Wells Fargo Advisors: A Premier Investment Firm," https://www.wellsfargoadvisors.com/about/firm.htm.
[16] Securities and Exchange Commission, "Information for Newly-Registered Investment Advisers," November 23, 2010, https://www.sec.gov/divisions/investment/advoverview.htm.

advisory clients" mutual fund share classes that charged…fees instead of lower-cost chare classes" between January 1, 2014, and July 31, 2015.[17]

The SEC's enforcement action "will return more than $125 million to clients," including retail investors. [18] Notably, it appears that Wells Fargo was among the largest offenders; the company will pay about $17.4 million of the $125 million total, the "highest of any company that settled."[19]

Conclusion

These recent reports provide more evidence that Wells Fargo is fundamentally broken, with a record of misconduct that has lasted for years. There is no evidence whatsoever that Mr. Sloan will fix these problems, and the Federal Reserve should take no action to remove the growth cap until Wells Fargo replaces Mr. Sloan as President and CEO.

Sincerely,

Elizabeth Warren
United States Senator

Sherrod Brown
United States Senator

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[17] Securities and Exchange Commission, "Order Instituting Administrative and Case-And-Desist Proceedings, Pursuant to Sections 203(3) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and Cease and Desist Order," File No. 3-19102, https://www.sec.gov/litigation/admin/2019/ia-5199.pdf.

[18] Securities and Exchange Commission, "SEC Share Class Initiative Returning More than $125 Million to Investors," March 11, 2019, https://www.sec.gov/news/press-release/2019-28?mod=article_inline.

[19] Wall Street Journal, "Firms to Pay $125 Million to Clients Over Fee-Disclosure Practices," Dave Michaels, March 11, 2019, https://www.wsj.com/articles/firms-to-pay-125-million-to-clients-over-fee-disclosure-practices-11552335611.