

July 28, 2017

The Honorable Janet Yellen  
Chair  
Federal Reserve Board of Governors  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, D.C. 20551

Dear Chair Yellen:

I write to follow up on my June 19, 2017 letter urging the Federal Reserve Board of Governors (the “Federal Reserve”) to invoke its legal authority to remove the twelve current members of the Wells Fargo Board of Directors who served on the Board between May 2011 and July 2015. In the month since my last letter, information has emerged that makes the case for removing these Board members even stronger.

As you know, Federal Reserve regulations and guidelines impose clear risk-management obligations on bank Board members.<sup>1</sup> Those obligations are particularly demanding for Board members at a bank as big and complex as Wells Fargo. If Board members fail to fulfill those obligations, the Federal Reserve may remove them.<sup>2</sup> Publicly available evidence – including an investigatory report authored by the law firm Shearman & Sterling – demonstrates that the Wells Fargo Board did not satisfy its obligations by ignoring repeated red flags and allowing more than 5000 bank employees to create more than two million fake accounts over four years.

In your written response to my earlier letter, you confirmed that the Federal Reserve has the legal authority to remove these Board members, and that you “stand ready to use such authority should the facts and circumstances warrant” it.<sup>3</sup> And in your testimony on this matter before the Senate Committee on Banking, Housing, and Urban Affairs on July 13, 2017, you acknowledged that Wells Fargo’s conduct was “egregious and unacceptable.”<sup>4</sup>

But now, new evidence has surfaced that the Wells Fargo Board violated its risk management obligations. According to the *New York Times*, 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...according to an internal report prepared for the bank’s executives.”<sup>5</sup> These improper charges – like the creation of fake accounts in customers’ names – did severe damage to thousands of Wells Fargo customers. The bank’s own internal report found that “[t]he

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<sup>1</sup> 12 C.F.R. § 252.33(a)(2); “Rating Risk-Management Processes and Internal Controls of BHCs Having \$50 Billion or More in Total Assets,” *Federal Reserve Supervisory Manual* 4070.1, 1 (July 2016) (online at <https://www.federalreserve.gov/boarddocs/supmanual/bhc/4000p2.pdf>).

<sup>2</sup> See Letter from Federal Reserve Board Chair Janet Yellen to Senator Elizabeth Warren (July 11, 2017), at 2.

<sup>3</sup> Letter from Federal Reserve Board Chair Janet Yellen to Senator Elizabeth Warren (July 11, 2017), at 2.

<sup>4</sup> Testimony before the Senate Committee on Banking, Housing, and Urban Affairs (July 13, 2017) (response to questions from Sen. Elizabeth Warren).

<sup>5</sup> Gretchen Morgenson, *Wells Fargo Forced Unwanted Auto Insurance on Borrowers*, N. Y. Times (July 27, 2017), at <https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html>.

expense of the unneeded insurance . . . pushed roughly 274,000 Wells Fargo customers into delinquency and resulted in almost 25,000 wrongful vehicle repossessions.”<sup>6</sup> Active duty service members were among those affected by this improper practice.<sup>7</sup>

There are surely deep risk management problems at a bank when it opens millions of fake customer accounts and charges nearly a million customers for a financial product they don’t need – all over roughly the same five-year period. The Wells Fargo Board is ultimately responsible for that failure, and the Federal Reserve should remove Board members who served during that time period.

As I noted at the July 13<sup>th</sup> Banking Committee hearing, to truly protect customers and the safety and soundness of the banking system, the Federal Reserve must exercise its authority to hold individuals accountable. Fines alone will never do the job. I appreciate that you “stand ready” to use your legal authority to remove individual Board members. I hope you will now follow through.

Sincerely,



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

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<sup>6</sup> Id.

<sup>7</sup> Id.