Wells Fargo

Wells Fargo's *Community Banking Unit* is America's largest mortgage and auto lender – despite a scandal in 2016 that continued to grow and grow. The CBU has 70 million customers each with about six types of products (accounts) with the bank.

Fake accounts: 2 million +

Fines: $185 Million

Fired: 5300 managers

Resigned: CEO John Stumpf

Legal fees: $40 – $50 million per *quarter*

Branch closings: 400 by 2019

New checking account openings dropped 40%

Applications for credit cards fell 43%

Background:

Although early signs of a scandal emerged in 2011 and then were widely revealed via a *Los Angeles Times* expose in 2013, it wasn't until 2016 that Wells Fargo admitted that employees at branches across the US had opened 2.1 million phony accounts – in real customer's names – in order to meet sales quotas.

Another tactic used by the company (apparently in the LA area only) was to intentionally cause mortgage applicants to miss their "rate lock" deadlines, thereby causing the customer to pay upwards of $1,000 in penalties and fees.

A third violation was revealed nearly a year later (August 2017) which involved charging auto-loan customers for insurance that they did not need. Approximately 800,000 customers were affected.

There is evidence that in the 5-year period prior to the scandal becoming public, at least a half-dozen employees who had called the company's ethics line were fired. The reasons for their firings were not attributed to their whistleblowing, but rather to tardiness or other performance issues. Other employees reported facing repercussions (such as "corrective action") they attributed to their whistle blowing. It is illegal for a company to suppress whistleblowing under the Sarbanes-Oxley and Dodd-Frank statutes.

Initially, company executives blamed lower level "rank and file" employees for the improprieties. It was later revealed that the pressure to open multiple accounts and make sales goals was directed by bank managers, who, in turn, were pressured by their senior managers, AND that branches would receive 24 hours' notice if they were about to be visited by internal auditors (to check the validity of account handling), which would allow them time to shred phony documentation.

Moving Forward

- The new CEO, Tim Sloan, formed a new ethics office. Sales goals were eliminated. Executive bonuses for 2016 were scrapped.

- The company settled at least one class action lawsuit from consumers, by paying $110 million in fines and restitution, in order to avoid litigation (the company also dropped plans to force arbitration).

- A third party has been hired to investigate reports of retaliation for calling the bank's ethics line; if these accusations are true, the company may be open to more employee lawsuits.
- The SEC (Securities and Exchange Commission) is probing the bank's "sales practices." Janet Yellen, SEC Chair, has recommended 12 members of the Board of Directors be let go.
- The Department of Labor is also investigating the bank regarding claims of failing to pay employees overtime.
- The California Attorney General is investigating whether bank employees committed identity theft when opening the fraudulent accounts (since, in many cases, people's credit was damaged by accumulating late fees on accounts they didn't know they had).
- In April 2017 the Wells Fargo Board of Directors sought to redeem $75 million in compensation (money and stock) from the former CEO (Stumpf) and the former head of Community Banking, Carrie Tolstedt.

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Discussion Questions:

- ✓ If you spotted an unethical act – or were asked to perform one – what would you do?
- ✓ Was it fair that 5000+ low-level managers were fired or should only the senior executives have been held accountable?
- ✓ Much of the blame for the violations was placed on the company's decentralized structure which allowed unit heads and regions great autonomy - what are your thoughts on trusting an executive to run his /her business unit versus having strict lines of reporting and oversight?
- ✓ Is it fair to ask for money back from the executives? Who benefits from the return of the money?
- ✓ Do you think what has happened to Wells Fargo (loss of business, loss of reputation, lawsuits, fines, state and federal investigations) will prevent other companies / executives from acting in unethical ways in their own business?
- ✓ Wells Fargo's revenue is around $80 billion – should the fines be proportional to the company's income / value?
- ✓ Despite federal banking regulations and SEC oversight, banking regulations rely on banks to monitor themselves. It's clear that a bank that chooses to ignore its own wrongdoing can do so. Should other regulations / oversight be instituted? What are your suggestions?
- ✓ Did Wells Fargo as a corporation, or the executives that ran the company, do anything criminal?
- ✓ Warning signs – such as customers failing to fund the accounts they "recently opened" – were evident but ignored. What kinds of early warning systems are in place in your organization? How are they monitored?