

WELLS FARGO: ONE YEAR LATER

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FIFTEENTH CONGRESS
FIRST SESSION
ON
EXAMINING WELLS FARGO BANK'S CULTURE, ORGANIZATIONAL STRUCTURE, AND MANAGEMENT'S MONITORING AND RESPONSIVENESS, AS WELL AS THE REFORMS INSTITUTED BY THE COMPANY IN MAKING CUSTOMERS WHOLE AGAIN

OCTOBER 3, 2017

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



Available at: <http://www.govinfo.gov/>

U.S. GOVERNMENT PUBLISHING OFFICE

28-111 PDF

WASHINGTON : 2018

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

MIKE CRAPO, Idaho, *Chairman*

RICHARD C. SHELBY, Alabama	SHERROD BROWN, Ohio
BOB CORKER, Tennessee	JACK REED, Rhode Island
PATRICK J. TOOMEY, Pennsylvania	ROBERT MENENDEZ, New Jersey
DEAN HELLER, Nevada	JON TESTER, Montana
TIM SCOTT, South Carolina	MARK R. WARNER, Virginia
BEN SASSE, Nebraska	ELIZABETH WARREN, Massachusetts
TOM COTTON, Arkansas	HEIDI HEITKAMP, North Dakota
MIKE ROUNDS, South Dakota	JOE DONNELLY, Indiana
DAVID PERDUE, Georgia	BRIAN SCHATZ, Hawaii
THOM TILLIS, North Carolina	CHRIS VAN HOLLEN, Maryland
JOHN KENNEDY, Louisiana	CATHERINE CORTEZ MASTO, Nevada

GREGG RICHARD, *Staff Director*

MARK POWDEN, *Democratic Staff Director*

ELAD ROISMAN, *Chief Counsel*

JOE CARAPIET, *Senior Counsel*

BRANDON BEALL, *Professional Staff Member*

ELISHA TUKU, *Democratic Chief Counsel*

LAURA SWANSON, *Democratic Deputy Staff Director*

COREY FRAYER, *Democratic Professional Staff Member*

DAWN RATLIFF, *Chief Clerk*

CAMERON RICKER, *Deputy Clerk*

JAMES GUILIANO, *Hearing Clerk*

SHELVIN SIMMONS, *IT Director*

JIM CROWELL, *Editor*

C O N T E N T S

TUESDAY, OCTOBER 3, 2017

	Page
Opening statement of Chairman Crapo	1
Opening statements, comments, or prepared statements of:	
Senator Brown	2

WITNESS

Timothy J. Sloan, Chief Executive Officer and President, Wells Fargo & Company	4
Prepared statement	40
Responses to written questions of the Senate Banking Committee	43

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Letter submitted by Americans for Financial Reform and Public Citizen	124
Economic Policy Institute report	128
Letter submitted by Economic Policy Institute Policy Center	130
Wells Fargo Financial Overview report	133

WELLS FARGO: ONE YEAR LATER

TUESDAY, OCTOBER 3, 2017

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:01 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Mike Crapo, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. This hearing will come to order.

Before we begin today, let me acknowledge that our Nation is still mourning and remembering the lives lost in Las Vegas. Our condolences go out to the families affected by this heinous crime, and our thanks go to the courageous first responders and police and citizens who put their lives on the line to save others.

Two Members of this Committee, both of the Senators of Nevada, are absent today because they are in Nevada, and I know that Senator Heller and Senator Cortez Masto are currently doing all they can there. And we will remain united in prayer and support with them during this difficult time.

Today we are going to hear testimony from Wells Fargo chief executive officer and president Tim Sloan. Welcome, Mr. Sloan.

Mr. SLOAN. Thank you.

Chairman CRAPO. Just over a year ago, former Wells Fargo chairman and chief executive officer John Stumpf testified in front of this Committee on the bank's fake-account scandal and his handling of its fallout.

Of the many issues emphasized by the Committee Members during that hearing, one was the need to hold executives accountable and to ensure that customers impacted would be made whole.

Mr. Stumpf repeatedly committed that the bank would take necessary actions to make it right and to restore the public's and the investors' trust in the company.

Incidents like these remind us of how critically important it is for companies to institute policies and procedures that foster customer protection, promptly identify and address problems, and treat customers fairly.

Since that hearing, Wells Fargo has made changes to its corporate and managerial structure in an effort to address the concerns raised by this incident. However, new developments and disclosures at the bank during the last year merit new scrutiny.

On August 31, 2017, Wells Fargo announced the results of an expanded review of retail banking accounts, which included accounts

opened between January 2009 and September 2016. The expanded review found the number of potentially unauthorized accounts was 3.5 million instead of 2.1 million.

Separately, the company discovered problems with respect to its auto Collateral Protection Insurance, or CPI, program and self-reported these issues to its regulators.

In response to complaints, Wells Fargo reviewed policies purchased on behalf of customers between 2012 and 2017 and found that up to 800,000 customers may have been harmed by Wells Fargo's CPI practices. The end result was that customers were charged for car insurance that they did not need, and some had their vehicles wrongfully repossessed. For families, having your car repossessed or credit compromised is devastating.

These new developments raise a number of questions that Wells Fargo must answer, including:

What has Wells Fargo done to ensure that customers affected by any of these issues are or will be made whole?

In more complex cases where customers' credit scores were negatively affected, how is Wells Fargo working with other parties to restore those credit scores and return amounts in those instances where customers experienced higher borrowing costs?

What structural and cultural changes has Wells Fargo made in the last year to address both past issues and new revelations? And what evidence is there that new policies and procedures are effective?

And, finally, as Members asked last year, what has been the involvement of regulators since the initial incident and in response to the new disclosures?

We welcome your comments on these matters, Mr. Sloan. And before we get to the testimony, Senator Brown.

OPENING STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman. I would echo your comments about the citizens of Las Vegas and those many visitors that also lost their lives or were injured in that terrible shooting. Our hearts go out to all of them and their families. Special concern also to Senators Heller and Cortez Masto on this Committee. After every tragedy we always say our hearts and minds go out to those victims and their families. I hope that the U.S. Senate will actually do something about this for a change.

A year ago, then-Wells Fargo CEO John Stumpf sat in this hearing room attempting to explain the inexplicable. The bank's punitive sales goals had pressured its employees into opening over 2 million fraudulent checking and credit card accounts.

In written follow-up questions for the record, Committee Democrats asked Mr. Stumpf if he was confident that this type of fraudulent activity existed in no other part of Wells Fargo. We asked about a variety of products, including insurance.

On November 15, 2016, Wells Fargo responded, "We believe that the activity at issue here was limited to certain team members within the Community Banking Division."

We have learned over the past year that the problems at Wells are much larger and more systemic than the bank originally disclosed.

Before being forced to come clean by a multi-agency investigation, Wells Fargo went to great lengths to bury—to bury—this scandal. It subjected customers to forced arbitration, preventing them from their day in court, further concealing the fraud. Let me give examples. Employees who tried to alert senior management to the treatment of Wells Fargo customers were silenced or fired.

In 2013, a California customer sued, claiming Wells had opened several unauthorized accounts in his name. Wells Fargo forced—forced—that case out of the courts and into nonpublic arbitration, claiming that the terms of a real account should govern the fake ones.

Think about that. Using forced arbitration, Wells forced that case out of the courts and into nonpublic arbitration claiming that the terms of a real account should govern the fake ones.

In 2015, another customer in California filed a class action against Wells for the same practices, and the bank again used its fine-print legalese to fight to keep the case under seal—again, using forced arbitration.

Has the company changed? Just 2 months ago, Wells used its forced arbitration clause again to argue that it should not have to pay customers it cheated on overdraft fees.

In August of this year, Wells finally disclosed that the number of fraudulent accounts was at least 3.5 million—70 percent higher than it originally reported. The bank also revealed that it had stuck 800,000 customers with auto insurance policies, as Chairman Crapo said, without telling them or checking to see if they already had insurance.

The bank was aware of these problems in its auto loan division in July 2016. Yet Wells' CEO told this Committee that fraudulent sales practices were limited to the Community Bank.

Mind you, this was not a casual response to a question that caught somebody off guard in a hearing. It was a written response that was undoubtedly approved by lawyers and others at the bank. Maybe even you, Mr. Sloan, were among those who saw the response before it was sent to Congress.

A week after last year's hearing, the Board of Directors initiated its independent review of the company's sales practices. The report to the board, whose members, I might add, are paid an average of \$370,000 for a part-time job—\$370,000 to prepare for and attend several meetings a year, found that the fault lay elsewhere.

That is cold comfort to the thousands of employees—who make perhaps one-tenth of what these board members make—who were fired for failing to generate enough new accounts.

The board chose to limit the scope of the review to the Community Bank, which is troubling. It should have known, or should have wanted to know, that additional problems existed in other divisions.

The changes that Mr. Sloan and his team have made are not sufficient to reform a corporate culture that is willing to abuse its customers and its employees in an effort to pad its numbers and in an effort to increase executive compensation.

In light of the millions of Americans defrauded by Wells Fargo, the recent Equifax breach that compromised 145 million—the number seems to be growing—145 million Americans' personal financial

information, and the SEC breach that led to insider trading, it is no wonder the public does not trust our financial system.

We need strong rules to guard against abuses in forced arbitration, in payday lending, in debt collection, in mortgage servicing, and credit reporting accuracy.

Rather than working to roll back consumer protections, as this Committee seems to want to do, we should be supporting the Consumer Financial Protection Bureau. We should be supporting other financial watchdogs that stand up for hardworking Americans when big companies take advantage of them.

Thank you Mr. Chairman.

Chairman CRAPO. Thank you, Senator Brown.

We will now proceed to testimony from Mr. Tim Sloan, the chief executive officer and president of Wells Fargo & Company. Mr. Sloan, your written statement will be made a part of the record in its entirety, and you may proceed with your oral remarks.

**STATEMENT OF TIMOTHY J. SLOAN, CHIEF EXECUTIVE
OFFICER AND PRESIDENT, WELLS FARGO & COMPANY**

Mr. SLOAN. Chairman Crapo, Ranking Member Brown, and Members of the Committee, my name is Tim Sloan, and I am the CEO of Wells Fargo. I want to thank you for the invitation to this hearing on "Wells Fargo: One Year Later".

This was a year of disappointment and transition at Wells Fargo. When my predecessor testified here last year, we had not fully grappled with the damage the sales practices scandal had done to our customers, our team members, and their trust in our bank. We recognized too late the full scope and seriousness of the problems in our Community Bank. We did not come to Congress with a good plan, and we deserved your criticism.

But I heard you, and I heard our customers and our team members. I heard them loud and clear. You expect us to do better, and so do we.

So let me be very clear: I am deeply sorry for letting down our customers and our team members. I apologize for the damage done to all the people who work and bank at this important American institution. When the challenges at Wells Fargo demanded decisive action, we acted too slowly and too incrementally. That was unacceptable.

I also want to be clear about another thing: Wells Fargo is a better bank today than it was a year ago. And next year, Wells Fargo will be a better bank than it is today. That is because we have spent the past year determined to earn back the public's trust.

Since I became CEO 11 months ago, my team and I have been focused on three tasks we are here to discuss today.

First, in response to the sales practices problems announced in 2016, we are transforming our Community Bank. Our retail bank has a strong new leader. Oversight, compliance, and human resources are much more effective than a year ago and have far greater visibility and accountability across the entire company. We have revamped the incentives for our retail team members by eliminating product sales goals. Today Wells Fargo rewards teamwork and excellent customer service, not just selling products. Our

Community Bank is a fundamentally different organization from the one that existed in 2016.

Second, we are reviewing operations and increasing accountability across the entire company. Now when a concern emerges, we identify it quickly, we escalate it promptly, we disclose it appropriately, and we address it fully. We will demand individual executive accountability. We have clawed back \$180 million in senior executive compensation, and we have fired senior retail, mortgage, and auto lending executives for not performing up to the standards our customers deserve.

Third, we are compensating every customer who has suffered because Wells Fargo made mistakes. Last year, we reviewed 93 million accounts opened between 2011 and 2015. This year, we went back and took an even closer look at 165 million accounts opened between 2009 and 2016. Just as we expected, we found more accounts that should not have been opened. This was not new potential misconduct since last year. It all happened before 2017. But it is a very serious issue all the same, and we are completely committed to fixing it.

Of the 3.5 million potentially unauthorized accounts, about 190,000 incurred \$6 million in fees and charges. Wells Fargo is refunding every nickel, and we are paying \$142 million to compensate all affected customers, including for increased borrowing costs from credit score impacts.

Apart from these formal reimbursement mechanisms, I want to be very clear that Wells Fargo is committed to addressing any concern that any of our customers may have about an unwanted product or service, no matter where or when it may have occurred. If there is a problem, we want to hear about it.

This past year has been humbling and challenging. My number one job as CEO is to make sure that nothing like this happens again at Wells Fargo. Fortunately, joining me in this big task are 270,000 outstanding Wells Fargo team members. I am proud of their hard work and want to thank them for their commitment to making things right.

I see improvement every day, and so do our team members. I think our customers have noticed the improvement, too. I pledge to you that we will not stop until we restore our customers' trust and make Wells Fargo the finest and most ethical company it can be.

Thank you again for the opportunity to address the Committee. I look forward to your questions.

Chairman CRAPO. Thank you, Mr. Sloan.

In our hearing last year, Members of this Committee asked many questions about how customers and consumers whose credit scores were impacted would be made whole. In cases where customers' credit scores were negatively affected, how is Wells Fargo working with other parties to restore those credit scores and, in cases where customers experienced higher borrowing costs, reimbursing those costs?

Mr. SLOAN. Chairman Crapo, we are doing that in a few ways. First and foremost, we went to the credit bureaus and provided the names of our customers whose accounts could have been inappropriately opened. Unfortunately, because of regulation, the credit

bureaus could not provide us with the detail of those customers back to us.

What we saw when we looked at that is about 40 percent of those customers had no use of the trade lines within a year, so their credit was not impacted. Of that remaining 60 percent, about 25 percent had no impact on their credit scores. We found that the median impact—or, excuse me, the mean impact was about 4 points. But numbers are just numbers because certainly more customers were impacted, and some could have been impacted in credit scores by more than 4 points.

So then what we did is we reached out to 43.5 million small businesses and consumers and said, “If you have an issue, come into Wells Fargo and see us, and we will make it right.” Approximately 41,000 customers have come in. Based upon that, about half had credit-related issues, and we have made it right for those customers.

In addition, as part of the \$142 million settlement that I mentioned, the lion’s share of those funds are going to go to customers whose credit scores have been impacted. So we are going to be working with the experts that the attorneys for the class have provided. We are going to provide them with whatever information they want. We are reaching out to those 43 million customers again, as well as tens of millions of former customers, to make sure that they know about the class action settlement so that they can be made whole as part of that settlement for any credit impacts.

Chairman CRAPO. Thank you. And some of the actions required by regulators as a part of your September 2016 settlements include the establishment of a compliance committee carrying out an enterprise-wide risk review of sales practice risk and maintaining enterprise-wide sales practice risk management and oversight.

What has been the involvement of regulators since the initial incident, including in response to the new disclosures about the increased amount of unauthorized accounts as well as the CPI issues?

Mr. SLOAN. Sure. We have an active dialogue with our regulators—the Federal Reserve, the OCC, and the CFPB—when we are talking about bank-related issues. So there is a tremendous amount of dialogue. For example, as it relates to the Collateral Protection, or CPI, issue, when that got escalated in the third quarter, we reported it to our regulators on a real-time basis, and we have been working with them not only to keep them apprised of those issues, but also in particular with the OCC, working with them to make sure that the remediation plan we had for any customer that was impacted by CPI is acceptable.

As it relates to the fundamental changes that I have made since I became CEO to our compliance, we have done the following things:

First and foremost, we have centralized all of our enterprise risk control activities. That was one of the failings that the report from the independent board of directors found, and we agree with that. So those have been centralized.

We are hiring a new compliance officer. We have completed and devised a new compliance plan. We have created a Conduct Office in the Centralized Risk Group that independently brings up com-

plaints, ethics line issues, any sort of team member turnover, so that we can connect the dots better than we did a year ago.

Chairman CRAPO. Thank you very much.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

I do not think we have a good answer yet, Mr. Sloan, as to how and why this activity went on for so long in your bank. The company first blamed rogue employees who were trying to meet unrealistic sales goals; then blamed Carrie Tolstedt, the senior executive vice president for community banking, who earned \$9 million in 2015; then finally, John Stumpf, the chairman and CEO, who earned \$19 million that year.

You have been at Wells Fargo for a long time, 30 years. You have been COO, CFO, chief administrative officer, head of the Wholesale Bank, which includes overseeing insurance. Was there no point, Mr. Sloan, prior to 2015 with the lawsuits and the terminations and the whistleblowers, was there no point that you saw a problem in the bank that required action?

Mr. SLOAN. Senator, that is incorrect. In fact, I have been very public and have made this statement on a number of occasions, and also it was a finding of the board's report that in 2013, when the sales practices issues were elevated to the Operating Committee, I sat on that Operating Committee, you are absolutely correct, in my role at that time as CFO, that it was elevated to that group. We took action, but in hindsight, Senator, we took action that was insufficient, as I said in my opening statement. And I am angry about how we handled the problems historically. I am disappointed in how we have done—how we handled those. But the fundamental changes that I have made since I have been CEO are addressing the failings that the board report pointed out, our regulators pointed out, and the mistakes that I saw in my prior roles.

Senator BROWN. All right. That is an answer, but as the CFO, as a long-time employee of that company, as having a strong, I understand, close relationship with Mr. Stumpf, it still perplexes me why your anger now or speaking out about it 4 years ago could not have had more impact, but let me turn to another issue.

You have testified about how Wells has changed, but I think actions speak louder than words. For years, your bank used forced arbitration to hide cases where customers alleged fake accounts had been opened in their names. I mentioned in my opening statement the 2013 lawsuit, the 2015 lawsuit that Wells was able to squelch because of the forced arbitration clause. Not only did you use forced arbitration to keep the fraud hidden—that is what it did—but your bank has also taken the position that the fine print on a real account should apply to a fraudulent one. Though you have settled with some customers on that issue, your bank was still making that argument as recently as last month against customers in Utah.

To top it off, in August you asked a court to toss out a class action on a completely different scandal that also goes back several years, again, based on the forced arbitration clauses, the arbitration clause you force your customers to sign.

Many of your competitors are starting to eliminate or have eliminated the practice, have stopped the practice of forced arbitration.

Would you commit to the Committee today that Wells Fargo will quit using forced arbitration?

Mr. SLOAN. No, I will not, Senator. When I hear the word “arbitration,” what I hear is the word “failing.” And when we have to resort and have to have a conversation with our customers about arbitration, it means that we do not have the right product; we have not provided it in the right way; we have not responded to their complaint; and we have not made it right to them. So let me describe what we have done to change that.

First and foremost, we are doing a thorough review of all of our products and services to make sure that they are the right products and services for our customers. In some situations we have stopped providing certain products because we did not believe that we could provide them in the appropriate way.

Second, we are improving how we train our people and our team members to sell our products, to provide the right advice, to provide the right service.

Third, when a customer comes in, we are trying to resolve the complaint completely. One important change that we have made in our Community Bank—and in my opening statement I mentioned we have made fundamental changes in our Community Bank—now when you come into one of our branches, one of our bankers or tellers does not say, “I cannot handle your problem. Call this 800 number.” We settle it right then and there.

In addition to that, fourthly, as part of resolving the sales practices issues, we have expanded to a nationwide mediation. So we pay for a mediator to work with on behalf of our customers—it is an independent mediator, to work on behalf of our customers to resolve complaints. I am happy to say that of the 43.5 million customers that we reached out to in the fourth quarter, those ones that came back—

Senator BROWN. I am going to cut you off. I apologize, because I wanted to follow up on that, and I appreciate the long, detailed answer, and I think it was made in good faith. But I also think that forced arbitration clauses always give the advantage to the employer, to the bank, as we know. We know that. That is established fact. You are still going to use those forced arbitration clauses to take advantage of your customers the way you did with the suits in 2013 and 2015 and the case against the customers in Utah.

Why should we believe you are committed to changing your bank’s practices and being fair to customers when you continue to use that behind-closed-doors arbitration system that clearly does not allow customers their day in court?

Mr. SLOAN. Senator, the reason is because I think we have made fundamental changes to the way that we do business so it will limit the number of times that that ever becomes an issue.

Senator BROWN. To limit the number of times is good. I appreciate that. But give them their day in court, those that you are not able to help or that you are not able to satisfy.

Mr. SLOAN. Senator, I look at the CFPB’s own study, and the CFPB’s own study said that arbitration is fast and efficient for consumers. And the CFPB’s own study said that consumers have better returns, higher resolutions with institutions—

Senator BROWN. That is a selective reading of the CFPB's study, but keep in mind where the CFPB ultimately came out on that question.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Good morning, Mr. Sloan.

Mr. SLOAN. Good morning, Senator.

Senator KENNEDY. Thank you for being here.

Mr. SLOAN. Thank you.

Senator KENNEDY. Like you, I believe in the free enterprise system. I think the free enterprise system has lifted more people out of poverty than all the social programs put together. I am certainly not anti-business. Quite the contrary. We all on this panel talk about the importance of jobs. I do not see how you can be for jobs if you are against business.

But what I am curious about is what in God's name were you thinking? I am not against large. I am happy when businesses are successful. I am not against big. With all due respect, I am against dumb. I am against a business practice which has Wells Fargo first and customers second. I think it ought to be customer first and Wells Fargo second. I think it is better for the customer and better long term for Wells Fargo.

When did this start?

Mr. SLOAN. Senator, I completely agree with you. Wells Fargo cannot be a successful American institution, we cannot employ 270,000 of what I think are the best team members, unless we put our customers first. And there is no question that in our Community Bank we had an incentive plan that put selling products first as opposed to customers first.

Senator KENNEDY. Nothing wrong with that if it is good for the customer. But when did it start? When did it all start? You have investigated back to 2009, I believe?

Mr. SLOAN. Senator, no, the board of directors, the independent board of directors, members of the board looked back as far as 2002, and that is where they found—and I agree with them—that they saw instances of inappropriate sales activity under that plan.

Senator, we should have ended that plan years ago. We made a mistake. There is no question about that. We have ended that plan. We have rolled out a new incentive plan, to your point, in our Community Bank. That incentive plan rewards good customer service. It rewards providing products in the right way.

Senator KENNEDY. Mr. Sloan, I appreciate that, and I am really not trying to be rude. We just have a 5-minute limit, and our Chairman enforces it pretty strictly, as he should.

Can you tell me this: what is the total number right now of fake accounts you found?

Mr. SLOAN. Senator, in our review going back nearly 8 years to 2009, we found that—because we could not call 165 million people. What we did is we used a very conservative set of data metrics to look at, and it was done by an independent party, not by—

Senator KENNEDY. And what did you come up with in terms of the number?

Mr. SLOAN. There were up to potentially—3.5 million potentially unauthorized accounts.

Senator KENNEDY. And that is back to 2009?

Mr. SLOAN. That is correct.

Senator KENNEDY. Did you go back further than that?

Mr. SLOAN. Senator, we could not go back much further than that, and the reason we picked 2009, that is when Wells Fargo and Wachovia came together. So as we went back further than that, the data starts to deteriorate.

Senator KENNEDY. How much money did you make off of those 3.5 million fake accounts?

Mr. SLOAN. Well, again, Senator, they were potentially unauthorized. There were some legitimate accounts in that number. But let us assume that they were all inappropriate.

Senator KENNEDY. Yes.

Mr. SLOAN. We found 190,000 accounts that we charged fees, and that was approximately \$6 million in total, and we have refunded that.

Senator KENNEDY. OK. Was anybody's credit impacted?

Mr. SLOAN. Not for those deposit accounts, but for the potentially unauthorized credit card accounts, their credit could have been impacted. And we are in the process of working to correct that.

Senator KENNEDY. And you said you talked to the credit bureaus. Are they being cooperative?

Mr. SLOAN. Yes, they are.

Senator KENNEDY. You said they were not giving you certain information?

Mr. SLOAN. Well, when we provide them information about customers, they cannot provide us the detailed credit history without the customer's approval. So what they did is they gave us data without the customer name so we could determine—

Senator KENNEDY. I thought you could buy it from them?

Mr. SLOAN. Pardon me?

Senator KENNEDY. I thought you could buy—

Mr. SLOAN. We cannot buy it from them, but we—and that is why it is very important and an important part of the \$142 million settlement that—and that is really the linchpin of that entire settlement, is to make it right for their credit histories. And so that is how they are going to be able to get their credit histories fixed.

In addition, if they come in to see us, of course, we will go ahead and do that.

Senator KENNEDY. Sure. Thank you, Mr. Sloan.

Mr. SLOAN. Thank you.

Senator KENNEDY. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman. And thank you for being here today, Mr. Sloan.

Let me just go through what we have learned over the last year. In September of 2016, we learned that 2.1 million Wells Fargo accounts had been fraudulently set up, credit, checking, debit, unauthorized setting up.

July of 2017, we learned that Wells Fargo set up 800,000 auto insurance policies who did not want or did not need them.

And then in August of 2017, we learned an additional 1.8 million—that is over and above the 2.1 million—1.4 million accounts were set up for unknowing customers.

If you add all those up, that brings the accounts to 4.3 million people either fraudulent accounts or insurance companies, if my math is correct.

Mr. SLOAN. That is correct.

Senator TESTER. 4.3 million people, by the way, is over 4 times the population of the State of Montana. It is a pretty good-size chunk of folks.

The Chairman and Ranking Member of this Committee in their opening statements basically asked you: What have you done that you can tell us today that has changed this culture? This is not one person. This is not tellers on the ground. This has been a culture. So what can you tell me concisely that you have done—and I know you have talked about, you know, transforming your community banks. But what as CEO have you done, or the board or whatever, to ensure to us that we are not going to be back here next week or a month from now or a year from now talking about something else?

Mr. SLOAN. Senator, I cannot promise you perfection, but I can promise you that we are working as hard as we can to get to near perfection, and that is, we are reviewing processes and procedures, turning over every stone.

First and foremost, what we had to do and what you criticized us for last year—and you were absolutely right—is we had to have an executive team that took full responsibility for that. That was number one.

Number two, we needed to reinforce that with our team, so we went out and we talked to our team, and we asked them what they were concerned about. They were concerned about things like pay. They were concerned about things like escalation of issues. They were concerned about things like executive accountability. They were concerned about things like revamping our equity lines and things like that—our ethics lines, excuse me.

The point is we have listened to our team, and as you are listening to the team, that fundamentally changes the culture.

Senator TESTER. OK.

Mr. SLOAN. And, Senator, the proof of the pudding there is that our turnover is now down to its lowest level in 4½ years; and, in particular, it is down to its lowest level in our Community Bank where we had our biggest issues.

Senator TESTER. OK. So just to let you know, I hope this all works, because I think it is absolutely essential that it works. If we are doing this again 6 months from now, it is not going to be good.

You talked about the things you have done, reviewing the customers and products, improving training, resolving problems. You talked about a nationwide mediator. Who pays for the nationwide mediator?

Mr. SLOAN. We do.

Senator TESTER. Who chooses them?

Mr. SLOAN. The customer does. We just go to an independent mediation service, and the customer can do—

Senator TESTER. The customer is the one who makes the call to the mediator?

Mr. SLOAN. Yeah. I mean, we provide them with a list of names. They can decide who they want to use, and we will pay for it.

Senator TESTER. OK. Let me talk a little bit about what the Ranking Member talked about, and that is forced arbitration. Is it true that you are using forced arbitration when it applies to a real account on fake accounts?

Mr. SLOAN. Senator, we have dealt with that issue with the \$142 million settlement. We did not waive our right to arbitration there, but what we did is we agreed to that settlement. And we said to our customers, "Come in to see us." We will make it right by them. "And if you are not happy, we will provide you with a mediator."

Senator TESTER. But that was not the question. The question is: Were you using forced arbitration from a real account and applying it to a fake account that was set up unauthorized?

Mr. SLOAN. There were instances historically that we did that. We are not doing that right—

Senator TESTER. Is that happening today?

Mr. SLOAN. We are not doing that today because we have addressed—

Senator TESTER. So will you commit to not use forced arbitration on accounts that were set up without the authorization of the customer?

Mr. SLOAN. Senator, if there is a situation in which a customer—

Senator TESTER. "Yes" or "no" would work.

Mr. SLOAN. Yes.

Senator TESTER. You commit not to use that, forced arbitration?

Mr. SLOAN. If we have set up an account that was inappropriately set up or fraudulently set up, without the customer, we are going to make it right by them.

Senator TESTER. And you are not going to use forced arbitration?

Mr. SLOAN. There is not going to be a reason even to have the conversation because we are going to make it right by that customer.

Senator TESTER. But, Tim, let me point out that that was being used 6 months ago. I think my staff whispered in my ear that they were using arbitration on fake accounts that were set up on real accounts.

Mr. SLOAN. Senator Tester, I completely appreciate your question, and we are not doing that because—

Senator TESTER. OK. And you are not going to do that?

Mr. SLOAN. If we have set up an account—

Senator TESTER. OK, Tim, the only time I get in fights with folks who are talking is when they do not give me a "yes" or "no" answer when I really ask it. And the question is this, and you can answer it another way if you want. But will you commit to not use forced arbitration on accounts that were not authorized by the customer?

Mr. SLOAN. The easy answer for that, Senator, is yes, because we have not done that. We are not doing that.

Senator TESTER. And you are not going to do it moving forward?

Mr. SLOAN. We are not doing that.

Senator TESTER. OK. Thank you very much. I used more time than I should have. Thank you, Mr. Chairman.

Chairman CRAPO. Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman. Mr. Sloan, thank you for being here this morning.

Mr. SLOAN. Thank you, Senator.

Senator SCOTT. Obviously, the entire Banking Committee is at least irritated by what we have uncovered and what you guys have discovered over time, and part of it is that from 2011 to 2015 you had 2.1 million fraudulent accounts. Then you went back and did another search, and from 2009 to 2015, it is now a 70-percent increase. Were all those new accounts from 2009 to 2011, or did you miss some between 2011 and 2015?

Mr. SLOAN. The majority of the increase was in 2009 and 2010, and then extending the period to September of 2016. But because we used an even more conservative view for the original timeframe of 2011 through 2015, we did pick up a few additional accounts.

Senator SCOTT. So the vast majority of the 70-percent increase was 2009 to 2011, and 2015—

Mr. SLOAN. 2009—

Senator SCOTT. So it was not within that period—

Mr. SLOAN. Correct.

Senator SCOTT. —you did the first—

Mr. SLOAN. So 2009, 2010, the first part of 2011, and then through 2016.

Senator SCOTT. So half a million customers were enrolled in on-line bank payment, bill pay, without consent; 800,000 customers were charged for auto insurance without their knowledge. How about homeowners, flood insurance, property insurance? Because having spent 15, 16 years in the insurance business, I will say that auto insurance is probably the lower tier of what banks actually engage in charging customers for not having proper insurance. Homeowners, a significantly higher percentage of folks typically find themselves being charged by the bank temporarily, and flood insurance is another area where you see that happen oftentimes.

So are the numbers in the homeowners and the flood space just insignificant, or do you have a number for that?

Mr. SLOAN. We have not found any issues there, Senator.

Senator SCOTT. And here is my thought: If you have to come back in 6 months—which I think it might be good for you to come back in 6 months to have another opportunity for us to know what happened over the same time period more thoroughly. But my question is: If you have not found any instances of inconsistencies in other insurance-related services, that would be surprising from my perspective, having dealt with banks consistently for 20 years or so.

How do we know, how do you know—did you say you have 165 million customers?

Mr. SLOAN. No. We said we looked at 165 million accounts for that period.

Senator SCOTT. 165 million.

Mr. SLOAN. We have over 70 million customers. We serve one out of three U.S. households.

Senator SCOTT. We were talking about that. We did not think it was one out of two. So out of those 70 million customers, you are confident that 3.5 million is the final number?

Mr. SLOAN. Of potentially unauthorized accounts?

Senator SCOTT. Yes.

Mr. SLOAN. Yes, Senator, I am.

Senator SCOTT. Let me talk for a second about the corrosive culture. That does not start at local retail locations. It does not start with tellers. A corrosive culture starts at the top, and then it seeps into the soil conditions. Then it germinates, and then folks feed off of that.

How have you changed the corporate leadership and the corporate culture that will find itself in the soil conditions at retail locations?

Mr. SLOAN. So, Senator, first we look at what caused the problems in our retail bank. First and foremost, the issue within our retail bank was that we had an incentive plan that drove an inappropriate sales culture. That incentive plan has been ended, and we have rolled out a new incentive plan. The feedback that we have gotten from our team since we have rolled back that plan—we have now had two full quarters; we will get the results of the third quarter—is that they are overwhelmingly very pleased with the plan. As we survey them, they are telling us that they like the new conditions at Wells Fargo. They are very happy. We have actually hired back—and we have hired 17,000 new team members into our retail bank since September, since we have made these changes. Of those, 10 percent, or about 1,700, 1,800, were team members that had worked in the retail bank, that left because of the old culture there, or were dismissed because they did not meet certain sales quotas. And to me, those folks coming back and agreeing to be part of the team reinforce that the changes that we are making in the Community Bank are taking hold.

Senator SCOTT. That is good to hear that some folks want to come back. My thought is this: Your sales culture is not driven by the sales products. I think Senator Rounds can attest to the fact as another insurance guy that ultimately it is not the sales goals, it is not the product selection. It is the people. And it is the people who are in management positions who put more pressure for results than an average person can get. And so if you have not changed the people, it is quite difficult to change the culture.

Mr. SLOAN. I completely agree with you. That is why I named the new head of our Community Bank group who I mentioned, Mary Mack, who is doing an excellent job. She has gone through each one of the levels of management and had everyone literally re-apply for their jobs. We have reduced the number of managers to change the span of control. We eliminated a layer.

But I agree with you. The issue is not just the incentive plan. It was that we created a culture of managers that only knew how to manage because of that plan. So getting rid of the plan, going through and making sure we had the best managers, and then now we are in the process of retraining everybody, starting at the top, the senior levels, before we get down to the folks in our branches. I completely agree with you.

Senator SCOTT. Thank you, sir.

Chairman CRAPO. Thank you.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

Mr. Sloan, when you were named CEO after the fake account scandal, you were asked why a career as a Wells Fargo insider like you, why that made you the right person to fix the fundamental problems at the bank, and you said, "Because I have been making change for 29-plus years at Wells Fargo."

So I want to take a look at your time at Wells Fargo. From 2011 to 2014, the height of when Wells Fargo was cheating customers by opening fake accounts, you served as the chief financial officer. And as CFO, you spoke to potential Wells Fargo investors a lot. On those calls you aggressively promoted Wells Fargo's ability to open up new accounts, didn't you?

Mr. SLOAN. No, I did not.

Senator WARREN. No, you did not?

Mr. SLOAN. No.

Senator WARREN. Well, here are the transcripts from all of the investor earnings calls that you participated in from 2011 to 2014. I have read through them, and on these calls no one, not even John Stumpf, who was the CEO at the time, bragged more about Wells Fargo's ability and commitment to open new accounts for existing customers.

In the April 2011 call, for example—I think I have marked that one—you said, "I cannot wait to get a credit card in every one of our creditworthy customers' wallets." Nothing about whether your customers wanted or needed a Wells Fargo credit card. All that mattered was opening new accounts.

So while you were bragging to investors about opening new accounts on these calls from 2011 to 2014, you also personally owned roughly 2 million shares of Wells Fargo stock. Is that right?

Mr. SLOAN. Senator, I do not recall how much stock I owned in Wells Fargo. I am a very proud shareholder.

Senator WARREN. Well, it is actually in your SEC filing.

Mr. SLOAN. Sure. It is public.

Senator WARREN. If that is accurate—

Mr. SLOAN. It is all out there.

Senator WARREN. —then 2 million shares. So it looks like you had a really good thing going. Talk up Wells Fargo's ability to open new accounts, get investors excited, and, hey, if the stock goes up by a dollar, you make a cool 2 million bucks.

Then in December 2013, almost 3 years into your time as CFO, the *L.A. Times* published a long article on the relentless pressure Wells Fargo put on employees to open new accounts. The article was based on a review of internal Wells Fargo documents, court filings, interviews with more than 30 current and former Wells Fargo employees. The article specifically said that employees had opened fake accounts in response to this pressure.

Now, you were interviewed for that piece, Mr. Sloan, and you said, "I am not aware of any overbearing sales culture." Hmm, that is really interesting phrasing: "I am not aware of any problem."

So when the *L.A. Times* came to you and showed you concrete evidence of a terrible problem with fake accounts at your bank, did you launch an investigation into the issue before brushing it off?

Mr. SLOAN. Senator, first, as it relates to my comments in 2011, I am proud of the credit card products that we have at Wells Fargo——

Senator WARREN. That is not the question I am asking. I just asked, you brushed it off, you said, “I am not aware of any problem.” Did you open an investigation when someone laid out evidence of fake accounts?

Mr. SLOAN. Senator, in that interview, to the best of my recollection, with the *L.A. Times*, they did not provide me with any information. It was soon after that that, as I mentioned, 2013——

Senator WARREN. So I take that as a no. So when you were asked this question——

Mr. SLOAN. That is correct, because by that——

Senator WARREN. ——you did not open an interview—you did not open an inquiry into it. Is that right?

Mr. SLOAN. Senator, again, the *L.A. Times* did not provide me with any documentation——

Senator WARREN. So you had no clue——

Mr. SLOAN. It was a phone call.

Senator WARREN. All right——

Mr. SLOAN. After that time——

Senator WARREN. Did you read—did you read the article?

Mr. SLOAN. I read the article, yes.

Senator WARREN. And then you opened an investigation immediately?

Mr. SLOAN. At the same time the article was coming out, that was the time when the Community Bank elevated this issue to the senior leadership team——

Senator WARREN. OK, so let us talk about——

Mr. SLOAN. ——and that is the time that we began to take action.

Senator WARREN. Let us talk about that time. You did not look into the fake accounts, but you went right back to pumping up the stock price by bragging about Wells Fargo’s record number of new accounts on your very next investor call.

Now let us forward to 2016, 2 months before the fake account scandal became public. You were then the chief operating officer of Wells Fargo. An interviewer asked you whether you thought the bank had pushed sales goals and cross-selling too far, and your answer was, “No. The fundamental strategy that we have is not going to change.” That is July of 2016, just before this breaks open.

According to Wells Fargo’s own investigation, by July of 2016, you knew that thousands of employees had been fired for opening fake accounts and other sales violations. You knew aggressive cross-selling goals were to blame. And, still, you publicly said the bank did not have a problem. Right?

Mr. SLOAN. Senator, that is incorrect. You——

Senator WARREN. You did not say this, that your——

Mr. SLOAN. Senator, could you read the entire quote? And could we go through the entire presentation? Because I think in that——

Senator WARREN. Your answer——

Mr. SLOAN. Senator, I think in that presentation——

Senator WARREN. ——when asked about whether or not——

Mr. SLOAN. ——you will see——

Senator WARREN. —you pushed employees too far, your answer was, “No. The fundamental strategy that we have is not going to change.” And that is a month——

Mr. SLOAN. And I was referring to the vision——

Senator WARREN. —before this breaks publicly.

Mr. SLOAN. I was referring to the vision of our company——

Senator WARREN. The vision——

Mr. SLOAN. Of our company.

Senator WARREN. —including the fake scandals you——

Mr. SLOAN. No, Senator——

Senator WARREN. —were being asked about?

Mr. SLOAN. Every time I give a presentation to our team members, I start with our vision, which is to ground people in the culture of our company, which is that our job is to satisfy our customers’ financial needs and to help them succeed financially.

Senator WARREN. Mr. Sloan, I am glad——

Mr. SLOAN. That is the context that I made that statement. Since I have become CEO, I have made fundamental changes to address the issues that we are talking about today.

Senator WARREN. Mr. Sloan, you were asked about pressure on employees which caused the fake account scandal. We all know that now. It is public. You knew there was a problem, and when you were asked about it, you lied. This is about personal responsibility. Wells Fargo cheated millions of people for years. The Federal Reserve should remove all of the current board members who served during the fake account scam. And, Mr. Sloan, you say you have been making changes at Wells Fargo for 30 years, but you enabled this fake account scam. You got rich off it, and then you tried to cover it up. At best, you were incompetent. At worst, you were complicit. And either way you should be fired.

Wells Fargo needs to start over, and that will not happen until the bank rids itself of people like you who led it into this crisis.

Thank you, Mr. Chairman.

Mr. SLOAN. Mr. Chairman, could I respond to that?

Chairman CRAPO. Yes, you may.

Mr. SLOAN. OK.

Senator WARREN. I want an equal amount of time.

Mr. SLOAN. Senator, a couple things. First—and I will get to your criticism of me in a moment, but first let us talk about the board. I think the board has taken very important steps in terms of a thorough, independent investigation that has been made public. That is number one.

Number two, the board has taken very strong action in terms of executive accountability that is unfortunately some of the highest in corporate American history. Again, unfortunate. So I do not believe that your criticisms of the board are accurate.

As it relates to me, again, I think the reason that I am the right person to run this company today, notwithstanding your criticism, is because I have been making change at this company for 30 years. I have made mistakes. I certainly have not been perfect. But I think having that knowledge of the company, having the ability to make the change, the actions that I have taken since I have become CEO 11 months ago have made fundamental change at this company. So I am not afraid to make hard decisions when it is

needed, and I have the support of 270,000 people. That is why I think I am the right person.

Senator WARREN. Can I just make a short comment on this?

Chairman CRAPO. Very brief.

Senator WARREN. I know we are over. But you really want to say, "Are you kidding?" You know, look, you have been there for 30 years, and every one of my colleagues on both the Republican side and the Democratic side who has spoken so far have talked about a broken culture at Wells Fargo, have talked about the fact that the problem starts with leadership. The people who were there and leading Wells Fargo during the time of a years-long scam and multiple scams, as our Chairman pointed out, those people should not be left in charge of this business. And when you promoted exactly what was wrong with this bank over and over and over, you went to the stock market and you bragged about it. You made money personally off it. When you were asked about it, you did not tell the truth, and you tried to cover it up.

Wells Fargo is not going to change with you in charge.

Chairman CRAPO. Senator Rounds is next, and I do ask the Senators to pay attention to the time limits.

Senator ROUNDS. Thank you, Mr. Chairman.

I know that we are not supposed to be in the middle of this. We each normally get 5 minutes, and so I am just going to go back because I know that in some cases you do not get the opportunity to respond. But I think there was one area here that I want to hear your full response to it, and that is, you said that basically, as Senator Warren has indicated, you wanted to see everybody with a credit card or at least all of your folks with a credit card. Would you please go into what you meant by that statement?

Mr. SLOAN. Well, sure. I mean, we are in the banking business, and one of the products that we provide to our customers is a credit card. And any one of our customers that comes in to see us that is interested in a credit card, we would like to provide it to them. I am proud of the hard work and effort of all of our team members that work in our credit card group. We have seen growth in that group because customers like using the product. I am not embarrassed about that. Whatever adjective or adverbs are used to describe what I may have said or did that are taken out of context is not consistent with the fact that our job is to satisfy our customers' financial needs. If that financial need means they want a credit card and if we have the right product, I would love for them to have it. That is what we do.

Senator ROUNDS. Would you agree that there was a broken culture at Wells Fargo during this time?

Mr. SLOAN. Senator, I would agree that in our Community Bank we had fundamental problems that created serious cultural issues. In terms of the rest of the company, there were other issues, but I would not say that in the rest of the company it was a broken culture.

Having said that, as CEO, and acknowledging that I have been there for 30 years, there are some that do not think I should be in this role. We have heard that today. And so what did we do as it relates to culture?

We went out and we asked third parties to help us do new culture surveys to make sure that we were not missing anything, because even though I have been there for 30 years and I have done things sometimes good and sometimes I have made mistakes, I do not want to be in a position where it is just what I think we should be doing. I want to make sure that we are listening to outside experts, we are listening to all of our stakeholders, and we are listening to our team members. So we are making fundamental changes in the company to address any sort of cultural weaknesses that we have.

Senator ROUNDS. One area that I think we have got concern with in particular is Wells Fargo has—I want to make sure that members of the military, that they really do have some special legal protections under the Servicemembers Civil Relief Act, such as the protections to the soldier's credit or property when they are serving on active duty. And I want to go into this, but can you please discuss some of the specific ways that Wells Fargo has tried to improve its compliance with the Servicemembers Civil Relief Act, particularly in light of the firm's sales practice issues? Can you go into this a little bit to give us some assurance that there have been changes made with regard to how servicemembers are treated with regard to their credit activities?

Mr. SLOAN. Senator, we care about all of our customers, but I do not think there is any one customer group that we care more about than our service men and women. We created what we call a "Center of Excellence" that looks across the entire company to manage SCRA matters. That Center of Excellence is staffed with experts that only look at the ways in which we can provide the appropriate benefits to our service men and women. We work very closely with the Defense Department to make sure that we get on a daily basis updates from the Defense Department in terms of which service men and women, which of our customers are now on active duty. That puts them in a completely different category, and we are very proud of the fact that we have made significant improvements.

We have had historical issues, Senator. There is no question about that. But we needed to make fundamental change to create a Center of Excellence, to staff it appropriately, and then to make sure that they are looking across the company.

In addition to that, I am very proud of the fact that we have 8,500 team members who were veterans. I have made a commitment as CEO that we want to hire another 20,000 by 2020. In addition, we have provided financial education services to hundreds of thousands of service men and women so that they can manage their finances appropriately. And we have donated more than 300 homes free of charge to wounded veterans so that they can have a place to live.

Senator ROUNDS. You have used a third party to come back in and to do the analysis on the accounts and so forth and to find accounts and to identify problems. Are you going to continue to use a third party to go back in and to double-check in terms of whether or not the proposals that you have laid out and your intents are actually being followed through on?

Mr. SLOAN. Well, as it relates to the 165 million accounts and going back the additional 8 years, that is effectively what we did.

We went back and double-checked the prior period that we had disclosed and expanded that. We have put in additional policies and procedures in place right now to be able to address those issues, and those are independent of the business line. That was one of the issues we had before, when there was an issue historically.

Senator ROUNDS. My time has expired, but are you going to continue to use a third party to review in terms of due diligence to make sure that it is actually—that the changes that are being made are actually being implemented?

Mr. SLOAN. We are bringing in third parties to look at various policies and procedures across the entire company, so the answer is yes.

Senator ROUNDS. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Schatz.

Senator SCHATZ. Thank you, Mr. Chairman.

Mr. Sloan, the OCC has the statutory authority to revoke a national charter of a bank if the bank is found to violate the National Bank Act. Why shouldn't the OCC consider revoking your charter?

Mr. SLOAN. Senator, because we provide products and services to one out of three American households. We have talked about many mistakes that we have made, but today, more oftentimes than not, we do that appropriately. The company is growing. The company provides jobs to 270,000 people—

Senator SCHATZ. So you are too big?

Mr. SLOAN. No. No, we are not too big at all. I am just reinforcing that every day we have 270,000 team members that go out and satisfy the needs—

Senator SCHATZ. But that sounds like what you said, is that the reason that your charter should not at least be considered for revocation is—the first thing out of your mouth was your size.

Mr. SLOAN. No. The first thing out of my mouth was our customers, that we serve one out of every three customers. We take that responsibility very seriously. When you look at the bank in totality today, we are doing many more things right than we are wrong. But I appreciate that today we are talking about Wells Fargo 1 year later and the changes that I have—

Senator SCHATZ. Sure. I am sorry. I am going to cut you off.

Mr. SLOAN. I understand.

Senator SCHATZ. I want to go 5 minutes only. That does sound to me like too big. I guess we will allow the members of the panel and the audience to make a judgment about whether your answer sufficed.

You know, I am not an expert in banking, so I want you to explain this to somebody back home. You made \$21 billion in profits last year. You made a nice salary. I do not want to personalize this. Your board makes better than a nice amount of money. You were COO when a lot of this went down, and now you are CEO. So explain to the man on the street why this is fair.

Mr. SLOAN. Senator, I am not 100 percent sure—I know what you mean by “this,” but let me—

Senator SCHATZ. I mean, you get a promotion. I mean, all the people in charge get lots and lots of money. And I mean, all the—

not all the consumers, but lots of consumers get harmed. So just explain to me in plain English why this is fair.

Mr. SLOAN. Senator, I have taken responsibility for the mistakes that have been made at the company. I am taking action in my role as CEO to make Wells Fargo a better bank than it was a year ago. It will be a better bank in the future. We are taking concrete—

Senator SCHATZ. I guess I will just point out—

Mr. SLOAN. —action, and we are providing—I am proud of the fact that our bank is the largest small business lender, the largest home lender. We make a difference to Americans every day. You deserve—

Senator SCHATZ. Back to your size.

Mr. SLOAN. You deserve—

Senator SCHATZ. Hold on. I only have 2 more minutes. It occurs to me that it is only in financial services, only in this industry where people can make such massive errors and there does not appear to be accountability, and only because of your size do we not understand totally which statutory tools, which regulatory tools, which consumer-based tools we have at our disposal to find a remedy.

At a briefing for our staff, Wells Fargo representatives explained that banks would make goodwill payments to customers who had their cars repossessed and their credit trashed as a result of auto insurance that you bought for them. As I understand it, the bank will designate a third-party claim administrator and ask customers to send in a form explaining how they were harmed and how much money they need to be made whole. According to your representatives, the claims are basically going to be paid up to \$2,000 sort of no questions asked.

So then my question is: Why not just cut checks up to \$2,000 for all of those impacted? Because the only reason I can think of putting the burden on consumers to ask for this goodwill money that you have already approved is that you are hoping many of them will not do it. So can I have your commitment to go ahead and presumptively push out the money rather than force people to figure out that they have this right and that they are likely to be approved up to \$2,000, but they have got to go through the paperwork? Can I have your commitment today?

Mr. SLOAN. No. What you have my commitment is that we are making the \$500 goodwill payment to every one of those customers, whether they were impacted or not. And you have my commitment that we will make sure that we will make it right for those customers to the extent they were impacted. If we need to do more than \$2,000 to make it right, we will do that.

Senator SCHATZ. Can you please provide the Committee with a list of all legislation that Wells Fargo has lobbied for or against since 2010?

Mr. SLOAN. We will respond to whatever inquiry you would like us to respond to.

Senator SCHATZ. That is my inquiry. If you could respond in writing for the Committee.

Mr. SLOAN. Sure.

Senator SCHATZ. Thank you.

Mr. SLOAN. Thank you.

Chairman CRAPO. Senator Tillis.

Senator TILLIS. Thank you, Mr. Chair. Mr. Sloan, thank you for being here.

I just want to go back and make sure I have got the numbers right. I think the third party assessed 90 out of 93.5 million accounts that were opened, in about a 4½ year lookback, there were about 2.5 million that appeared to be unauthorized; and an 8-year lookback was 165 million accounts opened, and I think that was about 3.5 million unauthorized?

Mr. SLOAN. Potentially unauthorized, Senator.

Senator TILLIS. I have got to go back, because I want to talk more about how you focus on the customer and make this very easy for them to recover from. I serve on the Veterans' Affairs Committee, and I got a call from a veteran in North Carolina who had—his wife was opening the mail, and she mentioned to her veteran husband, "Honey, I did not know you were dead." The VA had sent a notice that he had somehow got miscategorized and he was deemed dead. He thought it was a simple problem. He had his military ID card, called up the VA, and the VA said, "Well, you have got reams of paperwork and several phone calls that you will need to make to actually get reinstated and get your veteran's benefits."

Now, tell me how in making this right that I am not getting on a phone listening to elevator music, getting transferred to several different accounts—in other words, how are you maximizing—minimizing the customer's time and getting this right? And, similarly, how are any effects on underlying credit reporting agencies being dealt with, too, as a part of getting this right? In other words, is it my problem to deal with maybe clearing up those accounts that I did not authorize to an Equifax or through the credit agencies? Tell me a little bit about that process.

Mr. SLOAN. So in answer to your first question, Senator, in the fourth quarter we reached out to 43.5 million customers via their statements and also by email, and we said something very simple: "If there is anything about your accounts that you think is not right, come in and see us, and we will make it right by you." And about 41,000 have come in to see us. Most of those situations have been resolved with the customer right there. To the extent that they are not pleased with what we have offered, we have offered them free mediation services. Again, we pay for them, an independent mediator, and we address their issues.

One of the other fundamental changes that we have made in the company since I became CEO is the customer service element within our branches. Historically, when a customer came in, we had not delegated the ability for a banker in one of our branches or a teller or a service manager to deal with it on the spot. We said, "Hey, great. You have got an issue. Call our 1-800 number." And that was not a very good customer experience, to your point.

So under the new leadership of our new head of Community Bank, Mary Mack, what she has done is she has delegated that authority down to the branches so that when a customer comes in and they have an issue, we are trying to deal with as many of those as we can.

In addition, we have increased staffing for our phone bank or customer service as well as the customers that come in via online or via mobile. So we are trying to do a better job.

I introduced six goals for our team in March, and the number one goal is that we want to provide the best customer service and advice in the industry. We have got work to do, Senator. I would love to be able to tell you that we are number one right now, but we are not. But I am going to make sure that we have enough resources.

Senator TILLIS. So we are trying to figure out, you know, I used the 93 million and 2 million potentially unauthorized, or 165 million, 3.5 million potentially unauthorized. And then it is a fraction of those that actually incurred fees or any charges. Is that correct?

Mr. SLOAN. That is correct.

Senator TILLIS. OK. So for all the other ones, just as a self-governing matter, I mean, I worked in the banking industry before I went into politics. You do not like opening up accounts that have no activity because there is an inherent cost of operations that you are incurring. So, I mean, there is a natural—I am trying to figure out how—where the circuit breaker did not click and whether or not all those circuit breakers, in your opinion, have been fired so that we are now trying to get to the governance issues that I have confidence that you would work on, Wells Fargo would work on. But tell me just a little bit more about governance in my remaining 25 seconds.

Mr. SLOAN. Well, as it relates to governance for the entire company, the board engaged in an independent investigation. That has been made public. The board made some changes based upon that in terms of executive accountability, which totaled \$180 million of compensation that was clawed back or not authorized. There is a new CEO. That is me. We have an Operating Committee of which 5 of the 10 members now have new roles. We have taken the responsibility and the criticism in the board's independent report that said that management did not provide information to the board as well as we could have. I completely agree with that. We have revamped the way we have done that. So there have been a lot of governance changes.

But most importantly, I think, within the company, it is taking the enterprise risk control functions—human resources, compliance, credit, you name it—and centralizing all those so that we have a better check and balance between the business lines and risk, and then creating a Conduct Office in the risk function to be able to independently look at complaints and ethics lines questions and all kinds of things that would indicate that we have any issues in the company. I get those reports now, and that was not happening a year ago.

Chairman CRAPO. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Mr. Sloan, I was listening to your responses to Senator Tester about the issue of forced arbitration. A simple question. Who knows best what is in a customer's interest, Wells Fargo or your customer?

Mr. SLOAN. I think that it frequently is the customer, and that is why it is very important from my perspective to get it right so that we do not get to the point—

Senator VAN HOLLEN. But if your customer knows best, why do you deny them the ability to go to court? Why do you require your customers, if they know best, to go to mandatory arbitration?

Mr. SLOAN. Senator, we do not do that for all of our products and services. We do that—

Senator VAN HOLLEN. Yeah, but why do you do it for some of them if your customer knows best?

Mr. SLOAN. Well, again, I think many—

Senator VAN HOLLEN. It is a simple question. If your customer knows best, why do you deny them the opportunity to go to court? Why do you require arbitration?

Mr. SLOAN. Because, Senator, most of the independent studies, including the ones that was done by the CFPB 2 years ago, indicate—

Senator VAN HOLLEN. But if a customer—

Mr. SLOAN. —that it is better—that it is better for the customer—

Senator VAN HOLLEN. Mr. Chairman, if the customer makes—a customer brings the case, right? Right? So if a customer decides it is in his or her best interest, forget about studies. We also know what the Consumer Financial Protection Bureau—what they recommended. They recommended that we get rid of forced arbitration.

You said to Senator Tester that you were not applying forced arbitration with respect to the fake accounts. Remember that answer?

Mr. SLOAN. Yes, I did.

Senator VAN HOLLEN. There is an article here, Monday, September 18, 2017, just a short time ago. In a case in Utah, Wells Fargo lawyers have actually taken the position that the forced arbitration does apply to those fake accounts. Are you aware of that case?

Mr. SLOAN. I am not familiar with that case, Senator. I apologize.

Senator VAN HOLLEN. Well, let me read to you from a Reuters excerpt, and they reported this on September 18, 2017. It says: “In a motion on Monday, lawyers for Wells Fargo said consumers signed agreements to arbitrate disputes when they first opened their accounts at the bank, and those agreements also cover other accounts allegedly opened without their consent.” That directly contradicts your testimony to Senator Tester, doesn’t it?

Mr. SLOAN. Senator, I will have—I will look into that matter.

Senator VAN HOLLEN. If that is true—

Mr. SLOAN. Senator, I will look into that matter, and I will respond.

Senator VAN HOLLEN. If that is true, it directly contradicts your testimony to this Committee, doesn’t it?

Mr. SLOAN. Senator, I will look into that matter—

Senator VAN HOLLEN. I am not asking you to look into it. I am asking you to say if that is true, doesn’t that contradict your testimony?

Mr. SLOAN. Senator, I am not familiar with the facts of the situation, so I cannot answer that question. But I would be happy to look into it and respond to you.

Senator VAN HOLLEN. Well, if it is true, it violates—it is contradictory—I do not know if you were sworn in today or not, but it violates your earlier testimony.

Let me ask you about your other overdraft fees scandal. When it comes to the overdraft fees scandal, you are still exercising your right to deny customers the right to go to court. In other words, you are enforcing the arbitration agreement. Is that—

Mr. SLOAN. Senator, I am not familiar with the overdraft scandal that you are referring to.

Senator VAN HOLLEN. The overdraft fees where you were charging—you were not—where you were charging customers fees on overdrafts of fake accounts?

Mr. SLOAN. Senator, we do not—we charge customers fees when they overdraw their accounts, but I am not familiar with an overdraft scandal. If it relates to any unauthorized accounts that were potentially unauthorized accounts that could have been part of that 3.5 million, to the extent that there was any fees charged, we have already reimbursed those to the customers. So they have been made whole.

Senator VAN HOLLEN. Well, apparently in a case in the Eleventh Circuit Court of Appeals, you are—we will follow up with you, but it looks like also—

Mr. SLOAN. Please.

Senator VAN HOLLEN. How about the practice where you were selling auto insurance to people who did not ask for it or did not want it? That was a situation I think about 500 Marylanders or more—actually, about 10,000 Marylanders were affected by that; 500 had their cars repossessed. It was actually the subject of an NPR radio story. Did you have a chance to hear that radio story?

Mr. SLOAN. I did not, Senator. I listen to NPR, but I did not hear that.

Senator VAN HOLLEN. I would encourage you to do that because one of my constituents came out to go to work one morning. His name was Michael Feifer. He was heading out in February to his job in Maryland at a company that builds guitars. He walked to the place where he parked his car. It was not there. He called the police, said he was livid, said he thought someone stole his car. It turns out it was not a car thief at all. It was Wells Fargo's repossessors. He was flabbergasted because his insurance was current. He went to Wells Fargo. The folks at the local branch said, you know, "This is nuts. You are covered." It took them, the employees of Wells Fargo, over 2½ hours just to connect to folks in another branch.

My question is very simple: If it takes the employees of Wells Fargo 2½ hours to get in touch with others, if it takes individuals having to fight the system by themselves, don't you understand why it makes sense for people to be able to band together to file their claims against a big company like yours rather than have to fight you one by one?

Mr. SLOAN. Senator, what I understand is that if we make a mistake, we need to make it right, and we have got to improve our

processes. What I would like is, to the extent that Mr. Feifer has not been made whole by us, I would like to speak with him personally to make sure that we are handling the situation to his satisfaction if we made a mistake.

Senator VAN HOLLEN. Well, Mr. Chairman, I would just point out that you said it yourself. You were informing your customers to know about class action settlements so they can be made whole. That is the way lots of people can be, you know, made whole at once. Mr. Feifer is like one guy fighting Wells Fargo. I find it amazing that you would say your customers come first, and then you deny them the choice of how they seek their compensation, how they seek justice.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Perdue.

Senator PERDUE. Thank you, Mr. Chair. Mr. Sloan, thank you for being here.

Mr. SLOAN. Thank you, Senator.

Senator PERDUE. In how many States does Wells operate today?

Mr. SLOAN. In all of them.

Senator PERDUE. Are you regulated in every one of those States?

Mr. SLOAN. Yes.

Senator PERDUE. How many Federal regulators do you have today?

Mr. SLOAN. Oh, gosh.

Senator PERDUE. OCC, Federal Reserve, SEC, CFPB; is that correct?

Mr. SLOAN. And then, in addition, we have securities regulators, too.

Senator PERDUE. So were you supervised during this period of time, 2011 to 2016, were you supervised by the Federal Reserve?

Mr. SLOAN. Yes.

Senator PERDUE. Did they in their oversight—and I am sure they were quite involved. Did they reveal any material issues during that period of time?

Mr. SLOAN. Oh, they have, but that is confidential information that I cannot disclose. But we have an active dialogue in—

Senator PERDUE. Relative to this breach of—

Mr. SLOAN. In terms of the retail account?

Senator PERDUE. Yes.

Mr. SLOAN. No, they did not.

Senator PERDUE. Were you supervised by the OCC during this period of time?

Mr. SLOAN. Yes.

Senator PERDUE. Did that oversight reveal any material issues relating to this situation?

Mr. SLOAN. Yes, it did, and the prior Comptroller of the Currency, Mr. Curry, has testified to that.

Senator PERDUE. Did the CFPB come up with anything, any material issues, during this period of time?

Mr. SLOAN. Not to my knowledge.

Senator PERDUE. And in dealing with these regulators, are there any outstanding issues today relative to this—

Mr. SLOAN. Oh, sure, absolutely. You know, I have a long to-do list.

Senator PERDUE. And how is the company reacting to that list of corrections?

Mr. SLOAN. We are listening. I mean, I think that—

Senator PERDUE. I am sure you are implementing, too, right? The question I have is—

Mr. SLOAN. Well, that is where I was going. We are listening to their concerns, and we are making fundamental changes not only because I think they make sense as CEO, but because our regulators also believe that there are other changes that we need to make. And we are being very responsive. I am sure if they were here, they would say that we are not moving as quickly as they would like, which I appreciate that. But our commitment to fixing anything that is broken and making Wells Fargo the best bank in this country is sacrosanct from my perspective.

Senator PERDUE. Well, I think you would agree, we in a private conversation—there is no way to sugarcoat this as a serious issue, and I appreciate your handling it the way that you are.

I want to get to the governance issue, though. You have an internal audit capability inside Wells Fargo today, right?

Mr. SLOAN. That is correct.

Senator PERDUE. And as CFO, that was your responsibility. It is a sizable organization. Roughly how many people across the country are involved in that internal audit effort?

Mr. SLOAN. Oh, gosh. Well, first let me correct something.

Senator PERDUE. Hundreds or—

Mr. SLOAN. Senator, the audit group is actually a separate—it reports separate from the financial organization because they have to audit the financial organization. So our—

Senator PERDUE. To whom do they report?

Mr. SLOAN. The auditor, the chief auditor, David Julian, reports to me, but then has a direct reporting line also to our Audit and Examination Committee.

Senator PERDUE. Right. Also, your board has an external auditor as well.

Mr. SLOAN. That is correct.

Senator PERDUE. And to whom does that external auditor report?

Mr. SLOAN. Well, they report to our shareholders.

Senator PERDUE. Right.

Mr. SLOAN. And then they also provide independent reports to our board on our financial condition and other matters.

Senator PERDUE. So during this period of time, when these indiscretions were occurring, did any report from either the internal audit capability or the external audit capability disclose any of these maladies?

Mr. SLOAN. The internal auditors did, though I would say that that was another area they could have done a better job. And I think David Julian, our chief auditor, has made fundamental changes there. But when it was reported to the senior leadership team, we should have taken more aggressive action.

Senator PERDUE. Has any other breach of operation occurred that has not been made public yet?

Mr. SLOAN. Well, minor breaches, maybe, but that was one of the reasons why we went above and beyond the normal standard of materiality in our second quarter 10-Q to provide an update on

things like CPI, on GAP insurance, on hard holds, on OFAC, on RMBS, a variety of different matters, because as I have encouraged our team, we need to make sure that we are more transparent to our stakeholders than we have ever been.

Senator PERDUE. So going forward, has the scope of the internal audit function and the external audit function been expanded relative to this problem?

Mr. SLOAN. It has expanded, and it has been reorganized to reflect the reorganization that we have done within our company. I do not know the answer as to the number of folks from KPMG that cover us today, but my guess is there is more than was a year ago and the year before.

Senator PERDUE. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman. One of the most important things that we can accomplish here is to figure out whether we actually see and have a sense that there is a culture change at Wells, Mr. Sloan. And I have to tell you, I have been listening to the line of questioning, and I think anyone with an open mind would question whether we are actually seeing a culture change. So let me kind of run through this.

Senator Warren asked you about the *L.A. Times* at the time that this story broke, and we can all acknowledge that the *L.A. Times* had a huge role in this. And you said, well, you did not have evidence about that, so you did not really respond to it. But then once it became a bigger scandal, then we are going to fix it.

So then we find out when we talk about it, well, we are going to fix it. We now realize that this is a problem, and there has been mistakes made.

And then we find out, after the “we will fix it,” that there was knowledge of this problem years before the *L.A. Times* story, that upper management knew about this problem and thought that they had managed it and fixed it. They did not fix it.

OK. Then we fire employees who open fake accounts, saying they are the problem. It is this Community Bank problem. That is where the problem is.

But you also fired those who refused to play the game, and we know that that happened because they have since participated in public discussions about how they tried to whistleblow on this. And then, again, when we raise these issues, you say, “Trust us. We are fixing it.”

And they come before this hearing—it was not you, Mr. Sloan, but come before this body and say, “Wow, this is all you need to know. We now have turned the corner, and it is all going to be OK.” Only then to have this insurance scandal exposed. But now we hear, “We are going to fix it.”

So, OK, I am, like, that is three times, you know? I know a little bit about baseball. It seems like you strike out after three times of promising something you do not see. But what I want to say to you, because it goes back to your response to Senator Warren about the *L.A. Times*. In the course of just about 15 minutes here, you were told about an overdraft problem in the Eleventh Circuit. Now, if I ran an organization, I would know if I were in the Eleventh

Circuit with a discussion on overdraft protection. But you said you were not familiar. That sounds familiar.

Then you were asked about a legal position taken in Utah about arbitration, which was in the media. You said, "I do not know about that." I would know about that if I were you. I would know about that if I were you, especially coming before this body.

And then a national news story about Wells Fargo being involved in a wrongful repossession of a car, a news story that literally millions of people listened to, and you are not familiar with it.

This is problematic for us, because we need to see that there is actually a culture change, that there is a reaction to these kinds of consumer failures. And we do not really hear it here. What we hear a lot of is, "Do not know. Look into it. We really care about the customer."

Now, I would assume that where we are right now is a lot of soul searching at the highest ranks—soul searching at the highest ranks of Wells Fargo. And correct me if I am wrong. What I heard you keep saying is mistakes were made at the Community Bank, driven by wrongful incentives that were provided to the employees. Right?

I have not heard you say, other than taking responsibility for the incentives, I have not heard you say mistakes were made at the highest level of Wells Fargo. I mean, we can say, yes, we have lost a CEO and, yes, there has been some punishment and, yes, we are moving over. But at the bottom line, I do not hear a level of culture change that satisfies me today. And I think that that is something that is very problematic for Wells Fargo going forward because "I am not familiar" is not an answer we should be getting here. It should be, "Yes, we are aware of that. We are fixing it." And when we only hear "I am not familiar," we wonder what else we are not familiar. And I would caution you, when you say this is everything, that is what the last CEO told us. And then the insurance scandal broke.

So, you know, it is up to your board to figure out what they are going to do. But I hope you take these comments as constructive because it is not helpful for you to say you are not familiar.

Mr. SLOAN. Senator, I appreciate your comments, and in my opening statement I was very clear that we take responsibility for the mistakes that we have made. And when I say "we," I mean me. I am the CEO of this company. The buck stops with me every day. I apologize that I am not familiar with every matter, but to the extent that I am not, we are going to follow up on all of those.

As it relates to Senator Warren's comments, she asked me not if I was familiar—about the *L.A. Times*, she talked specifically about information that the *L.A. Times* provided and if I took any action. The *L.A. Times* in that interview did not provide me with any information, so I cannot take action if the *L.A. Times* did not provide.

Having said that, we took action when that information got to the senior leadership team. I have taken responsibility for the fact that we did not take aggressive enough action. That is why we are making the fundamental changes that we are making at Wells Fargo to make things right for our customers and our team members and all of our stakeholders.

But having said that, Senator Heitkamp, I completely appreciate your frustration. I am angry about what happened at this company, and I pledge to you that not only are we fixing it, but we will fix it.

Senator HEITKAMP. I just want to again point out that you cannot segregate the top from the bottom, and it seems to me that when you say “we,” we did not get any information from the *L.A. Times*, you should not have had to have information from the *L.A. Times*. You should have read the story and said, “Is this true? Let us go find out.”

Mr. SLOAN. And we did. And we did.

Senator HEITKAMP. Well, you knew it was true because you knew about this years before that.

Mr. SLOAN. No, Senator Heitkamp, I did not. And the board actually conducted an independent investigation where they looked at millions of documents, they interviewed hundreds of people, and their conclusion was consistent with what I have said publicly here and elsewhere in the last year, and that is that the issues within the Community Bank were elevated to the leadership team, including me, in late 2013. We should have and could have taken more aggressive action. I apologize for that. We have taken that aggressive action right now to fix the things that are broken.

Senator HEITKAMP. And what year was the *L.A. Times* story?

Mr. SLOAN. 2013.

Senator HEITKAMP. I think that we had a document from the last CEO going back to 2008, but I will have to hunt it up. I do not have it in front of me.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman. Mr. Sloan, welcome to the Committee. Thank you for your appearance here today.

Mr. SLOAN. Thank you.

Senator COTTON. I appreciated our visit in my office last week as well. We talked about some of the challenges that Wells Fargo has faced because of mistakes they made last year, not just for the customers but for the tens of thousands of men and women that work in your branches all around the country, to include Arkansas, who are worried about the future of the company and what it means for their ability to put food on their kids’ table and put a roof over their heads.

One of the quickest ways that businesses can see an impact whenever they make a mistake like this or they display poor judgment is simply through competition, that your customers can go elsewhere, they can go to another bank. But one thing that Jamie Dimon has spoken about is the regulatory moat around big businesses, that as it becomes harder for smaller businesses to deal with the regulations that Washington has imposed upon them, it also gives big businesses less incentives to be responsive and, therefore, less choice to consumers. One good example of this is certain airlines that have mistreated their customers on occasions, yet there is really very few choices that you can go to if you want to fly from one city to the next.

What kind of market reaction has Wells Fargo seen over the last year in terms of losing customers or going elsewhere or at least pressure from other of your big competitors?

Mr. SLOAN. Well, Senator, I think the banking business in the U.S.—and, again, I have been involved in the business for 30 years—is very, very competitive. Big banks, medium size banks, small banks, nonbanks provide customers with lots of opportunities for good products and services.

There is no question that since last September, after the retail banking sales issues were announced, there was an impact on our business. But since then, because of the changes, fundamental changes that we have made in the company, we are continuing to grow. We are not growing as fast as we were prior to last September, but we are on a good trajectory. And, again, I think that is because we have taken responsibility, we have taken executive responsibility, we have made changes, we have made changes in our products and services and our processes, and our customers are seeing that and they are reacting positively to that. We are not where we need to be, but we are making progress.

Senator COTTON. OK. One of the things that has always seemed peculiar to me about the controversy over the fake accounts is how few of them produced any revenue, so it is not just that they were fake, but Wells Fargo sales incentives apparently were rewarding employees for accounts that did not produce revenue and the client did not even know about. That seems like some misaligned incentives.

Mr. SLOAN. Oh, I think it was——

Senator COTTON. Not even effective at cheating the system.

Mr. SLOAN. I think it was worse than misalignment. I think it was stupid.

Senator COTTON. Yeah. What were the incentives? I mean, if you are not even producing revenues from these accounts, why were they created in that way?

Mr. SLOAN. Our retail banking business was focused on growing the number of accounts. They were too focused on growing the number of accounts and incented people for just doing that as opposed to good products and services, growing relationships, doing it in the right way. In hindsight, it was just stupid.

Senator COTTON. So you have been on board now for a good bit of time to try to clean up everything. What do you think is the risk of possible other misaligned incentives inside the organization of which you are not yet aware?

Mr. SLOAN. Well, Senator, I think it is relatively low. Again, I cannot promise perfection, but I have told our team we need to get as near to it as we can. And so what we have done is, you know, as part of our agreements with our regulators, they appropriately said, “Hey, as part of these consent orders, you need to look at the incentive compensation structures across a number of your products.” As CEO, I said, “No, we are going to go beyond that.” We are going to look at the incentive compensation system throughout the entire company, and we are not just going to do it ourselves. We are going to bring in third parties to do it independently and give reports not only to senior management but give those reports to our regulators and give those reports to our board so that we are

very transparent about it. And I am pleased that they have not found anything as serious as what we—but we cannot rest. We can never let something like this happen again.

Senator COTTON. I would agree with that.

Finally, I just want to make a point. We have heard a lot about forced arbitration this morning in this conversation. This is in reference to the Consumer Financial Protection Bureau's new arbitration rule. I would say if we allow that rule to go into effect, we may not have forced arbitration but we will have forced class action lawsuits, because without arbitration as an option, then the arbitration system will essentially cease to exist. And I do not think we should be forcing consumers to fund the lawsuits of class action lawyers.

Chairman CRAPO. Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman.

Mr. Sloan, you just mentioned that the buck stops with you and that you are going to make it right by American customers and American employees. I am concerned by the outsourcing of call center jobs, and I have learned that Wells Fargo has eliminated several hundred jobs here in this country recently and more in recent years. At the same time that you were letting these people go, you were adding on positions in the Philippines.

How is that making it right by your people here that work for Wells Fargo?

Mr. SLOAN. Senator, we employ 270,000 team members. About more than 90 percent are here in the U.S., and the reason for that is that that is where most of our business is done, in the U.S. About 95 percent of our revenues, our customers, are here.

We hire anywhere between 40,000 and 50,000 people here in the U.S., and currently we have 15,000 jobs that are open in the U.S. For example, in our retail banking business, since September of last year, since I became CEO, more or less, we have hired about 17,000 people. They are all here in the U.S.

Senator DONNELLY. Well, let me ask you this: Did you let people go that were working in the call center areas and add people in the Philippines to the same positions?

Mr. SLOAN. Senator, we want to make sure that we are providing our products and services—

Senator DONNELLY. Well, that is an easy one. Did you let people go here in the States and then add people in the Philippines?

Mr. SLOAN. Senator, we did, and generally our track record is that we rehire somewhere between 70 and 80 percent of each of those folks into another job in Wells Fargo. They generally get a preferential treatment and review because we have—we always have about 15,000 jobs that are open.

Senator DONNELLY. What happened to the other 20 percent?

Mr. SLOAN. Senator, I do not know exact—

Senator DONNELLY. Would you make a commitment to figure out how you can get them back on the team?

Mr. SLOAN. Senator, I will make a commitment that we want to hire as many qualified team members as we can, because we have 15,000 jobs that are open right now.

Senator DONNELLY. Every business wants to do that. What I am asking you is for those 20 percent that you talked about that may

have been let go but not rehired, you know, if it is not for various other reasons—I mean, if they were doing their job right, would you commit to rehiring them in another position?

Mr. SLOAN. If we have jobs that are open that they are qualified for, of course, I will commit to that.

Senator DONNELLY. Well, why would you in the first place send these jobs to the Philippines if they were being done here?

Mr. SLOAN. Because frequently, when we look at how to best serve our customers, it makes sense to have folks around the world so that we can continue to be working through a 24-hour day and not run a night shift, for example, somewhere. We think that that is an effective way to do——

Senator DONNELLY. Do you think Americans are not capable of working a night shift?

Mr. SLOAN. No.

Senator DONNELLY. I can show you a whole bunch of folks in my State who work night shifts.

Mr. SLOAN. Senator, I do not mean to be critical of anybody that works a night shift at all. But I am just saying that in terms of how to efficiently and effectively run our business, we want to make sure our people are in the right place.

Again, Senator, we have over 250,000 team members that are——

Senator DONNELLY. I got that. I guess——

Mr. SLOAN. ——here in the U.S. We love doing business in this country.

Senator DONNELLY. I guess what I would say to you is if the buck stops with you, I may be patriotic, I may be a flag waver, and I stand guilty of both of those. But I would put your folks who are working in those jobs up against anybody anywhere else in the world.

Now I just want to ask you about something else. In 2013, you said that you sat on the Operating Committee, and you saw problems and you were concerned. And it was around 2015 Mr. Stumpf came to my office and was extolling the culture of the company. And I do not want to hold it to an exact date because it is 2015, 2016. If you were concerned in 2013, why didn't you stop it?

Mr. SLOAN. Senator, we did take efforts to address the issues, but in hindsight——

Senator DONNELLY. Did you know there were fake accounts in 2013?

Mr. SLOAN. No, I did not. Not in 2013. And we should have and could have taken more aggressive action. For example, I think in hindsight, what we should have done is not ended that incentive compensation plan in our retail bank in the third quarter of last year. We should have ended it years earlier. We tried to deal with the issue, but we dealt with the issue incrementally. We did not deal with the issue comprehensively. And for that we take responsibility.

Senator DONNELLY. When you saw that in 2013, and you said, "We have got problems here, this is not working," did you mention that to the board? Did you tell them that, "We have got problems," that things are not the way they—the things that you see are not the way they really are?

Mr. SLOAN. Senator, my recollection, which is consistent with the report of the independent investigation that the board did, is that those were escalated to the board in 2014 and 2015. I think that is another area where management should have escalated that more quickly.

Senator DONNELLY. Did you escalate that to the board at that time, saying, "Hey, look, this is way out of control"?

Mr. SLOAN. It was escalated by a number of senior leaders.

Senator DONNELLY. And the board chose not to take action?

Mr. SLOAN. The board was overseeing the actions that we were taking. We represented that we thought that they would address the issues. Again, Senator, in hindsight, we were wrong. And it lessened the issue so that the number of accounts, the number of team members impacted was declining. But that is not how we should have dealt with the issue. The way we should have dealt with the issue is to end it permanently, and we did not deal with that in our Community Bank until we ended the incentive compensation plan and changed management last year. That was a mistake on our part, and it will not happen again.

Senator DONNELLY. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Two Senators have asked for a second round, and so we will do that. We do have a few minutes left. Senator Brown and Senator Warren have asked for a second round. I may choose to do one myself. But let us go to you, Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

In my opening, Mr. Sloan, I talked about Mr. Stumpf's testimony last year that this activity was limited to the Community Banking Division. The company, pure and simple, lied to this Committee and lied to the public. The company recently disclosed it knew in July 2016 that customers had auto insurance policies added to their auto loans without their consent—about 800,000 customers, roughly the size of the State that Senator Rounds represents.

Every day since you have become the head of Wells Fargo for the last 11 months, every day you have made a decision to not disclose this information to the public. Your company knew about the auto insurance policy when former CEO Mr. Stumpf testified. When did you first become aware of the force-placed auto insurance policy problem? And why did you think it was OK to continue covering it up?

Mr. SLOAN. Well, I do not think it was OK to cover it up, Senator Brown. In fact, when the issue was escalated to me in 2016, in late August, early September, I talked to our team about it, and we decided at that point in time to end and tell our vendor to quit providing that insurance to our customers. And that was effective at the end of September.

We then created an internal group made up of business line experts, legal experts, our auditing function to look at the matter. We brought in an independent law firm and an independent consulting firm to help us do a comprehensive and third-party review of the remediation. We got the results of their report in the first quarter of last year. We began to put together the remediation plan, and we disclosed that remediation plan in August. And we highlighted that—we disclosed the issue in August. We have described what

our remediation plan is as it relates to those 570,000 customers. Those checks have begun to go out, and we reported that in our second quarter 10-Q. So we have not been covering it up.

Senator BROWN. Well, you did not cover it up——

Mr. SLOAN. I am sorry, Senator. Could I make one other point? We disclosed that to our regulators in the third quarter of last year also.

Senator BROWN. But that it took you, you the company—you personally 8 months, you the company 13 months to disclose such a violation of the public trust just makes me incredulous.

Let me move to something else. You have said several times that arbitration is better for consumers. How have consumers fared in arbitration with Wells on the average?

Mr. SLOAN. I do not have the answer to that, Senator.

Senator BROWN. Well, I do, and I am surprised you do not. On average, the CFPB found consumers paid \$7,700 in arbitration overall, in arbitration cases. Other data says that Wells customers paid \$11,000 on the average. So they brought you to arbitration—or you brought them to arbitration. On the average consumers do not do very well in arbitration, suggesting that there is something wrong, and also suggesting that arbitration seems to work out well for Wells Fargo, not so well for your customers. So it is pretty troubling that you continue to dig in and say arbitration is better for customers because it clearly is not.

Let me ask one——

Mr. SLOAN. Senator, could I give you an example of how we are changing the company to address those——

Senator BROWN. In 20 seconds, because I want to respect the Chairman's 5-minute——

Mr. SLOAN. Absolutely. Senator, one of the issues that we disclosed in the 10-Q was rate lock, rate lock extension fees for our customers. We are not waiting for our customers to want to arbitrate. What we are doing is we have said that—and I want to make this very clear because this is going to come out in the next couple of days, so I might as well mention it in front of you all, and that is, we are going to our customers, and we are saying the following: "If you have a complaint about a rate lock extension fee that you paid at Wells Fargo, we will remediate it."

Senator BROWN. Good, and——

Mr. SLOAN. We are going to contact 108,000 customers, and we are going to say the following——

Senator BROWN. There are some good things you are doing. I am not saying you are not. But I am saying that on fundamental issues like continuing—Senator Cotton talked about for whatever, but he said optional. We are saying it is forced arbitration. It is not optional for so many of your customers.

Last point, right before the scandal broke, CEO compensation at Wells Fargo increased from \$19 to \$21 million. You recently announced you will be increasing the minimum pay for tellers from \$12 to \$13.50 an hour.

Mr. SLOAN. \$13.50 to \$17.10 an hour, depending upon where they are located. That is a 12-percent increase, and it is 80 percent above the Federal minimum wage.

Senator BROWN. Well, the Federal minimum wage is poverty wages plus. So the CEO was overseeing a mass fraud. He gets a compensation increase from \$19 to \$21 million a year, and tellers get a raise, making those tellers still eligible for taxpayer subsidies to subsidize your employees, subsidies of Medicaid and food stamps and Section 8 housing, perhaps in the EITC. I mean, you fight class action from employees that you did not pay overtime. It just strikes us as hypocritical to be boasting about this minor increase. It matters to them. It does matter to them.

Mr. SLOAN. It does matter to them, Senator, and I think that is one of the reasons why—

Senator BROWN. But you defend—you defend wage theft—your company is defending wage theft in court by fighting these overtime claims by your employees.

Mr. SLOAN. Senator, I am very proud of the fact that we raised the base pay for our lowest-paid team members. I think that is one of the reasons why our attrition has gone down, because what they are saying is that we are paying them fairly.

In addition to the base pay, we provide a benefits package to those team members that averages between \$6,000 and \$8,000. We provide other benefits to them. What we are seeing is a team member base, particularly at the lower levels, that is very happy to work at Wells Fargo. And you have my commitment to continuing to make sure that those team members are paid in an appropriate way.

Chairman CRAPO. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

Mr. Sloan, since becoming CEO, you have said that your priority is rebuilding trust with your employees. At a company-wide meeting this past March, you told your employees, and I want to quote you: “Wells Fargo’s mission has never been just about improving our bottom line.” And then you went on to assure them that Wells Fargo’s employees were the most important and valuable resource. Is that right?

Mr. SLOAN. Yes. I say that often, Senator.

Senator WARREN. Good. So 2 months after making those comments to your employees, you held an investor day where you and your team made your pitch to Wall Street investors, and you rolled out a new financial plan, and I would like to submit a copy of that plan for the record, if I may, Mr. Chairman.

Chairman CRAPO. Without objection.

Senator WARREN. Thank you.

Now, I am sure you are familiar with this presentation, Mr. Sloan. I have also given you a copy of it, too. On pages 26 and 27 of this presentation, you say that Wells Fargo will cut \$4 billion in expenses—\$2 billion by the end of 2018, another \$2 billion by the end of 2019. That is a huge cut, an 8-percent reduction in non-interest expenses over just a 2-year period.

Now, here are some of the ways you describe how you are going to achieve those cuts—

Mr. SLOAN. I am sorry, Senator. Could I just correct one thing you said?

Senator WARREN. Yes.

Mr. SLOAN. So it is not over a 2-year period. It is over about a 4-year period. That is number one.

Number two, what we have said is that the first \$2 billion that we are going to be reducing, we are going to reinvest back into the business, so it is not going to the bottom line for our shareholders. As it relates——

Senator WARREN. Actually, let me just quote what you said to the investors.

Mr. SLOAN. Sure.

Senator WARREN. You said you were going to consolidate—consolidating similar operations activities to provide better economies of scale——

Mr. SLOAN. So that Center of Excellence——

Senator WARREN. —improving—can I just read this, please?

Mr. SLOAN. Sure. I am sorry.

Senator WARREN. Improving processes, including digital technology to automate manual processes, and outsourcing of certain non-differentiated capabilities.

Now, that is a lot of corporate buzz words, but consolidating, automating, and outsourcing sounds an awful lot like firing people. So, Mr. Sloan, given your statements about how much you value your employees, can you tell us today that you will not be firing any employees as part of this \$4 billion cut?

Mr. SLOAN. I cannot.

Senator WARREN. OK.

Mr. SLOAN. And the reason for that is, Senator, we have an obligation to run Wells Fargo——

Senator WARREN. That is all I need—that is all I need to know, because when I look at the numbers, it looks like to me you are going to end up firing tens of thousands of employees to be able to make these numbers. Compensation——

Mr. SLOAN. Senator, Senator——

Senator WARREN. —and benefits for employees by far are Wells Fargo's biggest expense.

Mr. SLOAN. That is about 60 percent of our total expenses, and we are proud of that, by the way, because——

Senator WARREN. And if we assume an 8-percent cut in those expenses, that means that you would fire more than 20,000 employees in the next few years. And here is the kicker for me, Mr. Sloan. After telling your employees in March that they were your most valuable resource and that Wells Fargo has “never been just about improving our bottom line,” I want to read you what Wells Fargo told Wall Street investors 2 months later, in May: “We expect an additional \$2 billion in annual expense reductions by the end of 2019. These savings are projected to go to the bottom line.”

Mr. SLOAN. That is correct. That is what I just said.

Senator WARREN. So you are literally telling Wall Street you are going to fire thousands of employees——

Mr. SLOAN. No, we did not say that.

Senator WARREN. —off the bottom line.

Mr. SLOAN. Senator, Senator, you are using math to then——

Senator WARREN. Yeah, I do use math.

Mr. SLOAN. Yeah, but you are using math inappropriately, Senator. That is not——

Senator WARREN. Inappropriately, by adding numbers?

Mr. SLOAN. No; you multiplied two different numbers——

Senator WARREN. I realize——

Mr. SLOAN. ——and you applied it to people.

Senator WARREN. ——different way that that kind of thing——

Mr. SLOAN. No. Senator, you——

Senator WARREN. ——works at Wells Fargo.

Mr. SLOAN. You applied it to people.

Senator WARREN. I asked you, can you say you are not going to make these cuts by firing people? And you were very direct. You said no, you cannot make that promise.

Mr. SLOAN. I have a responsibility to the 270,000 team members to make sure that the company is in existence and successful——

Senator WARREN. So let us talk about——

Mr. SLOAN. ——year after year after year.

Senator WARREN. ——that then. I have got one more thing I would like to read from you, and that is, it is clear that you are going to knock out a lot of employees here, and it gets worse. At the same time you are planning to fire employees, you are promising to spend \$11.5 billion in the next year buying back Wells Fargo stock. You have made this public announcement. You have that much extra money.

So, look, if you stick to your current plan, it is clear that Wells Fargo employees making \$30,000 or \$40,000 a year are going to get screwed, just like they got screwed in the fake accounts scandal before. It was executives who demanded new accounts be produced at all costs. But it was 5,300 front-line employees who paid for that with their jobs. And now that the fake account scandal has tanked Wells Fargo's reputation, your way of pumping up the bottom line and keeping Wall Street investors happy is to slash costs by firing low-level employees.

You know, what happens in these cases, Mr. Chairman, is in these corporate scandals it is almost always the front-line workers who pay the price, not the executives. And the only way we are ever going to stop these scandals is to hold executives personally accountable, to fire the people who are responsible, and when they break the law, to march some of them out in handcuffs. And until we do that, these scandals are going to continue and working people are going to continue to take the brunt of it.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator Warren.

Mr. SLOAN. Senator, could I respond to that?

Chairman CRAPO. Yes. As a matter of fact, I am going to take my last word as the last questioning period here. I am interested in what your answer would be to Senator Warren's statements and the assertions that she makes.

Mr. SLOAN. Yeah, well, I could not disagree more with almost everything that Senator Warren said. I think it is inappropriate to take various statements out of context and multiply numbers and then apply them to people, because then what you are saying, you are scaring people, and that is inappropriate.

When you look at Wells Fargo, I have said first and foremost my commitment is to our 270,000 team members, to make sure that they have got a safe place to do business in, to serve their cus-

tomers, that they are paid fairly, and what those team members are saying to us, even in the midst of the fact that we have said that we need to become a more efficient organization, is they like working at the company, because our attrition is down. It is down to its lowest levels in years, and that is because they appreciate the fundamental changes that we have made, many of which but not all of which we have talked about.

We care about our team members. That is why I spend a lot of my time going out and seeing them and talking to them and understanding how they are feeling about the company. And we are making changes based upon what they tell us. Every other month I hold a town hall with one, two, three thousand team members and ask them, unscripted, to give us suggestions. We have implemented lots of their suggestions. We care about them.

But at the same time, I have an obligation as the CEO of this company to make sure that we keep other stakeholders happy, and that includes our shareholders, who are not just Wall Street investors, but they are shareholders that are pension funds that support many retirees all across this company. 401(k) plans own our stock. We have got an obligation to them.

So my job as CEO is to try to balance those appropriately, and I am working as hard as I can to accomplish that.

Chairman CRAPO. All right. Well, thank you. And I want to just let our Senators know that if they have additional questions, they are due by next Tuesday. And then, Mr. Sloan, we generally ask that the witnesses respond to those questions as quickly as they can. Not knowing how extensive those questions will be, we cannot give a specific timeline to that. But we would like——

Mr. SLOAN. Senator, if you want to set a deadline for us right now, we would be happy to live up to whatever deadline you would like to set.

Chairman CRAPO. We generally ask that the questions be responded to in 1 week from when they are received.

Mr. SLOAN. We will respond in 1 week.

Chairman CRAPO. All right. Without anything further then, this hearing is adjourned.

Mr. SLOAN. Thank you.

[Whereupon, at 11:58 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF TIMOTHY J. SLOAN
 CHIEF EXECUTIVE OFFICER AND PRESIDENT, WELLS FARGO & COMPANY

OCTOBER 3, 2017

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for your invitation to today's hearing, "Wells Fargo: One Year Later". I appreciate the opportunity to discuss the progress Wells Fargo has made.

The past year has been a time of great disappointment and transition at Wells Fargo because we recognized too late the full scope and seriousness of the problems in our Community Bank. When my predecessor testified here last year, we had not fully grappled with the damage the sales practices scandal had done to our customers, our team members, and their trust in the bank. We came to Congress without a good plan and all of you were right to criticize us. But I heard you—and I heard our customers and our team members—loud and clear. You expect us to do better, and so do we.

So let me be very clear about this: I am deeply sorry for letting down our customers and team members. I apologize for the damage done to all the people who work and bank at this important American institution. When the challenges at Wells Fargo demanded decisive action, the bank's leaders acted too slowly and too incrementally. That was unacceptable.

I also want to be clear about another thing: Wells Fargo is a better bank today than it was a year ago. And next year, Wells Fargo will be a better bank than it is today. That is because we have spent the past year determined to earn back the public's trust. Since I became CEO 11 months ago, my team and I have been focused on the three tasks you have invited me to discuss today.

First, in response to the sales practices problems announced in 2016, we are transforming our Community Bank. Our retail bank has strong new leadership, more effective organization, and incentives that reward our team members for doing what is right for the customer. This is a fundamentally different organization from the one that existed in 2016.

Second, we are looking beyond our Community Bank to review our operations across the entire company, including in our indirect auto lending business. That review is still in progress, but it has already identified several ways in which we can improve. I am committed to confronting these problems head-on, and fixing them.

Third, we are working diligently to make things right for every customer who was harmed by any of our practices and, to that end, we will compensate every customer who suffered because Wells Fargo made mistakes. I am pleased to report that these remediation efforts are well underway.

Transforming Our Community Bank

No part of our company better reflects the difference between Wells Fargo in 2016 and Wells Fargo in 2017 than our Community Bank. We have dramatically overhauled its leadership, its organization, and its incentives. At every level of the bank, our efforts focus squarely on the needs of our customers, not on achieving product sales goals.

I appointed a new leader, Mary Mack, to transform the Community Bank. Mary has worked tirelessly to improve our approach to meeting customer and team-member needs.

Together, we have eliminated product sales goals for retail bankers. Those goals contributed to a high-pressure sales environment that failed our customers. In some cases, these goals even resulted in customers receiving products they never requested or realized they had.

In addition, we have made dramatic changes in the way our team members interact with our customers by adopting a new customer-service approach across our Community Bank. We have simplified complicated processes, replaced required questions with relevant tips, and enabled bankers and tellers to better meet their customers' needs by offering them the right products, services, or referral. Managers have also been empowered to immediately resolve some customer issues, like fees, at the branch rather than through a call center. These changes have led to a more personalized experience for our customers and more fulfilling jobs for our team members.

We are equally committed to the former Wells Fargo team members who were affected by the Community Bank's old ways of doing things. I am proud to report that since last September we have hired back more than 1,780 team members who left the bank during those years.

I have also now made clear that, when team members have concerns, I want to know. I have traveled the country, visiting more than 100 offices, to meet personally with thousands of team members. Our senior leadership team has done the same.

We have also improved our ethics protections to ensure that every team member feels empowered to speak up without any fear of retaliation when he or she sees a problem.

Accountability

I know that responsibility for Wells Fargo's shortcomings reaches well beyond our bank branches. That is why our review and our changes have not stopped there. We started by holding executives accountable. Over the past year, Wells Fargo eliminated a record \$180 million in senior-executive compensation:

- No member of the Operating Committee who served before September 8, 2016, including me, received a bonus for 2016.
- Every member of the Operating Committee who served before September 8, 2016, had his or her long-term incentive awards for past performance reduced by up to 50 percent.
- Neither former CEO John Stumpf nor former head of the Community Bank, Carrie Tolstedt, received a bonus for 2016.
- Mr. Stumpf forfeited \$69 million in compensation and equity.
- Ms. Tolstedt forfeited \$67 million in compensation and equity.

And, finally, we terminated four senior leaders of the Community Bank, which cost them their 2016 bonuses, their unvested equity awards, and their vested outstanding stock options.

Looking forward, we have made oversight and compliance much more effective than a year ago. These are fundamental changes to the way the company runs. We have reviewed and adjusted the roles of tens of thousands of our team members. We have moved away from a decentralized "Run It Like You Own It" structure, where business leaders had the discretion to run their operations independently. Now we follow a more centralized model in which risk, compliance, and human resources leaders have far greater visibility into, and accountability for, issues across the individual business lines. In addition, I established a Conduct Management Office with company-wide responsibility for investigations and complaints. This new team assesses complaints across the company, reports every month to our executive team—including me—and helps leaders "connect the dots" in ways we never could before. Now when a problem emerges, we can identify it quickly, escalate it promptly, and address it fully.

These changes are consistent with, and designed to address, the findings of our Board's independent investigation into the root causes of our retail sales practices issues. That investigation found, and I agree, that our previous structure contributed to a failure to see the threat that high-pressure sales goals posed to our Community Bank and our customers. This structure also contributed to our slow and insufficient response to that threat. My job as CEO is to ensure that never happens again.

One important way I have exercised that responsibility is by calling for a comprehensive review of sales practices and other customer-facing operations across the bank. We decided to go beyond the requirements of our regulators and conduct a company-wide review, leaving no stone unturned.

That review has consumed a big portion of the past year and continues today. This has been, and continues to be, a massive undertaking. It has involved our own team members, as well as regulators, independent directors, lawyers, and independent consultants. The mandate is to identify any failures or practices that could harm our customers.

We expected to find more shortcomings through this effort, and we did. You have undoubtedly heard about some of these problems in the news. Last fall, were viewed 93 million accounts opened between 2011 and 2015. That review raised concerns regarding whether approximately 2 million accounts had been properly opened. We told you and others that we would look at even more accounts, and we did. We searched across 2009, 2010, and 2016—nearly doubling the time frame to eight years. We also looked at other types of accounts or services, such as online bill pay, that may have been initiated improperly.

In August, we announced the result of this broader look at 165 million accounts opened between 2009 and 2016. Our estimate of potentially unauthorized accounts grew by about 1.5 million. This is a substantial number, but it is important to note that these are not "new" instances of possible misconduct since last fall; they are newly revealed instances of possible misconduct based upon our own expanded investigation of the years before 2017. Of the total of 3.5 million accounts, approximately 190,000 incurred fees and charges. Wells Fargo will provide a total of \$2.8 million in additional refunds and credits on top of the \$3.3 million previously re-

funded as a result of the original account review. Our commitment is to refund all fees and all charges imposed with respect to any accounts and services that proved to be unauthorized.

During the past year, we also confronted problems in our auto-loan business. We explained in August that some of our auto loans involved insurance that had been placed by a vendor when the customer was already insured. This issue is quite different from the previous sales-practices issues in our Community Bank, because this insurance was not a product that Wells Fargo team members were given an incentive to sell. Also, this is an issue we found and addressed ourselves. The improper insurance charges occurred because of flaws in our process for verifying the customer's insurance status and disclosing the premiums added. It was a significant mistake that harmed a lot of people, and we are making it right. Last month, we began issuing checks to affected auto-loan customers, all of whom we expect to reimburse by the middle of 2018.

Making Things Right With Our Customers

The entire Wells Fargo team, all 270,000 of us, is committed to making things right for customers the bank let down. This is a big job, and we will get it right.

To ensure our changes to the Community Bank are working for our customers, we dramatically enhanced our monitoring and compliance. As an example, we are closely monitoring the opening of new accounts. Every new account now generates an email within an hour, or a letter within a day, to confirm the account holder's authorization. In our branches, we are on pace to conduct 16,000 visits by "mystery shoppers" this year, so that these anonymous reviewers can test and examine the practices and service that our customers experience. These visits will help ensure we are proactively identifying any improper sales practices and delivering customer service that is consistent with our mission.

We also are reaching out to customers all across America to determine if they were affected by the bank's practices and, if so, how we can fix it. During the fourth quarter of 2016, we contacted more than 43 million individual and small business customers. We are issuing refunds to every affected customer who has responded or has been identified by our third-party review. Wells Fargo has already paid millions in refunds and credits to Community Bank customers we spoke with between September 2016 and July 2017. In addition, customers harmed by our discontinued sales practices will receive a total of \$142 million in compensation (after deducting plaintiffs' attorneys' fees and administration costs) under our class-action settlement. This will compensate customers for claims dating back to 2002, including claims by customers for increased borrowing costs resulting from credit-score impact.

Beyond these formal reimbursement mechanisms, I want to be clear that Wells Fargo is committed to addressing every concern any customer may have about an unwanted product or service—no matter where or when it may have occurred.

The past year has been humbling and challenging. We are resolving past problems even as we make changes to ensure nothing like this happens again at Wells Fargo. We are doing this by strengthening our culture, holding leaders accountable, and improving our business practices and risk management. I want to thank all our team members for their hard work in this transformation.

Together, we will do whatever is necessary to put our customers first. I see the improvement every day, and so do the team members I visit in our bank branches. I think our customers have noticed the improvement, too. I pledge to you that we will not stop until we restore our reputation and our customers' trust, and make Wells Fargo the finest and most ethical company it can be.

Thank you again for the opportunity to address this Committee. I look forward to your questions.

**RESPONSES TO WRITTEN QUESTIONS OF THE
SENATE BANKING COMMITTEE FROM TIMOTHY J. SLOAN**

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

Questions for Mr. Timothy J. Sloan, Chief Executive Officer of Wells Fargo & Company, on behalf of Ranking Member Brown, Senator Jack Reed, Senator Robert Menendez, Senator Jon Tester, Senator Elizabeth Warren, Senator Heidi Heitkamp, Senator Joe Donnelly, Senator Brian Schatz, Senator Chris Van Hollen, and Senator Catherine Cortez Masto:

As discussed in the hearing, on September 22, 2016, Mr. Stumpf, in response to a question from Senator David Vitter, said that “we believe this is situated in our regional bank.” On November 15, 2016, in the written responses to questions submitted for the record, Wells Fargo responded, “We believe the activity at issue here was limited to certain team members within the Community Banking Division.”

At last week’s hearing, you said in response to Senator Scott’s questions about potential problems related to other insurance products like homeowners, flood insurance or property insurance, “We have not found any issues there.”

- Have you reviewed all business units for potential unauthorized accounts and product add-ons? Have you also reviewed all business units’ sales goals and incentive plans? Please be specific about which business units’ policies and procedures were reviewed by the company, the Board, or third parties, including for any default protection insurance in the mortgage unit.

Response: We continue to review all business units for potential unauthorized accounts, product add-ons, misaligned sales goals, and improper incentive plans. Since last year, sales practices specifically and compliance generally have been a constant focus for the Company. We are engaging in comprehensive reviews of the following business units: Wealth and Investment Management, Wholesale Banking, Community Bank, Consumer Lending, and Payments, Virtual Systems, and Innovation (“PVSF”). All of our business units either have already been reviewed, or will soon be reviewed, for potential sales practices issues.

In late 2016, in connection with the Board of Directors’ investigation, we provided the Board’s legal advisors with a list of all incentive plans with sales indicators, plan documents, and information about incentive-related policies including our enterprise Incentive Compensation Risk Management (“ICRM”) Program. This process culminated in the Independent Directors’ report of its sales practices investigation, published in April 2017. The investigation was conducted by the Board’s Oversight Committee, with the assistance of independent counsel. The Board’s Human Resources Committee, moreover, has reviewed many incentive-related policies and arrangements covering senior management including the Wells Fargo Bonus Plan. In addition, third party consulting firms have recently reviewed the ICRM Program for instances of problematic sales practices in fulfilling incentive plans.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

When Senator Tester asked you whether you “were using forced arbitration from a real account and applying it to a fake account that was set up unauthorized,” you replied, “There were instances historically that we did that but we are not doing that right now...”

However, on September 18th lawyers for Wells Fargo submitted a motion in federal court in Utah arguing this very issue. For instance, the lawyers stated “the arbitration clauses here do not contain any carve outs – they apply across the board to disputes between the customer and the bank.” They asked the court “order Plaintiffs to bring their claims in arbitration, and dismiss their claims in this lawsuit.”

- Did Wells Fargo withdraw or modify this motion between September 18th and the day of your testimony before the banking committee? If not, why did you offer testimony before the committee that was not true?

Response: Rather than requiring Wells Fargo customers to seek relief in arbitration, we agreed with plaintiffs’ counsel to resolve the allegations concerning unauthorized accounts in *Jabbari v. Wells Fargo*, No. 15-cv-2159, in the U.S. District Court for the Northern District of California. Pursuant to that settlement, which has received preliminary approval by court order, Wells Fargo is providing \$142 million to compensate members of a class that covers affected customers dating back to 2002.

The *Mitchell* case in Utah is an attempt to unravel that relief by initiating competing ancillary litigation that could delay customer relief for the benefit of lawyers who were not involved in the *Jabbari* litigation.

To the extent plaintiffs in the *Mitchell* case may not receive relief in *Jabbari*, it is because they do not claim to have an unauthorized account. The pending motion makes this clear. It also notes that if the *Mitchell* litigants reject the relief granted to them and the rest of the class of affected customers in *Jabbari*, the proper alternative forum would be arbitration rather than a second separate and competing class action proceeding that would interfere with the relief thousands of customers otherwise will receive. Accordingly, Wells Fargo’s position in *Mitchell* is consistent with the hearing testimony.

- What kind of documentation would the LA Times have had to provide you in late 2013 in order for you to push the company to look deeper into this issue? Why were the articles not enough for you to be concerned and demand action in the bank?

Response: Following the LA Times articles, the Company did look deeper into the sales practices issue. We were concerned and took action. As I stated during the hearing, however, the challenges at Wells Fargo demanded decisive action, but the actions we took to address the issues that were reported were too slow and too incremental.

Since then, however, we have moved decisively to address the root causes of unacceptable retail sales practices. We are committed to fixing what went wrong, and we have made substantial changes to our leadership, processes, and oversight. The actions we have taken include:

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- Eliminating product sales goals for our retail bankers in bank branches and call centers.
- Instituting automatic notifications when customers open new personal or small business checking accounts, savings accounts, or credit cards.
- Creating a new compensation and performance management program for retail (branch) employees, managers, and leaders that focuses on customer satisfaction and experience.
- Centralizing key enterprise control functions, such as Human Resources and Corporate Risk.
- Making leadership changes at our Community Bank, including our new head of Community Banking, Mary Mack.
- Eliminating a layer of management in the Community Bank to bring senior management closer to our customers.
- Creating a Conduct Management Office to centralize the handling of internal investigations, EthicsLine and ethics oversight, complaints oversight, and sales practice oversight.
- Engaging a review of our EthicsLine program to strengthen the process by which team members can report unethical conduct.

In response to a question from Senator Rounds at the October 3 hearing, you said that the, “Community Bank had fundamental problems that created serious cultural issues. In terms of the rest of the company, there were other issues, but I would not say that the rest of the company it was a broken culture.” Since last year, there have been similar problems revealed related to unauthorized accounts and product add-ons throughout the company.

- Do you stand by that statement?

Response: Yes. We are undertaking a comprehensive review of every facet of our business and have identified other issues. But there have not been similar pervasive cultural issues revealed outside the Community Bank related to unauthorized accounts. Nevertheless we are taking the additional issues we have uncovered very seriously, and have disclosed more about these issues and efforts than what is required. Wells Fargo is addressing each issue in a prompt and appropriate manner, as we have disclosed publicly and as I addressed at the hearing.

There is another example of widespread misconduct in Wells Fargo’s mortgage department that took place between 2009 through 2013. The CFPB brought an action against Wells for this in 2015. According to the CFPB, 100 loan officers in at least 18 Wells branches took marketing services (and at least one loan officer accepted cash payments) from a title company in exchange for referring settlement business for consumers’ federally related mortgages to that company. The CFPB charged that thousands of loan were referred through this scheme. At some branches, the branch managers knew this was going on and did not stop it. According to the CFPB, this violated RESPA and the CFPA and the Maryland Consumer Protection Act. Wells Fargo was required to pay \$10 million in monetary relief and a \$21 million civil penalty.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

In fact, between 2005 and 2015, Wells Fargo was subject to 41 enforcement actions from 11 Federal agencies resulting in more than \$15.6 billion in fines, penalties, and remediation to harmed consumers. Wells committed a wide range of violations across many lines of business. These included violations of sanctions and the Bank Secrecy Act; the Servicemembers Civil Relief Act; the Fair Housing Act; mortgage servicing requirements; FHA underwriting and certification requirements; and securities disclosure requirements, and for misleading investors. These violations are evidence that Wells Fargo has repeatedly put profits ahead of customers across its business.

• How do you defend your culture to your customers?

Response: We have acknowledged the mistakes we made and conveyed how deeply sorry we are for letting down our customers. Our culture today begins with our Vision and Values, particularly those important provisions that reflect our desire to help our customers succeed financially. 270,000 outstanding Wells Fargo team members get up and work hard every day to improve the bank and help their customers succeed. Together, we have made fundamental changes to address the operational errors disclosed last year, and we are proactively reaching out to customers regarding sales practices, collateral protection insurance (“CPI”), and rate-lock issues to ensure customers are compensated for any harm.

As noted above, we have made substantial changes to our leadership, processes, and oversight. We eliminated product sales goals for our retail bankers in bank branches and call centers, instituted automatic confirmation statements when customers open new accounts, and created a new compensation and performance management program for bankers that focuses on customer satisfaction and experience. At the enterprise level, we centralized key control functions, such as human resources and corporate risk; changed leadership at our Community Bank, including its new leader, Mary Mack; and eliminated a layer of management in the Community Bank to bring senior management closer to our customers. Finally, to respect our Vision and Values, we created a Conduct Management Office to centralize the handling of internal investigations, new EthicsLine and ethics oversight, complaints management, and sales practice oversight.

Wells Fargo is committed to addressing *every* concern *any* customer may have about an unauthorized or unwanted product or service—no matter where or when it may have occurred.

Wells Fargo has acknowledged that it knew about the Collateral Protection Insurance (CPI) issues with auto loans in July 2016. Why did the company choose not to disclose the CPI issues during Capitol Hill visits in September 2016 ahead of the Congressional hearings? When did you personally know about the CPI issues? Were you involved in the decision not to disclose it in Mr. Stumpf’s Congressional testimony in September 2016? Did you review or pre-approve Mr. Stumpf’s written testimony and/or were you involved in Mr. Stumpf’s preparation for the hearing? When exactly did Wells Fargo report these issues to the Federal Reserve, Consumer Financial Protection Bureau, and the Office of the Comptroller of the Currency?

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

Response: We have been in communication with our regulators since the third quarter of 2016 concerning the review and remediation of CPI issues. We are barred by the bank examination privilege from publicly disclosing the details of those discussions. To the best of my recollection, I became aware in the summer of 2016 that customers may have been affected by improperly placed CPI. Since the issues were escalated, we have worked diligently to identify what went wrong, to ensure our regulators are informed, and to make things right for our customers.

I do not know whether Mr. Stumpf was aware of issues with CPI, or in what detail, in advance of his September 2016 congressional testimony. Though we conferred regarding his testimony, I do not recall discussing CPI with him. Those hearings addressed sales practice violations in the Community Bank. While the CPI issues are serious, they differ in significant ways from those involving unauthorized accounts and misaligned sales incentives within the Community Bank. The customer harm associated with CPI resulted from operational and vendor oversight issues. When Mr. Stumpf testified in September 2016, we were still examining weaknesses in the CPI program and the potential impact on our customers.

- **At the October 3 hearing, you said that you have hired back 1,700-1,800 employees who had worked in the retail bank and left because of the culture or were dismissed because they did not meet sales goals. In addition to re-hiring them, have you provided them with any other type of redress? What about those former employees that have not been rehired?**

Response: These team members left Wells Fargo for a variety of reasons which may include sales pressure and culture, and we are pleased that so many have returned. All of the team members who returned received competitive pay and benefits.

We have invited and continue to invite any former team members who would like to have their termination reviewed to contact us. In September 2016, we established a new process for former team members who did not utilize the Company's termination appeal and review processes when they left. They can request a review by a dedicated Employee Relations team regarding their involuntary termination or voluntary resignation due to sales performance/culture issues. This process also provides access to a special recruiting team to assist such former team members who may be eligible for reemployment to explore employment opportunities at Wells Fargo.

- **In your testimony and in responses at the hearing you referenced several changes to Wells Fargo's risk management and compliance structure, including efforts to increase accountability. Please describe in detail:**
 - **Any additional oversight processes or reviews related to risk management and compliance conducted, or to be conducted, by the Board of Directors, including identifying any measures that the Board can take to ensure such processes or reviews are effective.**

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

Response: Information regarding additional oversight processes or reviews related to risk management and compliance conducted or to be conducted by the Board is included in the attached presentation, “Actions Taken to Assist Customers and Strengthen Operations and Governance,” dated September 20, 2017. See Attachment 1. Some of the key changes to our risk management and compliance structure included the following:

- We strengthened our risk framework and organization by centralizing core functions like Risk, Compliance, Finance, and Human Resources to provide greater role clarity, increased coordination, and stronger oversight.
- We realigned reporting in 2016 for approximately 4,100 risk team members, who previously reported within our lines of business, to report into our central Corporate Risk group, and additional risk team members were realigned to report into Corporate Risk in 2017.
- We formed our new Conduct Management Office, which reports to our Chief Risk Officer, and the Board’s Risk Committee now oversees enterprise-wide conduct risk and the Conduct Management Office.
- The Board amended its Committee charters to enhance its oversight of conduct risk, including by expanding the Human Resources Committee’s oversight responsibilities to include oversight of culture, human capital management, and the Company’s ethics program (including Code of Ethics and Business Conduct).
- The Board’s Human Resources Committee expanded the Company’s incentive compensation risk management program to cover a broader range of team members, including team members in our retail branches and call centers, and several steps were taken to enhance and strengthen the program and the processes to hold team members accountable for risk outcomes, including by expanding the scope to explicitly cover reputation in addition to financial risks.
- The Board took several refreshment actions, including adding three independent directors in 2017 (three more new independent directors are expected to be added to the Board by the Company’s 2018 annual meeting) and refreshing the composition and leadership of various Board committees, including the Risk Committee and Governance and Nominating Committee.

The Board continues to assess its performance and practices to help ensure its oversight is effective, and in 2017 retained a third-party expert to facilitate its 2017 Board self-evaluation.

- **You stated that when a concern emerges it is identified, escalated, and addressed fully. Please specify the process for tracking and resolving those concerns, including whether the process measures time to resolution and the conditions that require escalation to each successive level.**

Response: The new Conduct Management Office centralizes complaints oversight, ethics oversight, internal investigations, and sales practices oversight into one organization within the Corporate Risk group. The Conduct Management Office is focused on driving consistency and connectivity in handling team member escalations and customer complaints, and on making improvements to processes and procedures, including setting timelines and escalation paths and

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

processes. The Office tracks information on both team member escalations and customer complaints, and provides regular reporting, including to the Risk Committee and other Board committees as appropriate.

- **Please describe the revised oversight of the Ethics Line, including each part of the organization responsible for collecting, reviewing, and resolving reported concerns.**

Response: We have worked to create an environment that encourages team members to raise concerns and feel comfortable doing so. The new Conduct Management Office formed in January oversees the EthicsLine and the handling of team member allegations. A third-party vendor intakes EthicsLine complaints. Depending on the nature of the allegation, functional groups with roles and responsibilities for research, investigation, and disposition of allegations include: Employee Relations, Ethics Oversight, Internal Investigations, Responsible Business Conduct Team, Sales and Service Conduct Oversight Team, and Wells Fargo Advisors Special Surveillance Review.

During the formation of the Conduct Management Office, several enhancements were put in place to ensure we are collecting, reviewing, escalating, and reporting on enterprise Team Member allegations. Some of the new and ongoing enhancements include:

- A dedicated Employee Relations team focused on issues raised through EthicsLine
- Third-party reviews of retaliation claims
- A new EthicsLine web portal
- An enterprise platform for managing team member allegations from intake to resolution that enables comprehensive reporting
- Standardized protocols and service level agreements across research and investigative teams, including communications to keep team members informed along the way.

Additionally, a special team within Ethics Oversight was formed to handle escalated allegations received by senior management rather than through the EthicsLine.

- **In your testimony before the committee on October 3, you said that Wells Fargo has “revamped the incentives for our retail team members by eliminating product sales goals. Today Wells Fargo rewards teamwork and excellent customer service, not just selling products. Our Community Bank is a fundamentally different organization from the one that existed in 2016.” Please provide copies of the policies describing the elements of teamwork and customer service and how each of those is rewarded, any other sales goals, incentive plans, and other rewards provided to employees at all levels of the Community Bank.**

Response: In January 2017, a new incentive and performance management program was introduced for branch team members, managers, and leaders which does not contain product sales goals. The plans align with the Enterprise Incentive Compensation Risk Management Policy and the Enterprise Performance Management Policy. Attached is a summary of the compensation policy changes implemented last January. See Attachment 2.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- **In your testimony you did not say that you have made changes to incentive compensation and sales goals used within the Wealth Management and Wholesale business segments. Please describe any incentive plans used in those businesses and explain how abuses are mitigated or prevented and who is responsible for oversight of any incentive programs.**

Response: Our Incentive Compensation Risk Management (“ICRM”) Program is designed to ensure incentive plans across the Company are supported by strong corporate governance. The Human Resources Committee of the Board of Directors and the Incentive Compensation Committee (comprising senior business and control function leaders) oversee the policy and the ICRM Program. Line of business management, Human Resources, Risk, and Finance are responsible for plan design, management, and ensuring appropriate compensation outcomes. Wells Fargo’s Audit Service separately conducts reviews of compensation controls and established policies relating to incentive arrangements.

Wealth Management and Wholesale have both discretionary and formulaic plans. All plans are assessed by independent compensation and risk teams to ensure the plan designs are risk-balanced and supported by a sound control environment. In addition, all plans have been evaluated by our Sales Practices Oversight team to determine whether the combination of customers served, products sold, and sales process have inappropriate levels of risk for sales practices harm. Some high-priority sales-incentive plans undergo additional risk reviews. Wealth Management compensation plans vary between quarterly, annual, and long term components based on factors such as: sourcing new business, referrals, revenue, and qualitative performance objectives. Wholesale team members identified as material risk takers participate in discretionary incentive plans with risk objectives. Performance ratings on the risk objectives impact the overall award and outcomes are reviewed by Compensation leaders to ensure compensation outcomes are consistent with the risk outcomes.

- **Three Board members will retire at the end of the year. What skills or experiences is the Board looking for in the individuals it is considering for these Board positions?**

Response: Given the Board’s ongoing refreshment process, it is critical to the Company, its shareholders, and other stakeholders that the Board maintain an appropriate mix of knowledge, experience, and perspectives so that it can fulfill its oversight responsibilities. The Board’s succession planning and current-director recruiting efforts are led by its Governance and Nominating Committee. As part of the Board’s self-evaluation process, it has identified financial services, regulatory, financial, operational, and technology as areas of experience that would be desirable.

The Board elected Juan A. Pujadas (retired principal of PricewaterhouseCoopers) as a director effective September 1, 2017. He brings risk management, financial services, finance, technology, and international experience. In addition, the Board had previously added two new directors, Karen B. Peetz (former President, Bank of New York Mellon) and Ronald L. Sargent (former Chairman and CEO, Staples, Inc.) on February 20, 2017. They bring financial services,

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

client services, regulatory, and consumer retail and marketing experience, as well as experience in the management of a large workforce serving customers globally through a variety of channels.

Please describe Wells Fargo's business relationship with Equifax.

- **What kind of data do you furnish to Equifax and the other credit bureaus, are you compensated for that data? What kind of data do you use from Equifax and the other credit bureaus, and how much do you pay for it? How does Wells Fargo ensure that the data it provides to, and buys from, the credit bureaus is secure when in possession of the credit bureaus? Does Wells Fargo audit the cybersecurity policies of the credit bureaus it has relationships with?**

Response: Equifax is one of the three major credit reporting agencies that Wells Fargo uses to obtain credit and employment/income data used in the credit underwriting and account management processes. Wells Fargo furnishes consumer and small business credit reporting data to Equifax and the other reporting agencies. Wells Fargo is not compensated for the data it furnishes to Equifax.

While the specifics of our usage, including pricing, are confidential, Wells Fargo leverages all three major credit bureaus across our lines of business for credit-underwriting and employment-verification purposes, and we adjust our usage of their products regularly.

Our agreements require the credit bureaus to establish and maintain safeguards against the destruction, loss, alteration of, or unauthorized access to Wells Fargo data. Wells Fargo conducts periodic information security reviews of the bureaus' relevant information security policies and key controls. Additionally, Wells Fargo requires the bureaus to verify and attest that certain critical vulnerabilities have been appropriately contained as such vulnerabilities are announced.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

Questions for Mr. Timothy J. Sloan, Chief Executive Officer of Wells Fargo & Company,
 from Senator Robert Menendez:

In September 2016, following the testimony of former Wells Fargo Chairman and CEO John Stumpf, I asked Mr. Stumpf in questions for the record what the bank planned to do address allegations that the bank targeted individuals holding Mexican Matricula Consular Cards, as raised in the Los Angeles City Attorney's May 5, 2015 complaint. I received the following response on November 15, 2016:

Wells Fargo is committed to rectifying this situation for all customers, regardless of the type of identification used to open an account. This includes refunding any fees that were assessed on unauthorized accounts, correcting credit bureau reporting, and addressing any other forms of harm.

The bank's response lacked any substance or specificity, and more concerning, it provided no information about what, if anything, the bank planned to do address issues of targeting. Please provide responses to the following questions:

- Did Wells Fargo conduct an internal investigation to evaluate whether individuals with Mexican Matricula Consular Cards were targeted for fake accounts and credit cards? If not, why not?

Response: To date, Wells Fargo has not found that Matricula Consular cardholders were disproportionately targeted for potentially unauthorized accounts.

- What percentage of the 3.5 million fake accounts opened without customers' knowledge or consent were tied to customers who hold Mexican Matricula Consular Cards?

Response: Our review has not included examining the percentage of Matricula Consular cardholders in the updated account analysis.

- What is the current status of remediation for customers with Mexican Matricula Consular Cards impacted by the fake account scandal?

Response: As noted, Wells Fargo's remediation program is intended to make whole all of our customers, including those with Matricula Consular cards. A portion of the remediation was completed in 2016, following the original third party account review. The further remediation stemming from review of the expanded period began in September 2017 and is ongoing. In addition to this compensation, all customers who had unauthorized consumer or small business checking accounts, savings accounts, unsecured credit cards, and unsecured lines of credit opened between May 1, 2002 and April 20, 2017 are also eligible to recover from our class action settlement. The deadline to submit claims in the settlement is February 3, 2018.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- The settlement between the Los Angeles City Attorney and Wells Fargo requires the bank to provide customer remediation, account information, and related forms in Spanish, if requested by the customer.¹ Is Wells Fargo also providing this information in Spanish to customers outside of California?

Response: Wells Fargo is providing this information in Spanish to customers outside of California.

On April 26, 2017, the press reported that, according to court documents, Wells Fargo specifically targeted undocumented immigrants for over a decade for new accounts in order to meet sales goals, and sometimes even paying them to open accounts.² According to sworn statements of former employees, on “Hit the Streets Thursday,” Wells Fargo community bank employees traveled to specific retail establishments and employment locations looking for undocumented immigrants to sign up for various products and accounts. In response, a Wells Fargo spokesman said, “these allegations are inconsistent with our policies, values and the relationships we work hard to build with all parts of our community.” After a history of allegations levied and fines paid for discriminatory practices, it is no longer sufficient for the bank to dismiss such allegations as spurious.

- Has the Board of Directors discussed the issue of targeting undocumented workers? If so, what were the conclusions of the Board?

Response: The Board of Directors actively monitors the actions undertaken by Wells Fargo management to investigate and address a wide variety of issues pertaining to potentially unauthorized accounts. Wells Fargo seeks to serve all segments of our communities in a manner that puts customers first and in accordance with all applicable laws and regulations. The Board of Directors conducted an investigation, which contains no conclusions about targeting undocumented workers.

- Will the bank commit to conduct an internal investigation to evaluate whether undocumented immigrants were indeed targeted for products and accounts? If not, why not?

Response: Wells Fargo is committed to making things right with all customers affected by improper sales practices, regardless of demographic classification. We are also working to ensure that no customer is affected by improper sales practices in the future.

¹ <https://www.lacityattorney.org/single-post/2016/09/08/Los-Angeles-City-Attorney-Mike-Feuer-Achieves-Historic-Result-in-Consumer-Action-Against-Wells-Fargo-Bank-to-Make-Restitution-to-Customers-Pay-50-million-in-Penalties-Unprecedented-Coordination-with-Federal-Regulators-to-Benefit-Consumers-Nationwide>

² <http://www.sfchronicle.com/business/article/Suit-Wells-Fargo-targeted-undocumented-11101574.php>; https://www.washingtonpost.com/news/business/wp/2017/05/04/wells-fargo-targeted-undocumented-immigrants-stalked-street-corners-lawsuit-claims/?utm_term=.00b8756f63f5

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

In July, the U.S. Department of Labor ordered Wells Fargo to reinstate and pay \$577,500 in back wages, damages and other fees to a former bank manager in California who was terminated by the bank after she reported concerning conduct by three bankers she supervised.³ As of September 27, 2017, the employee, Claudia Ponce de Leon, had not yet been reinstated. Under current law, employers are required to immediately honor reinstatements ordered by the Secretary of Labor.⁴ The law is clear that appeals to a preliminary order do not operate as a stay of any reinstatement.

- **Why is Wells Fargo refusing to rehire Ms. Ponce de Leon?**

Response: We do not tolerate retaliation, and we are committed to making sure that our team members feel comfortable raising their hand when something isn't right. Ms. Ponce de Leon was terminated based largely on concerns regarding her treatment of team members who worked for her. Wells Fargo has appealed the preliminary findings and continues to follow the administrative process.

- **Are there other employees that the Secretary of Labor has ordered the bank to reinstate that have not yet been reinstated?**

Response: We are aware of one other employee who, in a preliminary order by a regional administrator, was ordered to be reinstated. Based on information about his performance as a manager, Wells Fargo has appealed this determination.

In your written testimony, you said that the bank has rehired 1,780 employees.

- **Please explain the process through which the bank determines whether employees are eligible for rehire.**

Response: At the time a team member separates from Wells Fargo, a manager is responsible for identifying the appropriate termination code based upon the circumstances leading to the departure. A separation may be voluntary (resignation, relocation, retirement, or job abandonment) or involuntary (displacement/position elimination, failed background check, failure to perform, theft, excessive absenteeism, or violation of policy). Most termination codes identify the former team member as eligible for rehire. The circumstances in which a team member would be deemed ineligible for rehire include when the termination of employment results from theft, violation of certain company policy, falsification of bank records, failure to pass a required background check, or job abandonment, when such conduct has been validated in consultation with Human Resources.

³ <https://www.osha.gov/news/newsreleases/region9/07212017>.

⁴ 49 U.S.C. 42121(b)(2)(A).

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- **What factors does the bank consider, and what would make an employee ineligible for rehire?**

Response: As described above, most separating team members have a termination code that identifies them as eligible for rehire at Wells Fargo. Where a termination code is used that identifies the former team member as ineligible for rehire (theft, violation of certain company policy, falsification of bank records, failure to pass a required background check, or job abandonment), the underlying facts will have been validated in consultation with an internal investigations unit or Human Resources. Every former team member has the right to dispute his or her reason for termination, and where applicable, the identification as ineligible for rehire.

In response to questions from Senator Van Hollen, you said that you were “not familiar with the overdraft scandal.” In 2008, consumers filed class-action lawsuits against Wells Fargo and a large number of other banks for the practice of reordering checking account transactions in order to charge customers extra overdraft fees. The cases were consolidated in 2009, and most of the banks settled with the plaintiffs. Wells Fargo, however, continued to fight the case. In August 2017, Wells Fargo argued to the 11th Circuit Court of Appeals that customers affected by its overdraft practices should be forced into arbitration.

- **Please explain why Wells Fargo believes consumers subjected to unfair overdraft practices should not have the opportunity to pursue their claims in court.**

Response: In recent years, Wells Fargo has introduced a number of initiatives designed to help our customers avoid overdraft and non-sufficient funds (“NSF”) fees. For instance, beginning in 2014, we moved to chronological posting order for checks and ACH transactions, and began including incoming check and ACH debits as “pending” items during the day rather than holding them for nightly processing. In 2016, we revised the manner in which we handled items presented multiple times via ACH to ensure these transactions were not charged more than one NSF fee, which actually reduced our fee income from NSF fees. Earlier this year, we reduced the daily fee cap for consumer customers from four to three overdraft and/or NSF fees per day—this is among the lowest in the industry. We also introduced zero-balance alerts this year, which provide near real-time notifications to customers when their account’s available balance drops below zero. On average, Wells Fargo sends more than one million low and zero-balance alerts to customers each day. When combined, Wells Fargo’s overdraft and account management services provide significant benefits to consumers not found at other banks. Moreover, the bank is constantly evaluating ways to improve customer experience, including by making changes to the manner in which it handles overdrafts. When a customer raises a concern, we work hard to resolve the issue without the need for any type of formal dispute resolution. Ultimately, we believe arbitration is a better pathway for promptly resolving a customer’s complaint as a last resort.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

In January, ProPublica first reported the issue of erroneous mortgage rate-lock extension fees. The article cited a November 2016 letter to Congress from a former Wells Fargo loan officer, Frank Chavez, detailing the practice. The day after your testimony, Wells Fargo announced a plan to refund customers charged for mortgage processing delays that were the fault of the bank.

- **How did the bank discover that mortgage borrowers were being improperly charged for extension fees?**

Response: Wells Fargo Home Lending ("WFHL") team members raised concerns about rate-lock extension fees as part of a "Raise Your Hand" feedback initiative in the fall of 2016. This prompted WFHL management to look into application of the bank's rate-lock extension fee policy and potential areas for improvement. The Raise Your Hand feedback came before Wells Fargo received Frank Chavez's complaint via the CFPB complaint portal in late November 2016. By then, we already had begun clarifying our policy.

- **When was the Board and senior management informed of the practice?**

Response: WFHL senior management became aware of this issue in the fall of 2016. The first communication we are aware of to the Wells Fargo Board of Directors about rate-lock extension fee concerns happened in January 2017.

- **Has the bank's internal review team identified the cause of this problem?**

Response: Yes. Based on our review to date, Wells Fargo's rate-lock extension fee policy (as enacted on September 16, 2013) experienced inconsistent interpretation and application. Based on our review to date, we believe most borrower-paid rate-lock extension fees were properly charged under the bank's extension fee policy. To correct the inconsistencies we found, however, in addition to releasing clarifying guidance in late November 2016, Wells Fargo revised its extension fee policy effective March 1, 2017, and centralized the fee allocation process. Now all extension requests are evaluated by a centralized review team that reviews each request and determines whether fees should be assessed to the borrower or the lender in accordance with Wells Fargo's policy.

- **Was the issue pervasive across the home mortgage loan division or was it relegated to particular regions?**

Response: Based on the information we have gathered to date, the prevalence of this issue likely varied between different regions. Our remediation, however, offers refunds to all customers in all regions who paid an inappropriate rate-lock extension fee for an extension requested under the bank's September 2013 extension fee policy (i.e., between September 16, 2013 and February 28, 2017).

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- **In addition to customer remediation, what changes is the bank instituting in its home mortgage loan division to ensure that customers are not improperly charged rate-lock extension fees in the future?**

Response: We made significant changes to the senior leadership in our retail mortgage sales team, including the termination of several senior leaders. While there was no single factor that led to these terminations, leadership and oversight lapses we identified in connection with the rate-lock investigation played a role in the decision. These leaders forfeited substantial long-term incentive compensation and equity that previously had been awarded. In addition, as of March 1, 2017, we instituted a new rate-lock extension fee policy that, among other things, centralized decision-making authority. (The bank's policy, since September 16, 2013, has called for allocation of rate-lock extension fees to either the borrower or the lender depending on the factual circumstances underlying the need for an extension.) Now all extension requests are evaluated by a centralized review team that reviews each request and determines whether fees should be assessed to the borrower or the lender in accordance with Wells Fargo's policy. This has resulted in demonstrated improvements and consistency in fee assessments. Furthermore, in an effort to make things right for customers who believe they were improperly charged an extension fee under Wells Fargo's September 2013 policy, Wells Fargo announced plans to reach out to all home lending customers who paid fees for mortgage rate-lock extensions requested from September 16, 2013, through February 28, 2017, and to issue refunds to all such customers who request them. Wells Fargo anticipates that the first customer communications and refunds will go out in the final quarter of this year.

The steady trickle of scandals disclosed at the bank since the consent orders announced last September raise fundamental questions about misaligned incentives and persistent culture problems throughout the entire institution. Until the scandal broke, leadership of the bank, including yourself, touted the bank's sales practices as a source of both pride and profit. Over the course of the last year, a steady stream of scandals demonstrated the bank's misaligned incentives and persistent culture issues permeated nearly every business line. It is naïve at best to believe that necessary change will take hold at the bank without substantial upheaval of senior management and Board members.

- **What additional steps will you and senior management officials personally take to ensure customers are treated fairly, the bank's business lines operate free of misconduct, and incentives are appropriately aligned with customers' interests?**

Response: Since I became CEO 12 months ago, my senior leadership team and I have worked hard to make many improvements across the bank to ensure customers are treated fairly, business lines operate free of misconduct, and incentives are appropriately aligned. We will continue to implement changes and additional improvements as appropriate. For example, Wells Fargo has already made significant improvements to the Community Bank, including eliminating product sales goals in retail banking centers, introducing new compensation and performance management programs that emphasize customer experience and risk management, strengthening oversight and risk controls, investing in coaching and skills training, streamlining our processes to help customers and team members, and increasing customer input. We will continue to work

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

to enhance the customer experience in our Community Bank. In addition, we decided to look beyond the Community Bank's sales practices issues and review our performance and compliance across the bank. Finally, we are working to make things right with our customers.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

**Questions for Mr. Timothy J. Sloan, Chief Executive Officer of Wells Fargo & Company,
 from Senator Ben Sasse:**

I'd like to discuss how this scandal impacted Nebraska. Most of these questions are similar to those that I asked of then-CEO John Stumpf. Please provide an updated answer to these questions where applicable.

- Of the who were fired in association with the fake accounts scandal, how many of them worked in Nebraska?

Response: Of the approximately 5,300 sales practices-related terminations referenced by the Consumer Financial Protection Bureau, 47 of the team members worked in Nebraska.

- During the Oct. 3 Senate Banking hearing, you testified that Wells Fargo had rehired many of the above-referenced, previously fired Wells employees. How many of these employees worked in Nebraska?

Response: The 47 former team members terminated for engaging in improper sales practices are not eligible for rehire with Wells Fargo because they violated company policies. Through our regular recruiting process, since September 30, 2016, we have rehired 12 team members into Wells Fargo in the state of Nebraska who left the Community Bank voluntarily or involuntarily between January 1, 2011 and August 28, 2017 and who remained eligible for rehire.

- During the 2009 through 2016 period reviewed by Wells Fargo, were any Wells Fargo employees fired for failing to meet sales quotas? If so, how many?

See response below.

- Of those fired employees working in Nebraska, how many of them were at risk of being fired for failing to meet product sales quotas?

Response: Wells Fargo cannot quantify with any degree of confidence how many team members were terminated solely for not meeting sales goals. The bank tracks involuntary terminations for failure to perform job duties, which can include a range of issues. Wells Fargo has safeguards in place to help ensure managers remain focused on assessing team members' overall performance in helping customers succeed financially. Additionally, Wells Fargo has established a process to enable former team members who left voluntarily or involuntarily due to sales performance/culture issues to request a review of their termination. Former team members who express interest in reemployment and are deemed to be eligible for reemployment through this review process are able to work with a special recruiting team to assist in exploring opportunities at Wells Fargo.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- **Of those fired employees working in Nebraska, please provide a percentage breakdown of the position held by each of the fired employee before they were fired.**

Response: Of the 47 team members referenced above, the majority held Personal Banker (51%) or Teller/Lead Teller (23%) positions at the time of termination. The other team members who were terminated were employed in a variety of Regional Bank roles, including Customer Sales & Service Representative, Business Banking Specialist, Assistant Branch Manager, Service Manager, and Branch Manager.

- **During the 2009 through 2016 period reviewed by Wells Fargo, how many of those accounts classified as potentially fraudulent were opened in Nebraska?**

Response: Of the potentially unauthorized accounts identified by the third-party consultant for the period January 2009-September 30, 2016, 24,306 were opened in Nebraska.

- **During the same time period, how many unauthorized fees and fines were levied on Nebraska consumers in relation to this scandal? What is the total cost of these fees and fines?**

Response: Among the 24,306 potentially unauthorized accounts identified by the third-party consultant that were opened in Nebraska, 701 accounts were charged fees and the fees totaled \$35,061.

- **Of the customers that Wells Fargo charged for unauthorized collateral protection insurance, how many were from Nebraska?**

Response: As of the end of July 2017, the estimated number of accounts receiving some compensation as part of our collateral protection insurance ("CPI") remediation for which Nebraska was the billing state was: (i) 3,245 for compensation not related to repossession; and (ii) 175 that potentially will qualify for repossession compensation. Because this is an ongoing remediation, the number of affected accounts is likely to change.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

Questions for Mr. Timothy J. Sloan, Chief Executive Officer of Wells Fargo & Company,
 from Senator Jack Reed:

According to the Congressional Research Service, the various regulators fined Wells Fargo \$185 for opening unauthorized accounts. At the same time, you state in your testimony that Wells Fargo has eliminated about \$180 million in senior-executive compensation. These actions seem to suggest that Wells Fargo is asking senior executives, and not shareholders, to pay the costs of incurred fines and penalties.

- Is this what Wells Fargo is doing in this instance?

See response below.

- Going forward, will Wells Fargo, as a matter of company policy, ask senior executives, and not shareholders, to shoulder the costs of corporate fines and penalties?

Response: It is true that the Board eliminated through forfeitures, reductions, and clawbacks a large amount of senior-executive compensation that coincidentally approximates the amount paid in connection with our September 2016 settlement agreements. Wells Fargo is committed both to ensuring executive accountability and to improving compliance and risk management. We continue to enhance the design and risk management features of our Company's executive compensation program. The discretion it provides our Board enables it to hold executives accountable for risk outcomes by forfeiting and adjusting unpaid equity and annual incentive awards. Executive accountability will continue to be a focus of the Company's executive compensation program.

- Given that sensitive personal information has been compromised by Equifax, which makes identity theft easier, how will Wells Fargo ensure that more unauthorized accounts are not opened at Wells Fargo?

Response: We have put in place daily monitoring across products and channels for any change in risky activity related to account openings, account take over, surveillance, and more. This is part of our aggressive plan to reduce or eliminate the use of personally identifiable information. We are continuing to strengthen and accelerate our multi-layered identity and authentication program. Additional steps taken to prevent unauthorized accounts include:

1. **Sending automatic notifications to customers** after a personal or small business checking account, savings account, or credit card has been opened.
2. **Eliminating product sales goals** for retail bank team members who serve customers in our retail branches and in our retail banking contact centers, effective October 1, 2016.
3. **Introducing new compensation and performance management programs** for Community Bank branch team members, managers, and leaders in January 2017 that emphasize customer experience and risk management.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

4. **Eliminating a layer of management** in the Community Bank in order to bring senior management closer to our customers.
 5. **Strengthening oversight and risk controls.**
 6. **Launching transformational changes** to improve processes, coaching, and customer interaction.
 7. **Investing in coaching and skills training** to support team member and leaders across Community Banking.
 8. **Streamlining and simplifying our processes** to help customers and those who serve them.
 9. **Increasing significantly the amount of customer input** through increased surveys and mystery shops.
- **Was your personal information compromised by Equifax?**

Response: Yes. My personal information was compromised.

- **Why should your customers have to sign away their right to sue in order to do business with Wells Fargo?**

Response: We are disappointed whenever a customer relationship leads to a disagreement with the bank. This is not a focus of ours when any new or existing customer decides to do business at Wells Fargo. When a customer raises a concern, we first try to resolve the issue informally so that formal dispute resolution proceedings are unnecessary. That resolves the overwhelming majority of customer concerns. If the dispute cannot be resolved informally, arbitration is generally a faster and less expensive way to resolve the dispute than litigating in court. Arbitration clauses are commonly included in customer agreements at financial institutions and businesses in other industries, and offer benefits to both the business and the consumer. By resolving legal disputes through arbitration, both the consumer and the business have the ability to reach a positive resolution at a lower cost.

The Servicemember Civil Relief Act (SCRA) was enacted to enable servicemembers to “devote their entire energy to the defense needs of the nation,” and does so by easing financial burdens on servicemembers during periods of military service. For example, the SCRA includes provisions that prohibit the eviction of covered military members and their dependents from rental or mortgaged property, and the law caps interest at 6% on debts incurred prior to an individual entering active duty military service. As you know, Wells Fargo has violated the SCRA on more than one occasion.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- **In light of these repeated SCRA violations, what specific safeguards has Wells Fargo put in place to assure servicemembers and their families of its compliance with the law? If there are future SCRA violations, how will you take personal responsibility for these failures?**

Response: As I noted at the hearing, there is no customer group Wells Fargo cares more about than our servicemen and women. In response to these SCRA issues (over 90% of which arose more than five years ago), we created a Consumer Lending Group SCRA Center of Excellence that centralizes our SCRA work and expertise. The Center of Excellence is staffed with experts who are focused exclusively on providing the appropriate SCRA benefits and protections to our servicemen and women. We have made significant changes in our processes, including daily and quarterly searches of the Defense Department's Defense Manpower Data Center ("DMDC") database to identify our servicemen and women customers who are on active duty. In this regard, we perform more than 6 million daily checks for protections against repossessions and foreclosures, and more than 75 million quarterly portfolio checks for proactive enrollment for interest rate benefits. In 2017, we proactively provided 17,000 new servicemen and women the interest rate benefits without making them apply or provide us copies of their military orders (which would otherwise be required by the SCRA). As a result of our daily and quarterly checks of the Defense Department's DMDC database, we have made significant improvements in our compliance with the SCRA since 2012, and further improvement still over the past 12 months. Controllable SCRA violations at Wells Fargo have been reduced to an almost zero defect level.

We understand that we are responsible for ensuring compliance with the SCRA and with Wells Fargo's own policies, and we strive to provide outstanding performance. Although we have reduced SCRA violations to an almost zero defect level, if we find additional SCRA errors, we will take appropriate steps to fix them, and to make things right with our customers.

Wells Fargo is honored to serve our neighbors, family members, and team members who serve our country. In support of this commitment, Wells Fargo:

- Donated more than 300 homes, valued at over \$50 million, to veterans in all 50 states;
- Hired more than 6,700 veterans, and participated in more than 900 military job fairs since 2012;
- Employs 8,400 self-identified veteran team members;
- Supports more than 200 team members on military leave at any given time;
- Launched Hands on Banking® for Military, a financial education program that has been viewed by more than 362,000 since July 2013; and
- Donated more than \$25 million to military- and veteran-related nonprofits since 2012.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

**Questions for Mr. Timothy J. Sloan, Chief Executive Officer of Wells Fargo & Company,
 from Senator Mark Warner:**

- Mr. Sloan, you mentioned in your written testimony that there is an internal comprehensive investigation ongoing at Wells Fargo that could uncover further wrongdoing. Can you give us some more details as to the parameters of that internal investigation? Do you expect there to be more disclosures of malfeasance coming?

Response: We continue to review all business units for potential unauthorized accounts, product add-ons, misaligned sales goals, and improper incentive plans. Since last year, sales practices specifically and compliance generally have been a constant focus for the Company. We are engaging in comprehensive reviews of the following business units: Wealth and Investment Management, Wholesale Banking, Community Bank, Consumer Lending, and Payments, Virtual Systems, and Innovation ("PVSI"). All of our business units either have already been reviewed, or will soon be reviewed, for potential sales practices issues.

In late 2016, in connection with the Board of Directors' investigation, we provided the Board's legal advisors with a list of all incentive plans with sales indicators, plan documents, and information about incentive-related policies including our enterprise Incentive Compensation Risk Management ("ICRM") Program. This process culminated in the Independent Directors' report of its sales practices investigation, published in April 2017. The investigation was conducted by the Board's Oversight Committee, with the assistance of independent counsel. The Board's Human Resources Committee, moreover, has reviewed many incentive-related policies and arrangements covering senior management including the Wells Fargo Bonus Plan. In addition, third party consulting firms have recently reviewed the ICRM Program for instances of problematic sales practices in fulfilling incentive plans.

- A report prepared for your executives and obtained by the New York Times found more than 800,000 people who took out car loans from Wells Fargo were charged for auto insurance they did not need. The report examined insurance policies sold to your customers from January 2012 through July 2016. Wells Fargo required insurance on auto loans beginning as early as 2006 and ending in September 2016. The report also comes to the conclusion that almost 25,000 vehicles were wrongfully repossessed as a result of this fraud. Do you know whether any customers lost their jobs due to a vehicle being repossessed? Do you know whether any customers were unable to make it to a meeting with their probation officer due to a vehicle being repossessed? Do you know how whether any customers were unable to make a court date due to their vehicle being repossessed? How does Wells Fargo intend to make whole any of the foregoing customers? Is Wells Fargo looking into whether customers who took out auto loans from Wells Fargo before January 2012 were charged for auto insurance they didn't need?

Response: Although we have spoken with customers about issues they have experienced in connection with collateral protection insurance ("CPI"), we are not in a position to know all of

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

the specific consequences that our customers may have experienced due to the improper placement of CPI. We have, however, designed a remediation program that provides customers whose vehicles were repossessed the opportunity to identify the types of harm they have experienced and seek compensation. If any of our customers lost jobs, failed to meet with probation officers, or missed court dates due to a vehicle being repossessed as a result of improper CPI placement, we want to hear about it so we can provide relief.

Potentially harmed customers will receive appropriate compensation, including refunds and additional remediation where appropriate. The first phase of this remediation program is already underway, and we began sending checks to customers at the end of August 2017. Customers who had CPI improperly applied that contributed to a default and car repossession will receive additional payments as compensation for the loss of their vehicles. This amount will be tailored to each customer's situation, will include payment above and beyond the actual financial harm, and will offer the customers an opportunity to submit claims for additional harm.

We have decided to expand our review before January 2012 and are currently formulating our remediation plan for the earlier timeframe. In the meantime, Wells Fargo continues to provide remediation for affected customers within the 2012–2016 timeframe.

- **On April 10th, Wells Fargo announced they had rehired about 1,000 employees who had left or were fired for not reaching untenable sales goals. On July 21, the Department of Labor ordered Wells Fargo to pay \$577,500 in back pay, damages, and legal fees to a whistleblower who was fired after she reported unauthorized accounts. It seems to me that employees who were forced out of the company should also be compensated.**
 - **Will the employees receive compensation for being unjustly forced to leave the company or fired? Will they receive back pay?**

Response: Since September 30, 2016, we have rehired more than 1,780 team members through our regular recruiting process who left the Community Bank voluntarily or involuntarily between January 1, 2011 and August 28, 2017. These team members left Wells Fargo for a variety of reasons which may include sales pressure and culture, and we are pleased that so many have returned. All of the team members who returned received competitive pay and benefits.

- **There are also reports that Wells Fargo is fighting a government order to immediately reinstate a former employee who was fired for her whistleblowing activity. Are these reports true?**

Response: We do not tolerate retaliation, and we are committed to making sure that our team members feel comfortable raising their hand when something isn't right. Ms. Ponce de Leon was terminated based largely on concerns regarding her treatment of team members who worked for her. Wells Fargo has appealed the preliminary findings and continues to follow the administrative process.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- Are there ongoing government investigations into Wells Fargo's labor practices?

Response: As a large employer with approximately 270,000 employees, Wells Fargo is regularly the subject of government investigations, inquiries, requests for information, and requests for position statements. We have frequent communication with various federal government agencies, including the Department of Labor, the Equal Employment Opportunity Commission, and a wide range of state and municipal labor and employment agencies. Wells Fargo is fully responding to all of these matters.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

Questions for Mr. Timothy J. Sloan, Chief Executive Officer of Wells Fargo & Company,
 from Senator Elizabeth Warren:

At the hearing, you refused to state that no employees would be fired as part of your planned \$4 billion cut in expenses by the end of 2019. When I estimated that more than 20,000 employees could be fired because of that planned cut in expenses, you disputed that figure. However, at no point did you provide your own estimate of potential job losses.

- If you are telling investors that you plan on cutting \$4 billion in expenses by the end of 2019, you surely have at least a rough plan for how to achieve those cuts. If so, can you please tell me how many employees you are planning to fire by the end of 2019? Please also provide a breakdown of the type of employees that will be fired and their average annual income.

Response: Wells Fargo has shared with employees and investors our plans to become more efficient and effective through transforming operations across the Company. We believe simplified team structures and more standard processes will not only enhance our ability to focus on the Company's priorities, but will drive savings of \$2 billion by the end of 2018 to be invested in innovation for our customers, cyber security enhancements, regulatory compliance requirements, and other efforts to strengthen Wells Fargo; and another \$2 billion by the end of 2019 to improve our overall efficiency.

The first phase of the transformation was driven by the need to optimize many of our functional groups (non-customer facing) as a result of redundancy created through a decentralized model where each business maintained its own functional support, creating unintended complexity. By bringing similar work together at the enterprise level, we are able to create a simpler model, strengthen risk controls, prioritize resources for customers, and enhance services. For example, customer service departments addressing consumer fraud complaints from across the Company were combined into one "Center of Excellence," providing customers a single point of contact across their Wells Fargo accounts, creating a more consistent experience, and reducing risk through increased standardized processes. More than 113,000 team members have been realigned as part of our work to enhance our model across staff and business units. With team members realigned, business units can now understand the full scope of work performed and begin to plan ways to be more efficient going forward. This work is underway.

In addition to centralizing similar work groups, we will drive greater efficiency and effectiveness by improving processes and spending wisely, including:

- Decreasing non-customer facing travel and internal meetings by using alternatives such as video conference
- Continually assessing our real estate footprint to ensure optimal use of space and support of remote work options
- Improving processes, including using digital technology to automate manual processes
- Using external vendors for non-differentiated work performed in-house today
- Streamlining our product offerings to best meet customer needs

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- Applying industry best practices to our call centers via technology and call routing, and other strategic opportunities.

The drive for greater efficiency and effectiveness is not about displacing team members, but unfortunately there will be an impact on our workforce as we reduce duplicative operations. Many of these reductions will come through attrition. In instances where jobs may be impacted, we will continue to assist our team members in their search to find new employment opportunities at Wells Fargo or outside the Company. We currently have 15,000 open positions and we work to fill them with current talent as appropriate and applicable.

While we are making progress in our efforts to transform many areas of the Company, these are long-term efforts and the changes will occur over time. We are still determining the full scope of the work and outcomes across many of the efforts. Reductions will come from groups across the Company, in a wide range of pay levels, and not in certain areas only.

- **As part of these planned expense cuts, Wells Fargo plans to close down more than 450 branches in by the end of 2018 – with the potential for many more closings in 2019.5**

- **On average, how many employees work at a single branch?**

Response: On average, 12 team members work at a branch. However, the closure of a branch does *not* mean each team member in the branch will lose his or her job. We always try to transfer team members to other Wells Fargo positions for which they are qualified. In the approximately 145 consolidations as of September 2017, the overwhelming majority of the team members affected have found another job with Wells Fargo. We continue to evaluate our branch network and base our physical distribution strategy on customer behavior, market factors, economic trends, and competitor actions. While branches continue to be important in serving our customers' needs, our investment in digital capabilities has enabled us to seamlessly serve our customers across channels and provide even greater convenience and choice in how they bank with us. The right number of branches is determined by our customers.

- **Is it your claim that you can close 450 branches or more by the end of 2019 and not fire any employees?**

Response: That is not our claim. Please see the answer for the context in which these statements were made.

You have told investors on multiple occasions of your plan to cut \$4 billion in expenses by the end of 2019. Have you told your employees of this plan at a company-wide meeting or through any other method? If so, please provide a copy of your written or oral remarks. If not, why do you think it is appropriate to share this information with investors but not your employees, many of whom could be affected by it?

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

Response: Team members are our initial audience and we are committed to keeping them informed of all efforts being made to become a more efficient and effective company.

The goal to become a more efficient and effective organization was first introduced to team members in mid-2015 via conference calls by leaders across the Company. We continued to share our progress toward this goal throughout 2016 and several communication channels were developed with the sole purpose of being a resource for all team members regarding this work, including a dedicated intranet portal, regular town halls with team members, a video-on-demand channel discussing the transformation across areas, and a regular e-newsletter for managers providing detailed updates and examples of progress.

In early 2017, the initial \$2 billion expense reduction goal was introduced during the fourth quarter earnings report, and details were also shared with team members. *See Example 1 below.*

Prior to our presentation to investors in May 2017, we informed approximately three thousand managers of our plans to announce an additional \$2 billion annual expense savings goal by the end of 2019, in addition to the \$2 billion annual expense savings goal by the end of 2018 that we had communicated earlier this year to fund many key reinvestments in our business. We also shared the full communication plan with this audience so that they would be ready to communicate with team members about the news:

CFO John Shrewsberry – “Today, at our Investor Day in San Francisco, we are sharing significant steps to drive effectiveness, innovation, and risk management that will result in a stronger and more efficient Wells Fargo. We’re announcing a \$2 billion annual cost savings goal by the end of 2019. This is in addition to the \$2 billion annual expense savings goal by the end of 2018 that we communicated earlier this year to fund many key reinvestments in our business. We believe that the additional incremental savings target is achievable based on our early successes with optimizing enterprise functional areas.” See Example 2 below.

Following Investor Day, we continued to share information with team members in the following ways:

- May 11, 2017 – We delivered information via email and the Company intranet to all Wells Fargo team members. It recapped Investor Day, reminded them of our previous \$2 billion expense-reduction goal, announced our additional \$2 billion cost save goal, and acknowledged the hard work ahead:

CEO Tim Sloan – “...we recognize that focusing on effectiveness is hard work, but it is important for the long-term success of our company. The most difficult part is potential team member impact. You can be assured that we will take a very careful, thoughtful approach and, as always, treat impacted team members with respect.” See Example 3 below.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- May 12, 2017 – Information was delivered via email to 40,000 Wells Fargo managers. It highlighted their role to help team members understand the goals ahead and they were provided with support resources. *See Example 4 below.*

The same information was shared in the following regular communication channels the following week:

- May 16, 2017 – A leader e-newsletter that provides updates on the efforts to become a more efficient and effective company
- May 16, 2017 – A CEO Town Hall Meeting in Pasadena, California with more than 1,000 team members in person, plus tens of thousands more joining by television
- May 17, 2017 – A recap of the CEO Town Hall meeting is shared with all Wells Fargo team members through the Company intranet

Full Text Examples

Example 1 (Message from John Shrewsberry, Chief Financial Officer, “Our ongoing focus on expense management,” April 3, 2017)

Shrewsberry: Our ongoing focus on expense management

One of the traits of a great company is the ability to operate in the most efficient way possible, and Wells Fargo is no exception. As a company, we understand our obligation to our customers, shareholders, and each other, but it is clear that the demands of regulatory requirements, cybersecurity, innovation, and ongoing company priorities make it imperative that we think differently about efficiency, effectiveness, and expense management.

During our fourth quarter earnings in January, I talked about our \$2 billion expense reduction goal as well as a number of cost-saving initiatives that are under way to support this effort. Some of these initiatives are under the umbrella of the Efficiency & Effectiveness (E&E) program, while others are focused on two additional areas: Discretionary Spending and Business Rationalization.

The E&E program: Centralization and Optimization — Wells Fargo is committed to building a stronger, more competitive Wells Fargo by making the company more effective, efficient, and focused on the customer.

We have made changes in how we are organized by realigning many of our staff areas, including Human Resources, marketing, finance, and technology. This reduces complexity and redundancy.

Discretionary Spending — Parameters and guidelines will enable us to eliminate redundancies and work smarter.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

We have targeted reduced spending in areas like corporate properties, travel and meals, and third-party spending (vendors).

Business Rationalization — It is important that we divest what's not serving our company well and realign core businesses around customer needs.

We have divested several noncore businesses, such as crop insurance and health benefits services, and created new organizations (e.g. Payments, Virtual Solutions and Innovation [PVSII]).

While adjusting to change can be challenging, the important strides we are making in areas like Workplace, Enterprise Technology Prioritization, and third-party spending (vendors) will make it worthwhile in the long run. The savings generated from expense management efforts are not currently intended to show up in our bottom line. Rather, they will be reinvested in ways that align completely with Wells Fargo's long-term goals, making us a stronger and better company. Currently these funds are being reinvested in the following areas:

- **Customer service and advice** — Improving and simplifying our interactions with customers will provide them with new, more holistic solutions that best meet their needs.
- **Innovation** — Reinvesting in critical areas like cybersecurity will help protect customers and decrease risk.
- **Risk management** — Strengthening our company's risk framework and operational controls will enhance the customer experience.
- **Shareholder value** — Making better investments for the future will drive shareholder value.

Over the next few months, you will hear more about the efforts being made to reach our savings goals, including tips on how to reduce travel and entertainment spending.

I truly believe that there is so much opportunity to be realized and everyone plays a part in achieving our goals. I hope you will find ways for your team or department to be more efficient and talk to your manager about them.

It's simple. The more we save, the more we can seize immediate opportunities — **Building Better Every Day.**

Thank you for your continued focus.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

Example 2 (Message from John Shrewsberry, Chief Financial Officer, "Our continued focus on effectiveness, efficiency," May 11, 2017)

<p>Wells Fargo Corporate Communications CFO John Shrewsberry: Our continued focus on effectiveness, efficiency</p> <p>Today, at our Investor Day in San Francisco, we are sharing significant steps to drive effectiveness, innovation, and risk management that will result in a stronger and more efficient Wells Fargo.</p> <p>We're announcing a \$2 billion annual cost savings goal by the end of 2019. This is in addition to the \$2 billion annual expense savings goal by the end of 2018 that we communicated earlier this year to fund many key reinvestments in our business.</p> <p>We believe that the additional incremental savings target is achievable based on our early successes with optimizing enterprise functional areas.</p> <p>We see savings coming from various areas of opportunity, including:</p> <ul style="list-style-type: none"> • Consolidating similar operational activities for better economies of scale • Improving processes, including applying digital technology to automate manual processes • Outsourcing of certain non-differentiated capabilities • Rationalizing product sets • Applying industry best practices to our call centers via technology and call routing • Consolidating duplicative processes across lines of business • Continued reduction in facilities driven by the continued move from physical to digital <p>As we approach these goals to become more efficient and make better use of our resources, the Operating Committee is expecting leaders across the company to:</p> <ul style="list-style-type: none"> • Take ownership of this opportunity, acting with speed and agility • Make tough decisions, including questioning old ways of getting things done as we innovate • Embrace new ideas to generate savings and demonstrate a willingness to execute <p>I am confident we can reach our goals and am pleased with the milestones we've achieved so far. Those include:</p> <ul style="list-style-type: none"> • Making changes in how we are organized by realigning many of our staff areas including HR, marketing, finance, and technology. This reduces complexity and redundancy. • Identifying additional effectiveness and efficiency in areas like corporate properties, travel and meals, and third-party spending • Divesting several non-core businesses, such as crop insurance and health benefits services. <p>Later today, there will be a <i>CEO Team News</i> that will highlight key themes from Investor Day. All of the Investor Day presentations are posted on the Investor Relations page of wellsfargo.com. You can find more information about Investor Day on Teamworks.</p>
--

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

On Friday, we will send a communication to all managers to help leaders address questions about our savings goals. You may access the slides we are sharing on this topic in the Financial Overview presentation, specifically pages 26 and 27.

Thank you for your support of these efforts. Your insight, leadership and focus are critical as we work to build a better bank. We will share more information as the work progresses.

Example 3 (Message from Tim Sloan, Chief Executive Officer, "Our Investor Day message: We are building better and working hard to become more effective," May 11, 2017)

<p>Wells Fargo Corporate Communications Team News Special From the CEO [to all team members]</p>
<p><i>A message from CEO and President Tim Sloan</i> Our Investor Day message: We are building better <i>and</i> working hard to become more effective</p>
<p>Today in San Francisco, Wells Fargo hosted an important Investor Day with stock analysts and institutional investors — a key group of stakeholders in our work to rebuild trust.</p> <p>The day included detailed presentations by members of the Operating Committee on our progress so far, an update on our long- and short-term plans to continue building better, and a question-and-answer session with attendees.</p> <p>The main themes from the day are ones we have talked about often:</p> <ul style="list-style-type: none"> • We are making progress in our work to rebuild trust. We've taken many actions to make things right, including ensuring we always put our customers' needs first, strengthening our ethics and risk management, and demanding greater accountability. See Building a better bank: Our progress on Wells Fargo Stories. • We are emerging as a stronger company. Our Vision & Values, our diversified business model, and our focus on the long term have not changed. Yet our approach to our work, and the way we implement it, continues to evolve. We are making changes — some driven by what we have been through and some reflecting changes in the industry and customer preferences. See the Building better every day page on Teamworks. • Our focus on customers is strengthening as we pursue an experience built on service, simplicity, and convenience. Shifting consumer preferences are compelling us to rethink how we best serve customers, how we make investments, and how we evaluate our operations. • We are continuing our leadership in innovation to improve the customer experience and make us more efficient. Our Payments, Virtual Solutions and Innovation team has launched many features and is hard at work creating new kinds of value for customers and businesses.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- **We have set new goals** to guide our actions and every decision we make. Going forward, we want to be *the* best in these six areas: customer service and advice, team member engagement, innovation, risk management, corporate citizenship, and shareholder value. See the Company goals page on Teamworks.
- **Our financial results demonstrate the benefit of our diversified business model and our ability to generate consistent performance over time**, including 18 consecutive quarters of earnings greater than \$5 billion, growing loans and deposits from a year ago, returning capital to shareholders, and generating industry-leading returns.
- **And we have a heightened focus on driving effectiveness, innovation, and risk management**, which will result in a stronger, more efficient Wells Fargo. This includes targeting an additional \$2 billion expense reduction by the end of 2019. I should note that this \$2 billion target in cost savings by the end of 2019 is in addition to the \$2 billion expense-reduction goal by the end of 2018 that we announced in January, which we expect will be reinvested in our future in ways that will strengthen Wells Fargo and our ability to innovate and compete. The result of both of these efforts will be a Wells Fargo that is more streamlined and productive.

To this last point, we recognize that focusing on effectiveness is hard work, but it is important for the long-term success of our company. The most difficult part is potential team member impact. You can be assured that we will take a very careful, thoughtful approach and, as always, treat impacted team members with respect.

We have already made strong progress to reduce complexity, take advantage of innovations, and strengthen our company for the future. For example, we have realigned staff areas — like human resources, marketing, finance, and technology — to reduce complexity and redundancy. We have reduced spending in areas like corporate properties and travel. And we have divested several non-core businesses, such as crop insurance and health benefits services.

Now, after seeing the positive results of these efforts, we can aggressively target continuous improvement. For example, I believe we can realize additional savings from:

- Consolidating similar operational activities companywide, to provide better economies of scale.
- Using digital technology to automate manual processes. This reduces cost *and* improves the customer experience.
- Consolidating the sheer number of products we offer and streamlining the ways we present and service them. Standardizing account openings, for example, will give customers a better experience and lower our costs.
- Applying industry best practices to our call centers by using call routing and other technologies.
- Streamlining duplicative processes across all lines of business.

Attendees at Investor Day were especially interested in these plans because they will contribute to the long-term value of Wells Fargo.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

As we look ahead, it's clear we still have work to do. But because of your dedication and focus, I am fully confident in our path forward. I am proud that, together, we are all committed to the hard work necessary to build a better Wells Fargo. Thank you.

Example 4 (Message from Tim Sloan, Chief Executive Officer, "Our renewed focus on efficiency and effectiveness — resources for managers," May 12, 2017)

<p>Wells Fargo Corporate Communications Team News <i>For Managers</i></p>
<p>Our renewed focus on efficiency and effectiveness — resources for managers</p> <p>Yesterday, Wells Fargo hosted an Investor Day meeting in San Francisco where senior leaders shared significant steps we will take to drive effectiveness, innovation, and risk management, resulting in a stronger and more efficient Wells Fargo. These efforts include a \$2 billion annual cost savings goal by the end of 2019. This target is in addition to the \$2 billion annual expense savings goal by the end of 2018 that was communicated earlier this year to fund many key reinvestments in our business.</p> <p>We believe the incremental savings target is achievable based on earlier successes with optimizing enterprise functional areas.</p> <p>We expect to realize savings from:</p> <ul style="list-style-type: none"> • Consolidating similar operational activities for better economies of scale • Improving processes, including applying digital technology to automate manual processes • Outsourcing of certain non-differentiated capabilities • Rationalizing product sets • Applying industry best practices to our call centers via technology and call routing • Consolidating duplicative processes across lines of business • Continued reduction in facilities, driven by the continued move from physical to digital <p>As managers, we need you to help us achieve these goals by:</p> <ul style="list-style-type: none"> • Taking ownership of this opportunity, acting with speed and agility • Making tough decisions, including questioning old ways of getting things done as we innovate • Embracing new ideas to generate savings and demonstrate a willingness to execute <p>As a company, we have achieved important milestones to date, including:</p> <ul style="list-style-type: none"> • Making changes in how we are organized by realigning many of our staff areas, including human resources, marketing, finance, and technology. This reduces complexity and redundancy. • Identifying additional effectiveness and efficiency in areas like corporate properties, travel and meals, and third-party spending.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- Divesting several noncore businesses, such as crop insurance and health benefits services.

We recognize that focusing on effectiveness is hard work, but it is important for the long-term success of our company. The most difficult part is potential team member impact. You can be assured that we will take a very careful, thoughtful approach and, as always, treat impacted team members with respect.

Managers play an important role in helping team members understand this broader environment and the goals ahead, and how achieving them will result in a stronger Wells Fargo. You should hold open discussions with your teams to provide clarity and understanding while listening to any concerns.

To continue to support you as a manager, a Q&A (PDF) document is available to help address team member questions. Further, up-to-date information on our efforts on efficiency and effectiveness can be found at the Efficiency and Effectiveness 2020 Resource Center. Additionally, all of the Investor Day presentations are posted on the Investor Relations page of wells Fargo.com. You can find more information about Investor Day on *Teamworks*.

Thank you for your support of these efforts. Your insight, leadership, and focus are critical as we work to build a better bank. We will share more information as the work progresses.

At the hearing, I asked whether you launched an investigation into inappropriate sales goals and/or Wells Fargo employees opening fake accounts before telling the Los Angeles Times that you were “not aware of any overbearing sales culture.” You claimed that the Los Angeles Times had not shared the specific findings of their article before interviewing you.

- Please describe what the Los Angeles Times told you about their investigation and reporting on the sales culture and fake accounts at Wells Fargo before interviewing you for the piece. Please provide any emails, notes, or other written communications between the Los Angeles Times and you and/or your staff that relate to the December 2013 article.

Response: The LA Times reporter interviewed me, as CFO, as part of our 3rd quarter earnings press interviews. The interview’s focus was on Wells Fargo’s 3rd quarter earnings, not sales practices. The reporter asked me one question I recall about sales pressure, and I answered to the best of my knowledge at the time.

At the hearing, I asked you about comments you made in an interview with the American Banker in July 2016. You claimed that I took your comments out of context. For your reference, here is the entire exchange I referenced:

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

Question: “On the topic of cross-selling – Wells has come under scrutiny for its strong sales culture. Is there any sense that the bank has pushed that strategy to the limit?”

Answer: “No. Because when you think of our vision, it’s to satisfy our customers’ financial needs, and to help them succeed financially. We know a lot about our customers, and so doesn’t it make sense that we would use data and match it with our product set to try to broaden our relationship with our customer?

How we do it, how we talk about, making sure that we do it correctly, and appropriately – and making sure we follow regulations – that will continue to evolve. But the fundamental strategy that we have is not going to change.”⁵

When you said that there was not “any sense that the bank ha[d] pushed that strategy to the limit,” you knew the following, according to the findings in the Report of the Independent Directors of Wells Fargo:

- The specific “number of employees terminated for sales practice violations . . . the percentage of employees terminated for sales practice violations, whether and how Wells Fargo made sure it remedied customer harm, and the number of inappropriate accounts opened...”⁶
- That problems with sales practices were widespread and extended beyond the Los Angeles region cited in the 2013 *Los Angeles Times* story.⁷
- That these problems were so severe and intractable that you had decided to remove Carrie Tolsted as head of the Community Bank.⁸
- Are any of these findings in the Report untrue?

Response: No. As I stated at the hearing, my colleagues and I in management support the work and findings of the Independent Directors’ report. I don’t think the Report’s findings are untrue. My comment referenced above came in the context of a discussion of how we would use data.

⁵ <https://www.americanbanker.com/news/picking-the-brain-of-wells-fargos-likely-next-ceo>.

⁶ <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf> (p. 104).

⁷ *Id.*

⁸ *Id.* at 59.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- **Why did you believe that needing to fire thousands of employees for opening fake accounts and other sales violations was not a sign that Wells Fargo had pushed cross-selling and sales goals too far?**

Response: The fact that we terminated employees for such practices is evidence that we were taking actions to correct the inappropriate behavior. As we have said, we acted too slowly and did not do enough to address the issue.

- **Why was a widespread epidemic of unauthorized accounts – which was so egregious that you decided to remove Tolsted – not evidence that Wells Fargo had pushed cross-selling and sales goals too far?**

Response: We were taking actions to address the unacceptable sales practices, such as eliminating sales goals and training team members, but as we have said, we acted too slowly and did not do enough.

At the hearing, you testified that as Chief Financial Officer from 2011 to 2014, you had not aggressively promoted Wells Fargo's ability to get existing customers to open new accounts (i.e., "cross-selling"). In Attachment A, I have provided a selection of statements you made on each of the 13 investor calls you participated in as CFO. There are roughly 50 instances in which you directly or indirectly promoted Wells Fargo's success at cross-selling.

- **Do you stand by your testimony that you did not aggressively promote Wells Fargo's success at cross-selling as CFO of the company?**

Response: Yes. The quotations excerpted in Attachment A omit important language that helps put each quotation and answer in their proper context.

Please provide the following information relating to your compensation as Chief Financial Officer of Wells Fargo during the height of the fake accounts scam:

- **How many shares of Wells Fargo stock did you own as of the date you became CFO? What was the share price of Wells Fargo as of the date you became CFO?**

Response: I became CFO on February 8, 2011. The closing price of a share of Wells Fargo & Company ("WFC") common stock on that date was \$34.10. On February 8, 2011, I owned the following shares of WFC common stock directly and through the Company's 401(k) Plan.

NUMBER OF SHARES HELD AS OF 2/8/2011:	FORM OF OWNERSHIP
29,119,0000	Direct
31,560,8499	401(k) Plan

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- Did you acquire or otherwise receive any additional shares of Wells Fargo during your time as CFO? If so, please list the dates on which you obtained those shares, the method of obtaining those shares (e.g., purchase vs. stock award), and the share price on the day on which you obtained those shares.

Response: The following chart reflects the shares that I acquired in open market transactions and through the vesting of equity compensation awards granted to me by the Company (including the shares withheld from those awards by the Company for taxes and the net number of shares that I actually received) between February 8, 2011 and May 15, 2014:

ACQUISITION DATE	TYPE OF ACQUISITION	GROSS NUMBER OF SHARES ACQUIRED	NUMBER OF SHARES WITHHELD FOR TAXES	NET NUMBER OF SHARES ACQUIRED	NYSE CLOSING PRICE ON ACQUISITION DATE (\$)
3/15/2014	Restricted Share Right vesting	53,871.2147	28,110.2147	25,761	47.40
3/15/2014	Restricted Share Right vesting	8,231.0959	4,295.0959	3,936	47.40
3/15/2014	Restricted Share Right vesting	1,501.9165	783.9165	718	47.40
3/15/2014	Restricted Share Right vesting	1,878.6558	980.6558	898	47.40
3/15/2014	2011 Performance Share vesting	284,251.2197	148,323.2197	135,928	47.40
1/17/2014	Stock Option Exercise (exercise price of \$13.05)	246,011.0000	89,096.0000	87,710	46.39
12/13/2013	Stock Option Exercise (exercise price of \$13.05)	245,000.0000	89,690.0000	82,197	43.73
11/26/2013	Stock Option Exercise (exercise price of \$29.905)	193,820.0000	32,878.0000	30,133	44.31
8/1/2013	Stock Option Exercise (exercise price of \$29.905)	45,000.0000	7,615.0000	6,981	44.26
8/1/2013	Stock Option Exercise (exercise price of \$28.43)	55,100.0000	10,283.0000	9,425	44.26
5/9/2013	Stock Option Exercise (exercise price of \$28.43)	165,000.0000	21,495.0000	19,701	37.89

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

3/15/2013	Restricted Share Right vesting	8,004.7728	4,177.7728	3,827	38.20
3/15/2013	Restricted Share Right vesting	43,658.1272	22,781.1272	20,877	38.20
3/15/2013	Restricted Share Right vesting	12,720.2057	6,638.2057	6,082	38.20
3/15/2013	Restricted Share Right vesting	1,460.6195	762.6195	698	38.20
2/8/2013	Stock Option Exercise (exercise price of \$33.81)	55,411.0000	637.0000	1,063	34.88
12/21/2012	Stock Option Exercise (exercise price of \$13.05)	86,000.0000	24,950.0000	28,501	34.48
7/20/2012	Stock Option Exercise (exercise price of \$22.62)	70,599.0000	10,907.0000	12,459	33.81
3/15/2012	Restricted Share Right vesting	12,340.3335	5,761.3335	6,579	34.07
3/15/2012	Restricted Share Right vesting	7,765.7205	3,625.7205	4,140	34.07
4/21/2011	Purchase (purchase price of \$28.54 / share)	10,000.0000			28.54
3/15/2011	Restricted Share Right vesting	12,097.6486	5,647.6486	6,450	32.27
2/15/2011	Stock Option Exercise (exercise price of \$13.05)	62,989.0000	15,059.0000	23,524	33.68

Information regarding shares that I owned and used to pay the exercise price for stock options listed above is included in response to the question below.

- **Did you sell or otherwise dispose of any shares of Wells Fargo during your time as CFO? If so, please list the dates on which you sold or otherwise disposed of those shares, the method of disposing those shares, and the share price on the day on which you disposed of those shares.**

Response: The following chart reflects the shares that I sold in open market transactions, disposed of through a sale under the Company's 401(k) Plan, and disposed of to the Company in connection with my exercise of stock options between February 8, 2011 and May 15, 2014:

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

DISPOSITION DATE	TYPE OF DISPOSITION	NUMBER OF SHARES DISPOSED	DISPOSITION PRICE (\$)
4/28/2014	Sale	80,000	48.65
1/24/2014	Sale	75,000	45.84
1/17/2014	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	69,205	46.39
12/13/2013	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	73,113	43.73
11/26/2013	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	130,809	44.31
8/1/2013	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	30,404	44.26
8/1/2013	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	35,392	44.26
5/9/2013	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	123,804	37.89
4/25/2013	Disposition through sale of shares held under 401(k) Plan	36,386.28	37.64
2/8/2013	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	53,711	34.88

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

12/21/2012	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	32,549	34.48
7/20/2012	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	47,233	33.81
2/15/2011	Shares owned that were tendered to the Company in order to pay the exercise price of a stock option	24,406	33.68

- How many shares of Wells Fargo stock did you own as of the date you left the CFO position for another position within the company? What was the share price of Wells Fargo as of that date?

Response: I left the CFO position and became Head of Wholesale Banking on May 15, 2014. The closing price of a share of WFC common stock on that date was \$49.03. On May 15, 2014, I owned the following shares of WFC common stock directly and through the Company's 401(k) Plan.

NUMBER OF SHARES HELD AS OF 5/15/2014:	FORM OF OWNERSHIP
402,114.0000	Direct
416.1006	401(k) Plan

- Please list your total annual compensation for each year you served as CFO. Please break down that annual compensation between base salary, incentive compensation, and other compensation.

Response: I served as the Company's CFO from February 8, 2011 until May 15, 2014. My compensation while CFO was disclosed and discussed in the Company's 2012-2015 proxy statements. The disclosures, including the form and amount of compensation, were governed by SEC rules.

Below is my compensation for the years 2011-2014, as reported in the Summary Compensation Tables included in the Company's proxy statements. Because I became CFO in February 2011 and ceased serving as CFO in May 2014, reported compensation for 2011 and 2014 includes compensation paid to me other than in my role as CFO. For example, my stock awards for 2014

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

included restricted share rights (“RSRs”) granted to me in July 2014 after I became head of Wholesale Banking and ceased serving as CFO.

Name	Year	Salary (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Timothy J. Sloan	2014	1,829,885	7,000,053*	—	1,600,000	—	18,200	10,448,138
	2013	1,700,000	5,500,003	—	1,615,000	—	20,400	8,835,403
	2012	1,661,686	5,500,008	121,350	1,600,000	111,111	20,000	9,014,155
	2011	1,331,402	5,500,004	—	1,400,000	87,786	19,600	8,338,792

- o For any incentive compensation you received as CFO, please describe, in full, the factors that were cited as justification for that level of incentive compensation.

Response: As noted above, the related discussion of my compensation while serving as CFO was included in the Company’s 2012-2015 proxy statements. Below are excerpts from those proxy statements that discuss my compensation as CFO. The proxy statements may contain additional relevant or explanatory information.

Excerpted from 2012 Proxy Statement (regarding 2011 compensation)

Annual Base Salary: Mr. Sloan’s annual base salary was increased from \$623,289 to \$1,500,000, effective March 13, 2011. Mr. Sloan’s annual base salary was increased based on his additional responsibilities as CFO, chief financial officer’s salary data for the Labor Market Peer Group, and to be consistent with the compensation structure for the Company’s other executive officers.

Annual Incentive Compensation: In making the 2011 annual incentive compensation award determination for Mr. Sloan, the HRC considered, among other things, the following:

- the Company’s record 2011 net income of \$15.9 billion, EPS of \$2.82, and RORCE of 12.41%;
- the Company’s relative performance versus the Financial Performance Peer Group in the financial metrics discussed above under “—Compensation Program Governance—Peer Group Analysis—Financial Performance Peer Group;”
- the Company’s relative performance versus the Financial Performance Peer Group in
 - 1-, 3-, and 5-year return on average common equity,
 - 1-, 3-, and 5-year RORCE,
 - 1-, 3-, and 5-year total shareholder return;
- the Company’s success in attaining strategic corporate objectives, including
 - completing the Wachovia merger integration,
 - improving the Company’s capital position while increasing common stock dividends and share repurchases,

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- significant progress against ongoing efficiency initiatives,
- improving market share in many businesses,
- managing the Company's stabilized and improving credit quality, and
- positioning the Company for future success following the financial crisis and regulatory reform;
- compensation of chief financial officers in the Labor Market Peer Group; and
- the recommendations of Mr. Stumpf based on his assessment of Mr. Sloan's 2011 performance.

The Board's confidence in Mr. Sloan was rewarded by his outstanding leadership following his promotion to the CFO position in February 2011. Mr. Sloan successfully transitioned to his new role and played an integral part in the Company's achievement of 2011 financial priorities, including planning and implementing the Company's expense management and efficiency initiative, capital planning and risk management. He is a primary spokesman for the Company with investors, the media and the investment community and his efforts have furthered the Company's reputation with those audiences. Upon consideration of Mr. Sloan's performance, including the factors set forth above, the HRC approved a 2011 annual incentive compensation award for Mr. Sloan of \$1,400,000.

Long-Term Incentive Compensation: In February 2011, the HRC awarded long-term incentive compensation to the named executives [including Mr. Sloan] in the form of Performance Share awards granted under the LTICP. In considering the amount of the Performance Share awards, the HRC reviewed total estimated fixed and variable compensation between the estimated median and 75th percentile for the Labor Market Peer Group, and the base salary and annual incentive compensation target for the named executives. The HRC determined a dollar value of the Performance Share awards to set total fixed and target variable compensation for the named executives between the estimated median and 75th percentile of the Labor Market Peer Group. Under this methodology, the HRC did not determine to award total compensation to any of the named executives outside the estimated median-to-75th percentile range.

Excerpted from 2013 Proxy Statement (regarding 2012 compensation)

Annual Base Salary: Effective March 11, 2012, Mr. Sloan's salary was increased to \$1,700,000 from \$1,500,000 to achieve better parity among the Company's senior level executives.

Annual Incentive Compensation: In making the 2012 annual incentive compensation award determination for Mr. Sloan, the HRC considered, among other things, the following:

- the Company's record 2012 net income of \$18.9 billion, record EPS of \$3.36, and RORCE of 13.4%;
- the Company's relative performance compared with the Financial Performance Peer Group in the financial metrics discussed above under "—Compensation Program Governance—Peer Group Analysis—Financial Performance Peer Group;"
- the Company's relative performance versus the Financial Performance Peer Group in
 - 1-, 3-, and 5-year return on average common equity,
 - 1-, 3-, and 5-year RORCE,

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- 1-, 3-, and 5-year total shareholder return;
- the Company's success in attaining strategic corporate objectives, including
 - growing revenue year over year,
 - improving the Company's capital position while increasing common stock dividends and share repurchases,
 - significant progress in achieving expense efficiency initiatives while pursuing revenue opportunities,
 - improving market share in many businesses,
 - managing the Company's stabilized and improving credit quality,
 - continued progress resolving mortgage-related and other legal matters,
 - substantial but not complete progress in achieving diversity and inclusion initiatives; and
 - positioning the Company for future success following the financial crisis and regulatory reform;
- compensation of chief financial officers in the Labor Market Peer Group; and
- the recommendations of Mr. Stumpf based on his assessment of Mr. Sloan's 2012 performance.

Since Mr. Sloan successfully transitioned to his new role as CFO during 2011, he has continued to play an integral part in the Company's achievement of 2012 financial priorities, including planning and implementing the Company's expense management and efficiency initiative, capital planning and risk management. He is a primary spokesman for the Company with investors, the media and the investment community and his efforts have furthered the Company's reputation with those audiences. Upon consideration of Mr. Sloan's performance, including the factors set forth above, the HRC approved a 2012 annual incentive compensation award for Mr. Sloan of \$1,600,000.

Long-Term Incentive Compensation: In February 2012, the HRC awarded long-term incentive compensation to the named executives [including Mr. Sloan] in the form of Performance Shares under the LTICP. In determining target values and realizable pay opportunities for the Performance Share awards, the HRC reviewed total compensation between the estimated median and 75th percentile for the Labor Market Peer Group. Total compensation, including long-term compensation, is intended to be competitive with total compensation for comparable positions and performance at peers. The HRC determined a dollar value of the Performance Share grants, taking into account individual experience and responsibilities, to provide an opportunity to realize variable compensation commensurate with performance.

Excerpted from 2014 Proxy Statement (regarding 2013 compensation)

Annual Base Salary: No salary change in 2013 [remained at \$1,700,000].

Annual Incentive Compensation: In making the 2013 annual incentive compensation award determination for Mr. Sloan, the HRC considered, among other things, the following:

- the Company's record 2013 net income of \$21.9 billion, record EPS of \$3.89, and RORCE of 14.2%;

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- the Company's relative performance compared with the Financial Performance Peer Group in the financial metrics discussed above under "—Compensation Program Governance—Peer Group Analysis—Financial Performance Peer Group;"
- the Company's relative performance versus the Financial Performance Peer Group in
 - 1-, 3-, and 5-year return on average common equity (ROE),
 - 1-, 3-, and 5-year RORCE,
 - 1-, 3-, and 5-year total shareholder return;
- the Company's success in attaining strategic corporate objectives, including
 - improving the Company's capital position while increasing common stock dividends and share repurchases,
 - significant progress in achieving expense efficiency initiatives while pursuing revenue opportunities,
 - creating exceptional Wells Fargo customer experiences,
 - improving market share in many businesses,
 - managing the Company's credit risk,
 - continuing to enhance our approaches to risk management and operational excellence,
 - continuing but unfinished work on diversity and inclusion initiatives, including service of more diverse markets, and
 - leading the Company as we address increasing regulatory reform and oversight;
- compensation of chief financial officers in the Labor Market Peer Group; and
- the recommendations of Mr. Stumpf based on his assessment of Mr. Sloan's 2013 performance.

Mr. Sloan has continued to play an integral part in the Company's achievement of 2013 financial priorities, including continued implementation of the Company's expense management and efficiency initiative, capital planning and effective risk management. He is a primary spokesman for the Company with investors, the media and the investment community and his efforts continue to further the Company's reputation with those audiences. Upon consideration of Mr. Sloan's performance, including the factors set forth above, the HRC approved a 2013 annual incentive compensation award for Mr. Sloan of \$1,615,000.

Long-Term Incentive Compensation: In March 2013, the HRC awarded long-term incentive compensation to the named executives [including Mr. Sloan] in the form of Performance Shares under the LTICP. In determining target values and realizable pay opportunities for the Performance Share awards, the HRC reviewed total compensation between the estimated median and 75th percentile for the Labor Market Peer Group. Total Wells Fargo & Company 2014 Proxy Statement compensation, including long-term compensation, is intended to be competitive with total compensation for comparable positions and performance at peers. The HRC determined a dollar value of the Performance Share grants, taking into account individual experience and responsibilities, to provide an opportunity to realize variable compensation commensurate with performance.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

Excerpted from 2015 Proxy Statement (regarding 2014 compensation)

Annual Base Salary: Increased the 2014 base salary for Mr. Sloan from \$1,700,000 to \$2,000,000, effective July 27, 2014, based on Mr. Sloan's additional responsibilities following his appointment as the Head of Wholesale Banking and Mr. Shrewsbury succeeding him as the Company's CFO on May 15, 2014.

Annual Incentive Compensation: In making the 2014 annual incentive compensation award determinations for Mr. Sloan, the HRC considered, among other things, the following:

- the Company's record 2014 net income of \$23.1 billion, record diluted EPS of \$4.10, and RORCE of 13.7%;
- the Company's relative performance compared with the Financial Performance Peer Group in the financial metrics discussed above under "—Compensation Program Governance—Peer Group Analysis—Financial Performance Peer Group;"
- the Company's relative performance versus the Financial Performance Peer Group in
 - 1-, 3-, and 5-year return on average common equity (ROE),
 - 1-, 3-, and 5-year RORCE,
 - 1-, 3-, and 5-year total shareholder return;
- the Company's success in attaining strategic corporate objectives, including
 - focusing on our customers by creating exceptional Wells Fargo customer experiences and providing products and services to help them succeed financially, as demonstrated by
 - broad-based loan growth of 5% in 2014, and
 - deposit growth of 8% in 2014,
 - maintaining a strong capital position while returning more capital to our stockholders through increased common stock dividends and additional share repurchases,
 - focusing on expense control and continuing to realize efficiency initiatives while pursuing revenue opportunities and investing in service delivery systems for our businesses and our risk management structure,
 - effectively maintaining our long-term risk discipline in connection with managing the Company's credit risk and experiencing credit losses near historic lows during 2014,
 - reinforcing our risk culture and promoting proactive risk management across the Company while continuing to enhance our approaches to risk management and operational excellence,
 - strong, demonstrated commitment to and year over year progress on diversity and inclusion initiatives focused on supplier diversity, service of more diverse markets, team member diversity, and advocacy which includes education, team member participation and mentoring, and
 - leading the Company as we continue to address increasing regulatory reform and oversight;
 - compensation of similarly situated executives in the Labor Market Peer Group;
 - the recommendations of Mr. Stumpf based on his assessment of his 2014 performance; and

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- [for his performance as Head of Wholesale Banking], his success in achieving strategic objectives in the business line for which he is responsible, including success in furthering the Company's objectives of cross-selling products from other business lines to customers, reinforcing a strong risk culture and continuing to strengthen risk management practices in our businesses, continued focus on expense control and realization of efficiency initiatives, progress on diversity and inclusion initiatives, and his ability to operate as a member of a team.

Under Mr. Sloan's leadership, following his transition from the role of CFO in May 2014, Wholesale Banking had net income of \$7.6 billion in 2014 on growth across many areas including asset backed finance, asset management, commercial real estate brokerage, corporate banking, equipment finance, international, principal investing and treasury management, which was achieved while continuing to adhere to the Company's risk management principles. Wholesale Banking also had broad-based and diversified loan growth and increased core deposits amidst increased compliance and regulatory requirements. Upon consideration of Mr. Sloan's performance, including the factors set forth above and support he provided in transition of his prior CFO responsibilities during 2014, the HRC approved a 2014 annual incentive compensation award for Mr. Sloan of \$1,600,000.

Long-Term Incentive Compensation:

- 2014 Performance Share Award. In determining target values and realizable pay opportunities for the Performance Share awards [including to Mr. Sloan], the HRC reviewed total compensation between the estimated median and 75th percentile for the Labor Market Peer Group. Total compensation, including long-term compensation, is intended to be competitive with total compensation for comparable positions and performance at peers. The HRC determined a dollar value of the Performance Share grants, taking into account individual experience and responsibilities, to provide an opportunity to realize variable compensation commensurate with performance.
- July 2014 RSR Awards. (Note: Award made following Mr. Sloan's appointment as the Head of Wholesale Banking and Mr. Shrewsbury succeeding him as the Company's CFO on May 15, 2014.)

Following senior executive organizational changes in 2014, and consistent with the Company's compensation principles to pay for performance, attract, retain and motivate top executive talent, and encourage the creation of long-term stockholder value, the HRC granted RSR awards in July 2014 as part of an overall, balanced mix of competitive pay for our named executives [including Mr. Sloan], and to provide an incentive for those executives to continue to provide valuable leadership and services to the Company.

In determining to grant these awards, the HRC evaluated the compensation of our Company's senior executives, their contributions to the Company's strong performance, and the importance to our Company of their continued strong and effective leadership. The HRC

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

also considered the additional responsibilities assumed by Mr. Sloan as a result of the recent organizational changes.

At the hearing, you testified that unauthorized accounts were opened in the retail bank before 2009, which means that Wells Fargo's announcement that it had found 3.5 million unauthorized accounts underestimates the number of customers impacted. In fact, the Report of the Independent Directors of Wells Fargo says that "[i]n 2002, the Community Bank took steps to address an increase in sales practice violations, including the creation of a sales integrity task force,"⁹ which means that serious sales integrity problems at Wells Fargo date back at least that far.

- **How far back do Wells Fargo's sales integrity problems go?**

Response: The Board report identified sales practices concerns dating back to 2002.

- **When was the problematic performance management system that you have said caused the fake accounts scam implemented in the Community Bank?**

Response: The connection between managing performance and meeting product sales goals evolved over many years. The Board report stated that after 2010 "Wells Fargo ... aligned performance management and recognition with sales goals, so that incentive compensation and performance rating were both associated with sales." In part to address the closer alignment of sales goals and performance management, beginning in 2012, the Community Bank started the process of lowering retail banking product sales goals and eliminated product sales goals for retail banking effective October 1, 2016.

- **The Report blames the epidemic of the opening unauthorized accounts on Carrie Tolstedt, who formerly led the Community Bank, and the performance management system that she championed. Ms. Tolstedt did not become head of the community bank until 2007. What was the cause of the problems in the Community Bank before she took the helm?**

Response: As noted above, the Board report identified sales practices concerns dating back to 2002. The report also concluded that sales integrity-related allegations and associated terminations and resignations increased relatively steadily from the second quarter of 2007 and peaked in the fourth quarter of 2013.

⁹ <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf>.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- **What is Wells Fargo doing to make things right for the customers who were scammed before 2009? Is the bank undertaking any more extensive retroactive study to try to identify these consumers?**

Response: We want to make things right for any customer, from any time frame, who has a problem or complaint, whether or not related to sales practices issues or potentially unauthorized accounts. We have conducted broad outreach to customers encouraging them to come to us with any concerns. Customers with older accounts have access to our enhanced complaints resolution process, free mediation services (with the vendor, not Wells Fargo, picking the mediator), and the \$142 million class action settlement (which stretches back to 2002). With these actions we are covering the full landscape to reach our customers who have concerns. Given the limitations older records present for data analysis, we believe that this is the best way to remediate these customers without delay.

- **At the hearing you mentioned that retrospective examination of accounts in the years prior to the 2009 merger with Wachovia is difficult. Why is that? Did Wachovia have a similar problem with the opening of unauthorized accounts?**

Response: We want to make things right for any customer, from any time frame, who has a problem or complaint. Through our work to date, we know that older records present limitations for data analysis. Our class-action settlement, however, provides compensation for claims dating back to 2002, and we have reached out to current and former customers asking them to contact us if they believe they had an unauthorized account.

We are unaware of a similar issue at Wachovia with the opening of unauthorized accounts. The Independent Directors' report states that Wells Fargo's sales-oriented culture was transferred to former Wachovia branches and retail bank operations following the merger with Wachovia.

During the hearing, you discussed some of the reforms you've made since you became CEO last year, including changing the compensation structure in the Community Bank and centralizing the risk management functions in the bank. The company has also announced several measures to remediate harm to consumers and employees, including establishing the Rebuilding Trust Office and an Office of Ethics, Oversight and Integrity.

- **Have you hired any personnel from outside the bank to work on these initiatives?**

Response: Yes. Among the personnel from outside the bank we have hired to work on our reform initiatives are:

- third parties to assess our culture and how we handle issues our team members escalate;
- outside culture experts to help us understand where we have cultural weaknesses that need to be strengthened or fixed;
- an outside academic who specializes in corporate culture who helped us conduct a confidential culture assessment involving all team members;
- an outside expert to assist with the creation of the new Performance Management and Rewards program for the Community Bank;

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- an outside expert to help identify possibilities for improvements to the EthicsLine to ensure team members have a trusted and confidential way to report ethics concerns; and
- several risk leaders, including our new Chief Compliance Officer and Head of Ethics Oversight, have been hired from outside firms.
- **Please provide a list of all the people who work on these initiatives and any other programs the bank has started to mitigate damage from the sham accounts scandal. If any of these people were promoted from within Wells Fargo, please also list their previous job title and responsibilities.**

Response: Many team members all across the Company are working on these initiatives as at least a part of their job responsibilities, so listing each person is not practical. We are continuing to build out the team which is comprised of both internal and external talent.

- **You appointed Justin Thornton, formerly an Executive Vice President and Head of Compensation and Benefits, to be the Head of the Rebuilding Trust Office.**
 - **What was Mr. Thornton's role in setting the compensation and benefits packages for Mr. Stumpf and Ms. Tolstedt?**

Response: As Head of Compensation and Benefits from 2011 to 2016, Mr. Thornton oversaw the executive compensation function, including the processes and administration to support the Human Resources Committee of the Board fulfill its responsibilities. Mr. Thornton did not set compensation for Mr. Stumpf or Ms. Tolstedt. The Human Resources Committee of the Board was responsible for setting and approving compensation for Ms. Tolstedt and the Board of Directors was responsible for setting and approving compensation for Mr. Stumpf. In 2013, Mr. Thornton recommended to management that performance-based vesting criteria be included in the long-term performance awards for top executives, including Mr. Stumpf and Ms. Tolstedt. The inclusion of the performance-based vesting criteria were approved by the Human Resources Committee, and those terms provided the tools for the Board of Directors to forfeit Mr. Stumpf's and Ms. Tolstedt's long-term performance awards. Mr. Thornton, along with the Director of Human Resources, was responsible for recommending the Company's benefits programs to the Human Resources Committee of the Board. Wells Fargo's benefit programs were provided on the same terms to all team members, including Mr. Stumpf and Ms. Tolstedt. There were no distinct executive benefit programs. The Company's benefit programs were approved annually by the Human Resources Committee of the Board.

- **What was Mr. Thornton's role in developing and approving the compensation packages for non-executives throughout the bank?**

Response: As Head of Compensation and Benefits from 2011 to 2016, Mr. Thornton was not responsible for developing or approving compensation programs for non-executives. As part of Wells Fargo's decentralized business model during this period, Human Resources functions, including compensation, reported into the Line of Business executives, who were responsible for the development and approval of their team members' compensation programs.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
 October 18, 2017

- Did Mr. Thornton oversee or approve the incentive compensation system in the Community Bank?

Response: As Head of Compensation and Benefits from 2011 to 2016, Mr. Thornton was not responsible for overseeing or approving the compensation system in the Community Bank. As part of Wells Fargo's decentralized business model during this period, the Human Resources function for the Community Bank, including compensation, reported into Ms. Tolstedt, who was responsible for the Community Bank's compensation system.

In response to a letter I sent to you on August 10, 2017, Executive Vice President David Moskowitz represented that "arbitration agreements are embedded in certain account agreements." During the hearing, you declined to commit to stop enforcing arbitration agreements against consumers despite evidence of widespread account abuses across many of Wells Fargo's business lines.

- In how many total arbitration cases was Wells Fargo involved in each of the last five years?

See response below.

- How many of these were initiated by consumers against Wells Fargo?

See response below.

- In how many of those cases did Wells Fargo make counterclaims against the consumer?

See response below.

- How many arbitration cases did Wells Fargo initiate against consumers?

Response: Wells Fargo does not track its litigation in a way that would make this type of information readily accessible. However, two of the major providers of consumer arbitration—the American Arbitration Association and JAMS—provide data concerning arbitrations initiated over the last five years on a quarterly basis on their websites. Their data for the most recent quarter indicates that 218 consumer arbitrations involving Wells Fargo businesses were initiated in the last five years. (Note that this data reflects only the last quarter of 2012 and the first three quarters of 2017, and excludes employment arbitrations.)

2012 – 5
 2013 – 31
 2014 – 46
 2015 – 63
 2016 – 48

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

2017 – 25 (this includes only AAA arbitrations; the JAMS data does not reflect any arbitrations initiated in 2017)

Of the 218 arbitrations, 207 were initiated by the consumer. Ten of the 218 arbitrations are listed as having been initiated by the business. For one arbitration, JAMS does not provide information concerning which side initiated the arbitration. The data does not reflect whether counterclaims were filed in each arbitration. However, there were only 12 arbitrations among the 218 in which Wells Fargo received an arbitral award of money. In 6 of those 12 arbitrations, the consumer was represented by Brad Haskins and/or his World Law Group. The Consumer Financial Protection Bureau sued Mr. Haskins in 2015 asserting that he and his co-defendants were, among other things, persuading consumers with large debts to stop paying their creditors and instead pay Mr. Haskins and his co-defendants for legal services that they did not then provide. The court issued an injunction against Mr. Haskins only a short time later.

- **In how many cases were consumers awarded monetary relief in each of the last five years? What were the median and mean awards? In how many cases were consumers awarded other relief?**

See response below.

- **In how many cases was Wells Fargo awarded monetary relief in each of the last five years? What were the median and mean awards? In how many cases was it awarded other relief?**

Response: In 121 of the 218 consumer arbitrations disclosed in the AAA and JAMS data, the parties reached a settlement. Others were withdrawn, abandoned, or dismissed. Only 42 of the 218 had either a monetary or nonmonetary award by the arbitrator. Of those, the consumer received money in 6. The mean award to the consumer was \$60,147.87 (this figure and the remaining figures exclude attorneys' fee awards). The median award was \$21,128.38. The data includes one arbitration in which the arbitrator found the claims non-arbitrable and directed that they could be pursued in court. In another arbitration, the arbitrator granted summary adjudication to Wells Fargo that it was not subject to an injunction, but ruled that Wells Fargo was liable for an amount of damages owed by a third party to the extent that third party was unable to pay due to insolvency. Wells Fargo received a monetary award in 12 arbitrations. In 6 of those 12 arbitrations, the consumer was represented by Brad Haskins and/or his World Law Group. The Consumer Financial Protection Bureau sued Mr. Haskins in 2015 asserting that he and his co-defendants were, among other things, persuading consumers with large debts to stop paying their creditors and instead pay Mr. Haskins and his co-defendants for legal services that they did not then provide. The court issued an injunction against Mr. Haskins only a short time later. The mean award to Wells Fargo was \$9,463.09. The median award was \$5,624.85.

- **How many small claims court cases were initiated by consumers against Wells Fargo?**

See response below.

Committee on Banking, Housing, and Urban Affairs
Wells Fargo: One Year Later
October 18, 2017

- In how many of those cases did Wells Fargo make counterclaims against the consumer? What were the resolutions of those cases?

Response: Wells Fargo does not, in the ordinary course, comprehensively track the above-requested information.

ATTACHMENT 1



Actions Taken to Assist Customers and Strengthen Operations and Governance

September 2017



© 2017 Wells Fargo Bank, N.A. All rights reserved. For public use.

Changes in our retail bank

- **Changed leadership** of the Community Bank.
- **Eliminated product sales goals** for retail bank team members who serve customers in our retail branches and in our retail banking contact centers effective October 1, 2016.
- **Introduced new compensation and performance management programs** in the Community Bank in January 2017 that emphasize customer experience and risk management.
- **Expanded training for retail bank managers and bankers** on acceptable sales practices and how to report unethical behavior.
- **Eliminated a layer of management** in the Community Bank in order to bring senior management closer to our customers.
- **Strengthened oversight and risk controls**, including branch audits and branch mystery shopping, as well as targeted conduct risk reviews. Eliminated 24 hour notice on branch control reviews.
- **Rolling out transformational changes to processes, coaching and customer interaction** to take customer experience to a new level.

Making things right for our customers – significant outreach and remediation

We have taken a series of steps to address improper retail sales practices, fix what went wrong, and make things right for our customers, team members, and the public. These efforts are fundamental to restoring trust with customers. Any customers who suspect they had an unauthorized account or service opened in their name can contact Wells Fargo directly by visiting a branch, phone, or online.

- **Reached out** to 40 million consumer and 3 million small business customers asking them to contact us with any concerns about their accounts. Beginning in September, we will do another round of outreach to tens of millions of current and former customers to inform them about the class action settlement (see below) and encourage them to come to us with any questions or concerns.
- **Reviewed accounts** through a data driven process completed by a third party that looked for usage patterns that could indicate accounts that were potentially unauthorized and are refunding fees on any accounts that were identified as potentially unauthorized, even though the patterns we looked for sometimes show up on accounts that were properly authorized. The principle guiding this analysis was to err on the side of our customers.
- **Established a dedicated hotline and online resource center** on wellsfargo.com/commitment for up-to-date information on this issue.
- **Made payments of more than \$3.7 million to customers** in refunds and credits for complaints and mediation claims from September 8, 2016 through July 31, 2017.
- **Received preliminary approval for the class-action settlement agreement** for retail sales practices, which sets aside \$142 million for remediation and settlement expenses to cover customers and former customers with claims of unauthorized accounts back to 2002.
- **Provided free mediation services** to customers whose complaints we could not resolve (94% of concerns raised by customers requesting mediation were addressed without a formal mediation occurring), and we will continue to offer this service to customers who remain unsatisfied with any of the outcomes from the steps above.
- **Wells Fargo is working diligently with its regulators** to meet all of its obligations under the consent orders, to build a better bank, and to make things right for its customers and team members.

Expanded third party review of retail bank accounts

- We recently announced the completion of a previously announced expanded third party review of retail banking accounts dating back to 2009.
 - Original account analysis reviewed 93.5 million accounts and covered the time period of May 2011 through mid-2015.
 - Expanded analysis covered back to January 2009 and forward to September 2016 and reviewed more than 165 million accounts.

	Original Review	Expanded Review
Review Period	~4.5 years	~8 years
Total Accounts Reviewed	93.5 million	165 million
Potentially Unauthorized Accounts Identified	~2.1 million	~3.5 million
Accounts that Incurred Fees	130,000	~190,000
Refunds Paid	\$3.3 million	
Additional Refunds to be Paid		\$2.8 million

- As required by the consent orders, the expanded analysis also included a review of online bill pay services.
 - Over the almost 8-year period the analysis identified ~528k potentially unauthorized bill pay enrollments due to one minimal payment and no further use of the service; Wells Fargo will refund \$910k to customers who incurred fees or charges.
- Wells Fargo has agreed to a \$142 million preliminary class action settlement for claims dating back to 2002; customers will be compensated through a third-party process.
- With the expanded account analysis complete, the focus will be on remediation and making things right for customers.

Strengthening operations — established new goals that start with our focus on serving customers

We have redefined our goals, which start with our focus on serving customers. Our goals reflect our current challenges and opportunities, clearly state our aspirations for the future, and ensure we are focusing on activities that will build a better bank and strengthen Wells Fargo.

Our Goal: We want to become the financial services leader in six areas	
Customer service and advice	We want to know and understand our customers and their financial goals. Then, to help them be financially successful, we want to provide best-in-class service and advice that will help them reach their goals. This is true whether we are working with an individual, a family, a small business, a growing company, or an institution.
Team member engagement	Team members are our most valuable resource and a key competitive advantage. So we want to be an employer of choice — a company where people matter, teamwork is rewarded, everyone feels respected and empowered to speak up, diversity and inclusion are embraced, and how our work gets done is just as important as getting the work done.
Innovation	By using innovative technologies and moving quickly to bring about change, we want to create new kinds of lasting value for consumers and businesses — and increased efficiency for our own internal operations. We understand that the true value of innovation is when technology directly serves our customers' needs.
Risk management	We want to set the global standard in managing all forms of risk, because this will help us serve customers well, improve our position in the marketplace, and protect our long-term soundness and reputation. Customers want to do business with companies they trust and that make protecting their information a top priority. We are all risk managers.
Corporate citizenship	We want to make every community in which we do business better because we are there — through our products and services, culture and operations, and philanthropy. We want to advance diversity and social inclusion, create economic opportunity in underserved communities, and accelerate the transition to a lower-carbon economy and healthier planet.
Shareholder value	We want to earn the confidence of shareholders by maximizing long-term value. Our goals are consistent performance over time and best-in-class returns — achieved through knowing customers and what they need; managing risk; operating efficiently and effectively; maintaining a strong balance sheet; and having a world-class leadership team.

Enterprise-wide actions

- **Strengthened our risk framework and organization** by centralizing core functions like Risk, Compliance, Finance and Human Resources to provide greater role clarity, increased coordination and stronger oversight.
- **Formed a new Conduct Management Office** that reports to the Chief Risk Officer and centralizes the handling of internal investigations, EthicsLine and ethics oversight, complaints management, and sales practice oversight.
- **We engaged outside culture experts** to help us understand where we have cultural weaknesses that need to be strengthened or fixed.
- With the help of an outside academic who specializes in corporate culture, we conducted a **confidential culture assessment involving all team members**.
- **We made enhancements to the EthicsLine intake process** and hired an outside expert to help identify possibilities for additional improvements to make sure team members have a trusted and confidential way to report ethics concerns.
- **We expanded our “Raise Your Hand” initiative with our new Speak Up and Non-retaliation Policy** that sets expectations for all team members to speak up when they see something unethical or have an idea of how to reduce risk and for managers to help them feel comfortable and supported when they do.
- We established a **process enabling former team members to request a review of their termination or resignation** allegedly due to sales performance/culture reasons. Those who are eligible for re-employment have an opportunity to work with a special recruiting team to identify and explore opportunities for re-employment with Wells Fargo.
- We are **surveying team members** to understand their views on our approach to ethics and integrity and getting their feedback more generally through “pulse” surveys.

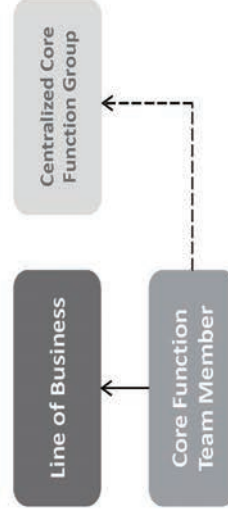
Strengthening operations — improved risk management organization and controls

- We made **system and process enhancements** to add protection measures to new accounts, such as sending automated emails to our customers every time a new personal or small business checking account or savings account is opened; letter acknowledgements for new credit cards; and same-day emails to credit card customers.
- We **strengthened our risk framework and organization by centralizing core functions like Risk, Compliance, Finance and Human Resources** to provide greater role clarity, increased coordination, and stronger oversight.
- We **formed a new Conduct Management Office** in the second line of defense; the head of the new office reports to the Chief Risk Officer.
 - The new office centralizes the handling of internal investigations, EthicsLine and ethics oversight, and complaints management and enhances our existing sales practices oversight.

Illustration of new Risk and HR reporting structures — independent from the line of business to improve objectivity, escalation, and controls



Prior Reporting Structure



Took actions to promote executive accountability

The Board of Directors previously took the following decisive actions to promote executive accountability, which include executive compensation decisions with a total impact of more than \$180 million:

Annual Incentive Award Forfeitures (approximately \$11 million)	Long Term Incentive Forfeitures (approximately \$86 million)
<ul style="list-style-type: none"> No 2016 bonuses for John Stumpf, former Chairman and CEO, and Carrie Tolstedt, former head of the Community Bank (target value eliminated = approximately \$5 million*) No 2016 bonuses for eight members of our Operating Committee (target value eliminated = approximately \$6 million) 	<ul style="list-style-type: none"> John Stumpf and Carrie Tolstedt forfeited all of their unvested equity awards (totaling approximately \$60 million) Up to 50% reduction in 2014 Performance Share awards paid in March 2017 for eight members of our Operating Committee (totaling approximately \$26 million)
Senior Manager Employment Terminations	Additional Accountability Actions Taken in April 2017
<ul style="list-style-type: none"> Terminated the employment of four current or former senior managers in the Community Bank for cause None of those senior managers received a 2016 bonus and they forfeited all of their unvested equity awards and vested outstanding stock options 	<ul style="list-style-type: none"> Determined that the finding made by the Board on September 25, 2016, that cause existed for terminating Ms. Tolstedt's employment was appropriate Resulted in forfeiture of all of Ms. Tolstedt's outstanding stock options (intrinsic value of approx. \$47.3 million) Clawed back from Mr. Stumpf approximately \$28 million in previously paid equity compensation

* For John Stumpf, the Board's Human Resources Committee did not establish a pre-determined target annual incentive award opportunity below the overall limit, so the value of his actual 2015 award is included above.

Enhanced Board structure and governance practices

Board Leadership Structure	<ul style="list-style-type: none"> Separated the roles of Chairman and CEO Amended By-Laws to require that the Chairman be independent Elected Elizabeth A. Duke (current independent Vice Chair and a former Governor of the Federal Reserve System) to succeed Stephen W. Sanger as independent Chair, effective Jan. 1, 2018
Board and Committee Composition Key Board Facts 6 new independent directors since 2013 6 directors retired or retiring between 2016 Annual Meeting and year-end 2017 6-yr average tenure of 12 independent directors following elections and announced retirements	<ul style="list-style-type: none"> Continuing Board refreshment, including through the addition of three new independent directors in 2017 and the upcoming retirements of three long-serving directors at year-end <ul style="list-style-type: none"> Added two new directors, Karen B. Peetz and Ronald L. Sargent, in Feb. 2017, who bring financial services, client services, regulatory, and consumer retail and marketing experience, as well as experience in the management of a large workforce serving customers globally through a variety of channels Added Juan A. Pujadas as a director, in Sept. 2017; he brings risk management, financial services, finance, technology, and international experience Cynthia H. Milligan, Susan G. Swenson, and Stephen W. Sanger are retiring from the Board at year-end 2017 to facilitate Board refreshment The Board intends to continue adding new directors while maintaining an appropriate balance of experience, diversity, and perspectives on the Board; Expects to name up to three additional independent directors before 2018 Annual Meeting Refreshed the composition and leadership of various Board committees, including the Risk Committee and Governance and Nominating Committee <ul style="list-style-type: none"> Karen B. Peetz became Chair of Risk Committee on Sept. 1, 2017 Donald M. James became Chair of Governance and Nominating Committee on Sept. 1, 2017
Governance Practices	<ul style="list-style-type: none"> 2017 Board self-evaluation facilitated by a third party following 2017 Annual Meeting and in advance of typical year-end timing The Board retained Mary Jo White, a senior partner at Debevoise & Plimpton LLP and former Chair of the Securities and Exchange Commission, to facilitate its 2017 self-evaluation Forming a new stakeholder advisory council in 2017 that will include a diverse mix of the Company's stakeholders to provide insight to the Board from a stakeholder perspective on current and emerging risks that could have an impact on the company; Council meetings will be led by Ms. Duke Adopted overboarding policy in 2017, which limits the number of public company boards on which our directors may serve; all directors are in compliance with the overboarding policy

Enhanced Board oversight of conduct risk

As a result of its continuing review of committee responsibilities and oversight of risks, the Board of Directors made changes in February 2017 to enhance the risk oversight responsibilities of various Board committees, including the Risk Committee.

Board of Directors	<ul style="list-style-type: none"> Enhanced Board oversight of conduct risk, including sales practices risk, by requesting reporting to the Board on the alignment of team member conduct with (1) our Company's risk appetite and (2) our Company's culture as reflected in our Vision and Values and our Code of Ethics and Business Conduct
Risk Committee	<ul style="list-style-type: none"> Expanded Risk Committee oversight responsibilities to include our enterprise-wide conduct risk, risk culture, and Conduct Management Office (formerly known as the Office of Ethics, Oversight, and Integrity) Risk Committee continues to oversee our enterprise risk management framework, Corporate Risk function, and key risks identified by our Company
Human Resources Committee	<ul style="list-style-type: none"> Expanded Human Resources Committee oversight responsibilities to include human capital management, culture, our Code of Ethics and Business Conduct, and implementation and effectiveness of our Company's ethics, business conduct, and conflicts of interest program Human Resources Committee continues to oversee our Company's incentive compensation risk management program – the scope of the program was expanded to include a broader population of team members, including team members in our retail branches and call centers
Audit and Examination Committee	<ul style="list-style-type: none"> Expanded Audit and Examination Committee oversight responsibilities for legal and regulatory compliance to include our Company's compliance culture Audit and Examination Committee continues to oversee our operational risk program and all operational risk types, as well as complaints and allegations related to accounting, internal accounting control, and auditing matters
Corporate Responsibility Committee	<ul style="list-style-type: none"> Corporate Responsibility Committee continues to oversee our Company's reputation, customer complaints policy and processes, and complaints and allegations relating to customers and will receive enhanced reporting from management on complaints and allegations from all sources, including the EthicsLine, relating to customers

ATTACHMENT 2



Community Banking

2017 Performance Management & Rewards

Final program design summary

December 28, 2016



Executive summary - approach

- The Compensation team in Enterprise HR led a process to create the 2017 Regional Bank PM&R program. This process incorporated new business success metrics and solicited feedback from key areas of the Second Line of Defense organizations, control functions, line leaders, outside consultants and other LOB leaders to arrive at an integrated approach to people management.
- The approach used in creating the plan is different than past practice. The approach incorporated the new enterprise IC design standards and introduced heightened ICRM standards with a thorough analysis of risk tradeoffs inherent in any compensation design.
- The recommendation is a balanced plan which is integrated across total compensation, performance management, incentives and recognition. It is also aligned with the key areas of business focus which are customer experience, team member experience, risk management and growth.
- The new approach aligns with regulatory expectations and public commitments made to date and accomplishes the goals set out by senior management.

Executive summary - outcome

This new plan is expected to encourage team members to focus on building lifelong customer relationships by delivering an exceptional customer experience, and that when done consistently, customers will trust the bank with more of their business and become the best form of advertising when they tell their friends and family about their Wells Fargo experience.

New Aspects of the 2017 PM&R Program

The 2017 PM&R approach is different in several key areas from prior approaches. These include:

- **Customer Feedback:** A larger allocation of incentives associated with direct customer feedback
- **Longer Term:** Metrics that take a longer view of the customer relationship and incorporate exceptional customer experiences and retention
- **Higher Base Pay Percentage:** A larger percentage of total compensation is associated with base pay versus variable incentives for most branch team members.
- **Team Oriented:** Entry level banker incentive compensation plans are based on team versus individual performance
- **Balanced Judgement:** Management practices emphasize observations and balanced judgement each team member's performance
- **Reporting:** Reporting developed centrally and published with an appropriate level of frequency and detail
- **Stronger Controls:** Additional centralized monitoring and controls in place to provide enhanced oversight of the sales process

Performance Management & Rewards (PM&R)

Overview

Performance Management and Rewards ("PM&R") incorporates performance management, incentives and recognition to express to Community Bank team members what is expected of them, how their actions connect to business priorities and how Wells Fargo rewards them for performance against these expectations.

Objectives

The overall objectives of PM&R are to align with Wells Fargo Vision and Values, reinforce our Culture of Caring, and support important business objectives including building engaging work environments, delivering exceptional customer experiences, growing and deepening lifelong customer relationships, all while effectively managing risk and maintaining a high level of integrity and ethics.

PM&R Strategy includes:



Related Strategies

- Professional Development Plans
- Personal Career Paths
- Mentor relationships

Leadership behavior, activities, coaching and communication

PM&R areas of focus

To provide clarity and consistency, the following focus areas will be used throughout PM&R and will be the foundation for Performance Management objectives



2017 Performance Management and Rewards

- Key objectives for the 2017 program are to increase the frequency of:

- Providing an exceptional customer experience
- Customers who use Wells Fargo as their primary bank
- Customers expressing their confidence with more loans, deposits, and investments
- Risk management oversight

Achieving this combination of objectives, effectively risk controlled and managed, will result in healthy and sustainable growth for the Community Bank.

- Regional Banking is leveraging new business success metrics, which are measured at the branch level and incorporated into PM&R:

- *Primary Customer Growth* measures the growth of customers that use Wells Fargo as their primary financial institution
- *Household Relationship Balance Growth* measures how Wells Fargo satisfies the customer's broad financial needs
- *Branch Management Risk Score* which will provide insight on a variety of risks.

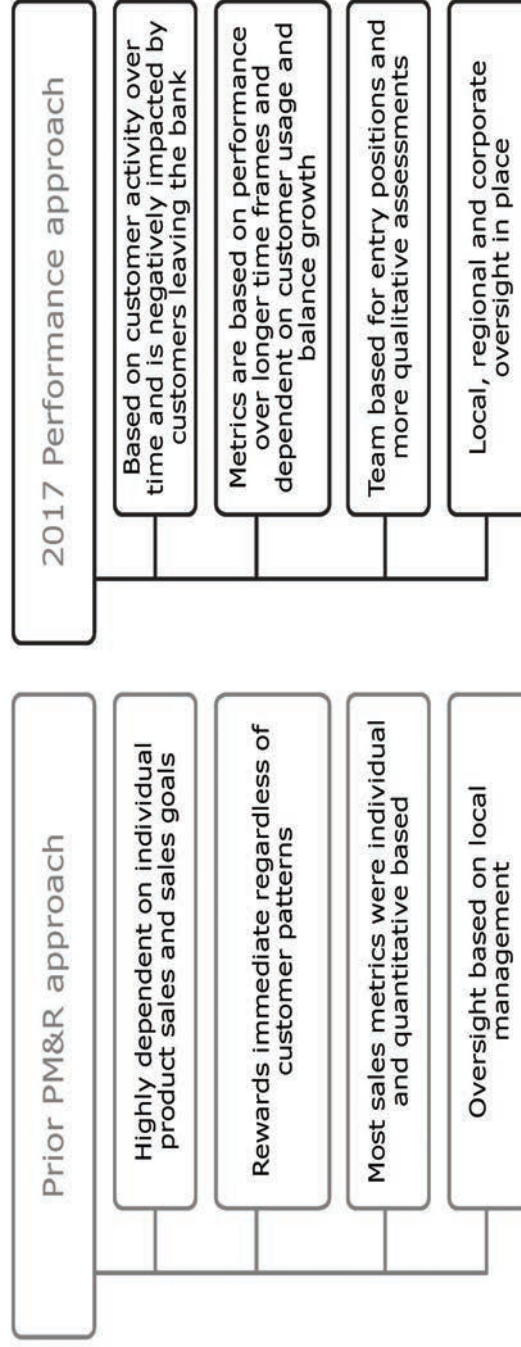
- The 2017 PM&R approach is different in several key areas from prior approaches. These include:

- A larger percentage of total compensation associated with base pay versus incentives for most branch team members
- Metrics that take a longer view of the customer relationship
- A larger allocation of incentives associated with direct customer feedback
- Increased management judgement in the final outcomes
- Additional centralized monitoring and controls in place to provide enhanced oversight of sales processes

2017 Design principles

- ✓ **No product sales goals.**
- ✓ **Realign pay mix** as needed and maintain quarterly performance and payout period to ensure market competitive pay opportunities.
- ✓ **Scorecard driven incentive plan** which is balanced/segmented according to role requirements, desired behaviors and line of sight.
- ✓ Mix of **branch and individual** performance components using branch and individual scorecards, heavily weighted to team/branch for entry level roles.
- ✓ Heavy **qualitative and team performance weighting** to address regulator concerns and to ensure desired behaviors are encouraged.
- ✓ **Risk and conduct modifier** to apply to all incentive payouts.
- ✓ **Alignment of branch plans to leadership** plans (District Manager to Regional Bank Executive).
- ✓ **District managers** move to Wells Fargo Annual Bonus plan with rollout in early 2017.

2017 Design summary



Compensation plan comparison chart

	Original Compensation Plan	2017 Compensation Plan
Base Compensation	<ul style="list-style-type: none"> More "pay at risk" and volatility due to sales expectations. Increasing incentive compensation is highly dependent on reaching product sales goals 	<ul style="list-style-type: none"> Less "pay at risk" for most branch team members and the payouts are more consistent and predictable. Earning incentives is not dependent on reaching sales goals.
Metrics	<ul style="list-style-type: none"> Employees must hit product sales goal minimums to receive incentives Product sales rewards provided immediately to the banker regardless of customer usage Manager incentives based on product sales goals and production by team 	<ul style="list-style-type: none"> No product sales goals for an individual. Incentives are based on customer service, customer usage and growth. Metrics weighted towards team (branch) goals not individual goals. Manager incentives not based on team production or goals – but rather customer outcomes, leadership and risk management.
Sales vs. Service	<ul style="list-style-type: none"> Employees rewarded for hitting product sales goals 	<ul style="list-style-type: none"> Employees rewarded for exemplary customer service and customer experience.
Performance Assessment	<ul style="list-style-type: none"> Assessments are based in part on quantifiable sales results and focused on individual performance 	<ul style="list-style-type: none"> Performance is qualitative and include more subjective assessments. Primarily based on teamwork, "how" they interact with customers and risk management.
Oversight and Monitoring	<ul style="list-style-type: none"> Limited proactive monitoring in place Oversight primarily based on local management 	<ul style="list-style-type: none"> Monitoring of activities in place via Mystery Shop, Complaints, outside underwriting. Local, regional, and corporate oversight. Checks and balances for "bad behavior" of bankers and managers violating sales and service conduct policies.
Cross-Selling	<ul style="list-style-type: none"> Encouraged Link to Incentives 	<ul style="list-style-type: none"> Focus on understanding customer needs. No direct link to incentives.

Scorecard elements

Incentive Compensation

Branch/team scorecard elements	
▪ Household Relationship Balance Growth	
▪ Branch Primary Customer Growth	
▪ Customer Experience	
▪ Branch Management Risk Score (branch and service manager)	
Individual scorecard elements	
▪ Referred investment assets*	
▪ Closed loan volume	
▪ Qualitative Assessment (which includes individual risk management)	

*Licensed Bankers only

Conduct Risk Qualifier applies to all team members and all incentive opportunity

Branch (team) metrics

Incentive
Compensation

Customer Experience Metric	<ul style="list-style-type: none"> ▪ Used to help us measure the Customer Experience at the branch-level. ▪ Average of the customer survey results; questions will remain the same and customers will continue to rate how the team member performed on a 1-5 scale.
Household Relationship Balance Growth Metric	<ul style="list-style-type: none"> ▪ How we are satisfying our customer's financial needs across a full array of financial services. ▪ Includes deposits, investments and loans.
Branch Primary Customer Growth Metric	<ul style="list-style-type: none"> ▪ Measures the retention and growth of our customers that use Wells Fargo as their main (primary) financial institution. ▪ A Primary Customer owns a checking account that is used for everyday transactional needs such as debit card purchases, online bill payments, direct deposit and/or other payment or deposit transactions.
Branch Management Risk Scorecard	<ul style="list-style-type: none"> ▪ The Branch Management Risk Scorecard is designed to measure conduct and operational risk within a branch. ▪ Six measurements: Branch Control Review, Quality of Sales Report Card (QSRC), Mystery Shops, Post Transaction Survey, Risk Performance Scorecard, Regional Services Assessment.

Individual metrics

Incentive
Compensation

Qualitative Assessment	<ul style="list-style-type: none">▪ Quarterly assessment for managers to assess team members around how effectively they are demonstrating role specific behaviors.▪ The assessment will focus on key behavior and align with focus areas of; Customer Experience, Team Member Experience, Risk Management, and Growth.
Loan Volume	<ul style="list-style-type: none">▪ Supports our focus around helping customers meet their financial needs and grow their relationship with Wells Fargo.▪ Reward experienced bankers for most closed loans and HE lines, regardless of whether they are fulfilled in the branch or through a referral to a partner.
Referred Investment Assets*	<ul style="list-style-type: none">▪ Support the focus around helping customers meet their financial needs and grow their relationship with Wells Fargo.▪ Measures referred (to a Financial Advisor) investment assets booked.

* Applies only to licensed bankers

What is different about the new 2017 Incentive metrics as compared to Product Sales Goals?

Product Sales Goals

- A product sold by a banker results in incentive being paid to the banker at the end of the performance period (once eligibility and minimums are met). For example:
 - Product sales rewards provided immediate to the banker (daily or weekly reporting, quarterly incentive)
 - Sales are transactional in nature.
 - Customer activities such as usage not required.
 - Banker's individual checking and savings sales impacted their incentive directly.
- Limited proactive monitoring in place.
- Specific unit goals were provided to the individual level.
- Same metrics applied to Performance Management, Incentives, and Recognition events.
- Majority of the reward system was based on quantifiable results.
- Management practices emphasized stack ranking.

New 2017 Metrics

- Additional outside activities must occur before the banker receives incentive. For example:
 - Sales are associated based on a branch "book of business".
 - Banker only receive a reward for products customers use.
 - Entry level bankers plans are based on team performance versus individual performance.
 - Metrics are long cycle in nature meaning other actions must be achieved before rewards are received. These include providing exceptional customer experiences, retention, account usage and long term relationship building.
- Monitoring of activities in place via Mystery Shop, Complaints, RSC oversight, Conduct Risk Review, outside underwriting etc.
- Performance ranges will be provided vs targets or goals.
- Metrics will vary based on the three key elements of performance management.
- Introducing more qualitative assessments throughout process to focus on how the results were achieved.
- Management practices emphasize observations and balanced judgement of performance.

Summary of Q1 2017 incentive compensation

Summary of Q1 2017 incentive compensation

Job Family (Team / Individual %)	Branch/Team Metrics			Risk Metrics		Individual Metrics			Incentive Compensation
	Customer Experience	Primary Customer	Relationship Growth	Branch Risk Management Score and/or Conduct Risk Qualifier	Loan Volume	Referred Investment Assets (Licensed Bankers only)	Qualitative Assessment		
Teller/Lead Teller (100/0%)	✓	✓		✓					
CSSR (100/0%)	✓	✓	✓	✓					
PB1/Assistant Branch Manager (75/25%)	✓	✓	✓	✓		✓		✓	
PB2/Business Specialist (75/25%)*	✓	✓	✓	✓	✓	✓		✓	
Senior Business Specialist (50/50%)	✓	✓	✓	✓	✓	✓		✓	
Private Banker (10/90%)*	✓	✓	✓	✓	✓	✓		✓	
Service Manager (75/25%)	✓	✓	✓	✓✓				✓	
Branch Manager (60/40%)*	✓	✓	✓	✓✓				✓	

Conduct Risk Modifier applies to all positions; Branch and Service Manager incentive may be impacted by Branch Risk Score.

District Managers move to Annual Bonus Plan with other Regional Bank line leaders.

Some mixes may change as the program evolves. For PB2s, licensed PB2s may have a mix more heavily weighted to individual (~50/50). Wells Fargo Restricted Use Only

Performance Management

Performance Management

Connecting *Performance 365* and Regional Bank Performance Management



Updates for 2017:

Performance Indicators

- Leverage the new Performance Indicators, Performing and Improvement Needed, for 2017 quarterly and annual reviews

Performance Objectives

- Aligned with areas of focus: Customer Experience, Team Member Experience, Risk Management, and Growth





Qualitative Metrics

- Performance metrics will be primarily qualitative and continue to focus on activities and behaviors.

Performance Management

Sample 2017 PM Document – Personal Banker 1

Performance Management Objectives

Customer Experience 	<ul style="list-style-type: none">Consistently follows the Customer Experience Roadmap and uses tools appropriately (<i>Financial Priorities Worksheet, BVA-CNA, Customized Summary</i>).Executes the Customer Experience Difference Maker strategies.Takes ownership of and works to solve customer problems. Follows the Complaints Procedures including working with other groups when necessary.Follows authentication, customer preference and contact policies when interacting with customers.Focuses on putting the customer first by ensuring all activities and behaviors are in support of the Wells Fargo Code of Ethics and Business Conduct, Sales Integrity Policy and the Sales and Service Quality Guidelines.
Team Member Experience 	<ul style="list-style-type: none">Partners with team members and internal partners to provide an exceptional customer experience.Recognizes and acknowledges the contributions of others.Supports Diversity and Inclusion initiatives. Shows respect for differences through words and actions and seeks different perspectives.Participates in huddles, Assess & Deploy, and Team Meetings and delivers on commitments.Provides feedback through coaching and mentoring, and taking action on Development Action Plan conversations.
Risk Management 	<ul style="list-style-type: none">Contributes to the branch achieving an Acceptable Summary Score on the QSRG by conducting accurate Needs Assessments and offering products and services that meet the customer's financial needs. Offers customers enough information to make an informed decision and always obtains customer consent.Complies with all policies, procedures, controls internal safeguards, key controls, dual controls and password security and any other activities related to Branch Control Review.Ensures that all customers are properly identified and that all transactions are properly registered and annual renewal processes, as applicable.Successfully completes 100% of all individually required Wells Fargo and line of business training by the assigned due date.
Growth 	<ul style="list-style-type: none">Maintains and builds customer relationships through consistent follow-up on commitments, satisfaction and by addressing financial needs.Asks questions and educates customers around options that meet their financial needs and when applicable, introduces customers to partners.Demonstrates proactive appointment setting activities by calling on contact events and Outbound Leads.Visits local businesses, conducts financial education seminars, and is active in the community.

2017 Recognition

Recognition

Selection criteria	<ul style="list-style-type: none"> Selection criteria for the annual Star Performer Local recognition event will be based on both individual and team accomplishments
Formal nomination categories	<ul style="list-style-type: none"> Two new nomination based categories will be introduced: <ul style="list-style-type: none"> Leadership Excellence Risk Excellence

<ul style="list-style-type: none"> Individual champions selected from quarterly individual champions from the Star Manager, Diversity & Inclusion, Leadership Excellence, Risk Management Excellence, and Service Excellence nomination based categories Teams selected based on branch scorecard metrics <ul style="list-style-type: none"> Branch Primary Customer Relationship Balance Growth Customer Experience Branch Risk Score

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD
**LETTER SUBMITTED BY AMERICANS FOR FINANCIAL REFORM AND
 PUBLIC CITIZEN**



October 2, 2017

Chairman Michael Crapo
 Senate Banking Committee
 Washington, D.C. 20510

Ranking Member Sherrod Brown
 Senate Banking Committee
 Washington, D.C. 20510

Dear Chairman Crapo and Ranking Member Brown,

Americans for Financial Reform and Public Citizen commend your decision to hold renewed hearings to investigate Wells Fargo's ongoing misconduct.

On August 31, we called on this Committee to hold additional hearings to examine new reports of malfeasance at Wells Fargo.¹ In particular, we urged members to investigate the possibility that bank executives may have knowingly withheld information related to fraudulent insurance sales practices during their September testimony, a potential criminal violation under 18 U.S.C. section 1001. As new revelations of the bank's misconduct continue to come to light, we encourage this Committee to thoroughly investigate this possibility, as well as Wells Fargo's repeated use of forced arbitration clauses in their contracts as two mechanisms to conceal accusations of misconduct from public scrutiny and avoid accountability.

In July, the public learned that Wells Fargo charged more than 800,000 people for auto insurance they did not need, leading 274,000 customers to become delinquent on their loans and nearly 25,000 to have their vehicles repossessed.² Among those affected are active duty military service members, who may lose security clearances as the result of vehicle repossession³ – posing risks to our military readiness.

Wells Fargo says it learned of these fraudulent insurance practices as the result of an internal report prepared by a consulting firm. Franklin R. Codel, the bank's head of consumer lending, told the *New York Times* that the bank "self-identified the issue, and we made the right business

¹ Gretchen Morgenson, *Wells Fargo Testimony Left Some Feeling Shortchanged*, NEW YORK TIMES, August 31, 2017, available at <https://www.nytimes.com/2017/08/31/business/wells-fargo-testimony.html>. Letter available at <http://www.fairarbitrationnow.org/wp-content/uploads/Letter-Requesting-Additional-Wells-Fargo-Hearings.pdf>.

² 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>.

³ 32 C.F.R. § 147.8.

decisions to end the placement of the product.⁴ According to its own timeline, Wells Fargo learned of these practices in July 2016 and ended the activity in late September that year, around the time it testified to your Committee about its fraudulent account scandal.⁵

Yet former CEO John Stumpf made no mention of this misconduct in insurance sales, even when asked directly whether fraudulent activity exists in other business lines. Below is an excerpt from this Committee's September 20, 2016 hearing:

Senator David Vitter (R-Louisiana): Finally, what level of confidence, from zero percent to 100 percent, do you have that this type of fraudulent activity does not exist in other Wells business lines?

John Stumpf: Yeah, I – we've looked at other things, other businesses. They're – they're different and I – we believe that this is situated in our regional bank. Other areas have different levels of compliance and different volumes and different requirements. But we've looked across a number of things and I have confidence that we have this one now solved and we've made a lot of changes.

As we previously noted, the response to this line of inquiry is not limited to Mr. Stumpf's testimony; Wells Fargo failed to acknowledge that fraudulent activity took place in its other business lines in its written response to questions for the record posed by the Democratic members of this Committee. Below is an excerpt from the bank's response:

Question 7: As was asked at the hearing, are you confident that this type of fraudulent activity does not exist in other Wells business lines? Have you discovered other types of misconduct involving other products aside from credit cards or basic banking (such as misconduct related to applications for mortgages or personal or other loans, or lines of credit, insurance, or other investment areas)? If so, how did the company obtain this information? When was the first reported case, how many cases have been discovered, and what is the nature of these cases? Have you reported those cases to federal financial regulators?

Response: We believe that the activity at issue here was limited to certain team members within the Community Banking Division.

Fraudulent charges for unwanted auto insurance clearly fall within the scope of the above question about fraudulent activity in other business lines, and an estimated 800,000 cases suggests this later-revealed scheme was similarly endemic. Wells Fargo had several opportunities to disclose its fraudulent insurance practices to Congress and chose not to – including in response to direct questions by Members on the two separate occasions recounted above. Withholding relevant information from congressional inquiry is a serious offense, and the timeline and available information suggest that Wells Fargo may have purposely misled Members of Congress.

⁴ 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>.

⁵ *Id.*

Under 18 U.S.C. section 1001, anyone who “knowingly and willfully – 1) falsifies, conceals, or covers up by any trick, scheme, or device a material fact; 2) makes any materially false, fictitious, or fraudulent statement or representation; or 3) makes or uses any false writing or document knowing the same to contain any materially false, fictitious, or fraudulent statement or entry,” with respect to “any investigation or review, conducted pursuant to the authority of any committee, subcommittee, commission or office of the Congress,” shall be fined or face up to five years in prison.⁶

It is unclear whether the public would have ever learned of the bank’s fraudulent auto insurance practices had this internal report not been obtained by the New York Times – particularly given Wells Fargo’s use of non-transparent arbitration proceedings in consumer disputes and its decision to withhold relevant information in its testimony to this Committee. Though Tim Sloan was not yet CEO at the time of the September 2016 hearing, he served more than nine months as Wells Fargo’s chief executive before this Committee, the bank’s shareholders, and even the more than 800,000 affected customers learned of these fraudulent insurance practices. Mr. Sloan must be made to answer for his decision to conceal this serious and widespread malfeasance.

As we have previously argued, Wells Fargo has a long-running pattern and practice of hiding its misconduct from public scrutiny.⁷ Many financial institutions force consumers into secret arbitration to block class action lawsuits, and Wells Fargo’s fraudulent account scandal – and now its fraudulent insurance practices – demonstrate the danger of keeping accusations of potentially systemic misconduct behind closed doors. After the CFPB enforcement action uncovered millions of unauthorized accounts, reports revealed that customers had been trying to sue Wells Fargo over this exact fraud since at least 2013.⁸ Yet the bank’s lawyers used arbitration clauses buried in the fine print of the customers’ legitimate account contracts to force these allegations out of public court – and the bank continued to profit from its illegal scheme for years.

Even as Wells Fargo publicly professes reconciliation and reform in the wake of numerous scandals, the bank argued to the 11th Circuit Court of Appeals in August 2017 that customers affected by its deceptive overdraft practices should be forced into secret arbitration – where the average consumer is ordered to pay their bank or lender \$7,725, according to the Economic Policy Institute.⁹ A California judge found Wells Fargo’s overdraft practices “unfair and fraudulent,”¹⁰

⁶ The House Financial Services Committee formally opened an investigation into Wells Fargo’s widespread fraud on September 16, 2016.

⁷ Robert Weissman & Lisa Donner, *Why Wells Fargo got away with it for so long*, THE HILL, September 20, 2016, available at <http://thehill.com/blogs/pundits-blog/finance/296706-why-wells-fargo-got-away-with-it-for-so-long>.

⁸ <http://www.fairarbitrationnow.org/wells-fargos-use-forced-arbitration-deny-consumers-justice/>.

⁹ Heidi Shierholz, *Correcting the record: consumers fare better under class actions than arbitration*, ECONOMIC POLICY INSTITUTE, August 1, 2017, available at <http://www.epi.org/publication/correcting-the-record-consumers-fare-better-under-class-actions-than-arbitration/>.

¹⁰ *Gutierrez, Walker, Smith, et al. v. Wells Fargo Bank, N.A.*, No. C 07-05923 WHA.

but the bank has repeatedly¹¹ tried to block courts from ordering relief to consumers in the other 49 states that could total over \$1 billion.¹²

Wells Fargo has made similar arguments in an attempt to dismiss class action lawsuits stemming from its fraudulent account scandal, even in the case of a consumer who never signed any contract with the bank.¹³ Wells Fargo's repeated attempts to avoid accountability for these fake accounts, as well as the many other abusive practices that have come to light since September 2016, highlight the need for protections like the CFPB's recent arbitration rule, which gives consumers the tools to defend their own interests by restoring our right to join together in court.

We urge your Committee to thoroughly investigate why Wells Fargo failed to disclose its fraudulent auto insurance practices to this Committee, the affected customers, or its shareholders prior to the July 2017 New York Times coverage and whether its September 2016 testimony was in criminal violation of 18 U.S.C. section 1001. We further ask that you investigate whether forcing consumers into secret arbitration proceedings helped the bank conceal its various scandals from public view and press Wells Fargo to commit to waiving forced arbitration clauses and class action bans in any existing or future customer disputes.

If you have any questions or concerns regarding this letter, please contact Amanda Werner, Americans for Financial Reform and Public Citizen, awerner@ourfinancialsecurity.org or (202) 973-8004.

Sincerely,

Americans for Financial Reform & Public Citizen

¹¹ Shayna Posses, *Wells Fargo Loses Arbitration Bids in Overdraft MDL Suits*, LAW360, October 17, 2016, available at <https://www.law360.com/articles/852401/wells-fargo-loses-arbitration-bids-in-overdraft-mdl-suits>.

¹² Kate Berry, *Wells is last big bank standing in overdraft litigation*, AMERICAN BANKER, June 26, 2017, available at <https://www.americanbanker.com/news/wells-is-last-big-bank-standing-in-overdraft-litigation>.

¹³ Chris Arnold, *The Scandal That Envelops Wells Fargo Keeps Growing*, NPR, September 29, 2016, available at <http://www.npr.org/2016/09/29/495882724/the-scandal-that-envelops-wells-fargo-keeps-growing>.

**Economic
Policy
Institute**

Forced arbitration is bad for consumers

By Heidi Shierholz • October 2, 2017

Many financial institutions use forced arbitration clauses in their contracts to block consumers with disputes from banding together in court, instead requiring consumers to argue their cases separately in private arbitration proceedings. Embattled banking giant, Wells Fargo, made **headlines** by embracing the practice to avoid offering class-wide relief for its practices related to the fraudulent account scandal and another scandal involving **alleged unfair overdraft practices**.

New data helps illuminate why these banks—and Wells Fargo in particular—prefer forced arbitration to class action lawsuits. We **already knew** that consumers obtain relief regarding their claims in just 9 percent of disputes, while arbitrators grant companies relief in 93 percent of their claims. But not only do companies win the overwhelming majority of claims when consumers are forced into arbitration—they win big.

Some crucial background helps illustrate the stakes. In July 2017, the Consumer Financial Protection Bureau (CFPB) issued a final **rule** to restore consumers' ability to join together in class action lawsuits against financial institutions. Based on five years of careful study, the final rule stems from a congressional directive instructing the agency to study forced arbitration and restrict or ban the practice if it harms consumers.

In recent weeks, members of Congress **have introduced legislation** to repeal the CFPB rule and take away consumers' newly restored right to band together in court. Opponents of the rule **have suggested** that the bureau's own findings show consumers on average receive greater relief in arbitration (\$5,389) than class action lawsuits (\$32). As we have **previously shown**, this is enormously misleading. While the average consumer who *wins* a claim in arbitration recovers \$5,389, this is *not even close* to a typical consumer outcome. Because consumers win so rarely, **the average consumer ends up paying financial institutions in arbitration—a whopping \$7,725**.

A recent **report** released by the nonprofit **Level Playing Field** hones in on Wells Fargo's use of arbitration in consumer claims. Compiling publicly reported data from the American Arbitration Association (AAA) and JAMS (initially named Judicial Arbitration and Mediation Services, Inc.), the report found that just 250 consumers arbitrated claims with Wells Fargo between 2009 and the first half of 2017.¹ This number is

surprisingly small, since this period spans the prime years of the bank's fraudulent account scandal.

But we can take this data a step further by looking at Wells Fargo's overall gains and losses in arbitration. As one might suspect based on the CFPB data, Wells Fargo indeed won more money in arbitration between 2009 and the first half of 2017 than it paid out to consumers, despite creating **3.5 million fraudulent accounts** during that same period.

What is even more troubling is that forced arbitration seems to be significantly *more* lucrative for Wells Fargo than for other financial institutions. **In arbitration with Wells Fargo, the average consumer is ordered to pay the bank nearly \$11,000.** We calculated a mean of \$10,826 awarded to the bank across all claims in the Level Playing Field report.

No wonder Wells Fargo prefers forced arbitration to class action lawsuits, which return *at least \$440 million*, after deducting all attorneys' fees and court costs, to 6.8 million consumers in an average year. Banning consumer class actions lets financial institutions keep *hundreds of millions of dollars* that would otherwise go back to harmed consumers—and Wells Fargo seems to have harmed huge numbers of consumers.

Opponents of the CFPB's arbitration rule argue that allowing consumers to join together in court will increase consumer costs and decrease available credit. Most recently, the Office of the Comptroller of the Currency (OCC) **claimed** that restoring consumers' right to join together in court could cause interest rates on credit cards to rise as much as 25 percent.

However, examining the OCC's **study**, it appears the agency merely duplicated the conclusion reached by the CFPB and based its 25 percent estimate solely on results it admits are "statistically insignificant at the 95 percent (and 90 percent) confidence level." In its 2015 study, the CFPB **considered this same data** and accurately assessed that there was no "statistically significant evidence of an increase in prices among those companies that dropped their arbitration clauses."

Perhaps more importantly, claims that the arbitration rule will increase consumer and credit costs are also *contradicted by real-life experience*. Consumers saw **no increase** in prices after Bank of America, JPMorgan Chase, Capital One, and HSBC dropped their arbitration clauses as a result of court-approved settlements, and mortgage rates *did not increase* after Congress banned forced arbitration in the mortgage market. Of course, many would argue that banks like Wells Fargo *should* bear any increase in cost associated with making consumers whole for egregious misconduct.

Once again, the numbers are clear: class actions *return hundreds of millions* in relief to consumers, while forced arbitration pays off *big* for lawbreakers like Wells Fargo.

Endnotes

¹ To my knowledge, AAA and JAMS are the only firms that routinely provide arbitration services to Wells Fargo. In arbitration agreements, Wells Fargo typically designates AAA as the arbitration firm to arbitrate any consumer dispute.

LETTER SUBMITTED BY ECONOMIC POLICY INSTITUTE POLICY
CENTER

**Economic
Policy
Institute**
POLICY CENTER

October 2, 2017

Senator Michael Crapo
Chairman
Senate Banking Committee
538 Dirksen Senate Office Building
Washington, D.C. 20510

Senator Sherrod Brown
Ranking Member
Senate Banking Committee
538 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairmen Crapo and Ranking Member Brown:

On behalf of the Economic Policy Institute Policy Center (EPI-PC), we write to share important new data about Wells Fargo's use of arbitration in its consumer disputes, in anticipation of CEO Tim Sloan's scheduled testimony to the Committee. The Economic Policy Institute (EPI) is a nonprofit, nonpartisan think tank created in 1986 to include the needs of low- and middle-income workers in economic policy discussions.

Many financial institutions use forced arbitration clauses in their contracts to block consumers with disputes from banding together in court, instead requiring each consumer to argue their case separately in private arbitration proceedings. Wells Fargo has made headlines by embracing the practice to avoid offering class-wide relief for its fraudulent account scandal,¹ among other allegations of illegal conduct—including ongoing litigation over illegal overdraft practices.²

Important new data helps illuminate why these banks—and Wells Fargo in particular—prefer forced arbitration to class action lawsuits. While Wells Fargo touts forced arbitration as “less expensive” for consumers,³ a deeper examination of publicly available data reveals that the average consumer that arbitrates with their bank or lender is saddled with significant costs.

In July 2017, the Consumer Financial Protection Bureau (CFPB) issued a rule to restore consumers' ability to join together in class action lawsuits against financial institutions.⁴ Based

¹ <http://www.latimes.com/business/hiltzik/la-fi-hiltzik-wells-settlement-20170331-story.html>

² <http://www.latimes.com/business/la-fi-wells-fargo-20170824-story.html>

³ https://www.warren.senate.gov/files/documents/2017_09_12_Responses_to_Arb_Letter.pdf

⁴ Consumer Financial Protection Bureau, “New Protections against Mandatory Arbitration,” web page accessed July 31, 2017

on five years of careful study, the final rule stems from a congressional directive instructing the agency to study forced arbitration and restrict or ban the practice if it harms consumers. The Senate is currently considering a resolution to repeal the CFPB rule and take away consumers' newly restored right to band together in court, S.J. Res. 47.

Opponents of the CFPB rule have suggested that the bureau's own findings show consumers on average receive greater relief in arbitration (\$5,389) than class action lawsuits (\$32).⁵ These figures are enormously misleading. While the average consumer who wins a claim in arbitration recovers \$5,389, this is far from a typical consumer outcome, as consumers win just 9 percent of their claims.⁶

Our recent publication, "Correcting the record," considered the total amount awarded across claims in the CFPB study to find the average outcome between a consumer and their financial institution, rather than the average award in the sixteen claims consumers won.⁷ Contrary to the suggestion that consumers receive more money in arbitration than class action lawsuits, EPI found the vast majority of consumers lose money in arbitration. Indeed, on average, consumers are ordered to pay their bank or lender \$7,725 in arbitration.⁸

A recent report released by the nonprofit Level Playing Field offers a more narrow examination of Wells Fargo's use of arbitration in consumer claims.⁹ Compiling publicly-reported data from the American Arbitration Association (AAA) and JAMS (initially named Judicial Arbitration and Mediation Services, Inc.), the report found that just 250 consumers arbitrated claims with Wells Fargo between 2009 and the first half of 2017—a period that spans the prime years of the bank's fraudulent account scandal.

Forced arbitration seems to be significantly more lucrative for Wells Fargo than other financial institutions. As one might suspect based on the CFPB data, Wells Fargo was awarded more money in arbitration than it was ordered to pay consumers between 2009 and the first half of 2017, despite creating 3.5 million fraudulent accounts during that same period. The average consumer that arbitrated with Wells Fargo was ordered to pay the bank nearly \$11,000.¹⁰ A mean of \$10,826 was awarded to the bank across all publicly available claims.

In contrast, the CFPB study found that class action lawsuits return at least \$440 million, after deducting all attorneys' fees and court costs, to 6.8 million consumers in an average year.¹¹ Thus, banning consumer class actions lets financial institutions keep hundreds of millions of dollars that would otherwise go back to harmed consumers—and there is little doubt that Wells Fargo has harmed huge numbers of consumers in recent years.

⁵ <http://www.mydaytondailynews.com/news/state--regional-govt--politics/consumer-protection-rule-latest-battle-with-cordray-led-agency/OyuXSpSJ/RbflKmuCdbK68L/>

⁶ <http://www.epi.org/publication/correcting-the-record-consumers-fare-better-under-class-actions-than-arbitration/>

⁷ <http://www.epi.org/publication/correcting-the-record-consumers-fare-better-under-class-actions-than-arbitration/>

⁸ <http://www.epi.org/publication/correcting-the-record-consumers-fare-better-under-class-actions-than-arbitration/>

⁹ <http://www.fairarbitrationnow.org/wp-content/uploads/LPF-Wells-Fargo-Report-September-2017-Update.pdf>

¹⁰ Heidi Shierholz, "Forced arbitration is bad for consumers," Economic Policy Institute, October 2, 2017.

¹¹ Consumer Financial Protection Bureau, *Arbitration Study: Report to Congress, pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act § 1028(a)*, 2015.

Opponents of the CFPB's arbitration rule additionally claim that allowing consumers to join together in court will increase consumer costs and decrease available credit. Most recently, the Office of the Comptroller of the Currency (OCC) claimed restoring consumers' right to join together in court could cause interest rates to rise as much as 25 percent.¹²

However, examining the OCC's study, it appears the agency merely duplicated the conclusion reached by the CFPB and based its 25 percent estimate solely on results it admits are "statistically insignificant at the 95 percent (and 90 percent) confidence level."¹³ In its 2015 study, the CFPB considered this same data and accurately assessed that there was no "statistically significant evidence of an increase in prices among those companies that dropped their arbitration clauses."¹⁴

Perhaps more importantly, claims that the arbitration rule will increase cost are contradicted by real-life experience. Consumers saw no increase in price after Bank of America, JPMorgan Chase, Capital One, and HSBC dropped their arbitration clauses as a result of court-approved settlements, and mortgage rates did not increase after Congress banned forced arbitration in the mortgage market.¹⁵ Furthermore, it is not unreasonable that banks like Wells Fargo bear any cost associated with making consumers whole for egregious misconduct.

We encourage you to seek clarification from Mr. Sloan on Wells Fargo's claim that arbitration is less expensive for consumers in light of this new evidence that the customers paid the bank nearly \$11,000 on average when forced into arbitration. Because data clearly shows that class action lawsuits return hundreds of millions every year in relief to consumers, while forced arbitration is lucrative for lawbreakers like Wells Fargo, we also urge you to oppose S.J. Res. 47 and support the CFPB's arbitration rule.

For any questions regarding this letter, please contact Heidi Shierholz at hshierholz@epi.org.

Sincerely,

Heidi Shierholz
Director of Policy, Perkins Project on Worker Rights and Wages
Economic Policy Institute Policy Center

¹² https://www.washingtonpost.com/news/business/wp/2017/09/29/u-s-chamber-of-commerce-suing-to-block-rule-allowing-consumers-to-sue-their-banks/?utm_term=.276dce8b8c8e

¹³ <http://blog.ourfinancialsecurity.org/wp-content/uploads/2017/09/OCC-arbitration-study.pdf>

¹⁴ Consumer Financial Protection Bureau, *Arbitration Study: Report to Congress, pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act § 1028(a)*, 2015

¹⁵ Adam J. Levitin, "Mandatory Arbitration Offers Bargain-Basement Justice," *American Banker BankThink* (blog), May 13, 2014.

WELLS FARGO FINANCIAL OVERVIEW REPORT



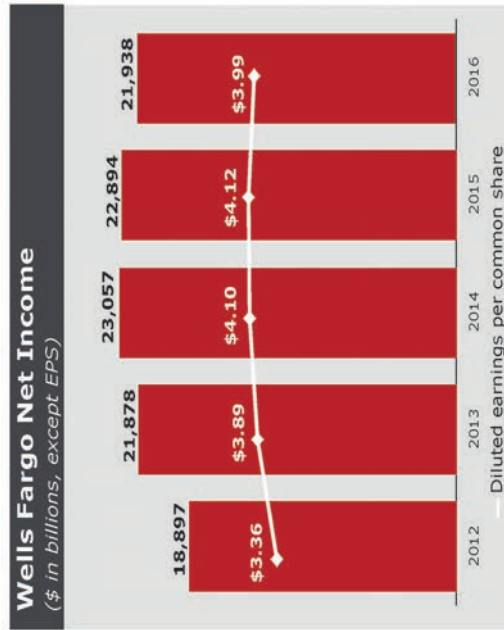
Financial Overview

John Shrewsberry
Chief Financial Officer

May 11, 2017

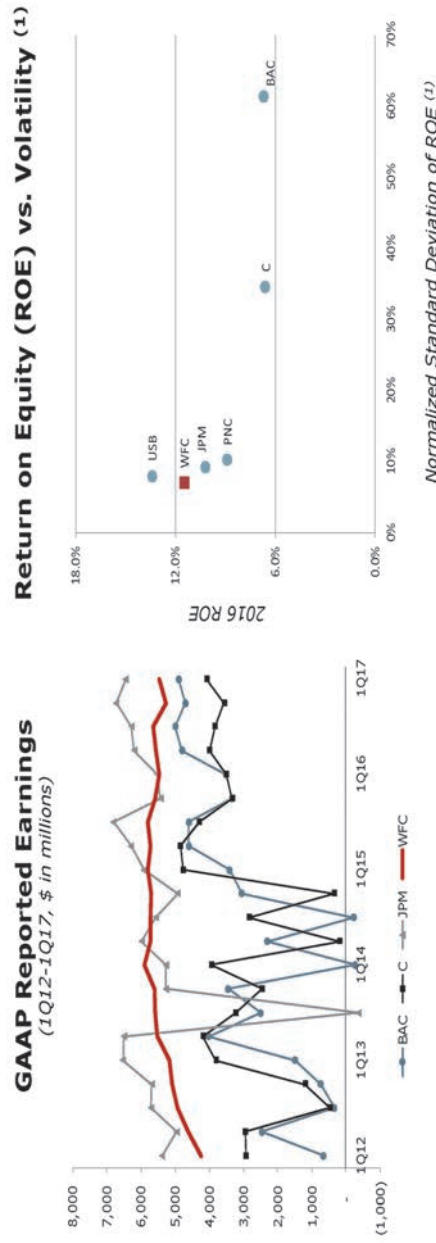
© 2017 Wells Fargo & Company. All rights reserved. Confidential.

5-year track record of strong and steady results



- Strong results reflect the strength of our diversified business model
 - 1Q17 was the 18th consecutive quarter of generating earnings greater than \$5 billion
 - Industry leading returns with 1Q17 Return on Assets (ROA) and Return on Equity (ROE) of 1.15% and 11.54%, respectively
- Durable long-term advantages:
 - Diversified and balanced revenue sources
 - Industry leading distribution
 - Leading market share in key financial products
 - Large and low-cost deposit base
 - Relationship focus
 - Credit risk discipline
 - Capital strength

History of steady earnings and low volatility



One of only two companies in the U.S., and the only bank, to earn over \$5 billion for 18 consecutive quarters

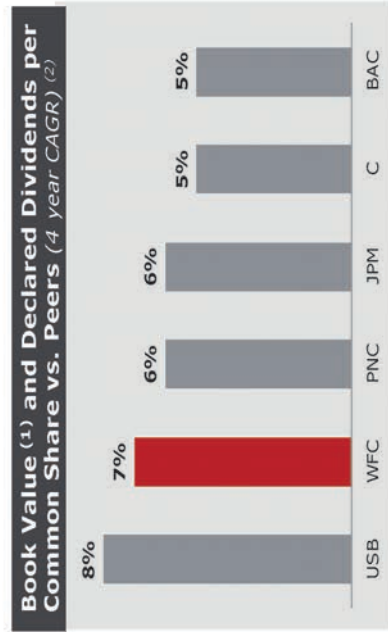
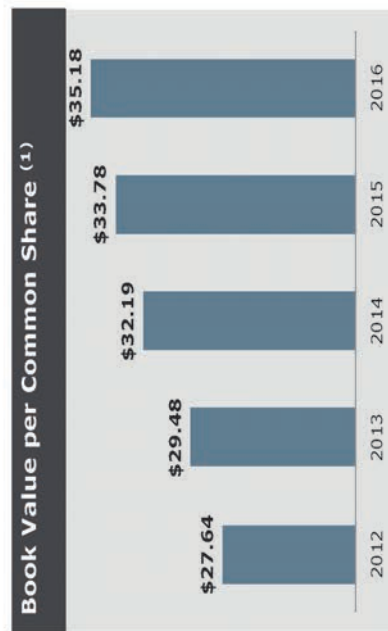
Source: SNL

⁽¹⁾ Annual results from 2012 through 2016.

Wells Fargo 2017 Investor Day

Financial Overview 2

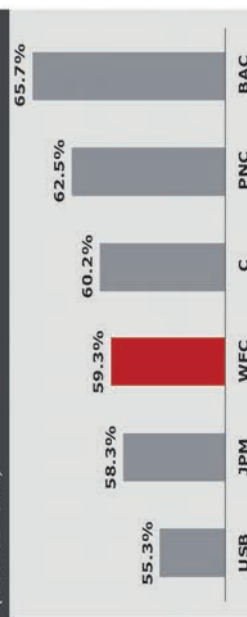
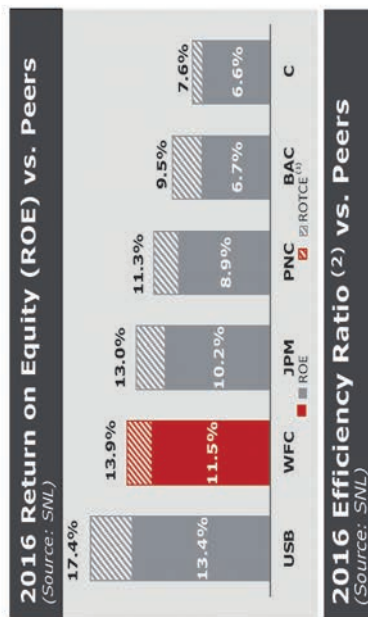
Growth in book value vs. peers



- Book value has increased 27% since 2012, a 6% CAGR
- Book value + dividends declared per common share has increased 29% since 2012, a 7% CAGR

(1) Book value per common share is common stockholders' equity divided by common shares outstanding.
 (2) Source: SNL. 4-year CAGR = 2012-2016.

Strong performance vs. peers in 2016



(1) Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, and goodwill and certain identifiable intangible assets (including patents, trademarks, and other intangible assets). Management believes that return on average tangible common equity (ROTCE), which utilizes tangible common equity, is a useful financial measure because it enables investors and others to assess the Company's use of equity. See page 41 for additional information. (2) Efficiency ratio defined as noninterest expense divided by total revenue. (3) Net payout ratio means the ratio of (1) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (1) net income applicable to common stock.

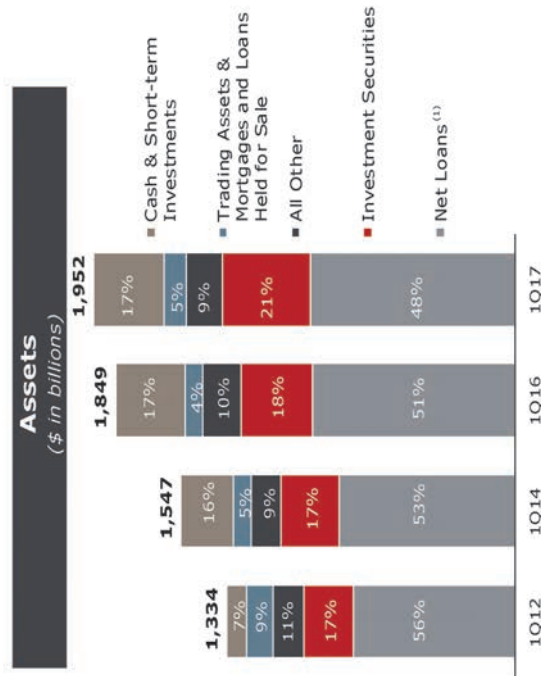
Wells Fargo 2017 Investor Day

Financial Overview 4

Balance Sheet Positioning



Balance Sheet evolution - Assets



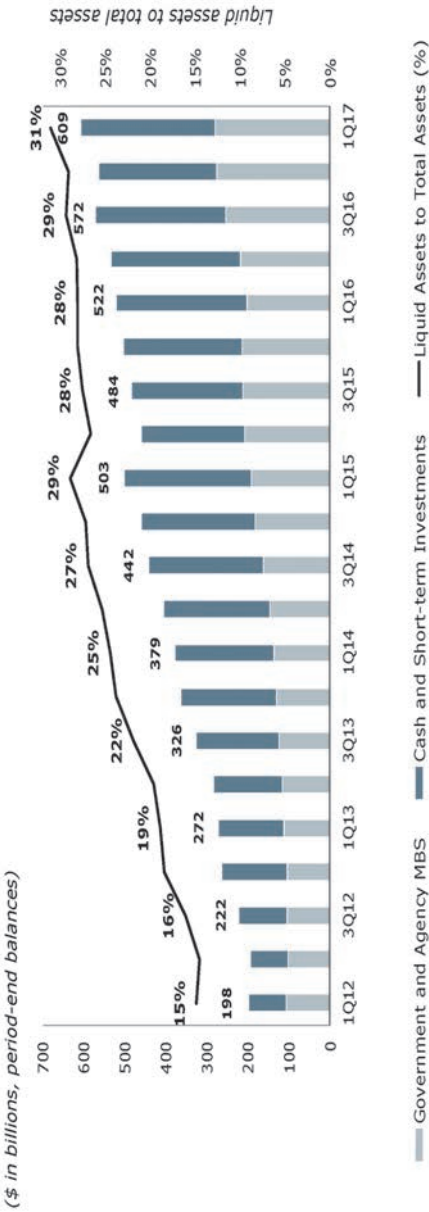
- Cash & Short-term Investments = 17% of Total Assets, up from 7% in 1Q12
 - 1Q17 balance of \$328.4 billion
- Investment Securities = 21% of Total Assets, up from 17% in 1Q12
 - Government and agency mortgage-backed securities (MBS) = 69% of investment securities, up from 47% in 1Q12
 - Government treasuries = 17% of investment securities, up from 2% in 1Q12
 - Agency MBS = 52% of investment securities, up from 45% in 1Q12
 - 27% of investment securities in held to maturity portfolio
- Net loans ⁽¹⁾ = 48% of Total Assets, down from 56% in 1Q12
- Total period end-loans of \$958.4 billion in 1Q17, 5% CAGR since 1Q12

Period-end balances.
 (1) Net loans are total loans outstanding minus allowance for loan losses.

Wells Fargo 2017 Investor Day

Financial Overview 6

Highly liquid Balance Sheet

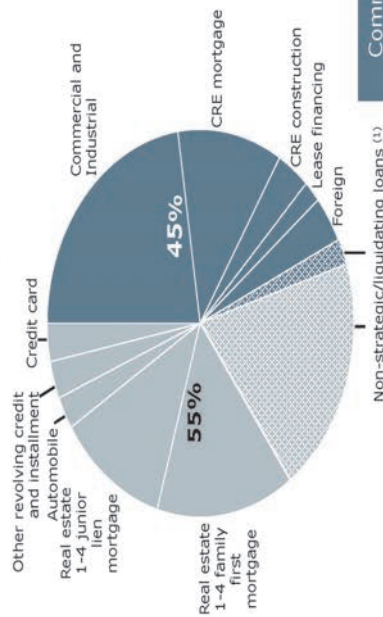


- Cash and short-term investments reached an all-time high at \$328.4 billion in 1Q17, up \$41.7 billion from 4Q16
- We will continue to hold high quality liquid assets (HQLA) as a % of total assets at a level in line with the past several years
- Opportunities to redeploy cash to higher-yielding HQLA, and HQLA to higher yielding non-HQLA (when excess liquidity exists), are continually evaluated, but executed upon prudently, as we manage our interest rate sensitivity and other comprehensive income (OCI) risk along with our liquidity

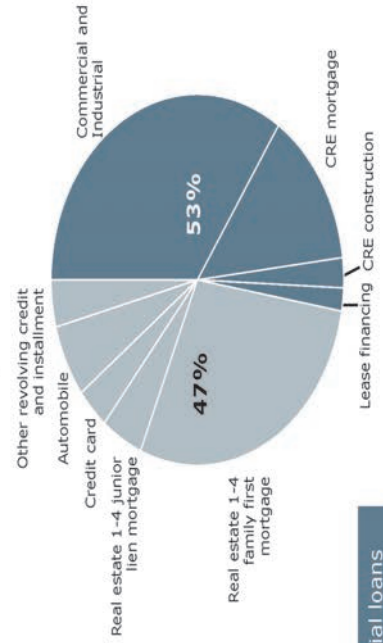
Balance and risk profile of loan portfolio has improved

Commercial Loans Comprise a Larger Percentage of our Total Loans

12/31/08 Loan Portfolio
\$865 billion

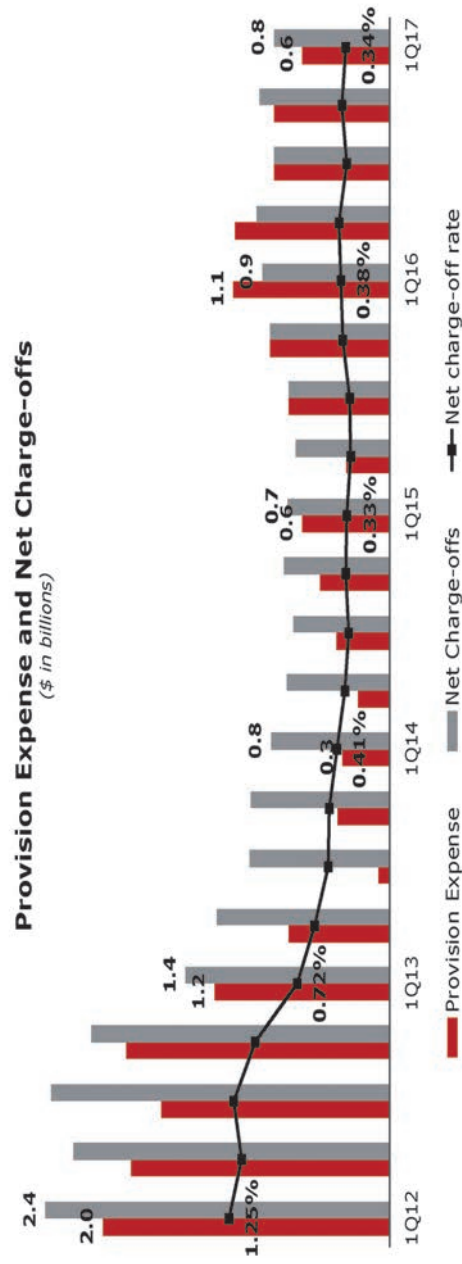


3/31/17 Loan Portfolio
\$958 billion



Period-end balances. Commercial loan balances as of 3/31/17 included \$66.7 billion of foreign loans.
 (1) Included Pick-a-Pay, liquidating home equity, legacy WFF indirect auto, legacy WFF debt consolidation, Education Finance government-guaranteed, and legacy Wachovia commercial & industrial, commercial real estate, and other PCI loan portfolios. We no longer separately disclose the non-strategic/liquidating loan portfolio balance and these loan balances are now included within their respective asset classes as of 3/31/17.

Strong credit performance



- Improvement in credit quality since 1Q12 reflects strength in residential real estate
 - Provision expense of \$605 million in 1Q17, down \$1.4 billion from 1Q12, or 70%
 - Net charge-offs of \$805 million in 1Q17, down \$1.6 billion from 1Q12, or 66%

Balance Sheet evolution – Liabilities & Equity



- Deposits = 68% of Total Liabilities & Equity, down from 70% in 1Q12
 - 1Q17 deposits of \$1.3 trillion, 7% CAGR since 1Q12
 - 59% were consumer and small business deposits
 - 28% were noninterest-bearing deposits
- Long-term Debt = 13% of Total Liabilities & Equity, up from 10% in 1Q12
 - Growth reflects Total Loss Absorbing Capacity (TLAC) eligible issuance
 - \$9.9 billion of parent TLAC-eligible issuance in 1Q17

TLAC requirement

- Final Total Loss Absorbing Capacity (TLAC) rule issued on 12/15/2016 and effective on January 1, 2019

(\$ in billions)	External TLAC 3/31/17 Actual	% of RWA	LTD Requirement 3/31/17 Actual	% of RWA
Total Risk Weighted Assets (RWA)	\$ 1,324.5		\$ 1,324.5	
Common Equity Tier 1 (CET1)	148.7	11.2 %		
Qualifying Tier 1 Instruments	23.1	1.7 %		
Qualifying Tier 2 Instruments	25.7	1.9 %	25.4	1.9 %
Senior unsecured debt	93.1	7.0 %	91.1	6.9 %
Total TLAC	290.6	21.9 %	116.6	8.8 %
Required TLAC / LTD		22.0 %		8.0 %
Estimated Shortfall / (Excess)	0.7	0.1 %	(10.6)	(0.8) %
Estimated Shortfall with Illustrative 100 bps Buffer	\$ 14.0	1.1 %		

- Estimated current shortfall of qualifying TLAC of ~\$0.7 billion based on 3/31/17 RWAs

- Future issuance will support:

- Refinancing of debt falling within one year of maturity
- RWA growth
- Migration of CET1 component of TLAC towards internal target level over time

Currently expect total TLAC issuance in 2017 to be similar to the \$32 billion issued in 2016
2017 to date ⁽¹⁾ TLAC-eligible issuance = \$12.5 billion

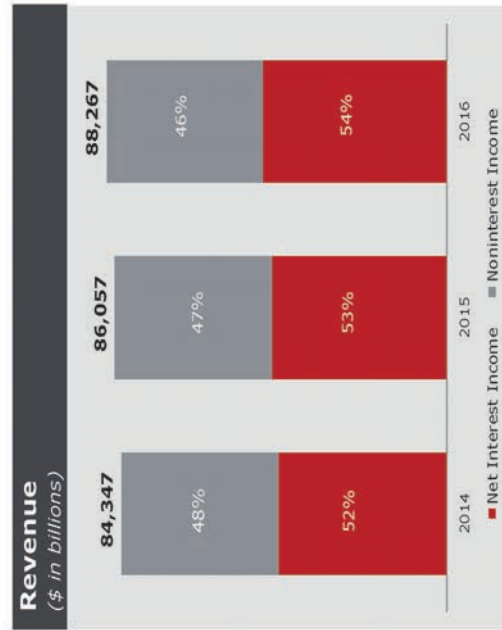
We expect to meet the required minimum on 1/1/19 through measured issuance

(1) Notional amounts through April 30, 2017.

Revenue trends

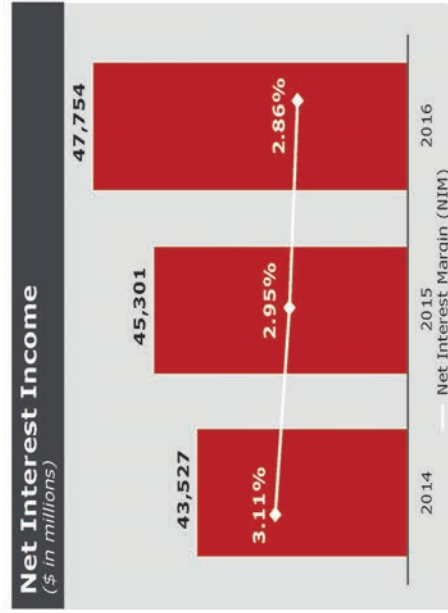


Revenue mix has begun to shift



- 2016 revenue up 5% from 2014 on growth in net interest income
- Net interest income as a percentage of total revenue has increased since 2014 and was 56% of total revenue in 1Q17

Net interest income growth despite lower NIM



- 2016 net interest income up 10% from 2014 despite a 25 bps decrease in the NIM
- Net interest income growth reflected strong earning asset growth

Expect to grow net interest income year-over-year in 2017 by low to mid single percentage points, but results will be influenced by a number of factors including the absolute level of rates, steepness of yield curve, earning asset growth and mix, and the competitive landscape for loan and deposit pricing

Asset sensitivity illustration

- While the balance sheet remains positioned to benefit from rising rates, our asset sensitivity has declined modestly from 2016 Investor Day to the lower end of the presented range primarily driven by growth in fixed rate investments
- The table below provides a static illustration of our balance sheet sensitivity, as of 3/31/17, to an instantaneous 100 bps parallel shift in the yield curve
 - We take actions to adjust our balance sheet sensitivity over time so future sensitivity could differ from the estimated ranges below
 - Actions we may take that impact sensitivity include, but are not limited to, adjusting our business mix, balance sheet composition including deploying short-term investments into high quality liquid assets (HQLA), loan production and funding

	1Q17		Estimated Repricing bps (Beta) ⁽¹⁾	
(\$ in billions)	Balance	Yield		
Short-term investments	\$ 284	0.76 %	> 95 bps	
Investments	405	2.92	30 - 40	
Loans held for sale & Trading assets	114	2.96	85 - 95	
Commercial loans	506	3.54	60 - 70	
Consumer loans	457	5.06	25 - 35	
Total Earning Assets	1,773	3.31	50 - 60	
Interest-bearing deposits	935	0.23	45 - 55	
Market funding	375	1.49	85 - 95	
Noninterest-bearing liabilities supporting earning assets	463			
Total Funding Sources	\$ 1,773	0.44	40 - 50	
Net Interest Margin Benefit		2.87 %	5 - 15 bps	

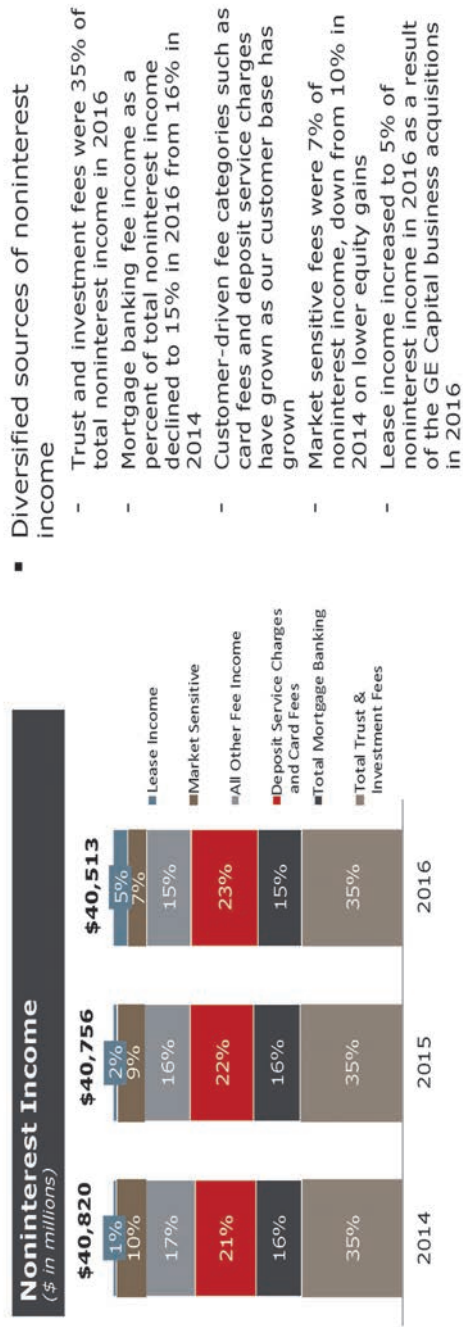
- Implied Net Interest Margin benefit from a 100 bps shock = 5 - 15 bps in the first 12 months
- Implied Net Interest Income benefit from a 100 bps shock = 2 - 5% in the first 12 months

⁽¹⁾ Repricing percentage (bps) is the estimated change in yield over 12 months as a result of an instantaneous 100 bps parallel shift in the yield curve. For example, a 100 bps shift in market rates is expected to increase the yield of our Commercial loans by 60 bps to 70 bps.

Wells Fargo 2017 Investor Day

Financial Overview 15

Diversity of noninterest income has driven stability



- Trust and investment fees influenced by market conditions and customer growth
- Expect mortgage banking fee income to be under pressure in a rising rate environment, but higher mortgage servicing should partially mitigate slower origination headwinds
- Card fees and deposit service charges expected to grow in line with customer growth and usage

Expense and Reinvestment



Noninterest expense analysis

For analytical purposes, we have grouped our noninterest expense into six categories:

Compensation & Benefits: Salaries, benefits and non-revenue-related incentive compensation

Revenue-related: Incentive compensation directly tied to generating revenue; businesses with expenses directly tied to revenue (operating leases, insurance)

Third Party Services: Expenses related to the use of outside parties, such as legal and consultant costs

"Running the Business" – Non Discretionary: Expenses that are costs of doing business, including foreclosed asset expense and FDIC assessments

"Running the Business" – Discretionary: Travel, advertising, postage, etc.

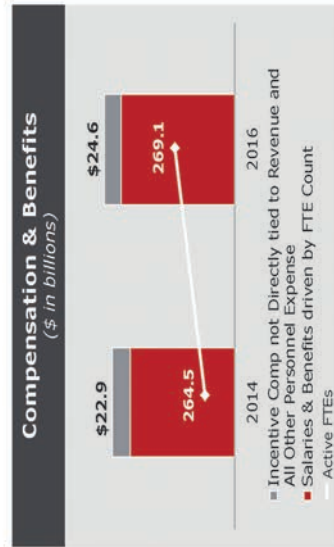
Infrastructure: Equipment, occupancy, etc.

Noninterest expense trends by type of expenditure

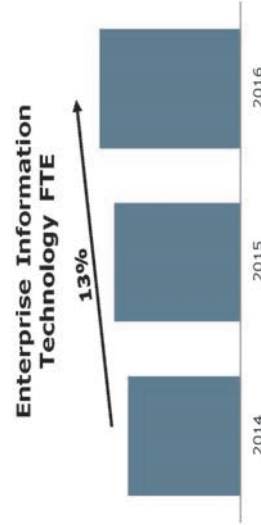


- Noninterest expense increased 7% from 2014 to 2016 driven by:
 - Higher compensation and benefits,
 - Higher revenue-related expense and
 - Increased third party spend,
 - Partially offset by lower discretionary spend

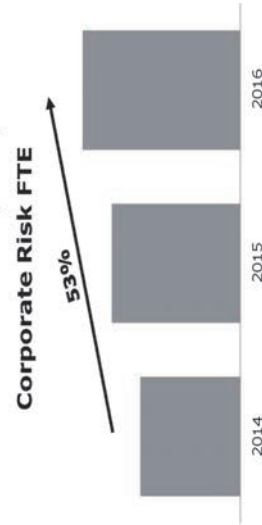
Compensation & Benefits expense driven by investment in technology and risk



- 7% increase reflected higher salaries and employee benefits expense
 - 61% of the increase reflected salary actions including annual increases, as well as the impact of higher-cost FTEs
 - 24% of the increase was from higher employee benefits expense
 - 15% of the increase was due to a 2% net increase in FTEs driven by growth in Risk, Technology and Wholesale (partly due to the GE Capital business acquisitions in 2016)



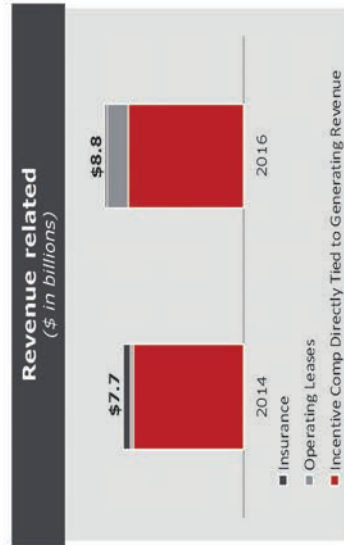
- Technology spend makes up a significant portion of our annual spending
 - Spent \$7.1 billion in 2016, up 5% from 2015
 - ~50% was personnel expense and the remainder was primarily infrastructure



Financial Overview 20

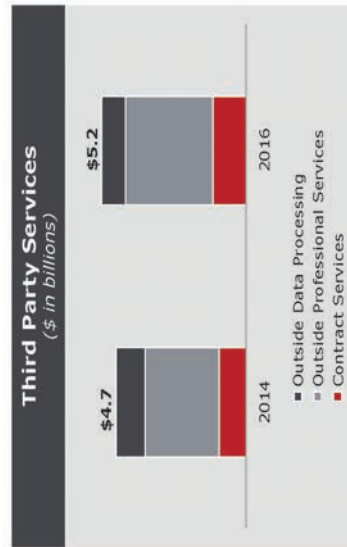
Wells Fargo 2017 Investor Day

Revenue-related expenses up driven by GE Capital business acquisitions



- Increase in operating lease expense due to GE Capital business acquisitions in 2016
- Insurance expense decline was largely due to sale of our crop insurance business in 1Q16
- Revenue-related incentive compensation driven by the increase in mortgage origination volumes
 - Commission and other variable incentive compensation primarily driven by mortgage, Wealth & Investment Management, and Wells Fargo Securities

Third Party Services expense up 11%



- \$531 million, or 11%, higher from 2014 reflecting higher project spending and legal expense
 - Increased regulatory and compliance-related project spending

2017 Projected Project Spend ⁽¹⁾

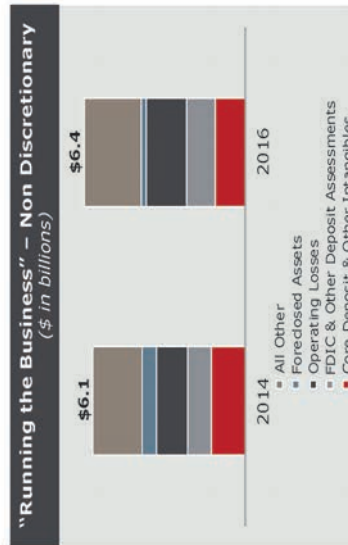
- Projects are one-time initiatives and the majority of spend is in third party services, compensation and benefits, and infrastructure expense
- 2017 Total project spend is projected to be in line with 2016
 - Larger percentage of projected 2017 project spend is expected to be in non-revenue generating projects related to regulatory, risk and compliance, which includes BSA/AML, resolution planning, cyber and enhanced data
- Ongoing business operational spending is not included in project spending

(1) Current projection, but subject to change.

Wells Fargo 2017 Investor Day

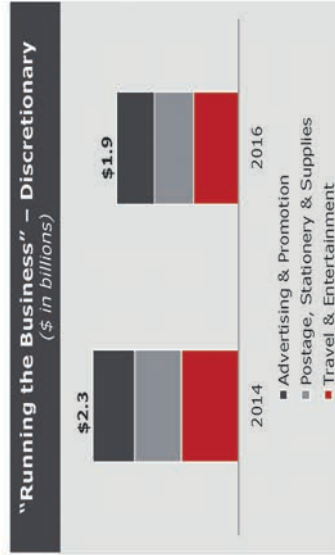
Financial Overview 22

Non-discretionary up on higher operating losses and FDIC expense



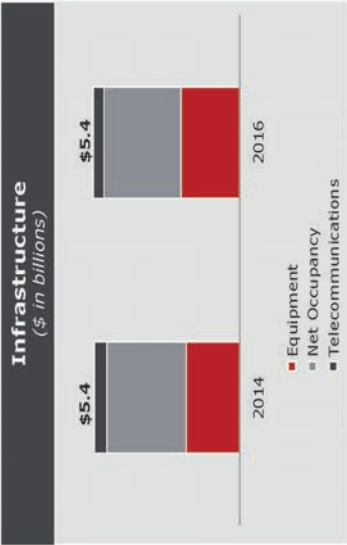
- \$320 million increase since 2014 reflected:
 - \$359 million higher operating losses driven by higher litigation accruals
 - \$240 million increase in FDIC expense driven in part by temporary surcharge
 - \$280 million increase in All Other, which includes insurance premiums, charitable contributions, etc.
 - Partially offset by \$381 million decline in foreclosed assets expense due to improving home prices, as well as lower deposit intangible amortization

Discretionary spending down 16%



- 16% reduction since 2014 reflected:
 - Lower travel & entertainment driven largely by travel expense reduction initiatives
 - Postage, stationery & supplies decreased due to lower mortgage customer monthly statements volume, lower mail services expense and lower supplies expense
 - Advertising & promotion decreased on lower sales promotion-related expense, lower media and lower advertising production expense







Infrastructure expenses stable even as we have grown



- Stable expense since 2014 reflected:
 - 2% decline in net occupancy expense driven by ongoing efforts in real estate management, including facilities optimization and efficiency initiatives
 - Equipment expense increase driven by higher software license and maintenance fees
 - Telecommunications expense down driven by lower telephone and data rates

Targeting \$2 billion expense reduction by year-end 2018

We expect efficiency initiatives will reduce expenses by \$2 billion annually by year end 2018 and that those savings will support our investment in the business

Initiative and Targeted Savings	Examples	Stage of Completion	Categories
Centralization and Optimization (\$1.3 billion)	Marketing, Finance, Human Resources, Operations, Technology, Data and Contact Centers		Comp and benefits, discretionary, and infrastructure
Consulting and Third Party Expenses (\$200 million)	In-source certain activities and aggregate demand for consulting firms		Third party services
Branch Optimization (\$170 million)	Eliminate overlap in the physical footprint		Infrastructure, comp and benefits
Facilities (\$150 million)	Continued site consolidation		Infrastructure
Travel (\$100 million)	Reduction in non-customer facing travel and expenses		Discretionary
Risk (\$100 million)	Capturing efficiencies as the corporate risk structure matures		Comp and benefits, third party services

Additional \$2 billion in saves anticipated by year end 2019

We expect an additional \$2 billion in annual expense reductions by the end of 2019; these savings are projected to go to the “bottom line”

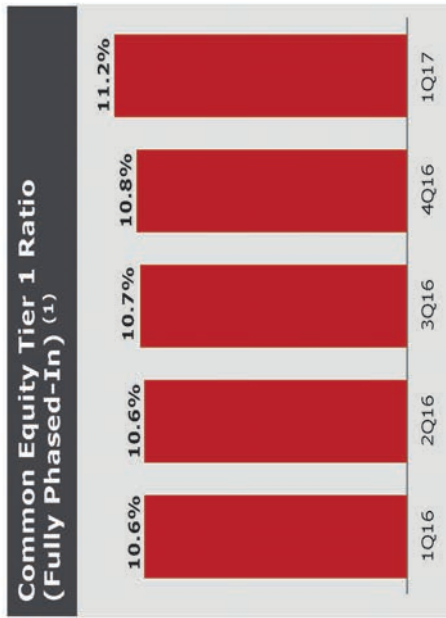
Saves will be driven by a deepened focus and continued improvement on effectiveness and productivity to drive efficiency, including:

- Consolidating similar operational activities to provide better economies of scale
- Improving processes, including using digital technology to automate manual processes
- Outsourcing of certain non-differentiated capabilities
- Rationalizing product sets
- Applying industry best practices to our call centers via technology and call routing
- Consolidation of duplicative processes across the lines of business
- Ongoing reduction in facilities driven by the continued move from physical to digital

Capital positioning



Strong capital levels while continuing to return capital to shareholders



Capital Position

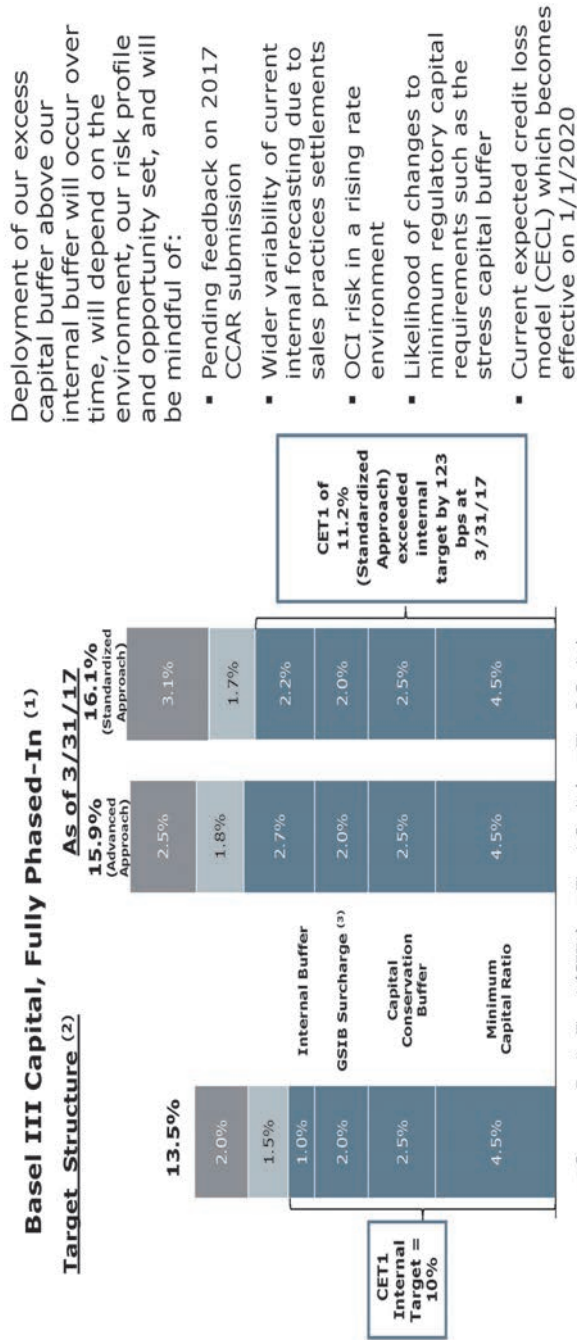
- Common Equity Tier 1 ratio well above the regulatory minimum, including regulatory and internal buffers
 - Common Equity Tier 1 ratio (fully phased-in) of 11.2% at 3/31/17 ⁽¹⁾ on lower risk-weighted assets than prior quarter and in our 2016 Capital Plan

Capital Return

- Period-end common shares outstanding down 19.4 million LQ
 - Settled 53.1 million common share repurchases
 - Issued 33.7 million common shares reflecting seasonally higher employee benefits activity
- Strong capital levels allowed us to continue to return capital to shareholders
 - Returned \$3.1 billion to shareholders in 1Q17
 - Net payout ratio ⁽²⁾ of 61% in 1Q17

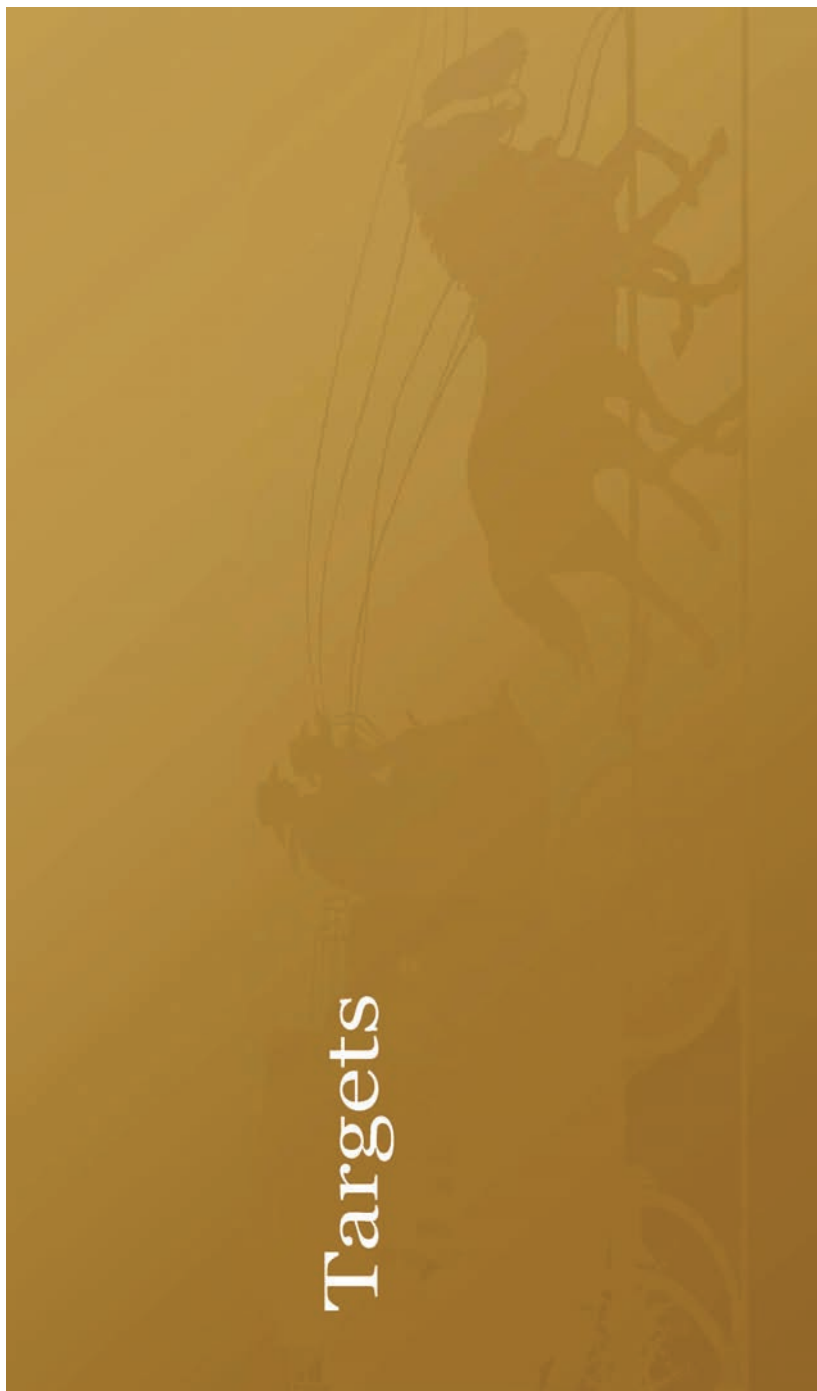
(1) Fully phased-in capital ratios are calculated assuming the full phase-in of the Basel III capital rules. See pages 40 and 42 for additional information regarding capital ratios.
 (2) Net payout ratio means the ratio of (i) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock.

Strong capital position in excess of internal target



Our targets are established through a robust Internal Capital Adequacy Process (ICAAP). Under the Basel III capital rules, we are subject to the lower of each of our capital ratios calculated under the Standardized Approach and under the Advanced Approach in the assessment of our capital adequacy. See page 42 for additional information regarding our capital ratios. See the Capital Management section in our First Quarter 2017 Form 10-Q for additional information on our capital requirements. ⁽²⁾ Estimated long-term targets; subject to change. ⁽³⁾ Reflects Method 2 GSIB surcharge.

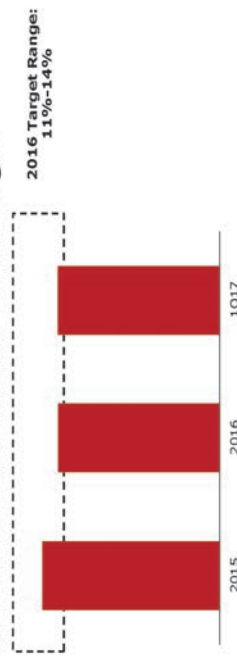
Targets



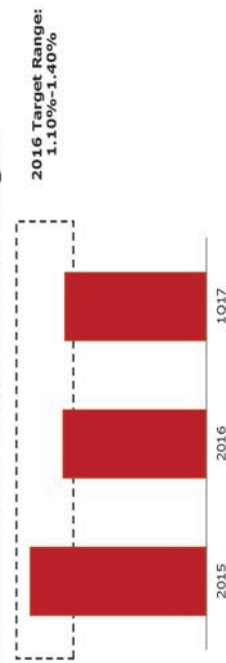
Return on Equity (ROE) and Return on Assets (ROA) target ranges

2016 Investor Day 2-Year Annual ROE Target: 11% - 14%
 2016 Investor Day 2-Year Annual ROA Target: 1.10% - 1.40%

ROE since 2015 versus 2016 Target



ROA since 2015 versus 2016 Target



--- Represents target range set at 2016 Investor Day.

Wells Fargo 2017 Investor Day

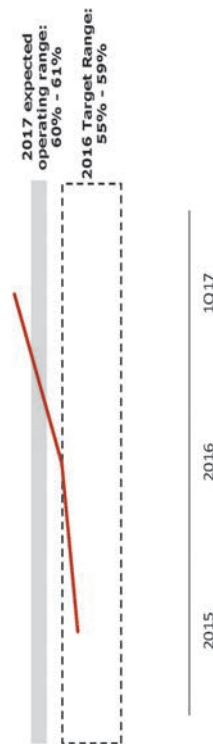
ROE and ROA Considerations

- Operating at the lower end of the ranges today reflects:
 - Structural shift in the balance sheet, including:
 - Higher levels of liquidity including higher cash balances
 - Increased funding through long-term debt to meet TLAC requirements
 - Improved risk profile, yet lower-yielding loan portfolio
 - Higher efficiency ratio
 - ROE also impacted by higher capital levels
- In 2017 we expect to operate at the low end of both target ranges

Efficiency ratio ⁽¹⁾ target range and 2017 update

2016 Investor Day 2-Year Annual Efficiency Ratio Target: 55% - 59%
2017 Expected Operating Range: 60% - 61%

Efficiency Ratio ⁽¹⁾ since 2015 versus 2016 Target



Efficiency Ratio Considerations

- We continue to believe that 55%-59% annual target range is appropriate for our business model
- In 2017 we expect to operate at a higher 60%-61% range which reflects:
 - Lower net interest income growth due to lower loan growth and higher funding costs
 - Sales practices settlement-related expenses and lower revenue-related growth
 - Elevated project-related professional services expense focused on non-revenue generating activity

--- Represents target range set at 2016 Investor Day.
--- Expected operating range for 2017.

(1) Efficiency ratio defined as noninterest expense divided by total revenue (net interest income plus noninterest income). Noninterest expense and our efficiency ratio may be affected by a variety of factors, including business and economic cyclicality, seasonality, changes in our business composition and operating environment, growth in our business and/or acquisitions, and unexpected expenses relating to, among other things, litigation and regulatory matters.

Wells Fargo 2017 Investor Day

Financial Overview 33

Organic capital growth has supported strong payouts

(\$ in millions)	2012	2013	2014	2015	2016	1Q17
Net Income Applicable to Common Stock	\$ 17,999	20,889	21,821	21,470	20,373	5,056
Common Stock Dividends	4,658	6,086	7,067	7,580	7,661	1,903
Gross Share Repurchases	3,918	5,356	9,414	8,697	8,116	2,175
Gross Capital Returned to Shareholders	8,576	11,442	16,481	16,277	15,777	4,078
Net Share Repurchases / (Issuance)	(160)	1,098	5,398	5,037	4,797	1,195
Net Capital Returned to Shareholders	\$ 4,499	7,184	12,465	12,616	12,458	3,098
Dividend Payout Ratio ⁽¹⁾	25.9%	29.1%	32.4%	35.3%	37.6%	37.6%
Net Payout Ratio ⁽²⁾	25.0%	34.4%	57.1%	58.8%	61.2%	61.3%

(1) Dividend payout ratio means the ratio of (i) common stock dividends, divided by (ii) net income applicable to common stock.

(2) Net payout ratio means the ratio of (i) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock.

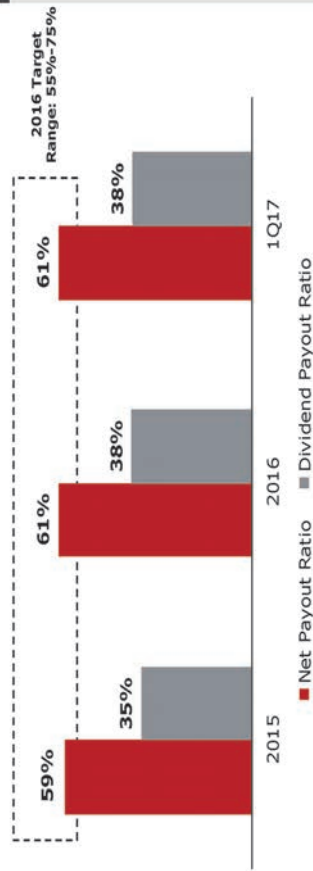
Wells Fargo 2017 Investor Day

Financial Overview 34

Net payout ratio ⁽¹⁾ target range

2016 Investor Day 2-Year Annual Net Payout Ratio Target: 55% - 75%

Net Payout Ratio ⁽¹⁾ and Dividend Payout Ratio ⁽²⁾ since 2015 versus 2016 Target



Net Payout Ratio Considerations

- Strong organic capital generation and stable ROE support capital return
- Returning capital to shareholders remains a priority
- Pending feedback on 2017 CCAR submission
- In 2017 we expect to operate in our target range
- Our current capital position including our excess capital buffer, and our expectation that regulators will be more focused on capital levels than payout ratios prospectively, could enable higher payout ratios over time

--- Represents target range set at 2016 Investor Day.

(1) Net payout ratio means the ratio of (i) common stock dividends and share repurchases less issuances and stock compensation-related items, divided by (ii) net income applicable to common stock. Dividends and share repurchases are subject to Wells Fargo board and regulatory approvals, and other factors.

(2) Dividend payout ratio means the ratio of (i) common stock dividends, divided by (ii) net income applicable to common stock.

Wells Fargo 2017 Investor Day

Financial Overview 35

Performance targets remain at industry leading levels



— Represents target range presented at 2016 Investor Day. (1) Tangible common equity is a non-GAAP financial measure and represents total equity, less preferred equity, noncontrolling interests, and goodwill and certain identifiable intangible assets including goodwill and intangible assets associated with certain of our nonmarketable equity investments but excluding mortgage servicing rights, net of applicable deferred taxes. The methodology of determining tangible common equity may differ among companies. Management believes that return on average tangible common equity (ROTCE), which utilizes tangible common equity, is a useful financial measure because it enables investors and others to assess the Company's use of equity. See page 41 for additional information.

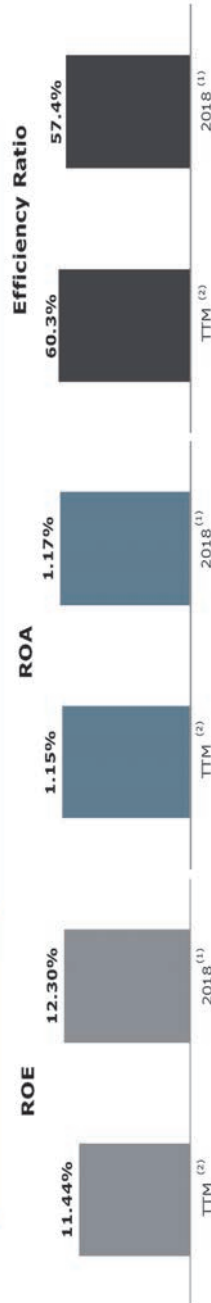
Wells Fargo 2017 Investor Day

Financial Overview 36

Potential drivers of improved returns and efficiency in 2018

- Potential drivers and hypothetical assumptions ⁽¹⁾ including ROE, ROA and Efficiency Ratio

Revenue	<ul style="list-style-type: none">■ 2018 total revenue up ~1% from 2017 on net interest income growth<ul style="list-style-type: none">- Steady and consistent rise in interest rates- Moderately steeper yield curve
Noninterest Expense	<ul style="list-style-type: none">■ 2018 expenses down modestly, <1%, from 2017
Provision Expense	<ul style="list-style-type: none">■ 35 bps of net charge-offs in 2018



(1) Hypothetical; not to be interpreted as guidance. This is just as illustrative example of where we could operate given these hypothetical assumptions. Results will vary based on business and market conditions, as well as other factors.

(2) Trailing twelve months, 2Q16 through 1Q17.

Summary

- Diversified business model allows us to perform consistently over the cycle
- Balance sheet is modestly asset sensitive
 - Expect to grow net interest income year-over-year in 2017 by low to mid single percentage points
- Key expense takeaways:
 - \$2.0 billion of annual expense savings anticipated by year-end 2018, and those savings will help offset investment spending that is already in our run-rate
 - We expect an additional \$2.0 billion in annual expense savings by year-end 2019; these savings are projected to go to the “bottom line”
- Performance targets takeaways:
 - 2017 ROE and ROA are expected to be at low end of target ranges
 - 2017 Efficiency ratio is expected to be elevated at 60%-61%
 - 2-year annual performance targets established in 2016 remain at industry-leading levels
- Potential upside revenue opportunities across the company

Appendix



Common Equity Tier 1 (Fully Phased-In)

Wells Fargo & Company and Subsidiaries

COMMON EQUITY TIER 1 UNDER BASEL III (FULLY PHASED-IN) (1)

(In billions, except ratio)	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
Total equity	\$ 202.5	200.5	204.0	202.7	198.5
Adjustments:					
Preferred stock	(25.5)	(24.6)	(24.6)	(24.8)	(24.1)
Additional paid-in capital on ESOP	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
Preferred stock	2.5	1.6	1.6	1.9	2.3
Unearned ESOP shares	(1.0)	(0.9)	(1.0)	(1.0)	(1.0)
Noncontrolling interests	178.3	176.5	179.9	178.6	175.5
Total common stockholders' equity					
Adjustments:					
Goodwill	(26.7)	(26.7)	(26.7)	(27.0)	(27.0)
Certain identifiable intangible assets (other than MSRs)	(2.4)	(2.7)	(3.0)	(3.4)	(3.8)
Other assets (2)	(2.1)	(2.1)	(2.2)	(2.0)	(2.1)
Applicable deferred taxes (3)	1.7	1.8	1.8	1.9	2.0
Investment in certain subsidiaries and other	(0.1)	(0.4)	(2.0)	(2.5)	(1.9)
Common Equity Tier 1 (Fully Phased-In) under Basel III	(A) 148.7	146.4	147.8	145.6	142.7
Total risk-weighted assets (RWAs) under Basel III (4)	(B) \$ 1,324.5	1,358.9	1,380.0	1,372.9	1,345.1
Common Equity Tier 1 to total RWAs under Basel III (Fully Phased-In)	(A)/(B) 11.2%	10.8	10.7	10.6	10.6

- (1) Basel III capital rules, adopted by the Federal Reserve Board on July 2, 2013, revised the definition of capital, increased minimum capital ratios, and introduced a minimum Common Equity Tier 1 (CET1) ratio. These rules established a new comprehensive capital framework for U.S. banking organizations that implements the Basel III capital framework. The full phase-in of the Basel III capital rules is scheduled to be completed by January 1, 2019. The table above shows the Common Equity Tier 1 (Fully Phased-In) ratio calculated assuming the full phase-in of the Basel III capital rules. Fully phased-in regulatory capital amounts, ratios and RWAs are considered non-GAAP financial measures that are used by management, bank regulatory agencies, investors and analysts to assess and monitor the Company's capital position.
- (2) Represents goodwill and other intangibles on nonmarketable equity investments, which are included in other assets.
- (3) Applicable deferred taxes relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.
- (4) The table above shows the Common Equity Tier 1 (Fully Phased-In) ratio calculated under the Standardized Approach and under the Advanced Approach applicable to certain institutions. Under the final rules, we are subject to the lower of our CET1 ratio calculated under the Standardized Approach and under the Advanced Approach in the assessment of our capital adequacy, which for March 31, 2017, December 31, September 30, June 30, and March 31, 2016, was calculated under the Basel III Standardized Approach RWAs.

Return on average tangible common equity (ROTCE)

Wells Fargo & Company and Subsidiaries
TANGIBLE COMMON EQUITY (1)

(in millions, except ratios)	Year ended Dec 31, 2016
Return on average tangible common equity (1):	
Net income applicable to common stock	\$ 20,373
Average total equity	200,690
Adjustments:	
Preferred stock	(24,363)
Additional paid-in capital on ESOP preferred stock	(161)
Unearned ESOP shares	2,011
Noncontrolling interests	(936)
Average common stockholders' equity	177,241
Adjustments:	
Goodwill	(26,700)
Certain identifiable intangible assets (other than MSRs)	(3,254)
Other assets (2)	(2,117)
Applicable deferred taxes (3)	1,897
Average tangible common equity	147,067
Return on average common stockholders' equity (ROE)	(A)/(B) 11.49%
Return on average tangible common equity (ROTCE)	(A)/(C) 13.85

(1) Tangible common equity is a non-GAAP financial measure and represents total equity less preferred equity, noncontrolling interests, and goodwill and certain identifiable intangible assets (including goodwill and intangible assets associated with certain of our nonmarketable equity investments but excluding mortgage servicing rights), net of applicable deferred taxes. The methodology of determining tangible common equity may differ among companies. Management believes that return on average tangible common equity, which utilizes tangible common equity, is a useful financial measure because it enables investors and others to assess the Company's use of equity.

(2) Represents goodwill and other intangibles on nonmarketable equity investments, which are included in other assets.

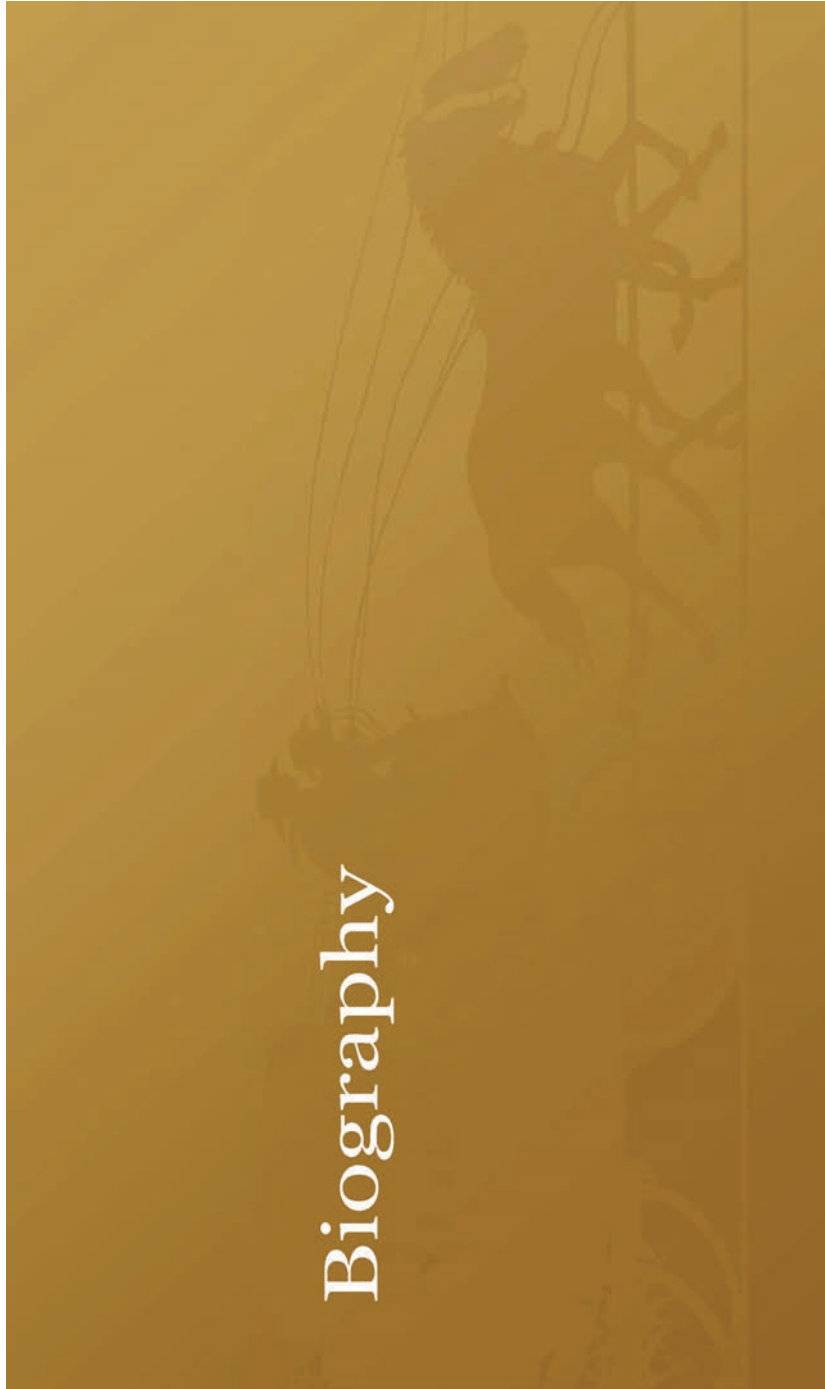
(3) Applicable deferred taxes relate to goodwill and other intangible assets. They were determined by applying the combined federal statutory rate and composite state income tax rates to the difference between book and tax basis of the respective goodwill and intangible assets at period end.

Basel III capital components and ratios (Fully phased-in)

Wells Fargo & Company and Subsidiaries			
RISK-BASED CAPITAL CALCULATION, COMPONENTS AND RATIOS (FULLY PHASED-IN) (1)			
(In billions, except ratios)			
	March 31, 2017		
	\$		
	Advanced Approach	Standardized Approach	
	2017.5	2017.5	
Total equity			
Adjustments:			
Preferred stock	(25.5)	(25.5)	
Additional paid-in capital on ESOP preferred stock	(0.2)	(0.2)	
Unearned ESOP shares	2.5	2.5	
Noncontrolling interests	(1.0)	(1.0)	
Total common stockholders' equity	178.3	178.3	
Adjustments:			
Goodwill	(26.7)	(26.7)	
Identifiable intangible assets (other than MSBs)	(24.4)	(24.4)	
Other assets (2)	(2.1)	(2.1)	
Applicable deferred taxes (3)	1.7	1.7	
Investment in certain subsidiaries and other	(0.1)	(0.1)	
Common Equity Tier 1 (Fully Phased-In)	148.7	148.7	
Adjustments:			
Preferred stock	25.5	25.5	
Additional paid-in capital on ESOP preferred stock	0.2	0.2	
Unearned ESOP shares	(2.5)	(2.5)	
Other	(0.4)	(0.4)	
Total Tier 1 capital (Fully Phased-In)	171.4	171.4	
Adjustments:			
Long-term debt and other instruments qualifying as Tier 2	29.4	29.4	
Qualifying allowance for credit losses (4)	2.4	12.3	
Other	(0.3)	(0.3)	
Total Tier 2 capital (Fully Phased-In)	31.5	41.4	
Total qualifying capital (Fully Phased-In)	(B)+(C)		
	\$ 202.9	\$ 212.8	
Risk-Weighted Assets (RWAs) (5)(6):			
Total RWAs (Fully Phased-In)	(D)	\$ 1,324.5	
Common Equity Tier 1 Capital Ratio	(A/D)	11.7 %	
Tier 1 Capital Ratio	(B/D)	13.4	
Total Capital Ratio	(B)+(C)/D	15.9	

- (1) Fully phased-in regulatory capital amounts, ratios and RWAs are considered non-GAAP financial measures that are used by management, bank regulatory agencies, investors and rating agencies.
- (2) Represents goodwill and other intangibles on non-marketable equity investments, which are included in other assets.
- (3) Represents deferred tax assets that are not realizable in the near term.
- (4) Represents the allowance for credit losses that exceeds expected credit losses. Under the Advanced Approach, the allowance for credit losses that exceeds expected credit losses is eligible for inclusion in Tier 2 Capital, to the extent the excess is not more than 1.25% of Standardized credit RWAs. Under the Standardized Approach, the allowance for credit losses is not eligible for inclusion in Tier 2 Capital up to 1.25% of Standardized credit RWAs, with any excess allowance for credit losses being deducted from total RWAs.
- (5) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total RWAs.
- (6) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total RWAs.

Biography





John Shrewsberry

Senior EVP, Chief Financial Officer

- Senior Executive Vice President John Shrewsberry is the chief financial officer responsible for Wells Fargo's financial management functions including accounting and control, financial planning and analysis, line of business finance functions, asset-liability management, treasury, tax management, investor relations, and the company's investment portfolios. John is also responsible for Wells Fargo's corporate development, information technology, corporate properties and security, and corporate strategy functions. John serves on the Wells Fargo Operating and Market Risk Committees and is based in San Francisco.
- A 22-year veteran of banking and investing, John served as head of Wells Fargo Securities from 2006 through May 2014, where he was responsible for investment banking and capital markets activity. From 2001 through 2005, he was the group head of Wells Fargo Commercial Capital, the successor to a commercial finance company he co-founded that became part of Wells Fargo in 2001. Previously, John worked at Goldman Sachs and Credit Suisse First Boston in the principal finance areas. He started his career as a Certified Public Accountant at Coopers & Lybrand.
- John earned his B.A. in economics from Claremont McKenna College and an M.B.A. from the Yale School of Management.
- John currently serves on the board for the Committee on Capital Markets Regulation, the Financial Economics Institute, the Yale School of Management, the Yale Corporation Investment Committee and he is active with the Juvenile Diabetes Research Foundation.