HOLDING MEGABANKS ACCOUNTABLE: AN EXAMINATION OF WELLS FARGO'S PATTERN OF CONSUMER ABUSES

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HOLDING MEGABANKS ACCOUNTABLE: AN EXAMINATION OF WELLS FARGO'S PATTERN OF CONSUMER ABUSES

Tuesday, March 12, 2019

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:08 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Velazquez, Sherman, Meeks, Clay, Scott, Green, Cleaver, Perlmutter, Himes, Foster, Beatty, Heck, Vargas, Gottheimer, Gonzalez of Texas, Lawson, Tlaib, Porter, Axne, Casten, Pressley, McAdams, Ocasio-Cortez, Wexton, Lynch, Adams, Gabbard, Dean, Garcia of Illinois, Garcia of Texas; McHenry, Wagner, Lucas, Posey, Luetkemeyer, Huizenga, Duffy, Barr, Tipton, Williams, Hill, Zeldin, Loudermilk, Mooney, Davidson, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden and Riggleman.

Chairwoman WATERS. The Financial Services Committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Holding Megabanks Accountable: An Examination of Wells Fargo's Pattern of Consumer Abuses."

I now recognize myself for 4 minutes to give an opening statement.

Today, we examine Wells Fargo's egregious pattern of consumer abuses. Our witness today is Mr. Timothy Sloan, President and Chief Executive Officer of Wells Fargo & Company. I would like to begin by recounting some of Wells Fargo's recent harmful actions of which we are aware.

Between 2011 and 2016, Wells Fargo fraudulently opened millions of unauthorized accounts, costing their customers millions of dollars. In September 2016, the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Los Angeles City Attorney imposed a collective $185 million fine.

From 2006 to 2016, the bank charged servicemembers illegal fees, failed to disclose their active-duty status in eviction proceedings, and unlawfully repossessed their vehicles, resulting in a $20 million fine and $10 million returned to servicemembers.

From 2005 to 2016, the bank charged customers for automobile insurance policies they did not need, resulting in some customers going into default and losing their vehicles.

From 2013 to 2017, Wells Fargo inappropriately charged prospective home loan borrowers fees for extending the period for a mortgage interest rate lock. Together, these abuses led to a collective fine of $1 billion by the CFPB and the OCC.

In 2017, the OCC and the SEC, respectively, found that Wells Fargo or its subsidiary failed to comply with anti-money laundering laws. The SEC also found that from 2009 to 2013, Wells Fargo advisers unlawfully sold complex financial products to retail investors, reducing their investment returns. Recently, Wells Fargo self-reported that between 2010 and 2018, the bank erroneously denied or failed to offer modifications to customers, resulting in over 500 people losing their homes.

What this long but impartial list makes clear is that Wells Fargo is a recidivist financial institution that creates widespread harm with a broad range of offenses. What's more, this misconduct appears to persist, with The New York Times reporting Saturday that Wells Fargo's employees continue to see internal rule-breaking to meet aggressive sales goals.

In 2018, the Federal Reserve Board imposed a cap on the bank's growth, which remains in place today. But this punishment and the fines imposed have not changed the bank's behavior, and Wells Fargo continues to rake in huge profits.

Also concerning is that Wells Fargo's regulators seem unwilling to take forceful actions against the bank, but instead are weakening the Dodd-Frank Act safeguards which protect consumers and the economy from large firms like Wells Fargo. This includes diluting big bank capital liquidity, leverage and stress-testing requirements, and the Volcker Rule's ban on gambling with taxpayers' deposits.

This committee will scrutinize what is happening at megabanks like Wells Fargo, and at the regulators who oversee them. Wells Fargo's ongoing lawlessness and failure to right the ship suggests the bank, with approximately $1.9 trillion in assets and serving 1 in 3 U.S. households, is simply too-big-to-manage.

Mr. Sloan, this committee is putting consumers first and holding financial institutions accountable. We will expect you to be forthcoming.

And now, the Chair recognizes the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes for an opening statement.

Mr. MCHENRY. I thank the gentlelady for yielding.

For several years now, we have been hearing about all sorts of mismanagement and misconduct with Wells Fargo. In fact, just yesterday we learned the Securities and Exchange Commission is taking due action against your advisory business.

Each time a new scandal breaks, Wells Fargo promises to get to the bottom of it. It promises to make sure it doesn't happen again. But then a few months later, we hear about another case of dishonest sales practices or gross mismanagement, another case of a consumer who has been harmed by the bank's business practices.

In fact, since 2016, the bank has entered into settlements with every single one of its Federal regulators: the Consumer Financial Protection Bureau; the Commodity Futures Trading Commission; the Office of the Comptroller of the Currency; the Federal Reserve; and the Securities and Exchange Commission.

The various settlements required the bank to develop plans to identify and remediate customers who were harmed. The orders also require the bank to address internal deficiencies. The bank is still in the process of complying with the terms of those settlements now, 2½ years since the unauthorized account scandal first came to light.

And we know several of the consent orders are still active because of the bank's inability to develop a sufficient customer remediation plan. These are the facts.

In October of last year, Comptroller of the Currency Joseph Otting testified before the Senate Banking Committee that the OCC was "not comfortable with Wells' remediation progress to date." Meanwhile, you announced that the bank is expected to remain under the Fed's unprecedented asset cap, at least until the end of the year.

So obviously, the bank has a ways to go before the Federal Reserve is satisfied. Furthermore, I am concerned that we don't know with certainty how many consumers were affected, what business lines were implicated, and the full extent of the damage. We still don't have a full picture of how many customers were harmed and whether they have been made whole.

Every single member of this committee has constituents in their State who were impacted by Wells Fargo. The bank's behavior has real-world consequences. Our constituents should be able to trust their own bank. Some of them don't have access to an alternative.

We know you have taken steps in the right direction, Mr. Sloan. Some were mandated by regulators, actually, in fact, most were mandated by the regulators, and others were imposed by you in your 2½ years as Chief Executive.

For example, just 3 of the 10 members of the Wells Fargo Operating Committee who were in place in February of 2016 remain there today. You hired a new Chief Risk Officer and a new Chief Compliance Officer. That is progress, but obviously it hasn't been enough to satisfy your regulators.

So I want to use this hearing today to get your commitment as the leader of this corporation that you will do what is necessary to make sure this does not happen again. I want to know more about the internal controls you put in place to address the history of gross mismanagement.

I want to know specifically how you are changing the culture at Wells Fargo. These bad acts don't conform with the strong legacy that I know of Wachovia and First Union in my home State.

Be assured, though, this is not the end of the conversation. This is an important hearing, and you will hear bipartisan criticism of the actions you have taken and the failures that you have overseen under your watch. I yield back.

Chairwoman WATERS. The Chair now recognizes the Chair of our Subcommittee on Oversight and Investigations, Mr. Green, for one minute.

Mr. GREEN. Thank you, Madam Chairwoman. I thank the witness, as well.

Mr. Sloan, you became the CEO of Wells on October 12, 2016. We need to know what you know and when did you know it. Here is why: On September 8, 2016, the Consumer Financial Protection Bureau issued a consent order which found that from January 1, 2011, to September 8, 2016, thousands of Wells Fargo employees opened deposit accounts for existing customers without their consent, submitted credit card applications in the names of customers without their consent, enrolled customers in online banking services without their consent, and requested debit cards for customers without their consent.

The question that we need to have answered is, is there a culture of corruption at Wells? I yield back.

Chairwoman WATERS. The Chair now recognizes the subcommittee ranking member, Mr. Barr, for one minute.

Mr. BARR. Thank you, Madam Chairwoman.

Mr. Sloan, thank you for appearing today, and let me be blunt: You are here today because Wells Fargo mistreated and defrauded its customers. As a consequence, your bank is operating under consent orders and a damaged reputation.

But Wells Fargo's reputation is not my chief concern. The bank's actions have given a voice to those who want to unfairly taint the reputation of the entire banking sector, including the community bankers who serve the people of Central and Eastern Kentucky with the highest of integrity.

Your bank's misconduct has fueled the kind of unfair, hyperbolic, and anti-bank rhetoric that you will hear today, which threatens access to capital, job creation, and economic growth.

Today is your chance to convince this committee and our constituents that you are going above and beyond to make things right and bring your bank in line with industry standards to restore not only Wells Fargo's reputation, but the reputations of the vast majority of banks in America who serve their customers with professionalism, integrity, and the highest ethical standards.

While I recognize you have taken significant steps to compensate customers who were harmed, the Fed's asset cap is still in place and several consent orders are still active. So clearly, there is more work to do. I look forward to your testimony, and I yield back.

Chairwoman WATERS. I want to welcome to the committee Timothy J. Sloan, President and Chief Executive Officer of Wells Fargo & Company. Mr. Sloan has been the Chief Executive Officer of Wells Fargo & Company since October 12, 2016, and its President since November 17, 2015. Mr. Sloan also served as the Chief Operating Officer at Wells Fargo from November 17, 2015, to October 12, 2016, where he oversaw the community banking division that we will be discussing today.

Prior to his appointment as President and Chief Executive Officer, Mr. Sloan held a variety of positions at Wells Fargo over his 31-year career at the company, including as Chief Financial Officer, and leading the company's wholesale banking businesses.

Without objection, your written statement will be made a part of the record. Before we begin, I would like to swear the witness in.

[witness sworn]

Chairwoman WATERS. Thank you. Let the record show that the witness answered in the affirmative.

Mr. Sloan, you will have 5 minutes to summarize your testimony. When you have 1 minute remaining, a yellow light will appear. At that time, I would ask you to wrap up your testimony so that we can be respectful of the committee members' time.

So, Mr. Sloan, you are now recognized to present your oral testimony.

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

Mr. SLOAN. Thank you. Chairwoman Waters, Ranking Member McHenry, and members of the committee, good morning, and thank you for this opportunity to discuss the transformation at Wells Fargo and the progress we are making to work to become the most customer-focused and innovative Wells Fargo ever.

The past few years have been a very difficult time in Wells Fargo's storied history. When I became CEO more than 2 years ago, our bank was facing unprecedented and well-deserved scrutiny. I pledged to look back years to examine every business at Wells Fargo to ensure that no similar problems existed anywhere else in the company.

We discovered issues that we needed to address. Every one of those was a disappointment to me, but when I stepped into this role, I promised that accountability and transparency would define our efforts, and they have.

Above all, Wells Fargo is committed to making things right for our customers and to earning back the public's trust. We are dedicated to compensating every customer who suffered harm because of our mistakes. We continue to proactively identify customers, contact them, and compensate them appropriately.

For the retail sales practices issue, for example, we looked back more than 15 years, reviewed 165 million accounts, contacted more than 40 million customers via 246 million individual communications, and have provided tens of millions of dollars in compensation to our customers to date. We are taking responsibility for any fees customers should not have been charged, and for related effects, such as impacts on credit scores.

Our guiding principle has been to err on the side of customers and we are taking an overly inclusive approach in doing so. To be sure, getting this right for each customer takes time, longer than I would like, frankly. We make every effort to refund customers for mistakes as soon as we discover them. But mistakes do not affect every customer in the same way, so we developed processes for taking customers' individual circumstances into account to ensure that we fully compensate them.

Solving past problems is not enough; we must also prevent new ones from developing. Our past problems were the product of an old decentralized structure, so we have centralized enterprise controls including risk, finance, and human resources, and have hired impressive new leaders, many from outside the company, to oversee them. We have also added more than 3,000 new risk professionals. Changes like these enable us to avoid errors, identify issues earlier, and address them faster.

Our Board of Directors has undergone a similar transformation. In the past 2½ years, we have refreshed the board with seven new independent directors. Our new board Chair, Betsy Duke, is a former Federal Reserve Governor and is the first woman to Chair a major U.S. financial institution.

Our corporate culture has substantially improved. Team members see this improvement in the elimination of product sales goals that contributed to the unauthorized accounts problem. They see it in a performance evaluation system that prioritizes serving customers and managing risk.

They see it in enhanced leave and increased compensation, including a new $15 per hour minimum wage. They see it in restricted stock rights granted to approximately 250,000 team members in 2018 to recognize their commitment to the company's future success. And they see it in a corporate culture that encourages team members to speak up without fear of retaliation when they see a problem.

By the end of 2018, these and other changes helped us bring our team member voluntary attrition down to its lowest level in 6 years. All of this enables us to serve the one-third of American households who bank with Wells Fargo.

I am proud that our customer experience and customer loyalty scores are now at their highest levels in the past 2½ years. And I am especially proud that Wells Fargo is deepening its commitment to underserved communities, including $185 billion in commitments to support African-American and Hispanic homeownership.

We are using the resources of a big bank to make a big difference. The past few years have reinforced to us that our company does well by doing right. And doing right does not stop with simply repairing harm and rebuilding trust. We have more work to do and that is an ongoing commitment by all of Wells Fargo's 260,000 team members, starting with me, to put our customers' needs first, to act with honesty and integrity and accountability, and to strive to be the best bank in America.

Thank you again for this opportunity, and I look forward to your questions.

[The prepared statement of Mr. Sloan can be found on page 80 of the appendix.]

Chairwoman WATERS. Thank you very much.

Wells Fargo's 2018 10-K reports show that, in accordance with the Consumer Bureau's and the OCC's April 2018 auto insurance and mortgage rate lock consent orders, the bank submitted to the regulators an enterprise-wide compliance plan, a plan to enhance the bank's internal audit program, and plans to remediate customers affected by these matters. According to the consent orders, the required plans are subject to the Consumer Bureau's and the OCC's review and determination of non-objection.

Has the OCC indicated its non-objection to the bank's compliance audit on customer remediation plans? Has the Consumer Bureau indicated its non-objection?

Mr. SLOAN. Madam Chairwoman, I can't respond specifically to your question, because that would mean that I would be disclosing confidential supervisory information that has been shared with us

by both the OCC and the CFPB. But I can assure you that we are working very constructively with what we have in place and we are executing that plan that reflects the fundamental changes that I have made since I have become the CEO.

Chairwoman WATERS. Thank you very much.

For those who are listening, I am simply asking whether or not the bank is in compliance, based on reviews that are done by the OCC and the Consumer Bureau, and you heard that answer—

Mr. SLOAN. We are in compliance with those plans. Excuse me.

Chairwoman WATERS. Thank you.

During an October 2, 2018, hearing before the Senate Banking Committee, Comptroller of the Currency Joseph Otting testified that the OCC was not comfortable with Wells Fargo's remediation progress to date. Has the bank disclosed to investors the status of the plans that it submitted to the OCC and the Consumer Bureau, including whether the regulators have raised any objections to the bank's submitted plans?

Mr. SLOAN. Again, we cannot disclose confidential supervisory information in terms of the give-and-take that we have with either the OCC or the CFPB. But I can assure you that we have plans in place and we—

Chairwoman WATERS. Thank you very much.

On February 2, 2018, the Federal Reserve, in response to recent and widespread consumer abuses and other compliance breakdowns, issued an order restricting Wells Fargo's asset growth until it sufficiently improves its governance and risk management. In announcing the order, the Federal Reserve stated that in recent years, Wells Fargo pursued a business strategy that prioritized its overall growth without ensuring appropriate management of all key risks.

The firm did not have an effective firm-wide risk-management framework in place that covered all key risks. This prevented the proper escalation of serious compliance breakdowns to the Board of Directors. Mr. Sloan, are you aware of the Federal Reserve restricting the asset growth of any other large bank holding company under its supervision other than Wells Fargo?

Mr. SLOAN. No, I am not.

Chairwoman WATERS. Okay. Given the unprecedented nature of the Federal Reserve growth restriction which remains in place today, is Wells Fargo simply too-big-to-manage?

Mr. SLOAN. No, we are not. And I think that the changes that I described in my opening statement in terms of fundamentally reorganizing the company, centralizing our risk and control functions—

Chairwoman WATERS. Thank you very much.

Mr. SLOAN. —changing leadership—

Chairwoman WATERS. I only have a few minutes here.

In your October 4, 2017, testimony to the Senate Banking Committee, you stated that you have the knowledge, ability, and support to make changes at Wells Fargo; indeed, you testified that you have been making changes at this company for 30 years, including fundamental changes as CEO.

Since you gave that testimony, Federal regulators have announced several enforcement actions relating to customer abuses at

Wells Fargo. The Federal Reserve, in February 2018, imposed, again, an unprecedented asset freeze on the bank. On and on and on, with all of this experience and the length of time that you have been there, and the roles that you have played, you have not been able to keep Wells Fargo out of trouble. You keep getting fined. Why should Wells Fargo continue to be the size that it is or should it be downsized? Or what else could be done?

Mr. SLOAN. Well, I believe that Wells Fargo serves our 70 million customers and one out of three U.S. households in a very effective way today. And I think the way in which we serve our customers is reflective of the changes that I have made since I have become CEO, not only in terms of the fundamental changes that I have mentioned in addressing past issues, but also in terms of the new customer capability, customer focus—

Chairwoman WATERS. Thank you very much, Mr. Sloan, I appreciate that. All of the changes that you said that you have made are not evident. And you do not have the kind of customer satisfaction to which you are alluding. Again, is Wells Fargo too-big-to-manage?

With that, I will yield to the gentleman on my right, Mr. McHenry.

Mr. MCHENRY. Mr. Sloan, I mentioned in my opening statement that you have been fined by every one of your Federal regulators. You have entered into consent decrees with every one of these Federal regulators. So how many consent decrees total have you entered into?

Mr. SLOAN. It is my count that we have approximately 14 that are open right now.

Mr. MCHENRY. Fourteen. How many customer accounts are we talking about?

Mr. SLOAN. Related to what?

Mr. MCHENRY. Well, you define it.

Mr. SLOAN. It depends on the underlying issue. For the retail sales practices issue, we engaged an outside third party to look at over 165 million accounts, and what we concluded was that there could have been, but not necessarily were, up to 3.5 million accounts that were opened inappropriately.

Mr. MCHENRY. Okay.

Mr. SLOAN. We have reached out to those customers, and my guess is that once we complete that remediation the number will be smaller than that, but I do not know what the number is.

Mr. MCHENRY. So, when do you plan to complete that remediation on those 3.5 million customers?

Mr. SLOAN. I'm sorry?

Mr. MCHENRY. When do you plan to complete that remediation for those 3.5 million customers?

Mr. SLOAN. We have completed that remediation for those customers. In addition, we have entered into the settlement of a class action suit, and customers have an additional opportunity to be part of that suit. And then once those payments are made, we will have a better idea in terms of numbers.

Mr. MCHENRY. So, 14 separate consent decrees with your regulators. You talk about confidential supervisory information, that means you have ongoing conversations with your regulators that you can't disclose to us in a public setting. We understand the law.

We constructed that law, we created these regulators, and so that means you have ongoing conversations.

So let me just ask this broad question: You are the CEO of a major American company, so does the buck stop with you?

Mr. SLOAN. Absolutely.

Mr. MCHENRY. So what are you doing to change your culture? In your 2½ year- reign, I can hold you accountable to the public, and your shareholders and your Board of Directors should hold you accountable, and are, for your actions as CEO. What are you doing to change the culture?

Mr. SLOAN. The first thing that I did when I took the responsibility as CEO is to take responsibility for our past actions.

Mr. MCHENRY. How are you changing that front-line culture, those people that my constituents interact with in a branch bank in North Carolina, how are you changing that culture? Because those are the ones—not North Carolina interestingly, but those broadly across your footprint, established Wells footprint, those are the ones who took the action. How are you changing that culture?

Mr. SLOAN. In our retail banking business, this is what we have done. We have changed the leadership. We ended the incentive plan that drove inappropriate behavior, we increased the amount of training that we give to our team members called "Change for the Better." We have improved the products and services that we have been encouraging them to work with their customers over. And we have also delegated more responsibility for them in terms of resolving customer issues. The feedback that we get from—

Mr. MCHENRY. I understand the feedback, we have it in your written statement. So can you give me your personal assurance that this is the end of customer harm?

Mr. SLOAN. I can't promise you perfection, but what I can promise you is that the changes that we have implemented, the substantive changes that we have implemented since I became CEO are going to prevent them from occurring as best we can. Centralizing our risk and control functions is a fundamental change in our company. The way that we get information today is different than we got information before.

Mr. MCHENRY. You have been fined $4 billion.

Mr. SLOAN. I'm sorry?

Mr. MCHENRY. You have been fined by your Federal regulators for $4 billion. Do you think that is sufficient or adequate?

Mr. SLOAN. I think that the reputational damage that our company has endured because of our mistakes has created significant damage to the company and it is my job as CEO to make sure things change, and they are changing.

Mr. MCHENRY. Okay. Your personal assurance?

Mr. SLOAN. Yes.

Mr. MCHENRY. You have entered into 14 consent decrees by what you just said publicly. Can you give this committee and the public assurance that you will comply with all of those consent decrees on a going-forward basis?

Mr. SLOAN. I absolutely will.

Mr. MCHENRY. And you will give your personal attestation that you will follow those consent decrees?

Mr. SLOAN. Our team is working very hard to respond to all—

Mr. MCHENRY. Will you give us that assurance that you will follow the letter of the regulators' consent decrees entered into with your bank?

Mr. SLOAN. We will do our absolute best to comply with—

Mr. MCHENRY. And is this the end of scandal at Wells? Are we going to see more headlines coming up? Are we going to have another hearing about this?

Mr. SLOAN. I can't control the media, but—

Mr. MCHENRY. Are your customers going to hear of more bad actions taken by your company?

Mr. SLOAN. There is nothing else that I am aware of that we haven't disclosed, and we changed the standard of disclosure at Wells Fargo after I became CEO. It is not materiality of level of disclosure anymore; it is one of reputation.

Chairwoman WATERS. The gentlewoman from New York, Mrs. Maloney, Chair of our Subcommittee on Investor Protection, Entrepreneurship and Capital Markets, is recognized for 5 minutes.

Mrs. MALONEY. Good morning.

Mr. SLOAN. Good morning.

Mrs. MALONEY. And welcome.

Mr. Sloan, on page five of your testimony under the heading, "Corporate Citizenship," you share, "Our commitment to helping address some of the country's most pressing social and economic issues is only growing."

I would like to talk to you about corporate citizenship. I went to your website and looked up your environmental, social, and governance guide, and it is an impressive list of corporate citizenship policies.

To take one example, Wells Fargo's human rights statement says that your company is committed to respecting human rights and that, "This effort is done with the understanding that in some circumstances, we may go above and beyond what the law and industry standards require." Does that all sound accurate, yes or no?

Mr. SLOAN. It does.

Mrs. MALONEY. Great. Now, I want to take you back to February 14, 2018. That was the day a lone gunman opened fire at a high school in Parkland, Florida, and killed 17 children and staff members with an AR–15-style semi-automatic rifle.

After this horrific massacre, two of your biggest competitors, Citibank and Bank of America, adopted new policies to ensure responsible lending in their businesses with the gun industry. Under the Citi policy, all of the bank's business partners in the gun industry must require a background check before they sell a firearm and they must prohibit the sale of firearms to teenagers. These are commonsense policies that will increase public safety, and they are also smart business decisions.

Yet, when asked about your competitors' new policies, a Wells Fargo spokesman said that progress on these issues had to be made through the legislative process, that your company would not go above and beyond what the law required.

But as we have already seen when I read your human rights statement, in some cases your bank does go above and beyond what the law requires. And to make it worse, last October, Wells Fargo

issued a new $40 million line of credit to the manufacturer of the exact gun that was used to kill 17 people in the Parkland shooting.

So, I have two questions for you. First, why does Wells Fargo continue to put profits over people by financing companies that are making weapons that are literally killing our children and our neighbors?

And, second, why are you willing to go above and beyond what the law requires on some issues like human rights, but not go above and beyond the law when it comes to financing the gun industry? How bad does the mass-shooting epidemic have to get before you will adopt commonsense gun safety policies like other banks have done?

Mr. SLOAN. Congresswoman, we don't put profits over people. We bank many industries across this country. We do our best to ensure that all of our customers whom we bank follow the laws and regulations that are in place on a local and a State and a national level.

Mrs. MALONEY. But—

Mr. SLOAN. My view, our view, is that we don't think it is—

Mrs. MALONEY. Reclaiming my time, because my time is almost up, but why are you willing to go above and beyond what the law requires for human rights, but not for gun safety? Why is one more important than the other?

Mr. SLOAN. That isn't the case. We just don't believe that it is a good idea to encourage banks to enforce legislation that doesn't exist.

Mrs. MALONEY. Well, you go—

Mr. SLOAN. I view that as your responsibility and not mine.

Mrs. MALONEY. —above and beyond the law in others.

Second, very quickly, as my time is almost up, as part of a massive scandal uncovered in 2016 where Wells Fargo defrauded millions of customers by opening more than 3.5 million fake accounts, Wells Fargo attempted to force its customers, when they sought justice, into arbitration. If investors deserve to seek justice and accountability through the civil justice system, why do you think that Wells Fargo customers don't deserve the same treatment?

May he answer, Madam Chairwoman?

Mr. SLOAN. I'm sorry, am I able to answer the question?

Chairwoman WATERS. Please, take a minute to answer.

Mr. SLOAN. Sure. Congresswoman Maloney, we took your advice that you gave my predecessor in the last hearing. That is, you asked us in the instance of retail sales practices to go beyond just a couple of years. That is why we went back more than 15 years to make sure that we were able to capture all of the potential customers who were harmed. We thought that was a very good idea.

And as I mentioned in my opening statement, we have looked at more than 165 million accounts, contacted more than 40 million customers through 264 million interactions, to make sure that we have made things right for them, and I believe we have.

Mrs. MALONEY. Okay. Thank you.

Chairwoman WATERS. The gentlewoman from Missouri, Mrs. Wagner, the vice ranking member, is recognized for 5 minutes.

Mrs. WAGNER. I thank the chairwoman for yielding.

Good morning, Mr. Sloan.

Mr. SLOAN. Good morning.

Mrs. WAGNER. I want to start by expressing my continued anger and frustration that your company was taking advantage of your customers and our constituents for years. You had a responsibility to your customers. Placing one's money and wealth in the custody of an organization like Wells Fargo is one of the biggest displays of the public's trust.

And your company betrayed that trust and took advantage of customers in order to meet sales performance goals and fraudulently improve earnings and share prices. While you have apologized, paid millions and billions of dollars in fines, and, after reviewing your recently released business standards report, made numerous changes to your corporate structure, I think we can agree there is still more to be done.

Mr. Sloan, there were over 15,000 accounts in Missouri affected by misconduct and scandal since 2012. These include many of my constituents whom I represent. I care deeply about these customers.

Have all of these customers been made whole, sir, and not just for any fees charged, but also for related effects, such as impact on credit scores and such?

Mr. SLOAN. The answer is yes, by us. And the way that we have done that is by the extensive outreach that I mentioned in my opening statement and—

Mrs. WAGNER. Outreach, meaning what?

Mr. SLOAN. Meaning that we looked at 165 million accounts, we had a third—

Mrs. WAGNER. And they have been made whole and their credit scores have not been impacted, you have made sure of that?

Mr. SLOAN. We have corrected any improper information that we provided to the credit bureaus. And in addition to reimbursing customers for fees and expenses, we have asked them to come in and see us to the extent that they felt like there was additional harm.

Mrs. WAGNER. What percentage came in to see you, sir?

Mr. SLOAN. A very small percentage came in to see us, notwithstanding our best efforts to contact everyone. And then to the extent that they weren't satisfied with what our offer was, we hired a mediator at our expense on their behalf, and we have resolved all of those customers who have come in. In addition, those customers have the ability to take part in the class action settlement that we have entered into where we have paid $142 million.

Mrs. WAGNER. Thank you. I have limited time. After the scandals that had been brought to light since 2016, Wells Fargo decided to hire a new Chief Compliance Officer to ensure that the bank is mitigating risk. I would like to know when that new Chief Compliance Officer was in fact hired and has the new Chief Compliance Officer been empowered to make changes throughout the company?

Mr. SLOAN. He has. Mike Roemer was hired and joined us in January of 2018.

Mrs. WAGNER. In January of 2018?

Mr. SLOAN. That is correct.

Mrs. WAGNER. What was going on between 2016 and then? That is a lot of time before you hired a Chief Compliance Officer, sir.

Mr. SLOAN. That is correct. We had a compliance program that was in place. It wasn't working as well as I would have liked. We

dismissed our—we asked our prior Chief Compliance Officer to step aside and we went out and I think we have hired the best Chief Compliance Officer in the industry, who has a demonstrated capability of—

Mrs. WAGNER. Did the regulators tell you to get rid of your Chief Compliance Officer?

Mr. SLOAN. No, I made that decision.

Mrs. WAGNER. Yes. In your testimony you mentioned that Wells Fargo has worked to address the root causes that allowed these issues to occur in the first place. Mr. Sloan, in your opinion, what are these root causes? Was there something in your business model, something in your organizational structure that led to this malfeasance?

Mr. SLOAN. Well, I think there were a number of root causes, Congresswoman. First, it was reflective in our decentralized structure where our control functions were part of our businesses as opposed to separate.

I have changed that since I have become CEO. I think it was also reflective in our retail banking business in an incentive plan that was much too focused on selling products as opposed to providing good service and advice.

We have ended that incentive plan and we have a new plan in place that is being received quite well by not only our team members but also by our customers. That is reflective in the improvement in customer service, customer loyalty, and customer experience scores. The feedback that we get from our team is that those fundamental changes like that are being very well received.

Mrs. WAGNER. My time is about to expire. I have more questions about risk management and the board. I hope that some of my other colleagues will get to that. I thank you for your testimony, and I yield back, Madam Chairwoman.

Mr. SLOAN. Thank you.

Chairwoman WATERS. Thank you very much. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Madam Chairwoman, I thank you for holding this hearing. This hearing is at least a year, maybe 2 years late, and I am glad to see that when 3.5 million consumers are adversely affected, that the Financial Services Committee will take that seriously.

Mr. Sloan, this is not a trick question, because I told you in my office that I would ask it. You have hurt consumers, you have talked about remediation, but now it is time for you to be in the vanguard of consumer protection. One way you could do that is to endorse Representative Carolyn Maloney's bill on overdraft protection.

This bill will make sure that overdrafts are reasonable and proportional, that you do not reorder transactions, and that no other bank reorders transactions in order to increase the amount of fees, that there are notifications at ATMs, et cetera. I asked your senior staff to look at the bill, and to advise you. Can you be on the right side of history and endorse that bill now?

Mr. SLOAN. I think we are already on the right side of history, because when you look at the changes that—

Mr. SHERMAN. I am not asking what your practices are, Mr. Sloan, because even your practices only affect your bank. You have a powerful lobbying organization in this City. Will your organization be on the right side of history?

Mr. SLOAN. Again, I can tell you what we do—

Mr. SHERMAN. No, I am asking what your lobbyists will do, not what your banking computers will do.

Mr. SLOAN. We don't have lobbyists who are lobbying on overdraft protection.

Mr. SHERMAN. Your lobbyists don't lobby on bills affecting all of your customers and the bank's relationship with them? Why do you pay them?

Mr. SLOAN. Congressman, what I would like to do is describe the industry leading changes that we—

Mr. SHERMAN. No. Because it is my time, and I asked you whether you would support the bill, and you are trying to filibuster it by talking about your practices. Somebody else may ask you that question. Will your lobbying organization, which you have here to lobby on bills relevant to your bank—nothing could be more relevant—support this legislation?

Mr. SLOAN. Congressman, I have not spoken to our industry trade groups about that bill, but I will speak to them about it.

Mr. SHERMAN. Oh, so you will talk about it behind closed doors?

Mr. SLOAN. I would like to talk to you—

Mr. SHERMAN. Okay. I have to go onto the next question.

Mr. SLOAN. This hearing is about—

Mr. SHERMAN. Sir, I need to go on to the next question. You told the gentlelady from Missouri that you have done full remediation. It occurs to me that some people had a worse FICO score and didn't get a house. They just didn't qualify.

Now, that house is worth several hundred thousand dollars more than when they were denied credit. If somebody is in that circumstance, sure, you will pay for a mediator, but will you enforce the arbitration provision or will you let them go to court if they want to go to court?

Mr. SLOAN. They don't need to go to court.

Mr. SHERMAN. If they want to go to court. You know, the courts were established by the U.S. Constitution, and these other ways of dealing with disputes are fine for those people who want them, but will you force those people into arbitration if they decide that is not what they want?

Mr. SLOAN. Congressman, in the situation of the retail sales practices mistakes that we made, our customers don't need to go to court because—

Mr. SHERMAN. So you are smart, they are dumb, you have their interest at heart, they have lawyers, they want to go to court, and you are telling them they are stupid for wanting to go to court. Let's say they want to go to court. Will you force them out of court by using the arbitration provisions?

Mr. SLOAN. Congressman, I don't think our customers are stupid, in fact, I think—

Mr. SHERMAN. Well, then, some of your customers want to go to court. Are those customers stupid? Or are you going to use your clever arbitration provisions, applicable to accounts they never

signed up for, in order to keep them out of court if that is what they decide they want?

Mr. SLOAN. Congressman, our remediation for customers who were impacted by retail sales practices is extensive and comprehensive—

Mr. SHERMAN. And you refuse to let people go to court, and you use your arbitration provision for the account they did sign up for to keep them out of court with regard to the account they didn't sign up for, and then you come before Congress and say, "Oh, but that is wonderful for the consumer. The consumer must be wrong if they want to go to court."

Mr. SLOAN. I didn't say that, Congressman. What I have been trying to—

Mr. SHERMAN. Will you let them go to court if that is what they want? Yes or no?

Mr. SLOAN. We settled 140—

Mr. SHERMAN. I am asking for a yes or no, not a filibuster. That is the Senate side, not here. Yes or no?

Mr. SLOAN. Congressman, I have answered your question in terms of—

Mr. SHERMAN. No, you haven't. I have asked you, yes or no, and you haven't given me an answer.

Mr. SLOAN. Congressman, in certain circumstances, we enforce our arbitration provisions of our customer agreements. In the case—

Mr. SHERMAN. Even for the accounts they didn't sign up for?

Mr. SLOAN. Congressman, in the case of sales practices, as I have mentioned, we have had an extensive remediation effort. Every customer who has come in to see us, we have resolved their issue. They have been taken care of.

Chairwoman WATERS. Mr. Sherman, obviously Mr. Sloan is not going to answer your question. We are going to move on.

Mr. Posey, the gentleman from Florida, is recognized for 5 minutes.

Mr. POSEY. Thank you, Madam Chairwoman.

Mr. Sloan, they have piqued my interest a little bit talking about these overdraft fees. They don't want to have overdraft fees. Does that mean that people who don't bounce checks should share the expense of people who do bounce checks? Am I understanding that right?

Mr. SLOAN. I think that customers who overdraw their accounts should be charged a reasonable fee for that. At Wells Fargo, what we have done is tried to live up to our vision of satisfying our customers' financial needs and helping them to succeed financially by giving them all the information that we have to be able to manage their financial situation the best.

So, for example, in May of 2017, we introduced a new capability called real-time balance alert. It is very simple. You tell us what balance you want to know about. When your account hits that balance, we will push out that information to you. That has saved our customers hundreds of millions of dollars, in the last year and a half since we have introduced that, of overdrafts. We push out 43 million real-time balance alerts a month.

In addition, we introduced another capability in November of 2017 called overdraft rewind. We find that more likely than not, some of our customers will overdraw their accounts the day before they get paid.

If you have a direct deposit into Wells Fargo on a Friday, and we know that is happening, and you overdraw your account the night before, we are not going to charge you that overdraft the next day, because you are a customer, and we know you are going to go ahead and get paid. That has saved 2.3 million overdrafts since we introduced that, again, about a year and a half ago.

We are very pro-consumer in terms of our overdraft policies and I think that they are industry-leading. If we have information about our customers that can help them manage their finances better and avoid an overdraft, absolutely. But if a customer decides to overdraw their account on their own, they should have to pay a fee for that.

Mr. POSEY. About how many employees does your bank employ?

Mr. SLOAN. 260,000.

Mr. POSEY. Okay. The topics before us today are somewhat complex and I would like to ask you to simplify some matters and tell the committee the most important lessons that our constituents should draw from the events and violations that brought you before the committee today.

Mr. SLOAN. Well, I think, first and foremost, if you see a problem, deal with it as aggressively and as quickly as you can. And that is a lesson learned by us and it won't be repeated.

I think that when you see a fundamental issue in terms of a company's organization that needs to be dealt with, even if it means making massive change in the company, you need to go ahead and do that. And it also means that if you see leaders who are not living up to the standards that you expect for your company, you need to make changes.

Mr. POSEY. You testified that the sales culture at Wells Fargo and the incentives to sell accounts and credit cards contributed to the violations. Was that a culture unique to Wells Fargo? I mean, have you had experience with others during the enforcement process?

Mr. SLOAN. I can't speak for our competitors. I think many of our competitors have incentive plans. I don't necessarily know whether they were they were the same or different. I think that our incentive plans, though, went off the rails because it focused too much in our retail banking business on selling products as opposed to providing the right advice and service.

In addition, we created a legacy of managers who weren't managing anymore; they were enforcing incentive plans. We have changed all that since I have become CEO. That should have never happened and it won't happen again.

Mr. POSEY. Okay. Looking forward, what are you doing now to protect your customers from cyber theft?

Mr. SLOAN. From cyber? Well, we are doing two things. One is that we have hired a very impressive cyber team and we have cyber threat fusion centers all around the world to monitor cyber risks for the company. We have invested hundreds of millions of

dollars, by now billions of dollars in cybersecurity, including having third parties come in and provide us with ideas.

In addition, we are using artificial intelligence to monitor our customers' accounts. So if we see some sort of a transaction that looks odd for that customer, like maybe you sending a million dollars to a bank account in a country that you have never had a relationship with, then we would try to surface that for the customer. There is more to do. I think the biggest risk that American consumers face today is one of imposter fraud.

Mr. POSEY. Thank you.

Chairwoman WATERS. The gentleman from New York, Mr. Meeks, the Chair of our Subcommittee on Consumer Protection and Financial Institutions, is recognized for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman.

Hello, Mr. Sloan.

Mr. SLOAN. Good morning.

Mr. MEEKS. Do you realize how serious this scenario is with Wells Fargo?

Mr. SLOAN. Yes, I do, Congressman.

Mr. MEEKS. Because your predecessor, when he was before us, I took it that he wasn't really serious when we talked about the grievous actions of Wells Fargo and how it affected Main Street. Do you realize that if someone on Main Street caused such hazardous results, whether it was stealing their money or conning them, they would go to jail. That is what they do. They go to jail.

And what you have done, your industry—or I shouldn't say your industry, your bank that you have been a part of for 31 years—no one has paid a punishment at all. People have left. Some still received a bonus. People have stayed, as you have, and got promoted. So when the general public looks at this, they do not see any justice at all, nothing.

You say that there have been changes. I am looking at a news report now that just came out last week that says that maybe the practices that were utilized on these accounts have shifted to your debt collection procedures, where those who are collecting debt, going after individuals, they have incentives. They have to be there for 30 hours and collect X amount—I think it is $45,000—or collect X amount of money, and one person has been fired. Are you aware of that?

Mr. SLOAN. Congressman, I am not necessarily familiar with the news report that you are referring to.

Mr. MEEKS. Well, the news report, and I will refer it to you, is dated March 9th and it talked about as recently as December, there was an employee out of your Iowa facility who said that it is a joke that the climate has changed, and that they have been fired as a result of this incentive package that was placed on these employees. Are you aware of that?

Mr. SLOAN. I am not aware of that specific circumstance. But what I can—we can report to you, Congressman, is that is not—that is inconsistent with the feedback that we get from our team members who survey information, through the interaction that I have with them in our town halls.

Mr. MEEKS. But you do your own debt collections, right?

Mr. SLOAN. I'm sorry?

Mr. MEEKS. Wells Fargo does their own debt collection?

Mr. SLOAN. In some circumstances, that is correct.

Mr. MEEKS. And in that case, those that do their own debt collections are exempt from the protections against harassment that is in the Fair Debt Collection Practices Act.

Mr. SLOAN. That is inconsistent. We follow the laws and regulations of this country.

Mr. MEEKS. But I understand that you, as your bank, since you don't hire someone from the outside to collect your debt, you are not subject to the Fair Debt Collection Practices Act, you are not subject to them. And so, therefore, the harassment of individuals to get the debt continues on a regular basis.

Mr. SLOAN. Harassment has no place in Wells Fargo today.

Mr. MEEKS. Well, I am going to refer you to this article on March 9th. It is in The New York Times. I am running out of time, so I want to go one other step with you.

You would agree, if you are serious, that the egregious actions of Wells Fargo violated the Community Reinvestment Act (CRA). Do you agree?

Mr. SLOAN. We have not violated the Community—

Mr. MEEKS. Well, you were downgraded by the OCC from "satisfactory" to "unsatisfactory," basically. Correct?

Mr. SLOAN. The ratings that we received under the lending investment and service test were outstanding, "outstanding" to "unsatisfactory"—

Mr. MEEKS. You went from "outstanding" to "needs improvement."

Mr. SLOAN. And that was because—

Mr. MEEKS. A double downgrade.

Mr. SLOAN. That is correct.

Mr. MEEKS. Wasn't that appropriate?

Mr. SLOAN. Well, I don't believe it was appropriate.

Mr. MEEKS. Well, then you don't get it.

Mr. SLOAN. No, I—

Mr. MEEKS. If you don't believe a double downgrade was appropriate when you clearly have admitted all of the fines that you have had, fraudulent account scandals, and you don't think a double downgrade is appropriate with reference to CRA, you don't get it then.

Chairwoman WATERS. He doesn't get it.

Mr. Luetkemeyer, the gentleman from Missouri, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

Mr. Sloan, when your predecessor was here previously—and I want to remind the committee a little bit about history here—the initial problems that were disclosed and found by the regulators were actually reported by the Los Angeles Times. And as a result, the regulators dropped the ball on this whole situation, and after the fact, ran into your bank and found some of the stuff that is going on as a result of these news reports.

The CPPB in particular, even after the other regulators went in, went in even later than that and found out that there was some stuff going on and then slapped you with a fine, which I am not opposing. I think that was appropriate. But my comment at the

time, and I think it is still appropriate, is that the CPPB, for their inadequate and lousy regulation, should have been fined, as well.

Because, quite frankly, a lot of the problems that were here, if it would have been regulated properly, would have been found at an earlier time, would not have risen to this problem that it is today and we wouldn't be here if they would have done their job in trying to provide the right oversight. So it is unfortunate that we have a mess on both sides here.

But I guess my question today is, I know in your book here discussing the situation, "Learning from the Past, Transforming for the Future," you identify some root causes. And number two is that you had a decentralized business model that granted too much authority and autonomy to your community bank, senior management teams, and deferred too much authority to those individuals, apparently.

I guess that is part of the culture that needed to be changed. And so I would like for you to describe what you have done differently, how you have changed the culture? Have you looked at other banks' business models and changed it according to them or have you reinvented the wheel and have your own unique business model at this time?

Mr. SLOAN. Congressman, what I have done since I became CEO is that we moved all of the enterprise control functions—so, for example, the finance team, the risk team, the human resources team, the compliance team and so on—that used to be part of our business lines, we moved them out of the business units.

S what we get today is a leadership team. What our board sees is a better check and balance in terms of when there is an issue that occurs in a business line, we also have a review from one of the enterprise risk control functions to be able to provide the right check and balance and to be able to provide information in a much different way. That is a fundamental change in our company.

When I look across the industry, many other firms in the financial services industry have also done similar—have made similar changes. Every financial institution is structured a little bit differently. Most of our business is here in the U.S., so that means we're going to be structured differently than some of our competitors that might have more of an international footprint.

But I think that fundamental change is really making a difference in terms of how we are dealing with issues today and moving Wells Fargo forward, and it gives me confidence that the likelihood that there would ever be something like a retail sales practices issue happening again at Wells Fargo is very low, if not zero.

Mr. LUETKEMEYER. One of the things that I discussed with your predecessor when he was here was that he was telling us that he changed the culture. Yet, he kept firing people every year—about 1,000, 2,000 people every year. And I said at some point, you are not changing the culture if you keep firing people, with regards to the retail sales problem that you had.

So I guess, my question at this point is, in order to change the culture, you have to change not only the management, but you also have to change the way that employees act and behave. Have you gone through any sort of educational process with your lower level people who are delivering these services and then the management

people over them to understand the relationship they need to have with their customers, how they need to be selling these products, and what kind of oversight you need to be putting over these people?

Mr. SLOAN. We have. We have done that in a number of ways. One is changing the incentive compensation plan that I had mentioned earlier.

But since I became CEO, we have made a number of other changes. One, we have set out uniform standards to all of our 260,000 team members in terms of how they should interact with customers, what our expectations are not only in terms of how they do their jobs every day but also leadership. We have done the same thing—and it is on one sheet of paper—with all of our managers.

We have changed the incentive plans across the entire company and we have retrained hundreds of thousands of team members in Wells Fargo. We started a new—or introduced a new ethics training that actually was required by every one of our team members to be taken by February of this year, and I am pleased to say that 99.98 percent of our team members have taken it.

Unfortunately, they have to sit through a 2 minute and 11 second video of me describing it, but they have taken it and I think that is making a fundamental difference in the culture of the company.

Mr. LUETKEMEYER. Thank you. I yield back.

Chairwoman WATERS. The gentleman from Missouri, Mr. Clay, Chair of our Subcommittee on Housing, Community Development and Insurance, is recognized for 5 minutes.

Mr. CLAY. Thank you, Madam Chairwoman, and thank you, Mr. Sloan, for being here. Are you aware of the Federal Reserve restricting the asset growth of any other large bank holding company under its supervision?

Mr. SLOAN. I am not aware of any public consent order that is similar to ours in which our balance sheet was capped as of the end of 2017.

Mr. CLAY. Okay. And during the October 12, 2018, third quarter earnings call, you indicated that Wells was planning on operating under the asset cap through the first part of next year. Again, in a December 4, 2018, presentation at the Goldman Sachs Financial Services Conference, you indicated that Wells was still planning on operating under the asset cap for the first part of next year.

However, the bank's most recent 10–K, issued on February 27, 2018, states that the company is planning to operate under the asset cap through the end of 2019. Why did the bank's assessment of when the Federal Reserve will lift the asset cap change between December and February?

Mr. SLOAN. Because we received some additional feedback from the Federal Reserve as part of our normal give and take, and based upon that they indicated, and I want to be very careful because I don't want to disclose any confidential supervisory information, but they wanted us to make a little more progress in terms of our improvement, required improvements under the order, and based upon that, we believe it will take us a little bit longer.

We have the same goals and objective as the Federal Reserve does in terms of improving board governance, which is paragraph

two of that order, and in improving compliance and operation risk oversight, which is paragraph three. In fact, I want to go beyond that. One of the goals that I have set for our team is that we want to have the best risk management in every one of our risks in the entire industry.

Mr. CLAY. Let me ask you about that, the culture at Wells. Here, in an article yesterday in The Wall Street Journal, whistleblowers had alleged that financial advisers were pushing clients into inappropriate products and were shifting client assets around to generate greater revenue and bonuses. This was reported yesterday. How do you respond to that? Is the culture still the same? Have you all learned anything in the past 2½ years?

Mr. SLOAN. We have learned a lot in the past 2½ years, and I think the changes that I have made since I became CEO are clear in how our team is operating each and every day. The report that you are referring to was one that our board investigated by hiring an outside law firm, and in our 10–K that we just filed, we indicated that that review did not find any substantive issues in that group.

Mr. CLAY. Okay, let me ask you this: Did the OCC previously force out the bank's Chief Administrative Officer, Hope Hardison?

Mr. SLOAN. I can't comment on whether or not Ms. Hardison had any sort of interaction with the OCC. It has been reported that she received a 15-day letter from the OCC.

Mr. CLAY. Okay, what about—did the OCC previously force out the bank's Chief Auditor, David Julian?

Mr. SLOAN. Again, I would give you the same answer. Both of those individuals are on administrative leave.

Mr. CLAY. Are you aware that the OCC is considering whether to force out additional top executives or directors at Wells?

Mr. SLOAN. I have had no conversations about that topic with the OCC.

Mr. CLAY. So you are not aware of it? Do you think they are considering others?

Mr. SLOAN. I have had no conversations with the OCC on that topic.

Mr. CLAY. Okay. In your written testimony you state that fully satisfying the requirements set forth in your regulatory consent orders is critically important. If this is true, then why is the OCC considering the unprecedented step of removing top executives or directors?

Mr. SLOAN. Again, we have had no conversations with the OCC on that topic.

Mr. CLAY. You don't think it is coming?

Mr. SLOAN. I have had no conversations with the OCC on that topic.

Mr. CLAY. Okay. Well, I yield back, Madam Chairwoman.

Chairwoman WATERS. I now recognize Mr. Huizenga.

Mr. HUIZENGA. Yes, thank you, Madam Chairwoman.

Mr. Sloan, I am going to try and plow a little new ground here, but I do need to emphasize publically what I said to you privately, and I think you are hearing echoed here, about the profound disappointment, anger, and frustration that so many of us have.

I personally know people who were affected on both ends of this, on the front end with the account scandal and the things that were going on, but then also on the remediation side, where the pendulum has swung back and they have had difficulties potentially having bank deposit boxes being seized and other things.

So, this is a management nightmare, but it is a nightmare for the customers who have been affected by this at every level. And I guess it would be remiss of me not to say, you better check out the March 9th article from The New York Times. It sounded like that was something that you were not familiar with.

There are a number of very specific allegations, but the broad allegation in this is that—I have a quote from a teller in Miami who said that there was "a disconnect between corporate and branch officer workers with what is going on." And I think you are hearing a repeated theme on culture.

And before I head too far down, I do want to talk about your bank board makeup a little bit. You had mentioned Betsy Duke as your new Chair, but prior to that, you have been with the bank for a number of decades. Were you uncomfortable with bank actions at the time that these things were going on? Were you uncomfortable with what the previous administration's decision-making was?

Mr. SLOAN. Congressman, when retail sales—the initial retail sales practice is concerned, for example, the LA Times article was brought to my attention, we had a conversation—I had conversations with the then-head of our community bank and we also discussed it at our operating committee. The then-head of our community bank assured us that—

Mr. HUIZENGA. What were you telling them? Were you telling them about your concern?

Mr. SLOAN. We were asking whether or not the allegations were correct and whether or not there was a significant problem. I think the changes that I have made since I have become CEO are going to prevent a situation like that from developing again because the head of the community bank said, "I have this under control," but we didn't have the risk and control—

Mr. HUIZENGA. Clearly, that wasn't the case.

Mr. SLOAN. —outside of the community bank at that time.

Mr. HUIZENGA. Okay. Because I think there is a legitimate question here. What is the culpability of the entire C-suite in this? And I understand that you are CEO now, and ultimately the decision-making stops with you.

Also, it seems to me with a publicly traded company like this, the culpability of the board, the previous board—I would like you to address what has happened at the board level to change this. Because we have a lot of concerns yet about culture and whether the culture has really changed and whether you are the right person to change that culture, but also your job rises and falls on the decisions of the board.

I would like to know more about what that board makeup looks like to make sure that this is not happening again. Because clearly, Comptroller of the Currency Otting had said in October of 2018, that he was not comfortable, I believe is the quote, not comfortable with Wells Fargo's remediation progress to date. The Federal Reserve, as was pointed out by my colleague, in December of 2018

pointed that out, as well. And you had said in your booklet that there is a clear set of behavioral expectations and I want to know what those behavioral expectations are.

Mr. SLOAN. Sure, so let's start with the board if that is okay. When I stepped into this role, we separated the role of Chairman and the CEO. We have a new Chair of our Board, Betsy Duke, who is a former Federal Reserve Governor. Since I have become CEO, we have seven new board members and so more—

Mr. HUIZENGA. Out of how many?

Mr. SLOAN. Pardon me? Out of 13.

Mr. HUIZENGA. Seven out of 15?

Mr. SLOAN. No, no, 13.

Mr. HUIZENGA. 13?

Mr. SLOAN. Yes, so 12 are from outside the company—

Mr. HUIZENGA. Thirteen.

Mr. SLOAN. And I am the only inside board member.

Mr. HUIZENGA. Okay.

Mr. SLOAN. So we have added an impressive new set of Board members, and we have a very diverse Board: five members of our Board are women; and four are diverse. They bring an incredible set of experiences. We went out and looked for Board members who had the experience in things like cybersecurity, risk, reputational issues, and operational organizations that we thought would add value to our Board. And they are doing a terrific job. In terms of the—

Chairwoman WATERS. The gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Thank you, Madam Chairwoman. Mr. Sloan, it is very, very important that we get to the bottom of this. And I want to ask you a series of questions. First of all, it is true that Wells Fargo opened up 1,500,000 fake customer accounts, correct?

Mr. SLOAN. We don't know how many accounts were opened up inappropriately. We believe it could be up to 3.5 million.

Mr. SCOTT. Well, Mr. Sloan, the fact that you answered that you don't know gives us an idea of the size of the problem. But in fact, it has been documented that it was 1.5 million false accounts. Now, Mr. Sloan, Wells Fargo employees routinely falsified customers' signatures, is that correct?

Mr. SLOAN. No, I wouldn't describe it as routinely falsified customers' signatures. In certain circumstances, they did. They violated our code of ethics rules and were dismissed from the company.

Mr. SCOTT. All right, Verisign. They did. Thank you. You were accurate there. And your employees doctored paperwork that was designed to help them meet anti-money laundering rules, correct?

Mr. SLOAN. In certain circumstances, Congressman.

Mr. SCOTT. All right. Now let me ask you this, which gets to the heart of this matter, which is why I am asking this. All of these grievances, these terrible things that were done, the fake accounts, the signing of customers' signatures, were done in the Wells Fargo wholesale banking division, correct? Yes. And this is what is so important, Mr. Sloan. You were the head of this department. The wholesale banking division was led at that time by you, Mr. Sloan.

The whole point of my line of questioning is to say this: You are the best person to help us solve this problem. So I want to ask you—The New York Times did an article that I read on Saturday, and here is what it said. It said in a survey of more than 27,000 employees in the bank's information technology department late last year—they did a survey and the top concern in that survey was hearing from your employees that they were concerned that they did not have the ability to raise grievances with managers in whether Wells Fargo conducts its business today with honesty and integrity.

So, Mr. Sloan, we have to get to the bottom of this. You are the best person to do it because all of these abuses happened under your watch as head of that department. Now, you have done this survey. Let me ask you this: Have you are or any member of Wells Fargo's Board of Directors reviewed the results of this survey?

Mr. SLOAN. Of the survey that was referred to in that article?

Mr. SCOTT. Yes, the 27,000 input—

Mr. SLOAN. I have actually reviewed surveys that are much broader than that for each one of the businesses—

Mr. SCOTT. No, but in this survey—

Mr. SLOAN. And I have looked at that survey, that is correct.

Mr. SCOTT. Yes, and what was your determination as a result of that survey?

Mr. SLOAN. My response to that is that was great feedback to receive from our team. We want to receive feedback like that in—

Mr. SCOTT. All right, let me go quickly here before the chairman—if Wells Fargo developed the culture of compliance as you are saying, then why are your employees still concerned about their ability to raise these grievances with managers? And they are themselves doubtful of the bank's honesty and integrity?

Mr. SLOAN. I don't believe that—

Chairwoman WATERS. The gentleman from Wisconsin, Mr. Duffy, is recognized for 5 minutes.

Mr. SLOAN. I don't believe—

Chairwoman WATERS. Mr. Sloan?

Mr. SLOAN. I'm sorry.

Chairwoman WATERS. Your time is up. Mr. Duffy?

Mr. DUFFY. Thank you, Madam Chairwoman. Welcome, Mr. Sloan. You are not denying that Wells Fargo had some problems in the past with regard to fake bank accounts, are you?

Mr. SLOAN. No.

Mr. DUFFY. No. And so since that has been exposed, has Wells Fargo undertaken reforms to fix the problem?

Mr. SLOAN. We have.

Mr. DUFFY. Is the problem fixed?

Mr. SLOAN. It is fixed.

Mr. DUFFY. It is? Okay. I am surprised because as you come in and talk to the Congress, I am shocked that you are not in an orange suit in a little jail cell testifying today. It surprises me, because we can look back and say, we had problems. I was a customer.

When Mr. Stumpf was here, I lit him up, as a customer, that it was absolutely inappropriate. You have a duty to treat your customer well, not cheat them. But I am also not here to say Wells

Fargo should be dissolved, because you made some mistakes. We should give you a chance to mediate, improve, and move forward.

I am a little bit frustrated looking at the questions you are getting today where you actually get questions that you can't even answer. You don't even get to respond to the questions that are thrown your way.

So, I guess I am a little bit frustrated. As I watch the big screen, it is scandalous that Wells Fargo made a profit. It seems like some people want you to give interest-free loans. And when people don't pay those loans back, there should be no consequence for it.

Frankly, I don't think they want Wells Fargo to lend. They want some of our post offices actually to lend, socialized banking, which I am absolutely opposed to. I want to just—I am going to get in some questions for you.

But I want to thank you for saying you are going to follow the law in regard to the Second Amendment. I know you have people from New York and some from California who don't appreciate the Second Amendment. But in places in the Midwest where you do a lot of business, we actually appreciate the Second Amendment, and the fact that you will lend consistent with the law where we believe in our Constitutional right to bear arms.

And so, unlike Citi and unlike Bank of America, I want to thank you for serving the customers in my community who actually appreciates the Second Amendment as opposed to I think when the others come in and you will be here—I think this is going to be in April. They will probably get some questions on this side in regard to the Second Amendment.

Can you walk us through the changes that you have made, Mr. Sloan, how you have improved the bank and how these issues have been mitigated and remediated?

Mr. SLOAN. First, we had to start at the top. We have made changes at the Board level. We separated the role of the CEO and the Chair. We have made changes in our leadership team.

If you look at the 10 senior leaders who report to me, the operating committee of the bank, 5 are new to the company and they come with incredible experience in their disciplines. Four are from within the company but are new in their roles, and one is in the same role.

In addition, we have fundamentally reorganized the company to create a better set of checks and balances in terms of creating independent enterprise risk control functions. We have hired thousands of new risk professionals, and spent billions of dollars in improving our risk, as well as investing in technology.

We have also addressed and reinforced to our team, the 260,000 team members who serve our customers every day, we said you are important. How do we measure that? We make sure that everyone received at least a minimum of $15 an hour. We did that, and then we looked at anyone near that same compensation level, so we increased the wages of 86,000 people by over 10 percent.

We made every one of our team members shareholders to make sure that their interests were aligned with our shareholders. And the reason we did that is because when I was out talking in our branches, in our call centers, in our offices, talking to our team, I saw a disconnect.

We changed that. We changed incentive plans across the company so no longer would they incent team members to just sell a product. It is about providing the right customer service and advice. That is the number one goal in the six aspirational goals that I introduced to our team in March of 2017.

We want to be the best in customer service and advice. And what we are seeing is a positive reaction. We are seeing our team member voluntary attrition down to its lowest level in 6 years.

Mr. DUFFY. Mr. Sloan, I have been a customer of your bank for over 22 years.

Mr. SLOAN. Thank you.

Mr. DUFFY. And I would note that I have seen a dramatic improvement with the service that the bank provides. I want to thank you for that. I would just make one other note as some of my—

Mr. SLOAN. Would you send me the names of your bankers so I could acknowledge how they are improving your service?

Mr. DUFFY. Absolutely.

Mr. SLOAN. I like doing that.

Mr. DUFFY. And one other point I want to make is, when you are getting questions about mediation in regard to letting people litigate in court, I want to let you know that in regard to one thing, this is about the trial bar, and I then want to go to the other side of the aisle from the trial bar, they make big profits for coming after banks like you. It is about contributions, it is about a lobby, it is about the trial bar. It is not about people. It is not about customers; it is about money.

Chairwoman WATERS. The gentleman from Texas, Mr. Green, the Chair of our Subcommittee on Oversight and Investigations, is recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. Thank you again, Mr. Sloan.

Mr. Sloan, CNN reports that the bank admitted to cheating up to 3.5 million people and that you created 3.5 million fake accounts, forcing customers into unneeded auto insurance and charging mortgage borrowers undue fees. Is it true that this number may be as high as 3.5 million, Mr. Sloan?

Mr. SLOAN. It may be as high as 3.5—

Mr. GREEN. Thank you. And is it also true that Wells Fargo has a clawback provision? You understand what clawback is, you are the CEO.

Mr. SLOAN. In terms of executive compensation?

Mr. GREEN. Yes, long-term—

Mr. SLOAN. Yes, that is correct.

Mr. GREEN. —performance compensation stock.

Mr. SLOAN. That is correct. And our Board has enforced that clawback—

Mr. GREEN. Is it true that the stock prices of Wells went up in some part because of the 3.5 million fake accounts?

Mr. SLOAN. I don't—

Mr. GREEN. Well, let's assume that it did. If it did, and it is true also that 86 percent of your 2017 salary was in stock, is this true? 86 percent?

Mr. SLOAN. Yes, that is correct.

Mr. GREEN. 86 percent in stock. As a matter of fact, you made 291 times what the median worker made in 2017, is that correct?

Mr. SLOAN. Yes.

Mr. GREEN. The median worker made a little bit more than $60,000, so you made 291 times $60,000-plus dollars, correct?

Mr. SLOAN. That is correct.

Mr. GREEN. Has any portion of your salary been clawed back?

Mr. SLOAN. No portion of my salary—

Mr. GREEN. Excuse me, I must continue. No portion of your salary has been clawed back. Is it true that you were over this department where these atrocities manifested themselves?

Mr. SLOAN. I am today a CEO, but I wasn't when—

Mr. GREEN. What were you doing when these atrocities were taking place?

Mr. SLOAN. Well, from 2011 to 2014, I was the Chief Financial Officer, and then I became the Head of Wholesale Banking, and then I became the Chief Operating Officer, so there was a period of time before I become CEO that the community bank reported to me, and that is the point in time when I sat down with our head of the community bank and suggested that she was not the right person to continue—

Mr. GREEN. She reported to you?

Mr. SLOAN. She reported to me for approximately 7 months and she stopped—

Mr. GREEN. And she was reporting to you because she was over this department?

Mr. SLOAN. That is correct.

Mr. GREEN. So, let me just ask you this, does the buck stop with her, or does the buck stop with you?

Mr. SLOAN. Well, the buck stopped with her, and she is no longer with us—

Mr. GREEN. Oh, no, no, no. It stopped with her because you eliminated her. But the question is, where were you? Were you above her?

Mr. SLOAN. So for 7 months—

Mr. GREEN. Were you above her?

Mr. SLOAN. For a short period of time—

Mr. GREEN. All right, for a short period of time, and for that short period of time, you took corrective action, is your point?

Mr. SLOAN. That is correct.

Mr. GREEN. Okay, now, again, you made 86 percent of your salary in stock. That was in 2017. Prior to that, you made some portion of your salary in stock, is this true?

Mr. SLOAN. Most of my compensation, since I have become an executive officer has—

Mr. GREEN. It has been in long-term performance stock, agreed?

Mr. SLOAN. That is correct.

Mr. GREEN. So before 2017—in 2016, 2015, 2014, how much has been clawed back?

Mr. SLOAN. About $7.5 million.

Mr. GREEN. How much of this $7.5 million was clawed back at the time of this dastardly deed of some 3.5 million fake accounts being opened, how much of it was clawed back at that time?

Mr. SLOAN. It was clawed back, the Board decided to cut the equity vest that I received for 2016—in 2016 for these matters.

Mr. GREEN. 2016?

Mr. SLOAN. Yes, that was the way that the entire—

Mr. GREEN. When did this atrocity start?

Mr. SLOAN. Well, in terms of the retail sales practice issue—

Mr. GREEN. Yes.

Mr. SLOAN. It started before then.

Mr. GREEN. All right. So you did not receive any clawback in years other than the one that you called to my attention?

Mr. SLOAN. I wasn't responsible for those groups—

Mr. GREEN. Well, you were a beneficiary. You see, there are times when responsibility is not the gravamen of the circumstance. Being the beneficiary brings with it some liability, as well. You received benefits that you didn't earn because you inflated the stock. Not you personally, stock prices were inflated by virtue of 3.5 million accounts. People invested because of the belief that there were 3.5 million accounts.

Madam Chairwoman, thank you. I yield back.

Chairwoman WATERS. The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman. Mr. Sloan, you have blamed the unauthorized account scandal in part on the incentive plan that focused on product sales rather than customer service, is that correct?

Mr. SLOAN. That is correct.

Mr. BARR. And Wells Fargo has discontinued that incentive program, is that correct?

Mr. SLOAN. That is correct. When I stepped into the role as CEO we ended the incentive plan and we introduced a new incentive plan in January of 2017. The important point is that incentive plan was not developed the way prior incentive plans were done. It was done on a team basis among our business, our legal, our risk, and our human resources group.

Mr. BARR. And that was a big part of the problem as you diagnosed it?

Mr. SLOAN. Oh, absolutely.

Mr. BARR. Let me focus, though, on another issue that you have testified about, and that is the bank's decentralized structure, your management structure and the remedial actions you have taken to change that management structure. Can you explain how risk and compliance reporting was previously in a decentralized format?

Mr. SLOAN. Yes, the majority of our risk and compliance team were in each of the business lines. Since I have become CEO, what we have done is we have centralized the risk and compliance team, creating a much larger corporate risk and enterprise group that has I think now almost 10,000 people in it. And so, that has created a much better check and balance—

Mr. BARR. So is it fair to say that now, after these changes have been put into place, all of the compliance, all of the enterprise controls are now reporting directly to the CEO?

Mr. SLOAN. They are reporting to the Chief Risk Officer who reports to me administratively, and then under our structure, the Chief Risk Officer also reports to the Chair of our risk committee.

Mr. BARR. Whereas previously during the account scandal, these compliance officers were reporting independently in different business lines, is that—

Mr. SLOAN. Well, it was actually more complicated than that and confusing, and that created some of the issues in that the centralized corporate risk team was very small and most of the risk professionals were in the lines of business.

Mr. BARR. You have now centralized these enterprise controls, and on March 1st, it was reported that you hired a Chief Enterprise Risk Officer to supervise for risk across all business lines.

Mr. SLOAN. That is correct, Mandy Norton.

Mr. BARR. And what is this person's role?

Mr. SLOAN. Mandy is responsible for managing all of our enterprise risk and control function, including compliance.

Mr. BARR. And whom does she report to?

Mr. SLOAN. She reports to me.

Mr. BARR. And is this the industry standard?

Mr. SLOAN. It is.

Mr. BARR. Okay. But you did not have that structure in place during the account scandal?

Mr. SLOAN. That is correct.

Mr. BARR. So now you have made the reforms to live up to the industry standard on this new management structure, is that fair to say?

Mr. SLOAN. I would describe this as very consistent with the industry.

Mr. BARR. Okay. And why did it take more than a year under the Fed's consent order to permanently fill this new Chief Enterprise Risk Officer position?

Mr. SLOAN. Well, we looked to find the best Chief Risk Officer that we could, and Mandy agreed to join us. She had a garden leave with her predecessor and that took some additional months, but she joined us in the summer of last year. She is doing a great job, by the way.

Mr. BARR. Obviously, there is more work to be done, because you are still operating under these consent orders. But you have obviously discontinued the incentive plan, you have changed the management structure, and so compliance reporting is now centralized, now consistent with the industry standard. It appears to me that none of these issues that contributed to the account scandal have anything to do with your institution's size. It has to do with your management structure, your culture, and obviously this incentive program. Do you agree with that?

Mr. SLOAN. Yes.

Mr. BARR. Okay. So the issue in the institution was not a matter of size, it was a matter of culture, it was a matter of having an incentive program that prioritized product sales rather than customer service, and it had to do with a deficient management structure, is that fair to say?

Mr. SLOAN. That is a fair summary.

Mr. BARR. Okay, thank you. I yield back the balance of my time.

Chairwoman WATERS. The gentleman from Missouri, Mr. Cleaver, Chair of our Subcommittee on National Security, Inter-

national Development and Monetary Policy, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Thank you, Mr. Sloan, for being here. Missouri, the State from which I come, has an average income of slightly less than $40,000 a year. And we have, according to the Missouri Department of Higher Education, about 250,000 students in 2-year and 4-year universities or schools.

And so my concern is, if Wells Fargo holds one-quarter of all the student checking accounts, and it ends up that about half of all fees assessed to children come from Wells Fargo, what do you think the cause of it is?

I have been here for a long time. I was here when we were doing the Dodd-Frank Act and the aftermath, and dealing with the credit card companies and colleges that gave kids a sandwich and a credit card at enrollment. I think that was dumb. My son was in college, and anybody who gave him a credit card was dumb. And my philosophy is, you give them a credit card, it is the two of you, you had it.

However, I am concerned about what seems to be a disparity in the number of students who receive, for various reasons, some kind of an assessment where fees are assessed for a variety of things, I am sure.

Is there an explanation to that or is that out there in the—

Mr. SLOAN. Congressman, are you referring to our campus card program?

Mr. CLEAVER. No, no, forget that, I should have left my son out of it. But I am still upset about it, and it is hard for me to get it out, so I took advantage of this. However, my point was that Wells Fargo holds one-quarter of all student checking accounts.

Mr. SLOAN. Right.

Mr. CLEAVER. But then half of all of the assessments come from Wells Fargo.

Mr. SLOAN. We provide a free student checking account to students today, and there are some students who, because of the broad set of products and services that we provide to students that are generally broader than many of our competitors, some of those capabilities, some of those choices have a cost to them. Those are disclosed and students have the option to use those services or not. And I will promise to leave our my sons and my daughter out of my answer, too.

Mr. CLEAVER. Thank you. I do think we have made some repairs on that. But I have a little different take on culture than many people of my background.

I think people corrupt culture. I think we create a picture of it that culture is something that comes and grabs people but people create culture and culture is what is developed by people. So I am wondering what the bank is doing in terms of bringing in people who possess the skills, the character, the morality to work in an institution like this? Has the human resources process been reshaped at the executive hiring level? What has changed there?

Mr. SLOAN. Sure. When we centralized our human resources group, meaning taking it out of all of our business lines or enterprise functions, we created a much—and we hired a new head of

human resources from outside the company, David Galloreese, who also is doing a terrific job.

What he has done is revamped his leadership team and created a much more standard set of processes in terms of expectations for team members, which I mentioned earlier, leadership expectations, management expectations. We have changed our training in terms of including our code of ethics training that I mentioned earlier.

So there are significant changes that are going on in our human resources group to make sure that we hire the right folks not only at an entry-level, where we hire a very diverse set of team members, but also at a senior leadership level.

Mr. CLEAVER. Thank you.

Chairwoman WATERS. The gentleman from Colorado, Mr. Tipton, is recognized for 5 minutes.

Mr. TIPTON. Thank you, Madam Chairwoman.

Mr. Sloan, you just commented to my colleague, Mr. Barr, that you have changed how the incentive plan works. Obviously, it was a perverse incentive plan that was driving your employees to sign up people for programs that they did not want to have.

The New York Times article, which has been referenced several times, noted that some of your employees have said you simply changed the incentive plan. How do we come to a conclusion on that discrepancy? Have things really changed in terms of how incentives to be able to drive businesses are not going to be impacting employees' decisions maybe in terms of opening new accounts, moving funds for the customers that Wells Fargo has?

Mr. SLOAN. Now that I appreciate that the reference was from The New York Times article, we disagree with almost every statement that was made in that New York Times article. That is patently not true.

The new head of our consumer banking group, Mary Mack, has fundamentally changed how folks are incented in a retail banking business. We have a new plan in place. That plan is overseen not only by the business but by a risk team. It incents our team to provide customer service and advice, there is risk oversight, the focus is about growing relationships over time and it is about working better as a team.

When we survey our team, and we do that every quarter in terms of getting their feedback as to how—which we hadn't done historically—they appreciate and like that new incentive plan, they love it. And they not only say that, that is how they act in terms of how they think about Wells Fargo because the team member turnover, which was a significant issue in our retail bank before the changes that I have made since I have become CEO have been made, was very high.

Now, it is down to its lowest level that we can remember. It has gone from the low 30s to the low 20s, which I think is leading in the industry. Mary and her team have done incredible work. The statements in The New York Times are just wrong.

Mr. TIPTON. I appreciate your comments. You know, Comptroller of the Currency Joseph Otting had suggested before Congress that he is uncomfortable with the management of the bank at Wells Fargo. I know from my experience in small business that typically

it is from the top down is going to achieve some of the outcomes or some of the impacts that any business will have.

What education efforts are you making at Wells Fargo for your managers who oversee the sales and other departments to be able to implement the changes that you see the bank needing to make?

Mr. SLOAN. We have an extensive team member training program that applies to everybody in the company, not just entry-level team members. Generally, even senior leaders including myself, are required to take anywhere from 10 to 15 different training classes a year.

In addition to that, we have changed the number of layers that we have by reducing them so that we have our senior leaders closer to our customers and to our customer-facing team members. I encourage our team to be out with our customers, with our customer-facing team members. I love doing that. That is how I get a lot of the information that I use to manage the company, by talking to our team, by taking their feedback.

Mr. TIPTON. And just to clarify, do you believe that you have a fiduciary responsibility to your customers, to your small business clients as well as a bank? Do you have that fiduciary responsibility?

Mr. SLOAN. I have a responsibility to serve our customers according to the rules and regulations of this country and to provide them with the best service and advice that we can. And I take responsibility for that as CEO.

Mr. TIPTON. In terms of some of the remediation that you are trying to do, you have said that you pledge to contact all 110,000 customers who were incorrectly charged with the rate lock extension fee for a mortgage. How many have you actually contacted, and how many of them have been made whole?

Mr. SLOAN. All of them, and all of them. And when we contacted them, we gave them two choices. If they felt based on their experience that they were inappropriately charged for a rate lock, they would check a box and we would send them a check. If they felt on their—and it is their own decision—that they were improperly charged for the rate lock, they would check the other box. All of those customers have been remediated.

Mr. TIPTON. And how about the 450 servicemembers who were affected by the illegal car repossessions? How many of them have been remediated and contacted?

Mr. SLOAN. That should have never happened to our servicemen and women, I feel horrible about that. We have remediated all of the servicemen and women and we fundamentally changed our SCRA oversight. We have created an SCRA Center of Excellence. And the consent order that was introduced by the OCC has now been lifted on that matter.

Mr. TIPTON. Okay. Thank you.

Chairwoman WATERS. The gentleman from Colorado, Mr. Perlmutter, is recognized for 5 minutes.

Mr. PERLMUTTER. Mr. Sloan, good morning.

Mr. SLOAN. Good morning.

Mr. PERLMUTTER. Thank you for your testimony today. And I can say, I have been a customer of the bank for 40 years. And in—

Mr. SLOAN. Thank you.

Mr. PERLMUTTER. —Applewood, Colorado, the people at that branch have just really been excellent, so I am happy about that.

I am not happy about the 14 consent decrees or the $14 billion or so of settlements that you have that the bank has entered into. And I want to ask about a specific area where I think there is a lot that can be done to continue to remediate your reputation and your customers' harms, and that is on guaranteed auto protection, guaranteed asset protection. And that is the insurance, the add-on insurance that people had to get to cover the difference between whatever the loan amount was and a collision or something like that, to cover the bank.

You say you are dedicated to compensating every customer who suffered harm because of your mistakes. That is your testimony today.

Mr. SLOAN. That is correct.

Mr. PERLMUTTER. I looked at the settlement that you entered into with the attorneys general—

Mr. SLOAN. Yes.

Mr. PERLMUTTER. —and in paragraph 22, it says, "Wells Fargo has agreed to provide refunds of the unearned portion of the cost of GAP, guaranteed auto insurance, to auto finance customers in certain states whose laws impose refund-related obligations through statutory provisions." That is only 11 States.

Mr. SLOAN. That is correct.

Mr. PERLMUTTER. Okay. So for the other 39 States, and the District of Columbia, and the Territories, what are you doing?

Mr. SLOAN. We are not going to be refunding those customers because that transaction was actually a transaction between the customer and the auto dealer. We were not involved in the customer's decision to buy that insurance. In those, it was originally 9 States and now 11 States, there was a requirement. And we should have had better operational oversight to ensure that when the auto loan was paid off, that the GAP refunds were received by the customer. And those are the customers that we will be remediating.

Mr. PERLMUTTER. So if there is a GAP, if there is a refund due, you are paying it?

Mr. SLOAN. That is correct.

Mr. PERLMUTTER. Okay. And you paid at least that in 11 States to these attorneys general?

Mr. SLOAN. No, we are paying it directly to the customer.

Mr. PERLMUTTER. Paying it directly to the customer. But you are saying in the other 39 States, that wasn't the case?

Mr. SLOAN. That is correct.

Mr. PERLMUTTER. I understand there is litigation as to this particular issue in California. And you know, just listening to your testimony today, I do want to believe that the bank is looking to correct the wrongs of the past and move forward in a positive way with its customers in the future.

But as I understand it, in that litigation in California, which is a class action, you have demanded arbitration so that each individual person has to bring a claim for $100 or $200 against Wells Fargo. Now, how do you square that with, you are dedicated to compensating every customer who suffered harm because of your mistakes?

Mr. SLOAN. Congressman, again, the transaction that you are describing, which is when an auto customer in dealing with a dealer buys that GAP insurance, is a transaction between the auto customer and the dealer. In 11 States, our responsibility was not to impact that decision; our responsibility was to make sure that when the auto loan was paid off, the dealer paid the customer back.

Mr. PERLMUTTER. So you are saying the transaction was different in those 11 States than in the other 39 States?

Mr. SLOAN. No. The transaction was the same. Our responsibility in those States was different. Had our responsibility been similar—

Mr. PERLMUTTER. Okay. Now, we are getting to the real point. You really, in a kind of magnanimous gesture, have said you were going to take care of anybody who was harmed.

And here, you say, okay, in 11 States, you have a certain law, and we are going to treat you differently than the other 39 States and the District of Columbia because we are going to force you into arbitration. I hope that is not your testimony today.

Mr. SLOAN. What we are doing is my testimony, and, Congressman, again—

Mr. PERLMUTTER. So, you are demanding the arbitration?

Mr. SLOAN. In California, we are.

Mr. PERLMUTTER. And what about the other 38 States?

Mr. SLOAN. I don't believe we are responsible.

Mr. PERLMUTTER. You have really been taking some positive steps, but now you are backing up and saying, you know what, if you want that $100, sue me individually or demand arbitration.

I yield back.

Chairwoman WATERS. Thank you. The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairwoman.

When your predecessor testified before this committee in 2016, I was very concerned. Companies must be held accountable when they are caught scamming hardworking Americans. It seemed as if the only answer that he had to the questions from the members of this committee was, "I don't know."

Well, this is unacceptable for the head of one of the largest financial institutions in the world to have such little knowledge of how his bank was functioning. And I know that Wells Fargo is still dealing with regulations, as we talked about, to try to make up for this massive mistake, and in this process of fixing, other issues have been found during this process. And we heard you say today that you have begun to err on the side of the consumer, well, that is not a new concept, but I am glad that you are beginning to do that.

With that being said, my colleagues have addressed some of the issues I was interested in hearing from you about, and I am glad that you have better answers for us today than simply, "I don't know," because that is not acceptable from a person in your position, or his either.

So, let me start off with the first question that I ask everybody when they come before this committee and the question is this, are you a capitalist or a socialist?

Mr. SLOAN. I would put myself in the capitalist camp.

Mr. WILLIAMS. Okay. Thank you for that answer. I would like to read you a quote from former President Obama, when he was questioned about breaking up the big banks in a New York Times interview.

One of the things that he says is, "I have consistently tried to remind myself during the course of my presidency that the economy is not an obstruction. It is not something that you can just redesign and break up and put back together again without consequences." So, my question to you, sir, is, do you agree with the sentiment from former President Obama, that breaking up the biggest banks is unrealistic?

Mr. SLOAN. I don't think it makes sense to break up the big banks, but I also believe that no bank is too-big-to-fail if they don't operate in an appropriate way.

Mr. WILLIAMS. Okay. Wells Fargo and some of your competitors have been criticized for being too big by members of this committee. Some individuals across the aisle think that institutions of your size should be broken up into smaller entities. If your bank were to be broken up into a government-mandated size, what would the effect be on innovation, efficiency, and access to capital for everyday Americans?

Mr. SLOAN. I think overall, it would deteriorate. I think there is a place in this country, and we see that today, for community banks, for medium-sized banks, and for large banks.

I think the value that larger banks can bring today is that because of our economies of scale, we can invest billion of dollars in technology and innovation and services that sometimes our medium-sized and smaller competitors can't.

A good example of that would be real-time balance alert or overdraft rewind or control tower. There are a number of products and services that we have been able to introduce because of our economies of scale and the $10 billion that we can spend on technology and innovation each year.

Mr. WILLIAMS. Okay. I came to Congress as a small-business owner, a Main Street guy. I am a car dealer, and I know firsthand how access to capital works.

Mr. SLOAN. I hope you didn't take offense to my comments about GAP insurance.

Mr. WILLIAMS. I know about raising capital, I know about taking risks and reaping the rewards, and that is crucial for growing the economy. When some of my colleagues consider making this drastic intervention in such a large portion of the economy, it sounds like a step towards socialism to me. And we don't need to look any further than Venezuela to see how that would work out.

But also, some of my colleagues on the other side of the aisle think bank profits are bad, as we have heard today. I completely disagree, I think profits are great, and I want you to be profitable, and you are and that is a good thing. With that being said, I want profits to be invested back in the community. I want to see Wells Fargo increasing small-business lending.

I want to see Wells Fargo charitable giving going to nonprofits and little league teams and putting money back into the communities they serve. I do not want to see this money going to attorney's fees and fines that are issued by the regulators because of

your actions. So, my final question is, can you elaborate on how you are investing your profits back into the communities all across this country?

Mr. SLOAN. Well, first, I am pro-little leagues, I used to be a little league coach, and we are very focused in Wells Fargo in reinvesting back in our communities. The way that we talk about it is, we don't believe we can be successful as a company unless the communities that we do business in are successful.

That is why I have set a goal for our company to be the most generous company in the industry, and if you look at the results from 2017, we were the second most philanthropic company in this country. In addition, I have set a new goal for our team, and that is 2 percent of our after-tax profits are going to be reinvested through our foundation.

Chairwoman WATERS. The gentleman from Illinois, Mr. Foster, is recognized for 5 minutes.

Mr. WILLIAMS. Thank you for your testimony.

Chairwoman WATERS. Mr. Williams, if you want to describe what the other side of the aisle is saying, you need to get it right. Mr. Foster, you are recognized for 5 minutes.

Mr. FOSTER. Thank you, Madam Chairwoman.

In your very nice brochure that you provided us with, I have to say that there are very high production values. You have a section on promoting diversity and inclusion that includes a little box indicating that 44 percent of the U.S. workforce is ethnically and racially diverse, 57 percent is women and so on, military veterans.

And I was wondering, can you provide either approximately right now or in detail for the record, what that breakdown would look like as a function of job classification and salary?

Mr. SLOAN. I don't have the details in the front of me in terms of job classification at the company, but I can tell you—or I can provide you with an indication of what it looks like in our leadership team. So, in our current senior leadership team, over 40 percent are women and over 20 percent are diverse.

Mr. FOSTER. Yes, but I would be interested in the range of job ranks. Because if the bulk of the employees are in sort of intermediate levels, it would be interesting to see how the diversity plays out. And do you normally report that sort of information to any of your regulators?

Mr. SLOAN. We do.

Mr. FOSTER. You do? Okay, so that the regulators at least have a uniform view of that?

Mr. SLOAN. Yes, we report it internally, we report it to our Board, and we report it to our regulators.

Mr. FOSTER. All right. So I would be very interested in seeing—if you can just give us a copy of what you report so that we can actually understand it, I would appreciate that.

Similarly, you have been talking a lot about how you changed the compensation of things to hopefully avoid the sort of problems you have been facing. And can you give us rough numbers of what fraction of the compensation today is purely hourly and salary-based? What is based on both sales and indirect sales, for example, if your unit sold a lot, then everyone in the unit gets a bonus, what frac-

tion is based on customer experience or customer satisfaction and what that metric might be?

Mr. SLOAN. Sure. We have a number of different incentive plans across the company but maybe what I could do is focus on our retail banking business, which has been the topic of a lot of the conversation today. So if you look at the changes that we made in our retail banking business, and you look at that entire group, which is about 100,000 people—that would also include phone bankers and phone centers and the like—about 92 percent of their compensation is in the form of salary and the remainder is in the form of bonuses. About half of that bonus would be related to risk, and then the other half would be a mix of customer service and advice—loyalty, customer experience, things like that.

And then another portion would be related to growing relationships over time, not selling products.

Mr. FOSTER. And by risk, you mean risk in the sense of having your capital position blow up or risk in the—

Mr. SLOAN. Oh no, I'm sorry, no—

Mr. FOSTER. —form of getting caught doing something else?

Mr. SLOAN. No, that is where my oversight comes in or that affects me. In terms of folks in business, it is a risk that they control. So for example, it would be making sure that they disclose products and services—

Mr. FOSTER. So it is the risk of getting—

Mr. SLOAN. —that they are responsible for, that is correct.

Mr. FOSTER. At the retail banking level. Okay. Well, I guess that was my main questions here. I yield back the balance of my time.

Chairwoman WATERS. Thank you. The gentleman from Arizona, Mr. Hill, is recognized for 5 minutes.

Mr. HILL. Arkansas, Madam Chairwoman. Thank you, Madam Chairwoman. Thank you, Mr. Sloan, for appearing before the committee today.

I want to start out by just commenting that when your predecessor was here in 2016, as somebody who has spent my career on and off for 35 years in the community banking business, I just want to express to you the same thing I expressed to your predecessor, which is just severe disappointment in the disconnect that Mr. Stumpf appeared to have at the committee. I really agree with my friend, Mr. Williams, who is a former business guy as well, that that lack of engagement that he demonstrated was severely disappointing.

And that comes from the fact that in the 1990s, when it came to Dick Kovacevich and Norwest, that was a company that all of us in community banking benchmarked against, including standards of customer service and success. And so, it was personally disappointing, and then professionally, as well.

When he was here, it was said that 900 Arkansas accounts were affected. We don't have a big retail presence by Wells Fargo in Arkansas, but in the materials you sent out before the committee hearing, it is 60 percent higher, 1,445 accounts. So it is surprising that it is up that much, and I hope that all these issues are resolved and that people are treated fairly in all of these settlements.

I was looking at some comments made by your largest shareholder, Warren Buffett, and he made a comment about Wells

Fargo. Talking about the long-run earning power of Wells Fargo, Mr. Buffett said, "You can't take Wells Fargo's customer base, it grows quarter by quarter and you make money off of its customers, and you make money on customers by having a hell of a spread on assets and not doing anything really dumb. And that is what Wells Fargo does."

But when asked as a follow-up, he said a couple of years later, "They made one mistake, incentives work, and they came up with improper incentives that rewarded bad behavior."

So what I want to talk about is that. You say you have changed your incentive system which is at the heart of this issue, whether we are talking about the mortgage bank or the wealth management group or the consumer bank. What is your use of independent secret shoppers at all your locations nationwide? How much money do you spend on it? You have an independent third party doing that, I presume in addition to any internal audit things you—tell me about that.

Mr. SLOAN. Yes, we do two things in our retail bank to check how our team is responding to customer needs and desires. One is we have independently collected customer service and customer loyalty scores and we do that on a weekly basis—

Mr. HILL. I don't mean to interrupt you but I want to—

Mr. SLOAN. We have a mystery shopper—

Mr. HILL. Yes. I want to know about the mystery shopper program. How often are they in your branches monthly? How big is that? How much money do you spend on that?

Mr. SLOAN. Well, we do have tens of thousands of mystery shopper visits on an annual basis. I do not know how much we spend on it, but I know that we have—

Mr. HILL. Is that a big change from prior management?

Mr. SLOAN. It is.

Mr. HILL. Like on an order of magnitude of 100 percent better or 10 percent better—

Mr. SLOAN. It didn't exist before, and now it exists.

Mr. HILL. It didn't exist. So you didn't use mystery shopping as a standard banking practice?

Mr. SLOAN. We may have used it from time to time.

Mr. HILL. Periodically.

Mr. SLOAN. But not on a consistent basis, and not to the extent that we do today.

Mr. HILL. Well, that is a major change. I know Mr. Green has mentioned that before in this committee, and really, I don't know a bank of any size that doesn't mystery shop its consumers. And I also was pleased you said that—

Mr. SLOAN. By the way, I personally mystery shop at our branches, too. When I visit one of our branches, I don't let them know I am coming. And sometimes, I don't dress like this; I dress like a normal customer. Sometimes they recognize me and sometimes they don't. It is better when they don't because I really get an understanding of how our team is interacting with our customers. I call our phone centers and don't announce—

Mr. HILL. Would you please follow up with me and give me more description of the scope of your mystery shopping program? And I will just conclude, Madam Chairwoman, with Mr. Buffett's testi-

mony before the Congress in 1991, "If you lose money for the firm by bad decisions, I will be very understanding. If you lose reputation for the firm, I will be ruthless." I urge you to be ruthless, Mr. Sloan.

I yield back.

Mr. SLOAN. I have had that conversation with Mr. Buffett.

Chairwoman WATERS. Thank you, Mr. Hill, and I apologize for assigning you to the wrong State.

Mr. HILL. I have no interest in Arizona, Madam Chairwoman.

Chairwoman WATERS. Thank you. The gentleman from Washington, Mr. Heck, is recognized for 5 minutes.

Mr. HECK. Thank you, Madam Chairwoman.

Mr. Sloan, thank you for being here today. Others have already pointed out the most recent CRA exam, the result of which was, frankly—there's no other way to put it—terrible. And by my count, there were at least 10 separate consumer protection violations called out. I would like to mention them.

Violations of the Fair Housing Act and the Equal Credit Opportunity Act in mortgage lending, violations of the FTC Act in mortgage lending, violation of the Consumer Financial Protection Act in the retail banking division, violations of the Servicemembers Civil Relief Act in the mortgage servicing division, violations of the Servicemembers Civil Relief Act in auto lending, violations of the FTC Act in credit cards, violations of the Consumer Financial Protection Act in student loans, violations of the Real Estate Settlement Procedures Act in mortgage lending, violations of the Fair Housing Act in mortgage lending, violations of the National Housing Act in mortgage servicing.

In addition, there were two other long-running abuses that Wells has entered into a consent order for since the report citing these violations was completed. And those include violations of the Consumer Financial Protection Act in mortgage lending, and violations of the Consumer Financial Protection Act in auto lending.

That constitutes a major consumer protection violation of a major consumer protection law in nearly every consumer-facing division of the company.

And in explaining the failing grade that you got on the CRA exam, the OCC called this, "an extensive and pervasive pattern and practice of violations across multiple lines of business within the bank." Some of your large competitors were also downgraded, sir, on their CRA exams for consumer protection violations.

But I couldn't find one, not one, with more than three compared to your twelve. So, if I am understanding correctly what you have attempted to do to remediate this, was to start at the top, reorganize by making changes. You mentioned changes in the Board, changes in the 10 direct reports.

You have created incentive systems, might I just affirm that what you incentivize, you get more of. And you have created more of a centralized reporting structure so that senior management could have eyes on these potential abuses. It seems to me, however, sir, that you are essentially trained to have it both ways.

What I mean by that is the very argument that centralizing this reporting does imply that all those changes at the top may in and of themselves have been good, but these weren't the people respon-

sible, because they didn't have eyes on this activity. So we have to change the reporting system.

And at the end of the day, given the pervasiveness of this, it seems to me that a couple of things are obvious. Either there was unbelievable corruption, or unbelievable incompetence, or both. It is corrupt if people saw it and didn't do anything about it. It is incompetent if they didn't know it was going on.

And yet what you have offered today is that the changes that have been made mostly affected the people who didn't have eyes on it. So, perhaps that was a structural systemic practice that needed to be changed now and brought more into line with industry practices, so good on you for that.

But the fact of the matter is that at a lower level among your approximately 60 community banking—regional banking people, for example, not all of whom have been changed by a long shot, they either knew it and didn't speak up, or didn't know it and it was their job to know it.

At the end of the day, as well, I guess I would suggest to you frankly that these structural changes and this evolution of Wells Fargo isn't what needs to occur. You don't need to evolve. You need to be reborn. And that rebirth, I respectfully suggest to you, has to reach into the ranks of those who either didn't know it and should have, or knew it and were corrupt.

And in either case, a deeper pattern of change among the people that my esteemed colleague, Mr. Cleaver, suggested to you, are the ones who bring values and integrity and character to your culture. I guess I am out of time.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you. The gentleman from New York, Mr. Zeldin, is recognized for 5 minutes.

Mr. ZELDIN. Thank you, Madam Chairwoman. Mr. Sloan, I want to follow up on an exchange you had with Mr. Tipton with regards to The New York Times story. Is it your position that nothing in that story is accurate?

Mr. SLOAN. Oh, it may be that some of the individual team members said those things. And I can't say that every one of our 260,000 team members—

Mr. ZELDIN. Thank you.

Mr. SLOAN. But I think in terms—

Mr. ZELDIN. Okay, I—

Mr. SLOAN. We disagree with every one of those.

Mr. ZELDIN. Okay. So, let's follow them up in more specifics. Melissa Canard, she worked for Wells Fargo and she quit in January.

Mr. SLOAN. She may have. I am not familiar with that former team member.

Mr. ZELDIN. The story states—and it has been reported that Wells Fargo would steer clients toward investments that would generate recurring fees for the bank, including in a case where it was not in the client's best interest.

After she quit, Wells Fargo sent a letter to her clients in her name announcing that she would be teaming with another Wells Fargo employee to handle their accounts. The letter stated that Ms. Canard was still at Wells Fargo and that she endorsed the employee. Is that true?

Mr. SLOAN. I am not familiar with that situation.

Mr. ZELDIN. Okay, it has been reported that Wells Fargo spokesmen have confirmed that that has, in fact, happened. Are you aware of this being a larger problem?

Mr. SLOAN. No, I am not. And we have looked at that issue as part in separate from that situation very closely.

Mr. ZELDIN. You can assure us that this is a unique occurrence of a former employee having a letter like this that sent on behalf of Wells Fargo?

Mr. SLOAN. I can assure you that our team who works with our clients and Wells Fargo advisors and any of our wealth management or retail banking business that provides investment products works very hard to follow the rules and regulations that they are supposed to follow.

Mr. ZELDIN. But you can't—

Mr. SLOAN. That is the feedback that we have from our risk teams that oversee that unit.

Mr. ZELDIN. Okay, but you can't assure us that there haven't been other letters like this that have been sent out?

Mr. SLOAN. There may have been. I am not aware of any.

Mr. ZELDIN. Okay, Mr. Tipton also asked you if you have a fiduciary duty to your clients. You did not answer "yes," you gave a different answer. Do you have a fiduciary duty to your clients?

Mr. SLOAN. Well, in certain businesses—fiduciary is a legal term. In certain businesses, there is a fiduciary requirement, for example in some of our wealth businesses and our Wells Fargo's financial advisor business.

In other businesses, there is not a fiduciary standard. And in those businesses, we use a standard of doing the right thing for our customers, and making sure we are providing them with the right services and products.

Mr. ZELDIN. Thank you for adding additional context to Mr. Tipton's question. I want to get specifically though into the situation with veterans. I was actually deployed myself to Iraq during this window. I am a Wells Fargo customer myself.

Mr. SLOAN. Thank you.

Mr. ZELDIN. And can you just briefly sum up—not generally, but briefly sum up specifically what Wells Fargo did to wrong our veterans?

Mr. SLOAN. Sure. We had a system in place that we have changed since I have become CEO, in which each one of our business lines was responsible for complying with the SCRA responsibilities, which we take very seriously. But unfortunately, we didn't have a standard set of rules and oversight in places. The changes that we have made, it is that we have centralized—

Mr. ZELDIN. But I am not asking about the changes. What did you do to wrong the veterans specifically?

Mr. SLOAN. In circumstances—

Mr. ZELDIN. And really quick. We are short on time.

Mr. SLOAN. Yes. In circumstances where we did not know they had been deployed, we had not given them their full rights under the SCRA Act.

Mr. ZELDIN. Okay. Then I will just sum up that you were charging servicemembers higher rates on certain loans than were al-

lowed. You weren't disclosing that servicemembers were on active-duty status to courts when they were facing eviction proceedings, repossessing servicemembers' vehicles without first obtaining a court order. These are some of those specifics.

I would assume you would say that Wells Fargo knew that it was doing these things as it was doing them, correct?

Mr. SLOAN. I don't think we always knew that, and part of the reason was we didn't necessarily have updated information from the Department of Defense.

Mr. ZELDIN. Well, I mean, you were repossessing a servicemember's vehicle without a court order, you didn't know that you didn't have a court order?

Mr. SLOAN. We may not have known at that time that they were deployed. And so that is why we have created this SCRA Center of Excellence so that we get up-to-date multiple times a day updates from the Department of Defense. We then have that group take a look at it before any sort of action. And it is done on a very frequent basis. And our defect rate today is zero.

Mr. ZELDIN. And I appreciate you doing what you can to address this, it is very important. But I am concerned that your regret was that—

Mr. SLOAN. It should have never happened.

Mr. ZELDIN. —you got caught, and not that you were doing it in the first place. There should have been better systems in place as our veterans were deployed.

I yield back.

Mr. SLOAN. I completely agree with you.

Chairwoman WATERS. The gentleman from Florida, Mr. Lawson, is recognized for 5 minutes.

Mr. LAWSON. Thank you. And good afternoon, Mr. Sloan.

Mr. SLOAN. Good afternoon.

Mr. LAWSON. Thanks for coming before this committee. The chairwoman and the ranking member from the minority party have really set protocol and I would like to commend you for all of the questions that you have answered here today.

And walking away from this committee, I would like for you to just tell me for—we know what the situation is, based on what we have heard here. What other five or six things that need to be recapped again that Wells Fargo under your leadership has done to correct the financial crisis that was taking place over the last 2 years?

Mr. SLOAN. So, first, we have changed the leadership team. Second, we have changed and reorganized the company. And third, we have changed our incentive programs, not only in our retail banking business but we have had a look across the entire company related to that. So this is still part of number three. We have created a better check and balance in terms of the oversight of those incentive plans by our risk and human resources group.

I think, fourth, we have changed the way the way that we compensate team members, including raising the minimum wage, as well as making sure that they had the right benefits and we have made them all shareholders. And then, fifth, we have changed the way that we communicate to our team members, including to en-

courage them to raise their hand if there is any concerns that they have that they see that are going about in the company.

Mr. LAWSON. Okay. And thank you. And in reference to, which I had the opportunity to look at, The New York Times article and I heard your statement in relation to it, and oftentimes, it could be considered as fake news, you know, some of the things that were reported—

Mr. SLOAN. I just said it was inaccurate.

Mr. LAWSON. Yes, okay. Well, it was inaccurate from your standpoint.

The other thing I would ask you, which is extremely important to me because I have a lot of students in my district, is that the student debt crisis has impacted more Americans than any other consumer issue. Private lenders have placed skyrocketing interest rates on student loans, with loan conditions buried in pages of the legalistic language.

What is your company doing to lower rates in the private market when it is appropriate and to provide more transparency in terms of conditions of the loans?

Mr. SLOAN. Our student loan business is relatively small. And we generally do not make a loan to a student unless there is a co-signer or a guarantor. However, we are working on a program that we are going to be introducing this year to allow non-Wells Fargo customers or Wells Fargo customers with other student loans to consolidate those loans and then receive a lower rate.

Mr. LAWSON. Okay. And one other thing you mentioned is about the diversity that you have. And you said that a lot of women have been added to the staff. Has any African American been involved in that diversity issue?

Mr. SLOAN. Yes. I don't have any African Americans who report to me directly, but if you look at the next level of leadership in the company, that is about 100 people, there are a significant number of African Americans, including Bev Anderson who runs our credit card business, and including Titi Cole who runs the operations for our retail business.

Mr. LAWSON. Okay. Thank you.

And just before my time runs out, you mentioned about the veterans, I have a large number of veterans—retired veterans in the Jacksonville area, the largest in the State of Florida. And you all are continuing to work on that issue in reference to the problem that they had with the crisis, right?

Mr. SLOAN. Correct.

Mr. LAWSON. Okay.

With that, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you.

Mr. Davidson, the gentleman from Ohio, is recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Madam Chairwoman.

And thank you, Mr. Sloan, for your presence and clearly some thorough preparation. I have a question: Do you consider any crimes to have been committed?

Mr. SLOAN. No.

Mr. DAVIDSON. No crimes? So that would explain why no one has been charged with criminal fraud?

Mr. SLOAN. That is correct.

Mr. DAVIDSON. So when tellers from time to time or other people who are employed—literally hundreds of thousands of people employed by Wells Fargo commit crimes of theft, whether that is from Wells Fargo or from Wells Fargo customers, have any of them ever been charged with theft?

Mr. SLOAN. They may have been. To the extent that we find anyone has violated the code of ethics in a situation like that, our responsibilities are, one, to fire them, which we do, and then two, to file a suspicious activity report with the Federal authorities.

Mr. DAVIDSON. So in fact, there have been prosecutions and convictions of people who have stolen money from Wells Fargo and from Wells Fargo clients, in one case, $185,000 from a homeless man. And so, it is curious to me that as these acts of fraud were perpetrated that none of them violated a criminal statute in any of the States.

Mr. SLOAN. Again, I misunderstood your initial question as it relates to individual circumstances like that that may have occurred.

Mr. DAVIDSON. Okay, right. And so, in this case, aside from some of these folks no longer working for the company, are you aware of any ongoing investigations involving criminal conduct by employees at Wells Fargo in these scandals?

Mr. SLOAN. There are a number of investigations that are going on in terms of, by Federal agencies regarding Wells Fargo. I can't comment on anything beyond what we have disclosed in our 10-K and 10-Q.

Mr. DAVIDSON. So as encouraging as it is to hear some of the progress that has been made with the change of leadership, with the change in the organizational chart, many changes in terms of initiatives to try to impact and steer the culture in a different way, I think for a lot of people, they are going to feel like justice hasn't really been served, that there really are two standards, where employees of a big bank like Wells Fargo who steal in one case are held criminally responsible, and in another case, where it clearly was designed to meet performance criteria or to help the firm, well, there is no accountability.

Maybe they lost their job, maybe they didn't get their bonus, but there is no one in jail. And customers truly do have a property right in their credit score, you are reimbursing them because they have had financial harm and financial impact. They have had something taken from them and Wells Fargo is making them whole.

But the person who took it from them is not being prosecuted. And so, I feel like that is a highlight, not just for us here, but it is also something that might merit some attention by States and municipalities around the country. As you have highlighted, State law is important because you are handling cases differently with respect to GAP insurance, for example.

So, I hope we move forward on that. I am encouraged, not just by the structural changes but by the investments that even predate this in innovation. So in 2015, Wells Fargo launched an innovation center, and I wonder if you can tell me, without divulging company secrets, some of the promising things that might help with finan-

cial technology, better position in Wells Fargo, but also better protect Wells Fargo customers.

Mr. SLOAN. I will give you two examples. One is that in and around our innovation group, we have developed artificial intelligence capabilities to be able to scan various transactions, particularly for small businesses and commercial customers, to look for anomalies in terms of transactions and if something doesn't look right, then we will notify the customer.

On the consumer side, it would be our new Greenhouse account in relationship, it is an all mobile relationship that is focused on students and customers that—potential customers that haven't—the underbank who haven't been able to be customers, and what that allows them to do is have an all mobile relationship—

Mr. DAVIDSON. Yes, thank you for that highlight on the all mobile. And as we look at stable coins, JPMorgan just launched a token economy, and I perhaps look forward to more information on that going public if you have one in the offering. My time has expired and I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from Michigan, Ms. Tlaib, is recognized for 5 minutes.

Ms. TLAIB. Thank you, Madam Chairwoman.

My 13-year-old boy the other day, asked, why say socialism or capitalism? Why not people-ism? And I thought that was genius. And in that spirit, Mr. Sloan, I want to address some of the scams that your bank launched on our people.

You know, so many people are using the words consumer abuses, scandals, but if you look at the definition of scams, they are fraudulent acts, intentional fraudulent acts. Only 5 months ago, Mr. Sloan, Wells Fargo reported that an internal investigation had thus far revealed that it erroneously denied or did not offer a loan modification to 870 customers due to an underwriting software error. Are you familiar with that?

Mr. SLOAN. I am.

Ms. TLAIB. According to Wells Fargo, your bank, the bank foreclosed on 545 of these customers based on that error. Who is held accountable for that?

Mr. SLOAN. The issue that occurred, as you described, Congresswoman—

Ms. TLAIB. No, no, we don't need to know, we know it is an error, right, Mr. Sloan? You are the boss. How do we—I mean, these 545 people didn't lose a boat; they lost their home. What are we doing? What are you doing to help them?

Mr. SLOAN. The first thing we have done is we have reached out to each one of them, we sent them a $15,000 check, which is 2 ½ times the standard that was set in the mortgage servicing settlement, and then we are asking them to come to see us and if there was additional harm that was done to them, we will make it right.

Ms. TLAIB. Mr. Sloan, the additional harm, and I can tell you this from my district, is to their credit scores, their consumer report. It is the access now to not only housing and loans, you know this, but to employment. I have young people who can't even get into the military—I mean, there are all of these things that are tied to it. Car insurance, everything is tied to consumer reports.

How do you address that? Those are things that are really important and I just want to mention that. I have other questions that are really important.

Mr. SLOAN. So, if I could answer that question—

Ms. TLAIB. Yes. Go ahead—

Mr. SLOAN. —because I think it is a very important one, and that is why we are working very closely in terms of remediating those customers. So we have sent those customers a check for $15,000, which is I mentioned is 2 ½ times the standard that was set in the mortgage servicing center.

Ms. TLAIB. I think the credit bureau needs to know it was your mistake, as well.

Mr. SLOAN. And then what we are also doing is ask them to come in and see us and tell us what additional harm, if any, we caused.

Ms. TLAIB. But Mr. Sloan, they might not know what those additional harms are. I just want you to know.

Mr. SLOAN. We have centralized the team that is interacting with those customers, that has experience in dealing with the issues that you just described, because I agree, there could have been additional hardship that could have affected credit scores and we are making—

Ms. TLAIB. No offense, I know this is an internal investigation that you did, but I doubt it is only 545.

Now, Mr. Sloan, last week the Michigan attorney general, our attorney general, Dana Nessel, announced that debt collection was one of the top consumer complaints that her office received in 2018 so far. Neither half of the complaints were for credit reporting and debt collection. In that context, if Wells Fargo's debt collectors are required required to place 375 calls per day, how can those consumers expect to receive a good experience, but also enough time to help solve their problem?

Mr. SLOAN. I can't confirm that we have a minimum standard of 375 a day—

Ms. TLAIB. Yes, it is a quota. Okay. I would love to follow—if he can follow up and find out if that is accurate, that you have some sort of quota—

Mr. SLOAN. We have expectations for everybody at Wells Fargo.

Ms. TLAIB. No, no, no—I think—is it within—Madam, Chairwoman, I know I am—

Chairwoman WATERS. You still have additional time.

Ms. TLAIB. Yes. I know I am new here. But, Madam Chairwoman, if later on, I am pretty sure, Mr. Sloan, you will have a certain period of time to answer that question in writing, so go back, talk to your team, and I would love the answer to that.

Really quickly, there have been a number of claims as a person who is a civil rights attorney in Detroit, I can tell you one of the things that claims of targeting black and Latino communities, and a number of lawsuits, not only in California, and Madam Chairwoman's State, as well as in Philadelphia and others, some of the things were really disturbing.

A former Wells Fargo employee said that they were instructed to offer lender credits to borrowers in minority neighborhoods. Another Wells Fargo loan officer said they were likely to charge, and this was intentional, a higher rate to borrowers with Mexican

names. Was that some sort of internal memo that was going around saying, if somebody is black or Latino, this is how you approach them, with higher rates and higher—

Mr. SLOAN. None of that is true.

Ms. TLAIB. Okay.

Mr. SLOAN. And no institution in this country has done more for diverse communities than Wells Fargo.

Ms. TLAIB. Yes.

Mr. SLOAN. We have a $185 billion commitment to Hispanic and—

Ms. TLAIB. Yes, I saw that. And just—I know, Mr. Sloan, but the data is there. And I don't think these Wells Fargo employees are—but lastly, Madam Chairwoman, I would like—and I don't have time—to insert in the record this study that reveals the way racial discrimination is embedded within the structure of mortgage lending.

Chairwoman WATERS. Without objection, it is so ordered.

Ms. TLAIB. Thank you so much, Madam Chairwoman.

Chairwoman WATERS. The gentleman from North Carolina, Mr. Budd, is recognized for 5 minutes.

Mr. BUDD. Thank you, Madam Chairwoman.

And thank you, Mr. Sloan, for joining us, for your time here today. Look, I think you know better than anyone that mistakes were made and you have sought to remedy them. You have acknowledged that and you have owned up to that, and I commend you for that.

You have also said that these mistakes require fundamental and structural changes at your bank. And I know that you have been committed to this in your tenure as a CEO. But in that vein, can you highlight for this committee the most—and this is really a question of priority—important changes, in your view, that have been made at Wells under your leadership?

Maybe that is something you have not been able to highlight yet. But what changes have you made and how will those changes prevent these problems from recurring?

Mr. SLOAN. I think the fundamental change of centralizing our enterprise risk and control functions is probably the most important change that we have made from an enterprise standpoint because what it does, regardless of leadership, is create an appropriate check and balance in terms of ensuring that we are providing the right products and services to our customers and managing our risks in an appropriate way, check and balance between those frontline team members across the company who are making those decisions each day, and then having the oversight to make sure that they are following all of our policies and procedures.

And then as part of that, the way that information and data is being shared today is completely different. We connect data in a different way to spot problems across the entire company. And that is fundamental to the changes that we have made since I became CEO.

Mr. BUDD. You addressed some of those problem-spotting advances that you have made with Mr. Davidson's questions. But I want to go back to some of the small business—as most folks know,

you are one of the largest lenders for small businesses in the United States.

Mr. SLOAN. That is correct.

Mr. BUDD. The protection of growth of small businesses is one of our top priorities, as Republicans on this committee, and also for Ranking Member McHenry. Can you tell this committee what infrastructure and controls are in place to protect these small business clients?

Mr. SLOAN. Sure. The small business group and business banking group were moved out of our retail banking business and moved into our wholesale business. So there is a different team of folks who lead those businesses today.

In addition, the oversight for those—or the check and balance in terms of enterprise control functions is outside of the business line. So that the changes that I talked about that are enterprise-wide also apply to a small business lending, both in terms of our obligations under following the SBA rules and regulations as well as non-SBA type of small business lending.

Mr. BUDD. So what additionally would you say in regards to small businesses? You addressed it a little bit, but to make sure they are being treated fairly. I mean, these people are coming out and they are operating no longer as an individual, but now as an entity in small businesses. So how are you making sure that they are treated fairly?

Mr. SLOAN. Well, we are making sure that we have the same checks and balances in place for those customers that we do for customers outside small business.

Mr. BUDD. Very good. I know it has been a tough day, and it is probably even tougher knowing that you are talking to an App State grad and that you went to Michigan, but I appreciate your time today.

And Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from California, Ms. Porter, is recognized for 5 minutes.

Ms. PORTER. Mr. Sloan, thank you for your patience during this hearing.

In November 2016, you said, "I am fully committed to taking the necessary steps to restore our customers' trust." You also said on a call in January 2017, "We have already made progress in restoring customers' trust and we have remained committed to being transparent with investors." In your 2017 proxy statement to investors, you said, "Restoring your trust and the trust of all key stakeholders is our top priority."

Those statements, to me, are pretty vague. They sound like they might be obscure, empty promises. Do those statements really mean something to you, Mr. Sloan?

Mr. SLOAN. They do.

Ms. PORTER. Why should we have confidence in those promises, in those statements you have made?

Mr. SLOAN. Well, when you look at the changes that I have made since I have become CEO, you see that team members are much more excited about working at Wells Fargo. They like what they do. Team member voluntary turnover is down to its lowest level in

6 years. The feedback we get from our team in terms of the changes that we have made is positive.

We still have more work to do, I don't mean to suggest that we are done. I don't think we should ever be done. Likewise, our customers are feeling the same way.

Ms. PORTER. Okay. So it is safe to say that the statements you have made mean something to you and that customers and investors can rely on those statements?

Mr. SLOAN. That is correct.

Ms. PORTER. Okay. Then why—Mr. Sloan, if you don't mind my asking—are your lawyers in Federal court arguing that those exact statements that I read are "paradigmatic examples of non-actionable corporate puffery on which no reasonable investor could rely?"

Mr. SLOAN. I don't know why our lawyers are arguing that. You asked me a direct question in terms of, do I believe in the statements that I have made—

Ms. PORTER. Well, I understand that is convenient—

Mr. SLOAN. —and the answer was absolutely correct.

Ms. PORTER. Mr. Sloan, you are a personally named defendant in Purple Mountain Trust v. Wells Fargo and Timothy J. Sloan. Are you lying to a Federal judge or are you lying to me and this Congress right now about whether we can rely on those statements?

Mr. SLOAN. Neither.

Ms PORTER. It is convenient for your lawyers to deflect blame in court and say that your rebranding campaign can be ignored as hyperbolic marketing. But then, you come to Congress, and you want us to take you at your word. And I think that is the disconnect, that is why the American public is having trouble trusting Wells Fargo.

Mr. Sloan, I also want to ask you about—when we met, you said that Wells Fargo is taking an "expansive view of remediating its customers who have been harmed." Why then are you fighting tooth and nail in Federal court to avoid returning about $350 to each of 50 auto loan customers in Southern California? And the money I am talking about, to be clear, is loans these customers paid off early, meaning they are now entitled to a partial refund of their GAP insurance.

Mr. SLOAN. Because it is not our responsibility to ensure that customers receive those refunds from the dealers who receive that money. It never went through Wells Fargo.

Ms. PORTER. Your salespeople sold them that GAP insurance. It was part of the transaction when those customers took out the automobile loans.

Mr. SLOAN. That is incorrect. The transaction occurred between the auto dealer and the customer. Wells Fargo was not involved. We never sold GAP insurance.

Ms. PORTER. You never sold GAP insurance. Do you profit from the sale of GAP insurance?

Mr. SLOAN. No.

Ms. PORTER. Okay. Because the situation that I am understanding for these customers, is that they are being told that if they want a refund of their own money to which they are entitled because they paid off their loans early, they have to write a formal

letter and mail it to American Heritage Insurance servicers. Why is this money just not being automatically refunded?

Mr. SLOAN. Because it would—in that circumstance, and I will take that circumstance as being correct, Wells Fargo did not receive that money. That is a transaction between the customer, the auto buyer, the dealer, and the GAP insurance company.

Ms. PORTER. So, the GAP insurer would be the one who should be doing these refunds in your view?

Mr. SLOAN. That is correct.

Ms. PORTER. Okay. My last question relates to what Ms. Tlaib, my colleague, was asking you about. As you know, I was very involved with the national mortgage settlement—I was the California monitor for the settlement. In your brochure, you said that attempts to contact the remaining affected customers are ongoing. This is the 870 people that you failed to give a modification to and the 545 that you wrongly foreclosed on. I think this means there are more problems there. Is that correct?

Mr. SLOAN. We don't believe so. What we have done in that circumstance is we have asked our audit team to review the internal review that the business and the independent risk function did. And we don't believe that is the case.

Ms. PORTER. Okay.

Chairwoman WATERS. The gentleman from Tennessee, Mr. Kustoff, is recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman. And I appreciate Chairwoman Waters scheduling this very important hearing today. Mr. Sloan, I appreciate you appearing today.

You have answered a lot of questions, frankly, a lot of tough questions about the problems that have existed at Wells Fargo that have led to several cases, a number of cases being brought against the company by Federal regulators as well by affected customers.

For the record, I want to state that I clearly believe it is critical to our entire financial system that Wells Fargo continue to do everything that it possibly can to identify the customers affected, to compensate them accordingly, and most importantly to make sure that this never happens again.

I also think it is very important that Wells Fargo continue to cooperate with Federal regulators and with Federal authorities. And I think it is your testimony today that you are doing that.

Given the number of scandals and admissions by Wells Fargo that there are customers who have been affected that you can't identify, what are you doing? What is Wells Fargo doing in order to try to identify these people who when their accounts when opened by your employees, they have been opened with incorrect and frankly fraudulent contact information?

Mr. SLOAN. So for example on the retail sales practices matter, when we contacted over 40 million customers through 264 million different interactions, we sent them all their accounts and said, let us know if any one of those accounts was opened inappropriately. And if that is the case, then we will make it right by you.

And we have had multiple interactions with those customers. And so, we have done our best to try to ensure that any customer who feels that an account was opened inappropriately, that we make it right by them.

Mr. KUSTOFF. Some of these customers may find out on their credit reports obviously, that accounts have been opened without their authorization. Their credit history therefore would have been impacted.

I have two simple questions that, frankly, require simple answers. Is Wells Fargo working with these customers to help repair their credit scores?

Mr. SLOAN. Oh, absolutely. What we found—and generally when we opened up a deposit account, we didn't run a credit check. The instances that we were most concerned about would be in a situation where there was a credit card that was opened up inappropriately.

And in those circumstances, about—and 40 percent of the time when we did a credit pull there was no impact on the credit score, in the other—in roughly half, the credit score actually went up. What we are concerned about are the situations in which the credit score went down.

Where it went down, it generally went down between four and nine points. That is a range that can have a bigger impact on some people because it generally impacted customers with higher credit scores more than customers with lower credit scores.

But we are asking any of those customers to come in to see us so that if there was any impact, that we would make it right by them. In addition, those customers can also take part in the class action settlement.

Mr. KUSTOFF. Right. Let me ask it another way, because as you know, dealing with credit bureaus is not easy for the consumer. Is Wells Fargo working with the credit bureaus to try to help those customers?

Mr. SLOAN. Oh, yes. In any situation in which we found that by our error, we provided inaccurate information to the credit bureaus, we are correcting that information.

And again, we are asking our customers to contact us if they believe that is not correct. We believe that once we do that, it is correct. And to ensure that if there is any impact.

Mr. KUSTOFF. On your website, on the frequently asked questions portion of your website, you acknowledge about the consent order being in effect, that you are aiming to meet the requirements of the consent order by 2019. We are now in March of 2019. Have you had conversations with the Fed or any other Federal regulator about lifting the consent order or consent orders?

Mr. SLOAN. We have a very constructive relationship with all of our regulators. And by the way, I don't think I have said enough today that the feedback that we have received from our regulators on all of these issues has been very helpful in terms of us making progress and improving risk operational oversight customer compliance across the board, every regulator, the Fed, the OCC, the CFPB and so on. But in terms of our—

Chairwoman WATERS. Time has expired—

Mr. KUSTOFF. I yield back my time.

Chairwoman WATERS. The gentlelady from Iowa, Mrs. Axne, is recognized for 5 minutes.

Mrs. AXNE. Thank you, Madam Chairwoman. And thank you, Mr. Sloan, for being here, I appreciate it. I value the employers in

my district. And as I know you are aware, Wells Fargo employs almost 15,000 Iowans in my district.

But when The New York Times quotes Mark Willie, one of those Des Moines employees who graciously is here today, saying that there is an overwhelming sense of frustration, I will take notice.

That article describes that in Des Moines, workers are expected to handle 33 calls an hour and recoup $40,000 per month. So, let me clarify that, that is 1.8 minutes per call. Can you confirm that you use these targets to evaluate your debt collection employees?

Mr. SLOAN. I am not familiar with those specific targets, Congresswoman.

Mrs. AXNE. Well, I am told you use a four point scale, and that completing a call every 1.8 minutes only gets you a three, so it doesn't even get you to the top of that scale. Can you confirm that Wells Fargo has terminated employees for not meeting these targets?

Mr. SLOAN. I am not aware of that, no.

Mrs. AXNE. Well, I spoke to an employee who said that people—

Mr. SLOAN. I am not saying that we didn't. I am just saying I am not aware of terminating any team members related to that incentive plan.

Mrs. AXNE. Thank you. I spoke to an employee who said that people have been fired for not reaching these goals, and I want to add that hitting these goals is far more based on random luck of who picks up the phone than anything that they can control.

I actually spoke to one of your account retention specialists and he described a system where if he fell below 90 percent of his target in any key performance indicator, then he would receive an informal warning. If he fell below an A, essentially, he would receive an informal warning. If that persisted for 3 more months, then he would get a formal warning and then be reviewed for termination.

This sounds to me like those cash bonuses that were used for hitting targets previously, that caused all of these issues at Wells Fargo, are now being switched out for an incentive just to keep people's jobs, and I would argue that is even worse.

My entire career has been focused on organizational development and helping people perform better so organizations reach their goals, and when I hear that people are afraid to use your ethics line because of fear of retaliation, I fail to see how you have changed your culture.

Mr. SLOAN. Congresswoman, retaliation has no place in Wells Fargo today. We have fundamentally reorganized our ethics line since I have become CEO. I brought in an independent third party to look at our ethics line in conjunction with our human resources and risk team. All of the calls that go to our ethics line go first to an outside third party.

Mrs. AXNE. I appreciate that, thank you. Reclaiming my time. I appreciate that. Certainly, we know that people have said they don't feel comfortable in doing that because they have actually seen the retaliation, but moving on.

In September 2018, Wells Fargo announced it planned to reduce its workforce by laying off as many as 26,000 workers, and then in November of 2018, Wells announced it was laying off 1,000 employees, and 400 of those were in Des Moines, is that correct?

Mr. SLOAN. We never announced that we were going to lay off up to 26,000 employees. What is said at a town hall where I—

Mrs. AXNE. Did you lay off 400 employees in Des Moines?

Mr. SLOAN. I was just referring to the first part of your question.

Mrs. AXNE. I appreciate that. But—

Mr. SLOAN. And that is not an accurate statement.

Mrs. AXNE. Okay.

Mr. SLOAN. Generally, what I said was that that over the next 3 years, we expect our total employment to reduce by between 5 and 10 percent.

Mrs. AXNE. Thank you.

Mr. SLOAN. And most of that is—

Mrs. AXNE. I appreciate that, but I am concerned about the people in my district. Were 400 of those people in Des Moines?

Mr. SLOAN. Four hundred folks were displaced in Des Moines. And—

Mrs. AXNE. And what was the reason for that layoff in Des Moines?

Mr. SLOAN. It depended upon their job. Some of those folks were displaced because of the fact that the amount of servicing demand that we had in the mortgage servicing business had declined. There were other reasons. Somewhere between—

Mrs. AXNE. I have a signed affidavit here saying that an employee in Des Moines was told her job was being moved to India, and that employees in that area have gone to India to train those replacements.

And then, I have also heard from employees who are using your virtual classrooms for that same purpose, to train people in other countries. Are these most recent layoffs really just you moving jobs overseas?

Mr. SLOAN. No, that is incorrect.

Mrs. AXNE. Okay, well, you have added more than 10,000 employees between India and the Philippines in the last 5 years, and I know you are building a new facility in the Philippines for another 7,000 employees, I believe. Can we expect that more of your planned layoffs are just going to be jobs moved overseas?

Mr. SLOAN. No, I don't think that is going to be the case. We have 20,000 job openings in Wells Fargo today. Ninety percent of those are here in the U.S., probably more than that. We hire between 40,000 and 50,000—

Mrs. AXNE. I appreciate that. I fail to understand, though, how we are laying people off in this country and building jobs overseas. Thank you.

Chairwoman WATERS. Thank you. The gentleman from Wisconsin, Mr. Steil, is recognized for 5 minutes.

Mr. STEIL. Thank you. I want to start by thanking Chairwoman Waters for calling today's hearing. I think it is important that we understand what went wrong at Wells Fargo and ensure that the meaningful remedial actions have been taken.

We have heard a lot of discussion today about the bank scandal and I think Members on both sides of the aisle are committed to holding Wells Fargo accountable and preventing future abuses. I also recognize that we are having a valuable discussion today about the role that big banks play in our financial system.

Mr. Sloan, according to the figures your company has released over the past few years, a significant number of Wisconsinites have been harmed by Wells Fargo's practices. Almost 9,000 customers have been impacted by unauthorized accounts, 9,500 were harmed with the auto insurance scandal, and the bank's mortgage rate lock scheme affected over 900 people.

My concern is that the reputational damages that have occurred to Wells Fargo are bleeding over into other banks that are by and large acting and abiding in a legal and ethical manner.

And so, I am looking at this reputational damage and I am nervous that we are going to walk away with a view that having a strong, healthy financial services in our country is important.

And so, I hope that we can come away from this hearing with an understanding that in order to have a healthy, vibrant economy that provides opportunities for all Americans, we need to have a financial services sector that includes big and small institutions and operates with customers in mind.

I would like to dig down—we have heard today a little bit about the size of the operation. Do you think the size of the bank caused the problems? Or was it an issue with the culture and incentives that were in place at Wells Fargo?

Mr. SLOAN. I think it was driven by our organizational structure, some of our incentive plans, and leadership.

Mr. STEIL. So, it's fair to say that you don't think it was too-big-to-manage?

Mr. SLOAN. No, I don't.

Mr. STEIL. I would like to jump over—you mentioned that you now have a starting wage at $15 an hour.

Mr. SLOAN. That is correct.

Mr. STEIL. Is that because you felt that you needed to bring in people of high quality, high talent, to come in and alter some of the problems that were existing before?

Mr. SLOAN. Well, I think our team before we changed our minimum wage was high quality and was doing a good job in meeting their customer needs. What I was concerned about is that the turnover at many of those entry level roles was too high, and so what that could create would be an inconsistent experience with our customers.

So, while the expense of increasing our minimum wage was high initially, I thought it was the right long-term decision in terms of reducing our turnover, and that is exactly what we have seen.

And that has created a better experience because our customer experience and loyalty scores in those areas that were most impacted by the increase in the minimum wage have actually gone up. So, I think it was the right decision to make.

Mr. STEIL. I am supportive of driving up those wages caused by market forces, that is how you are recruiting individuals to come into the bank, not by socialism or "people-ism," but by a free market approach that is moving wages up and then ultimately improving the customer experience at Wells Fargo?

Let me shift slightly and go over to the oversight role. Your Chief Enterprise Risk Officer is now a direct report to you?

Mr. SLOAN. That is correct, Mandy Norton.

Mr. STEIL. And that has been an effective way—that conversations continue ongoing between you and your Chief Compliance Officer?

Mr. SLOAN. Oh, absolutely, I interact with Mandy every day, and we talk about a variety of things. In fact, one of the changes that we have made since Mandy has joined the company is that we have a new Enterprise Risk and Control Oversight Committee that she and I both Chair.

We hold that meeting on a monthly basis. Those meetings are ways—and we have that kind of structure in each one of our business lines, and enterprise control functions, that is where key risks in the company are determined and discussed. And those meetings have been very helpful. Anything that comes out of those meetings is then escalated to our Board and our Board risk committee.

Mr. STEIL. I appreciate that, thank you for your time. I yield back the balance of my time.

Chairwoman WATERS. Thank you. The gentleman from Illinois, Mr. Casten, is recognized for 5 minutes.

Mr. CASTEN. Thank you, Madam Chairwoman. Thank you, Mr. Sloan, for coming here today.

I have some math questions, and these are I think straightforward, but I am scratching my head. If I am following the math right, last year you had about $3.5 billion in fines.

Mr. SLOAN. I'm sorry, can you repeat that?

Mr. CASTEN. You had about $3.5 billion in fines last year, if I add up the two point one, and the one, and some of the smaller ones just looking at the handouts we have here.

Mr. SLOAN. I think because that included the settlement of the RMBS matter from about a decade ago, that is correct.

Mr. CASTEN. Okay. Now, the tax cut last year saved you about the same amount. If I look at the falling tax rate, from an after-tax earnings perspective, it was about a wash for you.

Mr. SLOAN. No, I wouldn't—I would say it is a bit less than that. But it was—but there is no question that Wells Fargo—

Mr. CASTEN. Squint your eyes, it was pretty close.

Mr. SLOAN. On the reduction in the tax rate, that is correct.

Mr. CASTEN. And certainly if I look at your share price, assuming constant earnings multiples, your share price today is about where it was in 2017, so the market seems to have said, plus one, minus another, you are about even. The first question is, given that a lot of your senior executives, your compensation is tied to share price in some fashion, is that about a wash for you personally, for the senior leadership team?

Mr. SLOAN. I'm sorry, I am not following in terms of wash—

Mr. CASTEN. You are down $3.5 billion worth of fines, you are up $3.4 billion dollars in terms of avoided tax revenue, so your earnings are about constant. Your price earnings ratio looks to be about constant because your share price is about where it was in 2017.

Mr. SLOAN. That is correct, but I would say there were a number of other variables that had an impact in terms of our results.

Mr. CASTEN. Okay, so here is where I start to answer my question. If this was a one-time event, you would say that market shouldn't factor it in. You know, in actual fact, 2018 wasn't an anomaly, you had $1.4 billion in penalties in 2016, $3.4 billion in

2013, and if I assumed the market is discounting that back, that is like your 11 price earnings ratio where you are, 15, you have been at a high. That is like 17 percent to 25 percent of your market cap that has taken a hit on these funds.

And I am scratching my head at how your investors possibly tolerate that. When I got my—I was a CEO of an energy company for a long time and one of my Board members was fond of telling the three envelopes joke that you may have heard, that when you come in as a new CEO, the old CEO says, here are three envelopes, if you hit a problem, open them in order. First one says blame the last CEO, works great. Hits a second problem, opens the second envelope, blame the last CEO, works great. Hits a third problem, opens a third envelope, and it says prepare three envelopes.

Mr. SLOAN. I only got one when I became CEO. And that was to fix problems that existed at the company, and I think the changes that I have made since I have become CEO, some of which have been easy, some of which have been hard, are the changes that are needed to satisfy our shareholders.

Mr. CASTEN. Okay.

Mr. SLOAN. Our shareholders are generally longer-term shareholders and they see the future of Wells Fargo.

Mr. CASTEN. So one would hope, but here is the problem, in 2016 you guys laid off 53,000 employees, that was supposed to address the prior change and it was structured for a lot of the reasons that you described today. A year later, you got a record-breaking fine.

You have talked a lot about the compensation changes among tellers and among junior staff. If those changes in the past haven't made a difference, what are the incentives at the senior level, and particularly what if anything has been done to the basis of short-term cash compensation in the C-Suite, and in clearly, if your equity price is basically flat after all these fines, how much do you really care if you are getting a bunch of equity compensation, because it would seem to me that the markets are kind of writing this one off?

Mr. SLOAN. We care about it a lot because most of the compensation for senior leaders at Wells Fargo, including me, is in the form of long-term equity performance. That performance—the vesting of those shares is based upon our relative performance and our return on equity measure, the total shareholder return measure, which would address the issue that you just described, as well as the achievement of certain risk requirements that have been set by us. So there is a multitude of reasons in which we would—that equity would ultimately vest in the dollar amount—

Mr. CASTEN. But you still have a one-way hedge, right? If I am sitting there and saying your share price is 25 percent lower—

Mr. SLOAN. No, because it could go down to zero.

Mr. CASTEN. Your share price is 25 percent lower than it would be if your earnings were $3.5 billion higher.

Mr. SLOAN. No, because—I'm sorry, I don't mean to interrupt, but the way that the return on equity measure would work is if we don't achieve certain hurdles relative to our peers then the equity vesting actually can be less than what the original grant would be.

Mr. CASTEN. But in another case, you are getting equity. If I was an owner of Wells Fargo stock, I would be much more scrupulous than it appears your owners have been. I yield back my time.

Chairwoman WATERS. Thank you. The gentleman from Texas, Mr. Gooden, is recognized for 5 minutes.

Mr. GOODEN. Thank you, Madam Chairwoman, and thank you, Mr. Sloan. Would you explain to me the forced collateral protection insurance issue, what happened, what that is, where it went wrong?

Mr. SLOAN. Yes. So, we had a business and have a business that makes auto loans. And frequently when we make an auto loan, we buy it from a dealer. When a customer takes out an auto loan they are responsible for having some level of insurance in place to protect the underlying collateral of the vehicle.

There is nothing wrong with that, that is very standard anytime somebody buys a car and takes out an auto loan—where we made a mistake was our operational oversight of what would happen if, for whatever reason, that insurance would lapse, and the customer didn't have insurance, we had contracted with a vendor to provide that insurance to our customer, the borrower, and we didn't have the appropriate oversight in those situations to ensure that the information that the vendor was using was correct.

And so in some circumstances, our vendor provided insurance to customers who already had insurance. We should have done a better job. When that issue was escalated to me when I was in my prior role as Chief Operating Officer of the company, I instructed our team, because we couldn't assure ourselves that we have proper oversight, that we should end that process and we did as of September 30, 2016.

Mr. GOODEN. Very helpful, and thank you. To that end, there was a settlement to many of the States to the tune, I believe, of about $385 million. Does that number sound correct, to pay these loan recipients back who didn't need that insurance?

Mr. SLOAN. No, they are—that is our estimation of what our remediation to customers is going to be for the collateral protection insurance. There was a separate settlement with 50 State attorneys general as well as the District of Columbia related to CPI and other consumer matters that was $575 million. And that went directly to the States.

Mr. GOODEN. Has all that been paid out so far?

Mr. SLOAN. I believe that all of it has been paid out to the States. We are in the midst of remediating customers. That is taking longer than I would like. We are about a third to 40 percent through right now. We believe that we will have all of the customers remediated by the beginning of next year.

Mr. GOODEN. Okay. Do you know what the delay is for repayment? I understand about 10 percent of the customers who are awaiting payment are in Texas. And I would just like some kind of estimation on when we can expect that.

Mr. SLOAN. Well, I think that is an example of where the relationship with our regulators has been very helpful, in particular with the OCC, where we have had a lot of give-and-take in terms of how extensive the remediation should be. We have taken a lot of really good feedback from them.

We now have the remediation plan in place. It has taken longer than I would have liked, and I apologize for that, but we want to make sure that it is done right. But the pace of that remediation has increased and, again, we will have everyone remediated by the beginning of next year.

Mr. GOODEN. Thank you.

I yield back.

Chairwoman WATERS. The gentlewoman from Massachusetts, Ms. Pressley, is recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chairwoman.

Mr. Sloan, I wanted to follow up on a few questions that my colleagues had touched on earlier related to the corporate culture at Wells Fargo. In your testimony, you specifically referenced Wells Fargo's commitment to address some of the country's most pressing social and economic issues.

Picking up on some of what my colleague, Representative Porter, was getting at, I am encouraged by this pledge, but skeptical. Last year, Bloomberg News reported on the long relationship between Wells Fargo and the National Rifle Association. Since 2012, Wells Fargo issued approximately $431 million in loans to some of the largest firearms and ammunition companies.

Additionally, according to financial filings last year, Wells provided $40 million worth of lines of credit to Sturm, Ruger & Company. As I am sure you are aware, Mr. Sloan, Sturm, Ruger is one of the largest firearm manufacturers in the country and their products have been used in the last nine mass shootings. This company has also donated significantly to the NRA.

I bring this up because gun violence is an issue that is particularly rampant in the Massachusetts 7th Congressional District. There have been nearly 2,200 gun violence incidents in my district over the last 5 years alone.

So given your pledge and your commitment to help address some of the county's most pressing social and economic issues, yes or no, because I only have 5 minutes, do you think that stemming the epidemic of gun violence is a pressing social and economic issue?

Mr. SLOAN. I do.

Ms. PRESSLEY. Okay. So could you tell me why, when Bank of America has stopped lending to Sturm, Ruger and other companies who make assault style rifles, Citigroup announced it would cut ties, and JPMorgan announced that they are significantly cutting exposure to the gun industry—so, Mr. Sloan, what is Wells Fargo waiting on?

Mr. SLOAN. We are not waiting on anything. We want to continue to bank industries across this country that follow the laws and regulations on a local, State, and national basis, and we will continue to do that.

In addition, what we are doing is we are going to be partnering with a number of nonprofits to donate $10 million for nonpartisan research in terms of how we can reduce—

Ms. PRESSLEY. Sorry, reclaiming my time, I only have 5 minutes here.

Your website specifically states that you are committed to the highest standards of integrity, transparency, and principles performance and that you do the right thing in the right way and hold

yourselves accountable. And yet, you are providing millions of dollars to an industry lobby that is determined to manufacture firearms of ever-increasing lethality, firearms that have been used to murder tens of thousands of Americans each year.

So my question was actually a rhetorical question, because I already know why you have not divested from the NRA. According to IRS filings, the NRA paid nearly $10 million in banking fees between 2015 and 2016 alone to Wells Fargo. They also held up to $13.2 million in cash and cash equivalents in Wells Fargo accounts.

According to recent SEC filings, the Political Victory Fund, NRA's PAC, paid Wells Fargo nearly $71,000 in various banking fees over the last 3 years. Does this sound right, Mr. Sloan?

Mr. SLOAN. That is old data—

Ms. PRESSLEY. Well, it is not right, but does it sound like what you are doing?

Mr. SLOAN. It is not what we are doing, because we do not—the only banking relationship that we currently have with the NRA is that we have a loan which is amortizing on their building. They have moved their banking relationship outside of Wells Fargo.

Ms. PRESSLEY. Mr. Sloan, one of our first hearings on the Financial Services Committee was focused on the ways in which one's credit score can either make or break a consumer's ability to get ahead in life. For the consumers who were harmed as a result of Wells Fargo's egregious breach of trust, many are still suffering consequences from the systemic fraud that took place at your bank through hits on their credit scores.

In October 2017, you testified before the Senate Banking Committee that of the 3.5 million potentially unauthorized accounts, about 190,000 incurred $6 million in fees and charges, and that Wells Fargo was working on refunding every nickel. But in your testimony today, you did not provide much detail on your progress in making these harmed consumers whole. Could you elaborate?

Mr. SLOAN. Sure. So in addition to the outreach that I described in my testimony, what we have been able to do is continue to remediate customers. That has totaled now, as relates to retail banking sales practices, about $31 million. We are not seeing any additional customers are coming in to indicate that we haven't made things right. They can still, obviously, do that.

We are also working with the class action to make sure that they have all the data that we have, we have all the data that they have—

Ms. PRESSLEY. Excuse me. Are you removing harmful or erroneous data from peoples' credit files?

Mr. SLOAN. Oh, we have done that. To the extent that there has been anything reported that has been incorrect, we have corrected it. And to the extent that there has been an impact on them, we have asked them to let us know what it is. We have worked with them and we have remediated them.

Chairwoman WATERS. The gentleman from Indiana, Mr. Hollingsworth, is recognized for 5 minutes.

Mr. HOLLINGSWORTH. Good afternoon.

Mr. SLOAN. Good afternoon.

Mr. HOLLINGSWORTH. I want to transition some of the conversation away from the dialogue about Wells Fargo, specifically, and I

just want to talk a little bit more about the architecture of the financial system, especially post-crisis.

You obviously have worked in the field for very long time, and have a great deal of experience in the field. And I am curious, as an observer, about what has happened over the last 10 years; I am curious as to some of your observations. There are a couple of things I wanted to set the stage with, though.

It seems to an outsider that we have an arms race going on, an arms race between regulators and banks. Banks are getting larger and more concentrated on account of some of the regulatory efforts that have been undertaken, especially during the crisis. Some statistics, pre-crisis, about 36 percent of deposits were in institutions that have greater than $250 billion in assets; now it is 49 percent, correct? There used to be six of these institutions, and now there are nine of these institutions.

On the same side, regulators have grown dramatically. The Federal Reserve operating budget is double what it was, the FDIC is quadruple what it was, the OCC is quadruple what it was. The CFPB, obviously, didn't exist beforehand, and has a $300 million operating budget, at least prior to Mick Mulvaney being over there.

What we haven't seen are a lot of new bank entrants. Prior to the crisis, over the last 20 years 137 new banks were started every single year. Since the crisis, there have been 1.5 banks, on average, that have started every year.

So, what my friends across the new aisle continue to talk about is consumer empowerment, but what they really mean is regulator empowerment, in the hopes that that will help the consumer.

But to Hoosiers back home who are seeing their banking choices decline dramatically, who feel like they can't get a mortgage in their local community, that they can't reach out to a financial institution, that they don't have control of their financial future, they are saying, "Where is the empowerment, where is the real help?"

So, I wondered if you might be able to talk a little bit about how the regulatory environment has constrained new entrants into the banking industry and what that might mean for the significant portion of the population, around 6.5 percent, who are totally unbanked in this country.

Mr. SLOAN. Well, I don't think the regulatory environment post-crisis has fundamentally impacted our ability to serve any of our customers, with a few exceptions.

I think that, in fact, there is a place for every size of bank in this country—small, medium, and large—and I think what you are seeing today is that larger banks have the ability to use the economies of scale and technology to invest in different products and services that customers really like.

Likewise, I think you are seeing new entrants, non-banks, Fintechs, as they are sometimes described, come up with new products and services that are very interesting. Sometimes, they are offering those products and services directly to consumers, and sometimes, they partner with firms like Wells Fargo or others.

Mr. HOLLINGSWORTH. Yes, so to break apart your first point, the economies of scale, one of the things we have seen is that regulators have ramped up the number of regulations that are being promulgated and the cost of doing business has gone up.

Banks, just like every other industry, have to respond to that and they have gotten larger, because they have to amortize those fixed costs over more and more people, more and more loans, more and more accounts, et cetera. And we have seen the number of community banks, the number of small banks in the country, fall precipitously over the last 10 years. Is that something that you would agree with generally?

Mr. SLOAN. I think generally, but I would also support—and there has been legislation that has been passed recently that there should be different standards. I think as a large bank in this country, that has a bigger impact on this country, we should be held to a higher standard, and clearly, we are.

Mr. HOLLINGSWORTH. Right.

Mr. SLOAN. I think that in terms of medium-sized banks and smaller banks, it should be graduated down so it doesn't have as much impact on their ability to serve their customers.

Mr. HOLLINGSWORTH. I think that is exactly right. I think ensuring that we have a runway, we want to watch larger institutions more carefully, they are more integral to the global financial system, but we need to empower small institutions, as well. And I, like you, firmly and fundamentally believe that big does not necessarily equal bad and that there is a place for every institution in the ecosystem.

But I am firmly worried that the regulatory policies that are being pushed, enacted, and now called for, might meaningfully ensure that only big institutions can survive, and for my rural district, those institutions aren't frequently serving Salem, Indiana, aren't frequently serving Jeffersonville, Indiana, and aren't frequently serving Bedford, Indiana.

And I wondered if you might talk in the last 30 seconds about some products that you are pushing that might help reached those unbanked people? How can we further the reach of the banking system to empower Americans?

Mr. SLOAN. Well, we are not pushing products anymore.

Mr. HOLLINGSWORTH. Poorly worded, my fault.

Mr. SLOAN. Yes, I can understand. But one would be a new account that we are piloting right now in seven States called "Greenhouse," which is a new checking relationship that is focused on the underbanked and students.

Mr. HOLLINGSWORTH. Great.

Mr. SLOAN. And the focus there is to provide a product that can be completely mobile so you don't need a local branch to go into, that doesn't allow overdrafts, that has a debit card, that also has a budgeting system set up—

Mr. HOLLINGSWORTH. I love that.

Mr. SLOAN. —to help with financial education.

Mr. HOLLINGSWORTH. Well, I appreciate that work. Hoosiers back home will appreciate that. Thank you.

Mr. SLOAN. Thank you.

Chairwoman WATERS. The gentlewoman from New York, Ms. Ocasio-Cortez, is recognized for 5 minutes.

Ms. OCASIO-CORTEZ. Thank you, Madam Chairwoman. Mr. Sloan, earlier today you said that Wells Fargo does not put profits over people, correct?

Mr. SLOAN. That is correct.

Ms. OCASIO-CORTEZ. I am interested in the human rights abuses and environmental disasters that some say are financed by your bank, Wells Fargo. In a recent Guardian article by Krystal Two Bulls and Matt Remle, they stated, "Wells Fargo has pursued profits without principles by investing in private prisons, for-profit immigration detention centers, loan shark-like payday lending, and holding much of the bond debt strangling Puerto Rico's efforts to lift itself out of its financial crisis." Is it true that Wells Fargo has invested or financed in some of these industries?

Mr. SLOAN. We made a decision 2 years ago to exit the two relationships that we had with two public private—or public prisons—private prisons firms. One has been exited, and then when the credit agreement with the other one amortizes and matures, we will no longer have that relationship.

Ms. OCASIO-CORTEZ. Are those two companies GEO Group and CoreCivic?

Mr. SLOAN. Correct.

Ms. OCASIO-CORTEZ. And which one has been exited, GEO Group or CoreCivic?

Mr. SLOAN. I can't recall exactly which one.

Ms. OCASIO-CORTEZ. Okay. And, Madam Chairwoman, I would like to seek unanimous consent to submit three reports highlighting the bank's role in debt financing these groups, the for-profit prison companies running ICE detention facilities.

Chairwoman WATERS. Without objection, it is so ordered.

Ms. OCASIO-CORTEZ. Mr. Sloan, why was the bank involved in the caging of children and financing the caging of children to begin with?

Mr. SLOAN. I don't know how to answer that question, because we weren't.

Ms. OCASIO-CORTEZ. You were financing and involved in debt financing of CoreCivic and GEO Group, correct?

Mr. SLOAN. For a period of time, we were involved in financing one of the firms. We are not anymore, and the other—I am not familiar with the specific assertion that you are making, but we weren't directly involved in that.

Ms. OCASIO-CORTEZ. Okay, so these companies run private detention facilities run by ICE, which is involved in caging children, but I will move on.

Mr. Sloan, Wells Fargo was also an investor, a major investor in the Dakota Access pipeline and the Keystone XL pipelines. They were prime investors and lenders to companies building these pipelines in defiance of Standing Rock Sioux's treaty rights to protect its water and sacred lands.

The Lakota Sioux warned early on that the pipeline was unstable and bound to leak. Despite that, it was built anyway, and it has leaked at least 5 times. And the Keystone XL in particular had one leak that leaked 210,000 gallons across South Dakota.

Since Wells Fargo financed the building of this pipeline in an environmentally unstable way, why shouldn't the bank be held responsible for financing the clean-up of the disasters from these projects?

Mr. SLOAN. Which pipeline are you referring to?

Ms. OCASIO-CORTEZ. Either. We know—

Mr. SLOAN. We were not involved in the financing of the XL Pipeline. We were one of the 17 or 19 banks that was involved in the financing of the Dakota Access Pipeline.

Ms. OCASIO-CORTEZ. Okay. So Wells Fargo hasn't financed any company associated with the Keystone XL pipeline?

Mr. SLOAN. No, I didn't say that.

Ms. OCASIO-CORTEZ. Okay.

Mr. SLOAN. I said we are not involved in financing that pipeline specifically.

Ms. OCASIO-CORTEZ. Okay. So let's focus on the Dakota Access Pipeline. Should Wells Fargo be held responsible for the damages incurred by climate change due to the financing of fossil fuels and these projects?

Mr. SLOAN. I don't know how you would calculate that, Congresswoman.

Ms. OCASIO-CORTEZ. Say from spills or when we have to reinvest in infrastructure, building seawalls from the erosion of infrastructure, or cleanups, wildfires, et cetera?

Mr. SLOAN. Related to that pipeline? I am not aware that there has been any of what you described that has occurred related to that pipeline.

Ms. OCASIO-CORTEZ. How about the cleanups from the leaks of the Dakota Access Pipeline?

Mr. SLOAN. I am not aware of the leaks associated with the Dakota Access Pipeline that you are describing.

Ms. OCASIO-CORTEZ. So, hypothetically, if there was a leak from the Dakota Access Pipeline, why shouldn't Wells Fargo pay for the clean-up of it, since it paid for the construction of the pipeline itself?

Mr. SLOAN. Because we don't operate the pipeline. We provide financing to the company that is operating the pipeline. Our responsibility is to ensure that at the time we make that loan, that that customer—and we have a group of people in Wells Fargo, including an environmental oversight group headed by my colleagues who used to be at the EPA to ensure that our—

Ms. OCASIO-CORTEZ. One question: Why did Wells Fargo finance this pipeline, when it was widely seen to be environmentally unstable?

Mr. SLOAN. Again, the reason that we were one of the 17 or 19 banks that financed that is because our team reviewed the environmental impact and we concluded that it was a risk that we were willing to take.

Ms. OCASIO-CORTEZ. Thank you.

Chairwoman WATERS. The gentleman from Ohio, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman.

Thank you, Mr. Sloan, for being here. From the questions and answers that we have heard so far today, it does seem clear that there is still a significant amount of concern regarding the steps Wells Fargo has taken since 2016, regarding some of the misconduct.

I think it is important for us to remember that these actions hit real families. They hit them in Ohio, my home State. Misconduct

resulted in more than 1,500 Ohioans having unauthorized accounts, 3,200 being improperly charged for collateral protection insurance, and nearly 1,500 impacted by being improperly charged a rate lock extension fee. Our constituents rightfully have to ask themselves what should they do as a result.

For my first question, I want to go back to what Mr. McHenry was talking about earlier. He mentioned that in the last few months, there have been reports of ongoing investigations into excessive fees in the wealth management division, deficiencies in the bank's anti-money laundering compliance program, an underwriting software issue, and just last month, violations related to the sale of add-on products and the freezing or closing of accounts.

I know that is a lot that we just talked about. But from your perspective, can you give the committee a sense of which issues you are tracking right now and give us a sense of whether we are out of the woods? Because candidly, it does feel like there is a lot still up in the air here.

Mr. SLOAN. Well, there is, and I am tracking all of those issues, not just one of them. All of those issues occurred prior to my stepping into this role as CEO, but now that I am CEO, I take responsibility for resolving them.

I think the changes that I have implemented since I have become CEO are addressing those issues. And one of the promises I made to all of our stakeholders when I stepped into this role is that we would look far and wide within the company to make sure that there were no other issues.

That is why some new issues have occurred. They are not necessarily new errors that we have made. It is just that we have encouraged the team to look very hard so that we can get through this very challenging part of our history and make sure that any customers who were impacted, that we treat them appropriately.

Mr. GONZALEZ OF OHIO. Got it. So if I am understanding this correctly, what you are basically saying is we did have a lot of issues. That is obvious.

Mr. SLOAN. There is no question about that.

Mr. GONZALEZ OF OHIO. Nobody is denying that. But since you took over as CEO, you feel like you have kind of put a stop to that. You are still investigating the things that went on prior to your arrival. And that going forward, since your time as CEO, you feel very comfortable with how the bank has performed on these issues?

Mr. SLOAN. Well, I can't promise you perfection.

Mr. GONZALEZ OF OHIO. Right, but—

Mr. SLOAN. But what I can promise you is I believe that the organization we have put in place, the investment in thousands more risk professionals, as well as technology, as well as investment in risk, is putting us in a place where the chance of these types of issues occurring again is much, much less.

Mr. GONZALEZ OF OHIO. Okay, great.

My next question shifts to the culture. I know The New York Times just wrote an article suggesting maybe the cultural changes haven't been as effective. Can you talk about specifically what you are doing at the executive level, at your level, to make sure that the culture does in fact turn over? It is a big organization; it is hard to turn around a culture in just a few short years, so—

Mr. SLOAN. Yes. So one of the key changes that we made is encouraging team members that if they see something that they are concerned about, or if they have a good idea, that they should raise their hand and let us know.

Mr. GONZALEZ OF OHIO. Has that resulted in proactive communication?

Mr. SLOAN. Oh, absolutely, yes. And the way that we track that kind of information is much different. We have also encouraged our team to the extent that they are uncomfortable, raising something to their manager or human resources group, to call our ethics line. And calls into the ethics line now go outside the company and they are dispositioned in a much more independent way to ensure that there is no retaliation in the company.

Mr. GONZALEZ OF OHIO. Great. And then for my final question, some of my colleagues on the other side of the aisle are what I would call attacking Wells Fargo for conducting business that is perfectly legal with customers. So the groups that were just mentioned, were any one of them breaking Federal law when you were banking them?

Mr. SLOAN. Not that I am aware of. And one of the standards that we set in banking any sort of industry that has various reputational issues is to make sure that there is a double-check beyond just a normal credit underwriting that we would do for on a reputational basis, so that we don't run into those kinds of issues.

Mr. GONZALEZ OF OHIO. Thank you.

And I yield back.

Chairwoman WATERS. The gentleman from Utah, Mr. McAdams, is recognized for 5 minutes.

Mr. MCADAMS. Thank you, Madam Chairwoman.

Mr. Sloan, I think without question, Wells Fargo and its various actions have caused harm to hundreds of thousands and possibly millions of customers. Your violations have stretched from egregious sales practices, whereby the company opened millions of accounts in customers' names without their consent or knowledge, to violations of the Servicemembers Civil Relief Act.

And just in November of this past year, it was reported that you foreclosed on 545 customers based on a computer error: 545 families kicked out of their homes when they shouldn't have been, 545 families with their stability uprooted. All the consent orders and fines in the world can't repair that damage.

In your written testimony, you discussed the transformation of the company and I believe that you do want to improve the company. And we want to improve the company because we also want these practices to cease. Wells has over 3,000 employees in my State, and I know these employees, and I want them to be proud of where they work and not have a workplace that pushes them to act unethically or illegally.

So, Mr. Sloan, I wanted to go back to your comments about The New York Times article. And I am paraphrasing, but I think in a previous question that was asked, you basically said that you disagreed with the content of that story. But if these employees feel this way, then that, I think, is a concern for us. You can disagree with the article, but those employees matter and their concerns matter.

And the article says, "In a survey of more than 27,000 employees in the bank's information technology department late last year, top concerns included their ability to raise grievances with managers and whether Wells Fargo conducts its business activities with honesty and integrity."

The article goes on to report that the workers at Wells Fargo recently flooded the bank's internal logs with hundreds of angry comments about Wells Fargo's sales incentives and pay and ethics leaders' doublespeak. So if employees feel like they can't raise grievances with managers, whether or not you believe that to be the case, then that is a concern and it raises questions about the culture at Wells Fargo.

What do you think are the root causes of these employees' concerns? And do you believe these employees when they say that they feel this is a problem?

Mr. SLOAN. I don't mean to question how any of our team members feel. And there is no question that improving culture is a journey. I don't mean to sit here and suggest today to you that we solved the culture issue, because it requires leadership and managers and communication and an open relationship with our team members.

One way I deal with it, and I will just give you my example, is that I hold town halls every other month. In those town halls, I provide an update for about half-an-hour for our team members. There are generally 500 to 2,000 team members in attendance. The town halls are broadcast to the entire company live, and then we take unscripted questions from team members in whatever they would want.

And at the end of every one of those town halls, I say the following, "If there is any concern that you feel about this company, that you feel hasn't been raised, call me or send me an e-mail." I get communications from our team all the time, and I make sure that we follow-up.

Congressman, I can't promise you that every one of our 260,000 team members jumps out of bed, runs into work at Wells Fargo, and it is the happiest place on Earth, right?

But what I can promise you is when we survey our team members across the entire company, that is not the results we get. That doesn't mean that everybody feels the way I would like them to, and that is why this changing culture is a journey and we are not done yet.

Mr. MCADAMS. I just want to make the point that I don't think it is about morale or how people feel about the workplace, but it is, do people feel comfortable they can report concerns or grievances up the food chain without retribution? Do you think it is alarming? And so, the reports are that many employees still feel this way, that they feel that the culture is not one where they can raise red flags up the food chain without consequences.

Mr. SLOAN. I think it is disappointing, based upon the progress that we have made and the changes that we made that any of our team members feel that way. And to the extent that that is how our team members feel, we will redouble our efforts to make sure that we have communicated to them all the changes that we have made and that there is no place for retaliation in Wells Fargo.

Mr. MCADAMS. It is alarming to me that employees are still feeling this way because if employees don't believe you when you say that the culture has changed, then I don't know that we can conclude that the culture has changed.

Mr. SLOAN. Well, again, Congressman, we have 260,000 team members and most of them when we survey, an overwhelming percentage of them feel that the changes we have made are making a difference. And again, that is not to say we are done yet. I am not going to be satisfied until every one of them—I don't know if we will ever reach that, but that is my goal.

Mr. MCADAMS. Thank you, Mr. Sloan.

And I yield back.

Chairwoman WATERS. The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman.

Mr. Sloan, it has been a long day. I know it has been a long day for you. And quite frankly, some of the actions by Wells Fargo have been very egregious and it is probably worthwhile for you to be here. I have a couple of questions before I—the core question I want to ask you is going to deal with the OCC's consent order and beneficial ownership, just so you know where I am eventually going to go with this.

Mr. SLOAN. Okay.

Mr. LOUDERMILK. But I want to address a couple of things that I think are maybe overlooked or is unfortunate in the direction some of my colleagues have taken today's hearing. What was your customer base prior to the investigation or scandal from the consumer standpoint? How many customers did you have?

Mr. SLOAN. Approximately 70 million.

Mr. LOUDERMILK. How many do you have today?

Mr. SLOAN. A little bit more than that.

Mr. LOUDERMILK. So you experienced some loss, I would imagine, during that time?

Mr. SLOAN. Well, actually no. What we experienced is, I mean, we are always gaining and losing customers every day—

Mr. LOUDERMILK. Right.

Mr. SLOAN. People move and so on and so forth. We compete for business with other banks and we win and lose it every day. But overall, since the fourth quarter of 2016, what we have seen is our customer base grow. It is not growing as much as I would like, but it is going in the right direction now.

Mr. LOUDERMILK. So I would take it then that your customers are pretty satisfied with the service you are giving, some of the corrective actions you are making?

Mr. SLOAN. That is the feedback that we get from them. We survey our customers—in addition to on a specific basis in our retail business where we survey customer experience and loyalty scores, we also separately have a survey that we do monthly. And we are going in the right direction. Again, we have more work to do, but your statement is correct.

Mr. LOUDERMILK. Okay. One other issue I want to address is, do you make auto loans?

Mr. SLOAN. We do.

Mr. LOUDERMILK. Are you going to continue to make auto loans?

Mr. SLOAN. We are.

Mr. LOUDERMILK. The reason I am asking you this is because, according to the CDC, more people were killed by auto accidents than by guns in the past several years. Using the logic of some of my colleagues, I am not going to sit here and ask you to quit making auto loans.

Mr. SLOAN. Thank you.

Mr. LOUDERMILK. I am one of the few on this committee who has been a victim of both gun violence, and of what should have been a fatal auto accident. You very well may have made the loan to the rental car company to buy that car in which I was a victim of a triple flip-over accident on an interstate. My wife and I were fortunate to survive. On two occasions, I have been shot at: once on the baseball field; and once back at home.

I don't want you—I am not expecting to use your business as a tool to shape culture, or do a cultural experiment or make it a lab to do something that wouldn't be done otherwise. And I think that it is unfair to put you in that position. Both of those are legal in the United States and those businesses that operate—whether they sell automobiles or manufacture automobiles, or sell guns—that is something that shouldn't be laid at your table. I just wanted to address that.

Now, onto the core question I have. The Office of the Comptroller of the Currency, as has been mentioned already, has given you a consent order regarding beneficial ownership. And during your second quarter 2018 10–Q filing, you stated that some Federal agencies have been making inquiries into the bank regarding potentially inappropriate conduct related to the collection of beneficial ownership information.

Mr. Sloan, what is the potentially inappropriate conduct that took place?

Mr. SLOAN. The consent order that we have in place with the OCC actually covers our BSA/AML program and our wholesale banking business. I will be quick.

And what the focus there is, is not that we are not following BSA/AML laws, but that we were not doing a good enough job of documenting how we make decisions. By the way, the OCC is completely correct, and we are reforming and improving our capabilities.

One of the requirements that was introduced about a year ago is a beneficial ownership forms. And what we found, because of a call to the ethics line that we put into place after I became CEO, was that some of our team members were not following our policies and procedures in completing those beneficial ownership forms, and that is unacceptable.

Mr. LOUDERMILK. So you are complying with the consent order at this point?

Mr. SLOAN. We are. We have more work to do because the consent order hasn't been lifted, and we take our responsibilities to the OCC seriously, but we are making progress.

Mr. LOUDERMILK. I know there is a lot of confusion with the FinCEN customer due diligence rule regarding this, and so I applaud your efforts. What has taken place is egregious. I don't think

anybody on this committee would depart from that. But I do appreciate the effort you are making to move forward.

Mr. SLOAN. Thank you.

Mr. LOUDERMILK. I yield back.

Chairwoman WATERS. The gentlewoman from Virginia, Ms. Wexton, is recognized for 5 minutes.

Ms. WEXTON. Thank you, Madam Chairwoman, and thank you, Mr. Sloan, for joining us here today. As I was going through the materials to prepare for today's hearing, I was just so struck by really the scope and the breadth and the depth of fraudulent activities throughout basically every one of Wells Fargo's subsidiary businesses.

And I know we have been through these before and time is short, but I do think it is important to tick off some of them: in consumer banking, with the opening of fraudulent accounts; opening credit cards without customers' consent; debit cards on auto loans. I know that you dispute the actual selling of the force-placed insurance, but you did repossess a number of cars that you shouldn't have as a result of that.

On Wells Fargo wealth advisers, on the wealth management side, there was some churning of investments that were supposed to be long-term investments, and selling those to receive commissions and fees.

On the mortgage side, there were inappropriate fees charged for interest rate locks even when the delay was due to Wells Fargo's own actions, and the violations of the Servicemembers Civil Relief Act are pretty egregious, including repossessing cars from servicemembers who were deployed abroad. Wells Fargo is now subject to, I think you said, 14 separate consent decrees, is that correct?

Mr. SLOAN. Correct, yes.

Ms. WEXTON. And so, you would agree with Chair Yellen's assessment that there was pervasive and persistent misconduct at Wells Fargo?

Mr. SLOAN. I think we made a significant number of mistakes that we shouldn't have made. We have taken responsibility for those errors and since I have become CEO, we have made fundamental changes in the company to address those shortcomings.

Ms. WEXTON. Now, you had said that one of the causes or what you perceived to be a potential cause of all of these offenses was that you had a decentralized sort of management system at Wells Fargo, is that correct?

Mr. SLOAN. That is correct.

Ms. WEXTON. In other words, each subsidiary was kind of going rogue on their own, is that correct?

Mr. SLOAN. Well, I didn't say they were going rogue on their own, but I think that the way that they were organized is, they had the enterprise risk and control functions within the business line that didn't create enough—the check and balance that we have today.

Ms. WEXTON. Okay. But I just find it so interesting that each one of these businesses was engaging in the same kind of pattern of fraudulent misconduct, even though they were each operating in their own little spheres. So now you say that management and ev-

erything is centralized and that is going to solve this problem, or at least help ensure that it is not going to happen again. Is that correct?

Mr. SLOAN. I think that is one of the fundamental changes that we have made since I have become CEO to address it, but it is not the only one.

Ms. WEXTON. Okay. I can't wrap my head around why and how every single subsidiary of Wells Fargo was engaging in some sort of fraudulent activity if it wasn't coming from the top. Would it be your position that all banks do this sort of thing and Wells Fargo is just the one that got caught?

Mr. SLOAN. No, of course not. But I wouldn't agree with the statement that every one of our operations was engaging in inappropriate activity. There is no question that it happened.

Ms. WEXTON. Well, just the ones that I listed, the auto, mortgage, and consumer deposit accounts, all of those were, right?

Mr. SLOAN. There is no question we made errors in those businesses.

Ms. WEXTON. You have been employed at Wells Fargo for about 30 years or thereabouts?

Mr. SLOAN. 31½.

Ms. WEXTON. Okay. And most recently as Chief Operating Officer before you became CEO, right?

Mr. SLOAN. Yes, I was Chief Operating Officer for about 10 months.

Ms. WEXTON. Okay. And so to the consumers who were wronged by Wells Fargo during this long pattern of misconduct, how do we assure them that you are the best person to change the culture when you have been a part of the culture for the last 3 decades?

Mr. SLOAN. Because having knowledge of the company allows me to make the difficult decisions to reorganize the company more quickly, and that is what I have done. This company is going through fundamental change. It is more fundamental change than it has ever gone through in its history.

Ms. WEXTON. Is that because of your leadership or because of the oversight of the various Federal agencies who have consent decrees with—

Mr. SLOAN. I have made all the decisions, so I take responsibility for those decisions and whether they work or they don't.

Ms. WEXTON. Thank you. I see my time is up. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. They have called the votes on the Floor, and we are going to try and avoid having to return so that we don't have to keep Mr. Sloan here. So, Mr. Lynch, you are recognized for 5 minutes, and I am going to be very strict on the number of minutes so we can all get to vote.

Mr. LYNCH. Thank you, Madam Chairwoman. I will try to be quick. Mr. Sloan, I have to say, I am amazed. I have been here for a while, I was here during the financial crisis, and I am amazed at the willful and disgraceful conduct of Wells Fargo. I really am.

I mean, AIG made mistakes, they mispriced some products, and there were mistakes, real mistakes made there. But in your case, you robbed your customers. You robbed your customers.

We deal a lot on this committee with the Financial Crimes Enforcement Network and a lot of those cases are people hacking or cyber criminals stealing funds from strangers.

But in your case, you robbed your customers, the people who came to you and trusted you. So when you say, "We made a mistake," robbing your customers is not a mistake. There is something deeper going wrong there. You said that, "We had errors in those businesses." Robbing your customers is not an error in business in the deepest sense. There is something more sinister in that.

When people come to you, they deposit money into your bank and you rob them, 3.5 million— 3.5 million—fake accounts and fake credit cards. And I am just stunned—I don't know if I am madder at Wells Fargo or madder at our regulators that they did not just step in, remove Mr. Stumpf, and appoint a receiver for Wells Fargo and break you up.

You are still like the 12th biggest bank in the world, with $2 trillion in assets. And I think your conduct over the past decade has proven that you are way too big to even manage what you have going on right now. You say that, "We are going to make a difference now because everything is centralized." The robbing of your customers was centralized, 3.5 million. This was not an outlier. You fired 5,300 employees, and they were fired for following company policy.

Make no mistake, 5,300 people don't go rogue together. These were employees who were following company policy. It is disgraceful.

You know, the FDIC, one of your regulators, has grounds for removal and taking over the back and breaking it up. One of the standards is if there was a willful violation and concealment of the institution's books, papers, records or assets—opening up fake accounts, taking the information that you got, Social Security numbers, all of that stuff that your customers gave you, and filling out fake credit cards and charging them for that, opening up fake accounts with people's names on them that they gave to you as a fiduciary, that would seem to qualify.

If there was a violation of law or regulation of any unsound practice or condition that weakens the bank's condition, that is you. That is you all over in terms of your bank. If the bank was found guilty of any Federal criminal money-laundering offense, so you got a violation of the Bank Secrecy Act and then you have one of your employees doing deals with the Sinaloa cartel, allowing them to buy an aircraft. You funded it through Wells Fargo.

So, you basically qualify with all of the things that would lead the FDIC and the regulators to remove the CEO and take over that bank. And I don't know why they haven't. They are going to be up before this committee eventually, in a couple of weeks, and I am going to ask them the same question.

But if I were you, and you really wanted to do the right thing, put this bank on the right path, then break it up. Decide how you would dismantle it so we don't lose all the jobs, but you are way too big. Your conduct has been disgraceful. And I think you would serve your customers and you would serve the financial system and our country much better if you agreed to just break up the bank

in functioning pieces that are able to be accountable to their customers and to the general public.

Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much. The gentlewoman from Pennsylvania, Ms. Dean, is recognized for 5 minutes. They are holding the Floor open for the vote. We are going to see—

Ms. DEAN. Okay, I am going to talk really fast.

Chairwoman WATERS. —if we can make it. Thank you.

Ms. DEAN. Thank you. Thank you, Madam Chairwoman.

Thank you, Mr. Sloan, for being here. I wanted to say to you that I was eager to read your testimony before coming to this hearing today. And I will preface it by saying that I am a Wells Fargo customer, I have an account or two at Wells Fargo in addition to other places. My local branch couldn't be nicer.

Mr. SLOAN. Thank you.

Ms. DEAN. But that is neither here nor there. I was eager to read your testimony. I come from a background of teaching writing at a university for 10 years, and I have always taught my students avoid euphemism, because euphemism just fogs over the real meaning of what is going on.

I was gravely disappointed at the testimony that I read, and here is why. In your first paragraph, you said that you are looking forward to the opportunity to discuss the transformation at Wells Fargo over the past 2 years under your leadership. You were determined to address the retail sales practice issues that occurred in community banks. You pledged to look back years.

"We discovered issues that we need to address, every one of which was a disappointment to me. I want to be accountable and transparent." These are your words; I am taking them in pieces, of course. "And we have," that is what you said. "We have been accountable and transparent. We have gone above and beyond what is required in disclosing these issues."

If you can hear the theme here, I was struck by the lack of transparency. I was struck by language that didn't at all reveal the grave fraudulent things going on at Wells Fargo, not just in the past 2 years, but maybe as far back as 2002.

So what struck me was that the first step in solving a problem is recognizing there is one. And I have seen here in the last 4 hours an absence of a recognition of the real problem and the real grievous harm you caused people. There is a draining of humanity in this whole conversation that I can't believe.

I was a State representative before I came here. I sat with people trying to go through the tangled web of mortgage modifications. And when we take a look at your mortgage modifications, and what you revealed, that 870 customers were incorrectly denied loan modifications because of a computer glitch—again, there is no humanity in that, some computer ran for 5 or 6 years and denied people modifications, and 545 of those customers lost their homes.

What did you do? How did you calculate the exact harm to each and every single one of those 545, not to mention the 325 who were wrongly denied?

Mr. SLOAN. So what we are doing—

Ms. DEAN. And I want an exact calculation. Give me an example of one human being.

Mr. SLOAN. Well, for some of the customers that we foreclosed inappropriately on, because they didn't receive a modification, we have sent them a $15,000 check, and they have been satisfied with that remediation.

Ms. DEAN. I have to stop you there. I went on your website and I looked at different places where a customer like me could go in, and the things you have said today—you sent $15,000, and because you didn't hear back from them, you consider them satisfied.

Mr. SLOAN. No, not at all.

Ms. DEAN. Imagine losing your home.

Mr. SLOAN. No. No.

Ms. DEAN. You don't know what equity they might have lost in that, the stresses, the human toll. Have you seen families sit and go through what they think is a shameful experience? "I can't keep a home over my children's heads." It is a shameful feeling, a horrible feeling. Not to mention the uncertainty of it. And you thought a $15,000 check satisfies it? Shouldn't there be an exact calculation of harm per individual, yes or no? Yes or no? Should you calculate per individual?

Mr. SLOAN. And that is what we are doing—

Ms. DEAN. No, you put the burden back on the borrower.

Mr. SLOAN. I want to take this specific situation you described—to the extent that there was a foreclosure and there was any equity in the home, that was returned to the customer already. Okay? We have said to those customers, if $15,000, which is 2.5 times the amount, please—

Ms. DEAN. I am going to stop you there.

Mr. SLOAN. Please.

Ms. DEAN. We have heard you say the $15,000 fee, 2½ times. Here is what is dissatisfying to me. As the commander, as the captain of this ship, what I think you should have instructed your subordinates to do was to say, don't offer them $15,000 and see if that will satisfy them. Find out the exact harm that we caused—

Mr. SLOAN. And that is what we have done.

Ms. DEAN. Just like a recall of a bad drug.

Mr. SLOAN. No, no, no. That is what we have done.

Ms. DEAN. Find out the exact—no, you have put it back on the customer, just like the customers who might have had too much of a fee taken from them for holding on to an interest lock. You put it back on the customer. Get back to us if you think you were wrongly charged. How are they to know they are wrongly charged?

I am going to end with this, Madam Chairwoman, because I know I am out of time. I would ask you to—

Mr. SLOAN. I would love to be able to answer your question.

Ms. DEAN. I would ask you to take a look at your overall language, because your language reveals that you don't get it, that you are fogging over the problem. In this beautifully printed book, "Our Culture", chapter 3, listen to this and tell me what in God's name it means. "After extensive internal research—

Chairwoman WATERS. The gentleman from Illinois, Mr. Garcia, is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Madam President—or Madam Chairwoman.

[laughter]

Chairwoman WATERS. I like that.

Mr. GARCIA OF ILLINOIS. Mr. Sloan, with respect to the review of the scandals that Wells Fargo has been involved in over the past several years, including the fraudulent customer accounts that were probably the greatest of scandals, the illegal student loan servicing practices, the checking account overdraft fees, the mortgage lending abuses, the auto lending abuses, that we have learned about in this hearing and prior to the hearing, is it fair to characterize these scandals as the largest scandal that has occurred among the big four banks in this country in modern history?

Mr. SLOAN. I am not familiar with the impact on other banks, so I can't answer your question. There is no question that—

Mr. GARCIA OF ILLINOIS. But you are familiar with banking in this country—

Mr. SLOAN. I am.

Mr. GARCIA OF ILLINOIS. And the scale that has occurred and the penalties that have been imposed. Does that make it the largest scandal in terms of consumer abuse?

Mr. SLOAN. Based on the penalties that have been imposed, the answer—

Mr. GARCIA OF ILLINOIS. Based on everything, the scale, the number of fraudulent accounts, and the other enumeration of incidents that have been documented and litigated, et cetera, do you believe it is the largest scandal in U.S. banking history?

Mr. SLOAN. Congressman, I am not trying to be difficult. It may be; I just don't know the impact of—

Mr. GARCIA OF ILLINOIS. Okay. I will take your answer, "It may be." Two, in the interest of time, Wells Fargo has engaged the immigrant community, profited from the immigrant community as customers, as a market share. And last January, you released a video message urging Congress to adopt a legislative solution for the young people known as the DACA class of immigrants who are seeking a pathway to citizenship.

And you said, "What happens with DREAMers is important to Wells Fargo because it affects our customers and their families. It also affects our own team since some DREAMers already work for Wells Fargo." And that is fine. That is to be applauded.

But Wells Fargo has a dubious record when it comes to its treatment of immigrants and Latino customers. Because in April of 2017, per a New York Times report which said that Wells Fargo employees were "instructed to round up immigrants, corral them into a branch office, and cajole them into opening bank accounts."

Wells Fargo employees allege in sworn statements that they were ordered to target undocumented workers at construction sites, factories, and 7-Elevens. You have called these allegations nonsensical because you "can't do business with undocumented immigrants by Federal law." If these charges were false, why were employees willing to sign sworn statements that Wells Fargo's aggressive practices targeted undocumented immigrants?

Mr. SLOAN. Congressman, I saw the same report that you did. We investigated that and we found no incidence of that.

Mr. GARCIA OF ILLINOIS. But there is a pending Federal lawsuit pertaining to the DACA class of immigrants, pending in San Francisco, correct?

Mr. SLOAN. That is correct. But again, we have investigated that, and we haven't found any incidents.

Mr. GARCIA OF ILLINOIS. But a Federal judge has found that it has standing and it remains an active lawsuit, correct?

Mr. SLOAN. That is my understanding.

Mr. GARCIA OF ILLINOIS. Yes, okay. With respect to—and this is my final question, Madam Chairwoman. Your head of consumer banking is quoted in a Times article describing how the firm's entire system of how you pay, coach, and develop team members is designed to focus on customer experience and customer outcomes. And you testified this morning that your performance evaluation system prioritizes customers.

Yet, according to a report released this morning by the Committee for Better Banks, the maximum quarterly bonus for employees under the "customer experience," metric dropped from $1,425 in 2017 to $875 for 2019. If you are truly prioritizing the customer experience under your new performance evaluation, why have these bonuses under the metric declined?

Mr. SLOAN. I have asked our team, I saw that same report that came out yesterday, and I asked our team to take a look at it yesterday. And other than spelling Wells Fargo correctly and acknowledging that our—

Chairwoman WATERS. The gentlelady from New York, Ms. Velazquez, is recognized for 5 minutes.

Mr. SLOAN. We have raised our $15 minimum wage, and we disagree with everything in that report.

Chairwoman WATERS. Your time has expired.

Mr. GARCIA OF ILLINOIS. Thank you.

Thank you, Madam Chairwoman.

Chairwoman WATERS. Please, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman.

Chairwoman WATERS. Four votes are holding on the Floor.

Ms. VELAZQUEZ. Sure.

Chairwoman WATERS. Please.

Ms. VELAZQUEZ. Mr. Sloan, I have to repeat what you have heard before. Since 2016, Wells Fargo has been cited and fined for fraudulently opening millions of deposit and credit card accounts, abuses involving servicemembers violation with its mortgage and auto lending businesses, and security fraud charges associated with the sale of complex financial products to retail investors.

Your bank also continues to be the subject of a number of ongoing investigations. Mr. Sloan, you cannot sit there with a straight face and claim to not be responsible for all of these abuses that have been committed against consumers. So my question to you is, do you believe that consumer abuses as well as fraudulent and deceptive actions practiced by large financial institutions could pose a threat to financial stability?

Mr. SLOAN. I think that banks and banks like ours should follow the rules and regulations that are set forth in this country. I completely agree with that, Congresswoman. We have a duty to provide products and services to our customers in an appropriate way. And if we don't provide that, that there is both financial and reputational harm that is done to the institution, and that could have an impact on the economy.

Ms. VELAZQUEZ. So can you tell me why the Fed didn't remove the asset cap?

Mr. SLOAN. As part of the consent order with the Fed, they want us to improve the Board governance and oversight, which we have done.

Ms. VELAZQUEZ. Isn't the answer because you focus on growth and profits not risk management? Is that the transformation that is happening at your institution?

Mr. SLOAN. We are significantly improving our compliance and operational risk management, which is paragraph three of the consent order with the Fed.

Ms. VELAZQUEZ. Well, the Fed does not agree with you and that is exactly why they didn't remove the cap. And you know it. Sir, all Americans deserve honesty, integrity, and trust when it comes to placing their money in the banking system. A culture of deception and deceit erodes that trust and leads depositors to lose faith in our financial institutions. And to me, I believe that represents a threat to financial stability.

I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from North Carolina, Ms. Adams, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Madam Chairwoman, for convening today's hearing, and thank you, Mr. Sloan, for coming before us today with your testimony. The last time we spoke, you assured me that Wells Fargo was making a number of changes, including changing the competitive and toxic sales culture, increasing Board diversity, and developing an inclusive culture, among other things.

Now, my colleagues have covered a lot of ground today, so let me just shift gears a minute and ask a question or two about diversity. As you know, the financial industry continues to be plagued by lack of diversity and complaints about harassment and discrimination.

I believe that if employers are serious about diversity that they will link their end-of- year bonuses to their diversity goals. So my question to you is, does Wells Fargo currently link its diversity goals to corporate bonuses?

Mr. SLOAN. Yes. In the incentive compensation for our senior leadership team, one of the measures of the management portion of that calculation is based upon not only their commitment, but also their progress in meeting our policies and procedures related to diversity and inclusion.

Ms. ADAMS. So do you believe that Wells Fargo, under your leadership, has done everything that it can do to make the company truly reflective—

Mr. SLOAN. I think—

Ms. ADAMS. —of America's diversity?

Mr. SLOAN. I think we have done a lot but we have more work to do. Congresswoman, one example I would give you is that when I stepped in the role of the Chief Operating Officer, I instituted the Wells Fargo equivalent of the Rooney Rule, which means that whenever we have a senior leadership role that is open in the company, we need to ensure that we have a diverse slate of candidates for that role and a diverse panel of interviewers.

Ms. ADAMS. Okay. Let me move on.

Mr. SLOAN. And that has made progress both in terms in the number of women and diverse leaders in the company.

Ms. ADAMS. All right. We want to make sure we have some African Americans in there, as well. You know, when we talk about diversity, sometimes we forget that, because you can also say minorities are women, as well, and I mean, I support that, being an African-American woman.

Mr. SLOAN. I don't mean to interrupt you, but to that point, Michelle Lee, who runs half of our retail banking business, who lives in Charlotte, is African American.

Ms. ADAMS. Okay. Let me move on to an issue that we are having in Charlotte, as I am sure you aware of, and that is affordable housing. According to your business standard report, Wells Fargo home lending is the largest home mortgage lender and servicer in the U.S., funding one of every nine loans and servicing one of every seven loans. First of all, do you believe that America is in the midst of an affordable housing crisis?

Mr. SLOAN. I absolutely do.

Ms. ADAMS. Okay. And given the dominance in the housing sector by Wells Fargo, what are you doing to tackle and combat the housing affordability predicament that many of our communities are facing, particularly in the City of Charlotte?

Mr. SLOAN. We are doing a number of things. I will give you two quick examples. One is our neighborhood lift program, where we are providing down payments in the form of grants to low- to moderate-income folks.

For example, I was just at our neighborhood lift program in Los Angeles and I was there when we provided the down payment for the Ramirez Valenzuela family to afford their first home in Palmdale, California.

In addition, we provided enough grants so 20,000 low- to moderate-income homeowners, mostly diverse, have been able to afford a home in the last 6 years, and that program has distributed about $449 million and we are continuing on that program.

Ms. ADAMS. Okay. You spoke earlier about the $15 minimum wage or more. How did raising that wage to $15—how much did it really cost Wells Fargo to do that?

Mr. SLOAN. On an annual basis, it cost us about $200 million.

Ms. ADAMS. And what was the median annual salary that the bank paid in 2018?

Mr. SLOAN. It is about $60,000.

Ms. ADAMS. Okay. Are you going to increase it more? I mean, $15 is good, but it is still very difficult, and we have a lot of poverty in our community and communities all over this country. So I am just curious about that. Will you have plans for doing more?

Mr. SLOAN. I want everybody who makes $15 an hour—

Ms. ADAMS. But are you all going to do more?

Mr. SLOAN. We look at compensation every year in Wells Fargo to make sure that we are paying competitively. I think we have been a leader in the industry in terms of how we pay our entry-level team members. That is how I started in banking, working my way through college as a teller.

Ms. ADAMS. Okay. Thank you very much. Thank you very much, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you. I would like to thank our witness for his testimony today.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

I ask our witness to please respond as promptly as you are able.

This hearing has revealed that Wells Fargo has failed to clean up its act, that it is too-big-to-manage, and that the steps regulators have taken to date are wholly inadequate. As was discussed today, The Wall Street Journal reported yesterday that the Office of the Comptroller of the Currency (OCC), Wells Fargo's chief regulator, is considering forcing out several executives and Board directors.

I think the OCC should take this important step, and the regulators should also consider it with you, Mr. Sloan. It is also time for Congress to take bold action to protect our constituents.

I intend to reintroduce the Megabank Accountability and Consequences Act, a bill I first introduced in 2017, to address rampant violations of consumer protection laws by megabanks, and to hold them and their executives fully accountable for their actions.

With that, this hearing is now adjourned.

[Whereupon, at 2:15 p.m., the hearing was adjourned.]

A P P E N D I X

March 12, 2019

HEARING BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES

March 12, 2019

Testimony of Timothy J. Sloan
President and CEO, Wells Fargo & Co.

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, good morning and thank you for your invitation to today's hearing. I appreciate this opportunity to discuss the transformation at Wells Fargo over the last few years and the progress we are making as we work to become the most customer-focused, efficient, and innovative Wells Fargo ever.

Wells Fargo has served the American people for 166 years, and I am proud to lead an institution that today is the largest lender to individuals and to businesses, big and small, in this country. But the past few years have represented a difficult chapter in Wells Fargo's storied history. When I became CEO more than two years ago, our bank was facing unprecedented and well-deserved scrutiny.

I was determined to address the retail sales practice issues that occurred in our Community Bank, and I pledged to look back years, sometimes decades, to examine every business at Wells Fargo to ensure that no similar problems existed anywhere else in the company. We discovered issues that we needed to address, every one of which was a disappointment to me. But when I stepped into this role, I assured customers, team members, shareholders, regulators, and elected officials that accountability and transparency would define our efforts.

And they have. We have gone above and beyond what is required in disclosing these issues in our public filings, we have worked to remedy these issues, and, most importantly, we have worked to address root causes that allowed them to occur in the first place. As a result, Wells Fargo is a better bank than it was three years ago, and we are working every day to become even better.

I would like to discuss several aspects of our transformation with the Committee today:

- how we are making things right for customers who were harmed;
- how we have strengthened, and are continuing to strengthen, our risk management and controls;

- how we are improving our culture;
- how we are innovating to provide customers with more convenience and simplicity in how they bank with us; and
- how we have deepened our commitment to the communities we serve.

Working with external stakeholders, team members, and customers, we developed a Business Standards Report entitled *Learning from the Past, Transforming for the Future* (attached), which details these changes.

Making Things Right for Customers

We are dedicated to compensating every customer who suffered harm because of our mistakes. We continue to proactively identify customers, contact them, and compensate them where appropriate. For the sales practices issue, for example, we looked back more than 15 years, reviewed 165 million accounts, contacted more than 40 million customers—both individuals and small businesses—via 246 million individual communications, and have provided millions of dollars in compensation to our customers to date.

We are taking responsibility not just for any fees customers should not have been charged, but also for related effects such as impacts on credit scores. Our guiding principle has been to err on the side of our customers, and we are taking an over-inclusive approach in doing so.

To be sure, getting this right for each customer takes time—longer than I would like, frankly. But mistakes do not affect every customer the same way, so we have had to develop processes for taking customers' individual circumstances into account. We make every effort to refund customers for mistakes as soon as we discover them. We also offer mediation to customers at no cost to them.

Above all, Wells Fargo is committed to making things right for our customers and earning back the public's trust.

Enhancing Risk Management

Fully satisfying the requirements set forth in our regulatory consent orders is critically important. We have thousands of employees dedicated to carrying out our obligations under those consent orders, and we engage in frequent and open communication with our regulators. Members of our Board of Directors and senior

executives are meeting regularly with the Federal Reserve, the OCC, the FDIC, the CFPB, and other agencies to address their concerns and seek their input.

Solving past problems is not enough. We are equally committed to preventing new problems from developing. To do that, we have transformed our approach to risk management by fundamentally changing the organization of Wells Fargo. We have discarded our old decentralized structure that allowed prior problems to occur and centralized our enterprise control functions, such as risk, finance, human resources, compliance, and technology. We have enhanced our three "lines of defense"—front-line risk, independent risk management, and audit—to ensure multiple layers of review and to improve internal oversight. We have added more than 3,000 new risk professionals who work every day to ensure that we are conducting our business in the best interests of our customers, and we plan to hire more. Now, we have better visibility into issues as they emerge and can respond to them more quickly.

We have taken a range of other steps to manage and reduce risk. We have reevaluated our products and services, shed riskier investments, and sold or discontinued non-core businesses and activities. And we have hired impressive new leaders—many from outside the company—to oversee our Risk, Legal, Human Resources, Technology, and Audit groups.

Our Board of Directors has undergone a similar transformation. In the past two-and-a-half years, we have added seven new independent directors, who bring expertise in financial services, risk management, human capital management, technology, operations, and reputational risk. We have separated the roles of Chair and CEO, and our new Board Chair Betsy Duke is the first woman to chair a major United States financial institution. We also improved the reporting and analysis our directors receive, maintained our commitment to the Board's diversity, and further empowered our Board committees to oversee improvements in risk management and corporate culture.

Strengthening Wells Fargo's Culture

Our corporate culture is another area that has undergone substantial transformation in recent years. Team members see this change in the elimination of the product sales goals that contributed to the unauthorized accounts problem. They see it in a performance evaluation system that prioritizes serving customers and managing risk. They see it in increased compensation, including a new hourly minimum wage of $15 and pay increases for tens of thousands of employees who were already at that level or higher. They see it in restricted share rights granted to

approximately 250,000 team members in 2018 to recognize their commitment to the company's future success. And they see it in a corporate culture that encourages team members to speak up without fear of retaliation when they see a problem.

We also provide new benefits for team members, including four additional paid holidays per year, up to sixteen weeks of paid parental leave available to both parents, and paid leave to care for a family member. We now offer backup adult and childcare programs to support the diverse needs of our team members, and we offer U.S.-based team members up to 16 hours of paid community service time to support volunteer involvement in their communities. By the end of 2018, these changes helped bring our team member voluntary attrition, a key measurement of team member satisfaction, to its lowest level since 2013.

Our customers are also seeing the difference. Our customer experience and loyalty survey results are now at their highest levels in the past two-and-a-half years.

Customer-Focused Innovation

Wells Fargo serves one-third of America's households, including customers of every income level, age, race, and ethnicity. Our goal is to help them all succeed financially, so another focus of our transformation has been better serving our customers by introducing several tools to help meet their financial needs more fully, conveniently, and economically.

These tools include (1) Overdraft Rewind; (2) Real-Time Balance Alerts; (3) Greenhouse, a personal financial management tool designed for students and others who are new to banking; and (4) Control Tower, a mobile tool that helps customers easily manage the usage of all of their accounts.

Overdraft Rewind. In November 2017, we introduced Overdraft Rewind, which automatically reverses overdraft or insufficient-funds fees that would otherwise be assessed on customers the day before a direct deposit is received, when their account balances may be low. We did this because we recognized that this can be a vulnerable time for many customers. In 2018, Overdraft Rewind helped more than 2.3 million customers avoid overdraft fees.

Real-Time Balance Alerts. We also rolled out automatic real-time balance alerts to electronically notify checking account customers when their account balances drop to a level they select. These alerts build on the text and email alerts Wells Fargo has offered for a number of years, and they are having a big impact.

In 2018, we sent an average of more than 37 million alerts a month—meaning 37 million opportunities for customers to avoid a negative outcome or an overdraft.

Greenhouse. Late last year, we announced "Greenhouse by Wells Fargo." Greenhouse is for consumers who are new to banking or who need help with personal finance management. Greenhouse provides tools to help customers allocate or set aside money for bills and day-to-day spending. It also provides notifications when bills are due, and enables customers to pay bills directly within the application. Greenhouse and the accompanying debit card are also designed to not allow overdrafts, so customers cannot spend more than they have. Greenhouse is currently in a customer and team member pilot program and will be expanded across the country later this year.

Control Tower. In October 2018, we launched Control Tower, a first-of-its-kind digital service for all Wells Fargo consumer and small business customers. Control Tower provides a single view of a customer's "digital financial footprint," including places their Wells Fargo card or account information is connected, such as recurring payments, third parties, and mobile wallets. With this tool, it will be much easier for customers to manage their money and turn debit and credit cards on or off as needed.

Corporate Citizenship

Since 2016, Wells Fargo has deepened its already strong commitment to good corporate citizenship. Wells Fargo has always had a history of community involvement and has consistently been ranked as one of America's leading corporate philanthropists. Our commitment to helping address some of the country's most pressing social and economic issues is only growing. In 2018, Wells Fargo expanded its philanthropic giving by more than 50 percent, donating more than $444 million to nearly 11,000 non-profits nationwide. Beginning this year, we will target 2 percent of our after-tax profits for corporate philanthropy. As part of this expanded philanthropy, our goal is to contribute $100 million in capital and other resources over the next three years to support the growth of diverse small businesses.

We believe that owning a home is a primary driver of the health of the communities where we do business and a cornerstone of the American dream, yet access to affordable housing remains a significant challenge in communities across the country. We have developed initiatives and programs to increase homeownership for low-income individuals and minority communities, including $185 billion in multi-year commitments in support of African American and

Hispanic homeownership. We have also continued to expand our Neighborhood LIFT program, which we started in 2012 together with NeighborWorks America, to help consumers realize their dream of home ownership. Since it began, the Neighborhood LIFT program has provided more than $449 million in down-payment grants to more than 20,000 families in 69 communities across the country.

* * *

The past few years have taught us that our company does well by doing right. But doing right does not stop with simply repairing harm and rebuilding trust. It is an ongoing commitment by all of Wells Fargo's 260,000 team members—starting with me—to put our customers' needs first; to act with honesty, integrity, and accountability; and to strive to be the best bank in America.

Thank you again for the opportunity to address this Committee and discuss with you our progress towards becoming the best bank we can be. I am confident that Wells Fargo is well positioned for the future, and I look forward to your questions.

WELLS FARGO

Learning from the past, transforming for the future

Business Standards Report
Wells Fargo & Company

A message to our stakeholders

Wells Fargo is pleased to share this comprehensive Business Standards Report, which discusses our business practices and the many fundamental changes we have made — and continue to make — as we transform our company.

While we have a long and proud history, in September 2016 we announced settlements with the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Office of the Los Angeles City Attorney over unacceptable retail banking sales practices that harmed customers. We acknowledge and apologize for these and other mistakes and have taken significant actions to improve our culture, make things right for customers who were harmed, transform our organizational structure and business practices, increase transparency, and strengthen risk management and controls.

A key part of our work has involved reviewing our businesses, functions, and practices; identifying the root causes of issues; making changes where needed; and — importantly — remediating customers for financial harm. We are putting the lessons we have learned into practice as we move forward.

Wells Fargo's top priority continues to be rebuilding trust with our team members, customers, community partners, shareholders, regulators, government officials, and other important stakeholders. We care deeply for all our stakeholders and are committed to building a better Wells Fargo for the future.

Of course, as has been the case for many years, everything Wells Fargo does starts with our vision — which is to satisfy our customers' financial needs and help them succeed financially. Our five values are enduring: what's right for customers, people as a competitive advantage, ethics, diversity and inclusion, and leadership. In 2017, we introduced six aspirational goals for our future — to be the financial services leader in customer service and advice, team member engagement, innovation, risk management, corporate citizenship, and shareholder value. We have established specific behavioral expectations, which are consistent with our values, that guide team members in going about their work — and we evaluate team members on how well their performance matches what we expect.

All of the actions described in this report are grounded in the recognition that our company has a responsibility to operate our business in an ethical and responsible manner.

Wells Fargo is a strong company with a history dating back to 1852, and we have overcome many challenges during that time. Today we are proud to build on that solid foundation, having learned from our mistakes and made fundamental changes as we continue our work. We have exceptional businesses and leaders supported by talented, dedicated team members. In short, we are a better company today, and we will be an even better company in the future.

Elizabeth A. Duke
Chair, Board of Directors

Timothy J. Sloan
CEO and President

Dec. 31, 2018

HOW WELLS FARGO MAKES A DIFFERENCE

Wells Fargo understands the impact we have – and the important role we play – in the success of our customers, our communities, and our own team members. Here is a brief snapshot of our presence and some of the ways we make a difference.

Customers

Serve ***1 in 3*** U.S. consumer households.

Bank branches in more states, and ***2x*** as many markets, as our peers.[1]

Largest lender to small businesses.[2]

Largest home loan originator to ***minority borrowers***.[3]

Serve as primary bank for ***11%**** of U.S. middle-market customers.[4]

Provide corporate banking services to nearly ***3 out of 4*** Fortune 500 companies.[5]

**More than any other bank.*

Communities

Largest corporate cash donor among U.S. financial institutions.[6]

Second largest corporate cash donor among U.S. companies.[6]

Largest U.S. workplace employee giving campaign for ***9th consecutive year***.[7]

Team members volunteered more than ***2 million hours***. (2017)

Spent ***$1.27 billion*** with diverse suppliers. (2017)

Power ***100%*** of our global electricity needs with ***renewable energy***.

One of the ***largest corporate income taxpayers*** in the U.S.

Team members

Employ approximately ***1 in 600*** working Americans.

44% of U.S. workforce is ***ethnically/racially diverse***.

57% of ***U.S. workforce is female***.

Invest approximately ***$13,000 per team member*** annually in benefits program.

Health care benefits cover approximately ***500,000*** individuals.

Human Rights Campaign Corporate Equality Index: ***Perfect score (100%) for 15 consecutive years***.

Data as of Dec. 31, 2018, unless otherwise noted.

(1) U.S. markets defined as the largest Core Based Statistical Areas (CBSAs) by population. Metropolitan and Metropolitan statistical areas (metro and micro areas) are geographic entities delineated by the Office of Management and Budget (OMB). Major Metro internally defined as Metropolitan markets with more than 1 million population. Rural internally defined as counties within unassigned CBSAs. Counts as of 06/30/2017. (2) Community Reinvestment Act government data, U.S. in dollars, loans under $1 million 2017. (3) Home Mortgage Disclosure Act data, 2017. (4) Barlow Research Middle Market Data (4Q2016-3Q2018). Barlow Research determines primary bank market share by asking survey respondents the name of their primary bank. (5) Wells Fargo internal analysis, 12 months from March 2017 – February 2018. (6) *The Chronicle of Philanthropy* (2017 data). (7) United Way Worldwide (based on 2017 donations).

Table of contents

IN THIS REPORT

Wells Fargo's Business Standards Report discusses our business practices and changes we've made to rebuild trust and transform our company. The report is divided into nine chapters that represent key focuses for our company. We also include specific examples of our business practices in the form of 21 case studies. These case studies represent:

- New business practices added during the past two years, labeled **"Taking action on what we learned."**
- Existing business practices we are continuing to enhance, labeled **"Building a better company."**

We understand that our work is not done, and you can continue to track our progress and obtain other information through our public filings and other disclosures and the many resources linked throughout this document. A listing of key Wells Fargo resources can be found on page 102.

EXECUTIVE SUMMARY

Please find below a summary of key highlights of the Business Standards Report.

- Wells Fargo has a long history of serving customers through trusted relationships and products and services that help customers succeed financially. We clearly broke that trust through unacceptable sales practices in our Community Bank and issues in other businesses. Our actions resulted in customer harm and caused significant damage to our reputation. We are sorry and are working hard to make things right.
- Through an independent investigation led by our Board, as well as third-party and other reviews conducted by the company, we identified root causes that contributed to retail banking sales practices issues and other matters.
- The causes included performance management and incentive programs and a high-pressure sales culture in the Community Bank that drove behaviors that were both inappropriate and inconsistent with our values; a decentralized business model that granted too much authority and autonomy to the Community Bank's senior management, de-emphasized corporate oversight, and encouraged deference to individual businesses; and certain control functions that often adopted a narrow "transactional" approach to issues as they arose.
- We've worked hard over the past two years to address the root causes of our mistakes, make things right for team members and customers, and lay the foundation for a better company. We understand that we have more work to do, and we're fully committed to rebuilding trust with all of our stakeholders.

Addressing root causes

- We eliminated product sales goals for retail bankers in our bank branches and call centers and changed their incentive, performance management, and recognition programs to focus on the customer experience and team (rather than individual) incentives, and the programs are governed by stronger oversight and controls.
- We centralized many control functions such as Corporate Risk, Human Resources, Finance, Technology, and Data to provide greater corporate oversight and consistency.
- We strengthened our overall focus on risk management, especially compliance and operational risk, through a more defined risk management organizational structure and framework, additional resources, and greater clarity on roles and responsibilities across our three lines of defense.
- Our Board of Directors has taken significant steps to strengthen and enhance its governance oversight and practices. These include changing Board composition, including adding new members with additional experience in areas such as financial services, risk management, and human capital management; reconstituting several Board committees; amending committee charters to enhance risk oversight and practices; and improving reporting and analysis provided to the Board.

Making things right for team members and customers

- Among the lessons we've put into practice: increased transparency and engagement with team members, customers, and other stakeholders.

  Team members. We sought feedback about our culture. Senior leaders traveled to meet with team members, and we received input through surveys, focus groups, and other means. This feedback, along with analysis and recommendations from independent third parties, led to many of the changes described in this report.

We increased our communications, including holding all-team town hall meetings with our CEO every other month; simplified our Vision, Values & Goals to focus on what's most important; enhanced our allegations process to address concerns about retaliation; and increased our investments in team members through additional training and development, raising the U.S. minimum base pay, adding more paid holidays, and granting restricted stock awards to about 250,000 team members. We now seek regular input on our culture and ways we can continue to improve.

Customers. We are committed to providing remediation to customers who were harmed by unacceptable retail banking sales practices and issues in other businesses and making things right. We also are focused on improving the customer experience across our businesses, offering new and more convenient ways to do business with us, and enhancing important functions such as monitoring, reporting, and escalating customer complaints. Much work is underway as we continue to care for customers, and we remain focused on delivering on our vision to satisfy their financial needs and help them succeed financially.

Building a better company

- Our businesses are focused on delivering excellent customer experiences through collaboration, simplification, and stronger risk oversight and controls. A new companywide Consumer Strategy, for example, provides a single strategy for how we serve consumers across our retail businesses in a way that recognizes customers' distinct needs and focuses on delivering personalized financial advice, cross-channel experiences, and timely issue resolution. In the past, our focus too often was product-centered, and we had too many different strategies to serve customers.

- We are driving innovation across our businesses to help customers manage their financial lives by providing services how, when, and where they choose. Innovation also is helping us be more productive, efficient, and customer-centric.

- To move forward with confidence that we have identified and addressed issues, we are looking across the company for areas of concern or areas in which we can improve. We are committed to fixing any issues that we identify and, if we've harmed customers, making things right. We will continue to keep our stakeholders informed of this work through our public filings and other disclosures. We can expect additional public interest as we resolve previously disclosed matters and continue our work to rebuild trust.

- We are continuing to deepen our understanding of human rights management throughout the company, including in our financing, where we've enhanced our due diligence for transactions with elevated environmental and social risks.

- Our work is guided by our Vision, Values & Goals, which capture the fundamental beliefs of our company. Our vision is foundational and is clearly focused on acting in the best interests of our customers to help them succeed financially. Our values express how we go about delivering on our vision, and our goals describe our aspirations and align priorities across our company. We have introduced a clear set of behavioral expectations that are aligned with our Vision, Values & Goals, and we measure performance against the expectations through a new common leadership objective that all team members now have as part of their performance plans.

- We will continue to put what we've learned into practice and look for ways to improve. We've put many metrics in place to monitor our progress, and we will continue to engage with our stakeholders — team members, customers, community partners, shareholders, regulators, government officials, and others — to seek their feedback and keep them informed.

- As we continue our transformation, we will build on the many changes we've put in place. We are a better company today than we were before the retail sales practices issues. And we will be an even better company in the future.

I.

Introduction

Wells Fargo has been in the service business since 1852, when customers trusted us to transport money and valuables via stagecoach during the California Gold Rush. In those days, we held a belief that "Our merchandise is courtesy, willingness, and human ability." Today, that belief still holds true in the vision of Wells Fargo: "We want to satisfy our customers' financial needs and help them succeed financially."

Our vision has guided us for years, even as we acknowledged that we didn't always live up to it. It is clear that we let down our customers and other stakeholders through unacceptable sales practices in our Community Bank and issues in other businesses. We understand the harm we caused to our customers; the trust we lost with our team members, customers, investors, and other stakeholders; and the significant impact to our reputation. We are sorry and know we have a responsibility to make things right.

We have made — and continue to make — fundamental changes to identify and remedy problems to prevent them from happening again. We are making things right for customers and team members, and we will continue to do so. All of this is aimed at creating a better, stronger Wells Fargo.

The purpose of this report is to detail what we've learned and what we've changed as we work to transform our company and rebuild trust. Specifically, the report examines:

Our culture, including our Vision, Values & Goals and our commitment to ethical behavior in our interactions with all of our stakeholders.

Our leadership and governance structure, including the actions we've taken — both by the Board of Directors and company — to improve oversight, reporting, and controls.

Our care for customers, including the work we are doing to help ensure exceptional customer experiences.

Our risk management structure and practices, including our transformative work to provide greater oversight of all risk-taking activities and a more comprehensive view of risk across the company.

Our commitment to greater transparency, including in the important relationships we have with investors, community groups, regulators, government officials, and other stakeholders.

This report's development — in response to a shareholder proposal from a group of shareholders led by the Interfaith Center on Corporate Responsibility (ICCR) — involved more than 175 leaders and team members and was guided and overseen by the Board, our CEO, and our Operating Committee, which is composed of executives reporting directly to our CEO. We thank ICCR and other key stakeholders, including team members, customers, and our Stakeholder Advisory Council, for their contributions to this report.

The purpose of this report is to detail what we've learned and what we've changed as we work to transform our company and rebuild trust.

II.

Identifying issues and addressing root causes

Following Wells Fargo's September 2016 regulatory settlements related to retail banking sales practices, we made our top priority the restoration of the trust we lost. We began with self-reflection — reviewing what happened so we could fully understand where things broke down, learn from our mistakes, make things right for customers who were harmed, and begin to rebuild trust.

Our commitment included a comprehensive investigation of our retail banking sales practices and related matters launched by our independent members of the Board. The independent directors retained the law firm of Shearman & Sterling LLP to assist in the investigation. The investigation process included more than 100 interviews with current and former managers, team members, members of the Board, and other relevant parties; the review of hundreds of additional interviews conducted by or on behalf of Wells Fargo with other team members; a comprehensive search of more than 35 million documents; and the retention of a forensic consulting and analytics firm. The Board disclosed the findings of its independent investigation in a report released publicly as part of our commitment to transparency. As described in the report, the investigation concluded that several causes contributed to the retail banking sales practices issues:

- We had performance management and incentive programs and a high-pressure sales culture in the Community Bank that drove behaviors that were both inappropriate and inconsistent with our values.
- We had a decentralized business model that granted too much authority and autonomy to the Community Bank's senior management, deemphasized corporate oversight, and encouraged deference to individual businesses (which housed their own key control functions, such as Risk and Human Resources). The culture of substantial deference accorded to the lines of business carried over into the control functions.
- Certain control functions often adopted a narrow "transactional" approach to issues as they arose. Tight control over information about the Community Bank also hampered the ability of control functions outside the Community Bank and the Board to accurately assess the problem and work toward a solution.
- As a result of our decentralization and lack of sufficient corporate oversight, we took too long to understand the seriousness and scope of the problems — so actions taken over the years to address the problems proved inadequate.

The Board also determined that its own actions could have been improved by challenging management to move toward the centralization of key risk and control functions earlier, insisting on receiving more detailed and concrete plans from management to address sales practices issues, and being more forceful with the CEO to make leadership changes more quickly.

In addition to the Board's independent investigation, we conducted other third-party reviews to examine our company culture and tools like the EthicsLine that team members use to report ethics-related situations or concerns. We looked across Wells Fargo — at our products, processes, and sales practices — and encouraged team members to inform us of anything that didn't seem right. When we found concerns, we investigated them thoroughly, worked to identify and address issues, and

are remediating customers who may have been harmed. Findings from these evaluations supported many of the conclusions of the Board's independent investigation and helped drive decisions to address the issues and build a better company.

Board actions

Following the company's 2017 annual meeting of shareholders and in advance of its typical year-end timing, the Board conducted a comprehensive, third-party-facilitated self-evaluation that focused on Board composition; Board performance and effectiveness; Board materials and management reporting; Board committee structure and responsibilities; culture at Wells Fargo (including "the tone at the top"); and governance practices. Board Chair Betsy Duke met with institutional investors representing more than 35 percent of the company's outstanding common shares as part of Wells Fargo's long-standing annual investor engagement program. We also met with numerous other stakeholders to discuss our company's progress, including our environmental, social, and governance practices, policies, and disclosures.

In addition to the findings from its sales practices investigation, the Board identified several important learnings from its self-evaluation, stakeholder feedback, and other reviews. For example, the Board concluded that the prior membership structure of its Risk Committee, which previously was composed of the chairs of each of the Board's seven standing committees, did not promote sufficient refreshment of the Risk Committee's membership. In addition, the Board's risk oversight responsibilities in certain areas such as conduct risk, compliance risk, operational risk, and technology and information security risk were allocated in ways that resulted in unnecessary duplication among certain Board committees.

In response to these learnings, the Board took many actions to improve governance and oversight, including:

- Separated the roles of Board Chair and CEO, elected an independent Board Chair, and appointed Tim Sloan as CEO.
- Amended the company's bylaws to require that the Board Chair be an independent director.
- Took decisive compensation actions — totaling more than $180 million — to hold current and former executives accountable under the executive compensation program that the Board's Human Resources Committee put in place.
- Reviewed Board committee responsibilities and amended committee charters to enhance risk oversight, including conduct risk, compliance risk, operational risk, information security/cybersecurity risk, and technology risk.
- Engaged in a thoughtful Board refreshment process while maintaining an appropriate balance of new perspectives and experience on the Board, including the election of six new directors since 2017 who brought relevant experience consistent with the company's strategy and risk profile (financial services, risk management, technology, human capital management, finance and accounting, corporate responsibility, and regulatory experience).
- Changed the leadership and composition of key Board committees, including the Risk Committee and the Governance and Nominating Committee. For example, the Board restructured the Risk Committee's membership to include qualifications and experience in specific risk areas and enhanced the financial services compliance, operational, cybersecurity, and technology experience on the committee.
- Worked closely with management to enhance information flow and management's reporting to the Board. For example, the company provides regular updates to the Board's Risk Committee of specific conduct risks and to the Board's Human Resources Committee on matters related to team members, ethics, and company culture. We also have enhanced reporting of customer complaints to the Operating Committee and the Board's Risk Committee to provide more insight into customer complaints across the company and to identify and escalate emerging issues (page 40).

The Board continues to focus on making progress across key priorities as we work to transform Wells Fargo, meet the expectations of our regulators, and rebuild trust with our stakeholders.

Company actions

The company also identified many opportunities to improve based on findings from the Board's investigation; feedback from team members, customers, and other stakeholders; and its own reviews of sales practices and other issues. The company, with the support of the Board, has made a number of transformational changes that are addressed throughout this report. These include:

- Reviewed and strengthened our culture to create a more consistent team member experience.
- Recommitted to our customers by pledging to make things right for customers who experienced financial harm from unacceptable retail sales practices and improving our focus on customers across all of our businesses.
- Increased transparency with our stakeholders through additional engagement and disclosures.
- Eliminated product sales goals for retail bankers in our bank branches and call centers and changed their incentive, performance management, and recognition programs to focus on the customer experience and team (rather than individual) incentives — and the programs are governed by stronger oversight and controls.
- Enhanced our risk management organizational structure and framework around our three lines of defense, heightened our focus on compliance and operational risk, and invested in automation and technological tools to strengthen risk controls that improve our ability to identify emerging trends and risks. For example, our customers now receive an automatic notification when they open a new personal or small business checking account, savings account, or credit card.
- Centralized key enterprise control activities such as Human Resources, Finance, Technology, and Data to provide better and more consistent oversight and controls. We also created a conduct team to centralize the handling of internal investigations, EthicsLine, and other conduct-related activities.
- Implemented a robust "mystery shopper" program involving 15,000-18,000 bank branch visits per year. Our internal Community Banking Risk Management team completes hundreds of unannounced conduct risk reviews annually to ensure that customers only receive the products and services they requested.
- Increased the focus on risk in our Incentive Compensation Risk Management program and practices.

Making things right

Customers

From the start, we committed to make things right for customers who may have been harmed through unacceptable retail banking sales practices, regardless of when they occurred. We took a broad, comprehensive approach to identify any potential customer impact, including engaging a third-party consultant to review more than 165 million retail banking accounts opened between 2009 and 2016. We also reached out to approximately 40 million retail customers, and 3 million small business customers, asking them to contact us with any concerns about their accounts.

A guiding principle of our work has been to err on the side of our customers. For example, we refunded fees even when third-party data analysis could not definitively tell us whether an account was authorized by a customer or not.

In addition to working with customers directly to resolve issues related to unacceptable retail banking sales practices, we offered free mediation services and entered into a $142 million class-action settlement approved in 2018 to cover claims of our customers of unauthorized accounts dating back to 2002.

As noted earlier, we also are looking across the organization for any other areas or instances where customers may have experienced financial harm. If we identify any potential harm, we are committed to remediating customers and making things right.

Team members

To rebuild trust with our most valuable resource, our team members, we started by seeking more opportunities to obtain their feedback.

Our leaders held "listening tours" to meet in person with team members to hear their views, suggestions, and concerns. We increased the number of companywide CEO town halls with team members and added time for team members to ask questions and share thoughts. Individual leaders hosted virtual discussion sessions with team members companywide, using our internal platforms. We asked team members for feedback through regular "pulse surveys," focus groups, a companywide culture assessment, and surveys on specific topics such as benefits and ethics.

We also invited outside perspectives by engaging third-party experts to review team member feedback and make recommendations to improve our culture and enhance our focus on team members. This introspection has resulted in a number of enhancements to strengthen our culture:

- We made changes to create a more consistent culture, including increased transparency, clearer expectations, additional training, and a new streamlined version of our Vision, Values & Goals (page 13).
- We enhanced the EthicsLine intake process (page 22) to ensure that team members have a trusted and confidential way to report ethics concerns without fear of retaliation.
- We expanded training and professional development programs, including launching a new learning site for managers and team members focused on effective coaching and feedback (page 35).
- We developed our Speak Up and Non-retaliation policy and launched a program to encourage team members to raise their hands when they see something that concerns them (page 24).
- We made significant new investments in our team members, including enhancing our parental leave programs, raising the U.S. minimum base pay (and adjusting pay for team members whose pay was at or near the new minimum base pay), adding more paid holidays, and expanding restricted stock awards to all eligible team members. We continue to provide attractive benefits such as comprehensive health care, work-life balance programs, tuition reimbursement, and 401(k) matching contributions.
- We reinforced the concept that all team members, regardless of their role, are risk managers — emphasizing each team member's ownership and understanding of risk.

Identifying other issues and addressing problems

We understand that our work is not done and have continued to review areas across Wells Fargo to identify and remedy problems. We are taking a broad view — one of our learnings is that our focus was sometimes too narrow — to identify and address root causes. We are being transparent and open about what we find and are making things right for customers who were harmed.

Below are some of the issues we have previously disclosed in our public filings (this information is of third quarter 2018; please refer to our public filings and other disclosures for additional information and any updates). Many of these matters can be attributed to some of the same or similar root causes identified through the company's and the Board's investigation of retail banking sales practices issues — including our decentralized organizational structure and risk management and reporting practices — that we have addressed and continue to address.

Automobile lending business.
The company is reviewing practices concerning the origination, servicing, and/or collection of consumer automobile loans, including matters related to certain insurance products (page 68).

Mortgage interest rate lock extensions.
Following an internal review, the company determined that a rate lock extension policy implemented in September 2013 was, at times, not consistently applied, resulting in some borrowers being charged fees in cases where we were primarily responsible for the delays that made the extensions necessary (page 63).

Add-on products.
The company is reviewing practices related to certain consumer "add-on" products, including identity theft and debt protection products that were subject to an OCC consent order entered into in June 2015, as well as home and automobile warranty products, and memberships in discount programs.

Consumer deposit account freezing/closing.
The company is reviewing procedures regarding the freezing (and, in many cases, closing) of consumer deposit accounts after the company detected suspected fraudulent activity (by third parties or account holders) that affected those accounts.

Review of certain activities within Wealth and Investment Management (WIM).
The Board is conducting a review of certain activities within WIM, in response to inquiries from federal government agencies, to determine whether there have been inappropriate referrals or recommendations, including with respect to rollovers for 401(k) plan participants, certain alternative investments, or referrals of brokerage customers to the company's investment and fiduciary services business (page 77).

Fiduciary and custody account fee calculations.
The company is reviewing fee calculations within certain fiduciary and custody accounts in its investment and fiduciary services business, which is part of the Wealth Management business within WIM (page 77).

Foreign exchange business.
The company has substantially completed an assessment, with the assistance of a third party, of its policies, practices, and procedures in its foreign exchange business (page 80).

Mortgage loan modifications.
An internal review of the company's use of a mortgage loan modification underwriting tool identified a calculation error regarding foreclosure attorneys' fees affecting certain accounts that were in the foreclosure process between April 13, 2010, and Oct. 2, 2015, when the error was corrected. A subsequent expanded review identified related errors regarding the maximum allowable foreclosure attorneys' fees permitted for certain accounts that were in the foreclosure process between March 15, 2010, and April 30, 2018, when new controls were implemented. (page 64).

Recent regulatory actions

As a result of retail banking sales practices and certain of the other issues discussed above, the company is subject to several regulatory consent orders that require the Board and the company to take actions to, among other things, enhance the Board's governance and oversight of the company, improve the company's risk management program, including with respect to compliance and operational risk, and improve the company's management of remediation activities. Many of the actions and enhancements discussed in this report are responsive to requirements under these consent orders. The Board and the company are fully committed to addressing the requirements of our consent orders and other regulatory actions.

Wells Fargo values the relationships we have with our regulators and, as discussed under "Our relationships with investors, communities, and other stakeholders" (page 92), our goal is to engage in frequent and open communication with our regulators, anticipate regulatory issues, continue to self-identify issues, and self-correct and provide any remediation as quickly as possible.

Commitment to transparency

While we've made strong progress, we know there's more work to do. We understand the importance of transparency in engaging with all of our stakeholders and are committed to providing updates on our progress. We will continue to do this through enhanced disclosures and communications, which include our Progress Report, public filings, updates to our website, regular communications with team members, customer communications, meetings with key stakeholders, and more.

CASE STUDY: TAKING ACTION ON WHAT WE LEARNED

New Center of Excellence focuses on customer remediation

Our internal review showed that when customers experienced issues with Wells Fargo requiring remediation, different parts of the company handled similar situations differently. We determined that we needed a more consistent approach to managing customer remediation efforts. To achieve this, Wells Fargo formed the Customer Remediation Center of Excellence (COE) in December 2017. The COE is focused on four key outcomes:

Accountability.
Ensuring clear roles, responsibilities, and performance expectations for Wells Fargo team members related to issues that have negatively affected customers and for our leaders who oversee these team members.

Consistency.
Standardizing our approach to customer redress and communication across all products and businesses.

Accuracy.
Applying rigorous and consistent analytical practices to ensure affected customers are correctly and promptly identified and provided with comprehensive redress.

Capacity.
Investing in specialized teams dedicated to remediation efforts and providing them the resources they need to provide outstanding service to customers.

In 2018, the COE enhanced accountability by strengthening internal governance and reporting processes. That included creating an enhanced customer remediation policy that establishes the expectations and requirements for effectively managing customer remediation activities by aligning remediation practices across the company. The policy states that "Wells Fargo is committed to addressing customer impact in a high-quality, consistent, and timely manner — grounded in the importance of doing the right thing for customers, a concept Wells Fargo has embedded in its Vision, Values & Goals. This includes promptly remediating customers for any adverse impacts they experienced as a result of systemic issues within the company's control."

MAKING THINGS RIGHT WHEN CUSTOMERS HAVE AN ISSUE

WHAT We formed an enterprise Customer Remediation Center of Excellence.

WHY To provide greater consistency in the handling of customer remediation across businesses and improve reporting and issues resolution.

RESULT The COE is creating more consistency in managing customer remediations, leveraging best practices, improving communications, and providing greater visibility into remediation processes and governance.

The COE sponsors the Customer Remediation Governance Committee, which is composed of senior business leaders from across the company. This committee has direct oversight responsibility for the largest and most complex remediation efforts at Wells Fargo and establishes all policies and procedures governing remediation activities.

The COE also consolidates information about all remediations underway and generates frequent reports to Wells Fargo senior management and the Board. This has improved visibility into the remediation process and will help facilitate timely escalation of execution issues. These efforts represent a substantial improvement over the company's previously decentralized customer remediation model.

III.

Our culture

After extensive internal research that included surveys and other forms of team member feedback, Wells Fargo determined that its corporate culture — while admirably rooted in our traditional vision and values — was experienced differently by team members depending on where they worked and in what business. Based on these learnings, senior executives worked to identify actions we are now taking to foster a single companywide culture. The goals are to be clear in our expectations for leaders, managers, and team members and, ultimately, to improve the overall team member experience.

We define corporate culture as those basic assumptions and beliefs shared by team members that unconsciously produce collective behaviors. We are transitioning to a more customer-centric, One Wells Fargo culture that is guided by our Vision, Values & Goals, that is clear and consistent, that drives accountability, and which leaders and team members can articulate and live every day.

Our Vision, Values & Goals

Our culture is best expressed through *The Vision, Values & Goals of Wells Fargo*, a booklet that captures the fundamental beliefs of the company and was dramatically streamlined as the result of our culture review. The content is much more than just words on paper: The booklet expresses who we are, what we do, and how we act in caring for our stakeholders. Everything starts with our vision — "to satisfy our customers' financial needs and help them succeed financially." We deliver on our vision by building lifelong relationships, one customer at a time.

Our five values are the foundation of our culture and guide every action we take by articulating what's most important to us:

What's right for customers.
We place customers at the center of everything we do. We want to exceed customer expectations and build relationships that last a lifetime.

People as a competitive advantage.
We strive to attract, develop, motivate, and retain the best team members — and collaborate across businesses and functions to serve customers.

Ethics.
We are committed to the highest standards of integrity, transparency, and principled performance. We do the right thing, in the right way, and hold ourselves accountable.

Diversity and inclusion.
We value and promote diversity and inclusion in all aspects of business and at all levels. Success comes from inviting and incorporating diverse perspectives.

Leadership.
We're all called to be leaders. We want everyone to lead themselves, lead the team, and lead the business — in service to team members, customers, communities, and shareholders.

We bring our vision and values to life through six goals we adopted in 2017. We aspire to be the financial services leader in these six areas: customer service and advice, team member engagement, innovation, risk management, corporate citizenship, and shareholder value. The goals are described in detail later in the report.

Reinforcing our Vision, Values & Goals

In late 2017, we transitioned from a 37-page book about our vision and values to a streamlined, wallet-sized booklet that encompasses our Vision, Values & Goals. We redesigned the booklet to make it easier for all team members to keep our guiding principles top-of-mind as we build a better Wells Fargo for the future.

As a way to express the importance of our fundamental beliefs and expectations, we've taken many steps to communicate and reinforce our Vision, Values & Goals with all team members. These include:

- Mailing a copy to all current team members and including the booklet in the orientation materials for new team members.
- Posting the booklet on the company's Teamworks intranet (which is accessible to all team members), as well as on wellsfargo.com externally.
- Providing resources that leaders and managers can use to address the Vision, Values & Goals in team meetings, such as frequently asked questions and discussion guides.
- Providing regular touchpoints for companywide discussion. For example, CEO Tim Sloan discusses at least one aspect of the Vision, Values & Goals in each of the six televised companywide town hall meetings he conducts every year, and he also provides updates in all-team-member emails distributed throughout the year with examples to help bring our Vision, Values & Goals to life.
- Incorporating our Vision, Values & Goals into mandatory annual Ethics training and including them at the beginning of every company presentation to keep them top-of-mind for all audiences.

Aligning what we say with how we act

To provide team members with clarity and consistency in putting our principles into practice, we introduced in early 2018 a clear set of behavioral expectations that are aligned with our Vision, Values & Goals. This was a first for Wells Fargo and intended to address one of our key learnings: Our history of decentralization sometimes resulted in different — and disconnected — workplace cultures across Wells Fargo. To create a consistent culture, we understood the need to be deliberate and intentional about defining and measuring how we expect team members to behave. The expectations apply to all team members, regardless of role or location, and are aligned with our five values.

We've included a full list of the behavioral expectations on page 15. Here are just a few examples:

- Under ***What's right for customers***, we expect team members to "Listen" and "Build trust." Listening to customers helps us understand their financial needs and goals — and then points the way to providing our best service and advice.
- Under ***People as a competitive advantage***, we want to "Encourage well-being." That's the logic behind our competitive pay and comprehensive benefits program and other forms of recognition.
- Under ***Ethics***, we expect team members to "Raise concerns." That's what's behind our "Raise Your Hand" program to speak up when we see something that doesn't seem quite right, without fear of retaliation. Making sure everyone is empowered in this way is a prudent risk management practice.
- Under ***Diversity and inclusion***, we expect each of us to "Encourage diversity of thought." Welcoming different perspectives as well as different backgrounds makes us a better company and a better place to work.
- And finally, under ***Leadership***, we expect that we will "Make decisions with a One Wells Fargo view."

We created the expectations using input from team members. To further ensure that our behavioral expectations are relevant to team members, we conducted several rounds of research with them and sought diverse perspectives from our team member affinity groups (known as Team Member Networks) and the Enterprise Diversity and Inclusion Council.

Promoting accountability at all levels of the organization

To help promote clear accountability and to measure performance against the expectations, our behavioral expectations are included in a common leadership objective that all team members have as part of their

performance plans. This is another first for our company and means that everyone at Wells Fargo has tangible, measurable accountability for how they are putting our Vision, Values & Goals into practice.

The leadership objective will be used to manage performance, drive coaching and feedback, and influence how team members are compensated and rewarded.

Behavioral Expectations

	Team member expectations *(apply to everyone)*	Manager expectations *(additional for managers)*
What's right for customers	• Act with integrity and always do the right thing for the customer. • Listen to all customers, anticipate their unique needs, and work in partnership to achieve their goals. • Build trust and long-term relationships.	• Coach and enable team members to provide best-in-class service and guidance that will help customers succeed financially.
People as a competitive advantage	• Encourage well-being and celebrate success. • Recognize and leverage each other's contributions and talents. • Share best practices and embrace new ideas together. • Develop yourself and others.	• Attract, hire, and retain talent. • Connect the team to business priorities and share what's needed for success.
Ethics	• Know what's right and do what's right; if you don't know, ask. • Raise concerns and escalate early. • Take accountability for all actions and decisions made. • Be open, honest, and transparent.	• Foster a safe, ethical environment where team members feel comfortable sharing ideas and opinions, raising concerns, and escalating risks. • Hold yourself and your team responsible for achieving business results in alignment with our Vision, Values & Goals.
Diversity and inclusion	• Make sure that people feel included, valued, supported, and heard. • Recognize and address your own biases. • Seek, accept, and encourage diversity of people and thought.	• Cultivate a diverse and inclusive environment. • Intentionally build and engage a diverse team.
Leadership	• Inspire, engage, influence, and lead by example. • Proactively seek, give, and apply feedback. • Engage in courageous conversations. • Make decisions with a One Wells Fargo view.	• Know the business and effectively manage your team to maximize long-term shareholder value. • Motivate and enable team member performance through clear objectives and expectations, ongoing feedback and coaching, and written performance evaluations. • Model, encourage, and celebrate team member community involvement. • Capitalize on self-service resources and complete management activities timely and in compliance with policies and standards.

Promoting diversity and inclusion in every aspect of our business

Wells Fargo is committed to advancing diversity and inclusion across our workforce, in our thousands of local communities, and in our supply chain. This commitment has long been one of the five values to which our company is dedicated (page 13).

Our commitment to diversity starts with our Board, where Wells Fargo has been an industry leader for decades. More than half of the members of our Board are women and/or ethnically diverse (as of Jan. 15, 2019), and Board Chair Betsy Duke is the first woman to lead the Board of a major U.S. bank.

Our priorities and goals are set by our Enterprise Diversity and Inclusion Council, which is led by CEO Tim Sloan and composed of senior leaders from our businesses and functional areas. An example of a recent action: The council recommended additional funding and resources (which were approved) to accelerate the company's progress toward reaching its hiring goal for military veterans.

We define diversity as the unique combination of various dimensions that makes each of us different from and similar to others. Those dimensions can include — but are not be limited to — age, gender, ethnic heritage, race, physical or mental abilities, sexual orientation, values, religion/spiritual practice, income, family status, education, and geographic location.

Our goal for advancing diversity and inclusion is to help ensure people across our workforce, our communities, and our supply chain feel valued and respected, and have equal access to resources, services, products, and opportunities to succeed.

OUR 10 TEAM MEMBER NETWORKS

- Asian Connection
- Black/African American Connection
- Diverse Abilities
- Latin Connection
- Middle East
- My Generation
- Native Peoples
- PRIDE
- Veterans
- Women

THE WELLS FARGO TEAM

- 44 percent of our U.S. workforce is ethnically/racially diverse.
- 57 percent of our U.S. workforce is women.
- 8,400 team members self-identify as military veterans.

We focus primarily on three areas:

Team members.
We strive for policies and programs that attract, develop, engage, and retain the best team members. We continue to focus on building a diverse pipeline of candidates for positions at all levels of the company, including leadership positions, and promoting diversity and inclusion awareness through education and training.

Marketplace.
We integrate diversity and inclusion into the business decisions we make. We are focused on serving the needs of our diverse market segments and increasing our work with diverse vendors and suppliers. Our procurement spend with diverse suppliers for 2017 was 11.4 percent, and our goal is to spend 15 percent of our controllable procurement budget with diverse suppliers by 2020.

Advocacy.
We demonstrate leadership through our interactions in both the workplace and in our communities. This includes personal accountability for diversity and inclusion advocacy in areas such as training, mentoring, participation on multicultural boards, and other community engagement activities.

We deploy diversity and inclusion councils and teams at the business, regional, and local levels to help us implement programs and initiatives. We also have 10 internal Team Member Networks that are open to all team members as a way for them to connect, leverage, learn, build their skills, and impact business outcomes.

We produce a quarterly scorecard that tracks team member representation data and trends, our spending with diverse suppliers, completion rates on diversity and inclusion training, and other metrics.

Commitment to human rights

We recognize the role that corporations play in society, and we embrace our responsibility to respect human rights in our operations and through our business relationships. Many of the actions we've taken to rebuild trust, strengthen our culture, and enhance operational and conduct risk are critical components of a robust human rights risk management approach.

We publicly acknowledge our responsibility to respect human rights in our Statement on Human Rights, which guides our efforts in this area with key stakeholders, including:

Team members.
We strive to foster safe, inclusive, respectful, and fair workplaces, including building and maintaining sustainable work environments where discrimination and harassment are not tolerated. We provide equal employment opportunities for all qualified applicants and team members without regard to any status protected by applicable laws, and we take appropriate actions to ensure that our compensation for team members is fair and equitable. Building and sustaining a diverse and inclusive culture is an important way in which human rights are respected at Wells Fargo.

Consumers.
We are committed to building relationships with customers and providing them with meaningful products, advice, and guidance to ensure that they are able to make informed financial choices. We are dedicated to living by our responsible lending and servicing principles to foster best practices and ensure consumers are treated with respect. In addition to training team members on the principles, a team of compliance and legal professionals conduct fair and responsible lending reviews of complaints, new or modified products or lending policies, marketing campaigns, and lending transactions.

Business customers.
We recognize the critical economic importance of various industry sectors, including some that may have significant impacts on the environment and local communities. We believe organizations in such industries should operate in a responsible manner, complying with applicable legal requirements and with respect for human rights, local communities, and the environment. We conduct enhanced due diligence for corporate customers in identified sensitive industries, as described in our Environmental and Social Risk Management (ESRM) framework. You can learn more about our ESRM risk due diligence process on page 43.

The ESRM framework also discusses our companywide and line-of-business policies that prohibit credit and other services to any clients or activities where we become aware of evidence indicating forced labor, child labor, human trafficking, or any other type of modern slavery.

Suppliers.
We strive to work with suppliers whose values and business principles reflect their respect for human rights. We outline our expectations in our Supplier Code of Conduct.

Communities.
We promote human rights and enhance resiliency by using our financial and human capital to support economic development and improve quality of life in the communities where we live and work. Community investment is an important part of our business model, and we strive to provide resources, talent, and products for underserved communities in the areas where we do business.

Recent company actions

We recognize that respecting human rights is an ongoing effort and that we must regularly assess our practices and approaches in light of changing policies and business practices. In our most recent Corporate Social Responsibility materiality assessment (page 41), human rights was identified, among other matters, as having an increased impact to our company and our stakeholders.

Wells Fargo has taken key actions in recent years to enhance our focus on human rights, including:

2015

- Adopted our ESRM policy, which provides a consistent methodology that we use to understand, assess, and consider environmental and social risks in our lending and investments as part of our decision-making process.

2016

- Published our Modern Slavery Act Statement to meet our obligations under the U.K. Modern Slavery Act and underscore the important role that companies like ours can play in addressing this global human rights issue.

- Updated our Code of Ethics and Business Conduct (page 21) with references to team members' responsibilities relative to human rights, specifically as they relate to modern slavery, exploitation, and human trafficking.
- Updated our Supplier Code of Conduct to include Wells Fargo's expectation that suppliers respect human rights and comply with applicable laws to avoid modern slavery and human trafficking.
- Joined Shift's Business Learning Program to deepen our understanding of potential human rights impacts and formed internal working groups to identify opportunities for strengthening our management of human rights impacts. Shift is a nonprofit founded in 2011 to implement the United Nations' Guiding Principles on Business and Human Rights.

2017

- Adopted an Indigenous Peoples Statement (page 19) to strengthen our due diligence practices for transactions with customers whose operations may adversely impact indigenous communities.
- Established an external Stakeholder Advisory Council (page 92) that consists of experts and advocates focused on human rights, consumer rights, fair lending, the environment, civil rights, and governance.
- Launched our Speak Up and Non-retaliation policy (page 21) to encourage team members to identify and report any concerns they may have, including potential human rights issues.
- Established a central conduct team and made enhancements to our EthicsLine (page 22) to help identify and respond to potential human rights concerns quickly and more effectively.

2018

- Joined BSR's Human Rights Working Group (a cross-sectoral collaborative initiative of more than 40 global companies), established in 2012 to help companies implement the UN Guiding Principles on Business and Human Rights. In addition, we will continue to participate in Shift's Business Learning Program to strengthen our understanding and implementation of human rights issue management.
- Enhanced our capacity to identify and manage human rights risk in our lending and investments — including adding a social issues specialist with human rights legal expertise to the Environmental and Social Risk Management team.
- Developed and began to deploy human rights training within our Wholesale Banking businesses. Previously, human rights considerations were one component of the larger Wholesale Banking Credit Management Training for new credit analysts and associates.
- Published the results of our annual pay equity study on wellsfargo.com (page 25), following the information we published in March 2017 regarding our commitment to gender and racial/ethnic pay equity.
- Established working groups to consider relevant human rights issues related to consumers and investments, and refined the definition of "employment" to include contracted labor.
- Continued to strengthen our ethics and business conduct programs to deliver on our commitment to respect team members' human rights.

In progress

We know that deepening our understanding and management of human rights issues that are relevant to our business, operations, and culture is an ongoing journey. We are continuing to work on:

- Updating and developing human rights-related policies.
- Strengthening oversight of human rights issues in our supply chain, such as the manufacturing of promotional items, international construction projects, and contracted janitorial and landscaping services.
- Enhancing our understanding of potential and adverse human rights impacts through due diligence.
- Engaging with external, cross-sectoral, and industry-specific leadership groups to collaborate on advancing business and human rights efforts.

Additional due diligence focuses on vulnerable communities

Wells Fargo expects our corporate customers to operate responsibly by respecting human rights. We articulate this in our Human Rights statement, which emphasizes that companies we serve must carry out due diligence to avoid infringing on the rights of others and to address any adverse impacts as they arise.

Beyond our Human Rights statement, we recognize several vulnerable groups as being "historically disadvantaged," and we dedicate extra attention to understanding and caring for their unique concerns and perspectives. For example, as a result of issues that arose during the construction of the Dakota Access Pipeline — and following specific assessment findings — we enhanced our Environmental and Social Risk Management due diligence to include more focused research into whether indigenous communities were affected and properly consulted.

In 2017, we implemented an Indigenous Peoples Statement — developed in consultation with tribal leaders, indigenous stakeholders, and their representatives — to better communicate our commitment to indigenous peoples in general and, more specifically, to guide our decision-making for projects where proceeds of Wells Fargo financing may potentially impact Native American, Native Alaskan, or other indigenous communities. The statement also stipulates our approach to responsible finance, specifically:

- We recognize that governments have the central role to play in the approval of polices or projects that impact indigenous peoples, and we encourage our customers to collaborate in meaningful ways to manage the impacts and risks of their activities on these communities.
- We conduct due diligence in sensitive industries covered by this framework to ensure that our customers engage meaningfully and effectively with critical stakeholders and demonstrate a commitment to protecting community health, safety, and security, the environment, cultural identity, and the sacred lands and heritage of affected indigenous peoples. We have supplemented this due diligence with a heightened focus on potentially impacted indigenous communities and whether they have been afforded the opportunity for informed consultation and participation. For certain transactions, escalated approval from senior leaders is required.
- If we do not determine a company can effectively manage elevated environmental and social risks in its operations, we will decline participation in the transaction.
- For projects where we can identify that the use of proceeds may potentially impact indigenous peoples — specifically for project financing, project bridge loans, and corporate project financing transactions — we expect our customers to demonstrate alignment with the objectives and requirements of International Finance Corporation Performance Standard 7 on Indigenous Peoples, including with respect to circumstances requiring Free, Prior, and Informed Consent.

In general, Wells Fargo respects indigenous peoples' rights to determine their own way of life on their own lands, according to their time-honored cultures, traditions, and beliefs. We recognize the rights of these communities to meaningful and appropriate consultation regarding issues affecting their sacred lands and natural resources — traditionally owned or otherwise occupied and used — today and for future generations.

The way these important policies came about illustrates our commitment to listen to stakeholders who may be impacted by our lending and investing; it also illustrates our adherence to recognized global best practices in environmental and social risk management.

Our commitment to fighting human trafficking

One powerful action financial institutions can take to protect human rights is to follow the money trail of human trafficking — helping to identify and report suspected money laundering.

As outlined in Wells Fargo's Modern Slavery Act Statement, we recognize our role in preventing modern slavery and human trafficking both in our operations and in our supply chain.

According to estimates by the anti-slavery nonprofit Walk Free Foundation and the International Labour Organization, more than 40 million people are trapped in modern slavery worldwide. The trafficking and exploitation of women, children, and men is a highly profitable global business, generating illegal profits of $150 billion a year.

Wells Fargo's Financial Crimes Risk Management team works closely with law enforcement, nongovernmental organizations, and other banks to identify and report financial transactions that indicate human trafficking. For example, Wells Fargo participates in a global alliance led by the Thomson Reuters Foundation that recently launched a toolkit designed to help financial institutions fight human trafficking with financial data.

The toolkit, which is shared with financial institutions, law enforcement agencies, and other key stakeholders on a confidential basis, contains an extensive collection of case studies on human trafficking-related investigations. It also provides resources designed to help financial institutions detect suspicious patterns in financial transactions, customer data, and behavior that may be linked to human trafficking — and to report them to law enforcement (consistent with all applicable data privacy laws).

The toolkit is the product of the United States Banks Alliance, a multistakeholder working group convened in 2017 by the Thomson Reuters Foundation. The alliance has worked closely with the Financial Crimes Enforcement Network and includes Homeland Security Investigations, the Manhattan District Attorney's Office, and expert anti-trafficking nongovernmental organizations Polaris and Stop the Traffik.

We believe that financial institutions have the unique opportunity — and responsibility — to make a difference globally by working with law enforcement to follow the money trail that leads to criminal organizations such as human trafficking rings.

Our Code of Ethics and Business Conduct

In 2016, we updated Wells Fargo's Code of Ethics and Business Conduct to provide additional clarity and focus on the ethical behavior we expect of all team members and members of our Board. The code serves as an extension of our Vision, Values & Goals and is supported by underlying policies as well as by interactive online training that all team members complete annually. Members of the Board also acknowledge annually that they have read and understand their obligations under the Code of Ethics and Business Conduct.

It's critical for team members to understand our expectations and act in an ethical manner every day. Team members also need to be comfortable speaking up with no fear of retaliation if they have a concern or see something that does not seem quite right.

The code outlines responsibilities on topics such as:

- Dealing fairly with customers and others.
- Keeping confidential information safe and secure.
- Maintaining accurate and complete records.
- Being clear and candid in communications.
- Avoiding conflicts of interest.
- Exchanging only appropriate gifts and entertainment.
- Exercising sound judgment in incurring business expenses.
- Honoring our legal obligations.
- Using our assets wisely.
- Serving the greater good by supporting our communities, respecting human rights, and protecting the environment.

Speak Up and Non-retaliation policy

We learned through team member feedback that some team members were reluctant to raise concerns because of fear of retaliation. Described below are some of the actions we've taken to improve this situation, including enhancing our EthicsLine process. To provide additional clarity on our policies and set expectations, we published our Speak Up and Non-retaliation policy in 2017. It requires all team members to adhere to the Code of Ethics and Business Conduct and supporting policies, recognize unethical behavior, and report suspected unethical or illegal conduct. The policy also sets additional expectations for managers to guard against retaliatory conduct, watch for signs of retaliation, and report any conduct that may violate policies.

It's critical for team members to understand our expectations and act in an ethical manner every day.

Specifically, managers are expected to:

- Reinforce with their teams the company's commitment to values, high ethical standards, and the importance of reporting unethical or illegal conduct.
- Ensure any inappropriate, unethical, or unlawful behavior is properly reported.
- Regularly remind team members to report concerns immediately to the EthicsLine, Employee Relations Solutions, or a trusted supervisor or manager.

Enhanced EthicsLine process

The EthicsLine provides team members a confidential way to report inappropriate behavior or concerns about possible violations of unethical or illegal activity. Wells Fargo is committed to maintaining anonymity (when requested and as permitted by law) and confidentiality of team members throughout the allegation lifecycle. Information related to allegations is shared only with team members who have a business need to know and may also be shared with regulatory or law enforcement agencies.

The EthicsLine has been operated and staffed by a third-party vendor since its inception in 2004, and translation services are available. This process helps maintain team member confidentiality and preserves anonymity when requested.

Following concerns raised by team members about the EthicsLine, the company engaged a third party in late 2016 to conduct an end-to-end review of its processes regarding the intake, research, investigation, and disposition of allegations of team member misconduct. The assessment included focus groups and one-on-one conversations with team members and identified opportunities to strengthen processes to align with industry best practices, better identify trends to prevent potential issues, ensure consistency, and help team members feel supported.

Based on the independent review, we:

- Enhanced scripts used by our third-party EthicsLine intake representatives, reinforcing our commitment to protecting team members from retaliation.
- Formed a dedicated Employee Relations Solutions team to focus on issues raised through the EthicsLine.
- Created a process for third-party legal review of certain retaliation claims.
- Devised an Allegation Management policy outlining standard protocols across research and investigative teams.
- Deployed an Enterprise Allegations Platform to facilitate the consistent handling of allegations across the company and improve reporting and analysis.
- Enhanced our communications efforts (page 24) so that team members are kept well informed.
- Created a new third-party EthicsLine website to make it easier to submit a report online.
- Enhanced training to help managers foster open communications and respond appropriately when a team member raises a concern.

How the EthicsLine works

With enhancements noted

Step

1

A team member raises a concern by phone or online.
Enhancement: *Team members have access to an easy-to-use web portal.*

2

The concern is received by a third-party vendor to support confidentiality.
Enhancement: *EthicsLine messaging emphasizes confidentiality and commitment for protecting against retaliation.*

3

A Wells Fargo researcher is assigned to the report.
Enhancement: *A new platform facilitates the process.*

4

A report is created and assigned a number to facilitate anonymous response tracking.
Enhancement: *Team members can use this number to see if there are questions or to provide additional information.*

5

The report is researched.
Enhancement: *Standards help ensure that concerns are managed consistently.*

6

If a violation is substantiated, it is addressed in accordance with policy.
Enhancement: *The team member who raised the initial concern is notified when a case is closed and contacted to make sure there has not been any retaliation.*

A summary of the types of allegations and any trends is shared with management and the Board.
Enhancement: *Regular reporting provides companywide visibility to identify patterns and address issues.*

CASE STUDY: TAKING ACTION ON WHAT WE LEARNED

Raise Your Hand initiative encourages team members to report concerns

A third-party review of the EthicsLine process that team members use to report concerns showed some reluctance to participate. In response, we worked to improve the system, inform team members of these enhancements to build confidence in the tool, and increase awareness of the ways team members can raise a concern or complaint.

Awareness

- We launched an internal Raise Your Hand campaign to reinforce the importance of speaking up and raising concerns — whether regarding a possible ethics violation or a potential risk.
- We let team members know that they are encouraged to discuss matters with any manager with whom they feel comfortable, our Employee Relations Solutions team, or by contacting the confidential EthicsLine, where they can choose to remain anonymous to the extent allowed by law.
- Messaging emphasized that sound processes are in place at Wells Fargo to maintain confidentiality and properly research and address concerns.
- We added online information to help team members know what to expect when contacting the EthicsLine, including a video on how the EthicsLine works and what happens behind the scenes.
- We enhanced communications to keep team members better informed when they do raise a concern.

ENCOURAGING TEAM MEMBERS TO SPEAK UP

WHAT We launched an internal Raise Your Hand initiative and improved processes to help team members feel comfortable raising concerns.

WHY To inform team members of changes made to address their concerns about retaliation and encourage them to speak up and raise concerns.

RESULT We've seen an increase in team members offering suggestions and raising concerns, which is helping us identify and address issues earlier.

- We made sure that both the expectation to speak up and the assurance of non-retaliation are prominently featured in our Code of Ethics and Business Conduct training, with emphasis on preparing managers to respond appropriately and create a supportive environment where team members feel comfortable raising concerns.
- We now encourage leaders to reinforce Raise Your Hand messaging in their regular communications and to recognize team members for raising concerns.

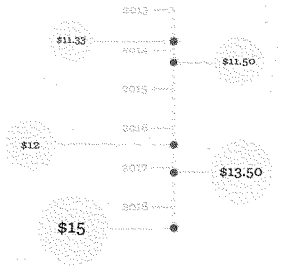
Competitive pay and benefits

Wells Fargo has long been committed to market competitive compensation, career-development opportunities, a broad array of benefits, and strong work-life programs. We regularly review our offerings and have closely done so in the past two years.

To ensure that our pay is competitive in the marketplace, jobs are priced against our competitors at least annually. We look across industries because our competition for talent extends beyond the financial services sector. We invest significantly in annual salary increases, promotions, and other types of increases for all roles at all levels across the company. For example, in addition to increases that result from annual performance reviews, each year approximately 40,000 team members receive promotions with additional salary.

We continue to raise our minimum hourly base pay, increasing it by 32 percent in recent years — from $11.33 in December 2013 to $15 in March 2018 (for certain roles and in some geographies, starting rates can be substantially higher than the minimum base pay level). This latest adjustment to $15 an hour increased pay for approximately 36,000 team members. Wells Fargo then carefully reviewed team members who were already making $15 an hour, or slightly above, to ensure that they were being paid appropriately based on their role. That resulted in approximately 50,000 pay adjustments for team members whose salaries were at or close to the new minimum hourly wage.

Wells Fargo Minimum Base Pay



Approximately 60 percent of Wells Fargo's noninterest expense represents compensation and benefits:

- Each year, we invest approximately $13,000 per team member in our benefits programs.
- Our health care benefits (medical, dental, vision) cover approximately 500,000 individuals.
- Ninety-nine percent of Wells Fargo's U.S. team members are eligible for benefits, including those in regular and part-time roles.
- Team members are able to enroll their spouses or domestic partners (regardless of gender) and eligible children in Wells Fargo benefits.
- The cornerstone of our financial benefits is our 401(k) plan, which provides a 100 percent match for every $1 team members contribute, up to 6 percent of team members' certified compensation. Team members received more than $1 billion in employer matching contributions in 2017.

Pay equity

We are committed to pay equity, and our company regularly engages a third-party consultant to conduct a thorough pay equity analysis, which relies on statistical models to compare the compensation of our team members to others in similar roles. Based on the results, we make adjustments where needed to ensure team members continue to be paid fairly and equitably.

Our company values and promotes diversity and inclusion in every aspect of our business and at every level of our organization. Our commitment to diversity starts with our Board (page 16), and we have a strong record of recruiting, promoting, and rewarding women at all levels of our company. As a result, a large percentage of our team members, officers, and managers are women.

We originally published the results of our annual pay equity analysis for 2017. For 2018, we expanded our analysis to include certain of our global locations and other elements of pay, including base pay, discretionary cash incentives, and long-term incentive awards. After accounting for factors such as role, tenure, and geography, the most recent results of our analysis show that female team members at Wells Fargo earn more than 99 cents for every $1 earned by their male peers.

Our team members who are people of color in the U.S. earn more than 99 cents for every $1 earned by their white peers.

The Board, through its Human Resources Committee, oversees the pay equity reviews and our other complementary human capital management practices, including talent management, succession planning, and diversity and inclusion initiatives, all of which are intended to ensure fairness in pay practices at Wells Fargo.

Compensation principles

Our company is committed to developing and executing incentive compensation arrangements that align with and reinforce our Vision, Values & Goals and comply with all applicable statutes and regulations. Our Incentive Compensation Risk Management (ICRM) program is intended to balance risk and financial reward in a manner that supports our customers, team members, and company. Compensation programs are designed in accordance with the following principles:

- Pay for performance by linking compensation to company, business line, and individual performance.
- Promote a culture of risk management consistent with our Vision, Values & Goals, and avoid unnecessary or excessive risk-taking.
- Attract, motivate, and retain people with the skills, talent, and experience to drive superior long-term company performance.
- Align team members' interests with shareholders' interests, and encourage behavior consistent with long-term shareholder value creation.

Executive compensation

Our Board holds senior management accountable through its performance management and incentive compensation structure and framework. This framework sets clear expectations for senior management that are aligned with our Vision, Values & Goals, strategic plan, risk appetite, and risk and control framework. The Board uses active engagement and credible challenge to set those expectations and assess whether they are followed.

The performance management and incentive compensation processes enable the Board to assess performance against set objectives, hold senior leaders accountable through compensation or other actions when those objectives are not met, and reward them when expectations are met or exceeded. The Board has strong tools to hold management accountable to these expectations, and it has the resolve to use its tools appropriately — including taking decisive action to address problems or concerns with the risk management performance of senior managers.

All senior executives in the top levels at the company (or approximately 800 leaders reporting to a member of the Operating Committee or to one of an Operating Committee member's direct reports) are subject to an annual performance objective framework. In 2018, Wells Fargo strengthened the performance objective framework for senior executives to include the company's leadership expectations and risk accountability as overlays. With the new framework, "how" something is achieved is given equal or greater consideration to "what" is achieved. Consistent with historical practices, how a leader leads and manages risk can reduce or eliminate incentive compensation for outcomes that are inconsistent with the Board's expectations. By design, performance against these expectations also can serve as a multiplier (up to 150 percent of the incentive compensation target) to recognize exceptional leadership or risk management and accountability. In addition to these expectations as to how leaders perform, the framework sets expectations relating to company performance; business line performance; and each leader's management of risk, day-to-day operations, and strategic initiatives.

The compensation structure for senior executives contains robust risk-balancing mechanisms that provide the Board and its Human Resources Committee with the tools to hold executives accountable for activities that have long-term risk horizons. The Human Resources Committee establishes a compensation design and structure that is weighted heavily toward long-term, performance-based equity that vests over three or four years, is contingent on longer-term financial performance and risk assessments, and has substantial holding requirements (including holding requirements for executive officers that extend beyond retirement) to further support strong risk management and accountability. The company also employs multiple clawback and forfeiture policies and provisions designed to encourage the creation of long-term, sustainable performance and discourage senior executives from

taking imprudent or excessive risks that could adversely impact the company or harm customers. This includes the reduction or forfeiture of equity awards if the company or the executive's business group suffers a material failure of risk management.

Performance management

Performance management has a direct link to our pay-for-performance philosophy, with a focus on setting clear expectations for our team members and enabling ongoing coaching and performance conversations throughout the year. We view performance management as a key aspect of how we live our culture, and it helps bring our five values to life. Performance management provides each team member with the opportunity for personal responsibility, accountability, reward, and recognition.

All team members have an established set of objectives reinforcing personal accountability and an opportunity for recognition and development. Team member annual performance objectives are aligned with business objectives and the company's behavioral expectations (page 15). Performance objectives are to be clearly written with criteria for success, as well as appropriately suited to the team member's role.

For example, objectives for team members engaging in direct selling or referral activity are informed by the following considerations:

Quality.
Sales growth measures are balanced, focusing on customer experience, retention, account usage, and long-term relationship building.

Behavioral.
Objectives include qualitative components and incorporate qualitative assessments to focus on how the results were achieved.

Timing.
Metrics should be long cycle in nature and able to measure value as demonstrated by customer behaviors over time.

Risk.
Strong risk management measures must be built into team members' performance objectives.

Discretion.
Management objectives related to customer experience emphasize observations and balanced judgment of team member performance.

Alignment.
Expectations are aligned between leaders and team members who report to them with a consideration toward mitigating customer harm and other conduct risk.

Throughout the year, managers are responsible for providing ongoing performance feedback and coaching on progress toward objectives. Team members also are encouraged to initiate conversations with their managers about performance. On an annual basis, managers complete a performance evaluation that provides each team member a performance summary for the year. It also provides a time for the team member and manager to discuss how the team member can improve performance.

Wells Fargo continues to fortify the performance management process and requirements as we collectively drive to a more consistent culture. Some of the recent enhancements include publishing an enterprise Performance Management policy, introducing the common leadership objective for team members (page 14), strengthening and centralizing monitoring processes, and migrating all team members to our enterprise Performance Management tool.

Incentive Compensation Risk Management (ICRM)

Our compensation principles, along with our Vision, Values & Goals, are supported by our ICRM program, which establishes the expectations and requirements related to the design and oversight of the incentive plans for team members. The program provides the governance framework, policies, risk management standards, and processes under which we manage incentive compensation risk. The program initially was focused on financial (credit, market, and liquidity) risk, and over time we have refined the program's scope to better reflect Wells Fargo's risk appetite and risk management goals and to meet evolving regulatory requirements. Our goal is to have the ICRM program account for all potential risk types, including risks related to misconduct and reputational harm.

The ICRM program framework has three main components supported by our overarching ICRM governance processes:

- Identification of roles covered by the ICRM program.
- Incentive compensation risk balancing.
- Governance, including monitoring and validation.

Roles

The ICRM program covers approximately 200,000 team members who are eligible to participate in an incentive plan. The program provides for heightened oversight for team members in roles that may be able, individually or as a group, to expose Wells Fargo to material risk, as well as roles that are subject to specific regulatory requirements, including:

- Executive officers.
- Senior roles with significant responsibility for taking, identifying, managing, or controlling risk within a line of business or corporate function.
- Groups of team members who, in the aggregate, may expose the organization to material risk or are subject to specific regulatory requirements.

For roles subject to heightened oversight, risk management is considered in developing team members' annual performance objectives, during the review of their compensation plans, and in conducting their annual performance evaluations — all to ensure that incentive award payouts reflect risk outcomes. In addition, for executives and select other members of senior management, the program includes balancing features that account for current and longer-term risk horizons. For these team members, we provide a combination of annual and long-term incentive awards that are subject to performance and forfeiture provisions, clawback policies, consideration of qualitative aspects of performance, and the discretionary ability to reduce payouts.

We believe our program provides an integrated approach to team member performance management, incentives, and incentive compensation risk mitigation. We have strengthened and emphasized risk accountability for all team members and are currently developing and implementing processes where misconduct will impact performance management and incentives more consistently across the company.

Incentive compensation risk balancing

Wells Fargo continues to enhance the rigor and structure of our approach to risk adjustment processes across incentive design and the potential for compensation impacts in an event of a risk issue. Our incentive design process ensures all incentive plans are designed and risk assessed to ensure balancing features and risk adjustments are incorporated into the plans. During this review, we assess risk balancing, compliance with laws and regulations, and any potential to encourage our team members to take unnecessary or inappropriate risks. Over the years, we have formalized and strengthened the enterprise incentive plan design process and made several enhancements, including:

- Development of sales practices incentive guidance to ensure our sales incentive programs do not encourage inappropriate behavior, the metrics are not easily manipulated, the goals are attainable, and risk and reward are properly balanced.
- Cross-departmental teams (Human Resources, Finance, Legal, Compliance, and Risk) assist in the design and review of incentive plans. This enhanced oversight has helped identify opportunities to simplify and streamline incentive plans.
- For a new plan, we conduct a risk assessment to evaluate the team member roles covered by the plan, the inherent risks of those roles, the plan's structure and risk-balancing features, and any additional controls in place. Ongoing plans are reviewed annually with respect to alignment with incentives for the right behaviors, new risks that have emerged, the existence of appropriate risk mitigation features, and compliance with applicable laws, regulations, and policies.
- For plans subject to heightened oversight, such as those covering material risk takers or individuals or groups who could pose sales practices risk, the plans are subject to additional and more detailed reviews.

With the establishment of the enterprise incentive plan design process, Wells Fargo has more effective reporting capabilities and visibility into the risks associated with incentive plans. This has led to an increase in the level of engagement from senior executives and committees who oversee the ICRM program with more meaningful discussions about how to effectively manage risks based on trends and to set expectations for the future.

To account for risk-adjusted compensation decisions, we've continued to enhance the following:

- Enterprise guidelines on the use of discretion for risk evaluation and compensation impact.
- More structured evaluation of risk outcomes as input to risk performance and compensation decisions.
- Strong focus on governance, including increased involvement by the Human Resources and Risk functions to help ensure consistent application of risk adjustment across the enterprise.
- Implementation of a formal monitoring and validation program, including more robust documentation and governance reporting.

Governance

The Board's structure, composition, and resources enable effective oversight of incentive compensation and performance management programs, and directors possess a level of expertise and experience in risk management and human resources practices, including compensation, in the financial services sector that is appropriate for the nature, scope, and complexity of our activities. The Board has delegated primary oversight of human capital management, culture, and ethics to its Human Resources Committee. This responsibility includes overseeing the overall compensation strategy of the company, the ICRM program, and the company's compensation plans, policies, and programs covering senior management.

Two internal management committees — the Incentive Compensation Committee and Enterprise Risk and Control Committee — oversee interconnected risk and compensation programs with a view to ensuring that risk management and accountability are connected with the company's incentive compensation programs.

The Incentive Compensation Committee is chaired by the Human Resources director and has responsibility for overseeing the ICRM program as it relates to the effective design and risk-balancing of broad-based compensation programs. In recent years, we have strengthened the Incentive Compensation Committee charter to clarify roles and responsibilities, set membership and meeting frequency, and establish requirements for reporting to the Human Resources Committee. In addition, reporting to the Incentive Compensation Committee has been strengthened to provide additional reporting and findings across the ICRM program.

Adapting our business model to changing customer preferences

As you will read later in this report, customer preferences — and the way they want to interact with us — are evolving. Customers tell us they want things like more self-service, simpler interactions, and more technology. We are responding by adapting our business model to become more streamlined and focused on the customer.

As a result of the accelerating adoption of digital self-service capabilities, changing business conditions, and operational excellence and efficiency, we expect headcount to decline by approximately 5 to 10 percent within the next three years. This decline would reflect displacements as well as not filling certain open positions resulting from normal team member attrition.

We take very seriously any change that involves our team members, and as always, we will be thoughtful and transparent, treating team members with respect. We have robust programs to make impacted team members aware of other job opportunities within Wells Fargo and to provide support as they transition to the next phase of their careers. And even as we become more efficient, Wells Fargo will remain one of the largest employers in the U.S.

Measuring our progress: Culture

We have made strong progress in building the kind of culture that our team members expect and deserve. We will assess the many practices put in place over the past two years and continue to enhance them. For example, our continuous listening program monitors team member engagement and experience and includes collecting feedback from team members through pulse surveys, focus groups, companywide assessments and surveys, and confidential exit surveys and interviews. In addition to listening to team members, we also are measuring attrition. In 2018, voluntary team member attrition improved to its lowest level in six years.

Among the enhancements we've made to our monitoring and reporting is the creation of a culture dashboard report that includes clear, concise, and actionable insights of companywide strengths and areas that may require attention. Trends tracked in the dashboard include key team member metrics such as attrition, tenure, training, and listening program results; diversity and inclusion; risk, audit, and compliance initiatives; issues escalation resolution; and progress on key culture initiatives. This dashboard is shared quarterly with the Operating Committee and the Board, including the Human Resources Committee. The data it contains is critical as we monitor the progress we are making to improve our culture and the team member experience.

IV.

Our goals

Our goals clearly state our aspirations for the future and prioritize our focus. We want to become the financial services leader in the following six areas:

1. Customer service and advice

Providing exceptional customer service and advice is key to building long-lasting, caring relationships with our customers and helping them succeed financially. We build strong relationships and deliver an exceptional experience for our customers by getting to know them, engaging in high-quality conversations to understand their financial needs, and collaborating with internal partners to help them achieve their goals. We strive to provide best-in-class service and guidance that will help our customers be successful. This is true whether we are working with an individual, a family, a small business, a growing company, or a global firm.

We strive to provide best-in-class service and guidance that will help our customers be successful.

Change for the Better

One of the ways we're improving and enhancing the customer experience is through the Community Bank's Change for the Better initiative (page 61), which includes new systems, processes, and tools that have empowered and enabled team members to better serve the needs of customers. Since September 2017, we've made transformative improvements in our branches across the U.S. to bring more simplicity, alignment, collaboration, and innovation to the customer experience and the team member experience. The changes we've introduced have simplified and streamlined complicated processes to make it easier for our bankers and tellers to talk to their customers, listen, ask questions, and meet customers' financial needs by offering them the right products and services or introducing them to the right partners.

Customer innovation

We're also making innovative changes for our customers to help them better manage their accounts by leveraging data and cutting-edge technology. For instance, our *Overdraft Rewind*℠ service automatically "rewinds" any overdrafts that are covered by a direct deposit received by 9 a.m. local time the next day (page 74). In 2018, this service helped more than 2.3 million customers avoid overdraft charges. We also rolled out automatic real-time alerts to notify online banking customers by email when their account balances drop to zero or are negative. The automatic alerts build on the text and email alerts Wells Fargo has offered for a number of years, and they are having a big impact.

In 2018, we sent an average of more than 37 million zero-balance and customer-specific balance alerts a month – meaning we have 37 million opportunities for customers to avoid a negative outcome.

We believe the improvements Wells Fargo has made to help customers avoid overdrafts and fees are among the most customer-friendly in the industry. Ultimately, doing what's right for our customers helps us exceed their expectations and build lifelong relationships.

Focus on planning

In addition to helping our customers manage their accounts, we are focused on helping them save and plan for the future. We offer programs like Financial Conversations and *Hands on Banking®* that are designed to educate and help customers feel more in control of their finances (page 94).

In our Wealth and Investment Management business, we continue to focus on advice and planning capabilities to deliver better outcomes and experiences for customers. Whether customers are planning for retirement, saving for their first home, or taking steps to preserve wealth for the next generation, planning is a common thread. Ensuring every customer has a relevant financial plan helps our Wealth and Investment Management customers meet their financial goals. In the past 12 months, we have created or updated financial plans for 70 percent of our affluent and high net worth customers. According to research conducted during our 2017 Client Listening Program, the vast majority of customers with a plan feel they have the guidance necessary to succeed financially.

Financial Health Conversations program provides personalized guidance and support

Wells Fargo understands that customers are more likely to achieve financial success if they understand the steps they can take to establish healthy financial habits — including simple changes that make a big impact. Research shows that 57 percent of Americans are struggling financially[1], and 44 percent say they would not be able to cover a $400 emergency expense without selling something or borrowing money[2].

Financial Health Conversations program
Through Financial Health Conversations, specially trained phone bankers at Wells Fargo may provide customers with personalized guidance and support to help them increase their savings, manage their credit, and feel more in control of their finances.

Depending on the customer's need, the banker reviews the money flowing in and out of the customer's accounts each month. Then the banker works with the customer to develop a savings plan that may help the customer save more money each month — perhaps including setting a savings target and identifying areas where the customer could reduce spending.

Financial Health Conversations help customers set attainable goals so they can achieve "wins" they can celebrate — which in turn helps them stay committed to their plan. We also help customers strengthen their credit scores through education and action plan development.

Since the program began in 2015, phone bankers have conducted Financial Health Conversations with nearly 50,000 customers. Today, Financial Health bankers complete more than 400 Financial Health Conversations a week. We've received very positive customer feedback about the program in monthly surveys conducted by a third party.

We now are preparing to expand the program to additional Wells Fargo channels to provide access to even more customers.

OTHER FINANCIAL HEALTH RESOURCES

- In 2018, we introduced "predictive banking," an in-app feature that provides consumer and small business deposit and credit card customers personalized insights into their spending and opportunities to save.
- To improve credit transparency, we provided more than 70 million customers with free access to their FICO® Credit Score.
- In 2018, we launched a pilot of the *Greenhouse℠* app by Wells Fargo — a mobile-first banking experience that combines consumer bank accounts with money management tools to help customers plan and save.
- Our innovative *Hands on Banking* program provides free financial education through classes, workshops, webinars, and websites, with a focus on reaching underserved communities (page 94).

1. *Consumer Financial Health Study, Center for Financial Services Innovation*

2. *Report on the Economic Well-Being of U.S. Households in 2016, Board of Governors of the Federal Reserve System*

2. Team member engagement

We want to be the industry's employer of choice — a place where people feel included, valued, heard, and supported; everyone is respected; and we work as a team. We want our team members to have an emotional connection and commitment to Wells Fargo. We want everyone to feel supported to do work that energizes them. And we want everyone to support — and care for — one another, our customers, and our communities.

As mentioned earlier, team member feedback has been essential in helping enhance our culture and improve the team member experience. Team members have shared their voices in a number of ways, including surveys, town halls, and two-way dialogue on our intranet and internal social media platforms.

Actions from team member feedback

To develop short- and long-term roadmaps and recommendations based on what we've heard from team members, a team of internal and external experts reviewed and synthesized more than three dozen surveys and almost 50,000 team member comments from stories on Teamworks (our intranet portal, which is accessible to all team members), leadership listening tours, and internal social media chats. Based on feedback, we've made a number of changes to help create a more consistent and compelling culture for team members, including:

Increased leadership visibility and transparency. CEO Tim Sloan increased his town hall forums with team members from quarterly to six times per year, in different Wells Fargo markets, and increased each town hall from an hour in length to 90 minutes. During these sessions — which are televised internally and livestreamed to computers — Sloan shares updates with team members and is joined by members of the Operating Committee and other senior executives to take team member questions live from the local audience and via video from all over the company.

Granted restricted share rights to approximately 250,000 team members in first quarter 2018. All eligible full-time team members in the U.S., and eligible team members outside the U.S., received the equivalent of 50 shares of Wells Fargo stock. All eligible part-time team members in the U.S. received the equivalent of 30 shares of Wells Fargo stock.

Idea Builder is a companywide tool that team members use to submit ideas and offer suggestions. In 2018, we received an average of 900 submissions per month. Coordinators review new ideas daily and assign them to appropriate areas within Wells Fargo for evaluation and disposition.

An idea recently implemented: making it easier for deaf customers to identify team members in our bank branches who are proficient in American Sign Language by adding that information to name tags and business cards. Enhancements planned for 2019 are intended to make Idea Builder even more user-friendly, allow team members to better track the status of their submissions, and improve reporting.

Raised the minimum hourly wage to $15 per hour for 36,000 U.S.-based team members in March 2018. For team members already at or close to the minimum hourly wage, the company reviewed their pay relative to the new $15 minimum. This additional review resulted in approximately 50,000 pay adjustments in April 2018.

Increased the number of paid holidays for team members from eight to 12, including adding personal holidays that can be used for religious, family, cultural, patriotic, community, or diversity observances.

A focus on solutions supports team member development

When team members are in the right jobs, spending time on the right things, leading well, feeling good about their contributions, fully using their skills, and learning new skills, they are able to do what is right for customers.

This philosophy is what guides Wells Fargo's $300 million annual investment in team member learning and development, which includes functional training, leadership and professional development, early talent programs, and tuition reimbursement.

We support team members in owning their own development. Underlying our approach is a belief that everyone is called to be a leader — that leadership is not the exclusive domain of senior executives.

All team members have access to leadership and professional development offerings such as instructor-led, virtual, and self-paced courses and programs, books and journals, videos, and on-the-job learning guidance through our Career & Development site. We also offer team members a self-guided learning experience called iDevelop, which enables them to build individual development plans to enhance their leadership capabilities. We provide a wide array of learning and development solutions that help team members grow through networking, experiences, coaching, feedback, and training.

TEAM MEMBERS PLAN THEIR DEVELOPMENT

In 2017, there were:

- Nearly 1 million visits to the Career & Development site.
- 625,000 visits to the iDevelop site.
- 50,000 development plans documented.

TEAM MEMBER DEVELOPMENT BY THE NUMBERS

In 2017, team members:

- Completed more than 90,000 leadership and professional development courses.
- Visited the Coaching 365 site 157,000 times.
- Logged 102,000 digital downloads of books and magazines from our Digital Publications repository.
- Checked out 24,000 books and periodicals from the Corporate Library.
- Viewed 72,500 TED Talks videos.

We make training accessible to all team members, including those in bank branches and call centers. Development resources for branch team members include a dedicated Learning and Development site that includes resources for every job family in bank branches. In 2018, we launched — primarily for new hires and those new to their positions — a Regional Bank Foundational Learning website that places various training resources from multiple lines of business in one place.

We also support managers. A new Manager Excellence learning program was introduced in 2018 to provide new managers a consistent foundation and understanding of what is expected and the tools and resources available to them. The program helps accelerate skills so that managers can focus on building high-performing and engaged teams. The new program has several components, including:

- Independent learning.
- Social communities and networking with peers.
- On-the-job assignments.
- Live webinars with internal subject matter experts (Employee Relations, compensation, and so on).

3. Innovation

Wells Fargo has a long history of innovating for customers.

For banks, being convenient once meant having a branch in the neighborhood. Then it was having an ATM on the corner. Next, it was providing access 24/7 — by phone, then online and mobile — and now it's providing services how, when, and wherever the customer chooses.

But innovation is not about the coolest new technology or about being "first." We are innovating because our customers are asking for it. Customers are looking for convenience and simplicity in how they connect with us and conduct their banking.

Innovation today

As mentioned earlier, interacting with customers in the moment, wherever they are, and when they need us, is changing the way we think about our channels and distribution. Mobile technology and digital commerce have escalated consumer demand for simple and fast money movement. And banks are well positioned to be the disruptor.

For example, *Zelle*®, the person-to-person payments network owned by multiple banks, made its debut in June 2017. *Zelle* enables customers to move money directly between participating U.S.-based bank accounts in real time, instead of first moving money to a separate account and having to wait for it to transfer to a bank account.

Beyond facilitating payments, we're also giving customers the ability to see and manage the connections they have to their Wells Fargo payment accounts through experiences like *Control Tower*℠, a consolidated view of a customer's Wells Fargo "digital financial footprint" (page 38).

Technologies like artificial intelligence and advanced authentication are enabling — at scale — the types of customer experiences that were not previously possible. New experiences like *Greenhouse* by Wells Fargo are leveraging these technologies to help make it easier for customers to save, spend, and plan.

Accelerating digital account acquisition is another focus. In late 2017, we successfully launched *Intuitive Investor*® for brokerage customers who may be new to investing or prefer a digital experience with access to financial advisors as desired (page 78). In the first quarter of 2018, we also introduced our online mortgage application (page 62), and we ended 2018 with online representing 30 percent of total retail mortgage applications in December.

Some of our best ideas for innovation come from team members

Team members play a crucial role in contributing to how we innovate and transform our business. We offer several internal programs and initiatives to make it easier for team members to share ideas and connect with key business leaders who can help make those ideas a reality, including:

Innovators Club.
A Wells Fargo community of more than 16,000 team members committed to identifying and supporting innovation.

iWeek.
An opportunity for team members all over the company to connect with other innovative thinkers for a week of activities aimed at thinking differently and discussing ways to better serve one another, our communities, and our customers. In 2018, more than 4,000 team members participated in iWeek.

Hackathons.
Internal collaboration forums where multifunctional teams design and prototype digital solutions that will benefit our customers or team members. In 2016, Wells Fargo implemented its first Accessibility Hackathon in which winners produced insightful recommendations and solutions to improve accessibility for tracking time in the workplace for team members who have low vision or are blind.

Leading the way to change

We are constantly looking ahead, exploring big ideas with innovators outside the company to help us shape future customer experiences. With Wells Fargo Startup Accelerator, we collaborate with early-stage companies and help them refine their potential breakthrough technologies for financial services and other applications. Since 2014, the program has received more than 2,400 applications from companies in more than 90 countries and now has 21 companies in its portfolio.

In addition, Wells Fargo Digital Labs — a team of product strategists, designers, and developers — researches and advances forward-thinking ideas to benefit customers. The team uses a test-and-learn model to explore new technologies and decide how the technologies might improve banking in the future. Ultimately, the goal is to make our customers' financial lives easier and better.

We also are making significant investments in new and emerging technologies that will help enable future experiences for customers and team members. Here are some examples:

- Artificial intelligence is becoming the "brain" of our experiences, automation, and fraud management.
- Advanced authentication makes security simpler and stronger and eliminates the need for knowledge-based authentication.
- Application Program Interfaces, or APIs, enable us to deploy Wells Fargo services in external environments and integrate third-party services in our environments.
- Robotics and process automation increase the efficiency of our back-end operations, eliminate redundant tasks for team members, and create more seamless experiences for customers.
- Our next-generation data infrastructure helps design services around customers' needs and behaviors.

We are constantly looking ahead, exploring big ideas with innovators outside the company to help us shape future customer experiences.

Innovative *Control Tower* provides a single view of your 'digital financial footprint'

Wells Fargo is innovating to deliver customer experiences that simplify personal finance. One way we're harnessing technology to rebuild trust is *Control Tower* — a single view of a customer's "digital financial footprint" that shows places their Wells Fargo card or account information is connected (such as recurring payments, third parties, and mobile wallets).

Wells Fargo's Virtual Channels team developed *Control Tower* based on feedback from customers. As consumers have discovered the convenience of online and mobile financial services, their digital lives have become increasingly complex, with payment information stored in numerous places, creating disorganization and potential financial discord.

By integrating a more comprehensive view of where their Wells Fargo cards and accounts are linked, *Control Tower* organizes customers' scattered financial information and enables them to more easily manage their personal finances from one single and secure place. In the future, the plan for this new experience is to provide customers control over which devices, apps, and companies have access to their account information via one central place inside the *Wells Fargo Mobile*® app — providing a convenient and secure place to manage their accounts and perform banking transactions. This will ultimately help customers understand and have greater control over where their Wells Fargo account data is shared.

A key tenet of Wells Fargo's innovation strategy is to provide new experiences, not for the sake of innovation but to improve our customers' lives. With the launch of *Control Tower*, we look forward to providing customers a new and improved digital experience that helps them succeed financially.

CONTROL TOWER

- Allows customers to turn Wells Fargo cards on or off, in one central place.
- Lets customers view recurring payments to their accounts.
- Reinforces our strategy to provide customers a seamless, comprehensive mobile payments and banking experience in a cluttered digital world.
- Launched to all Wells Fargo customers in fall 2018.

4. Risk management

While working to set a global standard in managing all forms of risk, we want to serve customers' needs and protect their assets, information, and privacy. The Board and senior executives are committed to delivering a risk management program that meets all stakeholders' expectations. This, coupled with the need to respond to the fluidity of the environment in which we operate, helps ensure that change and transformation are the risk management program's "new normal."

We have had a very strong record of managing market and credit risk. However, we have not always executed as well in compliance and operational risk, which contributed to our challenges in retail banking, mortgage, and auto lending. We have done a great deal of work to strengthen our compliance and operational risk since the sales practices issues, and we continue to refine and build upon this work in connection with outstanding consent orders with regulators.

We continuously monitor the environment and interact with regulators to identify new and emerging matters that impact our risk management program. We recognize that effective transformation and change management requires the active engagement and support of all our team members, senior management, and the Board.

Here are several ways we've transformed our risk management capabilities:

- As we have strengthened our risk management function, we identified specific talent needs and hired more than 3,200 team members from outside the company between 2016 and 2018, including a Chief Risk Officer, Chief Compliance Officer, and head of Regulatory Relations (a new position).
- In March 2018, we announced changes to how we organize ourselves to manage risk across our three lines of defense to help ensure our lines of business have the appropriate structure to understand and manage their risk and to provide clear stature and authority for our independent risk management function.
- In September 2018, we introduced an updated and expanded risk management framework, a foundational document detailing the company's revised approach to achieving a global standard in risk management. It defines how the company manages risk in a comprehensive, interconnected, and consistent manner.

The Board also has strengthened its oversight of risk management, including making the following changes to its Risk Committee: reconstituting the committee to include additional members with experience identifying, assessing, and managing risk exposure of large financial companies, consolidating oversight of Corporate Risk and companywide risk management activities under the committee, and forming two subcommittees to focus on compliance and technology risks (page 51).

We've also enhanced our reporting to the Operating Committee and the Board. For example, members of the Operating Committee receive weekly reporting on concerns team members bring to the attention of executives and Board members, as well as a monthly dashboard that includes analysis and commentary related to customer complaints. The company created a Conduct Scorecard that drives regular discussions with executives around conduct-related activity within their business and across the company. We also provide regular reporting to the Board on conduct, team member allegations, and customer complaint activity and trends.

All team members have a responsibility for managing risk, and we reinforce that expectation through ongoing communications and training, including our Code of Ethics and Business Conduct training (page 21) that all team members complete annually. The training provides interactive activities and guides team members through situations they may encounter. We extend learning beyond the annual course through videos, articles, discussion guides, and on-demand resources to help team members identify activities that may present a conflict and make the right choice when faced with an ethical dilemma.

The annual training and online resources include guidance for managers on their responsibilities to foster a safe, ethical environment where team members feel comfortable raising concerns and holding themselves and their teams responsible for achieving business results in alignment with the company's Vision, Values & Goals.

We have undertaken multiple transformative risk initiatives, including work related to our risk target operating state, compliance, operational risk, and regulatory consent orders. Collectively, these initiatives and other activities will result in a stronger and more integrated risk management program.

CASE STUDY: TAKING ACTION ON WHAT WE LEARNED

New Complaints Management model to provide greater clarity and an integrated view

Providing a consistent, simple, and timely experience is especially critical when Wells Fargo customers are dissatisfied with us or with one of our products or services. So we are moving to create a new operating model for complaints management across the company.

The new model includes deploying a Complaints Management Platform, which is now under development, and a newly designed customer complaints process to provide a more integrated view of customer complaints and a more consistent way of resolving customer issues. It also is designed to create stronger ties between front line operations and Independent Risk Management to help ensure consistent adherence to the Complaints Policy and the escalation of high-risk complaints.

We are developing processes and systems to help ensure that, regardless of where at Wells Fargo a complaint is raised, the complaint is both visible and handled consistently. For example, customers will be able to call our toll-free phone number with a complaint and later follow up at a bank branch — seamlessly.

Defining the interconnected functions

One feature of the model will be administration of the enterprise complaint process. The idea is to support individual complaint-handling resolution groups and complaint executive offices in facilitating consistency and effective implementation of complaint management processes. The model also will rely on strong connections and transparency among our three lines of defense: each business's front line, Independent Risk Management, and Audit Services:

- **Front line.** Perform day-to-day intake, distribution, research, escalation, and resolution of complaints — and also facilitate data analysis and reporting.
- **Independent Risk Management.** Provide complaints oversight and establish and oversee central policy standards, requirements, and adherence to the enterprise complaints program.
- **Audit Services.** Evaluate and validate the effectiveness of the complaint management processes across the front line and Independent Risk Management.

ENSURING CONSISTENCY IN HANDLING CUSTOMER COMPLAINTS

WHAT We are developing a new Enterprise Complaints Management model.

WHY To improve consistency in the handling of customer complaints across businesses and improve issues resolution, reporting, root cause analysis, and corrective action.

RESULT The model currently is in development with expected rollout to begin in fourth quarter 2015.

These separate and clearly defined functions will work to create, oversee, and validate an integrated complaints management platform designed to deliver a consistent and improved customer experience for all of our customers.

Improved data/analytics and reporting

We continue to enhance our reporting and root-cause analytics to provide our executives, Board members, and line of business leaders with more insights into customer complaints, including the identification and escalation of emerging issues or heightened risk. The enhancements include a monthly dashboard that provides the CEO and Operating Committee summary data, including commentary on trends, as well as regular reporting to the Board's Risk Committee of customer complaints across the company.

We are in the process of building new capabilities, including speech and natural language artificial intelligence, to assist in the analysis of root causes and management of complaints. The new capabilities also will assist team members in resolving complaints by putting information at their fingertips to better serve customers.

5. Corporate citizenship

Our goal is to be the financial services leader in corporate citizenship by making positive contributions to every community we serve — through our products and services, operations and culture, and our many forms of philanthropy. We know our long-term success is directly linked to the success of our customers and the communities we serve. A strong, thriving economy is good for our communities, our business, and our shareholders.

As a global financial services company, we understand our role as a community partner and the positive impact we can have on society, local and global economies, and the environment. We also acknowledge our responsibility to minimize environmental and social risks as a result of our actions and those of our customers and partners. We are building from a strong foundation of success: We have a long history of investing in our team members, our communities, and sustainable business operations, yet we know that we have more work to do.

Our corporate social responsibility (CSR) priorities and goals

Three strategic priorities guide our work:

Diversity and social inclusion. Help ensure that all people feel valued and respected and have equal access to resources, services, products, and opportunities to succeed.

Economic empowerment. Strengthen financial self-sufficiency and economic opportunities in underserved communities.

Environmental sustainability. Accelerate the transition to a low-carbon economy and help reduce the impacts of climate change.

The Corporate Responsibility Committee of our Board of Directors has primary oversight for the company's policies, programs, and strategies regarding significant CSR matters, including human rights, environmental sustainability, community reinvestment, and supplier diversity. For each of our CSR priority areas, we established long-range goals to further integrate corporate responsibility across our products and services, business practices and culture, and philanthropy. And we assess our progress through a set of quantitative and qualitative key performance indicators. For example, in 2017, we:

- Exceeded our 45 percent carbon-reduction goal three years ahead of schedule.
- Met 100 percent of our global electricity needs with renewable energy.
- Spent 11.4 percent of our controllable procurement budget with diverse suppliers, and continue making progress toward achieving 15 percent of our procurement spend with diverse suppliers by 2020.

In addition, from 2015 through 2017, we built or improved 1,000 homes for low-income seniors, veterans, and families and provided $55 million in grants and capital to grow diverse small businesses.

Evolving our CSR priorities through stakeholder engagement

We took steps in 2017 to refresh our CSR priorities in light of changes to our business, new Board and executive leadership, and additional stakeholder feedback on current and emerging social, economic, and environmental trends.

To prioritize topics that are most relevant to our company and to our stakeholders, we conducted our third CSR materiality assessment since 2009. Our evaluation included a review of global standards, including the Global Reporting Initiative, the United Nations Sustainable Development Goals, the Sustainability Accounting Standards Board, and the Taskforce on Climate-related Financial Disclosures. We conducted a series of interviews with a diverse mix of internal and external stakeholders, including our Stakeholder Advisory Council (page 92). The results validated our existing priorities mentioned above, which will continue to drive our CSR strategy.

The assessment also highlighted issues that have increased in importance to our company and to our stakeholders, including ethical practices and culture, corporate governance, human rights, and climate change risk management. These topics are addressed in this report, and we are also working to integrate these findings into our overall CSR strategy and goals.

Re-imagining corporate philanthropy

Philanthropy plays a critical role in our CSR efforts, and today we are proud to be recognized as the No. 2 corporate cash giver in the U.S. and the top financial institution in overall giving, according to a ranking by *The Chronicle of Philanthropy* based on 2017 data. That said, we intend to do more to increase economic opportunities in low-income and underserved communities.

In December 2017, we announced a plan to target $400 million in donations to nonprofits and community organizations in 2018 — an increase of approximately 40 percent from 2017. We exceeded our target, donating more than $440 million to communities in 2018. Part of being a leader is to lead by example, so beginning in 2019, we will target 2 percent of our after-tax profits for corporate philanthropy, and we are encouraging other U.S. businesses to follow suit. As a result of our increased philanthropy, we are undergoing efforts to assess and enhance the structure of the Wells Fargo Foundation, including its governance, processes, and measurement tools to ensure we are making a meaningful impact.

Understanding and managing environmental and social issues associated with financing certain industries

Wells Fargo's commitment to strong environmental and social risk management (ESRM) supports both our companywide goal to be a leader in corporate citizenship and our work to continue rebuilding trust with our stakeholders.

We also recognize that business decisions made by our company or by our wholesale customers can have adverse impacts on communities and the environment. Our corporate ESRM framework establishes the methodology, expectations, and requirements for understanding, assessing, and considering environmental and social risks associated with our lending and investments (page 43). The framework has been incorporated into our credit, project-finance, investment banking, securities, and consumer finance risk policies and procedures. We update the framework as our understanding of environmental and social risks evolves, and we seek to adhere to global best practices with regard to managing environmental and social risk.

Our ESRM team, which is part of the Sustainability and Corporate Responsibility group in Stakeholder Relations, helps identify and perform due diligence on sectors and transactions that have elevated reputation and business risk because of environmental or social factors.

In 2018, more than 400 transactions were subject to ESRM enhanced due diligence requirements. On average, about 5 percent of the transactions reviewed annually by the ESRM team receive a high ESRM risk rating and are escalated for discussion and determination. The ESRM team also works with customers to consult on ESRM best practices and help customers understand our requirements and our commitment to responsible lending as well as current and emerging best practices for managing the risks in their industry. In addition, the ESRM team conducts a quarterly portfolio review to identify all in-scope relationships that require due diligence to ensure compliance with the ESRM policy.

Wells Fargo will seek opportunities to reduce or exit existing customer relationships or refrain from entering new relationships based on our ESRM due diligence, which considers ethical, environmental, social, financial, and other factors. For example, we are no longer increasing our credit exposure to coal mining companies or doing business with companies involved in mountaintop removal. In addition, our credit exposure to private prison companies has significantly decreased and is expected to continue to decline, and we are not actively marketing to that sector.

Education and awareness-building is critically important to environmentally and socially responsible banking. We provide training on environmental and social risk management and implement programs for team members who work with industries covered by our ESRM policy. In addition, in Wholesale Banking, we provide training that addresses environmental and social issues, including respect for human rights and the importance of climate change.

Transparency and reporting

We are committed to being transparent with key stakeholders about our progress and performance in the ways we integrate CSR and responsible growth into all we do. We provide updates on our progress to key stakeholders through our annual CSR report, which is available on the Goals and Reporting page of wellsfargo.com. Our most recent CSR report, published in Spring 2018, was prepared in accordance with global standards for CSR reporting.

In addition, we communicate on an ongoing basis about significant milestones, and other CSR matters, through channels such as wellsfargo.com, Wells Fargo Stories, ongoing ESRM reporting, and the Environmental, Social, and Governance Guide.

Wells Fargo's ESRM risk due diligence process

For new transactions or annual renewals of transactions in Wells Fargo's Wholesale Banking business, including project-finance, investment banking, securities, and credit transactions.

Step

1

Determine if the transaction requires ESRM risk due diligence. Transactions related to any of the following are subject to the ESRM review:

- **Involve certain industries**
  - *Oil and gas operations*
  - *Coal and metal mining*
  - *Arms and armaments*
  - *Consumer finance companies*
- **Potentially impact Indigenous Peoples**
- **Are covered by the Equator Principles framework**
- **Represent elevated reputation or human rights risks such as private prisons, manufacturing, forestry, and chemicals**

2

The ESRM team performs a detailed risk assessment:

- Analyzes publicly available information about the customer, industry, and transaction
- Examines third-party assessments on environmental and social (including human rights) risks related to the customer or transaction
- Engages in direct dialogue with the customer and other stakeholders as appropriate

3

Based on the risk assessment, the ESRM team assigns an environmental and social risk rating: low risk, medium-low risk, medium risk, medium-high risk, or high risk

Low, medium-low, and medium risk rating:

- Transaction may move forward

Medium and medium-high risk rating:

- Transaction may move forward
- Transaction is placed on a corporate "watch list"
- Relationship Managers notify the ESRM team of any significant event or change in the risk profile of the client or transaction

High risk rating:

- Transaction is escalated to senior management for discussion and determination

Advancing environmental sustainability

We are working diligently through our lines of business, in our operations, and with stakeholders from the private and public sectors to help accelerate the transition to a low-carbon economy and reduce the impacts of climate change. Part of our strategy is to build sustainability more deeply into our business and operations. We also focus on advancing cleaner technologies and improving air and water quality around the world.

We support the principles of the Paris Climate Agreement, and we follow industry best practices in sustainability. We actively engage with the U.S. Green Building Council, eStewards, and the Climate Group's RE100. To help guide responsible financing in our lines of business, we are signatories of the Equator Principles, Green Bond Principles, and the UN Principles for Responsible Investing. We report annually on our risks and opportunities associated with climate change via CDP and in other disclosures available in our Environmental, Social, and Governance Guide on wellsfargo.com, and we have pledged to begin incorporating Taskforce on Climate-related Financial Disclosure recommendations in 2019.

Operational sustainability
We continue to make our operational footprint more sustainable, including reducing our real estate portfolio by more than 20 percent over the past 10 years to approximately 90 million square feet. In 2017, we began meeting 100 percent of our global electricity needs with renewable energy through the purchase of more than 2 million MWh of 2017 vintage Renewable Energy Certificates to supplement our own on-site solar generation. We are now working to meet the second part of our 2020 renewable energy goal, which is to transition to long-term contracts that fund new sources of green energy and significantly scale our onsite generation program.

Environmental financing
As one of the largest financers of renewable energy and clean technology, we are committed to supporting product innovation and new growth in these sectors. Since 2012, we have financed more than $82 billion in sustainable businesses and projects. In 2018, we announced a goal to provide $200 billion in sustainable financing by 2030, with more than 50 percent focused on renewable energy and clean technology (page 81).

SUSTAINABILITY GOALS BY THE NUMBERS

Since 2008, Wells Fargo:

- Reduced greenhouse gas emissions by 47 percent, meeting our 2020 carbon-reduction goal three years ahead of schedule.
- Achieved LEED certification across 28 percent of our total square footage in leased and owned buildings.
- Reduced water consumption by 59 percent, energy consumption by 36 percent, and waste stream by 33 percent.

Investing in a cleaner and more resilient future
Launched in 2014 with an initial $10 million commitment by the Wells Fargo Foundation, and expanded in 2017, the Wells Fargo Innovation Incubator is a $30 million philanthropic program supporting clean technologies focused on commercial buildings. The program, co-administered by the U.S. Department of Energy's National Renewable Energy Laboratory, gives certain technologies the opportunity to beta test within Wells Fargo's operations on their way to the commercial marketplace.

In addition, over the past 10 years we've been working with GRID Alternatives, the largest U.S. nonprofit solar developer, to bring solar power and job training to disadvantaged communities. In 2018, we co-founded the Tribal Solar Accelerator Fund with a $5 million commitment over three years to support solar energy projects and expand solar job opportunities on tribal lands.

Support for communities when disaster strikes

There's nothing like personal contact — a handshake, smile, and reassuring voice — in times of crisis. The Wells Fargo Mobile Response Unit and the Customer Assistance Recovery Effort (CARE) team help Wells Fargo deliver that personal contact and hands-on support when disaster impacts a community.

The Mobile Response Unit — a 75-foot, heavy-duty commercial vehicle based in Winston-Salem, North Carolina — is deployed during a disaster to take banking services directly to customers. Powered by self-contained generators, the unit has private offices and is equipped with computers and a cellular data feed with satellite backup. Specialized CARE team members on board are prepared to provide in-person assistance.

Since Hurricane Sandy in 2012, the Mobile Response Unit and CARE team have been deployed 23 times after tornadoes, hurricanes, wildfires, and other disasters — allowing 567 Wells Fargo team members to deliver disaster relief to more than 9,850 customers in their time of need.

Customer assistance options
Wells Fargo also takes steps to help customers and communities manage the task of rebuilding by reducing the worry associated with banking during times of crisis. For example, depending on the severity of the disaster, Wells Fargo will reverse late fees for our lending products — including credit cards, auto loans, personal loans, and lines of credit. We also may waive fees for customers using non-Wells Fargo ATMs. Ninety-day relief periods — during which payments, collections, negative credit reporting, and more are suspended — also may be available to customers in impacted areas.

Support for national and local relief efforts
In addition to mobilizing our team and supporting the banking needs of our customers, Wells Fargo supports broader relief efforts through a variety of means. In 2018 alone, we donated nearly $10 million in support of disaster relief, with half of the funds going to the American Red Cross for immediate needs and half distributed to local nonprofits to aid with recovery.

Taking care of our team
A top priority in any disaster is ensuring the safety and well-being of Wells Fargo team members. Our Employee Assistance Consulting group works to help them recover, including providing immediate emergency support, emotional counseling, and links to government aid. In addition, our own internal WE Care Fund grants emergency aid to team members facing disasters and other severe financial hardships. The employee relief program is funded by the Wells Fargo Foundation and team members who want to help colleagues in need.

Team member volunteerism
Our team members also engage directly in disaster relief efforts. With the human toll from Hurricane Harvey growing by the minute, for example, Chase McKinney of Wells Fargo Auto became a citizen rescuer using his own boat. McKinney and two friends rescued 124 people from rising waters in Houston and another 22 in nearby Port Arthur, Texas. From sending care packages to American Red Cross relief workers to collecting nonperishable food for local food banks, the generosity of Wells Fargo team members helps communities rebuild.

Making a difference amid challenging times
We believe the work we do to help our customers succeed financially makes a difference every day. But we also recognize the opportunity to be at our best during the most challenging times. Being there to provide support to those that need it most is at the core of who we are as a company.

Customer Neal Williams, who visited the Mobile Response Unit after losing his home in Hurricane Florence, said, "For companies like Wells Fargo to actually show up and be here on ground zero with us face-to-face shows it's from the heart. That means everything."

DISASTER RELIEF BY THE NUMBERS

In 2018, Wells Fargo provided:

- $9.7 million in donations to assist communities with relief efforts.
- $34 million in fee waivers to impacted customers.
- $6 million in donations to the WE Care Fund to assist team members.

6. Shareholder value

Our goal to create long-term shareholder value is last on our list because each of the other five goals contributes to it. We recognize that investors have placed trust in Wells Fargo, and we are focused on managing the company to achieve long-term value through a diversified business model, strong risk discipline, efficient execution, a solid balance sheet, and a world-class team.

Our diversified business model has enabled us to perform well through a variety of interest rate and economic cycles. We have industry-leading distribution, both physical and digital, and we serve more communities than any other bank in the U.S. We have a large customer base — serving one in three U.S. households — and an outstanding team dedicated and committed to caring for our customers and communities.

We have a valuable deposit franchise with $1.3 trillion in deposits as of Dec. 31, 2018, and we offer a broad product set at scale. We have strong credit discipline that has enabled us to perform well through numerous credit cycles. These strengths have enabled us to deliver consistent returns and build a strong capital position — and we remain focused on returning more capital to shareholders.

In June 2018, Wells Fargo received from the Federal Reserve a non-objection to our 2018 Capital Plan submission. The plan provides us the ability to increase our common stock dividend, subject to approval by the Board, and to repurchase up to $24.5 billion of gross common stock for the four-quarter period from third quarter 2018 through second quarter 2019. The shareholder returns included in the capital plan are approximately 70 percent higher than our previous four-quarter capital actions. In January 2019, the company increased its quarterly common stock dividend to 45 cents per share, as approved by the Board.

We are focused on becoming more efficient and effective and are making transformational changes to meet customers' evolving financial needs and improve operational excellence. This work includes simplifying operations, leveraging digital automation, divesting non-core businesses, and continuing to be more streamlined and efficient (page 47). The goal of these efforts is to build on our strong foundation to become even more customer focused, innovative, and better positioned for the future.

We recognize that investors have placed trust in Wells Fargo, and we are focused on managing the company to achieve long-term value.

Efficiency and effectiveness help us become more consistent

Simplifying our business offerings and efficiently serving customers are key to carrying out our customer-centric strategy to build a better Wells Fargo. Our efficiency and effectiveness work is focused on three areas: realigning our functional model, reimagining our work in the most efficient and effective way, and reinvesting portions of the efficiencies gained to help strengthen Wells Fargo.

Realigning
Our stakeholders expect us to manage expenses prudently and operate in the most efficient way. Among the initiatives we've implemented:

- **Centralization and optimization.** We've centralized enterprise functions such as Human Resources, Finance, and Marketing and aligned "like work" such as project management into Centers of Excellence. These efforts have resulted in greater standardization, more collaboration, and the elimination of redundancies.
- **Running the business.** We've realigned businesses to more efficiently serve customers and leverage digital automation, workforce location strategies, and buying power to drive continuous improvement.
- **Governance/controls.** We've developed guidelines and enhanced enforcement of controls and policies to drive down cost in key areas, such as travel, entertainment, and consulting.

Reimagining
Centralizing the organization created a clear line of sight into opportunities to reorganize how we do work in a way that creates long-term sustainability. Efforts include eliminating redundancies and lower value work, leveraging best practices, consolidating and streamlining processes, automating process at scale, rationalizing tools, and optimizing workforce locations.

Reinvesting
As we become more efficient and effective, we continue to reinvest in technology and innovation such as cybersecurity and data modernization to help us be more productive, responsive, and consistent in delivering exceptional customer experiences.

Wells Fargo also looks for opportunities to simplify and streamline business activities by exiting certain businesses and products that are considered to be non-core, lack scale, or do not align with our strategy. In the past two years, we have divested more than 10 businesses, including Health Benefits Services, Wells Fargo Insurance, and Shareowner Services. These opportunities enable us to be even more customer-focused in our core businesses.

V.

Leadership and corporate governance

The Board is committed to sound and effective corporate governance principles and practices. This commitment encompasses ongoing evaluation and improvement of the Board's oversight and governance practices and meeting the expectations of our regulators, including satisfying the requirements of the consent order we entered into with the Board of Governors of the Federal Reserve System on Feb. 2, 2018.

The Board has adopted Corporate Governance Guidelines to provide the framework for governance of the Board and the company. These guidelines address, among other matters, the role of the Board, membership criteria, director retirement and resignation policies, director independence standards, and information about Board committees and other policies and procedures, including the majority vote standard for directors, management succession planning, the Board's leadership structure, and director compensation.

The Board's Governance and Nominating Committee assists the Board in reviewing its Corporate Governance Guidelines annually as part of the Board's self-evaluation process. In addition, as reflected in its charter, the Governance and Nominating Committee assists the Board by identifying individuals qualified to become Board members and reviews and recommends to the Board nominees for director and Board committee leadership and membership. The Governance and Nominating Committee also regularly reviews Board committee oversight responsibilities and recommends changes to the Board for approval.

The Board recognizes that it must continue to strengthen and enhance its governance oversight. To support these efforts, the Board made significant changes to its composition, reconstituted several Board committees, amended committee charters to enhance risk oversight, and continued to work with senior management to improve the reporting and analysis provided to the Board. Many of these changes were informed by the Board's rigorous self-examination, which was facilitated by a third party in 2017, and reflected the feedback received from investors and other stakeholders.

The Board made significant changes to its composition, reconstituted several Board committees, amended committee charters to enhance risk oversight, and continued to work with senior management to improve the reporting and analysis provided to the Board.

Corporate governance framework

In February 2018, the Board amended its Corporate Governance Guidelines to more fully articulate the role of the Board and work it is doing to enhance governance and oversight practices. The following are fundamental aspects of the Board's governance framework:

Board Oversight of Strategic Plan, Risk Tolerance, and Financial Performance

- Reviewing, monitoring, and — where appropriate — approving the company's strategic plans, risk tolerance, risk management framework, and financial performance, including reviewing and monitoring whether the strategic plans and risk tolerance are clear and aligned and include a long-term perspective on risks and rewards that is consistent with the capacity of the company's risk management framework.

Board Composition, Governance Structure, and Practices

- Maintaining a Board composition, governance structure, and practices that support the company's risk profile, risk tolerance, and strategic plans, including having directors with diverse skills, knowledge, experience, and perspectives, and engaging in an annual self-evaluation process of the Board and its committees.

CEO and Other Senior Management Succession Planning and Performance

- Selecting, and engaging in succession planning for, the company's CEO and, as appropriate, other members of senior management.
- Monitoring and evaluating the performance of senior management, and holding senior management accountable for implementing the company's strategic plans and risk tolerance and maintaining the company's risk management and control framework.
- Monitoring and evaluating the alignment of the compensation of senior management with the company's compensation principles.

Board Oversight of Integrity and Reputation

- Supporting the stature and independence of the company's independent risk management (including compliance), legal, and internal audit functions.
- Reinforcing a culture of ethics, compliance, and risk management, and overseeing the processes adopted by senior management for maintaining the integrity and reputation of the company.

Board Reporting and Accountability

- Working in consultation with management in setting the Board and committee meeting agendas and schedules.
- Managing and evaluating the information flow to the Board to facilitate the Board's ability to make sound, well-informed decisions by taking into account risk and opportunities and to facilitate its oversight of senior management.

Board oversight

The business of Wells Fargo is managed under the direction and oversight of its Board. The Board carries out its oversight responsibilities directly and through the work of its committees. The Board delegates the conduct of business to the company's officers, managers, and employees under the direction of the CEO. The company's business activities are led by the management-level Operating Committee (composed of direct reports to the CEO, including the Chief Risk Officer and Chief Auditor, who report administratively to the CEO and functionally to the Board's Risk Committee and Audit and Examination Committee, respectively).

Board committees

The Board's committees report to the full Board and are currently composed solely of independent directors. Each Board committee has defined authorities and responsibilities for considering a specific set of risk issues, as outlined in its charter, and works closely with management to understand and oversee our company's key risks. A current copy of each committee's charter is available on our website, https://www.wellsfargo.com/about/corporate/governance.

The Board has established seven standing committees: Audit and Examination; Corporate Responsibility; Credit; Finance; Governance and Nominating; Human Resources; and Risk. The committees act on behalf of the Board. The Board appoints the members and chair of each committee based on the recommendation of the Governance and Nominating Committee.

The Risk Committee oversees companywide risks. The Board's other standing committees also have primary oversight responsibility for certain specific risk matters. The full Board receives reports at each of its meetings from the Board committee chairs about committee activities, including risk oversight matters, and the Risk Committee receives regular reporting regarding current or emerging risk matters in addition to other risk reporting.

Independent Board leadership

In 2016, the Board separated the roles of Board Chair and CEO of the company and elected an independent Board Chair. Taking into account feedback received from the company's investors, the Board also amended the company's bylaws to require that the chair be an independent director. Effective Jan. 1, 2018, the Board elected Betsy Duke, former member of the Federal Reserve Board of Governors, as independent chair. The Board believes that having strong independent board leadership in the form of an independent chair provides enhanced independent leadership and oversight for the company and the Board. In addition to an independent chair, the Board has a significant majority of independent directors, as well as independent Board committees.

Board refreshment

In recent years, the Board's succession planning focused primarily on the composition of the Board and its committees, upcoming retirements under our director retirement policy, succession plans for committee chairs, our commitment to Board diversity, and recruiting strategies for adding new directors. In its succession planning, the Board and the Governance and Nominating Committee consider the results of the Board's annual self-evaluation, as well as other appropriate information, including the types of skills and experience desirable for future Board members and the needs of the Board and its committees at the time in light of the company's strategy and risk profile.

The Governance and Nominating Committee is responsible for leading the director nomination process, which includes identifying, evaluating, and recommending candidates for election as new directors. The director nomination process includes annual evaluation of Board composition as part of the Board's succession planning; identification of a diverse pool of candidates using multiple sources; evaluation and assessment of and meetings with potential candidates; and recommendation of a potential director to the Board for approval.

The Board's refreshment actions over the past two years reflect a thoughtful and deliberate process that was informed by our company's engagement with shareholders and other stakeholders as well as the Board's annual self-evaluation and director nomination processes; the actions also maintained an appropriate balance of new perspectives and experience on the Board.

The Board elected six independent directors in 2017 and one independent director in 2019 who bring relevant experience consistent with our strategy and risk profile, including financial services, risk management, technology, human capital management, client services, business operations and process, consumer and retail marketing, finance and accounting, corporate responsibility, and regulatory experience. In addition, the Board continues to focus on the importance of maintaining Board diversity. As of Jan. 15, 2019, more than half of the members of our Board are women and/or ethnically diverse.

Board committee structure

The Board has made significant changes to Board composition, reconstituted several Board committees, and amended committee charters to sharpen the focus of, and reduce duplication of, risk oversight. The changes were intended to allocate risk oversight responsibilities more effectively among Board committees to provide greater clarity for oversight accountability, increased visibility into management's performance addressing issues, and avoid duplication of efforts. Key changes made to committee risk oversight responsibilities include:

Risk Committee. The oversight of Corporate Risk and companywide risk management activities, including compliance risk, operational risk, and information security risk, was consolidated under the Risk Committee. Previously, certain of those risks were overseen by the Board's Audit and Examination Committee. Oversight of complaints and complaints management also was moved to the Risk Committee. Additionally, the Board and the Risk Committee recognized the need for more focused oversight of compliance and technology risks and in November 2017 formed two subcommittees:

- Compliance Subcommittee, to which the Risk Committee delegated its oversight of compliance risk, including approval of the company's annual compliance plan and monitoring the progress of the company's compliance implementation plan.
- Technology Subcommittee, to which the Risk Committee delegated its oversight of technology risk, information security (including cyber) risk, and data management risk.

Risk Expertise under Federal Reserve Standards

Four of seven directors on the Board's Risk Committee meet the Federal Reserve Board's risk management expertise standards.

Governance and Nominating Committee. This committee, along with the Corporate Responsibility Committee, has overseen the preparation of this business standards review and report in addition to its other oversight responsibilities.

Human Resources Committee. This committee's enhanced oversight responsibilities include human capital management, culture, and ethics. The Human Resources Committee continues to oversee Wells Fargo's incentive compensation risk management program, which was expanded to include a broader population of team members and incentive plans.

Finance Committee. The oversight of resolution and recovery planning was consolidated under the Finance Committee.

In addition, the Board reconstituted the membership of key committees, including the Risk Committee, Governance and Nominating Committee, and Human Resources Committee. For example, the Risk Committee previously was composed of the chairs of each of the Board's standing committees and was intended to provide coordinated coverage of all of the company's key risks without unnecessary duplication; however, that structure did not promote refreshment of the Risk Committee's membership. The reconstituted Risk Committee includes additional members with experience identifying, assessing, and managing risk exposures of large financial companies as provided in the Federal Reserve's Enhanced Prudential Standards for large U.S. bank holding companies. In addition, other members of the Risk Committee bring additional risk management experience in specific areas, including financial reporting and technology/cybersecurity.

Information flow and reporting to the Board

In addition to enhancing its corporate governance framework, the Board has made substantial enhancements to information flow and escalation of matters to the Board as well as the reporting and analysis provided by senior management. Board members continue to engage frequently with members of management outside of Board meetings to discuss, receive updates on, and learn more about the company's business, key risks, strategic direction, and performance, as well as the industry as a whole. The Board Chair and committee chairs are particularly focused on agenda planning for Board and committee meetings.

Agenda and meeting planning processes. The Board Chair and the committee chairs are focused on setting and prioritizing Board and committee meeting agendas. The Board Chair actively manages Board agendas to provide sufficient time for key business, strategy, risk, culture, and other discussions, and additional time for Board focus on strategic planning, risk appetite alignment, and talent planning. In addition, the Board has made changes to its meeting schedule, including to increase the length of regularly scheduled meetings, hold more in-person meetings, and provide sufficient time for executive sessions with the CEO, Chief Financial Officer, and General Counsel.

Feedback on Board and committee meeting materials. Board members provide regular feedback to management during and in between Board and committee meetings on the form, usefulness, and quality of meeting materials. In addition, the Board provided specific feedback to management following the Board's 2017 self-evaluation on needs to streamline Board materials and enhance the quality and use of meeting highlights summaries, executive summaries, dashboards, and plans with specific milestones and accountability to facilitate the Board's review and focus on key issues and monitoring of progress.

Enhancements to systems and management reporting capabilities. Fundamental to the Board's ability to receive the right information are changes Wells Fargo is making to its organizational structure, including to centralize enterprise functions such as Risk (including Compliance), Human Resources, and Finance, and to invest in technology and data capabilities to enhance management's ability to identify, assess, escalate, and report matters to the Board. The Board has set clear expectations for management that as issues are identified, they will be promptly escalated and reported to the Board and regulators.

Other interactions with members of management between meetings. Our directors regularly participate in calls and "deep dives" with management on particular matters, such as technology and cybersecurity.

Communications among Board members. The Board Chair and the committee chairs meet and speak regularly with each other and with members of management between Board and committee meetings, including to discuss meeting agenda planning, recent developments, escalated matters, and progress on key initiatives.

Meetings with customers. Directors meet with customers in several ways, including through organized events, branch or other office site visits, and during personal visits to bank branches.

Weekly updates on press coverage and current developments. Directors receive weekly or more frequent updates, as appropriate, on press coverage of the company and current events that relate to our business.

CASE STUDY: TAKING ACTION ON WHAT WE LEARNED

Board self-evaluation process: Comprehensive and annual

Each year, Wells Fargo's Board of Directors conducts a comprehensive self-evaluation to assess its own effectiveness, review governance practices, and identify areas for enhancement. The Board's annual self-evaluation also is a key component of its director nomination process and succession planning.

The Governance and Nominating Committee, in consultation with our Board Chair, reviews and determines the overall process, scope, and content of the Board's annual self-evaluation process.

As provided in its charter, each of the Board's standing committees also conducts a separate self-evaluation process annually led by the committee chair. The Board's and each committee's self-evaluation includes a review of the Corporate Governance Guidelines and its committee charter, respectively, to consider any proposed changes.

The Governance and Nominating Committee has continued to enhance the form and scope of the Board's self-evaluation process based on director feedback, best practices, experience, and regulatory expectations. Enhancements in recent years include:

- **Use of one-on-one discussions** to obtain candid feedback from each director on the Board.
- **Evaluation of the individual contribution of each director** to the Board and its committees.
- **Additional requests for targeted feedback on specific topics,** such as culture, lessons learned, and best practices (including those observed by our directors through other board service).
- **Amendment of the Corporate Governance Guidelines in 2018** to specify, among other things, that the self-evaluations include:
  - Consideration of best practices with respect to committee refreshment and committee chair rotations in connection with the Governance and Nominating Committee's and the Board's annual review of Board member committee assignments and committee chair positions.
  - Annual assessment of the most effective format for the Board's and each committee's self-evaluation and that the Board may determine to engage a third party to facilitate the evaluation periodically.

Key components of the Board's annual self-evaluation process include:

- Review and approval of an evaluation survey form by the Governance and Nominating Committee, which is sent to each director to request feedback on various topics.
- Holding individual discussions with each director to obtain candid feedback.
- Discussing the results of the evaluation in an executive session of the Board without members of management present.
- Providing feedback from the self-evaluation to management on areas for improvement and implementing changes.

In addition, in 2018 the Board recognized the importance of conducting the Board and each committee's self-evaluations during the same time of year to coordinate consideration of the results and allow the Board to conduct a more holistic assessment of its performance and effectiveness, including relating to its work and oversight through committees.

ASSESSING BOARD EFFECTIVENESS

WHAT	The Board enhanced its self-evaluation process.
WHY	To obtain candid feedback from directors on overall Board performance and effectiveness and individual director performance and identify enhancement opportunities.
RESULT	The self-evaluation process has helped inform many of the Board's changes in recent years to improve oversight and governance practices.

VI.

Commitment to customers

Two major components of our transformation are learning from our challenges and becoming more customer-focused than ever before. These are core to our unified enterprise strategy to deliver excellent customer experiences through collaborating across business lines, simplifying our businesses and offerings, and strengthening our risk oversight and controls.

Our long-standing commitment to understand our customers' financial needs and to help them achieve their financial goals has been foundational to our business since 1852.

Our Consumer Strategy

Two learnings from our recent challenges are that — although Wells Fargo has a long history of helping customers — our focus in the past too often was product-centered, and we've had too many different strategies to serve customers. For example, we had a bank branch strategy, a mortgage strategy, an investment strategy, and so on.

In the past two years, we have evolved toward an enterprise Consumer Strategy, which looks at how we serve consumers across all of our retail business lines and products in a way that recognizes their distinct needs. As a result, we now have a single strategy for how we want to meet the needs of our customers, collaborating across businesses to provide offerings that allow customers to engage with us how, when, and where they choose. We designed our strategy based on customer research, analyzing current businesses in the context of shifting industry dynamics and reviewing competitive trends.

Our strategy is guided by what our customers tell us they want:

- Simplicity, ease, and speed.
- Transparency, security, and control.
- Relevant advice and guidance.
- Convenience and access, wherever and however they choose.
- Differentiated value that recognizes their unique needs.

Based on customer input and our research, we are pursuing a two-pronged approach to our Consumer Strategy. The first is to elevate the baseline experience for all our customers to meet their rapidly evolving expectations. Second, and building on that work, we are enhancing our focus on defined consumer segments to ensure we meet the unique needs that matter most today and over time.

Elevating the baseline experience

We are focusing on five key areas:

- Providing *relevant and personalized financial advice*, delivering guidance through an integrated experience supported with the right products and services.
- *Personalizing the transaction and borrowing experience*, empowering customers with options that are in line with their priorities and transactional needs.

- Offering ***simple and intuitive digital and cross-channel experiences*** that are consistent and centered on customer needs.
- ***Delivering timely issue resolution*** and improving our ability to prevent issues that are harmful to customers.
- Providing ***optimized offerings with transparent pricing***, ensuring product offerings are simple and customer-centric with easy-to-understand terms.

Differentiating in ways that matter to customers

All our customer segments are important — but because they have different needs, we have distinct strategies for each one.

Mass market. Our mass market drives volume and scale as the largest segment. Our priority is to elevate the overall customer experience, focusing on simple and intuitive digital experiences in all channels.

Student. Our student segment establishes a foundation for lifelong relationships, building on strong parental relationships and helping students achieve financial independence.

Emerging affluent. Our emerging affluent segment is the basis for future affluent relationships, and our focus is on offering education, guidance, and solutions to help them achieve their goals.

Affluent. Our affluent segment is an area with strong growth opportunity, consisting of customers with more complex financial needs. We emphasize providing relevant and personalized financial guidance, creating exceptional experiences regardless of channel and needs.

High net worth. Our high net worth segment is a growing population with complex, multigenerational needs. We're well positioned to meet those needs through the breadth and depth of our services.

Small business. Small businesses are the engine of U.S. economic growth. The majority of our small business customers have a personal relationship with Wells Fargo, and we want to focus on making it easier for them to manage their finances and achieve their business goals.

By understanding our customers across product lines and engaging them throughout their journey, we can anticipate their needs and proactively help them with financial decisions as they progress. We will then be in a better position to serve their needs today and in the future. For example, the needs of our student customers will grow and evolve over time — students will begin working, perhaps become homeowners, and eventually could have investment needs. In August 2018, we eliminated monthly service fees for *Teen Checking*℠ and Everyday Checking for young adults to help our younger customers transition into financially stable adults.

Expanding access to financial products and services

More than 63 million people are outside of the mainstream financial system in the U.S., which means they are relying on high-fee alternatives and are not able to access basic financial needs like savings accounts, credit cards, or even a credit score.

We work with a wide range of community organizations and government agencies to expand access to safe and affordable financial products and services and improve the financial health and capabilities of low- and moderate-income individuals and families.

For example, we are working with the Cities for Financial Empowerment Fund (CFE Fund) to help underserved communities gain quality banking access from local, regional, and national financial institutions. We've committed $2 million over four years to CFE Fund's "Bank On" program and to launch the Bank On Fellowship that will support locally-led coalitions of nonprofits, governments, and other partners to improve banking access for residents.

We also are working with the CFE Fund and other nonprofits to improve the financial capability of American families through financial counseling and coaching initiatives. In 2017, Wells Fargo donated more than $20 million to nonprofits, including the CFE Fund, National Association for Latino Community Asset Builders, Local Initiatives Support Corporation, and others, in support of financial capability programs. In addition, we collaborate with school districts, government agencies, and nonprofits in underserved communities to deliver our *Hands on Banking* financial education program (page 94).

Access to financial services

We offer a full range of fair, affordable, and responsible products and tools to help unbanked and underbanked individuals and families access the financial mainstream. For example, the *Wells Fargo Opportunity Checking*® account has given millions of customers a "second chance" to re-establish a banking relationship and access convenient tools and services that can help them manage day-to-day financial needs.

The *Wells Fargo EasyPay*® Card is a reloadable, prepaid card that offers a simple, convenient way to manage money, has no overdraft fees, and meets the Bank On National Account Standards. And we provide services like *Overdraft Rewind* and automatic zero-balance alerts (page 74) that help customers better manage their accounts and avoid fees.

Our mobile-first *Greenhouse* by Wells Fargo experience (page 72) is designed to help students and others who are new to banking, people who have several income sources, or those who are paid irregularly. Currently in pilot, the *Greenhouse* app does not allow overdrafts, so customers can't spend more than they have in their accounts.

To help create sustainable housing, our *your*First Mortgage™ product offering provides a low down payment and a closing cost credit for eligible customers who complete HUD-approved homebuyer education or counseling programs, and eliminates a number of the eligibility barriers that consumers often encounter when applying for similar product offerings. And our LIFT programs have helped thousands of consumers — especially in diverse communities — achieve homeownership through down payment assistance, homebuyer education, and other support (page 63). We also have made substantial commitments to increase homeownership in the African American and Hispanic communities (page 95).

For small businesses, the Wells Fargo Works for *Small Business*®: Diverse Community Capital program provides grants and capital to Community Development Financial Institutions serving diverse-owned businesses that may not qualify for conventional bank loans.

Our businesses

Wells Fargo operates four primary business groups:

- **Consumer Banking**
- **Payments, Virtual Solutions, and Innovation (PVSI)**
- **Wealth and Investment Management (WIM)**
- **Wholesale Banking**

Consumer Banking

Wells Fargo's Consumer Banking businesses — Community Banking, Home Lending, and Wells Fargo Auto — are at the center of our efforts to rebuild trust. In addition to unacceptable sales practices in the Community Bank, issues in our home lending and auto businesses showed a need to transform the way we serve our customers and clients.

To effect transformational change, Wells Fargo's Community Banking, Home Lending, and Wells Fargo Auto businesses were brought together at the end of 2017. The Consumer Banking organization is focused on innovating and transforming our business with the customer at the center, better enabling customers to engage with us how, when, and wherever they choose through a broad suite of financial products and services.

Community Banking serves more than 70 million consumer and small business customers through a distribution network consisting of retail branches, ATMs, and online and digital channels. In addition to offering financial products and services to consumers and small businesses through approximately 5,500 retail banking branches and more than 13,000 ATMs in 36 states and Washington, D.C., Community Banking includes teams responsible for delivering specialized support for segments of customers with unique needs.

The affluent customer segment team prepares bankers in our branch network with the knowledge and skills to understand those customers' unique needs and make appropriate introductions to partners that can serve them.

Our Personal Lending Group offers and services personal loans and lines of credit as well as private student loans. The group also maintains a robust set of free financial education tools available through wellsfargo.com.

In addition to supporting skills development for bankers in our branch network, our dedicated small business teams offer and service lending products and business payroll. A relationship management team serves larger small business clients with more complex needs. For health care practitioners interested in running their own practice, Wells Fargo Practice Finance provides specialized financing and resources to help dentists, veterinarians, physicians, and optometrists buy, equip, expand, and refinance their practices.

Supporting students at the educational institutions we serve and employees from businesses of all sizes, the Wells Fargo *At Work*℠ program is a financial education benefit offered at no cost to those clients. It provides in-person financial consultations and workshops, online training modules for all stages of life, tools for tracking spending and savings, support for company initiatives, and a comprehensive curriculum including budgeting, debt management, credit monitoring, and retirement planning tailored to the needs of each individual.

Community Banking also is responsible for developing and delivering an exceptional customer and branch experience, executing our retail banking branch distribution strategy, and advancing our Consumer Strategy through work to improve the baseline experience for all customers, as well as strategic oversight of the customer segments mentioned earlier.

Wells Fargo Home Lending is the largest home mortgage lender and servicer in the U.S., funding one of every nine loans and servicing one of every seven loans. In 2018, we helped more than 582,000 homeowners purchase or refinance their homes, and we provide mortgage servicing for more than 8 million customers.

Wells Fargo Auto is a direct and indirect vehicle finance lender offering consumers vehicle financing options and providing auto dealers the products they need to help them manage the business side of their dealerships.

We hold No. 1 positions across many consumer and small business areas, including retail deposits, debit card transaction and purchase volume, small business lending, mortgage lending and servicing, and consumer mobile banking. We are also the largest private student lender among commercial banks in the U.S. Though we're pleased to be an industry leader, our primary goal is delivering for our customers. Our market positions are an outcome of great work by team members who are committed to serving our customers.

We're proud of the work we do, but we know we can do more. And we're working hard every day to help our organization better meet the needs of our customers, communities, and other stakeholders.

Community Banking

We've come a long way in our journey of rebuilding trust and we continue to take important steps forward. We've instituted a large number of transformational changes within Community Banking to address unacceptable sales practices and become more customer-centric.

One of the first and most impactful steps we took was a necessary one: We eliminated product sales goals for retail bankers in our bank branches and call centers and changed their incentive, performance management, and recognition programs. These changes were designed to focus on the customer experience and team (rather than individual) incentives, and the programs are governed by stronger oversight and controls. But we didn't stop there. We brought in new Community Bank leadership and restructured the team, enhanced our risk oversight and controls, and invested in coaching and training for team members. All this and more gives us renewed focus on our customers and our team members. Our transformation is focused on the following areas:

Customer-centric innovation

In addition to our Consumer Strategy work to improve the customer experience, an important step on our journey to rebuild trust was to create Change for the Better (page 61). Through Change for the Better, we've made meaningful, long-term changes that are helping reshape the Wells Fargo experience for our customers, while making it easier for team members to take greater care of them. Change for the Better's overarching themes center on team member empowerment; simplified policies, processes, and tools; improved alignment and collaboration; and the development of innovative tools and strategies to better service customers.

We've introduced customer-centric activities that elevate and enhance the baseline experience for customers and reinforce with team members the importance of engaging with customers — having high-quality conversations with them to better understand their financial needs and collaborating with partners across Wells Fargo for a more holistic approach in meeting those needs.

Phase One improvements were introduced late in 2017 at Community Banking leadership conferences for more than 800 leaders. The enhancements included:

- A new fee refund protocol and a service protocol to improve the customer and team member experience, reduce risk, and provide more consistency.
- Redesigned Teller Customer Experience and Banker Customer Experience processes that provide bankers and tellers a simplified approach to having more meaningful conversations with customers.
- More concise, targeted, and meaningful "huddle meetings" for branch team members.
- Enhanced leadership activities to simplify and support a relationship-based approach to coaching.

Phase Two improvements began rolling out in the first quarter of 2018 and continued throughout the year. The improvements included:

- A new Customer Relationship View platform that provides bankers and managers with tools and resources to support proactive customer outreach and build stronger relationships with customers.
- A peer-to-peer Onboarding Partnership that's designed to promote successful integration of new team members into the Wells Fargo culture and branch community.
- A new activity management framework consisting of customer-centric activities along with guidance and training to help managers and team members have collaborative conversations to ensure team members are focused on the right activities to support customers.
- A new learning and training program that supports team members through various phases of their careers at Wells Fargo.
- A Branch Partner Strategy guide for how branch team members and partners elsewhere at Wells Fargo can work together effectively.

Enabled team member success
In January 2017, we rolled out our new Performance, Management & Rewards program to branch team members to address one of the root causes of our sales practices issues: performance management and incentive programs that drove behaviors inconsistent with our values. In alignment with our strengthened Incentive Compensation Risk Management program (page 27), the incentive compensation component of Performance, Management & Rewards puts the focus squarely on the customer experience, includes greater oversight and controls than ever before, and helps foster an engaging environment where team members feel motivated and empowered to achieve high performance while providing an exceptional customer experience.

Key incentive aspects of the new Performance, Management & Rewards program include:

No product sales goals. Retail bankers who serve customers in bank branches and call centers are instead focused on the customer experience.

Primary customer growth and feedback. A larger allocation of incentives is associated with growing primary customer relationships and obtaining direct customer feedback.

Longer-term view. Metrics in the plan take a longer-term view of customer relationships and incorporate the quality of customer experiences and customer retention.

Balance of performance. Incentive plans include a balance of team and individual performance.

Greater participation. With the elimination of product sales goals, a significantly higher percentage of team members have the opportunity to consistently earn incentive pay under the compensation plan.

Stronger oversight, governance, and risk controls. Better monitoring and controls have been put in place at the local, regional, and corporate levels to monitor behavior.

We've also invested heavily in coaching and training for team members and managers because we believe when our team members feel properly supported, engaged, and confident in their skills, they are more effective leaders and are able to provide an even better experience for our customers. For all Change for the Better improvements, existing team members have completed extensive training sessions, and new-hire training has been enhanced to reflect the improvements.

One of the ways the Community Bank is committed to supporting leaders is by offering coaching and leadership training. In 2018, more than 7,500 branch managers and partners completed "Coaching in the Moment" training in locations across the U.S. and "Situational Leadership II" virtually. In addition, all district managers and above completed a course called "Coaching and Feedback in the Moment." The training introduces a coaching approach to better help managers build their skills and learn how to integrate coaching into their day-to-day leadership.

All of these changes are centered on the idea of creating an environment where team members feel motivated and engaged, and customers know that we are serving them, not ourselves.

Increased oversight and controls
We have invested heavily in risk management to address past issues and help ensure that we have the right oversight and controls in place to monitor and identify any potential matters that need to be addressed. Among the actions we've taken:

- Developed the Branch Supervision program designed to provide "near real time" branch analytics and daily oversight of activities. Technology supporting the program leverages behavioral modeling, text analytics, and artificial intelligence to proactively identify potentially inappropriate team member behaviors in bank branches.
- Significantly increased risk reviews in bank branches to monitor and assess team member transactions, key risks, banker knowledge, and customer experience. During 2017, we completed more than 450 unannounced conduct risk reviews to evaluate retail branch sales and service activities to ensure customers received only the products and services they requested.
- Transitioned our Branch Control Review process from scheduled visits to unannounced visits while improving review quality and focus.
- Strengthened Raise Your Hand (page 24) to help ensure all of our team members are engaged in oversight and accountability and feel comfortable and protected speaking up when they see something that doesn't seem right or when they have an idea about how to help reduce risk.

- Developed, as part of the Performance, Management & Rewards program, a Branch Risk Score that increases the transparency of conduct and operational risk to branch team members and has compensation impacts to branch managers for unsatisfactory results.

We also recognize that how we are organized matters. Having the right leaders in the right positions will help us move forward and create the customer-centric culture and environment we want in Community Banking. As a result, we simplified and streamlined Community Banking's leadership structure by eliminating a layer of management, which brought senior leaders closer to customers and front-line team members, improved efficiency and risk management, and allowed us to ensure we have the best leaders for our team.

Specialized teams — Personal Lending, Practice Finance, Small Business, Affluent, and Wells Fargo At Work — have adapted their approaches and structures to support changes made in the branches. They also continue to be committed to responsible lending. For example, Wells Fargo's private student loans are fully underwritten, which means private loan debt is supported by an "ability to repay" determination and a majority of these loans have a cosigner. Students and families are also supported before and after their loan decision with useful and timely information, transparency, and financial education. As a result, there is only a 2 percent delinquency rate for Wells Fargo private student loan customers, compared with an estimated 30 percent for federal student loans. For the 2 percent of our customers who encounter difficulty during their repayment years, we offer a number of supportive measures such as grace periods, forbearance, and a loan modification program. We also offer loan forgiveness in the event of the student's death or total and permanent disability.

CASE STUDY: TAKING ACTION ON WHAT WE LEARNED

Change for the Better redefines the bank branch business model

Eliminating product sales goals and creating a new incentive plan for retail bankers were important changes, but they were just the beginning of a long journey of transformational change for Community Banking.

Change for the Better touches every aspect of our Community Banking business. It was created to help redefine our business model to deliver exceptional customer and team member experiences — through new systems, processes, tools, and training designed to empower the team and introduce simplicity, alignment, collaboration, and innovation.

Approach
In late 2016, we assembled a project design team of 20 leaders from across the company to create a strategic plan for Change for the Better. We recognized that this kind of change required feedback from those closest to customers, so field representatives were actively engaged. The design team relied on team member feedback through phone interviews, online surveys, and a series of listening tours that were conducted across the U.S. Many of the improvements we implemented are grounded in best practices that have occurred across our regions.

Improvements
The first set of Change for the Better improvements were implemented in branches in September 2017, and Phase Two improvements rolled out throughout 2018.

CHANGE FOR THE BETTER BY THE NUMBERS

- Introduced 14 Change for the Better improvements.
- Created 11 work streams involving 400 team members.
- 834 leaders attended Change for the Better leadership conferences.
- 7,500 branch managers and partners completed leadership training.
- More than 800,000 hours were invested in learning and development to support Change for the Better.

RESHAPING THE WELLS FARGO BRANCH EXPERIENCE

WHAT We introduced new systems, processes, tools, and training to improve the way we serve customers in bank branches.

WHY To enhance the bank branch experience for our team members and customers.

RESULT Team members feel more empowered and better able to meet customers' needs.

All the changes were focused on being more responsive and delivering an experience that is quicker and more seamless for customers and team members.

For customers, we made changes to improve the financial conversation between customers and bankers by making it more focused on customer needs and put policies and processes in place so customers can get their questions answered and problems resolved quickly. For team members, we introduced new coaching and training models, empowered them to take ownership and handle customer issues on the spot, and gave them tools to have more genuine conversations.

Risk management also was a key priority. For example, by simplifying and standardizing our processes, we can ensure our customers all across the U.S. get a consistent experience.

Customer and team member feedback
Feedback has been an important contributor to the overall success of Change for the Better. We collected feedback throughout the implementation process with quarterly surveys and a series of listening tours with team members. A dedicated mailbox also was created to enable team members to share their feedback.

Overall feedback was positive. Branch team members shared that the new tools and resources make it easier to connect with their customers and provide a more personal and genuine experience.

In addition, team members feel empowered. A team member from Alaska stated, "It makes me feel that I am valued and my opinion matters."

Home Lending

Since 2009, the Wells Fargo Home Lending team has provided more than 12.7 million homeowners with loans to either purchase a home or refinance an existing mortgage. We are the largest mortgage lender and servicer in the U.S., and while we are proud to be an industry leader, our success is measured by the difference we make for our customers and the communities we serve.

We have both the opportunity and an obligation to work with partners, investors, and stakeholders to lend responsibly and to help support and advance sustainable homeownership for all communities. This means not only delivering exceptional service to our customers, but also being engaged and present in the communities we serve, investing in homeownership growth, and doing our part to lead and inform the housing policy debate to cultivate a landscape that expands responsible access to credit.

Buying a home is one of the most significant and long-lasting financial decisions a consumer will ever make, and our team works every day to make that process as simple, straightforward, and beneficial as possible. We believe deeply in the role homeownership plays both in creating wealth and strengthening communities, and we are committed to making homeownership a reality for more Americans.

Evolving for our customers

We are continuing to transform our home lending business to be more customer-centric and to meet our customers' evolving needs. We're listening to our customers, learning from what they tell us, and using that knowledge to help us improve. For example, our customers expect simplicity, ease of use, and excellent service — when, where, and how they choose. So we're streamlining the mortgage process through innovation, and we've realigned our retail sales team to focus on the customer experience and connect more deeply with the communities we serve.

Innovating to provide a digital, streamlined customer experience

Technology and data — combined with dedicated and experienced team members — are playing key roles in simplifying and streamlining the mortgage customer experience, especially for existing customers. Our customers expect us to know them and understand their needs, and technology and data are helping us deliver on those expectations and serve customers the way they want to be served.

Based on customer feedback, in early 2018 we launched the digital online mortgage application, which combines the power of Wells Fargo source data with a digital interface to create a "you know me" experience that is compelling for current Wells Fargo customers. When a Wells Fargo customer logs into the online mortgage application, the customer won't be asked to provide certain information that we already have in our database. The online mortgage application is integrated with our sales team, giving customers the option to engage with a specialist at any point during the process.

Technology also helps us enhance the customer experience by streamlining labor- and time-intensive processes like data and document collection, enabling our team to devote more time to hands-on customer service. Aided by innovative technologies like source data and the online mortgage application, our team can have more valuable conversations with customers, spend more time discussing what they need, and ultimately help them make educated and informed decisions about homeownership.

Focusing on delivering exceptional customer experiences

As our digital capabilities expand, we're also honing our focus on serving customers through the industry's largest distributed sales team. One of Wells Fargo's key differentiators is our ability to combine the power of technology with the strength of our team to provide customers the choice and level of service they expect, and we are taking steps to maximize that strength by organizing our team around the distinct needs of the communities we serve.

In 2018, we realigned our retail sales team to remove management layers, drive greater efficiency, and strengthen our customer focus by helping leaders stay as close to the customer as possible. In addition to creating a dedicated position to oversee the team, we created a new market manager role to consolidate what previously were two levels of management and help tailor our outreach and service to local markets around the U.S. Nearly 50 market managers were selected in the first half of 2018, ensuring that our team is positioned

to connect more directly with customers and deliver service tailored around a community's distinct needs.

The Home Lending team's alignment with Community Banking and our companywide Consumer Strategy are aiding in our efforts to help more Wells Fargo customers succeed financially through homeownership. By working in partnership in new and deeper ways with Community Banking, we are advancing Wells Fargo's efforts to align around customers' needs instead of around product lines, with a focus on delivering service that helps our customers throughout their financial journey. We are meeting customers where they are — whether that's in a bank branch, face-to-face with a home mortgage consultant, over the phone, or online — and focusing every day on leveraging all of the strengths of the Wells Fargo enterprise to deliver an exceptional customer experience.

Advancing sustainable homeownership
Our work to advance sustainable homeownership reflects our view of homeownership as a pathway to financial success, a source of stability for communities, and a key driver of the U.S. economy. To help communities recover from the housing crisis and as part of our focus on assisting vulnerable communities, Wells Fargo joined forces with national nonprofit NeighborWorks® America, its local affiliates, community-based nonprofits, and city officials to create a suite of LIFT programs (*NeighborhoodLIFT®, CityLIFT®, and HomeLIFT™*). Since 2012, the programs have combined down payment assistance, home lending, homebuyer education, and other support to help create nearly 20,000 homeowners in 66 communities (page 95).

We also are advancing homeownership among first-time homebuyers and low- and moderate-income consumers through product offerings like *your*First Mortgage, which was developed in cooperation with Fannie Mae and Self-Help. That program is designed to open the door to homeownership for more consumers by offering a low down payment and a closing cost credit for eligible customers who complete HUD-approved homebuyer education or counseling programs. More than 50,000 Wells Fargo customers have used the *your*First Mortgage program since its launch in 2016.

Addressing issues and making things right for customers
As part of our commitment to identify and remedy any issues, we are closely monitoring activities across all of our businesses. Described below are issues we identified that we are addressing. We are sorry that these errors occurred, have made changes to prevent them from happening again, and are remediating customers for financial harm. The information below is as of third quarter 2018 (please refer to our public filings or other disclosures for any updates).

Mortgage interest rate-lock extensions. In October 2017, Wells Fargo announced plans to reach out to all Home Lending customers who paid fees for mortgage rate-lock extensions requested from Sept. 16, 2013, through Feb. 28, 2017, and to provide refunds, with interest, to customers who believe they should not have paid those fees. A rate-lock extension provides a borrower an extension on the period of time for which a quoted mortgage loan interest rate is valid.

We are sorry that these errors occurred, have made changes to prevent them from happening again, and are remediating customers for financial harm.

The plan to issue refunds followed an internal review that determined our rate-lock extension policy implemented in September 2013 was, at times, not consistently applied, resulting in some borrowers being charged fees in cases where the company was primarily responsible for the delays that made the extensions necessary. Effective March 1, 2017, we changed how we manage the mortgage rate-lock extension process by establishing a centralized review team that reviews all rate-lock extension requests for consistent application of the policy.

Although we believe a substantial number of the rate-lock extension fees during the period in question were appropriately charged under our policy, we have issued refunds and interest to substantially all of our customers who paid rate-lock extension fees during the period in question because of our customer-oriented remediation approach. While our remediation plan remains subject to regulatory approval, we believe we have substantially completed the remediation process.

Mortgage loan modifications. An internal review of the company's use of a mortgage loan modification underwriting tool identified a calculation error regarding foreclosure attorneys' fees affecting certain accounts that were in the foreclosure process between April 13, 2010, and Oct. 2, 2015, when the error was corrected. A subsequent expanded review identified related errors regarding the maximum allowable foreclosure attorneys' fees permitted for certain accounts that were in the foreclosure process between March 15, 2010, and April 30, 2018, when new controls were implemented. Similar to the initial calculation error, these errors caused an overstatement of the attorneys' fees that were included for purposes of determining whether a customer qualified for a mortgage loan modification or repayment plan pursuant to the requirements of government-sponsored enterprises (such as Fannie Mae and Freddie Mac), the Federal Housing Administration, and the U.S. Department of Treasury's Home Affordable Modification Program. Customers were not actually charged the incorrect attorneys' fees.

As a result of these errors, taken together and subject to final validation, approximately 870 customers were incorrectly denied a loan modification or were not offered a loan modification or repayment plan in cases where they otherwise would have qualified. In approximately 545 of these instances, after the loan modification was denied or the customer was deemed ineligible to be offered a loan modification or repayment plan, a foreclosure was completed. We have contacted a substantial majority of the approximately 870 affected customers to provide remediation and the option also to pursue no-cost mediation with an independent mediator. Attempts to contact the remaining affected customers are ongoing. Also, our review of these matters is ongoing, including a review of our mortgage loan modification tools.

CASE STUDY: BUILDING A BETTER COMPANY

Helping people stay in their homes when faced with financial hardship

Sustainable homeownership starts with responsible lending and underwriting that helps ensure both access to credit for qualified buyers and a stable servicing portfolio. Wells Fargo has a strong track record in this area. Ninety-six percent of customers in our servicing portfolio are current on their mortgage payments, and our foreclosure and delinquency rates are well below industry averages.

But our obligation to customers doesn't end after a loan is originated, and our team is committed to aiding customers facing financial hardships or life changes that impact their ability to make mortgage payments.

We work hard to keep our customers in their homes when they encounter financial difficulties — even if they've asked for help before. We encourage our customers to talk with us as soon as these difficulties emerge. Our home lending specialists are trained to listen to customers so that we can better understand their unique financial situation and apply that understanding to provide the best support possible. We engage with customers directly, and we also work in close partnership with housing counseling organizations that often serve as the first point of contact for customers who are experiencing financial hardship.

After we speak with customers facing financial hardships, we send them a packet to explain the options available to them. Customers who face long-term hardships are assigned a home preservation specialist who acts as a single point of contact for the customer.

In every case, our goal is to keep people in their homes. Here are some of the options that we offer:

- **Forbearance.** A forbearance plan temporarily suspends or reduces the amount of the customer's regular monthly mortgage payment if a life event is expected to decrease a customer's cash-on-hand in the near future. Most often, it is used in times of temporary hardship, like unemployment.
- **Repayment plan.** If a customer falls behind on payments because of a temporary hardship, but is now in a better position financially, a repayment plan may provide a manageable way to catch up.

HOME PRESERVATION BY THE NUMBERS

- We've modified more than 1 million mortgages and provided nearly $9 billion in principal forgiveness since 2009.
- Since 2009, we've participated in more than 2,000 home preservation outreach events, including 410 of our own Wells Fargo Home Preservation Workshops, where Wells Fargo team members traveled to local communities to meet directly with customers facing financial hardships to discuss their options.

- **Loan modification.** If a customer can't afford the current mortgage because of a financial hardship and wants to stay in the home, we may be able to change certain terms of the loan — such as the interest rate or the time allowed for repayment — to make payments more affordable. There are multiple loan modification programs available that offer different options for borrowers in different situations, but all are meant to help people keep their homes when facing a significant hardship.

If a customer can't keep the home, the home preservation specialist will work with the customer to identify options other than foreclosure — such as a "short sale" or deed in lieu of foreclosure — because we view foreclosure as a last resort. If a Wells Fargo-serviced property has to be vacated, we will work with the customer to provide relocation assistance and work with local governments and community groups to preserve neighborhoods, maintaining the home's condition through regular yard maintenance, property inspections, painting, and other needed repairs. No matter what, we want to do what's best for each customer. Part of that means being there for them and their communities when they face challenges.

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CASE STUDY: BUILDING A BETTER COMPANY

Helping people stay in their homes when faced with financial hardship (Cont.)

Short- and long-term financial hardships can be caused by an unexpected life event, loss of income/employment, and other changes in circumstance.

When a customer misses a payment, an account resolution specialist reaches out to the customer:

When hardship happens

If there is a short-term hardship:

- The customer may promise to pay or accept a short-term repayment plan to resolve the hardship.
- Wells Fargo stops collection calls when a plan is in place.

If there is a long-term hardship:

- A single point of contact is assigned to discuss modification options.
- The contact assists the customer with the modification application process, monitors payments, and communicates with the customer.
- Online tools are available to help the customer track the status of the modification.

When the necessary documents and information are provided, we typically are able to work out a modification for approximately seven out of ten customers.

For questions or to discuss options, customers should call our Home Mortgage Servicing Center at 1-877-742-6092.

Wells Fargo Auto

Wells Fargo Auto is part of Consumer Banking and is one of the leading auto lenders in the U.S. for new and used vehicles. We've been in business for more than half a century and today serve 3 million auto loan customers and 11,000 dealers. Wells Fargo's auto lending business is in the midst of a comprehensive transformation aimed at improving the customer experience (both dealer and consumer), increasing our focus on the customer, managing risk, and creating a sustainable model for the future.

We are making fundamental changes to address past issues in auto lending and build a business, team, and culture positioned to serve customers well into the future.

One of the most visible signs of this transformation is the rollout of a new name: Wells Fargo Auto. The new name is more than branding; it is an outward reflection of our commitment to serve both consumers and auto dealers.

Combining indirect and direct auto lending
In November 2017, we announced plans to combine indirect and direct auto lending into one team — a step that reflects our redoubled focus on being connected to our customers, no matter how they come to us. This change is designed to build capabilities (including new digital capabilities) to better serve consumers' needs and make their experience with us more consistent.

Centralization and standardization
Wells Fargo Auto has centralized back-office business functions to create greater consistency and manage risk. A key component of the centralization process was the consolidation of 57 Regional Business Centers — completed in March 2018 — and the creation of four regional hubs. This pillar of the transformation simplifies change delivery, reduces operational risk, leverages enterprise infrastructure and standards, improves consistency, increases career development opportunities for team members, and creates economies of skill and scale by co-locating similar functions.

In-market customer relationship management
While back-office functions were centralized, Wells Fargo Auto is maintaining distributed, in-market dealer-facing service. For example, sales and relationship teams will be kept close to our dealer customers throughout the U.S., ensuring that even as we become more efficient through consolidation and centralization, the level of hands-on, market-specific service we deliver to our customers will remain high.

We are making fundamental changes to address past issues in auto lending and build a business, team, and culture positioned to serve customers well into the future.

Culture and leadership realignment
Our work to address past issues and build a sustainable model for the future has included significant focus on our culture and internal leadership. We have taken a holistic approach to create an open, transparent, and inclusive environment where team members are empowered and feel informed.

Under new leadership, Wells Fargo Auto has been undergoing a functional realignment aimed at managing risk and creating clear accountabilities across the team. We have increased our investment in the operational risk management function and have committed to providing team members with opportunities to engage with leaders via town halls, internal social media channels, a Transformation Council consisting of 50 Auto leaders, participation in the enterprise Raise Your Hand program, and more. Senior executives also are spending more time in the field with team members, and we are empowering decision-making deeper within the organization. The result is enhanced accountability and a focus on doing what's right for customers.

Credit and pricing automation
We also have addressed credit risk by beginning to automate some credit and pricing processes. This has led to significantly greater transparency for both dealer and consumer customers while also enabling us to operate within the enterprise tolerance for credit risk. Automation has helped us streamline funding, reducing the complexity of the process and the time it takes to fund a loan. This is good for dealers and consumer customers, and it also benefits our team.

Innovation
While much of our transformation is about building a stable foundation, we are capitalizing on emerging opportunities through technology and innovation. Customers expect seamless integration of platforms between their bank and the auto dealership, and we are investing in technologies that make that integration smoother. We also are developing full eContracting capabilities and advancing our consumer focus with a digital, direct-to-consumer platform that integrates dealer inventory.

Addressing issues and making things right for customers
The company is reviewing practices concerning the origination, servicing, and collection of consumer automobile loans, including matters related to certain insurance products. The information below is as of third quarter 2018 (please refer to our public filings or other disclosures for any updates).

- In July 2017, the company announced it would remediate customers who may have been financially harmed because of issues related to automobile collateral protection insurance (CPI) policies purchased through a third-party vendor on their behalf (based on an understanding that the borrowers did not have physical damage insurance coverage on their automobiles as required during the term of their automobile loans). The practice of placing CPI had been previously discontinued by the company. Commencing in August 2017, we began sending refund checks and letters to affected customers through which they may claim or otherwise receive remediation compensation for policies placed between Oct. 15, 2005, and Sept. 30, 2016.

- The company has identified certain issues related to the unused portion of guaranteed automobile protection waiver or insurance agreements between the dealer and, by assignment, the lender, which will result in refunds to customers in certain states.

CASE STUDY: TAKING ACTION ON WHAT WE LEARNED

A Center of Excellence focused on members of the military and their families

On July 20, 2018, the federal Office of the Comptroller of the Currency announced it was lifting a consent order regarding Wells Fargo's service to members of the military and their families. Specifically, Wells Fargo successfully completed the requirements to comply with a September 2016 order related to the Servicemembers Civil Relief Act (SCRA), a law intended to ease the financial burdens on service members while they are on active duty. The lifting of the order is in large part attributable to actions we took to create an SCRA Center of Excellence that centralizes the SCRA work that takes place across the company.

Milestones in establishing the SCRA Center of Excellence

- We staffed the Center of Excellence with experts who focus exclusively on providing the appropriate SCRA benefits and protections to service members.
- We made significant changes to processes, including daily and quarterly searches of the Defense Department's Defense Manpower Data Center database to identify customers who are on active duty as well as customers who have a change in military status.
- In 2017, Wells Fargo proactively provided interest rate benefits to 19,000 new service members without making them apply or provide their military orders (which would otherwise be required by the SCRA).
- We have delivered remediation funds to service members as required under the OCC consent order. Refund amounts varied based on a customer's individual situation but generally included refunds of fees, adjusted balances, or other monetary relief.
- Although we have reduced SCRA violations, when we find errors we take steps to address them and make things right, and we continue to work with the Department of Justice to resolve the final outstanding consent order related to the SCRA.

IMPROVING SERVICE TO SERVICE MEMBERS

WHAT	We created a Servicemembers Civil Relief Act Center of Excellence.
WHY	To improve our service to members of the military and their families.
RESULT	Enhanced ability to provide the appropriate SCRA benefits and protections to service members.

Support for service members and veterans

Wells Fargo's support for members of the military and veterans reaches beyond our work on SCRA. Other ways we support this important community include:

- Donated more than 350 homes, valued at more than $55 million, to veterans throughout all 50 states since 2012.
- Donated more than $47 million to military- and veteran-related nonprofits since 2012.
- Hired more than 8,300 veteran team members and participated in more than 1,050 military job fairs since 2012. More than 200 Wells Fargo team members are on military leave at any given time.
- Provided team members with development, mentoring, leadership engagement, networking, and community outreach opportunities through our Veterans Team Member Network, which has more than 7,300 members in 31 chapters.
- Launched *Hands on Banking* for Military, a free financial education program that has been viewed by more than 440,000 service members since July 2013.
- Sponsored the donation of more than 15 payment-free vehicles to veterans since 2015 through the Military Warriors Support Foundation's Transportation4Heroes program for wounded veterans and Gold Star spouses.

Measuring our progress in Consumer Banking

The transformational changes we've made and continue to make in Consumer Banking have garnered positive feedback from our customers and team members, and we are optimistic that we can build on this momentum as we continue our journey.

We are using many metrics to measure results and track progress, including customer loyalty and branch visit satisfaction and account activity. More than 318,000 branch customer experience surveys were completed during fourth quarter 2018, with both "Customer Loyalty" and "Overall Satisfaction with Most Recent Visit" scores up from the prior quarter and reaching a 24-month high in December 2018.

Primary consumer checking customers (customers who have a checking account with Wells Fargo that they use regularly for deposits, purchases, and payments), for example, have grown year-over-year for five consecutive quarters, as of Dec. 31, 2018. This is an indication that we're establishing meaningful and long-term relationships with customers, and more customers are using Wells Fargo as their main financial institution. We continue to see improvements in primary customer retention, and growth in new checking customers overall is being driven by digital. Approximately 90 percent of our consumer checking customers do not pay a monthly fee, which is consistent with our goal of having more primary consumer checking customers.

Teller and ATM transactions have declined, reflecting continued customer migration to virtual channels, while digital secure sessions have increased. These results reflect the changes we're making in our business to best meet the evolving needs of customers. As part of our branch optimization strategy, we are planning to decrease our Community Bank branch network to approximately 5,000 locations by the end of 2020.

In Home Lending, our efforts to improve the mortgage experience through innovation and technology are resonating with customers. The online mortgage application has grown rapidly since launching in early 2018 — in December 2018, 30 percent of total retail mortgage applications were submitted online. We're also measuring our progress by tracking net loyalty metrics that show where we're exceeding our home lending customers' expectations and how we can continue to improve.

Payments, Virtual Solutions, and Innovation (PVSI)

We created PVSI in October 2016 to accelerate Wells Fargo's digital transformation so we can better serve our customers and stay ahead of their changing expectations. PVSI brings together Wells Fargo's payments businesses that manage:

- Consumer and small business checking, savings, and debit card offerings.
- General purpose, co-brand, and private label credit cards, as well as our loyalty and rewards programs.
- Treasury management services for our Wholesale customers.
- Payment processing services for businesses of all sizes.

In addition, PVSI includes:

- Virtual Channels, which provides digital, phone, and chat services for customers.
- Operations, which supports our payments businesses with check processing, account reconciliations, wire transfers, cash services, lockbox services, fraud prevention and claims, print and image services, ATM operations, legal order processing, and deposit operations.
- Innovation, a major catalyst of change and champion of emerging technologies across the company.

In total, our PVSI businesses touch virtually every Wells Fargo customer. By bringing these businesses together, we are able to leverage many strengths of Wells Fargo — our large consumer scale, deep relationships, leading positions in payments, and an engaged digital customer base — to drive transformational change.

Innovating for our customers

Digital is fast becoming the preferred channel for many of our customers. At the end of 2018, we had more than 29 million digital (online and mobile) active customers, and that number is growing. Three-quarters of all of our customer interactions are through our digital channels. Customers are viewing their balances, sending money, depositing checks, paying bills, and more — all digitally.

PVSI is driving innovation across the company by investing in emerging technologies and leveraging our digital channels and assets so we can make digital banking faster, easier, smarter, and safer for our customers. We are guided by the voice of our customers. They tell us they want us to:

- Make things simple, easy, and fast.
- Provide transparency and control.
- Enable them to move money and make payments instantaneously.
- Help them make the right financial decisions in the moment, and over time.
- Offer convenient access to our services when they need them, wherever they are.
- Ensure we keep up with the pace of innovation they are seeing in their daily lives.

In response, PVSI is focused on making it fast and easy for customers to start a relationship with us or open a new account digitally, providing best-in-class digital payments, delivering personalized advice when and where customers need it, and giving customers easy access and connections to their accounts and information.

Digital account opening experiences

Consumers increasingly prefer to start a relationship or open an account digitally. Today, we offer fast, easy, and secure digital account opening experiences for deposits, mortgage, credit card, and merchant services. Our digital account opening experience for our most popular checking accounts takes minutes from the time a customer starts the application until the account can be used. We also have a streamlined digital application for eligible small merchants who want to process card payments through Wells Fargo Merchant Services. Merchants can select their equipment and complete the application in minutes, and in most cases, receive a prompt response. Upon approval, merchants' selected processing equipment is set for delivery.

Digital payments

Making and receiving payments is central to our customers' financial lives. We offer customers a range of credit cards to accommodate their needs and preferences — from building credit history and purchasing big-ticket items to getting cash back on purchases and earning rewards. The newest card in our lineup, the Wells Fargo Propel American Express® Card, complements our customers' lifestyles by providing more value for the things they already do. It offers rewards on activities like travel, transit, eating out, ordering in, and popular streaming services.

We support a wide variety of mobile wallets so customers can use their Wells Fargo credit and debit cards to make mobile payments, and they can use the *Control Tower* function (page 38) to track and control the digital connections they've established to their cards and accounts.

We integrated the *Zelle* person-to-person service into our mobile app so customers can send payments in minutes to friends, family, and people they know and trust with a U.S.-based bank account. For businesses, we offer push-to-card disbursement, which enables a company to send payments almost instantly to a customer's debit card.

With our forthcoming Pay with Wells Fargo experience, we are organizing our mobile app interface around what our customers do the most — make payments. Customers will have convenient access to commonly used payment tools like *Zelle*, mobile wallets, bill pay, transfers, and mobile deposits — before they sign in to the app. And we plan to enable customers to use Pay with Wells Fargo to quickly and easily donate to a charity of their choice.

Customer-centric tools and personalized advice

Many customers look to us to help them gain insight into, control over, and skill in managing their money. In addition to providing services like *Overdraft Rewind* and automatic zero-balance alerts (page 74) that help customers better manage their accounts and avoid fees, we are leveraging technologies like artificial intelligence to provide personalized advice and guidance in the moment.

The predictive banking tool in the *Wells Fargo Mobile* app continuously looks at a customer's cash flow patterns to generate timely, personalized pointers and insights.

For example, we let customers know when they may need to transfer funds so they don't overdraw their accounts and we bring to their attention out-of-pattern spending in a particular category or merchant. Other features, like interactive quizzes, help customers increase their awareness of how they are spending their money.

Our mobile-first *Greenhouse* by Wells Fargo experience will provide even more financial support to customers who need it, like students and others who are new to banking, people who have several income sources, or those who are paid irregularly. The *Greenhouse* app encourages customers to become more hands-on with their finances by providing interactive help with allocating money for bills and day-to-day spending, as well as in-the-moment notifications. It also provides safeguards. For instance, the *Greenhouse* app is designed to not allow overdrafts, so customers can't spend more than they have in their accounts.

We are making investments in a number of next-generation technologies for use across the enterprise, for all of our businesses, at scale.

Easy access and connections

Customer expectations for how they want to interact with us are influenced by the technologies, like smartphones, they use in their daily lives. For example, many customers prefer texting to talking, so we offer messaging technology to give customers a fast and familiar way to interact with us.

We are introducing Wells Fargo Banking Assistant in our mobile app as one option for our customers who prefer texting to talking. The Banking Assistant is a chatbot that can respond to certain customer servicing requests and frequently asked questions. If a customer has a more complex need, the Banking Assistant can make a seamless handoff to a banker or direct the customer to call us. This experience enables us to interact with customers on their time, and through their preferred communication channel.

We're also leveraging our customers' always-on connection to their smartphones to create simple and easy experiences for our customers across all channels — like using our mobile identity management platform at our ATMs and branches.

- Customers can access our ATMs without their debit or ATM card. They can request a one-time access code from our mobile app to gain access to any Wells Fargo ATM or, at Wells Fargo ATMs that display the "contactless" symbol, they can use their debit card in a supported mobile wallet and their PIN.
- PIN pads that display the contactless symbol in our branches enable customers to use their debit card in a supported mobile wallet to authenticate with their phone.

These innovations aren't limited to consumers. Through our *CEO Mobile*® service, business customers can make and approve payments, make deposits, manage commercial cards, and monitor accounts from almost anywhere.

Investing in new and emerging technologies

Powering all of our digital experiences is our platform for innovation. We are making investments in a number of next-generation technologies for use across the enterprise, for all of our businesses, at scale.

One area of focus is our identity management platform, which is helping make authentication simpler for customers and more secure across all of our channels and processes.

Artificial intelligence (AI) is another important technology that is powering many of the personalized experiences we provide. Our predictive banking tool, *Intuitive Investor*, and the *Greenhouse* app all leverage AI to deliver personalized insights and advice. We also use AI inside Wells Fargo to help us better detect and prevent fraud and help team members with complex servicing tasks.

Application Programming Interfaces (APIs) make it easier for customers to connect with us. For example, an API allows customers to apply for a Wells Fargo credit card account through third-party sites where they may be researching credit card features and offers. And our Wells Fargo Gateway APIs make it easy for business customers to integrate our banking services directly within their own business systems and daily workflows.

Our goal with these investments is to make banking faster, easier, and safer in whatever channel our customers choose to engage with us — in person at a branch, with a phone call, or digitally through a mobile device or computer.

Measuring progress in PVSI

We measure progress in a number of ways. In our payments businesses, new experiences and continuous improvements to our products and services help keep our customers engaged as seen through increased balances, transaction volumes, and digital channel usage.

Since we launched *Zelle*, we've seen steady increases in person-to-person transaction volumes. And customers also continue to increase their use of remote deposit capture through our mobile app.

We also look at the pace of customer adoption of new experiences we bring to market. We design every experience around the needs of our customers, and then we test them with team members and customers to gather feedback and make refinements before a full rollout. That helps to ensure we are delivering experiences customers need and value.

Our goal with these investments is to make banking faster, easier, and safer in whatever channel our customers choose to engage with us — in person at a branch, with a phone call, or digitally through a mobile device or computer.

Helping customers avoid overdrafts and fees

In a digital world, customers expect more transparency into their account activity and access to real-time information to help them better manage their money. So we have introduced deposit account features that help customers avoid overdrafts and fees.

Overdraft Rewind

Many customers told us that they were frustrated when they incurred an overdraft the day before their next paycheck was electronically deposited into their account. So we created *Overdraft Rewind*, a feature that automatically includes the amount of the payday direct deposit in a reevaluation of the prior day's transactions that resulted in an overdraft or returned or nonsufficient funds item fee and may reverse the corresponding fee. This feature reverses overdrafts that are assessed on customers' accounts at a vulnerable time: the day before their payday direct deposit is received, when their account balances may be low.

With *Overdraft Rewind*, the bank does not charge overdraft or insufficient funds fees if a covering direct deposit is received by 9:00 a.m. local time the next day. Customers do not need to take any action to receive the benefit.

In 2018, *Overdraft Rewind* helped more than 2.3 million customers avoid overdraft charges.

Automatic zero-balance alerts

In June 2017, we launched zero-balance alerts to automatically notify online banking customers by email if their account balances dropped to zero or below, providing additional help to avoid overdraft fees. These intraday zero-balance alerts give customers a chance to make a deposit or transfer funds from another account to stay ahead of a potential overdraft.

The automatic alert expands on the variety of text and email alerts that customers have been able to enroll in for a number of years. In 2018, we sent an average of more than 37 million zero-balance and customer-specific balance alerts per month, providing our more than 29 million digital (online and mobile) active customers with an important money management tool.

Overdraft fees

In 2017, Wells Fargo eliminated overdraft fees for any transaction of $5 or less. The new per-transaction threshold complements the bank's existing policy of not charging an overdraft fee if a customer's available balance and ending account balance is overdrawn by $5 or less and no items are returned for nonsufficient funds at the end of nightly processing. It is intended to help customers avoid overdraft fees that would otherwise result from small transactions.

Wealth and Investment Management (WIM)

Wealth and Investment Management is one of the leading providers of financial and investment services in the U.S. More than 30,000 team members manage savings, investments, and retirement assets for 7 million individuals and institutions.

WIM serves an important role in the economy by helping people grow and invest their wealth and savings — for their own benefit, for their family's, and for society's. From our perspective, supporting clients is our duty. We focus on developing deep personal relationships with clients and getting to know their risk tolerance. As a result, we're better positioned to protect and grow our clients' hard-earned savings so they can pursue their life goals.

WIM offers a range of services through five core businesses that have combined client assets of nearly $2 trillion: Wells Fargo Advisors (our retail broker/dealer), Institutional Retirement and Trust, Wells Fargo Asset Management, Wells Fargo Private Bank, and Abbot Downing (our boutique family-office offering). In addition, Wells Fargo Investment Institute supports WIM by providing market research and analysis to help construct and inform client portfolios.

Transforming our business

Today our business is facing some major changes — including demographics, technology, competition, and regulation — that are shaping how we'll support clients in the future. We're seeing a demographic shift of tectonic magnitude: Aging baby boomers are giving way to Gen X and millennials, and our clients and prospects are growing increasingly diverse. New technologies are continuing to disrupt the industry, competitors that have adopted new technologies are winning a growing share of the market, and the regulatory environment is increasingly challenging and complex.

For WIM to grow, better serve our clients, compete in today's dynamic environment, and reach our full potential, we've committed to transforming our business. We will do so by implementing changes that simplify how we work, enhance risk management, and increase investment in technology and intellectual capital.

Key focuses for our transformation are:

- Simplifying our front-line client businesses.
- Implementing common operations and processes.
- Streamlining product delivery to improve service and reduce operational risk.
- Investing in technology and digital capabilities.
- Concentrating on core businesses, superior investment strategies and solutions, and outstanding client service.

To enhance the control environment and bring issues to successful closure, we continue to focus on:

- Centralizing, simplifying, and automating operations and controls.
- Ensuring compliance with policies and procedures, with clear roles and ownership.
- Ensuring new or modified products and processes do not introduce manual complexity and the potential for new issues.
- Engaging key stakeholders at the outset and in all stages of issue remediation.

Forming deep relationships with clients

Ensuring every client has a relevant financial plan helps them meet their financial goals. That's why we've created or updated financial plans for 70 percent of our affluent and high-net-worth clients over the past year. Planning is a common thread for all our clients — whether they're preparing for retirement, saving for their first home or their children's education, or taking steps to preserve wealth for the next generation. This focus on advice and planning capabilities helps us deliver better outcomes and a better client experience.

Our team members seek to establish long-term relationships with clients that deepen over time as we meet their evolving financial and life needs. Recent efforts to enhance client relationships include providing the right service based on clients' needs and recruiting the next generation of advisors.

Giving clients the right service for their needs. Investors have different needs, and various wealth levels have different levels of complexity. With this in mind, Wells Fargo Private Bank is implementing new approaches that will enable it to more effectively support clients at various wealth levels. Regardless of their level, all Wells Fargo Private Bank clients receive support from a primary account manager, and we bring in specialists based on the client's specific needs and the financial complexity of their situation.

Recruiting next-generation financial advisors. The best way to serve our clients is to know our clients. The average financial advisor (FA) is nearing retirement, and more than one-third of U.S. financial advisors are planning to leave the business over the next 10 years. WIM has addressed this looming advice shortage with next-generation advisor models that have strong retention. Recruiting and retaining new advisors — in addition to our veteran advisors who perform an equally essential service — means both newer and more experienced advisors can get to know their clients well and maintain relationships that endure. We also believe it's important that our team members reflect the clients we serve, so WIM has developed recruiting strategies to hire diverse team members. In fact, 40 percent of our next-generation FAs are female or ethnically diverse.

Increasing quality of advice

Our advice is grounded in research and analysis from Wells Fargo Investment Institute (WFII) and is supported by our proprietary investing tool *Envision*®. We've taken actions in recent years to increase the quality and consistency of advice with asset allocation guidance designed by WFII, ongoing performance monitoring, and periodic rebalancing. Specific steps include:

Aligning teams to improve consistency. To ensure our clients have access to the best thinking and best resources from across WIM, we've moved all investment teams that were formerly housed within WIM business lines into WFII or Wells Fargo Asset Management (WFAM). By bringing together similar functions, our teams have access to, and can deliver to clients, more consistent advice. We also have greater consistency around processes, policies, and risk-management oversight, leading to a better client experience.

Applying goals-based planning. Clients are significantly more likely to grow wealth if they're saving toward specific goals they're passionate about. So in Wells Fargo Advisors, we start with the basics. First we get to know our clients; then we make financial plans based on clients' unique goals. We use the *Envision* tool to combine goals-based advice with sophisticated statistical modeling. The process is easy for clients to understand and helps them prioritize to achieve important life goals — without undue financial sacrifice or overexposure to risk.

Developing investment solutions to meet client needs. Within WFAM, we're accelerating innovations in portfolio management. We're adding capabilities in multi-asset solutions, factor-based strategies, and alternative- and private-market offerings to better support the investing needs of our clients.

Delivering technology and innovation for clients

As people do more online and expectations continue to evolve, clients have come to expect a simple, intuitive, and innovative experience. We're committed to giving clients advice and information in the way they want by adapting and innovating.

Service anytime, anywhere. Because clients today want service anytime, anywhere, we're exploring ways to leverage technology to better meet their needs.

Client Dashboard. The recently enhanced Client Dashboard used by Wells Fargo Advisors gives FAs a complete view of a client's household in one place, the moment the client calls. By putting client information front and center, the FA can have more engaged and informative conversations that focus on the client's long-term financial goals and investment plans.

Intuitive Investor. We've coupled advice and technology with *Intuitive Investor* (page 78), a program created with the next generation of investors in mind. It enables new investors to start building a financial future by taking the guesswork and complexity out of investing. Providing a simplified, low-cost option lets new investors build an appropriate diversified portfolio with $10,000. Clients answer a few questions online; we then recommend one of several investment portfolios to match their needs and monitor the portfolio's performance.

"What if . . . ?" scenarios. Our new *Envision* Scenarios product puts planning in clients' hands by giving them an online tool to pose "What if . . . ?" questions and see impacts of choices on their financial picture.

Enhancing transparency and trust

Transparency, security, and trust are things clients rightfully expect. Two ways we're working to increase trust are managing referral activity and adopting consistent client standards.

Managing client referrals. Team members in Community Banking, Wholesale Banking, and WIM partner to meet the full range of client needs. To ensure referrals are in the best interest of the customer, communication and training resources are provided so team members know when it's appropriate to make referrals for additional services. In addition, we have in place governance structures -- which include committee, compliance, and legal reviews -- to ensure activities are monitored, documented, and handled consistently.

Adopting consistent client standards. To ensure we consistently offer a high-quality experience and engagement for clients across all asset levels, financial planning conversations are being structured around a four-part "client standards" process: plan, invest, document, and review.

Addressing issues and making things right for customers

The information below is as of third quarter 2018 (please refer to our public filings or other disclosures for any updates).

Review of certain activities within Wealth and Investment Management. A review of certain activities within WIM being conducted by the Board, in response to inquiries from federal government agencies, is assessing whether there have been inappropriate referrals or recommendations, including with respect to rollovers for 401(k) plan participants, certain alternative investments, or referrals of brokerage customers to the company's investment and fiduciary services business. The review is ongoing.

Fiduciary and custody account fee calculations. The company is reviewing fee calculations within certain fiduciary and custody accounts in our investment and fiduciary services business, which is part of the Wealth Management business within WIM. We have determined that there have been instances of incorrect fees being applied to certain assets and accounts, resulting in both overcharges and undercharges to customers. These issues include the incorrect setup and maintenance in the system of record of the values associated with certain assets. Systems, operations, and account-level reviews are underway to determine the extent of any assets and accounts affected, and root cause analyses are being performed with the assistance of third parties. These reviews are ongoing and, as a result of reviews to date, we have suspended the charging of fees on some assets and accounts, notified affected customers, and are continuing our analysis of those assets and accounts. The review of customer accounts is ongoing to determine the extent of any additional necessary remediation, including with respect to additional accounts not yet reviewed, which may lead to additional accruals and fee suspensions.

Measuring progress in WIM

As we focus on building a better experience and satisfying our clients' evolving expectations, we're monitoring our progress to ensure intended outcomes are being delivered. We see, for example, that *Intuitive Investor* is helping us reach and meet the needs of next-generation investors: nearly two-thirds are Gen X, millennial, or Generation Z.

It's also important that we be a leader in diversity as our clients become increasingly diverse. This can be seen in our next-generation advisor programs, as the average next-generation FA is 32 years old (versus 57 for the general FA population), 48 percent are ethnically diverse, and 36 percent are female (versus 85 percent white and male). At the same time, we're retaining 80 percent of these new advisors versus the industry average of 20 percent.

In addition, the vast majority of WIM clients with an *Envision* plan say they feel they have the guidance necessary to succeed financially, which supports our focus on building plans that meet our clients' goals. We have seen that well-allocated portfolios aligned to clients' investment objectives outperform portfolios that are not well allocated.

Intuitive Investor combines online service and phone-based advice

The needs and expectations of investors are constantly evolving. The next generation of investors — those who are young and tech-savvy — often prefer to do research and make investments online instead of, or in addition to, seeking advice from a financial advisor. More experienced investors similarly are increasingly moving to web-based options.

Wells Fargo Advisors launched *Intuitive Investor* in November 2017 with this in mind. It simplifies investing by using sophisticated technology and our investing intellectual capital to offer a convenient digital experience at a low cost. The process involves:

- ***Learning about the customer.*** Investors answer a few online questions about their investment needs, time horizon, and tolerance for risk.
- ***Recommending a portfolio.*** We recommend one of nine portfolios, based on research from Wells Fargo Investment Institute.
- ***Monitoring the account.*** We monitor and manage the portfolio to help it stay on track.
- ***Offering advice.*** When investors have questions or want guidance, they can call a team of financial advisors.

Intuitive Investor is an offering that can support clients of all asset levels within Wells Fargo by:

- ***Providing an entry point*** for investors who are referred from other parts of the company.
- ***Establishing relationships*** with investors who will potentially transition to full-service Wells Fargo Advisors clients in the future.
- ***Fulfilling the needs of clients*** who prefer digital advice instead of or in addition to full-service advice.

KEY POINTS ABOUT *INTUITIVE INVESTOR*

- 82 percent of investors are Gen X, millennial, or Generation Z.
- 80 percent have been with Wells Fargo for more than seven years but hadn't previously invested with us.

Wholesale Banking

Wholesale Banking provides financial solutions to businesses with annual sales generally greater than $5 million, primarily located in the U.S. With more than 27,000 team members, the business serves middle-market businesses, corporations, financial institutions, institutional investors, and municipal, state, and local governments. With a presence in specific international markets, Wholesale also serves the global financial needs of its U.S. customers as well as select multinational companies doing business in the U.S.

Wholesale operates five major lines of business: Wells Fargo Commercial Banking; Commercial Capital; Commercial Real Estate; Corporate and Investment Banking; and Investment Portfolio.

The business provides traditional commercial loans and lines of credit, letters of credit, asset-based lending, equipment leasing, international trade facilities, and trade financing as well as collection services, foreign exchange services, investment management, institutional fixed income sales, interest rate, commodity, equity risk management, digital mobile products such as the *CEO*® portal, corporate trust fiduciary services, and investment banking services.

Evolving landscape

Wholesale's operating model is evolving to better organize around customer needs; optimize investments in products, services, and delivery capabilities; drive efficiencies; and continue to enhance risk management. We are simplifying our business model by promoting centralization of shared services, standardization, process optimization, consistency, transparency, and accountability.

Wholesale continues to identify thoughtful alignments and efficiencies across the business. In 2018, we introduced a new organizational structure that aligns similar businesses and functions. These changes include establishing Commercial Banking to combine Business Banking, Government and Institutional Banking, and Middle Market Banking. In addition, we created Corporate and Investment Banking, which brings together Corporate Banking, Financial Institutions Group, and Wells Fargo Securities. The new structure strengthens how we operate, enhances overall risk management, and improves the customer experience.

Focus on risk

Wholesale continues to strengthen its risk management and enhanced due diligence efforts. Risk management is a fundamental part of how we manage our business, and we expect all team members to be proactive about risk management. We do not enter new business or take on material new risks without establishing the appropriate risk management infrastructure, processes, and tools, as well as hiring experienced risk managers to ensure we conduct business in a controlled manner. Wholesale's risk management approach includes appropriate protocols for addressing new or emerging risks, including those brought on by new products, services, or technology.

Integrating Environmental and Social Risk Management (ESRM)

We recognize that business decisions and those of our Wholesale customers can potentially or actually have adverse impacts on communities and the environment. We believe that for certain industries and activities, it is imperative that we consider the environmental, social, and human rights impacts of our lending and investments along with the traditional financial risk.

The company's ESRM framework (page 42) details our commitment to align with ESRM best practices and standards, our comprehensive due diligence process, our focus on customer engagement, assignment of risk rating and escalation, reporting and disclosure, and internal training and awareness-raising.

Deepening customer relationships

We are committed to deepening existing customer relationships and acquiring new relationships by delivering products and services that best address customer needs. We aim to deliver an exceptional customer experience by enhancing our capabilities and programs to provide experiences that are easy, proactive, and valuable — by building, upgrading, or acquiring new products and solutions that serve customers, deepen relationships, provide competitive advantages, and address any gaps in offerings. This includes expanding digital services so customers can access the platform to conduct their business where, when, and how they choose.

We formed the Wholesale Customer Excellence program in 2017 to proactively improve the customer and team member experience and reduce risk. The Wholesale Customer Excellence team is establishing a complaints management program that is centered on gathering insights from client complaints and team member feedback to improve both experiences. The team is developing capabilities — including a centralized complaints escalation team, quality assurance, and reporting and analytics — to support the Wholesale lines of business and the enterprise focus on customer complaints (page 40).

Addressing issues and making things right for customers

The information below is as of third quarter 2018 (please refer to our public filings or other disclosures for any updates).

Foreign Exchange business. We have substantially completed an assessment, with the assistance of a third party, of policies, practices, and procedures in our foreign exchange business. The foreign exchange business is in the process of revising and implementing new policies, practices, and procedures, including those related to pricing. Our review of affected customers is ongoing to determine the extent of any additional remediation for customers who may have received pricing inconsistent with commitments made to those customers.

Measuring progress in Wholesale Banking

Wholesale succeeds by actively listening to our customers and delivering products, services, and advice to help them achieve their financial goals. We want to strengthen existing customer relationships and acquire new ones through proactive relationship development, focusing on key customer segments and geographies, and collaboration across the lines of business. We also will continue to invest in developing innovative products and services that best meet the evolving needs and expectations of our customers, team members, and other stakeholders.

In addition, as we continue to strengthen our Customer Excellence program, we are developing a series of metrics that will support Wholesale's focus on building and maintaining long-term customer relationships and managing risk. For example, we are developing tools and reports that will provide a collective overview of customer feedback, whether through direct complaint feedback or customer surveys. We will use this feedback to develop new strategies and experiences for continuous improvement in our customer interactions and team member engagement. In addition, the business is establishing success metrics for the newly formed Wholesale Executive Office for escalated and service complaints to help ensure we have a robust compliance and operational risk function.

We want to strengthen existing customer relationships and acquire new ones through proactive relationship development, focusing on key customer segments and geographies, and collaboration across the lines of business.

Delivering on our $200 billion commitment toward sustainable financing

In April 2018, Wells Fargo announced that we will provide $200 billion in financing to sustainable businesses and projects by 2030, with more than 50 percent of the financing focused on companies and projects that directly support the transition to a low-carbon economy, including clean technologies, renewable energy, green bonds, and alternative transportation.

The remainder of the financing will support companies and projects focused on sustainable agriculture, conservation, recycling, resource management, and other environmentally beneficial activities. As part of the announcement, we committed to provide clear communications about the types of transactions that account for the $200 billion commitment, disclose the carbon intensity of our credit portfolio, and report on the social, environmental, and economic impacts of our lending.

Today, Wells Fargo is one of the largest energy lenders in the U.S. — to both conventional and renewable energy providers. Our Renewable Energy & Environmental Finance group has been providing tax equity financing to solar and wind energy development since 2006, providing the strategic capital necessary to help stimulate strong growth in the sector. The group has grown to 32 professionals with decades of experience in the renewable energy industry. In 2017, 7.9 percent of all solar photovoltaic and wind energy generated in the U.S. came from facilities owned wholly or in part by Wells Fargo.

In addition to tax equity investments in renewable energy, we support our power and utility customers as they add renewable energy to their generation portfolios through advice and guidance, debt financing, and green bonds.

Our Clean Technology Commercial Banking group continues to expand as we help customers achieve their long-term financial goals by providing a full suite of banking services combined with in-depth industry knowledge. Our customers include businesses that specialize in electric and low-emission vehicles; energy production, including solar, wind, and biomass; smart grid applications; and water efficiency. The team partners with relationship managers in the agricultural industry and other sectors to share how clean technology can enhance their customers' operations and profitability.

We believe it is important to take an ecosystem approach to support clean technology. We will continue to work to advance new technologies through customer engagement by providing financing and other services, testing and adopting new technologies within our footprint, and delivering philanthropic support to leading accelerators, incubators, and universities focused on clean technology development and entrepreneurship.

VII.

Risk management and controls

Risk framework

Wells Fargo's Board has ultimate responsibility to provide oversight for our three lines of defense and the risks we take as a company. The Board carries out its risk oversight responsibilities directly and through the work of its standing committees, which all report to the full Board.

In addition, the company has established management-level governance committees to support its leaders in carrying out their risk management responsibilities. Each governance committee has a defined set of authorities and responsibilities along with clear escalation paths and risk-reporting expectations. The governance committee structure is designed to enable understanding, consideration, and decision-making of significant risk and control matters at the appropriate level of the company and by the appropriate mix of executives.

Core principles and elements of the Risk program

As we work toward achieving our goal to be a leader in risk management, we are committed to continuously promoting a comprehensive, robust, effective, and forward-looking Risk program that not only reflects the size and business mix of our company but also is incorporated in the daily decisions and actions of team members. We engage third parties to provide expertise on regulatory and industry practices when developing risk policies and procedures.

To achieve our risk management objectives, we follow certain principles that we expect to guide daily decision-making:

Long-term relationship focus. We want to establish long-term relationships with our customers. We build trust by getting to know our customers and understanding their wants and needs and by providing them access to the appropriate products and services to help meet their financial goals. By understanding customers and their financial needs, we take on only as much risk as is necessary to efficiently, effectively, and prudently serve our customers.

Accountability. Risk is everyone's business. With risk so embedded in our business process, we manage our risks as close to their source as possible. Business leaders are accountable for understanding their processes and managing the risks in their business groups, and team members are accountable for managing the risks that cross their desks.

Risk philosophy. We take prudent risks. Control, profitability, and growth always come in that order of priority. Our business model rests on the principle that prudent risk management provides the only avenue to long-term profitability and growth. We manage for the long term — so the effectiveness of our risk management takes priority.

Environment of inclusiveness and candor. Because risk is everyone's business, every team member's contributions and perspectives are valuable. Throughout all levels and across all business groups, we encourage open discussion and timely escalation of risks. This includes constructively challenging peers and managers as necessary and sustaining an environment that encourages credible challenge.

We have identified certain elements that are required for the Risk Management program to be effective, including:

- A strong culture that emphasizes each team member's ownership and understanding of risk. This culture must cultivate an environment that expects and promotes robust communication and cooperation among its three lines of defense and supports identifying, escalating, and addressing current and emerging risk issues.
- A companywide statement of risk appetite that guides business and risk leaders as they manage risk on a daily basis. The statement of risk appetite must describe the nature and magnitude of risk we're willing to assume in pursuit of our business and strategic objectives — consistent with capital, liquidity, and other regulatory requirements — by defining both qualitative and quantitative parameters for individual risk types.
- A risk management governance structure, including escalation requirements and a committee structure that provides comprehensive oversight of the risks we face and our risk management activities. The structure must promote escalation, decision-making, and reporting of risks at the appropriate levels of the company, including the Board and its committees as appropriate.

The three lines of defense

Wells Fargo uses three lines of defense for risk management. The first line of defense — the front-line teams in our various businesses and certain activities of our enterprise functions — is accountable for assessing and effectively managing all associated risks for their groups. The second line of defense — Independent Risk Management — is Corporate Risk, which provides independent oversight of risk-taking activities. The third line of defense — internal audit — is Wells Fargo Audit Services, which provides independent assurance.

Although each line of defense has its own distinct risk management responsibilities, effective risk management requires the three lines of defense to use an integrated approach through the risk management lifecycle. In addition to the three lines of defense, the company's control environment is further strengthened by enterprise control activities, which are specialized activities performed within centralized enterprise functions with a focus on controlling a specific risk.

First line of defense: The front line

The front line comprises the company's risk-generating activities, consisting of the company's four primary business groups and certain activities of our enterprise functions. The front line is responsible for identifying, measuring, assessing, controlling, mitigating, monitoring, and reporting current and emerging risk exposures associated with its activities and operations.

To oversee the risk management activities of each business and monitor the fulfillment of the front-line responsibilities, each of the four primary business groups, — Consumer Banking; Payments, Virtual Solutions, and Innovation; Wealth and Investment Management; and Wholesale Banking — has a dedicated control executive. Each enterprise function also has a control executive. These leaders sit within the front line and report to and are accountable to business group and enterprise function leaders. Control executives also collaborate with Corporate Risk and provide information with respect to risk management, especially concerning the management of risk types.

The front line's primary responsibilities include:

Planning. Incorporates risk considerations into business and strategic decision-making to promote appropriate balancing of risk and reward. It establishes written procedures and processes, including front line statements of risk appetite that comply with companywide risk expectations. The front line consistently promotes a strong culture by maintaining appropriate staffing levels and providing ongoing training.

Identifying and assessing. Identifies and assesses risks generated by its activities and reports these risks in accordance with enterprise risk programs. It aggregates risks arising from its activities and, if boundaries or limits are triggered, escalates in accordance with companywide expectations.

Controlling and mitigating. Designs and implements risk mitigation strategies and controls that effectively mitigate risks and appropriately address the requirements of applicable statutes, regulations, and risk-governing documents. It complies with the companywide issues management program, including escalating issues where required.

Monitoring and reporting. Develops and implements risk monitoring and risk reporting processes. On an ongoing basis, the front line monitors and reports on its risk concentration, current and emerging risks, and risk appetite. It aggregates the results of its monitoring efforts, evaluates findings, reports on results, and escalates where necessary.

Testing and validating. Designs and executes a control effectiveness assurance program with respect to the controls the front line owns. It provides reporting on quality assurance activities to Independent Risk Management and reviews testing results to develop and implement appropriate corrective actions.

Second line of defense: Independent Risk Management (IRM)

IRM provides the second line of defense and consists of the Corporate Risk enterprise function. IRM establishes, implements, and maintains our Risk Management program under the direction of the Board's Risk Committee and senior management. IRM is accountable for independently overseeing the identification, measurement, assessment, monitoring, aggregation, and reporting of risks. IRM also oversees the front line's execution of its risk management responsibilities.

IRM provides senior management, the Risk Committee, and the Board an independent perspective of the level of risk to which we are exposed and helps identify areas that may become a significant strategic or reputational risk for Wells Fargo.

Our Chief Risk Officer (CRO) reports directly to the Board's Risk Committee (and administratively to the CEO), and is responsible for establishing the strategic direction and execution of the company's risk management activities. Although the CRO sits within IRM, the CRO's responsibilities extend across IRM and the front line to ensure the company's risk management priorities and objectives are met. The CRO also is expected to promote a strong culture, specifically focusing on risk management components, communicate effectively with our internal and external stakeholders, and consider emerging risk issues and their potential effect on our aggregate risk profile.

IRM's primary responsibilities include:

Planning. Provides credible challenge to the front line with respect to business decisions and strategic initiatives to promote the appropriate balance and consideration of risk and reward, as well as our conservative approach to risk. IRM updates the company's risk management framework and designs and implements enterprise risk programs. IRM challenges the appropriateness of front-line decision-making and, if it is not satisfied with a front-line decision or supporting rationale, IRM may request additional analysis of the business decision or a modification of the proposed front-line action. IRM may also escalate such disagreements to the appropriate risk leaders or governance committees.

Identifying and assessing. Maintains a companywide view of current and emerging risks by aggregating risk information across the company. IRM also oversees the enterprise risk identification and assessment processes, including their impact on our financial and operational soundness. IRM provides credible challenge with respect to the front-line risk identification and assessment approach and outputs.

Controlling and mitigating. Establishes expectations for front-line controls. It provides credible challenge and advice with respect to front-line mitigation strategies and controls, as well as actions to address gaps in control design or effectiveness. IRM escalates significant issues in accordance with our escalation policy.

Monitoring and reporting. Establishes and maintains companywide risk monitoring and risk reporting strategies. It challenges and approves front-line monitoring activities. IRM aggregates risk monitoring results at the company level, evaluates findings, and identifies opportunities to improve risk programs.

Testing and validating. Establishes and oversees control effectiveness program expectations with respect to the front line. IRM establishes and maintains independent testing programs.

Third line of defense: Internal audit

Wells Fargo Audit Services provides the third line of defense, delivering independent and objective internal audit services such as assessments and credible challenge regarding the company's governance, risk management, and controls.

Through its work, Audit Services:

- Conducts tests and provides conclusive reporting regarding the health of the company's risk management, governance, and internal control structure.
- Proactively advises management on risks, management practices, and controls in the design and implementation of new business products, services, and processes; systems development; operational changes; and strategic initiatives.

Audit Services adheres to the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors. In addition, the internal audit department uses COSO's (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control Integrated Framework and COBIT (Control Objectives for Information and related Technologies), where appropriate, when evaluating the effectiveness of risk management at Wells Fargo.

Our Chief Auditor reports directly to the Board's Audit & Examination Committee (and administratively to the CEO) to ensure independence and objectivity. Audit Services is organized into functional teams that focus on Wells Fargo lines of business or key risk areas.

We have made organizational changes to create a stronger and more effective Audit Services organization that is positioned to respond to changes in the company's organization, risk profile, industry trends, emerging risks, and regulatory expectations. We've created the following new groups or realigned activities as follows:

- The Consumer Banking Audit Team, a consolidated consumer-focused audit group, enables a more customer-centric and integrated audit approach across all consumer lines of business and enhances our ability to identify risks and inconsistent consumer practices and application of laws and regulations.

  This group also has responsibility for reviewing the company's Customer Remediation Center of Excellence (page 12), as well as coordinating related audit work performed by line of business audit teams around consent orders and the company's risk target operating state to ensure comprehensive audit coverage.
- The Enterprise Risk Management Audit team is responsible for Strategic Enterprise Risk Management, Regulatory Relations, and Management/Board-level governance, including the review of the risk management framework, the company's risk target operating state, consent orders, and other regulatory matters.
- A dedicated audit resource is aligned to the company's conduct risk management activities, which are covered by enhanced coverage strategies.
- A Capital and Model Risk Management Audit team is responsible for Basel, Capital Adequacy Process, and Model audit coverage, through the centralization of resources previously allocated across other audit teams.
- A Shared Services Audit Team, which includes Data Analytics & Innovation resources, provides shared testing services across Audit Services.
- An expanded leadership team provides enhanced strategic focus and oversight and improves our organization's effectiveness, ensuring comprehensive assessment and coverage of key risks.

Audit Services seeks to enhance its policies and practices to improve coverage of key risks through continuous improvement activities, internal assessments, comparison to industry best practices, and regulatory feedback.

Audit Services has made several enhancements, including:

Regulatory focused activities

Enforcement actions. Our enforcement action audit work helps ensure management is appropriately responsive and corrective action plans are adequately designed, with testing to help ensure deliverables meet regulatory expectations.

Regulatory Matters Requiring Attention (MRA) validation. Audit Services is involved in monitoring the timely response to regulatory MRAs, including credible challenge to management corrective actions, monitoring of progress against established milestones, and where appropriate, validating that the completed corrective actions align with our commitments and address the underlying risk.

Customer remediation. Audit Services performs validation of top risk customer remediation efforts to help ensure the enterprise is appropriately defining, identifying, notifying, and making things right for any harmed customers. The team is currently building out a Remediation Coverage Program responsible for developing guidance for Audit Services teams to help ensure consistent, timely, and comprehensive remediation audit coverage.

Enterprise risk initiatives. Audit Services engages in and monitors enterprise risk initiatives by credibly challenging implementation plans, timelines, and staffing; testing and reporting on key milestones and deliverables; and validating corrective actions for effectiveness and sustainability. This includes efforts related to the Risk target operating state, enterprise compliance and operational risk programs, conduct management, and other high-priority programs.

Branch audits. The Consumer Banking Audit team conducts annual unannounced audits of bank branches, participates in select reviews by Conduct Risk Review, and conducts audits of branch-related oversight functions such as mystery shopping, regional services, branch control review, and the Sales and Service Conduct Oversight team.

Escalations

Wells Fargo has developed consistent principles for escalation to help ensure timely and effective escalation of issues meeting the threshold for escalation. Such issues — referred to as "escalated matters" — include circumstances that have the potential for significant adverse impact to the company's customers, businesses, team members, shareholders, or other stakeholders.

The following principles are foundational to our escalation approach:

- Emphasis on speed of escalation over complete development of all relevant information to facilitate prompt mitigation in a disciplined manner.
- Use of consistent taxonomy and definitions to facilitate aggregation and reporting.
- A defined and documented escalation pathway (both horizontally across businesses and risk types and vertically up to the Board) based on the nature and severity of risk.
- Defined roles and responsibilities across the entire enterprise and the Board with the expectation and awareness that all lines of defense have an obligation to escalate.
- The taking of appropriate mitigation actions with respect to escalated events commensurate with the risk posed to the company, and where escalated events are associated with a corresponding issue, application of the company's Issue Management Policy and expectations.

Escalation criteria specific to risk types and enterprise risk programs are documented by the relevant IRM risk program owners, in alignment with these escalation principles.

Risk appetite

Corporate Risk develops our enterprise statement of risk appetite in the context of our risk management framework. As part of Wells Fargo's risk appetite, we maintain metrics along with associated objectives to measure and monitor the amount of risk that the company is prepared to take. Actual results of these metrics are reported to the Enterprise Risk and Control Committee on a quarterly basis as well as to the Board's Risk Committee. Our operating segments also have business-specific risk appetite statements based on the enterprise statement of risk appetite. The metrics included in the operating segment statements are harmonized with the enterprise level metrics to ensure consistency where appropriate.

Business lines also maintain metrics and qualitative statements that are unique to their line of business. This allows for monitoring of risk and definition of risk appetite deeper within the organization. The Board's Risk Committee reviews and approves the enterprise statement of risk appetite annually, and the Risk Committee also actively monitors the risk profile relative to the approved risk appetite.

Enhanced controls for third-party service provider oversight

The Third-Party Risk Management program is focused on governance and oversight of Wells Fargo's third-party service providers. The program provides tools and processes to help businesses identify, evaluate, mitigate, and manage third-party related risks to protect Wells Fargo and our customers. We've made many enhancements to the program in recent years, including:

- Implemented enhanced risk assessment testing, monitoring, and reviews for our third-party service providers.
- Aligned the risk rating scale for third-party service providers with our enterprise risk ratings, which facilitates risk aggregation and reporting and broadens the scope of required risk management activities.
- Implemented recovery and resolution planning processes to help ensure resolution contract terms are added to third-party agreements and assessments of essential third parties are conducted.
- Instituted complaints management review and remediation processes to bring visibility to third-party complaints and actions to address identified issues.
- Partnered with Human Resources to create and integrate performance objective requirements for team members with third-party risk responsibilities into Wells Fargo's Performance Management Framework.
- Strengthened reporting to support continued monitoring and oversight of third-party compliance, including additional reporting to the Board's Risk Committee.

Certain enterprise functions with key control responsibilities: Finance

The Finance Group drives financial management for the enterprise and maintains and enhances risk and financial controls. The team partners with our businesses and functional areas to provide strategic counsel, simplified processes, streamlined tools, and innovative ideas that drive greater financial performance. Key functions include Finance and Controllers, Corporate Treasury, Corporate Development, Data Management and Insights, Customer Remediation Center of Excellence, Enterprise Shared Services, Business Process Management, and Corporate Strategy.

Finance and Controllers

The Finance functions construct, evaluate, and communicate information that leaders use to understand the company's financial performance and to make informed business decisions. The functions consist of Enterprise Finance, which is responsible for the development and management of the Finance Centers of Excellence (COEs), and Business Finance, which oversees the creation of finance strategy and business support for Wells Fargo businesses and functional areas.

> The Finance group drives financial management for the enterprise and maintains and enhances risk and financial controls.

In the past year, we have established five Finance COEs focused on: cost allocation and analytics, expense forecasting and analysis, reporting and analytics, revenue forecasting and analysis, and finance applications strategy and support. The Finance COEs use a strategic consulting model that provides organizational alignment around critical functions and consistent oversight of finance roles, processes, and tools. The Finance COEs:

- Provide consistent and common forecasting, reporting, and allocations processes.

- Develop finance self-service solutions to support leaders across the organization.
- Manage the strategy for finance applications and tools.

The Business Finance team is the liaison between Enterprise Finance and business leaders. This team provides strategic financial advice and guidance to leaders based on the reporting from the COEs. This enables Wells Fargo to serve internal clients consistently and reduces the risk of inconsistent financial reporting.

The Controllers Division delivers subject matter expertise, counsel, governance, and oversight for Wells Fargo's system of internal controls over financial reporting. The company provides financial, capital, and liquidity information to the Board, management-level governance committees, bank regulatory agencies, and other external stakeholders that require accurate and timely information supported by well-controlled books and records that are compliant with applicable accounting principles and regulatory reporting requirements. The completeness, accuracy, and reliability of our financial information is supported by the company's system of internal controls over financial reporting, which is based on COSO's Internal Controls Integrated Framework (a widely accepted internal control model against which companies and organizations manage risk and assess their systems of internal control).

Effective governance and oversight of the company's Internal Controls Integrated Framework is further supported by active involvement from leaders; a clear organizational structure and reporting lines; well-defined roles and responsibilities; enforced accountabilities; report and disclosure preparation standards designed to ensure complete, accurate, timely, and easily understood reporting; and procedures, controls, and tools to facilitate governance and management of reporting, including risk assessment, control activities, and monitoring, reporting, and escalation processes.

Corporate Treasury

Treasury plays an essential role in Wells Fargo's overall risk management in three primary areas: liquidity, capital, and interest rate risk. The team develops and manages capital and liquidity strategies to help ensure appropriate financial resources are available to support Wells Fargo's strategic objectives and protect against potential financial stresses. It also oversees the company's stress tests, which are intended to help identify and quantify potential future risks and the financial impacts of stress scenarios. In addition, Treasury monitors the company's interest rate risk and develops and implements strategies to help ensure exposure to changing interest rate environments can be safely managed.

As a part of Treasury, the Recovery & Resolution Program Office (RRPO) leads the company's efforts to reduce the potential for significant disruption to financial markets in the event severe financial stress affects the company. The RRPO also helps ensure the company maintains its institutional readiness to continue serving customers in such circumstances. The RRPO works with partners across the company to prepare, review, and maintain comprehensive recovery and resolution plans; embed resolvability considerations into the routine management of the company; and enhance companywide engagement and accountability for recovery and resolution planning. These activities are subject to review and challenge from Independent Risk Management.

As part of our commitment to maintaining a resilient financial profile, Wells Fargo dedicates significant resources to support the RRPO and its federated model of recovery and resolution planning to help ensure that the company, in the event of severe financial stress, would not pose systemic risk to the financial system.

Enterprise Shared Services (ESS)

Enterprise Shared Services brings together a number of enterprise functions that help lead, deliver, and govern services and transformation initiatives across the company. ESS functions help deliver companywide consistency via policies, methodologies, accountabilities, skill sets, and tools. The team's scope includes project management, global services, operational resiliency, corporate properties, and corporate security to help drive operational excellence and cultural change across the company.

The Operational Resiliency team helps ensure that Wells Fargo maintains the legal structure and services necessary to thrive in an ever-evolving operating environment and properly navigate any unforeseen or adverse scenarios. The team identifies and inventories the functions we perform across the enterprise, including the people, facilities, third parties, systems, and intellectual property that go into performing each activity. This helps to identify what is most critical for business continuity and recovery and resolution purposes.

The Enterprise Portfolio Management Office provides a consistent and holistic approach to program and project management. Its mandate is to establish the enterprise project management policy, methodology, and quality review process; maintain the project management system of record; and revise relevant job family titles and performance objectives.

Business Process Management

Providing a clear vision of how process excellence can simplify and enhance the team member and customer experience, this team drives our efforts to create a consistent approach to business process management across Wells Fargo and is establishing process as one of the company's key assets along with people, technology, and data.

Corporate Strategy

Each year, Wells Fargo develops a companywide strategic plan that establishes the strategic priorities necessary to achieve our Vision, Values & Goals. The process is driven by Corporate Strategy, which works closely with the lines of business and enterprise functions to develop and update the strategic plan. Specifically, business lines and functional areas are asked to identify their most significant opportunities, challenges, and risks along with their strategies to address them over the ensuing three-year period. The strategic planning process is integrated with risk management, financial forecasting, capital planning, and liquidity risk management to help ensure that strategic decisions assess and mitigate risks, evaluate impacts and potential execution hurdles, and consider companywide perspectives.

Human Resources (HR)

The HR function supports strong business performance by ensuring that the company has the right leaders and talent to meet business objectives. HR helps drive team member engagement by providing a consistent, compelling team member experience across the company, simplifying HR so that team members can stay focused on meeting the needs of our customers.

All HR team members are called on to fulfill HR's responsibilities as a control function. Through strategic partnership with the businesses, HR team members identify and help mitigate HR risk in the lines of business and across the enterprise. HR also establishes key controls, monitoring, and reporting that aligns with HR end-to-end processes.

Organization

The HR team includes more than 4,000 team members. Over the past several years, we have centralized our HR structure and transformed its operating model to better support our businesses and improve how we deliver HR services to team members at Wells Fargo in a consistent and compelling way.

Consulting teams within HR serve as strategic partners to business groups and functional areas across the enterprise. They consult on, develop, and execute robust human capital plans that help Wells Fargo achieve its goals. Working in partnership across HR teams, the consulting function creates holistic and forward-looking HR plans. HR consulting team members also serve as a control function, providing a strong risk management perspective to business leaders across the company in support of their human capital planning needs.

In addition, the enterprise HR centers of expertise teams are responsible for strategy, design, implementation, and adoption of their services to support Wells Fargo businesses and enterprise functions. This includes enabling managers to lead and coach team members through hiring, onboarding, and engagement and providing core services such as benefits, compensation, and payroll.

Governance and enhanced controls

The centralized HR function provides a horizontal view of identifying, escalating, and resolving talent risks across the company. We have created a consistent Human Capital Planning Process with a common set of metrics for each line of business, improving our ability to proactively identify and address key business risks. We have made recent enhancements to enable HR to be a strategic partner for the business and enhance controls, including:

- Invested in technology and innovation initiatives related to the recruiting process to drive toward consistent enterprise processes.
- Enhanced reporting to the Board's Human Resources Committee to include human capital management, culture, Code of Ethics and Business Conduct, and implementation and effectiveness of the company's ethics, business conduct, and conflicts of interest program, including training on ethical decision-making and processes for reporting and resolution of ethics issues.

- Implemented Quarterly Integrated Operating Reviews with Operating Committee members leveraging key Human Capital Metrics. These metrics are being piloted and adjusted to ensure they are providing leaders with imperative human capital insights that help them identify risks proactively, make informed decisions, and spot positive and negative trends quickly.
- Established a centralized Employee Relations team to resolve workplace disputes and investigate allegations of discrimination, retaliation, and harassment, including referrals from the EthicsLine.
- Implemented an enterprise Talent Management System allowing for consistency in team member development plans and a common talent review process with a cross-business lens.
- Implemented new enterprise performance management standards as the next step in our efforts to strengthen goal setting, manager coaching, and feedback.
- Introduced a single Enterprise HR Transaction Matrix, creating a common approach and set of approvals for critical HR transactions across the company.
- Created a Human Capital Risk Council to oversee the management of the risks generated by Wells Fargo's HR activities and exposures identified in Wells Fargo's Risk Coverage Statement.
- Enhanced HR's partnership and collaboration with HR Risk and Compliance to conduct risk mapping, risk assessment, and monitoring of key risk indicators within the HR function.

Succession planning and pipeline development

Our talent planning philosophy is focused on managing team members to ensure we are well positioned to meet the needs of today and the future. The increasingly competitive business landscape, our goal to increase diversity in our leadership ranks, and a need to prepare for retirements all mean that we must have a rigorous process in place to build credible succession plans.

Our ongoing talent review cycle is a business process that enables leaders to identify successors for critical roles, understand how prepared a potential successor is to assume those roles, create development plans and implement actions to support leadership readiness, and make progress toward sufficiently diverse representation in the pipeline. Every year, the CEO meets with Operating Committee members to review succession plans, discuss top talent, and plan for strategic and intentional moves for key leaders in the company. The talent plan also is reviewed and discussed with the Human Resources Committee and the full Board annually.

We purposefully move leadership talent within and across lines of business and disciplines to build broader enterprise experience and perspective. These moves also create opportunities to expand leaders' networks and increase their knowledge of the company. This approach to talent movement helps us build a pipeline of leaders who have a comprehensive enterprise view in addition to deep operational expertise.

Legal Department

The Legal Department provides timely, expert legal advice and services to all Wells Fargo businesses and control functions. The department works in partnership with groups across the enterprise, including front-line businesses, enterprise functions, Independent Risk Management, and Wells Fargo Audit Services, to identify, mitigate, and manage existing and emerging legal, regulatory, and reputational risks. The department's structure provides a clear alignment by line of business and enterprise functional areas to work horizontally across Wells Fargo and address the company's complex legal and regulatory environment.

Lines of business and enterprise functional areas are supported by dedicated Deputy General Counsels and related teams. These teams are Consumer Banking; Corporate Governance & Securities; Employment; Enterprise Functions; Enterprise Risk, Regulatory & Audit; Global Commercial & Securities; Litigation, Regulatory Enforcement & Investigations; Operations, Recovery & Resolution Planning, and Comprehensive Capital Analysis & Review; and Wealth and Investment Management.

Client-focused enhancements

The Legal Department has made several key changes to strengthen its control and risk management capabilities over the past two years, including:

- Consolidating overall support for Consumer Banking under a single Senior Deputy General Counsel.
- Adding new Deputy General Counsels and repositioning existing Deputy General Counsels to create enhanced alignment by line of business and enterprise functional areas. In particular, the Enterprise Risk, Regulatory & Audit Division was created to strengthen the Legal Department's support of risk management, regulatory relations, and the audit functions by providing a dedicated focus for these areas. The division also will coordinate legal support for implementation of consent orders to ensure consistency and provide subject matter expertise in connection with regulatory enforcement actions.
- Establishing a shared set of performance objectives — including risk objectives — to ensure that all team members in the department understand the behaviors that are expected of them.

The Legal Department is also working on enhancing its internal reporting to better identify potential risk management opportunities.

Alignment with Corporate Risk and Audit

The Legal Department is closely aligned with the company's independent risk management functions, including Compliance and Operational Risk. The department works closely with Corporate Risk in the development of corporate risk programs and policies, as well as in the application of those programs and policies in the businesses and enterprise functions. The groups have been enhancing their communication and partnership in support of the company's risk management efforts to promote compliance with laws and regulations, as well as risk management at the company generally. For example:

- As mentioned above, the creation of the Enterprise Risk, Regulatory & Audit Division.
- The development of communication protocols between Compliance and the Legal Department.
- Managing legal third-party service providers through the enterprise Third-Party Risk Management program.
- Optimizing the use of outside legal firms and consultants.
- Providing enhanced risk, relationship, and cost management.

Technology

Wells Fargo has long been committed to the integrity of our customers' information and the systems we use to run our company. Technology and information security are at the heart of what allows us to satisfy our customers' financial needs and help them succeed financially. Almost everything we do is touched by the technology and security professionals who develop and protect our systems.

We recently announced an organizational change to combine our Enterprise Information Technology (EIT) and Enterprise Information Security (EIS) teams under a new technology leader who will report directly to our CEO and join our Operating Committee.

EIT is responsible for managing all aspects of the company's technology, including its strategy, systems, and safety and soundness. EIS provides cybersecurity risk management, focused on information security strategy, identity and access management, security engineering, line-of-business engagement, and cyber defense and monitoring.

This organizational change is intended to further accelerate our efforts to simplify Wells Fargo's technology environment, strengthen our security capabilities, mitigate risk, and enhance our ability to meet our business and regulatory commitments.

The new technology leader, who joins Wells Fargo in April 2019, will set direction and drive accountability for technology and information security programs across the company — with a specific focus on risk management and adherence to policies and regulatory requirements.

VIII.

Our relationships with investors, communities, and other stakeholders

Wells Fargo engages with a wide range of stakeholders, and over the past several years, we have been diligently working to enhance those relationships.

One example: We formed a Stakeholder Relations Group in July 2017 to foster a more integrated approach to engaging with stakeholders. The group includes Corporate Communications; Corporate Philanthropy and Community Relations; Government Relations and Public Policy; Investor Relations; and Sustainability and Corporate Responsibility. Focused on rebuilding trust and strengthening relationships with our stakeholders in an integrated way, Stakeholder Relations works in partnership with other groups within the company to build and execute a comprehensive, fully integrated stakeholder relations program and enables us to better coordinate activities across all of our key stakeholder groups.

In addition, the company created the Stakeholder Advisory Council in 2017 to provide external insight and feedback to the Board and senior management. The council is composed of representatives of stakeholder groups that are especially important to the company, including groups focused on human rights, consumer rights, fair lending, the environment, civil rights, and governance. The council, which represents a diverse range of perspectives and experiences, is focused on deepening the company's understanding of key current and emerging issues relevant to both the company and its stakeholders, including serving the financial needs of underserved communities, diversity and social inclusion, and environmental sustainability. This group helps ensure that we gain a strong understanding of a broad range of perspectives and are taking those perspectives into account.

Members of the Stakeholder Advisory Council:

- **Michael Calhoun,** president, Center for Responsible Lending
- **Mindy S. Lubber,** CEO and president, Ceres
- **Marc H. Morial,** CEO and president, National Urban League
- **Janet Murguía,** CEO and president, UnidosUS
- **Sister Nora Nash,** director of Corporate Social Responsibility for the Sisters of St. Francis of Philadelphia, a member of the Interfaith Center on Corporate Responsibility
- **Anne Sheehan,** former director of Corporate Governance, California State Teachers' Retirement System (CalSTRS)
- **John Taylor,** president & CEO, National Community Reinvestment Coalition

Investors

The Board also listens to and collects feedback from investors in other forums. Since 2010, we have had an investor outreach program with independent director participation to help us better understand the views of our investors on key corporate governance topics. In addition to engaging with our largest institutional investors, we have enhanced the way we engage with additional investors and stakeholders to hear their

perspectives. The candid feedback we receive during these meetings is important and helps us define priorities, assess progress, and enhance our corporate governance practices and disclosures each year.

Following our 2017 annual meeting, members of the Board, including Board Chair Betsy Duke, contacted our largest institutional investors and engaged with institutional investors representing more than 35 percent of our company's common stock. The Board also met with numerous other stakeholders to discuss Wells Fargo's progress as well as corporate governance and environmental and social governance practices, policies, and disclosures.

The Board's engagement with our investors is coordinated with our Corporate Secretary's office and our Stakeholder Relations group and occurs throughout the year, with active outreach to institutional investors and meetings with investors and other stakeholders upon their request. The feedback we receive from these meetings is shared with the full Board and senior management. The Board conducts a comprehensive self-evaluation (page 53) and reviews our governance practices at least annually and uses investor and other stakeholder feedback to identify areas for potential enhancements to our policies, practices, and disclosures.

Based on shareholder feedback, the Board has taken a number of actions over the past several years to increase shareholder rights and enhance its structure. For example, in March 2018 we lowered the threshold required for shareholders to call special meetings from 25 percent ownership of our common stock to 20 percent. In addition, we adopted proxy access in 2015 with a 3 percent/three-years ownership threshold.

Senior management and members of our Investor Relations team also meet with investors and analysts on a regular basis and participate in investor conferences to provide updates on company progress, financial performance, and business results. Since 2010, we have hosted an Investor Day every other year in which senior management spends a full day updating analysts and investors about Wells Fargo. Approximately 125 buyside and sellside analysts attend Investor Day, which we also broadcast live on our website. Following the sales practices issues, we held an off-cycle Investor Day in 2017 as part of our commitment to transparency.

Our communities

We use a range of mechanisms for engaging in dialogue with nonprofits, community organizations, advocacy groups, industry groups, and nongovernmental organizations to help us understand their perspectives on current and emerging issues, respond to significant matters, and ensure we are having a positive impact on communities in which we do business. The feedback we receive helps us develop new business practices, policies, and products to better serve and care for our customers and communities.

Team members are critical to our community engagement efforts. We encourage our team members to be actively involved with nonprofits and the causes they care about. We provide a variety of opportunities to support them, including two paid days a year for volunteering on projects with nonprofits or schools. Today about one-third of our entire company participates in business resource groups, including Volunteer Chapters, Green Teams, and Team Member Networks (page 16). Our workplace giving campaign has been named by United Way Worldwide as No. 1 in the U.S. for nine consecutive years (2009–17).

Community engagement and collaboration

The long-term success and resiliency of our communities, and our business, depends on our ability to collaborate internally and across the public and private sectors to create sustainable solutions that meet local needs. We work with a range of stakeholders to promote inclusive economic opportunities, expand access to financial products and services, increase financial capability, and improve financial stability in underserved and diverse communities. The constructive and candid feedback we receive from our stakeholders is important and has informed many of our initiatives over the years.

Here are a few examples:

Creating sustainable homeownership: We're very proud of our partnership with NeighborWorks® America, community-based nonprofits, and city officials to revitalize low- and average-income neighborhoods through our LIFT programs, which provide down payment assistance, home lending, homebuyer education, and other support (page 95). In 2018, *NeighborhoodLIFT* expanded with a

$75 million commitment that includes special parameters for military service members and veterans, teachers, law enforcement officers, firefighters, and emergency medical technicians, in recognition of the service they provide to their communities.

Supporting diverse small businesses. We work with external organizations to provide technical assistance, access to capital, and other development opportunities to help support the growth of diverse-owned business. For example, the Wells Fargo Works *for Small Business*®: Diverse Community Capital program provides grants and capital to Community Development Financial Institutions serving diverse-owned businesses that may not qualify for conventional bank loans.

Developing diverse suppliers. We recognize that a diverse supplier base enhances our supply chain and generates efficiency and innovation for the benefit of our customers and communities. We focus on developing and expanding Wells Fargo's diverse supplier pipeline through programs such as the Wells Fargo Scholarship Fund for Diverse Businesses, a collaboration with the Tuck School of Business at Dartmouth University that provides scholarships to certified minority-, women-, veteran-, LGBTQ-, and disabled-owned business entrepreneurs.

Strengthening opportunities for military veterans. We seek to enable long-lasting, sustainable housing for veterans, assist active duty members with career transition, and provide financial education and resources for military families who are facing financial hardships (page 69). For example, we collaborated with Scholarship America to develop the Wells Fargo Veterans Scholarships and Wells Fargo Veterans Emergency Grants programs to help veterans and spouses of disabled veterans complete post-secondary education or vocational training and succeed in civilian life.

Improving financial capabilities. Hands on Banking/El futuro en tus manos® is a free, engaging, non-commercial financial education program in English and Spanish that provides individuals with the knowledge, skills, and confidence needed to make informed financial decisions. We work with school districts, government agencies, and nonprofits to provide workshops and drive awareness of the program, with a focus on reaching underserved communities. And we've worked in partnership with nonprofits such as the National Foundation for Credit Counseling to create customized *Hands on Banking* programs for military veterans, seniors, and entrepreneurs to address their unique financial education needs.

Building resilient communities. Traditionally, underserved and low- and moderate-income communities are the most vulnerable to natural disasters and other tragedies. Through our Resilient Communities Grant program, a collaboration with the National Fish and Wildlife Foundation, we are helping cities enhance and protect natural habitats to help prepare for, withstand, and recover from natural disasters.

The Wells Fargo Foundation

Wells Fargo is one of the largest corporate cash donors in the U.S., supporting thousands of national and community-based nonprofits annually through the Wells Fargo Foundation. The Wells Fargo Foundation Board of Directors, which includes senior executives from across the company, is responsible for providing oversight and management of Wells Fargo's philanthropy as well as approving enterprise-level grants.

Through the Wells Fargo Foundation, we direct approximately 50 percent of our corporate philanthropy to initiatives that align with our three strategic Corporate Social Responsibility priorities: diversity and social inclusion, economic empowerment, and environmental sustainability (page 41). The remaining philanthropic contributions are allocated to local market teams and may support the three priorities or other specific community needs and opportunities.

Our local markets are supported by Wells Fargo Community Relations and Community Development officers who engage and build relationships with community-based nonprofits, city officials, government agencies, and others in the public and private sectors to deliver grants, volunteers, capital, credit, financial education, and more to stabilize and strengthen low- and moderate-income neighborhoods and address other issues of mutual concern. Wells Fargo's Community Lending and Investments team also plays a critical role in supplying capital — including debt and equity — to underserved businesses and communities in support of Wells Fargo's commitment to economic development, job creation, and affordable housing.

LIFT programs, other efforts advance homeownership among diverse customers

Wells Fargo views homeownership as a pathway to financial success, a source of stability for communities, and a key driver of the U.S. economy. We are working with stakeholders and partners from across the housing finance sector to help consumers — especially in diverse communities — achieve homeownership, and we are committed to being there for our customers if they encounter financial hardship (page 65).

LIFT

NeighborhoodLIFT, *CityLIFT*, and *HomeLIFT* are distinct programs that complement each other with a common purpose to create sustainable homeownership. Through the LIFT programs, Wells Fargo has committed more than $430 million of down payment assistance, housing counseling, and homebuyer support and education to help accelerate the housing market recovery. The *NeighborhoodLIFT* program is the single largest corporate philanthropic effort of its kind in Wells Fargo's history and is funded by the Wells Fargo Foundation.

Diverse lending commitments

In recent years, Wells Fargo has announced lending commitments to increase homeownership in the African American and Hispanic communities.

The African American commitment — launched in 2017 in partnership with the NAACP, the National Urban League, and the National Association of Real Estate Brokers — entails plans to lend $60 billion to qualified African American consumers for home purchases by 2027, and an additional $15 million to promote financial education and counseling.

The Hispanic Wealth Initiative, launched in 2015 with the National Association of Hispanic Real Estate Professionals, includes a projected $125 billion in mortgage originations and $10 million to support financial education and counseling programs in the Hispanic community by 2025.

Both commitments also include an effort to increase diversity within the Wells Fargo Home Lending sales team.

LIFT PROGRAMS: PARTNERSHIP IN ADVANCING HOMEOWNERSHIP

In addition to our diverse lending commitments, thousands of low- and moderate-income homebuyers have been helped since the unique LIFT initiative was launched in 2012 by Wells Fargo and NeighborWorks® America.

Wells Fargo's more than $430 million investment has:

- Provided for LIFT events in 68 communities.
- Created nearly 20,000 homeowners.
- Delivered homebuyer education to more than 60,000 customers.
- Committed $33 million to community initiatives.

Through the end of 2018, our diverse lending commitments already have helped more than 170,000 African American and Hispanic individuals purchase a home. One of these homeowners is Athena Emerson, an African American veteran, widow, and single mother who had rented homes and apartments. Home Mortgage Consultant Greg Jackson assisted Emerson every step along the path to homeownership, helping her qualify for and obtain a mortgage guaranteed by the Department of Veteran Affairs, connecting her with a real estate agent, and following up on all the details. The work paid off. Emerson, who is 57, now lives happily and proudly in the first home she has ever owned.

Other stakeholders

Regulators

Our main federal regulators include the Federal Reserve Board, the OCC, the Federal Deposit Insurance Corporation, and the CFPB. There also are other federal, international, state, and local agencies that regulate and examine Wells Fargo, such as the Financial Crimes Enforcement Network, the Securities and Exchange Commission, and the U.S. Department of Housing and Urban Development.

Since the 2008 financial crisis, regulatory expectations have heightened significantly, and enforcement activity has increased in volume and severity. Changes to existing laws, rules, and regulations have resulted in increased compliance requirements and expectations.

We acknowledge that we have not always met the expectations of some of our regulators in recent years and are working hard to address regulatory matters and rebuild trust.

Members of our Board and senior executives are meeting more frequently with regulators to address concerns and seek input. In 2018, we formed a new Regulatory Relations group within Corporate Risk designed to provide dedicated resources to meet our regulatory commitments and obligations across the company and to better manage our regulatory relationships and engagement.

The enterprise Regulatory Relations group will provide oversight and credible challenge to the business lines and enterprise functions to help ensure that we are executing on the commitments that we've made and responding in a timely manner. In the new "hub and spoke" model, each business line and enterprise function will have a regulatory relations coordination function. This will help ensure the front line is accountable for managing its regulatory relations and engagement and adhering to enterprise policy.

To track our progress on regulatory engagement, we are enhancing metrics and other measures such as requests from regulators on matters requiring attention, self-identification of issues, timeliness of any remediations, and closures of public enforcement actions.

Ultimately, it is our goal to engage in frequent and open communication with our regulators, anticipate regulatory issues, continue to self-identify most of the issues we have, and self-correct and provide any remediation as quickly as possible.

Government officials

Government Relations and Public Policy is charged with leading the work across all Wells Fargo lines of business and enterprise functions to determine and advocate for the company's public policy positions that support and advance the company, industry, and economic soundness of the U.S. The team devises collaborative and integrated efforts that support Wells Fargo's goals consistently and transparently.

As the internal and external environments evolved over the past few years, so has our approach to government relations. It was clear that we needed to broaden the focus to better establish and coordinate the determination of Wells Fargo's public policy positions; communicate about company advancements, products, and services; and generally deepen relationships with all levels of government leaders, trade groups, think tanks, the academic community, and non-government organizations active in public policy. Accordingly, we created a new Government Relations and Public Policy group to integrate several previously separate functions and to drive a holistic approach that enables the company to speak with a more unified voice on public policy, federal agency, legislative, and political matters.

In 2017, four new areas of practice were added -- Public Policy, Government Agency Affairs, External Relations, and Political Programs. The new construct enables Wells Fargo to be more effective in shaping public policy at all levels of government and better position the company in a challenging and rapidly evolving political environment.

The Public Policy team primarily works with Wells Fargo's leaders to establish consistent and prioritized positions on public policy matters. Government Agency Affairs deepens and maintains relationships with the executive branch of the federal government including the White House and cabinet agencies, and federal regulators on non-supervisory matters. Engagement and outreach to trade associations, think tanks, academics, and policy-focused non-governmental organizations is managed by External Relations. And Political Programs evaluates and provides guidance to Wells Fargo leaders on the political environment and campaigns in addition to developing a transparent and strategic approach for managing Wells Fargo's Political Action Committees.

In addition, the Federal Government Relations team and the team conducting State and Local Government Relations were reorganized and consolidated as part of the Government Relations and Public Policy group. The centralization of these teams integrates the company's advocacy efforts, increases the understanding of the key issues facing the U.S., and maximizes Wells Fargo's reach at all levels of government.

Government Relations and Public Policy is accountable to maintain and improve the company's reputation and increase government-related stakeholders' understanding of Wells Fargo — through an improved quality and level of consistent information about how we serve customers, how we live our culture, and how we perform for our stakeholders (which include government officials, trade associations, think tanks, and non-governmental organizations invested in public policy).

Under the direction of Government Relations and Public Policy, Wells Fargo participates in the public policy arena on a wide range of issues that may impact the company and our business lines. We utilize on-staff government relations professionals, contract lobbyists, and trade associations to monitor and provide comment on proposed legislation and regulation that may affect how we serve our customers. Government Relations and Public Policy must approve any use of company funds for lobbying. All federal lobbying activities are disclosed under the Lobbying Disclosure Act (LDA), which requires that reports be filed quarterly with the United States Congress. The LDA reports are available for review on the U.S. House and Senate websites.

While trade groups often determine industry public policy consensus, our participation in these groups comes with an understanding that we may not always agree with every position taken. Decisions about our involvement with trade groups are made by the line of business managers and local bank leadership in conjunction with Government Relations and Public Policy.

We prohibit trade associations and groups of which we are a member from using our corporate funds for campaign and election activities. We inform these organizations of our policy prohibiting the use of membership dues and fees for contributions to candidate committees, independent expenditure committees, or other direct or indirect contributions to election campaigns, and expect them to adhere to it. We are not members of any tax-exempt organization in the U.S. that is primarily organized to write, endorse, or promote model legislation.

IX.

Our focus on continuous improvement

Wells Fargo is transforming into a better company that is more focused on customers than ever before — with strengthened risk management and controls, streamlined processes, an enhanced team member experience, and a simplified organization.

Guided by our Vision, Values & Goals, we are making steady progress in fixing what went wrong, improving our culture, listening to and acting on feedback from stakeholders, examining our day-to-day business practices, and being transparent about the issues we uncover as well as our responses. We also are committed to doing more to support the thousands of communities where we do business.

In short, we are putting into practice everything we have learned. As we move forward on our long-term transformation, we are committed to building on the many changes we've put in place over the past two years. We have many metrics (page 99) in place to track our progress, and we will continue to keep stakeholders informed.

We have learned from our mistakes, and we will maintain and enhance many of the improved practices that have helped us reach this point in our journey — seeking feedback from many stakeholders, making whole customers who were harmed, listening closely to team members, inspecting our business practices, asking tough questions of ourselves, treating our customers as they expect to be treated, communicating transparently, and holding ourselves accountable.

We are confident that the changes we have made — and continue to make — along with the controls and safeguards we've put into place, have addressed the root causes of our sales practices and other issues and will prevent them from happening again.

While we cannot promise that we will never find another issue at our company, we can commit to this: When we discover something that needs to be addressed, we will take ownership, move quickly to remedy what needs to be repaired, make things right for customers, and communicate with our stakeholders — even if we are early in the process and don't yet have all of the answers. We can expect additional public interest as we resolve previously disclosed matters and continue our work to rebuild trust.

As we continue our transformation, we will continue to focus on relationships with external stakeholders, including investors, community partners, government officials, and regulators. We understand the important roles that these stakeholders have in the success of our company, and we are committed to seeking and acting on their input and keeping them informed.

We also will continue to enhance our culture to improve the team member experience. We will continue to inform team members and seek their input through many forums, including CEO town halls and leader meetings, team member surveys, focus groups, and team member comments on our internal communications platforms. The changes we are making are designed to ensure that all team members experience the same Wells Fargo — no matter where they are located or what part of the company they work in.

Importantly, we remain committed to placing customers first as we move forward. Everything we do starts with our vision to satisfy our customers' financial needs and help them succeed financially. We are making changes to improve our service to customers and providing innovation to deliver added convenience, security, and simplicity.

While we have made strong progress in our efforts to rebuild trust, our work to improve Wells Fargo will never be done. We will always look for ways to get better — that's what great companies do — and we pledge to continue building a better, stronger company for all of our stakeholders.

Measuring our progress

We look at a variety of internal metrics, many of which are publicly disclosed, to measure our progress. Below are some examples. We also track a number of third-party rankings that you can find on our Wells Fargo Today quarterly fact sheet.

Goals	Internal metrics
Customer service and advice	· Primary consumer checking customer growth* · Customer loyalty branch survey scores* · Overall satisfaction with most recent visit branch survey scores* · Financial Health Conversation volume · Percent of Wealth and Investment Management clients with an *Envision* plan · Complaints volume · Number of zero-balance and customer-specific balance alerts sent to customers to help them manage their accounts*
Team member engagement	· Team Member Experience survey · Pulse surveys · Exit surveys · Completion of training courses* · Percent of diverse workforce* · Voluntary team member attrition*
Innovation	· Accounts opened digitally* · Digital (online and mobile) active customers* · Customer usage of new technologies (*Zelle*, online mortgage application, etc.)* · Pipeline of innovation in proofs of concept or pilots*
Risk management	· Number of outstanding regulatory matters · Volume of self-identified issues · Non-performing assets* · Net charge-offs* · Liquidity coverage ratio* · Common Equity Tier 1 capital* · Issues escalation resolution · Number of Environmental Social Risk Management (ESRM) due diligence reviews*
Corporate citizenship	· Corporate philanthropic donations* · Team member donations and volunteer hours* · Mortgage originations with low- and moderate-income households* · Loans to diverse small businesses* · Percent of reductions in greenhouse gas emissions, water and energy consumption, waste diversion* · Total investments in sustainable financing* · Amount spent with diverse suppliers*
Shareholder value	· Return on equity (ROE)* · Return on average tangible common equity (ROTCE)* · Revenue growth* · Expense targets* · Capital return to shareholders*

*Previously disclosed publicly

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Appendix: Resources

Corporate

Building a Better Wells Fargo
(https://stories.wf.com/betterbank#)

History of Wells Fargo
(https://www.wellsfargo.com/about/corporate/history/)

Online Newsroom
(https://newsroom.wf.com/)

Progress Report
(https://www08.wellsfargomedia.com/assets/pdf/commitment/progress-report.pdf)

Wells Fargo Stories
(https://stories.wf.com/?cid=vty)

Wells Fargo Today Quarterly Fact Sheet
(https://www08.wellsfargomedia.com/assets/pdf/about/corporate/wells-fargo-today.pdf)

Corporate Responsibility

Climate Change Statement
(https://www.wellsfargo.com/about/corporate-responsibility/environment/climate-change-statement/)

Corporate Social Responsibility Goals and Reporting
(https://www.wellsfargo.com/about/corporate-responsibility/goals-and-reporting/)

Environmental and Social Risk Management
(https://www.wellsfargo.com/about/corporate-responsibility/environmental-social-risk-management/)

Environmental, Social, and Governance Guide
(https://www.wellsfargo.com/about/investor-relations/environmental-social-governance-guide)

Human Rights Statement
(https://www.wellsfargo.com/about/corporate/human-rights-statement/)

Indigenous Peoples Statement
(https://www.wellsfargo.com/about/corporate-responsibility/indigenous-peoples-statement)

Modern Slavery Act
(https://images.newsletters.wellsfargointernational.com/Web/WellsFargoInternational/%7B2d467440-3f6b-4f50-9db8-d650ead3531d%7D_ModernSlaveryActStatement_fnl.pdf?elqTrackID=4181edad05584 dc3af45c8d4ac5bff87&elqaid=789&elqat=2)

Responsible Energy Financing
(https://www.wellsfargo.com/about/corporate-responsibility/responsible-energy-financing/)

Culture and Business Practices

Code of Ethics and Business Conduct
(https://www08.wellsfargomedia.com/assets/pdf/about/corporate/code-of-ethics.pdf)

Diversity and Accessibility
(https://www.wellsfargo.com/about/diversity/)

Fair and Responsible Lending and Servicing
(https://www.wellsfargo.com/help/consumer-credit-lending-principles/)

Government Relations and Public Policy
(https://www.wellsfargo.com/about/corporate-responsibility/government-relations/)

Operational Sustainability
(https://www.wellsfargo.com/about/corporate-responsibility/environment/)

Privacy and Security
(https://www.wellsfargo.com/privacy-security/)

Supplier Code of Conduct
(https://www08.wellsfargomedia.com/assets/pdf/about/corporate/supplier-code-of-conduct.pdf)

Supplier Diversity
(https://www.wellsfargo.com/about/diversity/supplier-diversity/)

Supply Chain Management
(https://www08.wellsfargomedia.com/assets/pdf/about/corporate-responsibility/gri-supply-chain-indicators.pdf)

Vision, Values & Goals of Wells Fargo
(https://www.wellsfargo.com/about/corporate/vision-and-values/)

Appendix: Resources, cont.

Leadership and Governance

Board Committees and Charters
(https://www.wellsfargo.com/about/corporate/governance/)

By-Laws
(https://www08.wellsfargomedia.com/assets/pdf/about/corporate/governance-by-laws.pdf)

Corporate Governance
(https://www.wellsfargo.com/about/corporate/governance/)

Corporate Governance Guidelines
(https://www08.wellsfargomedia.com/assets/pdf/about/corporate/governance-guidelines.pdf)

Executive Officers
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Annual Report and Proxy Statements
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THE CASE FOR HOLDING MEGABANKS ACCOUNTABLE: AN EXAMINATION OF WELLS FARGO'S EGREGIOUS CONSUMER ABUSES

REPORT PREPARED BY THE DEMOCRATIC STAFF OF THE
COMMITTEE ON FINANCIAL SERVICES, U.S. HOUSE OF REPRESENTATIVES

THE HONORABLE MAXINE WATERS, RANKING MEMBER
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This report has not been officially adopted by the Committee on Financial Services and may not necessarily reflect the views of its Members

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Executive Summary

On September 8, 2016, the Consumer Financial Protection Bureau ("Consumer Bureau") announced a $100 million fine against Wells Fargo Bank, N.A. ("Wells Fargo") for illegally opening millions of fraudulent credit card and deposit accounts in its customers' names without their knowledge or consent.[1] The Office of the Comptroller of the Currency ("OCC") announced a $35 million civil penalty[2] and the Office of the Los Angeles City Attorney ("LACA") announced a $50 million civil penalty against the bank for the same abusive acts.[3] The combination of a toxic, high-pressure sales environment at Wells Fargo—along with misconduct sanctioned, and even encouraged, by its executives—resulted in widespread consumer harm. Unfortunately, the fraudulent sales practices were not an isolated incident and instead have been revealed to be just one scandal in a series of revelations of other illicit customer abuses that have occurred at the bank.

In addition to these fines levied on the bank, Wells Fargo has paid out billions of dollars for a disturbingly consistent pattern of other wrongdoing. These practices, discussed in Section I, include illegal student loan servicing practices, inappropriate checking account overdraft fees, and unlawful mortgage lending practices, such as overcharging veterans for refinance loans. There are also allegations that the bank has engaged in unlawful practices that have not yet been subject to fines and enforcement actions, including enrolling customers in life insurance policies without their consent,[4] delaying mortgage closing dates until after the expiration of borrowers' interest rate lock to levy additional fees,[5] and charging over 570,000 customers for auto insurance policies they did not need, which resulted in at least 20,000 customers, including active duty service members, having their vehicles inappropriately repossessed.[6]

When megabanks like Wells Fargo engage in repeated, intentional, regular, deliberate, or institutionalized misconduct by violating laws and regulations that cause widespread and significant harm to innocent customers, such conduct warrants the use of regulators' most severe enforcement tools to protect the interest of the public and ensure the integrity of the U.S. banking system.

As Section II of this report describes, the federal prudential banking regulators – the OCC, the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), and the Federal Deposit Insurance Corporation ("FDIC") – have enforcement tools beyond civil money

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[1] Consumer Financial Protection Bureau, "Consumer Financial Protection Bureau Fines Wells Fargo $100 Million for Widespread Illegal Practice of Secretly Opening Unauthorized Accounts," (Sept. 8, 2016), *available at:* https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-fines-wells-fargo-100-million-widespread-illegal-practice-secretly-opening-unauthorized-accounts/.

[2] https://www.occ.gov/news-issuances/news-releases/2016/nr-occ-2016-106.html.

[3] http://www.lacityattorney.org/allegations-against-wells-fargo.

[4] Matt Egan, "Wells Fargo scandal spreads to Prudential insurance," CNN Money (Dec. 12, 2016), *available at:* http://money.cnn.com/2016/12/12/investing/wells-fargo-insurance-scandal-prudential/index.html.

[5] Jesse Eisinger, "Wells Fargo Places L.A. Exec on Leave Amid Rate-Lock Fee Inquiry," PROPUBLICA (Feb. 22, 2017), *available at:* https://www.propublica.org/article/wells-fargo-places-la-exec-on-leave-amid-rate-lock-fee-inquiry.

[6] Gretchen Morgenson, "Wells Fargo Forced Unwanted Auto Insurance on Borrowers," NEW YORK TIMES (Jul. 27, 2017), *available at:* https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html.

penalties that should be deployed to more effectively deter wrongdoing by highly profitable megabanks, for which even steep fines for illicit activity seem to amount to merely the cost of doing business. While regulators can impose large civil money penalties, only the federal prudential banking regulators have the authority to impose the most severe sanctions against a bank and its senior executives, such as restricting a bank's line of business relating to any fraudulent activity, directing a bank to remove senior officers and directors and permanently banning them from working in the industry, revoking a bank's national charter, or appointing a receiver to wind down a bank. These underutilized authorities should be, but have not been in the case of Wells Fargo, exercised in order to adequately combat rampant, illicit activity by a bank.

Obtaining a national charter and operating a federally-insured bank in the United States is a privilege, not an entitlement, which is conditioned upon compliance with all applicable laws and regulations and is subject to the regulatory purpose for which Congress established banking laws. The federal prudential banking regulators' seeming unwillingness to exercise their strongest statutory enforcement powers demonstrates the need for an additional review from Congress. Legislation is needed to address the regulators' reluctance to use all available enforcement powers, and to underscore the importance of deterrence to these regulators and the banks they supervise. Because megabanks offer and provide financial products and services to millions of American consumers, it is particularly important for Congress to close any loopholes that have shielded executives and senior management at these institutions who knew, or should have known, about the repeated violations of consumer protections that transpired under their leadership. Potential remedies to address this problem will be discussed in Section III.

Unfortunately, the House Financial Services Committee ("Committee") Republicans' investigation into Wells Fargo's fraudulent sales practices has focused primarily on the role of the Consumer Bureau instead of the long list of illegal conduct by the bank outlined in this report. Furthermore, Committee Republicans have yet to announce any hearings this year to have Wells Fargo's senior leadership discuss additional revelations of wrongdoing that have been unmasked since the last hearing held on this matter over a year ago in September 2016, despite a specific request by the Committee's Ranking Member and other senior Committee Democrats to do so. In lieu of a more robust and holistic investigation by Committee Republicans, this staff report attempts to shine a light on Wells Fargo's long list of illicit activities that have harmed consumers, identify the broad array of enforcement tools available to regulators, and underscore potential legislative and regulatory solutions that would better protect consumers and to achieve actual accountability for unlawful practices at megabanks by ensuring the leadership within these institutions are held accountable. Such steps would serve as a deterrent to stop megabanks from continuing to engage in schemes that reap huge profits at the expense of consumers and in violation of laws and regulations.

Findings

Wells Fargo Has Demonstrated a Pattern of Egregiously Harming Its Customers

- Wells Fargo has repeatedly engaged in a pattern of consumer abuses and other violations of law, which have unjustly enriched the bank at the expense of the bank's customers.
- When a megabank has engaged in a pattern of extensive violations of law that harms millions of consumers, like Wells Fargo has, it should not be allowed to continue to operate within our nation's banking system, and avail itself of all of the associated privileges afforded to it.

Prudential Regulators Have Failed to Use Their Most Severe Tools to Shut Down Recidivist Megabanks

- To date, Wells Fargo has not been deterred by the current enforcement tools utilized by regulators. Even civil money penalties in the billions have proven ineffective in stopping a trillion dollar megabank like Wells Fargo from engaging in practices that repeatedly harm consumers, because fines — even extremely large ones — solely amount to the "cost of doing business" for these institutions. Furthermore, penalties imposed on megabanks are often actually paid by shareholders, not the chief executives and senior officials responsible for the wrongdoing at the institution. As such, while fines have resulted in bad publicity that may temporarily lower a bank's share prices, the leadership within these megabanks, who condoned or failed to stop the unlawful practices, are rarely, if ever, held personally accountable.
- While regulators, including the Consumer Bureau, have the authority to impose civil money penalties, and have done so, federal prudential banking regulators, including the OCC, Federal Reserve Board, and FDIC, have not fully utilized other enforcement tools with respect to Wells Fargo, including restricting the bank's line of business, directing the bank to remove senior officers and directors and barring them from working at another bank, revoking the bank's charter, or terminating the bank's federal deposit insurance.

Effective Deterrence Demands the Use of Robust Enforcement Tools to End Unlawful Practices of Megabanks and their Senior Officers and Directors

- If federal prudential banking regulators refuse to deploy their most aggressive enforcement tools to shut down a megabank like Wells Fargo that has engaged in a pattern of repeated violations of consumer protection laws, Congress should consider legislation mandating the use of these tools to finally end such conduct and examine ways to improve accountability and address barriers that have previously prevented regulators and law enforcement from imposing civil and criminal penalties against the senior executives at these megabanks.
- Committee Republicans' failure to conduct a full-scale investigation into the long list of Wells Fargo's illicit practices or agree to Committee Democrats' request to hold a follow-up hearing with Wells Fargo's current executives demonstrates a fatal flaw in the scope and credibility of the Committee Republican's investigation to date. Instead of a tunnel-vision focus on the Consumer Bureau, the Committee should more fully review Wells Fargo's misdeeds, the full suite of enforcement tools that can be used by all federal prudential banking regulators, and consider legislative and regulatory remedies that may

be needed to ensure that a megabank cannot engage in a pattern of illicit activity that harms millions of consumers with impunity.

I. Repeat Offender: Wells Fargo and its Record of Repeatedly and Egregiously Harming its Customers

Wells Fargo has established a track record of repeatedly and egregiously harming its customers in an astonishing and growing variety of ways. According to one estimate, Wells Fargo & Company and its subsidiaries have paid over $11 billion in fines and penalties for consumer and other violations since 2000.[7] It appears that a series of large monetary penalties have not been a sufficient deterrent for Wells Fargo, a company with over $1.93 trillion in assets that has generated over $200 billion in profits since 2000.[8]

As some observers and experts have noted, large fines amount to the "cost of doing business" for large corporations and megabanks like Wells Fargo, and they do not serve as an adequate deterrent to stop similar bad behavior.[9] Indeed, Wells Fargo has continually chosen to eschew its consumer protection responsibilities, and instead has presumably engaged in systematic abuses to maximize profits. A sample of the bank's most grievous actions, which appear to permeate every division of its consumer lending business, are detailed below.

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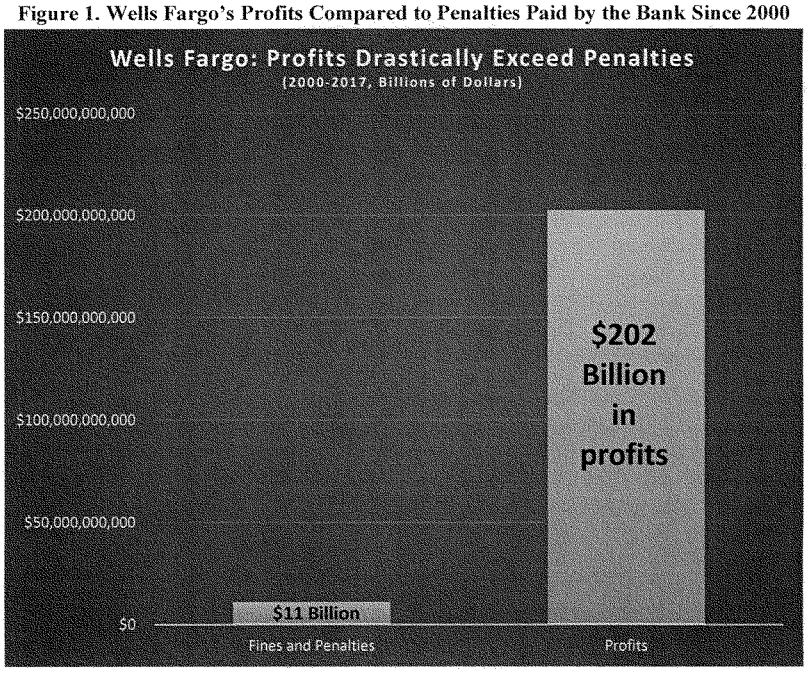
[7] Good Jobs First, "Tracking Subsidies, Promoting Accountability in Economic Development," Violation Tracker Parent Company Summary for Wells Fargo, *available at:* http://violationtracker.goodjobsfirst.org/prog.php?parent=wells-fargo; *see also* Americans for Financial Reform, "Wells Fargo Scandal Tracker" (Sep. 18, 2017), *available at*: http://blog.ourfinancialsecurity.org/2017/09/wells-fargo-scandal-tracker/.

[8] Wells Fargo & Company Annual Reports and Proxy Statements, *available at:* https://www.wellsfargo.com/about/investor-relations/annual-reports/. Since the inception of Wells Fargo's fraudulent account scandal, which is believed to be in 2001, Wells Fargo has accumulated nearly $200 billion in profits. See appendix for annual profits by year for Wells Fargo.

[9] *See* David Dayen, "Give Wells Fargo the Corporate Death Penalty," The New Republic (Aug. 1, 2017), *available at*: https://newrepublic.com/article/144144/give-wells-fargo-corporate-death-penalty; Patrick Radden Keefe, "Why Corrupt Bankers Avoid Jail," New Yorker (July 31, 2017), *available at*: https://www.newyorker.com/magazine/2017/07/31/why-corrupt-bankers-avoid-jail; Kyle Noonan, "The Case for a Federal Corporate Charter Revocation Penalty," The George Washington Law Review (Feb. 2012), *available at*: http://www.gwlr.org/wp-content/uploads/2012/03/80-2-Noonan.pdf; and The Honorable Jed S. Rakoff, "The Financial Crisis: Why Have No High-Level Executives Been Prosecuted?" The New York Review of Books (Jan. 9, 2014), *available at*: http://www.nybooks.com/articles/2014/01/09/financial-crisis-why-no-executive-prosecutions/.

Figure 1. Wells Fargo's Profits Compared to Penalties Paid by the Bank Since 2000



Source: Committee on Financial Services, Democratic Staff

A. Millions of Fraudulent Customer Accounts

On September 8, 2016, the Consumer Bureau, the Office of the Los Angeles City Attorney, and the OCC revealed that Wells Fargo had opened at least 2 million customer accounts without the authorization or knowledge of its customers. Under its consent order with the Consumer Bureau, Wells Fargo is required to take a number of remedial steps to improve its compliance with federal consumer protection laws, pay restitution to consumers harmed by the bank's fraudulent account scandal, and pay civil money penalties of $100 million.[10] Under its

[10] Consumer Financial Protection Bureau, In the Matter of: Wells Fargo Bank, N.A. Consent Order, 2016-CFPB-0015 (Sept. 8, 2016), *available at:* http://files.consumerfinance.gov/f/documents/092016_cfpb_WFBconsentorder.pdf. Consumer Financial Protection Bureau, In the Matter of: Wells Fargo Bank, N.A. Consent Order, 2016-CFPB-0015 (Sept. 8, 2016), *available at*: http://files.consumerfinance.gov/f/documents/092016_cfpb_WFBconsentorder.pdf. Subsequent actions that have occurred since Wells Fargo was exposed for its fraudulent account scandal include, the firing of more than 5,300 Wells Fargo employees, removal of 700 manager positions, clawbacks of over $70 million in bonuses paid to four executives, and the resignation of the bank's former chief executive officer, John Stumpf. Additionally, Wells Fargo

consent order with the OCC, the bank also agreed to take certain remedial steps to address its sales practices that were deemed unsafe or unsound business practices by the agency, and pay an additional $35 million civil money penalty to the OCC.[11] Wells Fargo agreed to another $50 million in penalties as settlement to its lawsuit with the LACA.[12]

In Wells Fargo's March 2017 annual public SEC filing, the bank warned investors that its original estimate of the number of accounts opened during the fraudulent account scandal period may have been low, and recently, Wells Fargo disclosed that a third-party review of Wells Fargo's business records indicates that the number of fraudulent accounts is closer to 3.5 million from the period of January 2009 to September 2016.[13]

Wells Fargo's fraudulent account practices began in 2002, if not earlier.[14] The company's troubling sales practices (a result of "cross-selling") and the employee misconduct that emanated from them were sanctioned, and even encouraged, by upper-level management within the company. Per Wells Fargo's own records, its employees would open unauthorized customer checking accounts to meet sales goals, and then transfer funds from consumers' authorized accounts to fund the unauthorized ones. Furthermore, the bank's employees opened unauthorized credit card accounts by "utilizing a bank database to identify customers who had been pre-approved for credit cards, then ordered cards without asking them."[15]

According to an internal investigation performed by Wells Fargo's Independent Directors of the Board, "[i]n 2002, the Community Bank [Wells Fargo] took steps to address an increase in

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is being sued by its shareholders for misleading them about the severity of the account scandal, and in its most recent quarterly filing with the SEC, the bank disclosed that its review of the expanded fraudulent account timeline "may lead to a significant increase in the identified number of potentially unauthorized accounts" which is currently estimated at 3.5 million. The OCC also removed the lead examiner responsible for overseeing Wells Fargo from his position at the agency.

[11] Press Release, Office of the Comptroller of the Currency, "OCC Assesses Penalty Against Wells Fargo, Orders Restitution for Unsafe or Unsound Sales Practices," (Sept. 8, 2016), *available at*: https://www.occ.treas.gov/news-issuances/news-releases/2016/nr-occ-2016-106.htmlhttps://www.occ.treas.gov/news-issuances/news-releases/2016/nr-occ-2016-106.html.

[12] Press Release, Los Angeles City Attorney, "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," (Sept. 8, 2016), *available at:* http://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-Nationwide8, 2016), *available at*: http://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.

[13] Laura J Keller, "Wells Fargo Boosts Fake -Account Estimate 67% to 3.5 million," Bloomberg (Aug. 31, 2017), *available at*: https://www.bloomberg.com/news/articles/2017-08-31/wells-fargo-increases-fake-account-estimate-67-to-3-5-million; Kartikay Mehrotra and Laura J Keller, "Wells Fargo's Fake Accounts Grow to 3.5 Million in Suit," Bloomberg (May 12, 2017), *available at:* https://www.bloomberg.com/news/articles/2017-05-12/wells-fargo-bogus-account-estimate-in-suit-grows-to-3-5-million.

[14] Dawn Giel, "Wells Fargo fake account scandal may be bigger than thought," CNBC (May 12, 2017), *available at:* http://www.cnbc.com/2017/05/12/wells-fargo-fake-account-scandal-may-be-bigger-than-thought.html.

[15] E. Scott Reckard, "Wells Fargo's pressure-cooker sales culture comes at a cost," Los Angeles Times (December 21, 2013), *available at:* http://www.latimes.com/business/la-fi-wells-fargo-sale-pressure-20131222-story.html

sales practice violations,"[16] and "until as late as 2015...sales practices were labeled a 'high risk' in materials provided to the Risk Committee of the Board."[17] However, in June 2016, when asked about the company's aggressive cross-selling culture, current Wells Fargo Chief Executive Officer Tim Sloan, who was then the bank's Chief Financial Officer, said that the company had not "pushed that strategy to the limit" and "the fundamental strategy that [Wells Fargo had was] not going to change."[18] Wells Fargo's executives and directors of the Board did not address the aggressive sales practices until after the September 8, 2016 regulatory enforcement action. On September 13, 2016, the bank eliminated product sales goals in the retail bank, and in January 2017 the bank put a new incentive program in place that focused on customer service rather than selling products.[19]

As a result of the fraudulent account scandal, Wells Fargo's customers incurred financial penalties for having insufficient funds in their accounts with the bank, were charged unwarranted fees and finance charges for credit cards opened without their consent, and consequently may have had their credit scores negatively impacted.[20]

Below is the state-by-state list, provided to the Committee by Wells Fargo, of the number of checking and credit card accounts opened by Wells Fargo staff within the 2.1 million fraudulent accounts initially identified in 2016, as well as a breakdown of how many employees were fired per state of the 5,300 employees fired between 2011 and 2015.

Figure 2. State-by-State Breakdown of Wells Fargo's Number of Unauthorized Accounts and Number of Employees Fired (Source: Wells Fargo)

State	Number of Accounts (Credit & Deposit)	Number of Employees Fired
Alabama	22,795	86
Alaska	5,970	7
Arizona	178,972	211
Arkansas	1,310	4
California	897,972	1,421

[16] Wells Fargo, "Independent Directors of the Board of Wells Fargo & Company Sales Practices Investigation Report," at pg. 31, (Apr. 10, 2017), *available at:* https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf.
[17] Id. at pg. 14.
[18] Kristin Broughton and Robert Barba, "Picking the Brain of Wells Fargo's (Likely) Next CEO," American Banker (Jun. 16, 2016), *available at:* https://www.americanbanker.com/news/picking-the-brain-of-wells-fargos-likely-next-ceo.
[19] Wells Fargo, "Independent Directors of the Board of Wells Fargo & Company Sales Practices Investigation Report," at pg. 8.
[20] Matt Egan, "5,300 Wells Fargo employees fired over 2 million phony accounts," CNN Money (Sept. 9, 2016), *available at:* http://money.cnn.com/2016/09/08/investing/wells-fargo-created-phony-accounts-bank-fees/index.html; see also, Renae Merie, "Wells Fargo's scandal damaged their credit scores. What does the bank owe them?" The Washington Post (Aug. 18, 2017), *available at:* https://www.washingtonpost.com/business/economy/in-wake-of-wells-fargo-scandal-whats-to-be-done-about-damaged-credit-scores/2017/08/18/f26d30e6-7c78-11e7-9d08-b79f191668ed_story.html.

State	Number of Accounts (Credit & Deposit)	Number of Employees Fired
Colorado	64,481	235
Connecticut	11,497	64
Delaware	4,255	19
Florida	117,752	602
Georgia	55,579	128
Hawaii	805	N/A
Idaho	14,316	31
Illinois	4,890	14
Indiana	5,222	18
Iowa	12,630	58
Kansas	1,296	2
Kentucky	629	1
Louisiana	862	N/A
Maine	217	N/A
Maryland	15,391	56
Massachusetts	1,142	1
Michigan	2,891	8
Minnesota	31,238	172
Mississippi	2,355	3
Missouri	1,191	7
Montana	8,352	16
Nebraska	12,348	47
Nevada	53,675	154
New Hampshire	217	N/A
New Jersey	95,921	302
New Mexico	18,847	53
New York	24,048	102
North Carolina	38,722	168
North Dakota	1,939	5
Ohio	1,579	7
Oklahoma	761	N/A
Oregon	35,202	87
Pennsylvania	79,918	241
Rhode Island	192	N/A
South Carolina	23,327	78
South Dakota	4,803	31
Tennessee	3,534	10
Texas	149,857	529

State	Number of Accounts (Credit & Deposit)	Number of Employees Fired
Utah	41,686	72
Vermont	144	N/A
Virginia	41,703	189
Washington	38,861	58
Washington, DC	2,433	25
West Virginia	341	N/A
Wisconsin	8,922	27
Wyoming	2,317	18

Source: House Committee on Financial Services, "Holding Wall Street Accountable: Investigating Wells Fargo's Opening of Unauthorized Customer Accounts," (Sept. 29, 2016), Wells Fargo & Company's Responses to Questions for the Record.
*N/A is listed for states in which the number of employees fired in connection with the fraudulent account scandal was not provided.

Moreover, Wells Fargo previously attempted to enforce its mandatory pre-dispute arbitration clauses in the contracts of these defrauded customers in an effort to block harmed consumers from joining together in a class-action suit and pursuing remedies in a court of law. Although Wells Fargo eventually gave up its fight to compel arbitration in one of the larger settlement cases, the bank's blatant attempts to evade full responsibility and mitigate customer redress are shocking.[21] In a response to a written question from Committee Democrats, former Wells Fargo CEO John Stumpf wrote, "We are working to connect with customers and, for those negatively impacted by unauthorized accounts, to fix the issues. For those cases that may require additional attention, Wells Fargo is offering a no-cost mediation option to its customers."[22] However, Mr. Stumpf neglected to mention that banks like Wells Fargo win an overwhelming 93 percent of these "no-cost mediation" proceedings initiated under mandatory pre-dispute arbitration clauses, and in the rare instances that consumers do recover money under arbitration, the recovery on average is only 12 cents on each dollar that they have lost due to anti-consumer practices by the bank.[23]

On a related note, Congressional Republicans have been aggressively attempting to pass a joint resolution pursuant to the Congressional Review Act that would repeal a new rule the Consumer Bureau finalized earlier this year to prevent financial institutions, like Wells Fargo, from using mandatory pre-dispute arbitration clauses to restrict consumers ability to join with

[21] Jabbari, et. al. v. Wells Fargo & Co., *available at:* https://consumermediallc.files.wordpress.com/2016/12/calcompel.pdf
[22] House Committee on Financial Services, "Holding Wall Street Accountable: Investigating Wells Fargo's Opening of Unauthorized Customer Accounts," Wells Fargo & Company's Responses to Questions for the Record, pg. 3 (Sept. 29, 2016).
[23] Linda Sherry, "Finally! A rule to stop companies from ripping off consumers," The Hill (Jun. 24, 2016), *available at:* http://thehill.com/blogs/congress-blog/judicial/284687-finally-a-rule-to-stop-companies-from-ripping-off-consumers

other harmed consumers and seek remedies in court.[24] The House passed such a measure on July 25, 2017,[25] and the Senate may take up the matter soon.

B. Illegal Student Loan Servicing Practices

In August 2016, the Consumer Bureau took action against Wells Fargo for the bank's illegal student loan servicing practices.[26] After investigating the bank for 10 months,[27] the Consumer Bureau found that Wells Fargo "failed to provide important payment information to consumers, charged consumers illegal fees, and failed to update inaccurate credit report information."[28] Under the consent order with the bank, the Consumer Bureau required Wells Fargo to reimburse harmed customers the amount of $410,000 and pay an additional $3.6 million dollars in civil money penalties.[29] According to the Consumer Bureau's findings stated in the consent order, in a familiar pattern for the bank, Wells Fargo processed student loan payments in a way that caused its customers to incur additional costs and fees in an attempt to maximize the bank's profits.[30] According to Richard Cordray, the Director of the Consumer Bureau, "Wells Fargo hit borrowers with illegal fees and deprived others of critical information needed to effectively manage their student loan accounts." In a time when over 44 million borrowers in the U.S. have more than $1.34 trillion in student loan debt, and one in six of those borrowers are severely delinquent in repayment,[31] Wells Fargo's actions constitute a failure that has unduly

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[24] For more information, *see* Press Release, "Democratic Staff Report Documents Successes of Consumer Financial Protection Bureau, Importance of Rulemaking on Forced Arbitration," (July 24, 2017), *available at*: https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400699; Press Release, "Waters Opening Floor Statement in Opposition to Republican Resolution to Repeal Forced Arbitration Rule," (July 25, 2017), *available at*: https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400716; Press Release, "Waters Condemns Republican Effort to Repeal Forced Arbitration Rule," (July 25, 2017), *available at*: https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400717; and Press Release, "ICYMI: Waters Joins Pelosi, Warren in Fight Against Republican Attempts to Repeal Forced Arbitration Rule," (July 26, 2017), *available at*: https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400720.

[25] See H.J. Res. 111 (115th Congress), *available at*: https://www.congress.gov/bill/115th-congress/house-joint-resolution/111/.

[26] Press Release, Consumer Financial Protection Bureau, "CFPB Takes Action Against Wells Fargo for Illegal Student Loan Servicing Practices," (Aug. 22, 2016), *available at:* https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-wells-fargo-illegal-student-loan-servicing-practices/

[27] Ashlee Kieler, "Wells Fargo Must Pay $4M Over Allegedly Illegal Student Loan Servicing," Consumerist (Aug. 22, 2016), *available at:* https://consumerist.com/2016/08/22/wells-fargo-must-pay-4m-over-allegedly-illegal-student-loan-servicing/.

[28] Press Release, Consumer Financial Protection Bureau, "CFPB Takes Action Against Wells Fargo for Illegal Student Loan Servicing Practices," (Aug. 22, 2016), *available at:* https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-wells-fargo-illegal-student-loan-servicing-practices/

[29] Id.

[30] Consent Order, In the Matter of: Wells Fargo Bank, N.A., 2016-CFPB-0013, pgs. 6-9 (Aug. 22, 2016), *available at:* http://files.consumerfinance.gov/f/documents/2016-CFPB-0013Wells_Fargo_Bank_N.A.--_Consent_Order.pdf

[31] See Federal Reserve Bank of New York, "Quarterly Report on Household Debt and Credit, 2017:Q2," pgs. 2 and 31 (Aug. 2017), *available at:* https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2017Q2.pdf; see also, Kim Clark, "A Record Number of People Aren't Paying Back Their Student Loans," TIME Money (Mar. 14, 2017), *available at:* http://time.com/money/4701506/student-loan-defaults-record-2016/.

increased the amount of delinquent student loan accounts, and unjustly caused financial harm to its private student loan borrowers.

C. Checking Account Overdraft Fees

In dozens of separate cases seeking class action status, Wells Fargo is accused of re-ordering the posting of consumer debit card charges in order to obtain the maximum amount of overdraft fees from its customers. Prior to 2001, Wells Fargo posted debits from low-to high (as was common industry practice at that time), which allowed for as many items as the account balance could possibly cover before any overdraft fees would be charged for insufficient funds tied to overdrafts. However, starting in 2001, Wells Fargo began resequencing debit transactions to post in highest-to-lowest order, which had the immediate effect of maximizing the number of overdraft fees charged to customers.[32]

In the 2010 class action case, *Gutierrez v. Wells Fargo Bank, N.A.*, the U.S. District Court of the Northern District of California found that Wells Fargo's actions were deliberate, calculated, and the result of a brazen push for profits.[33] In spite of Wells Fargo's claims that there was no nefarious intent behind its decision to reorder customer debit transactions, the judge in the case stated that:

> "The trial record [in the case] is most telling about the true reasons Wells Fargo adopted high-to-low bookkeeping [...]. **Internal bank memos and emails leave no doubt that, overdraft revenue being a big profit center, the bank's dominant, indeed sole, motive was to maximize the number of overdrafts** and squeeze as much as possible out of what it called its "ODRI [overdraft/returned item] customers" and particularly out of the four percent of ODRI customers it recognized supplied a whopping 40 percent of its total overdraft and returned-item revenue. This internal history — which is laid bare in the bank's internal memos — is so at odds with the bank's theme of "open and honest" communication and that "overdrafts must be discouraged" that the details will be spread herein[...]
>
> Overdraft fees are the second-largest source of revenue for Wells Fargo's consumer deposits group, the division of the bank dedicated to providing customers with checking accounts, savings accounts, and debit cards. The revenue generated from these fees has been massive. **In California alone, Wells Fargo assessed over $1.4 billion in overdraft penalties between 2005 and 2007**. Only spread income — money the bank generated using deposited funds — produced more revenue." (emphasis added)."[34]

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[32] See *Gutierrez v. Wells Fargo Bank, N.A.*, 730 F. Supp. 2d 1080 (2010) ("To illustrate, assume that a customer has $100 in his account and uses his debit card to buy ten small items totaling $99 followed by one large item for $100, all of which are presented to the bank for payment on the same business day. Using a low-to-high posting order, there would be only be one overdraft — the one triggered by the $100 purchase. Using high-to-low resequencing, however, there would be *ten* overdrafts — because the largest $100 item would be posted first and thus would use up the balance as quickly as possible.").
[33] Id.
[34] Id.

The district court ordered Wells Fargo to stop posting transactions in high-to-low order, and to pay out $203 million in restitution to its customers.[35] Nevertheless, Wells Fargo continues to defend its abusive and deceptive overdraft practices. While other large banks settled similar class action lawsuits,[36] Wells Fargo is still pursuing an appeal to overturn the California district court ruling and push its aggrieved customers into bank-friendly forced arbitration proceedings.[37]

D. Mortgage Lending

i. VA Loan Refinancing Fraud

Wells Fargo is accused of violating the False Claims Act[38] by defrauding veterans and charging them illegal fees under its mortgage refinance program, and then concealing those fees from the government so the bank could receive guarantees from the U.S. Department of Veterans Affairs.[39] When lenders provide veteran borrowers with interest rate reduction refinance loans on their homes, the lenders are not allowed to charge attorney fees, escrow fees, or closing fees, but they are authorized to charge a reasonable fee for a title examination.[40] In 2006, a group of whistleblowers revealed that Wells Fargo was advising brokers that the impermissible fees should lumped into title examination costs.[41] As a result, veterans were paying hundreds of dollars more than they needed to pay to refinance. The government was also harmed because it was guaranteeing the loans, and the additional costs raised the risk of default on the loans. Wells Fargo claimed that it lacked the intent necessary to violate the False Claims Act, but on August 4, 2017, the bank paid the government $108 million to settle a lawsuit related to the allegations.[42]

ii. Discriminatory Mortgage Lending

Over the past several years, the cities of Los Angeles, Miami, Oakland, Baltimore, Memphis, and Philadelphia have all filed lawsuits against Wells Fargo,[43] asserting that the bank steered African-American and Latino homebuyers into more expensive mortgages compared to

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[35] Id.

[36] Andrew Martin, "Bank of America to Settle Overdraft Suit for $410 Million," NEW YORK TIMES (May 23, 2011), *available at:* http://www.nytimes.com/2011/05/24/business/24bank.html.

[37] It is worth noting that Wells Fargo only attempted to invoke its forced-arbitration contract provisions *after* it lost the overdraft fee suit at the trial level, once again demonstrating how large companies depend on forced arbitration clauses as a means to evade accountability. In 2016, a Florida district court advised Wells Fargo that it waived any rights it had to compel arbitration when it chose instead to litigate for years in hopes of winning in court, but Wells Fargo continues to pursue arbitration in an attempt to avoid paying out restitution to its victims in the class action suits.

[38] 31 U.S.C. §§ 3729 - 3733. The False Claims Act gives the government and citizens the right to sue people or corporations who knowingly submit a false claim for payment to the government.

[39] Jonathan Stempel, "Wells Fargo to pay U.S. $108 million over veterans' loans," REUTERS (Aug. 4, 2017), *available at:* https://www.reuters.com/article/us-wellsfargo-settlement-idUSKBN1AK1U1

[40] U.S. Department of Veterans Affairs Lenders Handbook, VA Pamphlet 26-7, Chapter 8:Borrower Fees and Charges and the VA Funding Fee, *available at:* http://www.benefits.va.gov/warms/docs/admin26/handbook/chapterlendershanbookchapter8.pdf

[41] *United States v. Wells Fargo Home Mortgage, et al.*, Case No. 1:06-cv-00547 (D. Ga. Mar. 8, 2006).

[42] Id.

[43] J. Weston Phippen, "Philadelphia's Lawsuit Against Wells Fargo," THE ATLANTIC (May 15, 2017), *available at:* https://www.theatlantic.com/news/archive/2017/05/philadelphia-wells-fargo-lawsuit/526758/

their white counterparts, which is a violation of the Fair Housing Act of 1986, and resulted in a disparate number of foreclosures for minority borrowers.[44] According to the City of Los Angeles, between 2004 and 2014, Wells Fargo's African-American borrowers were twice as likely to receive high-cost loans when compared with white borrowers with similar credit backgrounds, and Latino borrowers were 1.7 times as likely to receive costly loans when compared with white borrowers with similar credit backgrounds.[45] The U.S. District Court of the Northern District of California ultimately decided that the city would need to present additional evidence to support the allegations in its complaint that policies of the bank pushed minority borrowers into pricier or riskier mortgages than those offered to white borrowers, and the U.S. Ninth Circuit Court of Appeals upheld the lower court's decision.[46] However, the U.S. Supreme Court has ruled that cities can sue banks for such violations under the Fair Housing Act,[47] and several cities have severed ties with the bank. Philadelphia City Councilwoman Cindy Bass has even called the bank the "antithesis of corporate social responsibility."[48]

Wells Fargo is also accused of negligently maintaining homes in predominantly minority neighborhoods during the same time frame. According to research by the National Fair Housing Alliance ("NFHA"), Wells Fargo maintained and marketed properties that it owned in predominantly white areas "in materially better condition" than properties that it owned in neighborhoods that are predominantly African-American, Latino, or non-white, all in violation of the Fair Housing Act.[49] Wells Fargo paid $42 million to settle a lawsuit regarding these allegations.[50]

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[44] *City of Los Angeles v. Wells Fargo & Co.*, 2015 U.S. Dist. LEXIS 93451, 2015 WL 4398858 (2015) ("In describing the specifics of reverse redlining, the City of Los Angeles identifies in its complaint eight types of allegedly "predatory" home loans issued by Wells Fargo to minority borrowers: (1) high-cost loans (defined by the City as loans with an interest rate three percentage points or more above the federally established benchmark); (2) subprime loans; (3) interest-only loans; (4) balloon payment loans; (5) loans with prepayment penalties; (6) negative-amortization loans; (7) no-documentation loans; and (8) adjustable rate mortgage loans with "teaser" rates.").

[45] Id.

[46] See gen., James Rufus Koren, "Appeals court deals setback to L.A. mortgage discrimination suits against big banks," Los Angeles Times (May 30, 2017), *available at:* http://www.latimes.com/business/la-fi-mortgage-discrimination-appeal-20170530-story.html.

[47] Adam Liptak, "Supreme Court Rules Miami Can Sue for Predatory Lending," NEW YORK TIMES (May 1, 2017)(citing Bank of America Corp. v. City of Miami, Florida, 581 US __ (2017)), *available at:* https://www.nytimes.com/2017/05/01/us/politics/supreme-court-miami-banks-fair-housing.html.

[48] Fabiola Cineas, "Philadelphia Sues Wells Fargo Over Discriminatory Lending Practices," BizPhilly (May 15, 2017), *available at:* http://www.phillymag.com/business/2017/05/15/philadelphia-wells-fargo-discriminatory-lending-practices-loans-lawsuit/#qf5H7XBpQB07TOHE.99

[49] National Fair Housing Alliance, "Zip Code Inequality: Discrimination by Banks in the Maintenance of Homes in Neighborhoods of Color," (Aug. 27, 2014), *available at:* http://nationalfairhousing.org/wp-content/uploads/2017/04/2014-08-27_NFHA_REO_report.pdf

[50] U.S. Department of Housing and Urban Development, Conciliation Agreement under the Fair Housing Act between National Fair Housing Alliance et al. and Wells Fargo Bank, N.A., Case No. 09-12-0708-8 (2013), *available at:* http://nationalfairhousing.org/wp-content/uploads/2017/04/ExecutionVersionofNFHAConciliationAgreement.pdf

Wells Fargo previously paid $175 million dollars to the U.S. Department of Justice ("DOJ") — the second largest fair lending settlement in the DOJ's history[51] — over allegations that it overcharged borrowers of color for mortgage loans and wrongly steered them into subprime mortgages during the financial crisis, which one DOJ official called "a "racial surtax."[52] While discussing the DOJ settlement, an Assistant U.S. Attorney General opined that the Wells Fargo case was "about real people, African-American and Latino, who suffered real harm as a result of Wells Fargo's discriminatory lending practices," and that "people with similar qualifications [...] should be judged by the content of their creditworthiness and not the color of their skin."[53]

iii. Illegal Loan Modifications

In June 2017, certain borrowers seeking bankruptcy protection filed a class action lawsuit against Wells Fargo in the U.S. Bankruptcy Court for the Western District of North Carolina, claiming the bank has improperly used the Bankruptcy Code and Rules to force debtors into mortgage loan modifications that neither the borrowers nor the bankruptcy courts presiding over the related bankruptcy cases requested or approved.[54] According to the filed complaint, the bank has an unlawful practice of filing unauthorized Notice of Mortgage Payment Change forms in bankruptcy proceedings, which may slightly reduce the borrower's monthly mortgage payments, but also extends the term of the mortgage by decades and thereby exposes the borrower to tens of thousands of dollars more in additional interest payments.[55] In defiance of multiple court orders that instruct Wells Fargo to withdraw its unauthorized mortgage modifications in several cases because they were violations of due process, the bank has continued to file unauthorized Notice of Mortgage Payment Change forms in bankruptcy proceedings.[56] In addition to the class action lawsuit, seven other cases criticizing the bank's loan modification practices have arisen in

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[51] The largest fair lending settlement in the DOJ's history is the Countrywide Financial Corporation settlement. See Press Release, U.S. Department of Justice, "Justice Department Reaches $355 Million Settlement to Resolve Allegations of Lending Discrimination by Countrywide Financial Corporation," (Jun. 22, 2015), *available at:* https://www.justice.gov/usao-cdca/dojcountrywide-settlement-information.

[52] See Press Release, U.S. Department of Justice, "Justice Department Reaches Settlement with Wells Fargo Resulting in More Than $175 Million in Relief for Homeowners to Resolve Fair Lending Claims,"(Jul. 12, 2012), *available at:* https://www.justice.gov/opa/pr/justice-department-reaches-settlement-wells-fargo-resulting-more-175-million-relief

[53] Yian Q. Mui, "Wells Fargo, Justice Department settle discrimination case for $175 million," The Washington Post (Jul. 12, 2012), *available at:* https://www.washingtonpost.com/business/economy/wells-fargo-justice-department-settle-discrimination-case-for-175-million/2012/07/12/gJQAX66ZgW_story.html?utm_term=.7739dd3f0077

[54] Plaintiff's Original Class Complaint and Application for Injunctive Relief, Cotton v. Wells Fargo Bank, N.A., Bankr. W.D. N.C. (2017), *available at:* https://consumermediallc.files.wordpress.com/2017/06/1.pdf.

[55] Id. at pgs. 8-13. The named plaintiffs in the class action lawsuit, the Cottons, claim that they had voluntarily filed a Chapter 13 bankruptcy petition, but were current on their mortgage payments to Wells Fargo when the bankruptcy petition was filed and remained current on their mortgage payments throughout the pendency of their bankruptcy case. However, without the Cottons knowledge or consent, Wells Fargo filed a mortgage payment change notice with the bankruptcy court, requesting modification of the Cotton's mortgage payments to be paid by the appointed Trustee. The mortgage payment amounts were reduced by approximately $130 per month, however, the term of the Cotton's mortgage was extended by nearly 26 years, which would result in up to $129,319 in additional interest fees.

[56] Obj. to Notice of Mortgage Payment Change at 6, Cotton v. Wells Fargo Bank, N.A., Bankr. W.D. N.C. (2016) (Case No. 14-30287).

Louisiana, New Jersey, North Carolina, Pennsylvania, and Texas.[57] Some borrowers even allege that Wells Fargo's unlawful practice of modifying mortgage terms without the borrower's consent or knowledge have sent them into bankruptcy.[58] Wells Fargo has admitted to pushing unknowing customers into these modifications "at least 100 times in cases that were pending as of April 24, 2017,"[59] and the bank has profited handsomely from the loan modifications, receiving "up to $1,600" from the government for each distressed loan it modified.[60] In response to one borrower complaint related to the unwanted loan modifications, a bankruptcy court judge called Wells Fargo's practices "beyond the pale of due process."[61]

iv. Fraudulent Mortgage Fees

When consumers apply for mortgages, it is standard industry practice for lenders to guarantee an interest rate for the borrower for a set period of time, typically 30 to 60 days. These interest rate "locks" protect borrowers from rising interest rates while they are attempting to buy a home.[62] In January 2017, investigative reporters discovered that Wells Fargo was systematically delaying customers' mortgage closing dates until after the expiration of the borrower's interest rate lock period in an attempt to pocket additional fees.[63] Former bank employees in Los Angeles said the delays "were usually the bank's fault, but management forced them to blame the customers."[64] As a result, customers ended up paying fees of $1,500 or more for the bank's deceptive practices.[65] Since the story was initially published, other current and former Wells Fargo employees and customers have come forward to corroborate the claims, and allege that these practices extend far beyond the Los Angeles area.[66] Furthermore, a former Wells Fargo employee said that he was fired for trying to report the abuses—which included wrongfully blaming customers for the bank's errors and falsifying documents to back up the bank's false narratives—in violation of federal whistleblower laws.[67] A former branch officer who was aware of the practices said: "I believed in Wells Fargo. I loved Wells Fargo. But it was just stealing from people."[68]

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[57] Gretchen Morgenson, "Wells Fargo Is Accused of Making Improper Changes to Mortgages," NEW YORK TIMES (Jun. 14, 2017), *available at:* https://www.nytimes.com/2017/06/14/business/wells-fargo-loan-mortgage.html.
[58] Kartikay Mehrotra, Laura J Keller, and Margaret Cronin Fisk, "How Wells Fargo's Troubles Went from Bad to Worse," BLOOMBERG BUSINESSWEEK (Aug. 7, 2017), *available at:* https://www.bloomberg.com/news/articles/2017-08-07/how-wells-fargo-s-troubles-went-from-bad-to-worse-quicktake-q-a
[59] Plaintiff's Original Class Complaint and Application for Injunctive Relief, Cotton v. Wells Fargo Bank, N.A., Bankr. W.D. N.C. (2017), *available at*: https://consumermediallc.files.wordpress.com/2017/06/1.pdf.
[60] Gretchen Morgenson, "Wells Fargo Is Accused of Making Improper Changes to Mortgages," NEW YORK TIMES (Jun. 14, 2017), *available at:* https://www.nytimes.com/2017/06/14/business/wells-fargo-loan-mortgage.html.
[61] Id.
[62] https://www.consumerfinance.gov/ask-cfpb/whats-a-lock-in-or-a-rate-lock-en-143/
[63] Jesse Eisinger, "Here's Another Way Wells Fargo Took Advantage of Customers," PROPUBLICA (Jan. 23, 2017), *available at:* https://www.propublica.org/article/heres-another-way-wells-fargo-took-advantage-of-customers
[64] Id.
[65] Id.
[66] James Rufus Koren, "Wells Fargo stuck mortgage borrowers with extra fees, whistle-blower's lawsuit says," LOS ANGELES TIMES, (Jul. 14, 2017), *available at*: http://www.latimes.com/business/la-fi-wells-fargo-rate-lock-20170714-story.html
[67] Id.
[68] Jesse Eisinger, "Wells Fargo Places L.A. Exec on Leave Amid Rate-Lock Fee Inquiry," PROPUBLICA (Feb. 22, 2017), *available at*: https://www.propublica.org/article/wells-fargo-places-la-exec-on-leave-amid-rate-lock-fee-inquiry

E. Auto Lending Abuses

In July 2017, the *New York Times* published an article detailing how more than 800,000 people who obtained auto loans from Wells Fargo were charged for collateral protection insurance ("CPI" or "forced-placed auto insurance") they did not need.[69] Wells Fargo had a commercial insurance agreement with National General under which National General was instructed to place CPI on any auto loans for borrowers that National General or Wells Fargo could not confirm had insurance to cover the outstanding balance of the auto loan. However, Wells Fargo's CPI program was administered in a negligent manner, and as a result, over 274,000 Wells Fargo auto loan customers were pushed into delinquency on their loans and over 25,000 customers, including active-duty military and veterans, had their vehicles wrongly repossessed.[70] Wells Fargo alleges that "only" 570,000 of its customers were harmed by the misplaced CPI policies but admitted that the unnecessary CPI policies may have caused approximately 20,000 auto loan customers to go into default and resulted in their vehicles being wrongly repossessed.[71] In a press release, Wells Fargo stated that it "[takes] full responsibility for [its] failure to appropriately manage [its CPI program] and [is] extremely sorry for any harm this caused [its] customers, who expect and deserve better."[72] Wells Fargo customers do indeed deserve better, but the approximately $64 million in cash remediation that Wells Fargo plans to remit to its customers[73] will not be enough to compensate the thousands of consumers who suffered far more than financial harm: damage to credit reports, emotional harm from repossession, and potential loss of employment from a lack of access to a vehicle all add up to an inexcusable amount of injury.[74] Per the Washington Post, "the effect on customers whose cars were repossessed is likely … catastrophic — similar to losing your home in a foreclosure or declaring bankruptcy — and could last for years."[75] According to the Washington Post article, one victim of the forced-placed auto insurance scandal, Samir Hanef, had his car repossessed and missed work as a result of Wells Fargo's mistakes. He underscored the emotional damage, not just financial harm, he endured because of the unlawful practice, recounting that "the stress and anxiety ... [were] truly indescribable."[76]

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[69] Gretchen Morgenson, "Wells Fargo Forced Unwanted Auto Insurance on Borrowers," NEW YORK TIMES (Jul. 27, 2017), *available at:* https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html
[70] Id.
[71] Press Release, Wells Fargo & Company, "Wells Fargo Announces Plan to Remediate Customers for Auto Insurance Coverage," (Jul. 27, 2017), *available at*: https://newsroom.wf.com/press-release/consumer-lending/wells-fargo-announces-plan-remediate-customers-auto-insurance.
[72] Id.
[73] Id.
[74] Matt Egan, "Wells Fargo customer: It felt like my car was held as extortion," CNN MONEY (Aug. 8, 2017), *available at*: http://money.cnn.com/2017/08/08/investing/wells-fargo-auto-insurance-scandal/index.html
[75] Renae Merle, "Wells Fargo's scandal damaged their credit scores. What does the bank owe them?" THE WASHINGTON POST (Aug. 18, 2017), *available at*: https://www.washingtonpost.com/business/economy/in-wake-of-wells-fargo-scandal-whats-to-be-done-about-damaged-credit-scores/2017/08/18/f26d30e6-7e78-11e7-9d08-b79f191668ed_story.html.
[76] Id.

This auto insurance scandal came to light only months after Wells Fargo paid $24 million to settle allegations that it wrongfully repossessed vehicles from active-duty military members and charged them higher interest rates in violation of the Servicemembers Civil Relief Act.[77] The DOJ ordered Wells Fargo to pay a $4.1 million penalty for that wrongdoing.[78] In an announcement about the settlement, a U.S. District Attorney stated that, "We all have an obligation to ensure that the women and men who serve our country in the Armed Forces are afforded all of the rights they are due, [and] Wells Fargo failed in that obligation."[79]

F. Committee Republicans' Flawed Investigation into Wells Fargo's Bad Practices and Continued Misguided Attacks on the Consumer Bureau

Instead of investigating all of the illegal conduct of Wells Fargo, including the list of nefarious actions identified in this report that resulted in tremendous consumer harm, Committee Republicans have singled out the Consumer Bureau for attention, perhaps as a means of pursuing an ideological mission of functionally terminating the Consumer Bureau.[80] While the Consumer Bureau has taken actions against Wells Fargo, including for the fraudulent customer account scandal, it is worth noting the Consumer Bureau was not even established until nearly a *decade after* Wells Fargo employees had begun creating fraudulent accounts to meet the bank's aggressive sales goals. Rather, the OCC was the bank's primary regulator during this period, and the OCC's Ombudsman even issued a report admitting to the OCC's shortcomings in supervising the bank.[81] Despite the OCC's acknowledgment of its supervisory deficiencies in this matter, Committee Republicans have ignored both the OCC's critical supervisory failures that enabled Wells Fargo to continue its fraudulent customer account scandal for a decade and the ongoing misdeeds of the bank. Furthermore, Committee Republicans have given minimal attention to authorities federal prudential regulators have yet to deploy, described in detail in the next section of the report.

In light of the growing list of consumer abuses documented earlier in this report, Ranking Member Maxine Waters (D-CA), Vice Ranking Member Daniel T. Kildee (D-MI), and Oversight and Investigations Subcommittee Ranking Member Al Green (D-TX), sent a letter to Chairman Hensarling on August 1, 2017, requesting that the Committee hold a hearing with Wells Fargo's top executives, writing, "[T]here have been seemingly never-ending developments

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[77] Jackie Wattles, "U.S.: Wells Fargo illegally repossessed service members' cars," CNN MONEY (Sept. 30, 2016), *available at*: http://money.cnn.com/2016/09/29/news/wells-fargo-servicemembers-cars/index.html.

[78] Press Release, The U.S. Dept. of Justice, "Justice Department Reaches $4 Million Settlement with Wells Fargo Dealer Services for Illegally Repossessing Servicemembers' Cars," (Sept. 29, 2016), *available at*: https://www.justice.gov/opa/pr/justice-department-reaches-4-million-settlement-wells-fargo-dealer-services-illegally

[79] Id.

[80] E.g., see Committee Chairman Jeb Hensarling (R-TX), "How We'll Stop a Rogue Agency," THE WALL STREET JOURNAL (Feb. 8, 2017), *available at*: https://www.wsj.com/articles/how-well-stop-a-rogue-federal-agency-1486597413; see also Press Release, "House Republicans to Bring Bill to Floor to Gut Wall Street Reform, Harm Americans," (June 7, 2017), *available at*: https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400509.

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

about additional customers who have been harmed in a number of ways by the bank that clearly warrant Committee scrutiny."[82] The letter goes on to note that instead of engaging in a bipartisan investigation, Committee Republicans have run a partisan one, with Republican staff holding secret, unrecorded interviews with the Chief Executive Officer, Chief Financial Officer, General Counsel and Chief Risk Officer for Wells Fargo for three days in December 2016. Despite repeated requests, Wells Fargo executives have not submitted to interviews with Democratic staff. In addition, over 33 consumer advocacy groups have sent letters to Chairman Hensarling and the Senate Banking Committee urging additional hearings on Wells Fargo's ongoing fraud.[83]

Chairman Hensarling replied to the letter led by Ranking Member Waters on August 14, 2017, writing that staff-level briefings were taking place, and that, "The investigation will proceed in an orderly fashion," without committing to hold a hearing or even responding to the request to hold a hearing, in spite of the fact that former Wells Fargo CEO John Stumpf may have lied to Congress about the extent of the bank's issues when he last testified in September 2016.[84] The Committee has numerous oversight authorities at its disposal that it has thus far failed to utilize. These include conducting bipartisan depositions of senior Wells Fargo executives, performing more investigative due diligence with a broader scope focused on the bank to reveal how widespread the illegal activity has been, and pressing federal prudential bank regulators like the OCC to take stronger, more meaningful enforcement actions than they have taken thus far.

It is crucial for the Committee to investigate all of the recent revelations concerning Wells Fargo's wrongdoing and to hold additional public hearings this term to explore these newly uncovered issues, and what steps regulators, especially federal prudential bank regulators, should take to better hold megabanks accountable for their actions.

II. Federal Regulators Must Take Stronger Actions: Ineffective Deterrence Underscores Need to Shut Down Banks like Wells Fargo

Various government agencies have important roles to play in supervising banks under their purview and enforcing federal laws and regulations with respect to operating in a safe and sound manner, as well as complying with consumer protection laws. For the largest banks, like Wells Fargo, all three of the federal prudential banking regulators and the Consumer Bureau have certain enforcement authorities that the agencies could rely on in requiring the bank to comply with federal laws. The OCC, Wells Fargo's primary federal regulator, has a range of enforcement tools at its disposal to oversee safety, soundness, and consumer protections of the bank. The FDIC also has enforcement authority over Wells Fargo, because the bank is an insured depository institution, and the Federal Reserve Board, as the regulator of bank holding

[82] https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400732

[83] Press Release, "Waters Calls for Hearing to Examine Wells Fargo's Consumer Abuses" (Aug. 1, 2017), *available at*: https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400732; Letter to Chairman Crapo and Ranking Member Brown of the U.S. Senate Banking Committee and Chairman Hensarling and Ranking Member Waters of the House Financial Service Committee from Americans for Financial Reform and Public Citizen, as well as 31 other consumer advocacy groups, dated Aug. 31, 2017, *available at*: http://www.fairarbitrationnow.org/wp-content/uploads/Letter-Requesting-Additional-Wells-Fargo-Hearings.pdf.

[84] https://www.nytimes.com/2017/08/31/business/wells-fargo-testimony.html?mcubz=0&_r=0

companies, has enforcement authority over Wells Fargo's parent holding company. Lastly, the Consumer Bureau, as the watchdog of consumer protection laws, has the authority to supervise Wells Fargo for compliance with federal consumer protection laws.

In the case of Wells Fargo, while various civil monetary penalties have been applied in a number of cases, there are other authorities that the federal prudential banking regulators have not utilized that should be exercised to stop the bank from repeatedly and egregiously ripping off its customers.

A. Statutory Authorities of the Regulators

The Consumer Bureau has made great strides in promoting consumers' financial protection, including returning over $12 billion to 29 million harmed consumers since the agency was established.[85] However, unlike the federal prudential banking regulators, the Consumer Bureau is not a chartering or licensing agency. The Consumer Bureau has the authority to examine financial institutions for compliance with federal consumer protection laws, but its enforcement powers are more akin to those of a law enforcement agency, like the Federal Trade Commission or the Department of Justice. The Consumer Bureau's enforcement tools include investigative authority and the ability to (i) conduct hearings and adjudication proceedings; (ii) commence civil action lawsuits and make referrals to the U.S. Attorney General for criminal proceedings; (iii) issue consent orders, under which restitution, refunds, rescission or reformation of contracts, or claw-back of compensation is required; and (iv) impose civil money penalties.[86]

The federal prudential banking regulators, on the other hand, have certain supervisory enforcement powers that impact the operations of a banking organization, including the authority to revoke a charter or operating license of a banking organization.[87] For example, under the National Bank Act,[88] the Comptroller of the Currency ("Comptroller") is entrusted with the authority to determine whether an institution is lawfully entitled to commence the business of

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[85] *See* H.R. Dem. Staff Rep., *The Consumer Financial Protection Bureau In Perspective* (July 21, 2017) (The Federal prudential banking regulators — OCC, FDIC, and the Federal Reserve Board — have been entrusted and authorized with the responsibility of supervising banking organizations and financial institutions operating in the U.S., including Wells Fargo. Before the enactment of the Dodd-Frank Act in 2010, these regulators were responsible for supervising banks for both safety and soundness and compliance with Federal consumer protection laws. During the 2008 financial crisis, however, Congress found that regulators were not enforcing Federal consumer protection laws appropriately, which led to widespread consumer abuses that in turn fueled the crisis and led to the collapse of the U.S. banking system. In order to protect the financial interest of consumers and restore integrity in the banking system, as part of the Dodd-Frank Act, Congress enacted the Consumer Financial Protection Act and established the Consumer Bureau. Pursuant to the Dodd-Frank Act, the responsibility for examining and supervising large banks, like Wells Fargo, for compliance with Federal consumer protection laws was then transferred from each of the prudential banking regulators to the Consumer Bureau.), *available at:* https://democrats-financialservices.house.gov/uploadedfiles/cfpb_staff_report.pdf.

[86] 12 USC §§ 5561-5566. The Consumer Bureau may also seek these relief measures as part of administrative or court proceedings, as well as "limits on the activities or functions" of an institution. See, 12 USC § 5565(a)(2).

[87] Mary Kreiner Ramirez and Steven A. Ramirez, *The Case for the Corporate Death Penalty*, pgs. 10-11, NYU Press (2017).

[88] 12 USC § 21 et seq.

banking (i.e. entitled to a national bank charter),[89] and banks that obtain national charters are subject to the rules, regulations and orders of the Comptroller, as well as subject to the same rights, privileges, duties, restrictions, penalties, liabilities, conditions, and limitations that apply under the national banking laws to a national bank.[90] In addition, the Comptroller has statutory authority to revoke the national charter of a bank if the bank is found to violate the National Bank Act or Federal Reserve Act,[91] as well as impose penalties on a bank or any "institution-affiliated party" of a bank (i.e. any director, officer, employee, or controlling shareholder of, or agent for a bank).[92] The Comptroller may also appoint a receiver for a national bank to wind the institution down[93] if it has satisfied one of a number of criteria under the Federal Deposit Insurance Act.[94] Under the Federal Deposit Insurance Act, the Board of Directors of the FDIC ("FDIC Board"), as the overseer of the Federal Deposit Insurance Fund, is responsible for deciding which institutions qualify for federal deposit insurance, which is a necessity if the bank intends to receive deposits other than trust funds.[95] In considering whether to grant a depository institution federal deposit insurance, the FDIC Board is required to consider, among other things, "the general character and fitness of the management of the depository institution," and "the convenience and needs of the community to be served" by the institution.[96] The FDIC Board also has the statutory authority to terminate the federal deposit insurance of a financial institution on a number of grounds, including if the FDIC Board finds that the depository institution or its directors or trustees have engaged or are engaging in unsafe or unsound business practices, as well as if an institution or its directors or trustees have violated any applicable law or regulation.[97]

In addition, the federal prudential banking regulators have a number of other supervisory tools, public and nonpublic, to force a banking organization to comply with federal banking laws and regulations, including federal consumer protection laws and regulations. Such tools include:

- The ability to enter into informal and formal written agreements that require remediation by noncompliant institutions;
- The ability to issue civil money penalties;
- The ability to enter into consent orders that (i) require restitution or reimbursement; (ii) restrict the growth of an institution; (iii) require disposition of a loan or asset; (iv) rescind agreements or contracts; (v) require an institution to employ qualified officers, or employees; or (vi) mandates any other action the regulator determines to be appropriate;

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[89] 12 USC § 26.
[90] 12 USC § 27(b)(2).
[91] 12 USC §§ 93(a) and 501a.
[92] 12 USC § 93(b).
[93] 12 USC § 191.
[94] 12 USC § 1821(c)(5).
[95] 12 USC §§ 1814 and 1815(a).
[96] 12 USC § 1816.
[97] 12 USC § 1818(a).

- The ability to place limitations on the activities or functions of a bank or any director, officer, controlling shareholder, or employee of a bank for violations of federal banking laws or regulations;[98] and,
- The ability to require removal of a director, officer, or employee that is directly or indirectly responsible for an institution violating a law, regulation, consent order, or written condition of the regulator.[99]

B. The Prudential Regulators' Failures with Wells Fargo and the Fraudulent Account Scandal

Notwithstanding the vast variety of supervisory tools available to the federal prudential banking regulators in supervising banks and enforcing federal banking laws, regulators currently rely predominantly on consent orders and civil money penalties when there are consumer protection issues. A review of available case law and publicly available agency actions shows that the regulators tend to use their most aggressive enforcement tools, including revocation of a national bank charter and termination of deposit insurance, only in instances where a financial institution's activities rise to the level of criminal liability, threaten the solvency of the institution, or threaten the financial stability of the banking system. Even when a financial institution's violations have demonstrated a pattern and practice of reckless, unsafe, or unsound business practices, the prudential regulators have not used their most effective and statutorily available enforcement measures in curtailing such consumer protection violations by large banks.

For example, the OCC, the primary regulator of Wells Fargo, was well aware of Wells Fargo's consumer protection violations for over a decade. The OCC identified issues with the bank's sales practices as early as 2005 (Wells Fargo's internal investigation suggested these fraudulent practices began at least in 2002 if not earlier), but failed to take timely and effective supervisory or enforcement actions to curtail the practices of the bank.[100] According to the OCC's Ombudsman's report on the OCC's shortcomings in supervising Wells Fargo, the OCC's supervisory record for Wells Fargo "indicated several missed opportunities to perform comprehensive analyses and take more timely action beginning in 2010."[101] The OCC's failures included (1) untimely and ineffective supervisory actions after the OCC identified significant issues with the bank's complaint management and sales practices, including "fail[ure] to document the resolution of [over 700] whistleblower cases ...[and] fail[ure] to follow-up on significant complaint management and sales practices issues"; (2) untimely and ineffective supervision of the bank's incentive sales program; (3) ineffective communication and follow-up regarding matters requiring attention communicated by the OCC to bank staff; (4) failure to address the bank's noncompliance with OCC guidance related to risk management and sales practices; and (5) unclear supervisory records.[102] In any of these areas and at any time after

[98] 12 USC § 1818(b).
[99] 12 USC § 1818(e).
[100] Office of Enterprise Governance and the Ombudsman, Office of the Comptroller of the Currency, "Lessons Learned Review of Supervision of Sales Practices at Wells Fargo," pg. 4, (Apr. 19, 2017), *available at:* https://www.occ.gov/publications/publications-by-type/other-publications-reports/pub-wells-fargo-supervision-lessons-learned-41917.pdf.
[101] Id. at pg. 5.
[102] Id. at pgs. 4-12.

identifying significant issues with the bank, the OCC could have taken enforcement action against the bank. However, the OCC failed to take any public actions against the bank until after the Consumer Bureau and LACA intervened, and the OCC's public response was limited to a consent order and civil money penalties, as well as a downgrade of the bank's CRA exam rating. Based on the OCC's supervisory review record of the bank and a lack of evidence that Wells Fargo attempted to provide meaningful restitution to consumers once it discovered the issue, it is evident that the restitution, civil money penalties, and remediation commitments obtained from Wells Fargo under its settlement agreements with the CFPB, OCC, and LACA would not have otherwise been obtained absent the intervention of the Consumer Bureau in investigating the bank, and the Consumer Bureau's effective enforcement authority, including its ability to demand vital information through its pre-litigation subpoena power and CID authority.

While the OCC was aware of Wells Fargo's unlawful sales practices years ago, the agency's mishandling of the bank's CRA examinations contributed to Wells Fargo's ability to keep the public in the dark about its longstanding and widespread unsound and unsafe operational problems. The CRA was enacted in 1977 to encourage banks to meet the credit needs of the communities where and with whom they do business, including low- and moderate-income communities and people. As such, the CRA requires federal regulators to review a bank's lending, investment, and services activities in its assessment areas and provide an overall rating based on these individual evaluations. In 2009, the OCC gave Wells Fargo an "Outstanding" CRA rating, which is the highest possible score. Although the OCC conducted a CRA evaluation of the bank in 2012, it failed to publicly release these results until March 28, 2017. Ranking Member Waters sent a letter to the OCC on October 18, 2016 expressing deep concerns about the agency's significant delay in making the bank's 2012 CRA performance publicly available and the potential that its rating would fail to appropriately incorporate the bank's extensive fair lending and consumer compliance violations, many of which are outlined previously in this report.[103] The OCC underscored that it was updating its policies, procedures, and practices "to ensure that, going forward, CRA performance evaluations are completed and published in a timely fashion and eliminating any backlogs" in its January 5, 2017, response.[104] Even the bank seemed to acknowledge the agency's CRA regulatory failures, with its CEO, Mr. Timothy Sloan, stating that, "[w]ith more than four years having passed since the end of our last CRA evaluation period, Wells Fargo intends to ask the OCC to accelerate the timing of its next exam so that [it] may continue to serve most effectively the low- and moderate-income communities in which [it] operate[s]."[105]

Even more troubling than the OCC's slowness in publicly releasing the 2012 CRA result is the quality of the CRA evaluation for the bank, which gives the bank an "Outstanding" rating for its overall performance, with an "Outstanding" on the lending test, an "Outstanding" on the investment test, and a "High Satisfactory" on its service tests. While it is true that the OCC ultimately downgraded the bank's final rating to "Needs to Improve" based on "non-CRA performance factors" related to matters raised in consent orders, the initial rating of

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[103] Letter dated October 18, 2016, from Ranking Member Waters to the OCC.
[104] Letter dated January 5, 2017, from Thomas Curry, Comptroller of the Currency, to Ranking Member Waters.
[105] BUSINESSWIRE, "Wells Fargo Announces Community Reinvestment Act Rating,," (Mar. 28, 2017), *available at:* http://www.businesswire.com/news/home/20170328006184/en/Wells-Fargo-Announces-Community-Reinvestment-Act-Rating

"Outstanding" calls into question whether the agency really "gives serious consideration to any findings of discriminatory or other illegal credit practices by an institution," as it claimed in its January letter.

Additionally, the federal prudential banking regulators have also failed to hold the board of directors and senior officers of the largest banks accountable (i.e., by removing them from their positions or holding them civilly liable) for their acts or omissions that contributed to or enabled Wells Fargo's repeated violations of federal consumer protection laws.[106] After the 2008 financial crisis and with the enactment of the Dodd-Frank Act, the federal prudential banking regulators, and the Federal Reserve Board specifically, place significantly higher expectations on the boards of directors of large banking organizations, including the expectation that a board be more involved in risk-management and compliance of the bank with federal banking laws rather than delegated such responsibilities to lower-management.[107] However, such heightened board expectations have generally been tied to capital matters of the bank,[108] as well as the bank's compliance with prudential banking laws, such as the Bank Secrecy Act, rather than the bank's compliance with federal consumer protection laws. And most recently in August 2017, Governor Jerome Powell revealed in his speech, "The Role of Boards at Large Financial Firms," that the Federal Reserve Board plans to propose a new framework for oversight of bank holding company boards that would seemingly make the boards less responsible for overseeing the operations of the banking organization that directly impact services provided to consumers.[109] Given the federal prudential banking regulators' current reluctance to hold the boards and senior officers of the largest banking organization accountable for egregious consumer abuses, like those exhibited by Wells Fargo, it is not appropriate for regulators to further lessen the oversight responsibilities of the boards of the largest banks.

In response to the fraudulent account scandal and growing cases of massive consumer abuse, Wells Fargo tried to remedy the situation by firing thousands of low-ranking staff, accepting the retirement of the Chief Executive Officer, and terminating a few mid-level officers

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[106] See Letter from Sen. Warren to Hon. Janet Yellen, Chair of the Federal Reserve Board of Governors (Aug. 16, 2017), *available at:* https://www.warren.senate.gov/files/documents/2017_08_16_Fed_Followup_WellsFargo.pdf; see also, Alex Morrell, "The Federal Reserve has done nothing: Elizabeth Warren urges the Fed to clean house at Wells Fargo," BUSINESS INSIDER (Jun. 19, 2017), *available at:* http://www.businessinsider.com/elizabeth-warren-letter-fed-wells-fargo-board-of-directors-2017-6. The Federal Reserve most recently used its authority to permanently bar a former executive of Four Oaks Bank and Trust Company from the banking industry. See Press Release, "Federal Reserve Board permanently bars former employee of Four Oaks Bank and Trust Company from the banking industry," (Aug. 29, 2017), *available at:* https://www.federalreserve.gov/newsevents/pressreleases/enforcement20170829a.htm. Senior executives and directors at the larger institutions should equally be held accountable for wrongdoings.

[107] Press Release, Governor Jerome H. Powell, "The Role of Boards at Large Financial Firms," Board of Governors of the Federal Reserve System (Aug. 30, 2017), *available at:* https://www.federalreserve.gov/newsevents/speech/powell20170830a.htm.

[108] E.g., Under the Federal Reserve Board's Comprehensive Capital Analysis and Review supervisory process, directors on the boards of institutions subject to the process are required to review and approve the capital plans of their respective bank holding companies prior to the submission of the capital plan. See 12 CFR 225.8(d).

[109] Press Release, Governor Jerome H. Powell, "The Role of Boards at Large Financial Firms," Board of Governors of the Federal Reserve System (Aug. 30, 2017), *available at:* https://www.federalreserve.gov/newsevents/speech/powell20170830a.htm

who were deemed responsible by the bank for the consumer law violations.[110] Wells Fargo also clawed back some executive compensation, and made several changes to its board of directors, including recently naming Elizabeth Duke, a former Governor of the Federal Reserve Board, as the new Chair of the board starting next year. However, these actions will not prevent more consumers from being harmed by the bank based on its pattern and practice of flouting the law.[111] Such decisions of whether a director or senior executive officer should be removed or a senior officer should be promoted to lead an organization that has repeatedly violated consumer protection laws for over a period of a decade should not be left solely to the institution. Rather, the federal prudential banking regulators should intervene and oversee the process to prevent the institution from continuing to victimize its customers. For example, the decision of the board of Wells Fargo to elevate Tim Sloan to the chief executive officer position of the bank, even though he was the chief operating officer with direct responsibility for the actions of the bank's employees during the fraudulent account scandal, raises questions as to whether Wells Fargo's board is serious about fixing the culture of the bank. However, the federal prudential banking regulators have not publicly indicated any opposition or concern with Wells Fargo's choice.[112] Due to the reluctance of Wells Fargo's shareholders to hold its top leadership accountable and fix its corporate culture, the OCC or the Federal Reserve Board should exercise their legal authority to remove the bank's legacy Board members. Cam Fine, president and CEO of the Independent Community Bankers of America (the nation's largest community bank advocacy group),[113] released a statement highlighting this disconnect, stating that:

> "The most shocking aspect of the multiple Wells scandals is not that some of these practices have gone on for years—it is that Federal regulators have taken no meaningful action against the board and senior managers who were supposedly responsible for the ethical, moral and legal conduct of the bank. Federal regulators haven't even given them a good slap on the wrist… The Wells Fargo board should be replaced, and so should its senior management. End of story."[114]

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[110] Wells Fargo, "Independent Directors of the Board of Wells Fargo & Company Sales Practices Investigation Report," (Apr. 10, 2017), *available at:* https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf

[111] See Letter from Sen. Warren to Hon. Janet Yellen, Chair of the Federal Reserve Board of Governors (Aug. 16, 2017), *available at*: https://democrats-financialservices.house.gov/news/documentsingle.aspx?DocumentID=400736

[112] On November 16, 2016, the OCC revoked provisions of its original September 29 enforcement action against Wells Fargo for the bank's fake account scandal. This resulted in a requirement that Wells Fargo must provide the OCC with written notices if it plans to replace board members or bank executives. In spite of this, to date, the OCC has not taken any public action or released any public comments regarding these changes to Wells Fargo's board or leadership. *See* Press Release, OCC, *Statement Regarding Revocation of Relief to Wells Fargo Bank, N.A., from Certain Regulatory Consequences of Enforcement Actions* (Nov. 18, 2016), https://www.occ.gov/topics/laws-regulations/enforcement-actions/statement-wellsfargo-111816.pdf.

[113] "The Independent Community Bankers of America, the nation's voice for more than 6,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services." INDEPENDENT COMMUNITY BANKERS OF AMERICA, http://www.icba.org/about (last visited Sep. 6, 2017).

[114] Press Release, ICBA, *ICBA's Cam Fine Reacts to Latest Wells Fargo Scandal News* (Sep. 6, 2017), http://www.icba.org/news/press-releases/2017/09/06/icba-s-cam-fine-reacts-to-latest-wells-fargo-scandal-news.

On August 16, 2017, Senator Elizabeth Warren made a similar request to the Federal Reserve Board.[115]Given the extent of the scandals discussed above at Wells Fargo, every member of the Board who presided over the banks' alarming consumer abuses should have been removed by the prudential regulators long ago for failing to conduct adequate oversight of the bank. Furthermore, the OCC's late public response to the Wells Fargo fraudulent account scandal, delayed downgrade of the bank's CRA exam, as well as the OCC's Ombudsman's report on the agency's shortcomings in supervising the bank, demonstrate that the OCC failed to use appropriate and effective enforcement measures in curtailing the abusive sales practices of Wells Fargo. Even though Wells Fargo has continued to engage in a litany of consumer protection violations and deceptive business practices, resulting in several lawsuits, the OCC, the FDIC, and the Fed have not publicly announced their intent to use more potent enforcement measures, including consideration of whether Wells Fargo deserves to continue operating certain retail business lines, or, more appropriately, given the laundry list of large-scale consumer abuses, continue operating as a national bank and continue being afforded federal deposit insurance.

Figure 3. Wells Fargo Board of Directors[116]

NAME	Present During Consumer Protection Failures	Still on Board as of September 8, 2017
CEO/ President Timothy Sloan	*YES*	*YES* **(joined Wells Fargo in 1987)**
Chair of the Board Stephen Sanger	*YES*	*YES* **(retiring on Dec. 31, 2017)**
Director, Vice Chair Elizabeth Duke	*YES*	*YES* **(promoted to Chairman of the Board as of Jan. 1, 2018 to)**
Director John Baker III	*YES*	*YES*
Director John Chen	*YES*	*YES*
Director Lloyd Dean	*YES*	*YES*
Director Susan Engel	*YES*	*YES*
Director Enrique Hernandez, Jr.	*YES*	*YES*
Director Donald James	*YES*	*YES*
Director Cynthia Milligan	*YES*	*YES* **(retiring on Dec. 31, 2017)**

[115] See Letter from Sen. Warren to Hon. Janet Yellen, Chair of the Federal Reserve Board of Governors (Aug. 16, 2017), *available at*: https://www.warren.senate.gov/files/documents/2017_08_16_Fed_Followup_WellsFargo.pdf
[116] See Wells Fargo, *Wells Fargo & Company 2017 Proxy Statement*, (Mar. 15, 2017), p. 29-39, *available at*: https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf.

NAME	Present During Consumer Protection Failures	Still on Board as of September 8, 2017
Director Karen Peetz	*NO*	*YES*
Director Federico Peña	*YES*	*YES*
Director Juan Pujadas	*NO*	*YES*
Director James Quigley	*YES*	*YES*
Director Ronald Sargent	*NO*	*YES*
Director Susan Swenson	*YES*	*YES* **(retiring on Dec. 31, 2017)**
Director Suzanne Vautrinot	*YES*	*YES*

Source: https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2017-proxy-statement.pdf

III. If Regulators Don't Act, Congress Must Compel Action to Better Protect Consumers

A. Need for Congressional Action

Banks that are repeatedly cited for violating consumer protection laws, and are generally found to be engaging in reckless unsafe or unsound banking practices that result in the bank being unjustly enriched to the financial detriment of its customers, should not only be restricted from engaging in certain business activities, but also should be considered candidates for losing their federal charters. Federal prudential banking regulators have acknowledged that violations of consumer protection laws can become safety and soundness issues for a bank. In its consent order with Wells Fargo, the OCC noted as part of its findings that the agency identified certain "deficiencies and unsafe or unsound practices in the Bank's risk management and oversight of the Bank's sales practices,"[117] which led to the fraudulent account scandal. And following the Wells Fargo enforcement action, Chair Yellen of the Federal Reserve Board stated in her quarterly press conference in September, 2016, that instances of consumer harm "can become safety and soundness issues," and "[a]t least one of the lessons from the financial crisis, I think, is that abuses of consumers of the sort that we saw in the subprime lending ultimately did become safety and soundness issues."[118] However, both the OCC and Federal Reserve Board have abstained from using their full arsenal of enforcement tools in penalizing or deterring Wells

[117] Press Release, Office of the Comptroller of the Currency, "OCC Assesses Penalty Against Wells Fargo, Orders Restitution for Unsafe or Unsound Sales Practices," (Sept. 8, 2016), *available at:* https://www.occ.treas.gov/news-issuances/news-releases/2016/nr-occ-2016-106.html.

[118] See, Transcript of Chair Yellen's Quarterly Press Conference on Monetary Policy and the Economy, (Sept. 21, 2016), *available at:* https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20160921.pdf.

Fargo from continuing to impose financial harm on its customers.[119] Because the federal prudential banking regulators refuse to fully employ their enforcement powers under their chartering authorities in instances of egregious consumer protection violations by financial institutions, Congress should pass legislation that would require the regulators to use these existing authorities to revoke the charter of such banks and put them out of business. Congress should similarly require the FDIC to terminate the deposit insurance of such banks. Furthermore, Congress should clarify that federal prudential banking regulators must utilize all of their enforcement tools, including those under their chartering authority, to penalize banks for repeated and extensive consumer protection violations that warrant a more forceful response than a slap on the wrist.

B. Additional Legislative Considerations

In addition to compelling regulators to shut down financial institutions that repeatedly and egregiously harm consumers, and strengthening the ability to shut down banks that extensively break consumer laws, there are additional dynamics Congress should consider to strengthen the enforcement tools that will hold banks and their senior executives and directors accountable for their actions.

For example, federal prudential banking regulators need to hold the board of directors and senior officers accountable for their actions or inactions in ensuring that financial institutions are complying with federal consumer protection laws. One significant barrier to holding senior executives at large financial institutions like Wells Fargo accountable has been the difficulty in demonstrating that high level officials knew about the fraud being committed. This obstacle was recently highlighted by Christy Romero, the Special Inspector General for The Troubled Asset Relief Program ("SIGTARP"), a federal law enforcement agency that is primarily tasked with investigating crime at financial institutions that received federal bailout funds distributed after the financial crisis through the TARP programs. As of December 16, 2016, SIGTARP's efforts have resulted in 88 bankers being criminally charged and 23 bankers being civilly charged, with 44 bankers sentenced to prison.[120] SIGTARP concluded that the organizational structure of large financial institutions enables bank leadership to insulate themselves from knowledge of crime or civil fraud. SIGTARP has called for a legislative fix that would require the CEO, CFO, and COO at the largest Wall Street banks to sign an annual certification to law enforcement that they have conducted due diligence and can certify that there is no criminal conduct or civil fraud within

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[119] After being questioned by Senator Warren during the Federal Reserve's semiannual testimony before the Senate Banking Committee about whether the Federal Reserve planned to dismiss members of Wells Fargo's board for its consumer protection violations, Chairwoman Yellen indicated that the Board may take further action, stating, "I will say that the behavior that we saw was egregious and unacceptable... we do have the power if it proves appropriate to remove directors. A number of actions already have been taken. We need to conduct a thorough investigation to look at the full record to understand the root causes of the problems. We are certainly prepared to take enforcement actions if those prove to be appropriate." See Jeff Cox, "Fed is prepared to act against Wells Fargo if warranted, Yellen says," CNBC, (Jul. 13, 2017), *available at:* https://www.cnbc.com/2017/07/13/fed-is-prepared-to-act-against-wells-fargo-if-warranted-yellen-says.html.

[120] Office of the Special Inspector General for the Troubled Asset Relief Program, "Quarterly Report to Congress," (Jan. 27, 2017), https://www.sigtarp.gov/Documents/January_27_2017_Report_To_Congress.pdf.

their organization.[121] SIGTARP argues that this attestation requirement would then make it more likely that a bank's illicit conduct would be brought to the attention of the CEO and board of directors.

As previously noted, the Federal Reserve Board, OCC, and FDIC currently have the authority to remove institution-affiliated parties (including senior executives) from banking organizations for certain conduct, and the regulators also have the statutory authority to ban such individuals from working in the banking industry generally, as well as the ability to hold such individuals personally liable for losses to a banking organization, its shareholders, or other persons harmed by the individual's acts. However, due to the flexibility in management style allowed by banking organizations, board members and senior officers are often able to insulate themselves from the wrongdoings of bank staff and lower management. At the largest banks, supervisory issues identified by bank examiners are rarely escalated to senior executives and the board of directors, which provides such senior officers with the ability to have deniable culpability and thereby avoid being held personally accountable for the wrongdoings of the bank. Congress should consider legislation that would require the board of directors and senior officers of the largest banks to be more involved in oversight of their banks and be informed about supervisory matters identified by bank examiners, regardless of the organizational structure chosen by the bank. Such a law may have resulted in swifter action by the Wells Fargo board of directors and senior management in ending the abusive sales practices identified by OCC bank examiners and noted in their supervisory record for the bank as early as 2005.

In designing a legislative response, Congress should consider focusing attention on the largest banks operating in the United States, such as those affiliated with a global systemically important banking organization. These few banks, including Wells Fargo, currently make up about half of total U.S. deposits[122] and interact with millions of consumers. In addition, previous enforcement of consumer violations by bank regulators tended to focus on smaller banks. For example, research has found that most previous OCC actions regarding violations of consumer lending laws targeted small national banks, even though a handful of large banks accounted for four-fifths of all complaints received by the OCC.[123] One analysis noted that, "[D]uring 1995-2007, the OCC issued only 13 public enforcement orders against national banks for violations of consumer protection laws. Most of those enforcement orders were issued against small national banks…"[124] Furthermore, a number of enforcement tools remain and can be applied as necessary to smaller banks and other financial institutions. Any illegal activity by

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[121] Office of the Special Inspector General for the Troubled Asset Relief Program, "Quarterly Report to Congress," (Oct. 26, 2017), https://www.sigtarp.gov/Quarterly%20Reports/October_26_2016_Report_To_Congress.pdf.
[122] *See* U.S. Department of the Treasury, "A Financial System That Creates Economic Opportunities: Banks and Credit Unions," (June 2017), *available at:* https://www.treasury.gov/press-center/press-releases/Documents/A%20Financial%20System.pdf.
[123] Center for Responsible Lending, "Neglect and Inaction: An Analysis of Federal Banking Regulators' Failure to Enforce Consumer Protections," (July 13, 2009) *available at*: http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/neglect-and-inaction-7-10-09-final.pdf.
[124] Arthur E. Wilmarth, Jr., "Cuomo v. Clearing House: The Supreme Court responds to the subprime financial crisis and delivers a major victory for the dual banking system and consumer protection," THE PANIC OF 2008: CAUSES, CONSEQUENCES, AND IMPLICATIONS FOR REFORM (edited by Lawrence E. Mitchell, Arthur E. Wilmarth, Jr.; Jan. 1, 2010) at 308.

megabanks, however, that is not effectively deterred will have the greatest negative impact on the American people and the economy. Therefore, legislation should focus regulatory attention and impose the strictest requirements on megabanks.[125]

Congress should also consider strengthening state authorities.[126] Because of preemption issues, state regulators have limited ability to curtail bad practices that happen in their states. For example, on February 4, 2003, the California Commissioner of Corporations ("Commissioner"), who is responsible for enforcing California laws for licensed home-mortgage lenders, including a state statute that prohibits lenders from charging interest rates on loans during certain periods,[127] instituted administrative proceedings against Wells Fargo Home Mortgage Inc. ("WFHMI") to revoke its license to operate in California. WFHMI is a wholly owned subsidiary of Wells Fargo National Bank that was licensed to conduct real estate lending under the California Residential Mortgage Lending Act and the California Finance Lenders Law.[128] The Commissioner initiated the proceedings after Wells Fargo refused to comply with its request to conduct audits of its residential mortgages to determine whether it had overcharged interest and provided unduly low estimates of certain classes of settlement fees in violation of California law. On August 12, 2005, the Ninth Circuit held that that the National Bank Act preempted state regulators' investigative and licensing authority over the operating subsidiaries of national banks.[129] Because the federal appeals court found that in this case, federal banking law preempted state law, the Commissioner was blocked from revoking Wells Fargo's license to engage in residential mortgage lending in California, notwithstanding the Commissioner's intent, and general public interest, of protecting California consumers. State regulators should be able to enforce state consumer protection laws against national banks if it is in the public interest to do so. In addition, Congress should consider allowing state regulators to petition the federal banking regulators to review consumer protection abuses in their states for compliance with federal consumer protection laws and appropriate federal enforcement.

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[125] Such an approach is consistent with the tiered regulatory approach established by the Dodd-Frank Act, and ensures the strictest requirements and oversight is focused on the largest, riskiest financial institutions while providing for better calibrated oversight for community banks and credit unions that are critical to the communities they serve. E.g., see Former Treasury Secretary Jacob J. Lew, "How Wall Street Reform Strengthened our Financial System and Laid the Foundation for Long-Run Growth," NYU Journal of Legislation and Policy (Dec. 2016) *available at*: http://www.nyujlpp.org/wp-content/uploads/2016/12/Lew-Eight-Years-After-The-Financial-Crisis-19nyujlpp611.pdf; Remarks by Daniel K. Tarullo, "Tailoring Community Bank Regulation and Supervision," at ICBA's 2015 Washington Policy Summit (Apr. 30, 2015), *available at*: https://www.federalreserve.gov/newsevents/speech/tarullo20150430a.htm; and Remarks by Governor Tarullo, "A Tiered Approach to Regulation and Supervision of Community Banks", at the Community Bankers Symposium in Chicago (Nov. 7, 2014), *available at*: https://www.federalreserve.gov/newsevents/speech/tarullo20141107a.htm.

[126] Title X of the Dodd-Frank Act partially addressed the limits of state authority to adequately protect residents from financial wrongdoing by national banks as occurred in 2003 with Wells Fargo in California, by clarifying, among other things, that a state has the power to apply and enforce its consumer financial laws if it provides greater consumer protections than otherwise afforded under Federal laws for national banks. However, it did not create a clear mechanism for states to force national banks out of the business of banking within their states for egregious violations of consumer protections.

[127] Cal. Fin. Code § 50204(o) prohibited the charging *per diem* interest on all loans.

[128] Cal. Fin. Code §§ 50000 et seq.; Cal. Fin. Code §§ 22000 et seq.

[129] *Wells Fargo Bank N.A. v. Boutris*, 419 F.3d. 949 (9th Cir. 2005).

IV. Conclusion

The federal prudential banking regulators should be more aggressive in their use of enforcement measures against megabanks that demonstrate a pattern of engaging in unlawful conduct that harms consumers. Recently, Federal Reserve Board Chair Janet Yellen hinted that there is indeed more that federal prudential banking regulators could and should do with respect to Wells Fargo. She said, "Let me say that I consider the behavior of Wells Fargo toward its customers to have been egregious and unacceptable. We take our supervision responsibilities of the company very seriously. And we are attempting to understand what the root causes of those problems are and to address them."[130] Furthermore, the 2008 financial crisis revealed that predatory business practices of banking organizations that harms millions of consumers constitute reckless unsafe and unsound banking practices that warrant regulators' use of the most severe enforcement tools to combat violations of consumer protections, not just for circumstances that involve prudential matters.

Because of the large profits earned at megabanks, and the substantial number of consumers that have obtained services or products from them, it is particularly important for regulators to focus on these institutions in determining appropriate measures to protect and deter unlawful conduct from occurring at them. Consent orders or settlement agreements that require civil monetary penalties, but that do not otherwise pose any real restrictions or limitations on the business activities of a megabank, have not been effective deterrent measures. As such, regulators' should use more aggressive enforcement tools to effectively deter large institutions from violating laws and harm millions of consumers.

If federal prudential banking regulators continue to shy away from using these tools, then Congress must force them to do so, in order to protect American consumers and the needs of the public. Congress should also strengthen the enforcement framework to provide for a more powerful deterrent against future bad behavior by megabanks and their senior executives that demonstrate a reckless disregard for the law and their customers. A more holistic investigation into the incidents that have occurred at Wells Fargo, and why regulators' actions have not been successful preventing the reckless behavior that has been unmasked at the bank, should have been the focus of the Committee's resources. Even absent this congressional scrutiny, we believe there is sufficient information to demonstrate that legislation is needed to prevent megabanks from repeatedly victimizing consumers, and such legislation should force federal prudential banking regulators to aggressively utilize their most potent enforcement tools, including winding down a bank found to repeatedly violate consumer protection laws.

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[130] John Heltman, "Yellen signals Wells may face more actions," AMERICAN BANKER (Sep. 20, 2017), *available at*: https://www.americanbanker.com/news/fed-chair-janet-yellen-signals-wells-fargo-may-face-more-regulatory-actions.

Appendix A

Wells Fargo Annual Profits between 2000-2016

Year	*Net Income*
2000	$4,026,000,000
2001	$3,423,000,000
2002	$5,710,000,000
2003	$6,202,000,000
2004	$7,014,000,000
2005	$7,671,000,000
2006	$8,420,000,000
2007	$8,057,000,000
2008	$2,655,000,000
2009	$12,275,000,000
2010	$12,362,000,000
2011	$15,869,000,000
2012	$18,897,000,000
2013	$21,878,000,000
2014	$23,057,000,000
2015	$22,894,000,000
2016	$21,938,000,000

Appendix B

Legal Actions listed in Wells Fargo's June 30, 2017 Quarterly Public Filing
**The following text was copied verbatim from Wells Fargo's Form 10-Q for the quarter ended June 30, 2017:[131]

"ATM ACCESS FEE LITIGATION. In October 2011, plaintiffs filed a putative class action, *Mackmin, et. al. v. Visa, Inc. et. al.*, against Wells Fargo & Company, Wells Fargo Bank, N.A., Visa, MasterCard, and several other banks in the United States District Court for the District of Columbia. Plaintiffs allege that the Visa and MasterCard requirement that if an ATM operator charges an access fee on Visa and MasterCard transactions, then that fee cannot be greater than the access fee charged for transactions on other networks violates antitrust rules. Plaintiffs seek treble damages, restitution, injunctive relief and attorneys' fees where available under Federal and state law. Two other antitrust cases which make similar allegations were filed in the same court, but these cases did not name Wells Fargo as a defendant. On February 13, 2013, the district court granted defendants' motions to dismiss and dismissed the three actions. Plaintiffs appealed the dismissals and, on August 4, 2015, the United States Court of Appeals for the District of Columbia Circuit vacated the district court's decisions and remanded the three cases to the district court for further proceedings. On June 28, 2016, the United States Supreme Court granted defendants' petitions for writ of certiorari to review the decisions of the United States Court of Appeals for the District of Columbia. On November 17, 2016, the United States Supreme Court dismissed the petitions as improvidently granted, and the three cases returned to the district court for further proceedings."

"AUTO LENDING MATTERS As the Company centralizes operations in its dealer services business and tightens controls and oversight of third-party risk management, the Company anticipates it will identify and remediate issues related to historical practices concerning the origination, servicing, and/or collection of indirect consumer auto loans, including related insurance products. For example, in July 2017, the Company announced a plan to remediate customers who may have been financially harmed due to issues related to automobile collateral protection insurance (CPI) policies purchased through a third-party vendor on their behalf (based on an understanding by the vendor that the borrowers' insurance had lapsed). The Company determined that certain external vendor processes and operational controls were inadequate, and, as a result, customers may have been charged premiums for CPI even if they were paying for their own vehicle insurance, as required, and in some cases the CPI premiums may have contributed to a default that led to their vehicle's repossession. The Company discontinued the CPI program in September 2016. Multiple putative class action cases alleging, among other things, unfair and deceptive practices relating to these CPI policies, have been filed against the Company in United States Federal courts, including in the United States District Courts for the Northern District of California and Southern District of New York. In addition, the Company has identified certain issues related to the unused portion of guaranteed auto protection waiver or insurance agreements between the dealer and, by assignment, the lender, which may result in refunds to customers in certain states. These and other issues related to the origination, servicing and/or collection of indirect consumer auto loans, including related insurance products, may subject the Company to formal or informal inquiries, investigations or examinations from Federal, state and/or local government agencies, and may also subject the Company to litigation."

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[131] https://www.sec.gov/Archives/edgar/data/72971/000007297117000397/wfc-06302017x10q.htm#sCA946102DED95B69B353022FFC25B00A

"CONSUMER DEPOSIT ACCOUNT RELATED REGULATORY INVESTIGATION The Consumer Financial Protection Bureau (CFPB) has commenced an investigation into whether customers were unduly harmed by the Company's procedures regarding the freezing (and, in many cases, closing) of consumer deposit accounts after the Company detected suspected fraudulent activity (by third-parties or account holders) that affected those accounts."

"INADVERTENT CLIENT INFORMATION DISCLOSURE in July 2017, the Company inadvertently provided certain client information in response to a third-party subpoena issued in a civil litigation. The Company obtained temporary restraining orders in New Jersey and New York state courts requiring the electronic data and all copies to be delivered to the New Jersey state court for safekeeping. The Company has made voluntary self-disclosure to various regulatory agencies."

"INTERCHANGE LITIGATION Plaintiffs representing a putative class of merchants have filed putative class actions, and individual merchants have filed individual actions, against Wells Fargo Bank, N.A., Wells Fargo & Company, Wachovia Bank, N.A. and Wachovia Corporation regarding the interchange fees associated with Visa and MasterCard payment card transactions. Visa, MasterCard and several other banks and bank holding companies are also named as defendants in these actions. These actions have been consolidated in the United States District Court for the Eastern District of New York. The amended and consolidated complaint asserts claims against defendants based on alleged violations of Federal and state antitrust laws and seeks damages, as well as injunctive relief. Plaintiff merchants allege that Visa, MasterCard and payment card issuing banks unlawfully colluded to set interchange rates. Plaintiffs also allege that enforcement of certain Visa and MasterCard rules and alleged tying and bundling of services offered to merchants are anticompetitive. Wells Fargo and Wachovia, along with other defendants and entities, are parties to Loss and Judgment Sharing Agreements, which provide that they, along with other entities, will share, based on a formula, in any losses from the Interchange Litigation. On July 13, 2012, Visa, MasterCard and the financial institution defendants, including Wells Fargo, signed a memorandum of understanding with plaintiff merchants to resolve the consolidated class action and reached a separate settlement in principle of the consolidated individual actions. The settlement payments to be made by all defendants in the consolidated class and individual actions totaled approximately $6.6 billion before reductions applicable to certain merchants opting out of the settlement. The class settlement also provided for the distribution to class merchants of 10 basis points of default interchange across all credit rate categories for a period of eight consecutive months. The District Court granted final approval of the settlement, which was appealed to the Second Circuit Court of Appeals by settlement objector merchants. Other merchants opted out of the settlement and are pursuing several individual actions. On June 30, 2016, the Second Circuit Court of Appeals vacated the settlement agreement and reversed and remanded the consolidated action to the United States District Court for the Eastern District of New York for further proceedings. On November 23, 2016, prior class counsel filed a petition to the United States Supreme Court, seeking review of the reversal of the settlement by the Second Circuit, and the Supreme Court denied the petition on March 27, 2017. On November 30, 2016, the District Court appointed lead class counsel for a damages class and an equitable relief class. Several of the opt-out litigations were settled during the pendency of the Second Circuit appeal while others remain pending. Discovery is proceeding in the opt-out litigations and the remanded class cases."

"MORTGAGE INTEREST RATE LOCK RELATED REGULATORY INVESTIGATION The CFPB has commenced an investigation into the Company's policies and procedures regarding the circumstances in which the Company required customers to pay fees for the extension of interest rate lock periods for residential mortgages."

"MORTGAGE RELATED REGULATORY INVESTIGATIONS Federal and state government agencies, including the United States Department of Justice (the "Department of Justice"), continue investigations or examinations of certain mortgage related activities of Wells Fargo and predecessor

institutions. Wells Fargo, for itself and for predecessor institutions, has responded, and continues to respond, to requests from these agencies seeking information regarding the origination, underwriting and securitization of residential mortgages, including sub-prime mortgages. These agencies have advanced theories of purported liability with respect to certain of these activities. The Department of Justice and Wells Fargo continue to discuss the matter, including potential settlement of the Department of Justice's concerns; however, litigation with these agencies, including with the Department of Justice, remains a possibility. Other financial institutions have entered into similar settlements with these agencies, the nature of which related to the specific activities of those financial institutions, including the imposition of significant financial penalties and remedial actions."

"OFAC RELATED INVESTIGATION The Company has self-identified an issue whereby certain foreign banks utilized a Wells Fargo software-based solution to conduct import/export trade-related financing transactions with countries and entities prohibited by the Office of Foreign Assets Control ("OFAC") of the United States Department of the Treasury. We do not believe any funds related to these transactions flowed through accounts at Wells Fargo as a result of the aforementioned conduct. The Company has made a voluntary self-disclosure to OFAC and is cooperating with an inquiry from the Department of Justice."

"ORDER OF POSTING LITIGATION Plaintiffs filed a series of putative class actions against Wachovia Bank, N.A. and Wells Fargo Bank, N.A., as well as many other banks, challenging the "high to low" order in which the banks post debit card transactions to consumer deposit accounts. Most of these actions were consolidated in multi-district litigation proceedings (the "MDL proceedings") in the United States District Court for the Southern District of Florida. The court in the MDL proceedings has certified a class of putative plaintiffs, and Wells Fargo moved to compel arbitration of the claims of unnamed class members. The court denied the motions to compel arbitration on October 17, 2016. Wells Fargo has appealed this decision to the Eleventh Circuit Court of Appeals."

"RMBS TRUSTEE LITIGATION In November 2014, a group of institutional investors (the "Institutional Investor Plaintiffs") filed a putative class action in the United States District Court for the Southern District of New York against Wells Fargo Bank, N.A., alleging claims against the bank in its capacity as trustee for a number of residential mortgage-backed securities ("RMBS") trusts (the "Federal Court Complaint"). Similar complaints have been filed against other trustees in various courts, including in the Southern District of New York, in New York state court and in other states, by RMBS investors. The Federal Court Complaint alleges that Wells Fargo Bank, N.A., as trustee, caused losses to investors and asserts causes of action based upon, among other things, the trustee's alleged failure to notify and enforce repurchase obligations of mortgage loan sellers for purported breaches of representations and warranties, notify investors of alleged events of default, and abide by appropriate standards of care following alleged events of default. Plaintiffs seek money damages in an unspecified amount, reimbursement of expenses, and equitable relief. In December 2014 and December 2015, certain other investors filed four complaints alleging similar claims against Wells Fargo Bank, N.A. in the Southern District of New York, and the various cases pending against Wells Fargo are proceeding before the same judge. On January 19, 2016, an order was entered in connection with the Federal Court Complaint in which the District Court dismissed claims related to certain of the trusts at issue (the "Dismissed Trusts"). The Company's motion to dismiss the Federal Court Complaint was granted in part and denied in part in March 2017. In May 2017, the Company filed third-party complaints against certain investment advisors affiliated with the Institutional Investor Plaintiffs seeking contribution with respect to claims alleged in the Federal Court Complaint.

A complaint raising similar allegations to the Federal Court Complaint was filed in May 2016 in New York state court by a different plaintiff investor. In addition, the Institutional Investor Plaintiffs subsequently filed a complaint relating to the Dismissed Trusts and certain additional trusts in California

state court (the "California Action"). The California Action was subsequently dismissed in September 2016. In December 2016, the Institutional Investor Plaintiffs filed a new putative class action complaint in New York state court in respect of 261 RMBS trusts, including the Dismissed Trusts, for which Wells Fargo Bank, N.A. serves or served as trustee (the "State Court Action"). The Company has moved to dismiss the complaint.

In July 2017, certain of the plaintiffs from the State Court Action filed a civil complaint relating to Wells Fargo Bank, N.A.'s setting aside reserves for legal fees and expenses in connection with the liquidation of eleven RMBS trusts at issue in the State Court Action. The complaint seeks, among other relief, declarations that Wells Fargo Bank, N.A. is not entitled to indemnification, the advancement of funds or the taking of reserves from trust funds for legal fees and expenses it incurs in defending the claims in the State Court Action."

"**SALES PRACTICES MATTERS** Federal, state and local government agencies, including the Department of Justice, the United States Securities and Exchange Commission and the United States Department of Labor, and state attorneys general and prosecutors' offices, as well as Congressional committees, have undertaken formal or informal inquiries, investigations or examinations arising out of certain sales practices of the Company that were the subject of settlements with the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency and the Office of the Los Angeles City Attorney announced by the Company on September 8, 2016. The Company has responded, and continues to respond, to requests from a number of the foregoing seeking information regarding these sales practices and the circumstances of the settlements and related matters.

In addition, a number of lawsuits have also been filed by non-governmental parties seeking damages or other remedies related to these sales practices. First, various class plaintiffs purporting to represent consumers who allege that they received products or services without their authorization or consent have brought separate putative class actions against the Company in the United States District Court for the Northern District of California and various other jurisdictions. In April 2017, the Company entered into a settlement agreement in the first-filed action, *Jabbari v. Wells Fargo Bank, N.A.*, to resolve claims regarding certain products or services provided without authorization or consent for the time period May 1, 2002 to April 20, 2017. Pursuant to the settlement, we will pay $142 million for remediation, attorneys' fees, and settlement fund claims administration. In the unlikely event that the $142 million settlement total is not enough to provide remediation, pay attorneys' fees, pay settlement fund claims administration costs, and have at least $25 million left over to distribute to all class members, the Company will contribute additional funds to the settlement. The court granted preliminary approval of the settlement in July 2017. A final approval hearing has been scheduled for the first quarter of 2018. Second, Wells Fargo shareholders are pursuing a consolidated securities fraud class action in the United States District Court for the Northern District of California alleging certain misstatements and omissions in the Company's disclosures related to sales practices matters. Third, Wells Fargo shareholders have brought numerous shareholder derivative lawsuits asserting breach of fiduciary duty claims, among others, against current and former directors and officers for their alleged failure to detect and prevent sales practices issues, which lawsuits are consolidated into two separate actions in the United States District Court for the Northern District of California and California state court, as well as two separate actions in Delaware state court. Fourth, a range of employment litigation has been brought against Wells Fargo, including an Employee Retirement Income Security Act class action in the United States District Court for the District of Minnesota brought on behalf of 401(k) plan participants; class actions pending in the United States District Courts for the Northern District of California and Eastern District of New York on behalf of employees who allege that they protested sales practice misconduct and/or were terminated for not meeting sales goals; various wage and hour class actions brought in Federal and state court in California, New Jersey, and Pennsylvania on behalf of non-exempt branch based employees alleging sales pressure resulted in uncompensated overtime; and multiple single plaintiff Sarbanes-Oxley Act

complaints and state law whistleblower actions filed with the Department of Labor or in various state courts alleging adverse employment actions for raising sales practice misconduct issues."

"**VA LOAN GUARANTY PROGRAM QUI TAM** Wells Fargo Bank, N.A. is named as a defendant in a *qui tam* lawsuit, *United States ex rel. Bibby & Donnelly v. Wells Fargo, et al.*, brought in the United States District Court for the Northern District of Georgia by two individuals on behalf of the United States under the Federal False Claims Act. The lawsuit was originally filed on March 8, 2006, and then unsealed on October 3, 2011. The United States elected not to intervene in the action. The plaintiffs allege that Wells Fargo charged certain impermissible closing or origination fees to borrowers under a U.S. Department of Veteran Affairs' (VA) loan guaranty program and then made false statements to the VA concerning such fees in violation of the civil False Claims Act. On their behalf and on behalf of the United States, the plaintiffs seek, among other things, damages equal to three times the amount paid by the VA in connection with any loan guaranty as to which the borrower paid certain impermissible fees or charges less the net amount received by the VA upon any re-sale of collateral, statutory civil penalties of between $5,500 and $11,000 per False Claims Act violation, and attorneys' fees. The parties have engaged in extensive discovery, and both have moved for judgment in their favor as a matter of law. In August 2017, the parties reached a settlement in which the Company will pay $108 million. The settlement amount does not include plaintiffs' attorneys' fees, which are subject to court approval."

March 11, 2019

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Re: For the March 12, 2019 hearing – *Holding Megabanks Accountable: An Examination of Wells Fargo's Pattern of Consumer Abuses*

Dear Chairwoman Waters, Ranking Member McHenry, and Members of the Financial Services Committee:

The National Association of Consumer Advocates greatly appreciates your efforts to hold a hearing that examines Wells Fargo Bank's conduct and its extensive history of mistreating consumers. NACA is a national nonprofit association engaged in promoting a fair and open marketplace that forcefully protects the rights of consumers, particularly those of modest means. Accountability in the financial marketplace is crucial, and we remain concerned over the big bank's use of restrictive contract terms, known as forced arbitration clauses, that deny its customers of their right to go before a judge and jury when they are harmed by its misconduct.[1] It is time to end this practice.

Over the past several years, Wells Fargo has been mired in numerous scandals over its widespread mistreatment of its customers and internal mismanagement. The most notorious incident occurred over the course of the last several years when it was revealed that the bank's enormous pressure on employees to meet sales quotas had resulted in over three million accounts being opened without consumers' permission.

Among a slew of other serious consumer abuses, Wells Fargo has faced allegations of:
- Tacking on unnecessary auto insurance products to car loans without customers' knowledge;
- Engaging in illegal student loan servicing practices;
- Unlawfully repossessing servicemembers' cars;
- Wrongfully denying mortgage modifications.[2]

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[1] See, NAT'L ASSOC. CONSUMER ADV., ENABLING UNLAWFULNESS: ONE YEAR AFTER THE TIE-BREAKING VOTE THAT
[2] *Wells Fargo: Corporate Rap Sheet*, https://www.corp-research.org/wells-fargo (last updated Jan. 7, 2019).

This disturbing pattern of wrongdoing has been exacerbated in part by the big bank's use of terms in its take-it-or-leave-it customer contracts that block consumers' ability to hold it accountable in court when they are harmed. Forced arbitration clauses in corporate contracts like Wells Fargo's require that consumers bring their claims behind closed doors to an arbitration firm chosen and paid for by the corporation that harmed them. Oftentimes, the practice also prevents them from joining forces in joint or collective actions to take on big corporations together.

Because the arbitration process is rigged against consumers and because consumers often cannot afford to take on the corporate bad actor alone in arbitration, corporations have avoided compensating their victims. Big corporations, and especially a scandal-ridden megabank like Wells Fargo, should be prohibited from sweeping their wrongdoing under the rug like this.

The public pressure following the fake account scandal forced Wells Fargo to provide some remedies to the customers it harmed. But the bank has a long history of using forced arbitration to get consumer legal actions thrown out of the taxpayer-funded public courts and into shadowy, private arbitration.

For example, just last May 2018, a federal appeals court held that Wells Fargo could force customers with serious complaints against the bank's overdraft practices into individual arbitration.[3] The consumers in this and other cases alleged that Wells Fargo and other banks would pad their bottom-line by reordering customers' debit transactions to increase the chances of bank account overdrafts that would lead to costly fees charged to their customers. In many cases, the consumers sought to band together in class actions to seek remedies and to stop the bad overdraft practices, but the forced arbitration clauses shut down their access to justice.

If big corporations are allowed to continue to use forced arbitration as a get-out-of-jail free card, then we can expect more harm to many more consumers with minimal repercussions. To help hold Wells Fargo accountable, Congress must pass a law, such as the Forced Arbitration Injustice Repeal Act, that would ensure consumers are able to choose how to get their claims heard when they are harmed.

Thank you for considering our views.

Sincerely,

Christine Hines
Legislative Director
National Association of Consumer Advocates

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[3] *Gutierrez v. Wells Fargo Bank*, NA, 889 F.3d 1230 (11th Cir. May 10, 2018).

The New York Times

Wells Fargo Says Its Culture Has Changed. Some Employees Disagree.

By Emily Flitter and Stacy Cowley

March 9, 2019

Wells Fargo has spent years publicly apologizing for deceiving customers with fake bank accounts, unwarranted fees and unwanted products. Its top executives say that because they have eliminated the aggressive sales targets that spurred bad behavior, the bank's culture has changed.

Many employees say that is news to them.

There is no evidence that employees are secretly opening accounts in customers' names or tricking them into buying unnecessary auto insurance, as some did in the past. The bank has altered how it pays workers and added safeguards to catch bad behavior.

But Wells Fargo workers say they remain under heavy pressure to squeeze extra money out of customers. Some have witnessed colleagues bending or breaking internal rules to meet ambitious performance goals, according to interviews with 17 current and former employees and internal documents reviewed by The New York Times.

In Des Moines, where the bank — the nation's fourth biggest — has a large debt-collecting operation, workers in December were expected to handle at least 30 calls an hour and recoup $34,000 in unpaid credit-card and other debts for the month. In January, the targets rose to 33 calls an hour and $40,000, goals that many employees there failed to attain, according to internal records.

"For us front-line workers, there's an overwhelming sense of frustration," said Mark Willie, who works in the Des Moines office and is part of a group, the Committee for Better Banks, trying to unionize Wells Fargo employees. "There is a general fear of retaliation for speaking out."

Two mortgage-processing employees in Minneapolis said managers pressured their team to send documents that they knew contained incorrect information to borrowers to meet internal deadlines.

In a survey of more than 27,000 employees in the bank's information-technology department late last year, top concerns included their ability to raise grievances with managers and whether "Wells Fargo conducts its business activities with honesty and integrity." Workers recently

flooded the bank's internal blog with hundreds of angry comments about Wells Fargo's sales incentives, pay and ethics and leaders' "doublespeak," according to screenshots of the blog reviewed by The Times.

Wells Fargo executives said in interviews that the bank's culture had improved and that fewer bank employees had direct financial incentives to sell products to customers.

"Our entire system of how we pay, coach and develop team members is designed to focus on customer experience and customer outcomes," said Mary Mack, Wells Fargo's head of consumer banking. "Things have changed a lot."

Ms. Mack said none of the debt-collecting employees in the Des Moines group had lost their jobs last year for not meeting the goals. She declined to comment on the Minneapolis mortgage processors, but said the bank investigates employees' allegations.

Wells Fargo was regarded for years as one of America's best banks. Then, in 2016, its pattern of wrongdoing became public. The bank admitted that employees had opened as many as 3.5 million phantom accounts in customers' names to meet stratospheric sales goals. It also admitted forcing customers to buy unneeded auto insurance and charging improper mortgage fees.

The scandal has been costly for Wells Fargo. Its chief executive was pushed out. The bank has paid more than $1.5 billion in penalties to federal and state authorities, and $620 million to resolve lawsuits from customers and shareholders. Most painful, the Federal Reserve punished the bank in February 2018 by prohibiting it from expanding until it cleaned up its culture and internal checks and balances — a restriction that remains in force.

The Fed has said that before it will lift its constraints, Wells Fargo must devise a plan to ensure that the deceptive practices won't happen again. Once the Fed signs off on the plan, the bank must demonstrate significant progress and win approval from an independent reviewer. The bank is still negotiating the details of the plan with the Fed. Its chief executive, Timothy J. Sloan, has twice pushed back his estimate for when the restrictions will be lifted.

Timothy J. Sloan, Wells Fargo's chief executive, in front of a Senate committee in 2017. He is scheduled to return to Congress on Tuesday to testify about the bank's progress.
Alex Wong/Getty Images

On Tuesday, Mr. Sloan will testify to a congressional committee about the bank's progress at overhauling its culture.

At the heart of its rehabilitation efforts, Wells Fargo said, it has changed how it motivates employees. No longer will they be individually rewarded for reaching sales targets, or punished for falling short. Branch workers were told that their primary job is to serve customers, not sell them things.

But the sales incentives have changed, not disappeared, according to the current and former employees, who work in branches, loan-processing centers and other parts of the bank. (Most spoke on the condition of anonymity to protect their jobs in the industry.)

In the past, branch workers were eligible for bonuses if they persuaded customers to apply for a credit card or to take out a loan.

Now, employees are urged to refer prospects to salespeople in the bank's mortgage or wealth management division, and some branch workers are eligible for bonuses if those referrals turn into sales, multiple employees said.

"Some retail bank positions or more experienced bankers might be eligible to be rewarded," Ms. Mack said. "The pressure element is not there, but the opportunity to reward team members is." She said sales weren't the only factor that influenced bonuses.

In addition, most branch employees can get bonuses based on their branch's overall performance.

A. J. Bula, a former branch employee in Richmond, Va., said his managers had criticized him when he failed to generate enough customer referrals to the sales team. The sales-oriented culture "was still there," said Mr. Bula, who left Wells Fargo in July. "Just get someone something."

A personal banker who works in a North Carolina branch said his manager had told him to increase his referrals to the bank's mortgage team and financial advisers. He said he had ethical qualms about trying to sell more products to his customers, who are mostly college students and retirees with limited money.

For salespeople, the goals are even more explicit and detailed.

One former salesman, who sold credit-card-swiping terminals to businesses on the East Coast, shared his 2018 performance plan with The Times. It might look familiar to anyone who works in a sales-oriented job.

The salesman was required to book at least 15 sales meetings a week. For every 30 opportunities he logged, 10 needed to result in a sale. His calendar had to show regular meetings scheduled with Wells Fargo branch managers, whom he was told to lobby for introductions to potential customers.

The salesman said that when his managers had wanted him or his colleagues to ratchet up their sales, they had used coded language: "We're not helping enough customers." He quit last summer because of the relentless pressure to hit his targets.

Another Wells Fargo salesman, who said he had also left because the sales pressure had been too intense, confirmed his colleague's account and said he had received similar performance targets.

Ms. Mack said only 20 percent of equipment sellers' compensation was based on their sales performance.

In another division of the bank, which handles mortgage applications, several employees said managers dangled rewards to get them to process loans faster.

A branch in Manhattan. An employee in Richmond, Va., who left Wells Fargo in July said the sales-oriented culture "was still there." The mandate: "Just get someone something."
Jeenah Moon for The New York Times

In previous years, workers got bonuses if they processed 25 mortgage applications a month, getting all the necessary documents in order, verifying borrowers' sources of income and sending out paperwork. Then the target was raised to 30. At the beginning of 2017, it went up to 35. (Mark Folk, a bank spokesman, said the increase had stemmed in part from the introduction of technology intended to speed up the process.)

The employees said the intense pressure led some workers to break the rules.

In one Wells Fargo office in Minnesota, two current employees said managers sometimes asked them to send customers mortgage documents even though the interest rate or fee calculations were incorrect — resulting from missing paperwork — so the team could record that the documents were sent out quickly. In those instances, the employees said, another set of documents would be sent to the customer after the missing paperwork came in and the calculations were corrected.

Ms. Mack said that, starting in January, the bank had stopped paying bonuses based on hitting mortgage-processing goals.

Employees' frustrations with the bank extend beyond the pressure to keep hitting lofty targets.

Melissa Kinnard, who worked in Minneapolis as a financial adviser, said the company had sometimes pushed her and other brokers to steer clients toward investments that would generate recurring fees for the bank, including in a case where "it was not in the client's best interest."

Frustrated by what she saw as the bank's culture, Ms. Kinnard quit in January.

Days later, the bank sent a letter to her clients, in her name, announcing that she would be teaming up with another Wells Fargo employee to handle their accounts. The Jan. 29 letter, reviewed by The Times, falsely indicated that Ms. Kinnard still worked at the bank and that she endorsed the other employee's credentials.

Ms. Kinnard repeatedly asked the company to retract the letter. It didn't.

"That letter went out in error," Mr. Folk, the bank spokesman, said on Friday. "We apologize for the mistake."

Many Wells Fargo employees are also upset about what they said was a drop in their compensation after the bank phased out many of its old sales bonuses.

On the company's internal blog in January, Patrick Timmons, who works in Minneapolis on resolving customer complaints, accused Wells Fargo's executives of trying to "string us along with an endless series of platitudes and doublespeak."

While the bank's leaders receive "obscene pay packages," its rank-and-file workers are struggling, he wrote. (Wells Fargo's chief executive, Mr. Sloan, was paid more than $17 million in 2017, up 36 percent from the year before.)

"I completely agree," a teller in Miami responded. The teller said there was "a disconnect between corporate and branch/officer workers."

Alex Ross, a bankruptcy specialist for Wells Fargo in Minneapolis who is also an activist for the Committee for Better Banks, stood up at Wells Fargo's annual shareholder meeting last April and told Mr. Sloan that many employees felt unable to speak frankly with their managers about problems. He said that some feared that they would face retaliation if they complained.

"Candidly, we need to hear from our team members more often," Mr. Sloan responded. "I don't want you to think that we are not listening. We absolutely are."

Mr. Ross said in an interview that he hadn't seen any change since then in the way workers were treated.

"There's a sense among the workers that most of the reforms the bank has made are very superficial and only being done for P.R. reasons," he said.

A version of this article appears in print on March 10, 2019, on Page A1 of the New York edition with the headline: A Bank Says It's Reformed. Workers Differ.

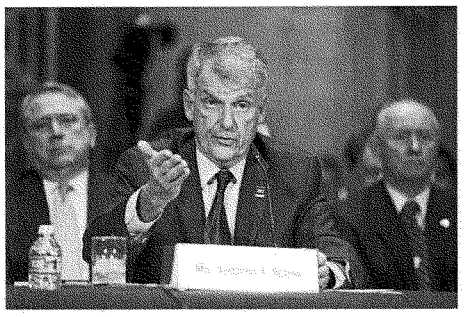
THE WALL STREET JOURNAL.

https://www.wsj.com/articles/washington-wants-to-know-why-timothy-sloan-hasnt-fixed-wells-fargo-11552316533

MARKETS

Wells Fargo Regulators Weigh Executive Shakeup as CEO Heads to Washington

At a House hearing, CEO is likely to be asked about bank's ongoing problems and whether he can finally repair its image



Timothy Sloan, CEO of Wells Fargo, testifying in 2017 before the Senate Committee on Banking, Housing, and Urban Affairs.
PHOTO: RON SACHS/CNP/ZUMA PRESS

By Emily Glazer
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More than two years after a scandal erupted over fake customer accounts, Wells Fargo WFC +0.06% ▲ & Co. remains at sharp odds with its government overseers. How sharp should come into focus Tuesday, when Chief Executive Timothy Sloan appears before a House Financial Services Committee newly dominated by Democrats with a decidedly populist tilt.

Mr. Sloan agreed to testify solo, ahead of other bank CEOs, when asked by the committee. Among other topics, he is likely to be asked about Wells Fargo's ongoing problems and whether he is capable of fixing them.

In the background, nearly every one of the bank's business lines is under investigation by a government agency, including the Justice Department and the Securities and Exchange Commission. Among the most serious, officials at the Office of the Comptroller of the Currency, one of the bank's chief regulators, are debating a rare step: whether to force out additional top executives or directors, according to a person familiar with the matter. The OCC has spent so much time dealing with Wells Fargo that it is even considering charging it a special fee, according to people familiar with the matter.

In testimony prepared for Tuesday's hearing, Mr. Sloan said the bank has worked to address the problems exposed by the sales scandal and the "root causes that allowed them to occur in the first place."

"As a result, Wells Fargo is a better bank than it was three years ago, and we are working every day to become even better," he says in the prepared remarks.

Mr. Sloan first promised to repair the defects at Wells Fargo when he took the helm in October 2016 in the wake of a damaging revelation that retail-branch employees were creating fake customer accounts to juice their numbers or keep their jobs.

A 31-year veteran of the bank, he initially set out to repair its image by sending executives on listening tours and wooing large shareholders. He reshuffled the leadership team and pushed Chief Risk Officer Michael Loughlin to fix the risk-management system—and when the Fed rejected the plan, hired a consulting firm to devise a new one. Mr. Loughlin retired last year.

In recent months, the bank has added five outside executives to its top ranks, some at the behest of regulators. Wells Fargo "has undergone an extensive review process and has been working diligently to address and resolve the problems of the past, take care of our customers promptly and fairly, and transparently describe our progress," a spokeswoman said.

But investors, analysts and employees have been leery. The bank's stock is flat since the sales scandal erupted in 2016, while the KBW Nasdaq Bank Index of the biggest U.S. banks has risen 35%.

"Is a new leadership person required at the helm? And if so, should it be an outsider? Those are fair questions for the board to ask right now; 2½ years is a pretty good runway for someone to make changes," said David Miller, a Princeton University professor who focuses on business ethics and has advised Citigroup Inc. among other big banks.

A big reason is Wells Fargo's inability to turn the page with the government. Just over a year ago, the Federal Reserve imposed a cap on how much the bank can grow its assets. Mr. Sloan

recently cautioned that the limit would likely remain in place at least the rest of this year—far longer than originally expected.

One of the bank's biggest shareholders sold off its stake in response to the Fed's move.

Parnassus Investments said the bank was no longer suitable for its portfolio. Discussions with Mr. Sloan and Wells Fargo directors led to some positive changes, but "troubling new issues continue to emerge," Parnassus said in a statement at the time.

Since the Fed imposed its cap in February 2018, Wells Fargo has continued to accumulate problems. A few weeks after the Fed's order, Wells Fargo disclosed that the Justice Department had ordered it to obtain an independent review of its wealth- and investment-management business. Whistleblowers had alleged financial advisers were pushing clients into inappropriate products and were shifting client assets around to generate greater revenue and bonuses, The Wall Street Journal has reported.

In April, the Consumer Financial Protection Bureau and OCC imposed a $1 billion fine on the bank for misconduct in its auto- and mortgage-lending business. The OCC said it found deficiencies in the bank's risk-management system that "constituted reckless, unsafe or unsound practices," leading to improper charges to hundreds of thousands of consumers.

Wells Fargo also had botched refunds to thousands of auto-loan customers and sent 38,000 erroneous communications to borrowers who were forced to buy unneeded auto insurance, the Journal reported. It also waited months before reaching out to mortgage customers who had been improperly charged, people familiar with the refunds said. That delay was, in part, at Mr. Sloan's direction, the people said. He worried the bank's initial methodology could open it up to a deluge of customer claims in the future, one of the people said.

The bank is still refunding auto-loan customers, the person said.

Arati Randolph, the bank's spokeswoman, said Wells Fargo has now paid refunds and interest to "substantially all" affected mortgage customers. Mr. Sloan "always wants to ensure that any customer process is conducted thoughtfully and accurately," she said.

Mr. Sloan declined to be interviewed for this story.

In midsummer, the OCC, frustrated at Wells Fargo's slow integration of more than 400 lending platforms within its wholesale business, pushed the bank to hire PricewaterhouseCoopers to do the work, current and former executives said.

Soon after, the OCC effectively forced out two top executives, Chief Administrative Officer Hope Hardison, a 25-year Wells Fargo veteran who ran human resources, and David Julian, the chief auditor.

The OCC sent individual rebukes to Ms. Hardison and Mr. Julian, a procedure that left the bank little choice but to replace them.

The regulator has more direct authority, under a 2018 enforcement action, to replace Wells Fargo executives or directors, which it is now considering using, a person familiar with the matter said. The regulator hasn't decided what to do and may not exercise its authority, the person said.

Wells Fargo executives "continue to have constructive dialogue with our regulators and are taking their detailed feedback and making comprehensive changes across the company, especially to our operational and compliance risk management," Ms. Randolph said. Mr. Sloan has the full support of the bank's board, she said.

—Ryan Tracy contributed to this article.

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Private Detention Industry Expected to Swell from "Zero Tolerance" at the Border:

New Estimates Show Number of Immigrants in Private Detention Facilities Would Grow by 290 to 580% if Trump's Policy Fully Implemented; Major Wall Street Banks JPMorgan Chase and Wells Fargo Poised to Benefit

Data Brief by Make the Road New York and the Center for Popular Democracy
June 2018

If the Trump administration is able to fully implement its "zero-tolerance" policy for people crossing the border, **new estimates from Make the Road New York and the Center for Popular Democracy show that the number of immigrants in private detention facilities will grow by 290 to 580 percent over the next two years.**[i] **The data, presented below in Table 1**, show that Donald Trump's plan to move from putting children in cages to pursuing indefinite detention of immigrant families will be an enormous boon for private detention companies.

Moreover, Wall Street banks like JPMorgan Chase, Wells Fargo and BlackRock are some of the biggest winners from Trump's plan to put as many immigrants as possible in cages. These banks' sizable private detention stock holdings and history of providing financing through bonds, term loans, and revolving lines of credit ensure that when private immigrant detention increases, Wall Street revenues soar.[ii]

Table 1: Expected Industry Growth from "Zero Tolerance"

Average Incarceration Time	Average Daily Population (ADP) in Detention	Additional ADP After "Zero Tolerance"	Additional ADP in Private Detention	Percent Change from FY 2018
Six Months	144,286	113,986	80,930	290%
One Year	288,572	227,972	161,860	580%

Attorney General Jeff Sessions announced the new "zero-tolerance" policy on April 6th, 2018, indicating that everyone who is apprehended while crossing the southern border will face criminal charges.[iii] Once it became clear that the new policy separated families crossing the border, reports in the press emerged and public pressure mounted, with protests in dozens of cities held to demand freedom for immigrants.[iv] After weeks of public opposition, Trump issued an executive order largely keeping the "zero-tolerance" policy intact.[v] While it is unclear whether the administration will implement the current policy as intended due to various constraints and continued public opposition, it is important to understand who would benefit from full implementation.

Table 1 demonstrates that the number of immigrants caged in private detention, already a multi-billion dollar industry, would grow by 290 to 580 percent in the next two years. This is due to an expected increase of between 114,000-228,000 people in the average daily population of immigrants in detention after the full implementation of "zero tolerance," 81,000-162,000 people of which would be in private detention facilities. (See below for a detailed explanation of the methodology.)

As focus turns to companies that profit directly from detaining immigrants, their financial backers' role in maintaining, expanding, and making money from the industry deserves scrutiny, as well. An April 2018 Corporate Backers of Hate report, "Bankrolling Oppression," found that JPMorgan Chase's private detention stockholdings have increased 97 times (or 9,600 percent) from before Trump's surprise electoral victory to the beginning of this year.[vi] Yet as JPMorgan Chase benefits from and finances the detention industry, CEO Jamie Dimon has the audacity to respond to the zero-tolerance policy by saying that "his heart goes out to the impacted families."[vii]

Geo Group and CoreCivic, the detention industry leaders, paid their lenders $217 million in 2017.[viii] Banks like JPMorgan and Wells Fargo hold such a significant share of the debt extended to Geo Group and CoreCivic that their withdrawal of financing could strike a blow to the private detention companies' current debt-financed business model,[ix] yet so far, they have refused. At the same time, the banks continue holding shares in the private detention companies as their stock prices increase. From the "zero-tolerance" policy announcement on April 6th to the June 22nd "request for information" to add 15,000 beds in family detention centers,[x] stock prices for Geo and CoreCivic have shot up by 23 percent and 13 percent, respectively.[xi]

Methodology and References

The estimate of private detention growth necessarily involves some assumptions because Immigration and Customs Enforcement (ICE) blocks access to what should be publicly available information.[xii]

To estimate the length of time that people apprehended on the southern border will be put in cages for their criminal charges (Average Incarceration Time), we created a range based on the administration's statements, the US criminal code, and various intensifying factors (first column). The intention of the "zero-tolerance" policy is to charge everyone crossing the border with "the full prosecutorial powers of the Department of Justice."[xiii] Therefore, the DOJ intends to criminally charge people who cross the border with at least illegal entry.[xiv] The US Code allows for people crossing the border for the first time to be charged with illegal entry, which carries a sentence of up to six months. The separate charge of illegal reentry comes with a sentence of up to two years.[xv] Historically, the latter has been the more common criminal charge,[xvi] with an average sentence length of 17 months.[xvii] Due to the policy change, it is unclear what the ratio of illegal entry and illegal reentry charges will be moving forward. An intensifying factor that will lead to people being put in cages for longer if the "zero tolerance" policy is fully implemented is that the federal court system is already at a breaking point;[xviii] at least one federal prosecutor has said that he cannot implement the policy with current resources.[xix] Recognizing the uncertainty about both the courts' processing capacity and the ratio of future charges, the variable range used for Average Incarceration Time is six months to a year.[xx] If anything, this is a conservative estimate given the 17-month average sentence length for illegal reentry.

To calculate Average Daily Population (ADP) in Detention (second column), we subtracted the number of unaccompanied children[xxi] from the total apprehensions along the southwest border from June 2017 - May 2018.[xxii] This analysis assumes that there will be the same number of such apprehensions over the next year (288,572). We multiplied the apprehensions number by the variable range for Average Incarceration Time to calculate ADP, an important statistic for ICE.

To estimate Additional ADP After "Zero Tolerance" (third column), we multiplied the ADP in Detention numbers by 79 percent because 21 percent of people crossing the border have been referred for prosecution in the past few years.[xxiii] Since 21 percent were historically referred for prosecution, "zero tolerance" means that the remaining 79 percent multiplied by the ADP in Detention numbers represents the additional people that will be prosecuted.

To calculate the Additional ADP in Private Detention (fourth column), the current share of private ICE facilities (71 percent)[xxiv] was multiplied by the Additional ADP after "Zero Tolerance" estimates.[xxv] This assumes that the privatization ratio will remain the same moving forward,

which is a reasonable assumption without clear evidence to the contrary--particularly given the Trump administration's reliance on private detention facilities.[xxvi]

Finally, we calculated the Percent Change from FY 2018 (fifth column) by expressing the Additional ADP in Private Detention in terms of the private detention ADP in Fiscal Year 2018[xxvii] in ICE facilities.[xxviii]

This estimate assumes people crossing the border are put in cages in ICE facilities and do not serve time in Criminal Alien Requirement (CAR) prisons run by the Bureau of Prisons. CAR prisons are private prisons that people who cross the border have been sent to since Operation Streamline.[xxix] Because CAR prisons are privately run,[xxx] this assumption makes the estimated range more conservative. It is also reasonable since some reports say that many people who are apprehended after crossing the border will likely be sentenced to time served,[xxxi] thus avoiding CAR prisons.[xxxii]

Finally, it bears mention that, to isolate the impact of the "zero tolerance" policy change, this analysis assumes other immigration enforcement (for instance, enforcement activity in the interior) remains the same. This, too, is a conservative assumption given ICE's recent efforts to ramp up interior enforcement.[xxxiii]

Endnotes

[i] The range addresses the uncertainty of how long people who cross the border will be put in cages, on average.

[ii] "The Banks that Finance Private Prison Companies." *In the Public Interest.* November 2016. https://www.inthepublicinterest.org/wp-content/uploads/ITPI_BanksPrivatePrisonCompanies_Nov2016.pdf

[iii] "Attorney General Announces Zero-Tolerance Policy for Criminal Illegal Entry." *The United States Department of Justice.* April 6, 2018. https://www.justice.gov/opa/pr/attorney-general-announces-zero-tolerance-policy-criminal-illegal-entry

[iv] Peñaloza, Marisa and Rose, Joel. "Protesters Across the U.S. Decry Policy of Separating Immigrant Families." *National Public Radio.* June 1, 2018. https://www.npr.org/2018/06/01/616257822/immigration-rights-activists-protest-trump-administration-child-separation-polic

[v] "Read the Executive Order Trump Signed on Family Separation." *The New York Times.* June 20, 2018. https://www.nytimes.com/2018/06/20/us/politics/read-executive-order-trump-family-separation.html

[vi] "Bankrolling Oppression: How Wall Street Companies Finance the Private Prison and Immigrant Detention Industry." *Center for Popular Democracy, Make the Road New York, Enlace, New York Communities for Change, and the Strong Economy for All Coalition.* April 30, 2018. https://populardemocracy.org/bankrollingoppression

[vii] Lee, Yen Nee. "JPMorgan's Dimon Speaks Up Against Trump Policy of Separating Children from Parents." *CNBC.* June 19, 2018. https://www.cnbc.com/2018/06/19https://www.nytimes.com/2018/06/20/us/politics/read-executive-order-trump-family-separation.htm/jp-morgans-jamie-dimon-on-us-immigration-policy-child-seperation.html

[viii] "Bankrolling Oppression: How Wall Street Companies Finance the Private Prison and Immigrant Detention Industry." *Center for Popular Democracy, Make the Road New York, Enlace, New York Communities for Change, and the Strong Economy for All Coalition.* April 30, 2018. https://populardemocracy.org/bankrollingoppression

[ix] "The Banks that Finance Private Prison Companies." *In the Public Interest.* November 2016. https://www.inthepublicinterest.org/wp-content/uploads/ITPI_BanksPrivatePrisonCompanies_Nov2016.pdf

[x] Pounds, Marcia Heroux. "Boca-based Geo Group Poised to Profit from Trump Order for Illegal Immigrant Beds." *Sun Sentinel.* June 25, 2018. http://www.sun-sentinel.com/business/fl-bz-geo-immigrant-detention-20180622-story.html

[xi] These stock price changes were calculated through June 22nd using Google Finance.

[xii] Strauss, Amelia. "ICE Fights to Keep Facility Information Sheet." *Project on Government Oversight.* December 6, 2017. http://www.pogo.org/blog/2017/12/ice-fights-to-keep-facility-information-secret.html

[xiii] "Attorney General Announces Zero-Tolerance Policy for Criminal Illegal Entry." *The United States Department of Justice.* April 6, 2018. https://www.justice.gov/opa/pr/attorney-general-announces-zero-tolerance-policy-criminal-illegal-entry

[xiv] Rizzo, Salvador. "The Facts About Trump's Policy of Separating Families at the Border." *The Washington Post.* June 19, 2018. https://www.washingtonpost.com/news/fact-checker/wp/2018/06/19/the-facts-about-trumps-policy-of-separating-families-at-the-border/?utm_term=.2264ee99db6e

[xv] "8 U.S. Code § 1325 - Improper Entry by Alien." *Legal Information Institute.* https://www.law.cornell.edu/uscode/text/8/1325

[xvi] "Immigration Prosecutions for April 2018." *TRAC Immigration.* May 23, 2018. http://trac.syr.edu/tracreports/bulletins/immigration/monthlyapr18/fil/

[xvii] Rickerd, Chris. "Fact Sheet: Criminal Prosecutions for Unauthorized Border Crossing." *American Civil Liberties Union.* December 14, 2015. https://www.aclu.org/other/operation-streamline-issue-brief

[xviii] Trevizo, Perla. "Arizona Federal Courts Too Busy to Add More Border-Crosser Cases, Chief Judge Says." *Arizona Daily Star.* May 7, 2018. https://tucson.com/news/local/arizona-federal-courts-too-busy-to-add-more-border-crosser/article_9f4ace30-2653-5b3c-b469-332ce8286bdf.html

[xix] Blitzer, Jonathan. "How the Humanitarian Crisis on the Mexico Border Could Worsen." *The New Yorker.* June 23, 2018. https://www.newyorker.com/news/dispatch/how-the-humanitarian-crisis-on-the-mexico-border-could-worse

[xx] After serving a criminal sentence, people who cross the border will then go through deportation proceedings in immigration court. Convictions can have an impact on the number and type of claims for relief and the duration of the removal case itself. Because there is no rigorous way to evaluate whether these factors would lead to a material aggregate increase or decrease in time served, these estimates presume that after the criminal process, people who cross the border will spend the same amount of time in detention due to immigration court proceedings as they otherwise would have without the "zero-tolerance" policy.

[xxi] We assume that the unaccompanied children that Customs and Border Patrol lists on their website are not the children who are being separated from their parents because the website separately lists Family Units. This is a conservative assumption because we may be undercounting relevant apprehensions.

[xxii] "Southwest Border Migration FY2018." *U.S. Customs and Border Protection.* June 20, 2018. https://www.cbp.gov/newsroom/stats/sw-border-migration

"Southwest Border Migration FY2017." *U.S. Customs and Border Protection.* December 15, 2017. https://www.cbp.gov/newsroom/stats/sw-border-migration-fy2017

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[xxiv] Tidwell Cullen, Tara. "ICE Released its Most Comprehensive Immigration Detention Data Yet. It's Alarming." *National Immigrant Justice Center.* March 13, 2018. https://immigrantjustice.org/staff/blog/ice-released-its-most-comprehensive-immigration-detention-data-yet

[xxv] In the past, immigrants awaiting federal trial for entry or reentry charges were in the custody of the US Marshals Service, which is part of the Department of Justice. Trump's recent executive order says that the Department of Homeland Security will retain custody of families, and these estimates assume DHS will manage the expansion of the entire system. While it would be reasonable to assume that additional detention capacity to the system will be entirely private due to the need for rapid expansion, this estimate conservatively uses ICE's current privatization rate (71%) to scale the Additional ADP estimates and evaluate the impact on the industry. We use ICE's privatization rate because ICE has the most experience within DHS of long-term detention (Customs and Border Patrol has historically done processing of detainees).

[xxvi] Burnett, John. "Big Money as Private Immigrant Jails Boom." *National Public Radio.* November 21, 2017. https://www.npr.org/2017/11/21/565318778/big-money-as-private-immigrant-jails-boom

[xxvii] Tidwell Cullen, Tara. "ICE Released its Most Comprehensive Immigration Detention Data Yet. It's Alarming. " *National Immigrant Justice Center.* March 13, 2018. https://immigrantjustice.org/staff/blog/ice-released-its-most-comprehensive-immigration-detention-data-yet

[xxviii] The FY2018 ADP was 39,322, which we multiplied by 71% to get a private detention ADP of 27,919 in FY 2018. ICE's fiscal year runs from October to September.

[xxix] Parker, Christina. "Humpday Hall of Shame: Report Exposes Outrageous Abuse and Dangerous Quotas Inside Prisons for Migrants." *Grassroots Leadership.* June 11, 2014. https://grassrootsleadership.org/blog/2014/06/humpday-hall-shame-report-exposes-outrageous-abuse-and-dangerous-quotas-inside-prisons

[xxx] Ibid.

[xxxi] Due to the language in Trump's executive order, we assume that people will be serving six months to one year in ICE facilities. See Endnote xxv for more details.

[xxxii] Rizzo, Salvador. "The Facts About Trump's Policy of Separating Families at the Border." *The Washington Post.* June 19, 2018. https://www.washingtonpost.com/news/fact-checker/wp/2018/06/19/the-facts-about-trumps-policy-of-separating-families-at-the-border/?utm_term=.2264ee99db6e

[xxxiii] Bialik, Kristen. "ICE Arrests Went Up in 2017, with Biggest Increases in Florida, northern Texas, Oklahoma." *Pew Research Center.* February 8, 2018. http://www.pewresearch.org/fact-tank/2018/02/08/ice-arrests-went-up-in-2017-with-biggest-increases-in-florida-northern-texas-oklahoma/

City & Community

Riding the Stagecoach to Hell: A Qualitative Analysis of Racial Discrimination in Mortgage Lending

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Recent studies have used statistical methods to show that minorities were more likely than equally qualified whites to receive high-cost, high-risk loans during the U.S. housing boom, evidence taken to suggest widespread discrimination in the mortgage lending industry. The evidence, however, was indirect, being inferred from racial differentials that persisted after controlling for other factors known to affect the terms of lending. Here we assemble a qualitative database to generate direct evidence of discrimination. Using a sample of 220 statements randomly selected from documents assembled in the course of recent fair lending lawsuits, we code texts for evidence of individual discrimination, structural discrimination, and potential discrimination in mortgage lending practices. We find that 76 percent of the texts indicated the existence of structural discrimination, with only 11 percent suggesting individual discrimination alone. We then present a sample of texts that were coded as discriminatory to reveal the way in which racial discrimination was embedded within the social structure of U.S. mortgage lending, and to reveal the specific microsocial mechanisms by which this discrimination was effected.

INTRODUCTION

Quantitative work has shown that the level of black–white segregation powerfully predicted the number and rate of foreclosures across U.S. metropolitan areas during the Great Recession (Rugh and Massey 2010), and that African Americans and Latinos were much more likely to receive high-cost, high-risk loans than white borrowers during the housing boom, even after controlling for credit scores, loan to value ratios, subordinate liens, income, assets, expense ratios, neighborhood characteristics, and other relevant variables (Bayer et al. 2014; Been et al. 2009; Bocian et al. 2011; Rugh et al. 2015).

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Although the quantitative findings were convincing enough to compel several large mortgage lenders to settle lawsuits alleging discrimination, the evidence they offer is ultimately statistical and indirect. After controlling for the characteristics of borrowers, properties, and neighborhoods, racial differences in lending outcomes are *presumed* to indicate racial discrimination. The discriminatory behavior is never directly observed.

Here we endeavor to supplement existing quantitative studies by developing direct qualitative evidence of the racial discrimination during the recent housing boom. To accomplish this goal, we compiled a sample of interviews, depositions, and statements made by borrowers, mortgage brokers, loan officers, credit managers, due diligence employees, investment bankers, and others who were involved in subprime lending and securitization in the years leading up to 2008. We then systematically coded the statements to identify specific reports of racial discrimination and generate a sample of associated texts to reveal the nature of the racial bias and the mechanism of discrimination. The selected passages speak directly to the racialized knowledge, intent, and motivations of those who marketed high-cost, high-risk lending products to minority borrowers during the housing boom. We offer these qualitative data as powerful direct evidence of racial discrimination in U.S. lending markets, complementing the strong indirect evidence provided by earlier quantitative studies.

We begin by discussing the historical evolution of racial discrimination in U.S. real estate and lending markets and then move on to describe the qualitative database we constructed from recent fair lending cases and the analytic methods we applied to code these data to identify instances of discrimination described in the texts. Our findings lead us to conclude that racial discrimination was quite common in the institutions under study. We end by discussing the microsocial processes by which black and Latino individuals and communities were channeled into high-cost, high-risk loans that left them uniquely exposed to risks of default, foreclosure, repossession, and the loss of home equity, thus serving to exacerbate already skewed racial inequalities in the distribution of wealth.

HISTORICAL SEGREGATION AND DISCRIMINATION

Prior to the Civil War, African Americans were not very residentially segregated in either the north or the south (Massey and Denton 1993). In southern rural areas slave populations were housed on plantations with their masters and in urban areas of the south they typically lived "downstairs" in servants' quarters or in cottages located on side streets and alleys near white-owned homes and businesses. In northern cities, African Americans were small in number and not highly concentrated spatially. Although black residents were generally relegated to poor neighborhoods, within them they mingled with poor white urbanites, both native and immigrant. The small number of elite African Americans were by no means accepted as social equals, but if they could afford it they were often tolerated in higher status white neighborhoods.

The situation changed dramatically in the late 19th century with industrialization and urbanization, which increased the size, density, and heterogeneity of U.S. cities to elevate the potential for spatial segregation (Massey and Denton 1993). As immigrants from Southern and Eastern Europe flowed into burgeoning industrial areas, they experienced far higher levels of segregation than earlier waves of immigrants from Northern and Western Europe (Hershberg et al 1981). Black rural–urban migration was small at first but

picked up around the turn of the century and accelerated after 1914 when the First World War curtailed immigration from Europe and increased the demand for unskilled workers in manufacturing centers. The demand for black workers increased further when national origins quotas were imposed on immigrants from Southern and Eastern Europe in 1921 and 1924 despite soaring labor demand during the economic boom of the Roaring Twenties.

As black migration into urban areas surged, color lines hardened, especially in the Northeast and Midwest, as successively higher levels of residential segregation were imposed on African Americans (Lieberson 1980). Although immigrants from Southern and Eastern Europe were also segregated within the industrializing landscape, their levels of spatial separation and isolation never reached the heights experienced by African Americans. At first, city governments sought to manage racial tensions by mandating separate areas for black and white residents, and systems of de jure residential segregation spread rapidly throughout the nation until 1917, when the Supreme Court declared them to be unconstitutional (Massey and Denton 1993).

Despite this legal ruling, white resistance to coresidence with African Americans intensified and blacks daring to cross recognized residential color lines were met with hostility, ostracism, and increasingly violence. As densities rose to new heights within black neighborhoods during the years of wartime housing scarcity, African Americans were increasingly forced across the color line, prompting a wave of urban race riots that culminated in the Great Chicago Riot of 1919 (Chicago Commission on Race Relations 1922).

In response to wanton property destruction during the riots (though not to the toll in black lives), the real estate industry took control of the situation and created new legal mechanisms to restrict and control black residential expansion (Massey and Denton 1993). Deed restrictions were developed to prohibit the rental or sale of any property to unwanted outsiders, which always meant African Americans and at times other groups. Realtors also invented racially restrictive covenants, private contracts between property owners within a defined geographic area who agreed not to rent or sell their homes to black home seekers. Violation of these terms would spur a lawsuit for breach of contract. Model covenants were drawn up and distributed for use by real estate agents nationwide, and a provision against the introduction of "unwanted population elements" into residential neighborhoods was enshrined in the profession's code of ethics (Helper 1969).

With these legal mechanisms in place, levels of violence subsided though never entirely disappeared. Neighborhoods still regularly underwent racial transitions from white to black but usually at times and places chosen by the real estate industry; and the process of "blockbusting" was perfected to maximize rents and profits. Whenever the existing ghetto filled to capacity, an adjacent neighborhood was targeted for managed turnover and the color line shifted outward in space (Duncan and Duncan 1957; Taeuber and Taeuber 1965). Black confederates of real estate agents were typically sent into white neighborhoods to sow fears of racial change and induce panic selling. Since banks generally refused to lend to black borrowers, these transitions were organized and financed by unscrupulous agents who extracted high rents from incoming movers or imposed onerous sales terms that led to foreclosure and serial sales of the same property (Massey and Denton 1993; Satter 2009).

These institutionalized private mechanisms of discrimination built the modern black ghetto and perpetuated segregation through the 1920s, but with the advent of the Great Depression the federal government was compelled to intervene to stabilize the

housing and banking industries and it adopted the private sector's discriminatory practices (Jackson 1985). Two of the first agencies established under Franklin Roosevelt's New Deal were the 1933 Homeowners Loan Corporation and the 1934 Federal Housing Administration, which created new loan programs in which the government guaranteed 90 percent of the value of a home loan, provided it conformed to federally specified criteria, such as 10 percent down and a 30-year amortization period.

As in the private sector, the HOLC and the FHA discouraged lending to black borrowers and recommended the use of restrictive covenants. In addition, however, federal authorities developed a new discriminatory tool known as the "residential security map," which was used to color-code neighborhoods in a given city according to their credit worthiness. Red indicated ineligibility for a federally insured loan and black neighborhoods were invariably coded red (Jackson 1985). Although banks had avoided lending in black neighborhoods before the New Deal, the practices of the HOLC and the FHA gave them a federal seal of approval and contributed to the institutionalization of redlining throughout the lending industry. According to Jackson (1985), neighborhoods that were coded red were much less likely to receive federally insured loans, though research by Hillier (2003) in Philadelphia found that redlining had a greater effect on interest rates than on loan provision itself, at least in that city.

HOLC's discriminatory lending practices were taken up by the Veterans Administration when it established its own lending program for returning soldiers in 1944 and became the standard for private lending during the suburban boom of the 1950s and 1960s (Katznelson 2005). With white Americans being federally subsidized to move to the suburbs by FHA and VA loan guarantees, spending on freeways from the Interstate Highway Trust Fund, and the tax deductibility of mortgage interest payments, blacks moved into the homes and neighborhoods they left behind in central cities. Once a neighborhood became black, of course, it was substantially cut off from capital and credit, both public and private, thereby creating underserved and financially unsophisticated communities of people living in deteriorating circumstances (Massey and Denton 1993; Squires 1992).

This status quo persisted through the 1960s and 1970s and served to perpetuate racial segregation and create the classic American configuration of "chocolate cities and vanilla suburbs" (Farley et al. 1978). Racial discrimination in the rental or sale of housing was not outlawed until the 1968 Fair Housing Act; and although this legislation also prohibited discrimination in lending, it was not until the 1974 Equal Credit Opportunity Act that discrimination in mortgage lending was firmly enjoined, and not until the 1977 Community Reinvestment Act that banks were actually required to make loans to underserved minority neighborhoods (Metcalf 1988).

As a result, when Massey and Denton (1987) undertook their initial analysis of black residential segregation using the 1980 census they found that levels of black residential segregation had barely changed. Discrimination did not end after the passage of civil rights legislation in the 1960s and 1970s, of course (Yinger 1997). Traditional forms went underground and became clandestine while new mechanisms of discrimination were invented (Massey 2005). In real estate, outright refusals to market or show housing were increasingly replaced by steering, the systematic channeling of black home seekers to black or already integrated neighborhoods (Charles 2003). In banking, categorical denials of access to credit were replaced by the systematic offering of credit on unfavorable terms to black individuals and neighborhoods (Squires 2003). As time passed, financial institutions increasingly sought out black individuals and neighborhoods explicitly to

market them high-cost, high-risk loans and boost their own profits (Engel and McCoy 2008; Immergluck 2009).

During the 1980s and 1990s, the mortgage industry shifted from direct lending by banks to the origination of loans by intermediaries—independent brokers and retail lenders who marketed mortgages and then sold them to investment banks that, in turn, bundled them together to create payment streams that backed securities that were then sold to investors, a process known as securitization (Stone and Zissu 2012). Under the new system, profits for financial organizations depended on the size of the gap between the prevailing interest rate and the rate paid by borrowers, known as the "yield spread." Brokers, retail banks, and investment banks made greater profits when the gap between a loan's interest rate and the prevailing interest rate was wide, creating incentives for loan originators to charge as much as possible for the loans (Botein 2013).

In this new context, minority communities shifted from being seen as a pool of borrowers to be avoided to being perceived as an attractive market for loan sales that might expand the number of mortgages available for securitization. Historical disparities in wealth and access to credit could now be profitably exploited to fuel a boom in subprime lending, thus yielding a new mechanism of racial discrimination known as "predatory lending," in which minority borrowers and neighborhoods were targeted for costly and risky lending products (Rugh and Massey 2010; Squires 2011). In this context, historically underserved black and Latino communities came to be seen as a lucrative untapped market characterized by established home equity, ample room for increased home ownership rates, and a pool of potential borrowers with little financial experience who could be deliberately targeted for the marketing and sale of subprime loans (Botein 2013; Rugh et al. 2015).

These loans not only contained higher rate spreads, but also included other provisions that drove up the cost to borrowers while increasing the profits of lenders at the expense of home owners and other borrowers, who assumed greater financial risk. Securitization, for example, created new incentives to push borrowers into loans with adjustable rates so that if interest rates rose, investors would maintain their yield spread and thus their income streams. It also led banks and brokers to favor loans with high prepayment penalties to prevent them from paying off their loans early or refinancing at a better rate, again maintaining cash flows for investors in mortgage backed securities (Steil et al. 2015).

In the end, predatory lending practices evolved from ostensibly neutral technologies that were manipulated to take advantage of racial segregation, racial prejudice, and a large population of underserved and unsophisticated borrowers, thus ensnaring otherwise creditworthy black and Latino homeowners and into high-cost, high-risk loans. Estimates suggest that during the middle 1990s anywhere from 10 to 35 percent of the people put into subprime loans were, in fact, eligible for prime loans (Mahoney and Zorn 1996). As the housing boom accelerated, this percentage grew until by 2006 as many as 62 percent of subprime borrowers, disproportionately black and Latino, actually qualified for prime loans (Brooks and Simon 2007). As a result, African Americans not only lost money by paying higher fees for more costly products than did equally qualified whites during the boom; but during the bust these products also put them at greater risk of default, foreclosure, and the catastrophic loss of assets through repossession, as quantitative studies have amply demonstrated (Rugh and Massey 2010; Rugh et al. 2015).

DATA AND METHODS

In order to develop direct qualitative evidence of how discrimination in mortgage lending functioned, we assembled statements from publicly available documents in civil rights cases brought before federal courts alleging violations of fair lending law. We began by seeking to identify the universe of cases alleging predatory lending and reverse redlining violations of the Fair Housing Act and the Equal Credit Opportunity Act over the past decade. Cases were identified through a Westlaw search of state and federal cases bringing claims pursuant to the Fair Housing Act or Equal Credit Opportunity Act and alleging reverse redlining. Table 1 presents a list of public and private lawsuits alleging discrimination in lending that were filed against financial institutions over the past two decades, which does not include administrative complaints filed with HUD or with state and local agencies.

Many of the lawsuits were brought by the Civil Rights Division of the U.S. Department of Justice and were settled before going to trial, leaving little in the public record aside from the lending violations alleged and the terms of the consent order. Other cases settled quickly or were dismissed early in the litigation process, likewise leaving a sparse public record. We identified four cases, however, that both survived preliminary motions to dismiss and included a wealth of publicly available documents that could be analyzed.

The first of these cases, Barkley v. Olympia Mortgage, was brought in federal court by eight first-time homebuyers in Brooklyn, New York, who alleged that a real estate investor purchased properties, performed cosmetic repair work, and then conspired with mortgage lenders, appraisers, and attorneys to resell the homes to black and Latino first-time buyers using high-cost loans appraised at far more than a property's true value. After a three-week trial, the jury found the real estate investor and mortgage companies guilty of fraud, conspiracy to commit fraud, and deceptive practices. The verdict was upheld on appeal by the United States Court of Appeals for the Second Circuit, yielding a record of more than 25 depositions by key actors in the trial, with some interviews lasting for eight hours or more.

The second and third cases were brought against Wells Fargo Bank by the City of Baltimore and the City of Memphis (in partnership with Shelby County, Tennessee). Both plaintiffs alleged that Wells Fargo intentionally targeted minority communities and used discriminatory and deceptive methods to steer minority customers into predatory mortgages, resulting in extraordinarily high rates of foreclosure that caused local governments to lose property tax revenue and spend additional resources maintaining vacant homes. In both cases, the federal district court denied Wells Fargo's motions to dismiss and the bank ultimately chose to settle both cases, agreeing to pay millions of dollars to borrowers who were overcharged and to the municipalities that brought suit. The public record in these cases includes multiple declarations made by employees at various positions in Wells Fargo from several different regions.

The fourth case, Adkins et al. v. Morgan Stanley, was brought by black residents of Detroit who alleged that they were fraudulently steered into subprime loans by New Century Financial Corporation, the second largest originator of subprime mortgages in the United States in 2006. The plaintiffs argued that the investment bank, Morgan Stanley, acting as a warehouse lender for New Century, encouraged the latter to issue mortgages that ignored fair lending principles, and violated the Equal Credit Opportunity Act in

TABLE 1. Fair Lending Cases Filed by Plaintiffs Alleging Racial Discrimination in Lending 1994–2014

Plaintiff	Defendant	Court
Alleyne	Flagstar Bank, FSB et al.	D. Mass.
Barkley	Olympia Mortg. Co.	E.D.N.Y.
Barrett	H&R Block	D. Mass.
City of Birmingham	Argent Mortgage Company, LLC et al.	Alabama
Commonwealth of Massachusetts	Countrywide Fin. Corp.	Suffolk Cnty. Sup. Ct.
Consumer Financial Protection Bureau	National City Bank	W.D. Pa.
Cook County	Bank of America	N.D.Ill.
Cook County	HSBC	N.D. Ill.
De Kalb	HSBC	N.D. Ga
Garcia	Countrywide Financial Corporation	CD. Cal.
Guerra	GMAC LLC et al.	E.D. Pa.
Hargraves	Capital City Mortgage	D.C.
Hoffman	Option One Mortg. Corp.	N.D.Ill.
In re GreenPoint Mortgage Co.		New York
In re Wells Fargo		N.D. Cal.
Johnson	EquiCredit Corporation et al.	N.D.Ill.
Lathern	NationsBank Corporation et al.	D.D.C.
Los Angeles	JP Morgan Chase	CD. Cal.
Los Angeles	Wells Fargo Bank, NA	CD. Cal.
Los Angeles	Citigroup	CD. Cal.
Los Angeles	Bank of America	CD. Cal.
Matthews	New Century Mortg. Corp.,	S.D. Ohio
Miami	Bank of America	S.D. Fla.
Miami	Citigroup	S.D. Fla.
Miami Gardens	Bank of America	S.D. Fla.
Miller	Countrywide Bank, N.A.	D. Mass.
NAACP	Ameriquest Mortgage Company et al.	CD. Cal.
Ramirez et al.	GreenPoint Mortgage Funding, Inc.	N.D. Cal.
Stackhaus et al.	NationsBank Corporation et al.	D.D.C.
Steele	GE MoneyBank	N.D.Ill.
Taylor	Accredited Home Lenders, Inc. et al.	S.D. Cal.
United States	AIG Federal Savings Bank and Wilmington Finance, Inc.	D. Del.
United States	C&F Mortgage Corporation	E.D. Va.
United States	Chevy Chase Bank, F.S.B.	E.D. Va.
United States	Countrywide Financial Corporation	CD. Cal.
United States	Delta Funding Corporation	E.D.N.Y.
United States	Fleet Mortgage Company	E.D.N.Y.
United States	GFI Mortgage Bankers, Inc.	S.D.N.Y.
United States	Huntington Mortgage Company	N.D. Ohio
United States	Long Beach Mortgage Company	CD. Cal.
United States	Plaza Home Mortgage, Inc.	S.D. Cal.
United States	PrimeLending	N.D. Tex.
United States	Security State Bank	W.D. Tex.
United States	Southport Bank	E.D. Wis.
United States	SunTrust Mortgage, Inc.	E.D. Va.
United States	Wells Fargo Bank, NA	D.D.C.
United States	Shawmut Mortgage	D. Conn.
Watson et al.	EquiCredit Corp. et al.	N.D. Miss.

order to generate large numbers of high-cost mortgages to realize greater profits from securitization. They alleged that borrowers were more likely to receive such high-cost, high-risk loans if they were African American or lived in African American neighborhoods. They also argued that the loans fraudulently extracted short-term fees and extra costs from borrowers in ways that unfairly diminished the wealth of black borrowers and exposed them to an elevated risk of foreclosure and repossession.

The federal district court denied a motion to dismiss the case against Morgan Stanley and the plaintiffs filed briefs seeking certification as a class of borrowers. The public record includes hundreds of pages of exhibits and depositions by key individuals in the case, including internal emails, data about the characteristics of the loan pools, as well as bid stipulations and purchase agreements for Morgan Stanley's purchase of loans from New Century along with other documents. The federal district court recently denied the plaintiffs' motion for class certification, but litigation is ongoing.

The declarations, depositions, and other exhibits from these four cases provide a valuable window into the organizational context of mortgage lending during the pre-2008 housing boom. The cases involve different types of mortgage originators, ranging from small regional nonbank lenders to nationally dominant firms and industry-leading banks. The depositions include interviews with actors at every step of the lending process, from borrowers to mortgage brokers, to loan officers, to credit managers, to due diligence employees, to investment bankers. The depositions also include interviews with appraisers, closing attorneys, and real estate investors, and other actors involved in the lending process. Together, the hundreds of pages of interviews offer a unique opportunity to analyze the social processes underlying the quantitative evidence of discrimination developed to date.

To conduct our analysis, we randomly selected a sample of deposition statements and testimonies stratified on the geographic area of the mortgage lending, which yielded a dataset of 220 statements that were subject to a systematic content analysis. Of the depositions and declarations selected, 63 percent were witnesses for the defendants and 37 percent were witnesses for the plaintiffs. Among the latter, 60 percent were borrowers, 20 percent were loan officers, and 20 percent were credit managers. Among the former, in contrast, 24 percent were investment bankers, 20 percent were realtors, 16 percent were bank officers responsible for due diligence, underwriting standards, or valuations, 16 percent were lawyers, 12 percent were loan officers, and another 12 percent were senior executives at lending institutions, real estate firms, or other organizations (12 percent).

The resulting sample obviously is not a random sample of all lenders active during the housing boom. Those shown in Figure 1 represent cases where discrimination was formally alleged, a charge unlikely to be filed without substantial prior evidence of discrimination; and of course most of the defendants listed in the table never went to trial or settled early in the litigation process. The four cases we analyze, however, did go trial, which suggests that the defendants and their lawyers believed the behavior in question was defensibly nondiscriminatory, a suggestion supported by the fact that 63 percent of the declarations in our sample were by witnesses for the defense; and the vast majority of these worked in the real estate or banking industry, people who presumably would not have been deposed had the defendants feared there was something to hide. In this sense, our sample may understate the degree of discrimination prevalent in the lending industry during the mortgage boom.

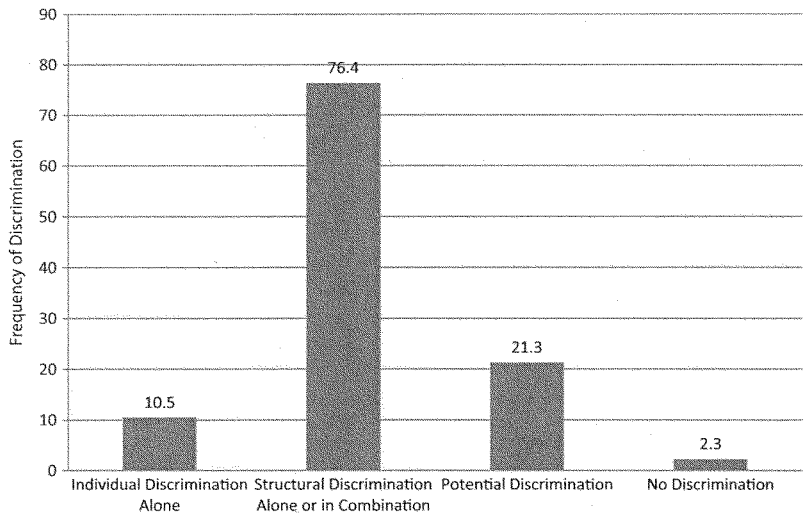

FIG. 1. Percentage of statements coded into content-categories of racial discrimination.

Whatever one concludes about the likely direct of bias in the sample, the fact remains that it is nonrandom, and thus we do not seek to generalize our findings to the entire lending industry. Instead we draw on the testimonies to identify the means and mechanisms by which discrimination was carried out in cases where it probably did occur. We began our analysis by coding the 220 sampled statements to identify specific instances of either individual or structural discrimination. Individual discrimination was coded if the behavior in question increased the likelihood that a minority borrower received a high-cost or high-risk loan and the action appeared to stem from the motivations of the individual rather than the firm. Structural discrimination was coded when standard institutional procedures and practices in effect guaranteed that minority borrowers would receive disadvantageous lending products, irrespective of individual motivations.

Statements that described a discriminatory institutional structure in which individuals were nonetheless required to act in a biased manner to carry it out were *not* coded as individual discrimination if the policy was fixed by the institution but were coded as individual discrimination if institutional policies allowed for discretion. If neither individual nor structural discrimination was detected in the text, we coded for "potential discrimination," defined as behavior that *could* contribute to a pattern of structural discrimination but did not necessarily provide direct evidence that structural discrimination had, in fact, occurred.

Cases identified as discriminatory were subcoded into the following content categories to identify the specific mechanisms by which discrimination was effected: racial targeting for subprime lending, loan approval when available information indicated nonapproval, withholding information from the borrower, deceptive marketing practices, ensnaring customers in debt to entice them into equity loans, incentive structures that

encouraged discrimination, the use of customer leads obtained from lists of borrowers in debt to neighborhood businesses, existence of a workplace culture tolerant of racism, unethical management structures, racial stereotyping of minority customers, segmented marketing of loan products to consumers by geography, use of technology to facilitate discrimination, inclusion of fraudulent information in paperwork, lack of effective management oversight, and use of social networks within segregated neighborhoods for consumer prospecting.

Data coding and analysis were conducted independently by two of the authors (Steil and Albright), with each coder labeling the text with "Evidence Present," "Evidence Not Present," or "Not Applicable." Intercoder reliability was cross-checked utilizing the ReCal2 Online Utility to compute Krippendorff's α on a 10 percent sample of the 220 texts yielding an inter-rater reliability coefficient of 0.86 (see Freelon 2013; Hayes and Krippendorff 2007). From this 10 percent sample, we then extracted texts coded as showing individual, structural, and potential discrimination and assembled the relevant passages into a table to demonstrate the nature of the reported discrimination, which we then interpret to reconstruct the underlying social processes. By drawing on multiple cases involving different lenders and originators, we are able to undertake a small-N comparison that combines "the interpretive and narrative subtlety" of archival analysis with the "analytic strength that echoes standard causal analysis" (Abbott 2004: 58).

THE MICROSOCIOLOGY OF MORTGAGE DISCRIMINATION

Figure 1 presents the result of our content coding of the textual materials to demonstrate that discrimination in our sample was overwhelmingly structural in nature and not attributable to individual biases or solo acts of racism. Whereas at least one coder identified discrimination as being structurally embedded in 76 percent of the transactions being described (many in combination with individual discrimination), only 11 percent of the transactions were similarly coded as displaying individually motivated racial discrimination alone, yielding a total of 86 percent of the 220 cases in which some form of discrimination was judged to have occurred. Another 21 percent of the cases were coded as describing actions or behaviors that potentially could yield racially discriminatory outcomes, leaving just 2.4 percent displaying no indication of discrimination at all. From these data we conclude, at least in this sample, that racial discrimination was structurally embedded within the mortgage lending industry and was systematic rather than the consequence of individual prejudices or personal racism.

Table 2 extracts from the 22 coded statements selected for the computation of Krippendorff's α. Since 98 percent of the full dataset of 220 passages displayed evidence of actual or potential discrimination, it is not surprising that all 22 in the subsample were judged to display some indication of discrimination, with 11 coded as structural, 9 coded as both structural and individual, and 2 coded as potential. In looking over the texts included in the table, readers should remember they are extracts and that codes were assigned based on a reading of the entire statement, so that the context in which the coding judgment was made is largely absent. The first panel of Table 2 contains the ten extracts judged to display structural discrimination; the second contains those judged to display both structural and individual discrimination; and the final panel displays the two

TABLE 2. Specific Examples of Texts Describing Structural and Individual Discrimination in a Random 10 Percent Sample of 220 Coded Passages

Structural Discrimination

(1) Would your split be higher if the—if the borrower paid a higher interest rate? A. If the company made a little more money, I would make a little more money.

(2) The commission and referral system at Wells Fargo was set up in a way that it made it more profitable for a loan officer to refer a prime customer for a subprime loan than make the prime loan directly to the customer.

(3) The trading desk also set the bid terms and purchase agreement terms for those loans. The trading desk's decisions were not the workings of some lone, rogue employees. Instead, it was essential to Morgan Stanley's business model to vest the trading desk with the ultimate power to decide which loans to buy—regardless of their quality—because doing so maximized the supply of New Century loans and the cash flow from those loans.

(4) I complained many times about what I thought were unethical or predatory loan practices that Wells Fargo was engaged in. Managers never took any actions to respond to my concerns. In my office we morbidly joked that we were "riding the stagecoach to hell."

(5) Another practice that I thought was especially unethical was the use of "live" draft checks. Wells Fargo would mail checks in the amount of $1,000 or $1,500 to leads. Once these checks were deposited or cashed, they instantly became loans with Wells Fargo at very high interest rates. Individuals who cashed these checks became an instant "lead" target for a home equity refinance loan, which of course would end up placing the borrower's home at risk.

(6) I was constantly butting heads with my district manager. I told him repeatedly about the practices I objected to. He knew that loans were being falsified; and he knew that many of the aggressive practices he instructed us to follow were causing borrowers to get behind on their loans. Yet he still pressured us to engage in the most aggressive loan practices and threatened employees with their jobs if they did not do things his way. The bonus system was lucrative, so there was plenty of financial incentive to engage in high-pressure and deceptive sales practices, even if one knew they were wrong.

(7) Since loan offers made more money when they charged higher interest rates and fees to borrowers, there was a great financial incentive to put as many minority borrowers as possible into subprime loans and to charge these borrowers higher rates and fees.

(8) Credit managers targeted African American borrowers in several different ways. One way was to partner with local businesses that were located in African American areas ... to identify customers who had financed purchases at these stores. Credit managers would "cold-call" people off of these lists or simply show up at these individuals' homes or businesses. Managers identified African American customers by talking to them over the telephone, or by meeting them in person. Most of the leads on the lists that managers were given to call were African American.

(9) Most (80 percent or more) of the leads on the lists I was given were African American. I know this both from meeting these individuals, and from talking with them on the phone. The people on the list of the leads did not represent a random cross section of the people who lived in the area around the office, because our office was located in an area where a lot of white people lived.

(10) Approximately 80–90 percent of the leads I was given turned out to be individuals who were African American. Although I don't know exactly how Wells Fargo came up with the leads, I believe that Wells Fargo targeted African Americans for these subprime loans. The prevailing attitude was that African American customers weren't savvy enough to know they were getting a bad loan, so we would have a better chance of convincing them to apply for a high-cost, subprime loan.

(11) Wells Fargo also discriminated against minority loan applicants by advising to them that the interest rate on their loan was "locked," when in fact, Wells Fargo had the ability to lower the rate for the applicant if the market rates dropped prior to the loans closing.

Both Individual and Structural Discrimination

(12) Wells Fargo management tolerated a culture of discrimination.

(13) Wells Fargo discriminated against minority loan applicants by not offering them their better or new products which had lower fixed interest rates and fees.

(14) Another technique would be to tell the customer that the only way to get the loan closed quickly would be to submit it as a subprime loan.

Continued

TABLE 2. Continued

Both Individual and Structural Discrimination, Cont.
(15) Wells Fargo loan officers also discriminated against minority refinance applicants by encouraging them to take out more cash on their home equity. By taking out more cash, the borrower would unwittingly increase the commission the loan officer received on the loan while at the same time eliminating his ability to qualify for a prime or FHA loan.
(16) Elderly African American customers were thought to be particularly vulnerable and were frequently targeted for subprime loans with high interest rates. I remember one instance where an elderly African American woman who was over 65 could not qualify for subprime loan that a credit manager wanted to put her into, so the credit manager convinced her to transfer the property to her son so the subprime loan could be made in the son's name
(17) It was the practice at the Wells Fargo offices where I worked to target African Americans for subprime loans. It was generally assumed that African American customers were less sophisticated and intelligent and could be manipulated more easily into a subprime loan with expensive terms than white customers. I heard employees joking with one another about the race of customers, saying things like: "You know that guy isn't so smart—is it because he's black?"
(18) They (loan officers in the Mortgage Resources division, known as MORE) referred to subprime loans in minority communities as "ghetto loans" and minority customers as "those people who have bad credit," "those people who don't pay their bills," and "mud people."
(19) I believe that Wells Fargo did not promote me for two reasons. First, Wells Fargo's management culture is white. Second, Wells Fargo management knew that I treated Wells Fargo customers well by offering them to refinance to prime and FHA loans when they qualified for these products.
(20) Wells Fargo also targeted African Americans through special events called "wealth building seminars." . . . I remember preparing for a wealth building seminar to be held in Greenbelt, Maryland. It was understood that the audience would be virtually all black. The point of the seminar was to get people to buy houses using Wells Fargo Loans. At the seminar the plan was to talk about "alternative lending." This was code language for subprime lending, but we were not supposed to use the word "subprime." I was supposed to be a speaker at this seminar but was told by the emerging markets manager that I was "too white" to appear before the audience. I was offended by these statements and complained to several higher ranking managers about what had been said. The company did not respond to my complaints and no action was taken.
Potential Discrimination
(21) I also worked during much of this period as a community development representative. In this capacity, I contacted and worked with community groups in the goal of expanding Wells Fargo's business, particularly in African American communities. I as an African American.
(22) As a credit manager, my job was to find as many potential borrowers as I could for Wells Fargo and get them to apply for a loan. Credit managers were given a list of what were called "leads." These were names of people we were supposed to call to encourage them either to come into the office so we could get them to apply for a loan, or to apply directly over the telephone. We were instructed to make as many as 35 calls an hour and to call the same borrower multiple times each day.

instances of potential discrimination. Readers may judge for themselves the degree to which the statements indicate discrimination.

EVIDENCE OF STRUCTURAL DISCRIMINATION

The first six extracts in the first panel do not mention race explicitly, but the statements appeared in the context of a broader discussion about race and were considered to indicate the existence of structural discrimination. The extracted statements essentially describe institutional features of the mortgage lending industry that promoted exploitive practices that were disproportionately directed at minority borrowers. Extracts (1)–(3),

for example, speak to the incentives for fraud and deception that were built into the organizational structure of the lending institutions in question, incentives that made discrimination against underserved minority borrowers especially attractive. In extract (1), for example, a loan officer admits that both he and the loan company made more money by steering borrowers into loans with high interest rates, noting that "if the company made a little more money, I would make a little more money." In the second extract the speaker describes the commission and referral system at Wells Fargo, a leading retail bank that was a major player in the origination of mortgages for securitization, asserting that it was "set up in a way that it made it more profitable for a loan officer to refer a prime customer for a subprime loan than make the prime loan directly to the customer."

In describing the relationship between one investment bank and the retail lender where he worked, the speaker (3) stated that "it was essential to Morgan Stanley's business model to vest the trading desk with the ultimate power to decide which loans to buy—regardless of their quality—because doing so maximized the supply of New Century loans and the cash flow from those loans." In other words, the investment bank pushed its principal mortgage retailer to include in their referred pool of mortgages loans known to be of poor quality—those with incomplete documentation, questionable sources of income, poor loan to value ratios, bad credit ratings, and other problems pointing to a greater risk of default.

The passage also suggests that the loan originator felt compelled to acquiesce to this pressure in order to maintain its cash flow and remain in business. Indeed, when Morgan Stanley ultimately declined to purchase a set of New Century loans in early 2007, the firm promptly went bankrupt, indicating the degree to which the pressure to generate more loans irrespective of risk was built into structure of the system, thereby making easily located, unsophisticated minority group members a juicy target.

The structural nature of the exploitation is underscored by the reported reaction of bank executives when suspicious, risky, or unethical lending practices were brought to their attention. The speaker in extract (4), for instance, stated that he "complained many times about what I thought were unethical or predatory loan practices that Wells Fargo was engaged in. Managers never took any actions to respond to my concerns. In my office we morbidly joked that we were 'riding the stagecoach to hell.'" Another loan officer complained to a superior about the use of "live draft checks" to ensnare borrowers, which he found "especially unethical." As speaker (5) explained:

> Wells Fargo would mail checks in the amount of $1,000 or $1,500 to leads. Once these checks were deposited or cashed, they instantly became loans with Wells Fargo at very high interest rates. Individuals who cashed these checks became an instant "lead" target for a home equity refinance loan, which of course would end up placing the borrower's home at risk.

The deponent in extract (6) reported that he "was constantly butting heads with my district manager":

> I told him repeatedly about the practices I objected to. He knew that loans were being falsified; and he knew that many of the aggressive practices he instructed us to follow were causing borrowers to get behind on their loans. Yet he still pressured us to engage in the most aggressive loan practices and threatened employees with their jobs if they did not do things his way.

The structural nature of the resulting exploitation is confirmed by the speaker's conclusion that "the bonus system was lucrative, so there was plenty of financial incentive to engage in high-pressure and deceptive sales practices, even if one knew they were wrong."

The speaker in extract (7) explicitly links the systemic incentives for exploitation to the targeting of minority group members, noting that "since loan offers made more money when they charged higher interest rates and fees to borrowers, there was a great financial incentive to put as many *minority* borrowers as possible into subprime loans and to charge these borrowers higher rates and fees" (emphasis added). Speaker (8) explained that the credit managers who oversaw mortgage sales agents "targeted African-American borrowers in several different ways":

> One way was to partner with local businesses that were located in African-American areas... to identify customers who had financed purchases at these stores. Credit managers would "cold-call" people off of these lists or simply show up at these individuals' homes or businesses. Managers identified African-American customers by talking to them over the telephone, or by meeting them in person. Most of the leads on the lists that managers were given to call were African-American.

In extract (9), a sales agent confirms the disproportionate targeting of black borrowers by stating that "most (80% or more) of the leads on the lists I was given were African Americans":

> I know this both from meeting these individuals, and from talking with them on the phone. The people on the list of the leads did not represent a random cross section of the people who lived in the area around the office, because our office was located in an area where a lot of white people lived.

Speaker (10), another sales agent, reported roughly the same frequency of black prospects in the leads he was given, stating that "approximately 80–90 percent of the leads I was given turned out to be individuals who were African American" and frankly stated that "I believe that Wells Fargo targeted African Americans for these subprime loans."

Lies and deception were often used as tactics to steer minority borrowers into high interest loans. According to extract (11), "Wells Fargo also discriminated against minority loan applicants by advising to them that the interest rate on their loan was 'locked,' when in fact, Wells Fargo had the ability to lower the rate for the applicant if the market rates dropped prior to the loans closing." The systemic nature of racism at Wells Fargo is indicated by speaker (10)'s observation that the "prevailing attitude" in the organization "was that African-American customers weren't savvy enough to know they were getting a bad loan, so we would have a better chance of convincing them to apply for a high-cost, subprime loan."

EVIDENCE OF STRUCTURAL AND INDIVIDUAL DISCRIMINATION

In many cases, the coders saw evidence of both individual and structural discrimination in the passages they read, extracts from which appear in the second panel numbered 12—20. The coders both felt that the deponent in extract (12) was referring to both individuals and the institution in reporting that "Wells Fargo management tolerated a culture

of discrimination." Statements coded as displaying both structural and individual racism contained a number of examples of the mechanisms by which racial discrimination was enacted in the marketing of mortgage loans. Extract (13), for example, pointed out that "Wells Fargo discriminated against minority loan applicants by not offering them their better or new products which had lower fixed interest rates and fees." According to extract (14), "another technique would be to tell the customer that the only way to get the loan closed quickly would be to submit it as a subprime loan."

Similarly, in extract (15) the speaker reported that "Wells Fargo loan officers also discriminated against minority refinance applicants by encouraging them to take out more cash on their home equity," even though "by taking out more cash, the borrower would unwittingly increase the commission the loan officer received on the loan while at the same time eliminating his ability to qualify for a prime or FHA loan." Another common technique was to target elderly African Americans for special attention. As loan officer in extract (16) explained, older black homeowners "were thought to be particularly vulnerable and were frequently targeted for subprime loans with high interest rates":

> I remember one instance where an elderly African-American woman who was over 65 could not qualify for subprime loan that a credit manager wanted to put her into, so the credit manager convinced her to transfer the property to her son so the subprime loan could be made in the son's name.

With such practices embedded within the social structure of mortgage lending, it is not surprising that racist attitudes, stereotypes, and jokes were often bandied about by sales agents and loan officers. According to the Wells Fargo employee in extract (17):

> It was generally assumed that African American customers were less sophisticated and intelligent and could be manipulated more easily into a subprime loan with expensive terms than white customers. I heard employees joking with one another about the race of customers, saying things like: "You know that guy isn't so smart—is it because he's black?"

Similarly, the deponent in extract (18) reported that loan officers in the Mortgage Resource division "referred to subprime loans in minority communities as 'ghetto loans' and minority customers as 'those people who have bad credit,' 'those people who don't pay their bills,' and 'mud people.'"

Extract (19) offers another statement coded as displaying both structural and individual racism in the mortgage lending industry. In this case, a loan officer perceived himself to be the victim of discrimination because he was black and refused to engage in predatory lending:

> I believe that Wells Fargo did not promote me for two reasons. First, Wells Fargo's management culture is white. Second, Wells Fargo management knew that I treated Wells Fargo customers well by offering them to refinance to prime and FHA loans when they qualified for these products.

The loan officer in extract (20) also felt discriminated against, but this time it was because she was "too white" to participate in a "wealth building seminar" that was to be held in a black community, which she frankly admitted were nothing more than sales pitches for predatory loans:

> I remember preparing for a wealth building seminar to be held in Greenbelt, Maryland [a community in black-majority Prince Georges County, a suburb of Washington]. It was understood that the audience would be virtually all black. The point of the seminar was to get people to buy houses using Wells Fargo Loans. At the seminar the plan was to talk about "alternative lending." This was code language for subprime lending, but we were not supposed to use the word "subprime." I was supposed to be a speaker at this seminar but was told by the emerging markets manager that I was "too white" to appear before the audience. I was offended by these statements and complained to several higher ranking managers about what had been said. The company did not respond to my complaints and no action was taken.

EVIDENCE OF POTENTIAL RACISM

Two examples from the set of extracts included in Table 1 were coded as having possible discriminatory effects even though racial discrimination was not explicitly present in the statement under consideration. In extract (21), the speaker explains that as a Credit Manager, he was pressured "to find as many potential borrowers as I could for Wells Fargo and get them to apply for a loan" using a list of leads:

> Credit managers were given a list of what were called "leads." These were names of people we were supposed to call to encourage them either to come into the office so we could get them to apply for a loan or to apply directly over the telephone. We were instructed to make as many as 35 calls an hour and to call the same borrower multiple times each day.

This passage reveals the pressure sales agents were under to bring in subprime loans, though it lacks the specific racial language and intent of other statements.

The speaker in extract (21), an African American, described working as a "community development representative" in which he "contacted and worked with community groups with the goal of expanding Wells Fargo's business in African American communities—I as an African American." Although working with "community groups" carries the same potential for discrimination as the firm's "wealth building seminars," this statement did not include the explicit racial content of the prior extract. Nonetheless it illustrates an important technique employed by loan officers and credit managers to target minority individuals and communities for predatory lending: the recruitment of trusted members of minority communities to act as intermediaries in introducing lenders to community members.

In effect, the strategy involves using and manipulating leaders of nonprofit organizations and churches as pawns to unwittingly vouch for the legitimacy of loan originators, often by promising a donation to a charity of the borrower or community leader's choice for each referral that produced a new loan. Although not included in the sample of extracts reproduced in Table 2, in another coded statement the speaker in extract (20) explained the strategy this way:

> The Emerging Markets Unit specifically targeted black churches. Wells Fargo had a program that provided a donation of $350 to the profit of the borrower's choice

> for every loan the borrower took out with Wells Fargo. Wells Fargo hoped to sell the African American pastor or church leader on the program because Wells Fargo believed that African American church leaders had a lot of influence over their ministry, and in this way would convince the congregation to take out subprime loans with Wells Fargo.

In other words, the strategy in this and other examples emerging from our content coding was to tap into the social structure of minority communities, making use of central figures in community networks and organizations to build trust and develop prospects through these leaders' sets of interpersonal contacts and acquaintances.

CONCLUSION AND DISCUSSION

Although the data in Table 2 emerge from a small sample of the total number of statements included in our qualitative database, it nonetheless suggests the degree to which racial discrimination was systemic and not a result of a few racist "bad apples" in an otherwise race-neutral barrel. The fact that structural racism was judged to be evident in 76 percent of the 220 passages implies that racial discrimination was common in the institutions under investigation. In contrast, only 11 percent of all the texts were judged to display individual racism.

The statements presented in Table 2 also reveal the microsocial mechanisms by which discrimination was carried out by predatory lenders who peddled high-cost, high-risk mortgages to individuals and communities of color throughout the United States, an operation that black humorists in one retail lender mockingly termed "riding the stagecoach to hell." These mechanisms included deliberate deception and misrepresentation of lending terms; the falsification of loan documents; the recruitment of unwitting confederates within the social structure of minority communities; the use of "live draft checks" to ensnare unsuspecting consumers in high-interest loans; the targeting of the elderly for deceptive, high-pressure marketing; the encouragement of refinance borrowers to take out loans for more than their home's worth, thereby putting it automatically into the subprime category; using business records, church directories, and telephone exchanges to build lists of prospective borrowers for cold-calling; the organization of sales events in minority neighborhoods that were euphemistically labeled "wealth building seminars." The racialized nature of these mechanisms is indicated by the language used to describe the transactions, referring to subprime mortgages as "ghetto loans" and minority customers as "less sophisticated and intelligent," "easier to manipulate," and "people who don't pay their bills," and even "mud people."

These data supplement prior quantitative studies documenting racial differentials in mortgage lending by revealing some of the underlying mechanisms' racial discrimination. In their study of mortgage loans made by Wells Fargo in Baltimore (one of the sources of qualitative data for this study), for example, Rugh et al. (2015) showed that black borrowers paid an estimated additional 5–11 percent more in monthly payments than comparably qualified whites, resulting in some $1,739 in excess mortgage payments for the average black borrower from the time of loan origination and $1,861 in excess payments for the average resident of a black neighborhood, yielding respective figures $14,904 and $15,948 in excess payments over the course of a 30-year mortgage. The authors also estimate that as a result of predatory lending, in 2012 black borrowers in

Baltimore were threatened with $3.8 million in potential losses from foreclosure with nearly $2.1 million already forfeited through completed repossessions.

These examples concretely demonstrate how the racialized mechanisms elucidated here worked to produce an ever-growing cumulative disadvantage for African Americans during the U.S. housing boom and bust. Based on our qualitative data, which we see as a complement to this earlier quantitative work, we propose that the cumulative disadvantage in wealth experienced by African Americans today is no mere coincidence, but the outcome of systemic racism deeply embedded within the social structure of America's mortgage lending industry. If our conjecture is correct, then structural discrimination in the lending industry constitutes a prime reason why the racial wealth gap in the United States increased fourfold in the wake of the housing bust (see Shapiro et al. 2010).

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U.S. House Committee on Financial Services
"Holding Megabanks Accountable: An Examination of Wells Fargo's Pattern of Consumer Abuses"
March 12, 2019

Questions for Mr. Timothy J. Sloan, Chief Executive Officer of Wells Fargo & Company, on behalf of Chairwoman Maxine Waters, Congresswoman Joyce Beatty, Congressman Jesús "Chuy" Garcia, Congressman Ed Perlmutter, Congresswoman Katie Porter, Congresswoman Ayanna Pressley, and Congresswoman Rashida Tlaib:

Chairwoman Maxine Waters:

Outstanding Consent Orders

1. **Mr. Sloan, during the hearing you testified that Wells Fargo & Company ("Wells Fargo") has fourteen open consent orders with federal regulators. Please list and provide a brief description of every open consent order that Wells Fargo or a subsidiary has with a federal regulator.**

Response: Wells Fargo is currently subject to 11 open consent orders. Of the 14 consent orders I spoke about in my testimony, one was lifted in 2018, another is a stipulated judgment that has expired, and a third was recently dismissed on April 9, 2019 after Wells Fargo completed all remediations under the order (descriptions provided below).

Open Consent Orders

#1. Mortgage Servicing (FRB): In April 2011, Wells Fargo entered into a consent order with the Board of Governors of the Federal Reserve System ("FRB") regarding mortgage loan servicing, loss mitigation activities, foreclosure activities, and related services. The consent order requires Wells Fargo's Board to strengthen its oversight and enterprise-wide risk management activities. It also requires Wells Fargo to strengthen its audit function, as well as its enterprise-wide risk management and compliance programs. On February 9, 2012, Wells Fargo agreed to pay an $87 million civil money penalty associated with this consent order. Wells Fargo continues to report escalated matters to the FRB on a quarterly basis pending the closure of the consent order.

#2. Mortgage Origination (FRB): In July 2011, Wells Fargo entered into a consent order with the FRB regarding certain "cash-out refinancing loans" and sales practices at Wells Fargo Financial. Wells Fargo agreed to provide remediation to customers who were improperly directed to higher interest loans or who had their income information falsified, and to pay an $85 million civil money penalty. Wells Fargo also agreed to improve its anti-fraud and UDAP oversight and to modify compensation and performance management practices to better incentivize responsible lending practices.

#3. Real Estate Settlement Procedures Act/"Genuine Title" (CFPB): In January 2015, Wells Fargo entered into a consent order with the Consumer Financial Protection Bureau ("CFPB")

and the Maryland Office of the Attorney General's Consumer Protection Division ("CPD") in relation to allegations that Wells Fargo home loan officers improperly accepted marketing services from title company Genuine Title in violation of the Real Estate Settlement Procedures Act, the Consumer Financial Protection Act, and the Maryland Consumer Protection Act. Under the consent order, Wells Fargo agreed to pay $10.8 million in remediation to customers, a $21 million civil money penalty to the CFPB, and $3 million to CPD. In addition, Wells Fargo agreed to prepare and put in place a comprehensive compliance plan designed to ensure that Wells Fargo's home loan officers refrain from giving or accepting any fee, kickback, or thing of value and comply with the terms of the consent order. All remediation and payments of civil money penalties are complete.

#4. Add-on Products (OCC): In June 2015, Wells Fargo entered into a consent order with the Office of the Comptroller of the Currency ("OCC") regarding two third-party products: (1) Credit Defense Platinum ("CDP"), an optional third-party product that cancelled a portion of a debt or covered monthly payment upon certain life events; and (2) Identity Theft Protection ("ITP"), an optional third-party product that provided credit monitoring and/or credit report retrieval services. The consent order requires remediation to CDP and ITP customers and contains provisions regarding broader issues, such as oversight of third-party vendors. We have provided over $31 million to over 175,000 accounts and we continue to have constructive dialogue with the OCC on an ongoing basis to clarify expectations, receive feedback, and assess progress under the consent order. Additionally, as of May 2017, we no longer sell consumer add-on products.

#5. Bank Secrecy Act/Anti-Money Laundering (OCC): In November 2015, Wells Fargo entered into a consent order with the OCC focused on internal control deficiencies in Wholesale Banking related to its Bank Secrecy Act/Anti-Money Laundering program ("BSA/AML"). Pursuant to the consent order, Wholesale Banking is working to enhance its BSA/AML customer risk assessment, customer due diligence, front line monitoring and governance and oversight. A number of technology and organizational changes were made to improve internal processes. We continue to have constructive dialogue with the OCC on an ongoing basis to clarify expectations, receive feedback, and assess progress under the consent order.

#6. Servicing Private Student Loans (CFPB): In August 2016, Wells Fargo entered into a consent order with the CFPB regarding certain legacy student loan servicing practices that occurred between 2010 and 2013 concerning: how payments were allocated across multiple loans, how partial payments were aggregated, and a systems programming error related to the assessment of late fees. All of these practices were amended or discontinued by no later than May of 2013, three years prior to issuance of the consent order. The consent order requires Wells Fargo to pay not less than $410,000 in relief to customers, to update credit bureaus of impacted customers, and to pay a $3.6 million civil money penalty. The civil money penalty was paid in 2016, credit bureau updates were completed in April 2018, and financial remediation to customers was completed by July 31, 2018. Post-remediation validation of the impacted customer population is underway, and Wells Fargo will remediate any additional

impacted accounts that are identified. The consent order also requires Wells Fargo to develop a compliance plan covering go-forward commitments related to these legacy servicing practices. A draft compliance plan is pending non-objection from the CFPB.

#7. Sales Practices (CFPB): In September 2016, Wells Fargo entered into a consent order with the CFPB regarding allegations of unfair, deceptive, and abusive acts and practices with respect to the Community Bank. The order included a civil money penalty of $100 million. We continue to have constructive dialogue with the CFPB on an ongoing basis to clarify expectations, receive feedback and assess progress under the consent order.

#8. Sales Practices (OCC): In September 2016, Wells Fargo entered into a consent order with the OCC regarding alleged unsafe or unsound practices concerning the Bank's risk management activities and its oversight of sales practices in the Community Bank. The order included a civil money penalty of $35 million. We continue to have constructive dialogue with the OCC on an ongoing basis to clarify expectations, receive feedback and assess progress under the consent order.

#9. Board Effectiveness and Risk Management (FRB): In February 2018, Wells Fargo entered into a consent order with the FRB requiring further enhancements in the Board's effectiveness in carrying out its oversight and governance; and further improvements to Wells Fargo's compliance and operational risk management program. The consent order requires Wells Fargo to submit plans to fulfill both requirements for the FRB's review. Until the plans are approved and implemented to the satisfaction of the FRB, Wells Fargo's total consolidated assets will be limited to the level as of December 31, 2017. We continue to have constructive dialogue with the FRB on an ongoing basis to clarify expectations, receive feedback and assess progress under the consent order.

#10 and #11. Compliance-risk Management, Collateral Protection Insurance, and Mortgage Rate Lock (OCC & CFPB): In April 2018, Wells Fargo entered into consent orders with the OCC and the CFPB regarding compliance risk management, its customer remediation program, collateral protection insurance, and mortgage interest rate-lock extension fee issues. Under the terms of the orders, Wells Fargo is to remediate customers harmed by the Bank's collateral protection insurance and mortgage interest rate lock extension fee practices. The CFPB assessed a $1 billion civil money penalty against the Bank and credited the $500 million penalty collected by the OCC toward the satisfaction of its fine. The consent orders required Wells Fargo to submit plans related to its enterprise-wide compliance risk management program, a staffing assessment and program for the compliance risk management, Internal Audit program with respect to compliance, and customer remediation program. We continue to have constructive dialogue with the OCC and CFPB on an ongoing basis to clarify expectations, receive feedback and assess progress under the consent orders.

Closed Consent Orders

#12. Sales Practices (City of Los Angeles): In September 2016, Wells Fargo agreed to a stipulated judgment with the City of Los Angeles. As part of that settlement, Wells Fargo paid $50 million and agreed to participate in a restitution program for affected California customers. The stipulated judgment had a two-year term, which expired on September 13, 2018. Wells Fargo now considers the matter to be closed.

#13 and #14. Servicemembers Civil Relief Act (OCC & DOJ): In September 2016, Wells Fargo entered into consent orders with the OCC and the U.S. Department of Justice ("DOJ") regarding noncompliance with the Servicemembers Civil Relief Act ("SCRA"). The OCC order required a 10-year review of accounts across Wells Fargo. The DOJ order required a review of Wells Fargo Dealer Services accounts from January 1, 2008 through October 4, 2016. With respect to the OCC order, Wells Fargo completed all requirements, deliverables, and remediations; the OCC terminated the order on June 18, 2018. With respect to the DOJ order, Wells Fargo has completed all remediations; the U.S. District Court for the Central District of California dismissed the order, with prejudice, on April 9, 2019.

Fraudulent Account Openings

Mr. Sloan, you testified that Wells Fargo reached out to more than 40 million customers through 246 million individual communications about potentially unauthorized account openings. In response to a question about how many customers responded to Wells Fargo's outreach efforts, you testified "[a] very small percentage came in to see us, notwithstanding our best efforts to contact everyone. And then to the extent that they weren't satisfied with what our offer was, we hired a mediator at our expense on their behalf and we've resolved all of those customers that have come in."

2. **As of March 12, 2019, how many customers have responded to Wells Fargo's outreach about potentially unauthorized account openings?**

Response: See response to question #5 below.

3. **As of March 12, 2019, how many customers have elected to proceed to mediation about unauthorized account openings?**

Response: See response to question #5 below.

4. **As of March 12, 2019, what is the total dollar amount of remediation Wells Fargo has provided to customers who affirmatively approached Wells Fargo about unauthorized account but did not request mediation?**

Response: See response to question #5 below.

5. **As of March 12, 2019, what is the total dollar amount of remediation Wells Fargo has provided to consumers who approached Wells Fargo about unauthorized account openings who requested remediation?**

Response: Since September 2016, Wells Fargo has asked any customer to contact the Company directly with complaints relating partially or entirely to the issues identified in the September 2016 CFPB consent order. Wells Fargo has paid over $30 million to customers to date in connection with our proactive remediation efforts and these complaints. This amount does not include the settlement in the *Jabbari* class action.

Mr. Sloan you testified that Wells Fargo has changed its incentive plan at the Bank. A March 9, 2019 New York Times article reported that, "employees are urged to refer prospects to salespeople in the bank's mortgage or wealth management division, and some branch workers are eligible for bonuses if those referrals turn into sales . . . . In addition, most branch employees can get bonuses based on their branch's overall performance."[1]

6. **Under the Bank's current incentive compensation plan for bank tellers, is the number of referrals made by an employee that result in a sale a factor in determining the amount of a teller's bonus?**

Response: No.

7. **Under the Bank's current incentive compensation plan for personal bankers employed at retail branches, is loan volume a factor in determining the amount of a personal banker's bonus?**

Response: Yes, loan volume is included as a component of a personal banker's incentive compensation opportunity. A personal banker is eligible to receive incentive compensation for all loan volume referrals that result in production. There are no minimum standards or goals.

8. **Under the Bank's current incentive compensation plan for branch employees, is a branch's overall performance a factor in determining the amount of a branch employee's bonus?**

Response: Yes, performance metrics related to branch performance are included as factors in the determination of a branch employee's incentive opportunity. These performance metrics are measured at the respective branch level and are tied to the branch's overall performance. The metrics are related to Customer Experience, Branch Primary Customer Growth, and Household Relationship Balance Growth.

- **Customer Experience (CE):** performance is measured based on a survey that gathers feedback on the overall experience, satisfaction, and loyalty of the branch customers.

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[1] Emily Flitter and Stacy Cowley, "Wells Fargo Says Its Culture Has Changed. Some Employees Disagree," New York Times (March 9, 2019), *available at*: https://www.nytimes.com/2019/03/09/business/wells-fargo-sales-culture.html.

- **Branch Primary Customer Growth:** performance is measured on the retention and growth of checking customers who use Wells Fargo as their main financial institution.
- **Household Relationship Balance Growth:** measures how we are satisfying our consumer and small business customer's financial needs through balance retention, acquisition, and deepening existing relationships.

Mr. Sloan, you testified that the head of Wells Fargo's Community Banking division reported to you when you were the Chief Operating Officer at Wells Fargo from November 2015 to October 2016. On September 8, 2016, the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the City of Los Angeles Attorney's fined Wells Fargo Bank, N.A. ("Wells Fargo Bank" or "Bank") $185 million for opening millions of unauthorized deposit and credit card accounts without the consumers' consent or knowledge between January 1, 2011 to September 8, 2016.

9. **When you were the Chief Operating Officer at Wells Fargo, were your aware of the Bank filing Suspicious Activity Reports (SARS) with the Financial Crimes Enforcement Network (FinCEN) related to the opening of unauthorized deposit accounts in the Community Banking division?**

Response: Wells Fargo has policies, procedures, and internal controls that are reasonably designed to comply with its legal obligations to monitor, detect, and report suspicious activities. Under Federal law, Suspicious Activity Reports (''SARs''), and any information that would reveal the existence of a SAR, are confidential, 31 U.S.C. § 5318(g)(2)(A)(i) and 12 C.F.R. § 21.11(k).

10. **Between January 1, 2011, and September 8, 2016, how many SARS reports did Wells Fargo file with FinCEN related to the opening of unauthorized deposit accounts in the Community Banking division?**

Response: See response to #9 above.

2018 OCC & CFPB Consent Orders

On April 20, 2018, Wells Fargo entered into consent orders with the CFPB and the OCC for forcing auto-loan customers to take out unnecessary auto insurance and charging erroneous rate-lock extension fees to prospective mortgage-loan borrowers. Wells Fargo acknowledged that at least 27,000 of its customers may have had their vehicle repossessed following defaults arising from the additional costs of expensive and unnecessary insurance that Wells Fargo added to their loans. With respect to the improper rate-lock fees, 110,000 customers paid rate-lock fees averaging $1,012 between 2013 and 2017.

11. **Did Wells Fargo discipline or terminate anyone in Bank management based on the 2018 OCC and CFPB consent orders?**

Response: The Bank takes these issues very seriously and has taken adverse employment action with respect to team members at all levels in response to operational risk and/or business operations deficiencies.

12. Was the compensation of any senior Bank manager clawed back because of the 2018 OCC and CFPB consent orders?

Response: Our Board has broad discretion to hold senior managers accountable through claw backs, forfeitures, and other compensation adjustments. The Board has exercised that discretion in the past and will continue to consider whether compensation adjustments are appropriate. For example, as we publicly disclosed, in response to unacceptable retail banking sales practices, the Board clawed back or caused to be forfeited approximately $180 million in senior management compensation, an amount that remains among the largest in corporate history.

13. Based on the most current information, how many auto-loan customers that Wells Fargo forced to take out unnecessary auto insurance will receive remediation?

Response: See response to #14 below.

14. Based on the most current information, what is the total dollar amount of remediation Wells Fargo expects to provide to these auto-loan customers?

Response: Under its collateral protection insurance remediation plan, Wells Fargo has identified approximately 863,000 accounts for remediation so far, with an estimated $415 million to be paid to the customers associated with those accounts. As this is an ongoing remediation, however, the number of affected customers and the dollar figures may change.

15. Based on the most current information, how many of the approximately 110,000 Wells Fargo customers charged mortgage rate-lock extension fees between 2013 and 2017 will receive remediation?

Response: See response to #16 below.

16. Based on the most current information, what is the total dollar amount of remediation Wells Fargo expects to provide to customers charged mortgage rate-lock extension fees between 2013 and 2017?

Response: Wells Fargo reached out to the customers of all 110,717 home mortgage loans with borrower-paid rate lock extension fees for extensions requested during the period of the September 2013 policy (from September 16, 2013 through February 28, 2017), and offered them a full refund with interest if the customer believed they should not have been charged. Wells Fargo did this even though its internal review suggested that most customers who paid rate lock extension fees were appropriately charged. Wells Fargo will pay the refund no questions asked, subject to no conditions or releases. Further, for customers Wells Fargo identified as having previously complained about a rate lock extension fee for an extension requested under the

September 2013 policy, Wells Fargo proactively issued them refunds with interest (or just interest, if the fee in question previously had been refunded); they did not need to ask for one.

To date, Wells Fargo has refunded more than $100 million to customers of approximately 100,000 mortgage loans (more than 90% of the affected population). The response rate to Wells Fargo's remediation outreach efforts was very high, though refunds are still available to customers who have not yet responded, and the remediation is substantially complete.

Public Comments by OCC and Federal Reserve

As the hearing was concluding, the Office of the Comptroller of the Currency (OCC) issued a statement to the press, "We continue to be disappointed with Wells Fargo Bank N.A.'s performance under our consent orders and its inability to execute effective corporate governance and a successful risk-management program. We expect national banks to treat their customers fairly, operate in a safe and sound manner, and follow the rules of law."[2] Furthermore, the next day it came to light that you received $2 million in performance-based incentive pay for 2018, and total compensation of $18.4 million for the year. In reaction to that news being made public, a Federal Reserve Board spokesperson said, "The Federal Reserve does not approve pay packages. We expect boards of directors to hold management accountable."

17. What is your reaction to the OCC's comments that they are disappointed with your bank's performance under their consent orders, and your bank's inability to execute effective corporate governance and a successful risk-management program?

Response: I have always been focused on meeting—and exceeding—the expectations of our regulators. This is absolutely essential and we cannot lose focus on the commitments we have made. I believe much progress has been made to improve our risk management, including in areas of compliance, incentive compensation, customer complaints, ethics allegations, and training, but there is additional important work yet to do.

18. What steps have you taken in the past, and what additional steps are you taking to execute effective corporate governance and run a successful risk-management program?

Response: Wells Fargo is dedicated to continuing to transform our risk management practices, and meeting and exceeding the expectations of our regulators. While we have more work to do to meet regulatory expectations, Wells Fargo continues to make progress against our action plans in response to our consent orders. Becoming the financial services leader in risk management is one of our six aspirational goals. We have made meaningful progress to enhance our governance and risk management, including in the following ways:

- Risk Management Framework: We have enhanced our Risk Management Framework, which transforms how we manage risk throughout the organization in a comprehensive,

[2] Kate Berry, "What's behind OCC's public rebuke of Wells Fargo?" American Banker (March 15, 2019), *available at*: https://www.americanbanker.com/news/whats-behind-occs-public-rebuke-of-wells-fargo

integrated, and consistent manner. Our risk management framework consists of our three lines of defense—(1) the front line which consists of Wells Fargo's risk-generating activities, including all activities of its four primary business groups and certain activities of its enterprise functions, (2) independent risk management, which consists of our Corporate Risk function, and (3) internal audit, which is Wells Fargo Audit Services.

- Hiring: We have hired new leaders from outside the Company in key roles, including a new Chief Risk Officer, Chief Compliance Officer, Head of Regulatory Relations, Head of Human Resources, Head of Technology, and Chief Auditor. Additionally, we continued to enhance the skills and expertise of our Corporate risk team by hiring 3,200 additional risk management professionals externally since 2016.

- Board: The Board has made significant changes to its leadership, composition, and governance practices. The Board has undergone significant Board refreshment and enhanced the skills and experience represented on the Board. A majority of the Board's independent directors having joined the Board since January 2017. The Board also has reconstituted the membership of several Board committees. Since September 2017, six of seven standing Board committees have new committee chairs. The Board also has reviewed committee responsibilities and amended committee charters to sharpen focus and reduce duplication in risk oversight. With respect to the Risk Committee in particular, the Board enhanced the Risk Committee's membership to include additional members with experience identifying, assessing, and managing risk exposure of large financial firms; consolidated oversight of the Company's Corporate Risk function and Company-wide risk management activities under the Risk Committee; and formed two subcommittees to assist the Risk Committee in connection with its oversight of compliance and technology risks. The Company has also enhanced reporting to the Operating Committee and the Board more generally. For example, members of the Operating Committee receive weekly reporting on concerns team members bring to the attention of executives and Board members, as well as a monthly dashboard that includes analysis and commentary related to customer complaints. The Company also enhanced oversight of conduct risk by centralizing the handling of internal investigations, complaints oversight, and sales practice oversight.

- Culture: We have taken significant steps to promote a workplace culture where team members are encouraged to raise concerns without fear of retaliation. All team members are accountable for risk management, we reinforce that expectation through ongoing communications and training, including our Code of Ethics and Business Conduct training that all team members are required to complete annually.

19. How long have you been working to improve corporate governance and risk management at the bank, and how much longer will it take to implement further reforms to address the concerns of the bank's regulators?

Response: We have been continuously working to improve corporate governance and risk management at the Bank, and we continue to make progress against our action plans to address issues under our consent orders with our regulators and meet regulatory expectations. We have

made, and continue to make, fundamental changes as we transform the Company. We have centralized many aspects of our organizational structure, strengthened risk management, and improved governance practices and oversight. While we have more work to do, we believe we are on the right path and making real progress.

20. Do you agree with the OCC that national banks should treat their customers fairly, operate in a safe and sound manner, and follow the rules of law?

Response: Yes. Every national bank should treat their customers fairly and operate in a safe and sound manner, and Wells Fargo is no different. Wells Fargo's commitment to excellent customer service is enshrined, amongst other places, in our Code of Ethics and Business Conduct: "We provide our customers and prospective customers with advice, service, and many products, and we are committed to making financial products and services available to them on a fair, transparent, and consistent basis, and to conducting business in a responsible manner." Mistreating or dealing unfairly with customers has no place at Wells Fargo We are committed to following all applicable laws, rules and regulations that apply to our businesses—that includes operating our national bank in a safe and sound manner

21. What is your reaction to the Federal Reserve's comments that while they do not approve specific pay packages, they expect boards of directors to hold bank management accountable for their actions?

Response: I agree that Boards of Directors should hold bank management accountable for their actions and I firmly believe that the Board of Directors of Wells Fargo has always, and continues, to do just that.

22. Was the board of directors aware of the concerns your regulators have with the bank's inability to resolve requirements stipulated by the various consent orders the bank is under when it approved your 2018 pay package?

Response: Our executives' compensation is approved by our Board's Human Resources Committee ("HRC") and is determined within a governance framework that is based on our compensation principles and includes consideration of risk management, absolute and relative Company performance, business line performance for business leaders, and individual performance. In assessing performance under the Company's compensation program, although the HRC and the Board recognized progress in various risk and other areas, the HRC and the Board also noted that more progress is required to meet regulatory expectations and achieve the Company's risk management objectives and that accelerated progress continues to be required.

The Company's compensation governance framework includes assessments of the risks that are part of executive compensation practices. For example, a high proportion our executives' compensation is structured as long-term, performance-based equity that remains at risk until payment, is forward-looking, contingent on financial performance and risk assessments, and subject to substantial holding requirements that extend beyond retirement to further support strong risk management practices. The Board has broad discretion to forfeit and adjust unpaid equity awards granted to our executives. Since 2016, the Board and its HRC have taken a

number of decisive actions to promote executive accountability as discussed in our 2016 and later proxy statements.

Wrongful Foreclosures

In November 2018, Wells Fargo reported in its 3rd quarter 2018 10-Q that it wrongfully denied hundreds of mortgage loan modifications due to a "calculation error" in its underwriting software. According to Wells Fargo, its own internal investigation revealed that "870 customers were incorrectly denied a loan modification or were not offered a loan modification or repayment plan in cases where they otherwise would have qualified." The Bank further found that it had foreclosed on 545 of these customers after their loan modification was erroneously denied.

23. Has the number of customers affected by foreclosures resulting from the Bank's error changed since November 2018?

Response: Because this is an ongoing remediation, Wells Fargo is still in the process of determining the final number of affected customers. To date, Wells Fargo has identified approximately 880 affected customers, although that number remains subject to further review.

24. You testified that, in addition to providing $15,000 to each customer affected by foreclosure resulting from the Bank's error, Wells Fargo reached out to these customers "to come to see us and if there was additional harm that was done to them, we'll make it right." How many of these customers have approached Wells Fargo about additional compensation?

Response: See response to question #25 below.

25. For those customers affected by foreclosure resulting from the Bank's error, what is the total dollar amount of compensation that Wells Fargo has provided beyond the $15,000 initially provided to each affected customer?

Response: Because this is an ongoing remediation, the number of customers approaching Wells Fargo about additional compensation, as well as the compensation figures, remain in flux. Compensation varies case-by-case based on individual circumstances. Wells Fargo remains committed to fully compensating affected customers.

Add-on Products

In its most recent 10-K, Wells Fargo disclosed that, "[t]he Company is reviewing practices related to certain consumer 'add-on' products, including identity theft and debt protection products that were subject to an OCC consent order entered into in June 2015, as well as home and automobile warranty products, and memberships in discount programs . . . Sales of certain of these products have been discontinued over the past few years primarily due to decisions made by the Company in the normal course of business, and by mid-2017, the Company had ceased selling any of these products to consumers."

26. When did Wells Fargo stop selling credit-card add on products?

Response: Wells Fargo has been discontinuing the sales of credit card add-on products over the past few years and ceased selling credit card add-on products to consumers as of May 2017.

27. When did Wells Fargo stop selling home and automobile warranty products, and memberships in discount programs?

Response: Wells Fargo stopped selling memberships in discount programs in September 2012. It stopped selling home warranty products in July 2013, and automobile warranty products in October 2016.

28. To date, what is the total dollar amount of remediation provided to customers by Wells Fargo for its sale of credit-card add-on products?

Response: See response to question #31 below.

29. To date, how many customers has Wells Fargo remediated for its sale of credit-card add-on products?

Response: See response to question #31 below.

30. To date, what is the total dollar amount of remediation provided to customers by Wells Fargo for its sale of home and automobile warranty products, and memberships in discount programs?

Response: See response to question #31 below.

31. To date, how many customers has Wells Fargo remediated for its sale of home and automobile warranty products, and memberships in discount programs?

Response: With respect to remediation provided to customers for the sale of add-on products listed above, Wells Fargo is working with regulators on plans to make affected customers whole. Thus far, Wells Fargo has distributed approximately $57 million in remediation to about 609,000 accounts. Additional remediation plans are ongoing.

Mandatory Arbitration

Mr. Sloan you testified that Wells Fargo in certain circumstances enforces the mandatory arbitration provisions in the Bank's customer agreements.

32. In what circumstances does Wells Fargo enforce the mandatory arbitration provisions in the Bank's customer agreements?

Response: Arbitration is never Wells Fargo's first step in resolving customer disputes and the bank does not use arbitration agreements for all consumer products. When a customer raises a concern, the Bank first tries to resolve the issue informally so that formal dispute resolution proceedings are unnecessary. This 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 compared to litigating in court. Wells Fargo's customer agreements provide that arbitrations be administered by the American Arbitration Association ("AAA"), a nationally known and respected non-profit organization.

Wells Fargo believes that arbitration is a fair, efficient, and effective forum available for a customer to pursue a legal claim and resolve a legal dispute through an impartial third-party. By resolving legal disputes through arbitration, both the consumer and the business have the ability to reach a positive resolution at a lower cost.

33. How many arbitrations did customers file against Wells Fargo between January 1, 2013 and January 1, 2019?

Response: Wells Fargo does not track its arbitration in a way that would make this type of information readily accessible. But its major administrator of consumer arbitration—the American Arbitration Association—provides data concerning arbitrations initiated over the last five years on a quarterly basis on its website. Its data indicates that customers filed 268 arbitrations against Wells Fargo businesses in the last five years. During the same period, the data shows that Wells Fargo filed 16 arbitrations against customers. (Note that this data reflects the second quarter of 2014 through the first quarter of 2019, and excludes employment arbitrations.)

Of the 268 cases where customers filed arbitration, only 19 cases contain information on prevailing party. Of these 19 cases, Wells Fargo prevailed in 12 cases, and the consumer prevailed in 7 cases. The majority of the cases does not include any information on the award. There are 21 reported cases that include how much the consumer was awarded. In 14 of these cases, the customer was awarded $0; for the remaining 7 cases the consumers were awarded a total of $377,384.

As for the 16 cases in which Wells Fargo initiated arbitration, there is no information on prevailing party for 12 of these cases. Wells Fargo was reported as the prevailing party in four of the matters. The majority of the cases have no information on award. Of the 16 cases, there are 4 reported cases that include how much the Bank was awarded. In 1 of these cases, the Bank was awarded $0. The total award for the other 3 cases was $24,556.

34. How many arbitrations did Wells Fargo file against customers between January 1, 2013 and January 1, 2019?

Response: See response to question #33 above.

35. In arbitrations filed by customers against Wells Fargo between January 1, 2013 and January 1, 2019, how many times was the customer designated the prevailing party?

Response: See response to question #33 above.

36. In arbitrations filed by customers against Wells Fargo between January 1, 2013 and January 1, 2019, how many times was Wells Fargo designated the prevailing party?

Response: See response to question #33 above.

37. What was the total dollar amount awarded to customers who prevailed in arbitrations filed against Wells Fargo between January 1, 2013 and January 1, 2019?

Response: See response to question #33 above.

38. In arbitrations filed by Wells Fargo against customers between January 1, 2013 and January 1, 2019, how many times was the customer designated the prevailing party?

Response: See response to question #33 above.

39. In arbitrations filed by Wells Fargo against customers between January 1, 2013 and January 1, 2019, how many times was Wells Fargo designated the prevailing party?

Response: See response to question #33 above.

40. What was the total dollar amount awarded to Wells Fargo when it prevailed in arbitrations it filed against customers between January 1, 2013 and January 1, 2019?

Response: See response to question #33 above.

Debt Collection

Mr. Sloan, a March 9, 2019 New York Times article reported that at the Bank's large debt collection operation in Des Moines, "workers in December were expected to handle at least 30 calls an hour and recoup $34,000 in unpaid credit-card and other debts for the month. In January, the targets rose to 33 calls an hour and $40,000, goals that many employees there failed to attain, according to internal records."[3]

41. Are debt collectors employed by Wells Fargo expected to make thirty-three call per hour?

Response: In our Card & Retail Services, Wells Fargo previously used a scorecard to assess and manage the performance of our debt collectors, which took into account certain metrics such as calls per hour or dollars collected. The target levels for such metrics were set based on historical

[3] Emily Flitter and Stacy Cowley, Wells Fargo Says Its Culture Has Changed. Some Employees Disagree, March 9, 2019, *available at*: https://www.nytimes.com/2019/03/09/business/wells-fargo-sales-culture.html.

trends and business goals. As of March 1, 2019, Wells Fargo suspended the use of this scorecard for purposes of performance management.

42. Are debt collectors employed by Wells Fargo expected to recoup $40,000 per month?

Response: See response to #41 above.

43. Does Wells Fargo evaluate its debt collection employees based on the number of calls they make per hour or the amount of money they recoup per month?

Response: See response to #41 above.

44. Has Wells Fargo disciplined any of its debt collectors for not meeting a targeted number of calls per hour?

Response: In Card & Retail Services, when a team member's performance declines and does not meet the expectation of the role, a manager will coach the team member on how they can improve their performance. If improvement is not shown, or shown to a satisfactory degree, the manager will begin the corrective action process. The corrective action process can include actions such as an informal warning, formal warning and/or final warning, and potential termination if the team member was not successful in improving performance. Before March 1, 2019, team members may have gone through the correction action process based on the scorecard, which took into account certain metrics such as calls per hour or dollars collected. The use of the scorecard for the purposes of performance management has been discontinued since March 1, 2019.

45. Has Wells Fargo terminated any of its debt collectors for not meeting a targeted number of calls per hour?

Response: See response to #44 above.

46. Has Wells Fargo disciplined any of its debt collectors for not meeting a targeted collection amount per month?

Response: See response to #44 above.

47. Has Wells Fargo terminated any of its debt collectors for not meeting a targeted collection amount per month?

Response: See response to #44 above.

48. Describe all metrics that Wells Fargo uses to determine incentive compensation for employees engaged in debt collection.

Response: As of April 1, 2018, for our Card & Retail Services, we increased the base pay for all our debt collectors and eliminated the use of incentive compensation for our employees engaged in debt collection activities.

Student Checking Accounts

In August 2018, the CFPB's Student Loan Ombudsman Seth Frotman resigned after, as he alleged, his superiors suppressed a report investigating campus debit cards. That report was released to the public in December 2018. According to the report, students with active college-endorsed Wells Fargo accounts paid on average $46.99 in fees over a 12-month period during the 2016-2017 academic year, the highest of any bank that offers college-sponsored student bank accounts.[4]

49. For each year from 2016-2018, how much fee revenue did Wells Fargo generate from students holding a Wells Fargo college-endorsed account?

Response: The Department of Education (DOE) requires schools to provide "the number of students who had financial accounts under the contract at any time during the most recently completed award year, and mean and median of actual costs incurred by those account holders." The schools rely on financial institutions to provide this information so that they can comply with the DOE regulation. However, because there is no uniform method for reporting this data, there appears to be inconsistency in the reporting methodologies among campus card providers and vendors providing other financial services that are subject to the regulation. Simply put, each financial institution decides how to provide what it believes to be the most accurate and transparent information.

For each of the 2016-2017 and 2017-2018 award years, Wells Fargo reported using a two-year cohort of accounts linked to campus IDs. This approach includes all customers with campus cards linked to financial account products such as checking accounts at any time during the two years prior to the reporting cut-off date. Because Wells Fargo does not ask schools to send us personally identifiable data about students that would allow us to monitor student status, the publicly-reported cost data provided to our school customers has not excluded former students whose ID cards or co-branded debit cards remain linked to Wells Fargo accounts after the students leave school. Similarly, because we allow nonstudent campus ID card holders, such as faculty and staff, to participate in the Wells Fargo Campus Card Program, we expect some nonstudent data to be reflected in the cost disclosures along with data about students and former students.

In addition, it appears that other providers may have used a narrower approach in their DOE reporting. For example, at least one provider appears to factor into its cost disclosures only accounts that were newly opened during the most recent award year. Had Wells Fargo interpreted the regulation to allow us to report only newly opened linked accounts, we would

[4] February 5, 2018 Analysis from Bureau's Office for Students and Young Consumers, *available at*: https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfp_foia_letter-to-department-education_record_2018-02.pdf.

have reported far fewer active accounts, and our average fee per active account for the most recent reporting period would have been roughly $27 a year, which is more in line with our peer institutions (full service banking providers of campus card services).

Prior to choosing to bank with Wells Fargo and link their school ID to a Wells Fargo account, students are given simple and clear disclosures that outline the services and fees that come with their accounts. Customers who link their campus card to a Wells Fargo Everyday Checking account are not charged a monthly service fee for that account. With tools like automatic zero-balance alerts and 24-hour mobile and online account access, combined with service enhancements we have made to reduce potential fees – such as not charging an overdraft or return item fee on any transaction of $5 or less, and not charging an overdraft fee if an account balance is overdrawn by $5 or less – and our extensive ATM network offering no-fee cash access, our customers are well positioned to avoid fees. In fact, over 40% incurred no fees, almost 80% paid costs below the mean, more than 60% of students paid no ATM fees, and more than 80% paid no overdraft fees. Finally, with the changes in our program outlined below, we would expect further reductions in fees over time.

50. Did Wells Fargo communicate with any CFPB or Department of Education officials regarding the CFPB report that was made public in December 2018?

Response: No.

51. What actions, if any, did Wells Fargo take in response to the 2018 report?

Response: Wells Fargo is always working to improve how we serve our customers, including students who participate in our Campus Card program. We reviewed the public data studied by the CFPB, and have announced improvements to our Campus Card Program. Those improvements, which launched in March 2019, include: (a) one overdraft/non-sufficient funds fee refund per calendar month; (b) no fees for overdraft protection transfers from a linked savings account; (c) four withdrawals from non-Wells Fargo ATMs per monthly fee period with no fee from Wells Fargo; and (d) one incoming domestic or international wire fee refund per calendar month.

52. Has Wells Fargo taken any actions to reduce the fees it charges college students?

Response: In March 2019, Wells Fargo introduced several new benefits to its Campus Card Program to reduce fees for college students. These new benefits include: (a) one overdraft/non-sufficient funds fee refund per calendar month; (b) no fees for overdraft protection transfers from a linked savings account; (c) four withdrawals from non-Wells Fargo ATMs per monthly fee period with no fee from Wells Fargo; and (d) one incoming domestic or international wire fee refund per calendar month. In addition to these benefits, which are specific to the Campus Card Program, Wells Fargo is helping all its retail customers avoid fees with tools such as "Overdraft Rewind," automatic zero-balance alerts, and 24-hour mobile and online account access. We are also reducing potential fees by not charging an overdraft or return item fee on any transaction of $5 or less, and by not charging an overdraft fee if an account balance is overdrawn by $5 or less.

Layoffs

In September 2018 Wells Fargo announced it planned to reduce its workforce by five to ten percent.

53. Since September 2018, how many employees has Wells Fargo laid off in the United States?

Response: Between September 1, 2018 and April 9, 2019, Wells Fargo notified 3,391 team members that their positions were being eliminated. Of that total, approximately 810 team members have been reassigned to either short-term or permanent positions within Wells Fargo, and some portion of the short-term positions may become permanent as well. As a result, approximately 2,580 team members have been displaced from Wells Fargo since September 1, 2018. Wells Fargo currently has over 20,000 job openings, and is committed to working with displaced employees to find new positions within the company.

54. Since September 2018, how many employees has Wells Fargo hired overseas?

Response: 3,902.

55. Since September 2018, how many employees has Wells Fargo laid off in its U.S. call centers?

Response: Wells Fargo does not classify any team members as "call center" employees.

56. Since September 2018, how many employees has Wells Fargo hired to work in its overseas call centers?

Response: Wells Fargo does not classify any team members as "call center" employees.

Congresswoman Joyce Beatty:

Question #1

In your 10-Q filing from August 2018, your company stated that "an internal review of the Company's use of a mortgage loan modification underwriting tool identified a calculation error that affected certain accounts that were in the foreclosure process between April 13, 2010 and October 20, 2015, when the error was corrected." Additionally, the filing stated, "as a result of this error, approximately 625 customers were incorrectly denied a loan modification…in approximately 400 of these instances, after the loan modification was denied or the customer was deemed ineligible to be offered a loan modification, a foreclosure was complete." Wells Fargo later updated those numbers to 870 customers who were incorrectly denied a loan and your company had improperly foreclosed on 545 of these customers.

What explains the gap between identifying the error in October 2015 and disclosing the error nearly 3 years later in August of 2018?

Response: Wells Fargo did not disclose the calculation error in the Home Preservation Application ("HPA") tool in October 2015 because a review of a sample of accounts at that time showed that the error had not harmed customers. In 2018, while reviewing an unrelated issue, Wells Fargo re-reviewed the HPA tool error and determined that, in fact, it had impacted loan modification decisions between April 2010 and October 2015. Wells Fargo then disclosed this information in its second quarter 10-Q filing in August 2018.

Question #2

To increase diversity among head coaches and general managers in the National Football League, the league instituted the "Rooney Rule," whereby every team has to at least interview a minority candidate in the hiring process of a new head coach and general manager. Implemented in 2003 for head coaches and in 2009 for general managers, the Rooney Rule has been credited with increase diversity among NFL head coaches. For example, in the 12 seasons prior to the rule, the NFL had only six non-white head coaches, while the first 12 seasons the rule was instituted, the league added 14 coaches of color. Other organizations and corporations have taken notice of this diversity and inclusion strategy, including companies like Xerox and Amazon.

Can you discuss the role this rule, or similar ones have played within Wells Fargo?

Response: In 2016, I instituted a new policy that essentially implemented the Rooney Rule at the Bank, which required a diverse slate of candidates *and* diverse interview panels for senior management and executive positions, two to five levels below the CEO.

Question #3

One area of focus within the diversity and inclusion space that I am particularly interested in, that I don't thinks gets enough attention is the diversity of money. And what I am referring to when I say diversity of money are activities such as asset management.

Can you describe any initiatives at Wells Fargo to diversify your asset managers, investment advisors and any broker-dealer firms that Wells Fargo has a contractual relationship to help manage customers wealth?

Response: The Wells Fargo Investment Institute (WFII) sources diverse-owned, as well as diversified asset management firms and strategies for its recommended list from a number of different sources, including proprietary and non-proprietary databases, industry contacts, and client referrals.

Additionally, WFII participates in a number of Wells Fargo sponsored events throughout the year for WFII, Wells Fargo Advisors (WFA), which is Wells' broker-dealer, business to meet with minority owned asset management firms to better understand their capabilities, and to discuss opportunities to join the Wells Fargo platform, including navigating our onboarding process. WFII's goal is to add eight more diverse owned asset managers to its recommended list in 2019.

Furthermore, the head of Wells Fargo's Global Manager Research business, Greg Maddox, is a member of National Association of Securities Association (NASP), and has presented at NASP events where he has discussed some of the access challenges for diverse owned asset managers and diverse financial services professionals in general. These have been informative and highly productive sessions. In addition, Hazlitt Gill from WFII spoke recently at a NASP event in San Francisco focused on diversity, inclusion, and access for diverse financial services professionals along with other senior leaders from two large California state pension funds and some California foundations. These types of events bring Wells Fargo manager selection leaders and analysts in closer and more regular contact with diverse owned asset managers and provides opportunities to explore partnerships and other engagement with small and large diverse owned asset management firms.

Finally, WFII believes that attracting and retaining diverse analysts is also important to establish a culture of equality and openness. The research team at Wells Fargo responsible for screening and selecting recommended managers for our clients is itself a diverse team (close to 50% are either a minority, female, or both), and has a goal of hiring more diverse analysts in the future.

Congressman Jesús "Chuy" Garcia:

1. **Wells Fargo paid a $1 billion fine last year for cheating car insurance customers. When it comes to fixing such problems, you initially indicated that you would go "above and beyond the actual financial harm as an expression of our regret for the situation." However, your regulator (the OCC) has flunked you on that effort. Earlier this month, *The Capitol Forum* reported that Wells Fargo has directed workers to slow-walk remediation, and in at least one instance, a manager reportedly instructed remediation workers not to research cases thoroughly. Is it time for you to hand this remediation effort over to a neutral firm that will prioritize paying customers back as quickly as possible? Would Wells Fargo consider having the remediation handled by a third party so that the new complications that have surfaced since 2017 can be addressed swiftly?**

Response: With respect to any issue that negatively impacts our customers, Wells Fargo is responsible for making things right. That applies to collateral protection insurance ("CPI") programs, as well as to any other issues we need to remediate. In some cases, it may be appropriate to involve third parties to assist us in those efforts while in other cases it may not be.

With respect to CPI in particular, Wells Fargo has used, and continues to use, third parties in developing and executing our remediation efforts. For example, third parties have helped us identify impacted customers and provide compensation. Additionally, we are using a third-party administrator to manage the process of contacting affected customers and sending checks to those who are owed money. We also have devoted significant internal resources to ensure our CPI remediation is carried out correctly and comprehensively. There was no top-down directive "not to research too deep" in order to not remediate customers.

We are confident that our remediation is reaching all impacted customers, and we are sending out remediation checks without requiring our eligible customers to take any action to receive compensation owed to them. Any customers that have questions can find information about our

remediation plan on our website, including contact information should they wish to reach out to us. We encourage them to come to us with any questions or concerns.

2. **In December 2018, Wells Fargo agreed to a $575 million settlement with all 50 state attorneys general for violation of state consumer protection laws, including improper charges for auto insurance loans. Illinois drivers comprise a considerable portion of the victims in these cases, and are owed nearly $11 million in compensation as a result of this settlement. Yet according to a letter sent to the Senate Banking Committee last year, drivers in some states will need to submit evidence that they were pushed into unneeded insurance before proceeding with a full refund. In other states, complete and full refunds are being made with no questions asked. Why is Wells Fargo applying a different standard to drivers entitled to remediation in different states? What barriers exist to providing full refunds under a presumption that drivers were wronged, as Wells Fargo is reportedly doing in Arkansas, Michigan, Mississippi, Tennessee, and Washington? Are Illinois drivers not entitled to the same remediation as drivers in states where Wells Fargo is presuming drivers were wronged?**

Response: Auto loan agreements typically require borrowers to maintain physical damage insurance on the vehicle that is collateral for the loan. CPI is a product that protects auto lenders and customers from financial losses that would otherwise occur when a borrower's vehicle is damaged if the borrower did not have their own physical damage insurance.

Beginning in 2016, Wells Fargo identified several categories of customers who may have been harmed by CPI placements. One group involves customers who were potentially harmed by having CPI placed even though they had their own physical damage insurance. Another group involves customers in five specific states (Arkansas, Michigan, Mississippi, Tennessee and Washington) who did not receive disclosures that verbatim matched the model statutory language in those states.

We are tailoring our remediation to the precise impacts experienced by affected customers. Any customer who had duplicative CPI placed is automatically eligible to receive a refund of (a) fees that were assessed to the account potentially because of the duplicative coverage; (b) interest the customer paid to finance their CPI premium; and (c) any unnecessary CPI premium that has not already been refunded. Wells Fargo will also compensate these customers for the loss of use of their funds over time.

Additionally, any customer in one of the five abovementioned states who did not receive the verbatim disclosure language will receive a refund of CPI premiums and interest not previously refunded, as well as assessed fees potentially caused by the CPI placement. Even though Wells Fargo is not aware of any harm from the improper disclosure, we are providing remediation even if the customer did not actually have physical damage insurance at the time CPI was placed.

Finally, we will provide additional remediation if improper CPI placement could potentially have contributed to a loan default that resulted in the repossession of the customer's vehicle, or charge-off of the customer's loan on the Bank's books. Customers who experienced a

repossession are also invited to participate in an independent third-party mediation process at no cost to them if they believe the remediation amount is insufficient to address their situation.

Wells Fargo is eliminating burdens on customers where possible. For example, customers eligible for remediation will not need to take any action to receive a remediation payment. Where customer action is required, Wells Fargo strives to make customer action as simple and easy as possible (e.g., by only requesting minimal information necessary). For example, where our records reflect the customer actually needed CPI, the customer will be invited to submit the identity of their insurance carrier for the relevant time period so that Wells Fargo can evaluate eligibility for refunds if the customer had their own physical damage insurance. Wells Fargo is also delivering compensation and benefits to all impacted customers as quickly and consistently as practicable.

3. **What type of investment hedge instruments does Wells Fargo utilize on mortgages? Did any of the 545 homeowners who were improperly foreclosed on through a "software glitch" last year own loans in Wells Fargo's portfolio? Did you collect mortgage default insurance on the properties that were wrongfully foreclosed on, and if so, how much? Is Wells Fargo willing to share its information on mortgage default insurance, credit default, or derivative hedges against these particular mortgage borrowers? What types of investment hedge instruments (credit default swaps/or any type of derivative hedge type instruments) does Wells Fargo utilize against credit cards, student loans, auto loans/ insurance, mortgage and corporate/business loans, as well as on customer accounts?**

Response: No accounts were improperly foreclosed on through the HPA tool error, as the loans at issue were already in foreclosure at the time of the error. Wells Fargo owned the loans for ten of the customers impacted by the issue. Wells Fargo made an insurance claim on only one of those loans, for $15,000. Any other mortgage insurance would have been paid to investors who owned the accounts.

Like other financial institutions, Wells Fargo participates in credit swaps and derivative hedges in order to provide consistent and stable cash flows, to reduce risk exposure, and to reduce transaction costs. With respect to mortgages, Wells Fargo uses a variety of products to hedge risk, but it does not have any loan level hedges or derivatives that would apply to a customer account specifically.

Congressman Ed Perlmutter:

1. **How do Guaranteed Auto Protection (GAP) policies and premiums differ in the 11 states in which you issued refunds from the other 39 states?**

Response: In indirect auto lending, GAP products are sold by auto dealers to customers when they purchase a vehicle. Individual auto dealers choose which GAP products to offer to customers, and customers choose whether or not to buy them at the time of the vehicle purchase. Wells Fargo does not market or sell GAP to indirect auto lending customers. Auto dealerships

and the companies that administer the GAP product receive the amount paid for GAP following vehicle sale.

GAP offers customers additional protection beyond a standard automobile insurance policy. If a customer has an accident and the vehicle is totaled, GAP could help pay off the loan balance not covered by their primary insurance.

A number of states have laws regulating different aspects of GAP, and the GAP agreements vary to reflect the requirements of the state in which the GAP product is offered.

The question references the distinction between states in which Wells Fargo manages GAP refunds and states where dealers handle that process. The differences between these groups of states are based on differences in state law, not differences in GAP policies or premiums.

Customers may be eligible for a refund of a portion of the amount paid to the dealer for GAP when their loans end early (for example, due to early payoff or trade-in of the vehicle) or if there is a repossession. Beginning in June 2017, Wells Fargo took over management of issuing refunds to customers with GAP in the states with laws that require lenders to ensure that GAP refunds are made when customers' loans end early. Historically and today, the prevailing industry practice is for dealerships to handle this process. Since Wells Fargo implemented this process in June 2017, the process has expanded and now includes 11 states with laws that require lenders to ensure a refund (AL, CO, IN, IA, MD (for GAP insurance only), MA, NV, OR, TX, VT, and WI) (the "Minority Rule States") plus three additional states (NE, SC, and OK). In these states, Wells Fargo makes GAP refunds to eligible customers and seeks to recoup the refunds from the dealers that sold the GAP product. The 39 states which do not require Wells Fargo to ensure GAP refunds are made when loans end early are referred to as the "Majority Rule States."

2. Approximately how much does Wells Fargo still owe in GAP refunds in the 39 states over the past five years?

Response: Wells Fargo does not owe GAP refunds to indirect auto lending customers in the Majority Rule States. In those states, the responsibility for making the refund belongs to the auto dealer and GAP administrator who sold the GAP product and received the amount paid for GAP from which the refund is made.

3. What percentage of GAP refunds does Wells Fargo issue to customers nationwide each year?

Response: Wells Fargo's goal is to refund 100% of eligible customers in states where Wells Fargo manages the GAP refund process. Since Wells Fargo took over management of this process in June 2017, more than 56,000 GAP refunds have been issued following early loan payoffs. Wells Fargo also has enhanced its processes relating to GAP refunds following repossession in order to ensure that customers in states with laws that require lenders to ensure GAP refunds are issued those refunds.

4. **You testified with respect to GAP insurance :**
   "[The] transaction was actually a transaction between the customer and the auto dealer. We were not involved in the customer's decision to buy that insurance."

   I understand the original transaction is between the customer and the auto dealer. But by the time a customer pays off a loan that Wells Fargo bought from the dealer, hasn't Wells Fargo been assigned the dealer's obligations under the loan which includes the GAP addendum?

Response: Typically, GAP products are structured as an addendum to the finance agreement, which is assigned to Wells Fargo for loans that Wells Fargo acquires from auto dealers. The obligations of Wells Fargo, the dealer, and the GAP administrator relative to GAP are governed by specific language set forth in the respective financing agreement and GAP addendum, by state law, and by the agreements between Wells Fargo and the dealer and the dealer and the GAP administrator. While certain obligations are assigned to Wells Fargo when it acquires a loan with GAP, under most GAP agreements, these do not include an obligation to make a GAP refund automatically upon early loan payoff. Some GAP forms used in Minority Rule States specify that the indirect lender must ensure the refund, consistent with state law. In these states, Wells Fargo makes GAP refunds to eligible customers as described in response to question #1 above regardless of the whether the GAP agreement specifically imposes this obligation on Wells Fargo.

5. **You testified that in eleven states Wells Fargo refunds unearned GAP fees to the customer automatically when the customer pays off the loan. What is the purpose of requiring the customer to send a special notification demanding a refund when an early loan payoff is made in the remaining 39 states?**

Response: Wells Fargo does not draft the GAP agreements, but we understand that the purpose of refund request provisions in GAP agreements is to ensure that the party who has the refund obligation and who received the funds from which the refund is made is aware of the customer's request for a refund.

Wells Fargo manages the issuance of refunds to customers with GAP in Minority Rule States when those customers' loans end early, even though Wells Fargo did not sell GAP or receive the amount the customer paid for GAP. Additionally, Wells Fargo has enhanced its communications with customers and dealers in all states, to provide customers with information on GAP products purchased from dealers and to facilitate GAP refunds by auto dealers.

6. **You testified that "it is not our responsibility to ensure that customers receive those [GAP] refunds from the dealers who receive that money – it never went through Wells Fargo." When a customer finances the GAP insurance and Wells Fargo buys that loan, which I understand is the norm, doesn't Wells Fargo collect the amount of the GAP insurance as part of the customer paying off the full amount of the loan?**

Response: In indirect auto lending, Wells Fargo acquires financing agreements originated by auto dealers. If a customer chooses to purchase GAP (or other products) from the dealer, the customer may choose to finance all or part of that purchase. The dealer and the Company that administers the GAP product, not Wells Fargo, receive the amount paid for GAP. Wells Fargo receives principal and interest payments on the loan.

7. **When Wells Fargo does a "hardship refinance" of a customer's auto loan, I understand Wells Fargo gives the customer a credit for the unearned GAP without requiring that customer to request a refund from the auto dealer or GAP administrator. It is my understanding Wells Fargo then goes out and collects the amount of the unearned GAP fee that it credited to the customer from the dealer or GAP administrator. Why doesn't Wells Fargo employ a similar process when a customer pays off the loan early?**

Response: In the situation you describe, if a customer with GAP seeks to refinance his or her loan, it is the customer's responsibility to cancel any aftermarket products with the dealer. In the states in which Wells Fargo took over the responsibility for ensuring refunds following early payoff, however, those refunds are issued automatically to eligible customers.

Congresswoman Katie Porter:

1. **Wells Fargo bought the Guaranteed Automobile Protection (GAP) loans in question in Armando Herrara et al. v. Wells Fargo Bank et al. Under the GAP Addendum, once Wells Fargo acquires the loan, it is the ONLY contracting party with the consumer and thus the only party with the contractual obligation with the consumer to refund the money.**

   Because the cost of GAP is included in the loan, when Wells Fargo collects the entire amount owed on the loan, they are collecting the amount paid for GAP. While Wells Fargo may have a separate side deal with others to get reimbursed later, or to pay the refund on Wells Fargo's behalf, this does not change the fact that Wells Fargo is the party contractually obligated to ensure the consumer receives the refund.

   When a consumer purchases a GAP Addendum for their auto loan, does Wells Fargo agree that if the consumer's automobile is stolen or "totaled," then Wells Fargo will waive the difference (the "gap") between what the customer owes on the loan and what the customer receives from their insurance carrier?

Response: In indirect auto lending, GAP products are sold by auto dealers to customers when they purchase a vehicle. Individual auto dealers choose which GAP products to offer to customers, and customers choose whether or not to buy them at the time of the vehicle purchase. Wells Fargo does not market or sell GAP to indirect auto lending customers. Auto dealerships and the companies that administer the GAP product receive the amount paid for GAP following vehicle sale. The obligations of Wells Fargo, the dealer, and the GAP administrator relative to GAP are set forth in state law, the financing agreement and GAP addendum, and in agreements between Wells Fargo and the dealer and between the dealer and the Company that administers the GAP product. The specific terms of these agreements vary. The prevailing industry practice,

which is reflected in these agreements, is for dealers to provide GAP refunds to borrowers, because the dealers are the party that sells the GAP product to customers, collects the amount paid for GAP following vehicle sale, and have a relationship with the GAP administrator. Historically, Wells Fargo followed the industry practice.

When we identified a deficiency in our controls around tracking of dealer refunds in 11 states with laws that require lenders to ensure a refund (AL, CO, IN, IA, MD (for GAP insurance only), MA, NV, OR, TX, VT, and WI) (the "Minority Rule States"), we took over the management of issuing refunds to customers with GAP products whose loans ended early in those states. In these states, Wells Fargo makes GAP refunds to eligible customers and seeks to recoup the refunds from the dealers that sold the GAP product. The claims in the lawsuit you refer to are based on plaintiffs' allegations that Wells Fargo is obligated to provide GAP refunds automatically in all states under the terms of the GAP agreements. They are not based on state laws that require Wells Fargo to ensure GAP refunds were made. We disagree with the allegations in that lawsuit that Wells Fargo engaged in any wrongdoing. While certain obligations are assigned to Wells Fargo when it acquires a loan with GAP, under most GAP agreements these do not include an obligation to make a GAP refund automatically upon early loan payoff. Some GAP forms used in Minority Rule States specify that the indirect lender must ensure the refund, consistent with state law. In these states, Wells Fargo makes GAP refunds to eligible customers as described above.

In response to your question, the terms of GAP are set forth in the GAP agreements, which vary in their particulars. Generally speaking, GAP waiver agreements provide that if the collateral vehicle is subject to a total loss, the lender will waive the right to collect on certain amounts which may be owed to the lender after payment of the total loss by the customer's auto insurance company. Again, the details of the benefits provided by GAP vary among GAP agreements.

2. **Under the GAP Addendum, if the loan is terminated early, is the customer entitled to a pro rata refund of what they paid GAP?**

Response: As noted above, the terms of GAP are set forth in the GAP agreements and vary in their particulars. Many, but not all, GAP agreements provide that a customer may receive a partial refund of the amount paid for GAP if the customer pays off his or her loan early. Specific eligibility requirements and the details of how the refund amount is calculated vary among GAP agreements.

3. **When a customer pays off a loan early, does Wells Fargo automatically provide the pro rata refund for GAP to the consumer? Why or why not?**

Response: Historically and today, the prevailing industry practice is for dealerships to handle management of GAP refunds to customers following an early payoff. Since June 2017, Wells Fargo manages the process of issuing refunds to customers with GAP products whose loans ended early in the Minority Rule States, plus three additional states (NE, SC, and OK). In these states, Wells Fargo makes GAP refunds to eligible customers automatically and seeks to recoup the refunds from the dealers that sold the GAP product.

4. **Why would a consumer be required to send a written notice to Wells Fargo that the loan has been paid off early as a condition for receiving the refund? Doesn't Wells Fargo already know the loan has been paid off?**

Response: Although Wells Fargo does not draft GAP agreements, we understand that one purpose of refund request provisions in the GAP agreements, which commonly require the customer to request a refund from the dealer or GAP administrator, is to ensure that the party who has the refund obligation, and who received the funds from which the refund is made, is aware of the customer's request for a refund.

5. **What percentage of customers request a GAP refund? Please provide data disaggregated by state.**

Response: In the states for which Wells Fargo administers the refunds, eligible customers whose loans end early receive refunds automatically. In most states, however, customers' requests for GAP refunds go directly to the auto dealers who manage the refund process, or to the company that administers the GAP product. As a result, Wells Fargo does not have data on the percentage of customers in these states who request a GAP refund.

6. **Over the last 6 years, how much has Wells Fargo collected and kept in GAP fees?**

Response: As described above, in Wells Fargo's indirect auto lending business, GAP products are sold by auto dealers to customers when they purchase a vehicle and it is the dealerships and the companies that administer GAP products, not Wells Fargo, who receive the amount paid for GAP following vehicle sale. Additionally, in September 2015 Wells Fargo sold Warranty Solutions, a subsidiary of Wells Fargo Dealer Services, which administered GAP. This subsidiary would have received revenue from GAP sales, but because of the sale in 2015, data on the GAP fees received by Warranty Solutions is not available.

7. **How much is the average GAP refund due? Please provide data disaggregated by state.**

Response: The table below provides the average GAP refund by state issued since Wells Fargo took over management of issuing refunds in June 2017.

Origination State	Post June 2017 Average Refund
AL	$336
CO	$202
IA	$376
IN	$210
MA	$353
MD	$211
NE	$72
NV	$504
OK	$305
OR	$480
SC	$212
TX	$652
VT	$314
WI	$294
Total	$322

8. Is Wells Fargo agreeing to provide GAP refunds in 11 states without written requests for refunds? Why not in the other 39 states, like California?

Response: See response to #3 above.

9. Is it true that there has been a nationwide class action filed against Wells Fargo in my district that is seeking to require Wells Fargo to refund the money in all 50 states? Is Wells Fargo planning on enforcing the class action waivers in Wells Fargo's arbitration provision to prevent that class action from going forward?

Response: There is a putative class action pending in the Central District of California relating to GAP. No class has been certified. Wells Fargo has not filed a motion to compel arbitration. Wells Fargo has been informed that the plaintiffs intend to amend their complaint. Wells Fargo will assess the appropriateness of arbitration when we receive the amended complaint.

10. If Wells Fargo enforces the class action waiver, would that will mean each individual consumer will have to file a separate lawsuit for $340?

Response: Customers' loan agreements differ, and contain different avenues for potential relief.

Congresswoman Ayanna Pressley:

Mr. Sloan, I remain concerned over Wells Fargo's complete disregard for the growing gun violence epidemic across the country and continued ties with the National Rifle Association

and gun manufacturers. In the last year alone, there have been approximately 340 mass shootings.[5] In the Massachusetts 7th Congressional district, there have been nearly 2,200 gun violence incidents over the last 5 years.[6]

1. **As I mentioned in the hearing, according to an article released in October 2018,[7] Wells Fargo was one of the largest financiers of the gun industry. Since 2012, Wells Fargo provided a $40 million line of credit for Sturm Ruger, a prominent manufacturer of assault style weapons. In answering my question about Wells Fargo's relationship with the National Rifle Association and gun manufacturers broadly, you stated that your company had divested from financing gun companies. However, this information was not included in your company's filings with the Securities and Exchange Commission (SEC) as filed most recently in September of 2018.[8] I respectfully request greater clarification about your statement and your company's ongoing relationship with the gun industry. Specifically, please provide further information on:**
    a. **Any banking services and products provided to the National Rifle Association.**

Response: We have a declining banking relationship with the NRA. As has been reported publically, the NRA moved its credit relationship and maintains multiple relationships with other financial institutions around the country.

Wells Fargo is deeply concerned about gun violence and is committed to being an engaged partner in the dialogue about enhancing community safety. To that end, Wells Fargo has announced that it will invest more than $10 million over the next three years to support nonpartisan research on gun violence prevention in our communities and to fund scalable pilots in communities that explore potential enhancements to school safety. Wells Fargo looks forward to collaborating with others on solutions to address this important issue.

    b. **Any banking services and products provided to the National Rifle Association of America Political Victory Fund.**

Response: For confidentiality reasons, it is not our practice to comment specifically on the nature or terms of customer relationships, whether the customer is a consumer, a company or an organization.

    c. **Any banking services and products provided to the National Rifle Association Special Contribution Fund.**

Response: For confidentiality reasons, it is not our practice to comment specifically on the nature or terms of customer relationships, whether the customer is a consumer, a company or an organization.

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[5] "Gun Violence Archive." Gun Violence Archive, 25 Mar. 2019, www.gunviolencearchive.org/
[6] Ibid.
[7] Mosendz, Polly. "Wells Fargo, the NRA's Bank, Doubles Down on Gun Industry." *Bloomberg* 5 Oct. 2018 Web. 25 Mar. 2019.
[8] Federal Election Commission, 25 Mar. 2019, http://docquery.fec.gov/cgi-bin/forms/C00053553/1260114/

d. **Any banking services and products provided to the National Rifle Association Civil Rights Defense Fund.**

Response: For confidentiality reasons, it is not our practice to comment specifically on the nature or terms of customer relationships, whether the customer is a consumer, a company or an organization.

e. **Any banking services and products provided to the National Rifle Association Freedom Action Foundation or any other National Rife Association affiliate.**

Response: For confidentiality reasons, it is not our practice to comment specifically on the nature or terms of customer relationships, whether the customer is a consumer, a company or an organization.

f. **Any current and prior banking services and products provided to Sturm Ruger or any other gun manufacturing company.**

Response: Firearms manufacturers are among the hundreds of different industries that Wells Fargo banks. For confidentiality reasons, it is not our practice to comment specifically on the nature or terms of customer relationships whether the customer is a consumer, a company, or an organization. With respect to gun manufacturers, we have a strict due diligence process that monitors our customer's adherence to all state and federal laws in order to be a customer of the bank.

2. **Please provide more detail on the size of your company's past investments in gun manufacturers over the past two years as well as the dates that you may have terminated your relationship with these companies including Sturm Ruger? In your response, please include dates and documents related to the divestment from Wells Fargo or other related subsidiaries.**

Response: Wells Fargo Asset Management oversees $476 billion in assets under management (AUM), as of 3/31/19, for a broad range of clients, including investment professionals and institutional and individual investors. Of its total AUM, $89 billion is in equities. As an asset manager, we have a fiduciary duty to maximize long-term, risk-adjusted returns in light of each client's investment strategies and objectives. We do consider material ESG issues in the selection of investments, but we must evaluate these considerations in light of the client's stated investment objectives. Across all of our equity strategies, as of 4/18/19 we have $33 million invested in firearms and munitions manufacturers and retailers,[9] which represents 0.04% of our total equities under management.

3. **How much did Wells Fargo make in overall profits from it's [sic] relationship with the National Rifle Association, any of its affiliates or any gun manufacturing companies?**

[9] Defined as at least 4.9% of total company revenues coming from firearms and munitions sales.

Response: For confidentiality reasons, it is not our practice to comment specifically on the nature or terms of customer relationships whether the customer is a consumer, a company, or an organization.

Congresswoman Rashida Tlaib:

On page 100 of the 2018 Wells Fargo & Company Business Standards Report (available at (https://www08.wellsfargomedia.com/assets/pdf/about/corporate/business-standards-report.pdf), a number of tools for measuring and managing employee satisfaction are listed. Questions below are provided to Wells Fargo CEO, Tim Sloan.

a. **Please provide the Committee with summaries of the results of each of the following surveys for FY2016, FY2017, and FY2018 as described in the Business Standards Report: "Team Member Experience surveys," "Pulse surveys," and "Exit surveys."**

Response: Wells Fargo does not publicly share the results of the listed surveys.

b. **Please provide the Committee with a blank copy each of the following surveys for FY2016, FY2017, and FY2018 as described in the Business Standards Report: "Team Member Experience surveys," "Pulse surveys," and "Exit surveys."**

Response: Wells Fargo does not publicly share its surveys.

c. **Please provide the Committee with a summary of the following Wells Fargo metrics for measuring employee satisfaction for FY2016, FY2017, and FY2018 as described in the Business Standard Report: "completion of training courses," "percent of diverse workforce," and "voluntary team member attrition."**

Response: Wells Fargo does not publicly share these metrics.

Please indicate whether members of Wells Fargo's executive leadership team are willing to meet with representatives of the Committee for Better Banks, made up of current and former Wells Fargo employees, to discuss employee satisfaction and workplace expectations and culture. If yes, please provide the name(s) and contact information of the Wells Fargo employee who will arrange that meeting.

Response: A Wells Fargo Human Resources leadership team met with team members affiliated with the Committee for Better Banks in June 2017. Since then, Wells Fargo executives have repeatedly expressed their willingness to meet again with team members affiliated with the Committee for Better Banks to discuss their concerns. Those team members have been in contact with Wells Fargo leadership and have all necessary contact information to arrange any future meetings.