Prepared Remarks of Richard Cordray Director of the Consumer Financial Protection Bureau on the Wells Fargo Enforcement Action Press Call

By Richard Cordray – SEP 08, 2016

Thank you for joining this call. Today the Consumer Financial Protection Bureau is joining our partners at the Los Angeles City Attorney's office and the Office of the Comptroller of the Currency in taking an enforcement action against Wells Fargo Bank. Our investigations found that employees of the bank created unauthorized deposit and credit card accounts across the country in order to collect financial bonuses for themselves. The Bureau itself is levying a fine of $100 million against Wells Fargo for this widespread practice. All told, the bank will pay $185 million in fines for the illegal actions of these employees.

As one of the biggest and best known banks in the United States, Wells Fargo is in a position to lead by example about how every bank should treat its customers. Much bank growth these days is occurring by cross-selling customers on more products and services. This is a common approach, and it should lead banks to devote more attention and resources to strong customer service, since the easiest and best way to earn more business from existing customers is by giving them superior value and excellent service. That produces high levels of customer satisfaction, which in turn should generate repeat business from them and positive word of mouth to others.

But what happened here instead is that Wells Fargo built an incentive-compensation program that made it possible for its employees to pursue underhanded sales practices, and it appears that the bank did not monitor the program carefully. Thousands of bank employees found ways to game the system by secretly signing up existing clients for new services that were never requested. They misused consumer names and personal information to create new checking and credit card accounts to inflate their sales figures to meet their sales targets and claim higher bonuses. Money that belonged to customers was used and moved around without their consent, and in some instances these activities generated new fees and costs.

Unchecked incentives can lead to serious consumer harm, and that is what happened here. We are not saying that companies cannot have incentive compensation structures. They are common enough in the industry and they can motivate positive behavior. But companies need to pay very close attention to make sure they have effective monitoring in place to ensure that consumers are protected.

Our investigation found that since at least 2011, thousands of Wells Fargo employees took part in these illegal acts to enrich themselves by enrolling consumers in a variety of products and services without their knowledge or consent. Many have since been terminated. According to the bank's own analysis, employees opened more than two million deposit and credit card accounts that may not have been authorized by consumers. Employees funded the deposit accounts by transferring funds from existing accounts. As a result of these illegal deposit and credit card practices, many consumers were hit with annual fees, overdraft-protection charges, finance charges, late fees, and other costs.

Wells Fargo employees also requested and activated debit cards without consumers' knowledge or consent, going so far as to create PINs for consumers without telling them. Some employees concocted email addresses that did not belong to their customers and used those new addresses to enroll people in online-banking services without their knowledge or consent.

It is quite clear that these are unfair and abusive practices under federal law. They are a violation of trust and an abuse of trust. In response, Wells Fargo is being ordered to refund fees and charges that were paid because of these unauthorized accounts. We currently estimate that the total amount of refunds to affected consumers will be at least $2.5 million, though the full extent of the appropriate refunds is not yet known.

Importantly, Wells Fargo must also hire an independent consultant to conduct a thorough review of its procedures. And the Consumer Bureau's order requires the bank to propose a process, subject to Bureau approval, for notifying consumers who were affected by the illegal practices at hand. Because of these widespread violations, Wells Fargo will pay a $100 million penalty to the Bureau's Civil Penalty Fund. This is the largest penalty the Bureau has ever imposed for violations of federal consumer financial law. It reflects the severity of these violations, the breadth of the unfair and abusive practices, and how seriously we take them.

Today's action should serve notice to the entire industry. If the incentive compensation schemes or sales targets are implemented in ways that threaten harm to consumers and lead to violations of the law, then banks and other financial companies will be held accountable. We have seen the risk that such programs pose to consumers across the entire financial sector – in debt collection efforts, in the marketing of credit card add-on products, and now in the circumstances described in this action today. Any such initiatives should be carefully monitored as a basic element in a company's compliance program, to make sure that the incentives for employees are aligned with the welfare of consumers.

I want to thank the Los Angeles City Attorney and the Comptroller of the Currency for their close coordination with us to address these issues. We will continue to take appropriate action against those we find to be deceiving or taking advantage of consumers. Thank you.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov .