Brown Opening Statement at Hearing on Wells Fargo's Unauthorized Accounts

September 20, 2016

WASHINGTON, D.C. — U.S. Sen. Sherrod Brown (D-OH) – ranking member of the U.S. Senate Committee on Banking, Housing, and Urban Affairs – released the following opening statement, as prepared for delivery, at today's hearing entitled "An Examination of Wells Fargo's Unauthorized Accounts and the Regulatory Response."

Brown's remarks, as prepared for delivery, follow.

Senator Sherrod Brown - Opening Statement
Hearing: "An Examination of Wells Fargo's Unauthorized Accounts and the Regulatory Response"
Sept. 20, 2016

Mr. Chairman, thank you for calling this hearing. I want to commend the City of LA, the OCC, and the CFPB for their actions, and the Los Angeles Times for bringing this to light.

I was stunned when I learned of the breadth and duration of the fraud committed by Wells Fargo. I hope today we can begin to understand what went wrong and what needs to be done.

I call it fraud because I got tired of the euphemisms a long time ago. I think the American people did, too.

This is not a matter of customers who "...received products and services they did not want or need" as Wells Fargo has put it. That makes it sound like there was a mix-up under the Christmas tree, and I got the right-handed baseball glove meant for my brother Charlie.

This is 5300 employees – so-called team members -- forging signatures, and stealing identities, Social Security numbers, and customers' hard-earned cash, so as to hang on to their low-paying jobs and make money for the high-paying executives at Wells Fargo. And they did it for at least five years.

Wells Fargo's reaction is remarkable. It did not treat this as a big problem until it appeared in the newspaper. It did not begin to make customers whole until this year. And we do not know whether the bank chose to do so, or was told to do so.

Wells Fargo is taking out full page ads claiming it is accountable and accepts responsibility. But it has not admitted to responsibility for a single misdeed in its dealings with the City of Los Angeles and the federal government.

Wells Fargo claims to have made things right with its customers. But its efforts have been incomplete -- for example, it's not clear that PwC calculated the cost of a lower credit score, which might be paid every month for 30 years.

And at times, the bank has been downright hostile to aggrieved customers.

Rather than letting fraud victims have their day in court, Wells Fargo forced customers to abide by the mandatory arbitration clauses in their real accounts. You heard that right – the bank invoked the fine print on a real account to block redress on a fake one which it had created.

Wells Fargo team members, many struggling to support a family on $12 or $15 an hour, followed their managers' guidance to do whatever it took to make their quotas. Some may have worked off the clock, while others cut corners to avoid being fired for missing goals -- goals that Wells now admits were too high.

They've been accountable. The workers lost their jobs with no parachute of any color.

And it's not just 5300 team members who paid the price, because many more were fired when they couldn't meet the quotas, and still more chose to quit rather than cheat.

By contrast, Ms. Carrie Tolstedt, the Senior Executive Vice President for Community Banking, has done quite well. She knew of this problem at least five years ago, and is retiring with a package that may be worth more than the CFPB's record fine of $100 million dollars.

So 5300 team members, earning perhaps $30,000 a year, have lost their jobs, while Ms. Tolstedt walks away with $100 million, give or take.

Despite firing thousands of team members, Ms. Tolstedt seemingly decided it was not important enough to alert the head of the company or the board of directors or anyone else for two years if ever, even though you both sat on the bank's board.

Senior management and the board of directors apparently agreed. Once the scandal became public, remedial actions were stepped up against front line team members, but the praise and performance bonuses continued to be lavished upon Ms. Tolstedt until as recently as two months ago.

You would think the lessons of the financial crisis, which came at such a high cost to our country, would change the way banks do business.

And to be fair, many banks did take the lessons of the financial crisis to heart. But for the largest banks of this country, every week we hear of a new lawsuit or enforcement action against one of them -- week after week after week.

What are some of these lessons? First, the culture in these banks needs to change. That starts at the top.

Second, there must be a reliable way for legitimate complaints to end up in the C-suite rather than the circular file.

Third, in the wake of the rampant robo-signing fraud that we saw at Wells Fargo and elsewhere, banks need better controls.

Because fourth, if you pay people on the basis of how many products they sell, that's what they will do, whether it is in the interests of the customer or not. And base pay needs to be increased.

Finally, change the pay structure, or at least make incentives deferred, so it is clear that customer and company interests are aligned and enduring.

Wells Fargo has come up short on all five counts. That conclusion is not just based on this, its latest scandal.

Last year, Wells settled with the OCC for, among other things, 11 years' worth of deceptive practices in selling enhanced identity theft protection. So at the same time the bank was stealing customer identities, it was charging for protecting them.

If the Wells' ID theft product didn't discover the fraudulent Wells' accounts, perhaps some refunds are due.

This April, Wells Fargo settled a False Claims Act suit for $1.2 billion, in part because it had used bonuses to get staff to "churn out and approve an ever-increasing quantity of FHA loans… and applying pressure on loan officers and underwriters to originate and approve more and more FHA loans as quickly as possible." Thousands of Americans lost their homes through mortgage foreclosures as a result.

So I hope, Mr. Stumpf, you will level with this committee and the public. Words that come like a San Francisco fog on little cat feet won't cut it. These were not magically delivered "unwanted products." This was fraud; fraud that you did not find or fix quickly enough.

Instead of focusing on damage control, you need to admit to the problems, fix them, and treat your customers in real life like you do in your vision statement. That would be the best damage control of all; for your customers, for your bank, for your industry, and for our country.

Thank you Mr. Chairman.

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