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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

GARY HEFLER, MARCELO MIZUKI, GUY SOLOMONOV, UNION ASSET MANAGEMENT HOLDING AG, and CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM, Individually and on Behalf of All Others Similarly Situated, Plaintiffs, vs. WELLS FARGO & COMPANY, JOHN G. STUMPF, JOHN R. SHREWSBERRY, CARRIE L. TOLSTEDT, TIMOTHY J. SLOAN, DAVID M. CARROLL, DAVID JULIAN, HOPE A. HARDISON, MICHAEL J. LOUGHLIN, AVID MODJTABAI, JAMES M. STROTHER, JOHN D. BAKER II, JOHN S. CHEN, LLOYD H. DEAN, ELIZABETH A. DUKE, SUSAN E. ENGEL, ENRIQUE HERNANDEZ JR., DONALD M. JAMES, CYNTHIA H. MILLIGAN, FEDERICO F. PEÑA, JAMES H. QUIGLEY, JUDITH M. RUNSTAD, STEPHEN W. SANGER, SUSAN G. SWENSON, and SUZANNE M. VAUTRINOT, Defendants.	Case No. 3:16-cv-05479-JST <u>CLASS ACTION</u> SECOND CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS <u>DEMAND FOR JURY TRIAL</u>

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I. SUMMARY

1. Lead Plaintiff, Union Asset Management Holding, AG ("Union" or "Lead Plaintiff"), individually and on behalf of all others similarly situated, alleges the following based upon personal knowledge as to Lead Plaintiff and Lead Plaintiff's own acts, and upon information and belief as to all other matters based upon the investigation conducted by and through Lead Plaintiff's attorneys, which included, among other things, a review of news releases issued by Wells Fargo & Company ("Wells Fargo" or the "Company"), Wells Fargo's filings with the U.S. Securities and Exchange Commission ("SEC") and media and analyst reports about the Company. Lead Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

2. This is a securities fraud class action on behalf of all persons who purchased Wells Fargo common stock between February 26, 2014 and September 20, 2016, inclusive (the "Class Period"). The action is brought against several current and former Wells Fargo officers and directors including, the Company's former Chairman and Chief Executive Officer ("CEO"), John G. Stumpf ("Stumpf"), Chief Financial Officer (current "CFO"), John R. Shrewsberry ("Shrewsberry"), former CFO and current CEO, Timothy J. Sloan ("Sloan"), former Senior Executive Vice President of Community Banking, Carrie L. Tolstedt ("Tolstedt"), and others, for violations of the Securities Exchange Act of 1934 ("1934 Act") and SEC Rule 10b-5 promulgated thereunder. Additional claims are set forth herein under §§20(a) and 20A of the 1934 Act.

II. INTRODUCTION AND OVERVIEW[1]

3. This action is centered on Defendants' (defined below) repeated misrepresentations and omissions about a core element of Wells Fargo's business: its acclaimed "cross-selling" business model. That model found its roots in the bank's "Vision and Values," which emphasized the significance of customer relationships. Defendants touted this strategy throughout the Class Period, despite knowing that the Company's overly aggressive cross-sell targets, extreme sales environment

[1] Unless otherwise indicated, all emphases are added and all internal citations, quotation marks and footnotes are omitted.

and related incentive compensation programs were corrupting, rather than reinforcing, Wells Fargo's purported corporate values and cross-selling business model.

4. The truth about Wells Fargo's "Vision and Values" and its cross-selling business model began to emerge in September 2016, when the federal government's Consumer Financial Protection Bureau ("CFPB") imposed on Wells Fargo the largest financial penalty it has ever levied against an institution. The CFPB and other regulators sought to punish Wells Fargo for its "widespread illegal practice of secretly opening unauthorized deposit and credit card accounts," as the agency explained. The CFPB's Director, Richard Cordray, later testified about Wells Fargo's cross-selling business activities, best summarizing them in a single sentence: "The fraudulent conduct occurred on a massive scale." This "massive" fraud materially corrupted Wells Fargo's overarching representations to investors during the Class Period that its "Vision and Values" and visionary cross-selling business model gave investors key reasons to invest in Wells Fargo's common stock.

5. The government found that at the same time that Defendants promoted Wells Fargo to investors on these grounds, Wells Fargo was also "cross-selling" "products" by illicit or even illegal means, flagging millions of suspicious credit card and account openings as fraudulent. Specifically, the government found that Wells Fargo had:

> (1) opened unauthorized deposit accounts for existing customers and transferred funds to those accounts from their owners' other accounts, all without their customers' knowledge or consent;
>
> (2) submitted applications for credit cards in customers' names using customers' personal identifying information without their knowledge or consent;
>
> (3) enrolled customers in online banking services that they did not request; and
>
> (4) ordered and activated debit cards using customers' information without their knowledge or consent.

6. As news of the government's factual findings spread throughout the financial markets and national media, the U.S. Senate and House of Representatives called Stumpf, at the time Wells Fargo's CEO, to account for the fraud at two hearings. At those hearings, the former CEO admitted that he knew about the fraud and revealed even more facts showing, just as the government found, "fraudulent conduct on a massive scale."

7. Indeed, thousands of Wells Fargo employees, incentivized by a toxic, high-pressure sales culture and ill-conceived compensation plan, turned to committing fraud by opening millions of unauthorized and undisclosed accounts in the names of their customers for the sole purpose of achieving otherwise unobtainable sales targets. Missing targets was a fireable offense not only at the ground level but well up the chain of command, and employees engaged in a variety of improper practices to avoid discipline, save their jobs, and earn bonuses including by, for example, forging signatures on paperwork, faking phone calls to customers and opening accounts, transferring funds and activating credit cards all without customer permission. To the extent employees did not engage in, or turn a blind eye to, these activities, they competed with those who did, often fell behind and faced discipline and termination.

8. Ruthless pressure was exerted from the top down and reinforced the mantra that employees must meet the targets no matter the cost.[2] Those whose branches/regions lagged, faced discipline and termination. Those whose branches/regions excelled received bonuses, promotions and/or transfers to other areas of the country to spread their aggressive (albeit fraudulent) sales tactics.

9. Congressional testimony provided in the aftermath of the fraud confirmed that Wells Fargo has been aware of these illegal practices since at least 2011.[3] Since 2013, the Company's highest executives (and even its Board of Directors (the "Board")) have been aware that fraudulent sales activity had reached a "significant scale."[4] But, even as Wells Fargo retained outside consultants to address the problem, federal and state regulators investigated, and journalists asked tough questions, Wells Fargo refused to take meaningful steps to remediate its broken sales culture, failed to disclose the widespread fraud and related investigations to investors, and affirmatively denied allegations related to the improper sales practices.

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[2] *See Former Wells Fargo Employees Describe Toxic Sales Culture, Even At HQ*, National Public Radio, Oct. 4, 2016, http://www.npr.org/2016/10/04/496508361/former-wells-fargo-employees-describe-toxic-sales-culture-even-at-hq.

[3] *See generally An Examination of Wells Fargo's Unauthorized Accounts and the Regulatory Response Before the Senate Committee on Banking, Housing, and Urban Affairs*, 114 Cong. (Sept. 20, 2016) (hereinafter "Senate Tr."), attached hereto as Exhibit A.

[4] *Id.* at 24.

10. Even more troubling, as the problem persisted and as investigations mounted, Defendants continued their aggressive sales and incentive programs, and consistently touted the successes of cross-sell to investors. The price of Wells Fargo stock increased in lockstep and, although faced with investigations and with knowledge that the problem was of a significant magnitude, certain of the Defendants sold or disposed of massive amounts of personal holdings of Company stock. The insiders also benefited from an executive compensation scheme tied, both directly and indirectly, to cross-sell metrics. The extent of the fraud did not begin to emerge until September 8, 2016, when the various regulators who were investigating – the Office of the Comptroller of the Currency ("OCC"), the CFPB and the Los Angeles City Attorney – imposed $185 million in fines on Wells Fargo and forced it to reassess its business.

A. Wells Fargo Stressed Its "Vision and Values" Culture to Investors

11. Before and during the Class Period, Defendants touted the Company's cross-sell strategy and the bank's emphasis on ensuring positive customer relationships as factors that distinguished Wells Fargo from its banking peers. Investors, in turn, accepted that Wells Fargo's culture was a valuable asset and that its cross-selling business model added value to the Company.

12. Wells Fargo's "Vision and Values" culture was repeatedly explained to investors in statements to the media, annual reports and SEC filings. Stumpf, the Company's now former CEO, who proclaimed himself to be the "keeper of the culture," viewed that culture as Wells Fargo's singular most important asset.[5] He stated in the Company's 2014 Annual Report that "culture is the most important part of a company's success," and that Wells Fargo's culture was defined by "[r]elationships."[6] Likewise, in 2015 Annual Report, Stumpf, so-called "master modeler of the 'vision and values,'"[7] emphasized that "[r]elationships are at the core of our culture" and stressed that:

> No document better captures our relationship-based culture and focus on

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[5] Interview by Erick Schatzker with John G. Stumpf, CEO, Wells Fargo & Co., on Bloomberg TV (Dec. 8, 2014).

[6] Wells Fargo & Co., Investor Annual Report at 3 (2014).

[7] Maria Aspan, *Wells Fargo's John Stumpf, the 2013 Banker of the Year*, Am. Banker at 5, Nov. 21, 2013, http://www.castconsultants.com/wp-content/uploads/2013/12/Wells-Fargo-John-Stumpf-the-2013-Banker-of-the-Year.pdf.

> customers than *The Vision & Values of Wells Fargo,* which was first published more than 20 years ago. (I invite you to read our Vision & Values at wellsfargo.com.)
>
> We bring the *Vision & Values* to life each day through delivering on our six priorities: putting customers first, growing revenue, managing expenses, living our vision and values, connecting with communities and stakeholders, and managing risk.[8]

13. Indeed, Wells Fargo's Vision and Values document was purportedly the Company's "guide . . . toward growth and success."[9] By way of example, the following excerpts are taken from the Company's Vision and Values document that was in effect between 2012 and 2015:[10]

- "***What's right for customers . . . Our customers – external and internal – are our friends. We advocate for their best interests.***"[11]
- "The ***reason*** we wake up in the morning is to help our customers succeed financially and to satisfy all their financial needs. ***The result is we make money because of our focus on serving customers, not the other way around***. This time-tested vision will forever be what matters to Wells Fargo. We'll never put the stagecoach ahead of the horses."[12]
- "***Reputation. We will not engage in activities or business practices that could cause permanent or irreparable damage to our reputation***."[13]
- "We want compliance and risk management to be part of our culture, an extension of our code of ethics. Everyone shapes the risk culture of our company. ***We encourage all team members to identify and bring risk forward. We should thank them for doing so***."[14]
- "***The customer value of cross-selling . . . The core of our vision-based strategy is 'cross-selling' – the process of offering customers the products and services they need, when they need them, to help them succeed financially.***"[15]

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[8] Wells Fargo & Co., Investor Annual Report at 4 (2015).

[9] Wells Fargo & Co., Quarterly Report (Form 10-Q) at 3 (May 7, 2014).

[10] *See The Vision & Values of Wells Fargo* (Wells Fargo & Co. 2012) (hereinafter "2012 *Vision & Values*").

[11] *Id.* at 9.

[12] *Id.* at 5 (some emphasis omitted).

[13] *Id.* at 19.

[14] *Id.*

[15] *Id.* at 22.

14. Simply stated, the Company's cross-sell business model was its "secret sauce."[16] Stumpf repeatedly assured the public and investors that if "you hire great people, put your customers first, and invest in your communities, your shareholders will do really, really well."[17]

15. Shareholders gave Stumpf's and Wells Fargo's words great weight. Analysts highlighted the Company's "culture" and noted in their research that Wells Fargo's focus on building strong customer relationships gave it a significant competitive advantage in the marketplace. For example, BMO Capital Markets ("BMO Capital") "believe[d] one of the strengths at Wells Fargo, which cannot be replicated, is its culture . . . . In our view, [Wells Fargo]'s disciplined culture has enabled the bank to manage the more challenging revenue and regulatory environment better than its peers."[18] Similarly, Guggenheim Securities, LLC ("Guggenheim") believed the Company's culture "differentiate[d] it from many of its peers."[19] Therefore, both before and during the Class Period, investors were convinced that Wells Fargo's "Vision and Values" culture gave Wells Fargo a competitive advantage, enabling the Company to stand out from others in the banking sector. Against this backdrop, Wells Fargo repeated over and over again during the Class Period, false and misleading statements to investors extolling its strong cross-sell metrics, which were, in significant part, based on fraudulent sales practices.

B. Cross-Selling Was Core to Wells Fargo's Growth

16. Cross-selling was integral to the Company's culture, business operations and growth strategy during the Class Period. The practice was introduced in the late 1980s by Richard Kovacevich ("Kovacevich"), who was the then-CEO of Norwest Corporation ("Norwest").[20] When

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[16] Hilary Burns, *Wells Fargo CEO John Stumpf on economy, culture after regulators' probes*, Charlotte Bus. J., Dec. 3, 2015, http://www.bizjournals.com/charlotte/blog/bank_notes/2015/12/wells-fargo-ceo-john-stumpf-on-economy-culture.html.

[17] *Id.*

[18] Peter J. Winter & Lana Chan, *Wells Fargo: Takeaways From Investor Day* at 2 (BMO Capital Markets May 21, 2014).

[19] Marty Mosby & Mason Mosby, *WFC – BUY – Reflections After Returning from Investor Day* at 4 (Guggenheim Securities, LLC May 23, 2014).

[20] Emily Glazer, *From 'Gr-eight' to 'Gaming,' a Short History of Wells Fargo and Cross-selling*, Wall St. J., Sept. 16, 2016, http://blogs.wsj.com/moneybeat/2016/09/16/from-gr-eight-to-gaming-a-short-history-of-wells-fargo-and-cross-selling/ (hereinafter "Glazer, *Gr-eight*").

Norwest merged with Wells Fargo in 1998, Kovacevich brought the practice to Wells Fargo. Cross-selling was a powerful addition to Wells Fargo's culture. This business model[21] was supposedly designed to drive growth by selling more products to more customers. The stated goal was to sell each customer household at least eight consumer products – a selling motto called "Gr-eight."[22] The Company was often lauded for its effectiveness, which prompted one commentator to note "Wells Fargo is the most successful bank at cross-selling."[23] As Shrewsberry explained in May 2014: "Our relationship focus and cross-sell capability is hopefully legendary at this point. It's been our vision for decades. We stuck to it. You will hear about it all day today woven through the presentations by my colleagues about each of their businesses, and it's a difference maker."[24]

17. Defendants likewise represented to investors that cross-selling was viewed as a core aspect of Wells Fargo's vision and an essential performance metric and defining characteristic, setting Wells Fargo apart from other banks. In a 2006 version of the Company's Vision and Values statement, Kovacevich claimed that cross-selling was "'our most important strategy . . . [b]ecause it is an "increasing returns" business model.'"[25] This emphasis on the practice continued until the end of the Class Period. Stumpf echoed Kovacevich in the Company's 2012 Vision and Values statement, describing cross-selling as "[t]he core of our vision-based strategy."[26] At other opportunities, Stumpf claimed that "cross-sell expertise is a significant and sustainable competitive advantage for us";[27] that

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[21] The OCC formally recognized Wells Fargo's sales and incentive compensation structure as a "business model": "The Bank's ***business model*** emphasized sales of the Bank's products and services to Bank customers. As part of this model, the Bank set sales goals and established an incentive compensation structure that emphasized sales of Bank products and services to customers by Bank employees." Consent Order for Civil Money Penalty at 1-2, *In re Wells Fargo Bank*, *N.A.*, AA-EC-2016-67 (Sept. 1, 2016)

[22] Glazer, *Gr-eight*, *supra* n.20.

[23] Saul Perez, *Why cross*-selling *is part of Wells Fargo's strategy*, Market Realist, Oct. 9, 2014, http://marketrealist.com/2014/10/why-cross-selling-part-of-wells-fargos-strategy/.

[24] Transcript of 2014 Investor Day at 7 (May 20, 2014) (hereinafter "2014 Investor Day Tr.").

[25] Geoffrey Gannon, *An Analysis of Wells Fargo & Company (WFC)*, Ezine @rticles, May 31, 2006, http://ezinearticles.com/?An-Analysis-of-Wells-Fargo-and-Company-(WFC)&id=209516.

[26] 2012 Vision & Values at 22, supra n.10.

[27] Transcript of Morgan Stanley Financials Conference at 2 (Feb. 1, 2011).

"[b]eing best in class in cross-sell is an important competitive advantage for Wells Fargo";[28] and that "cross-sell is still absolutely critical to our operating philosophy."[29] The head of Retail Banking during the Class Period, Tolstedt, also emphasized that "the cross-sell model . . . ties directly to our vision of helping our customers succeed financially and meeting all of their needs. Together, the density and cross-sell model drive revenue."[30] Indeed, Wells Fargo's public filings illustrate the importance of the practice: "[O]ur failure to execute this strategy effectively could have a material adverse effect on our revenue growth and financial results."[31] Most such filings during the Class Period similarly touted cross-sell growth.

18. Analysts also understood the significance of cross-selling. Morningstar Corporate Credit Research ("Morningstar") wrote in July 2013 and again in early 2014 about client asset growth in Wells Fargo's Retail Banking unit, concluding that the Company's leadership and business strategy of cross-selling its products across clients and households was indeed "vaunted" and "intact,"[32] which led to continued financial strength:

> Retail brokerage client assets grew 12% during the year, wealth management client assets expanded 7%, and retirement assets – both individual and institutional – grew by double digits. In our view, the fact that these balances are growing as fast as or faster than deposits is a sign that the company's vaunted cross-selling expertise is intact. In fact, reported products per household grew across the bank's segments.[33]

C. The Officer Defendants' Compensation Practices Created Perverse Incentives to Keep Cross-Selling Targets Unattainably High

19. Wells Fargo's compensation structure further ingrained cross-selling into the Company's business operations. Much like the employees selling Wells Fargo's products, Stumpf's, Tolstedt's, Shrewsberry's, Sloan's, and David M. Carroll's ("Carroll") compensation was tied directly to cross-selling metrics. Hence, as a consequence of increasing cross-selling ratios

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[28] Transcript of Goldman Sachs Financial Services Conference at 3 (Dec. 10, 2013).

[29] *Id*. at 11.

[30] 2014 Investor Day Tr. at 12, *supra* n.24.

[31] Wells Fargo & Co., Annual Report (Form 10-K) at 129 (Feb. 26, 2014) (emphasis omitted).

[32] Jim Sinegal, *Wells Fargo Achieves Another Record Quarter as Mortgage Revenues Fall* at 9 (Morningstar Equity Research Jan. 14, 2014).

[33] *Id.* at 7

supported in significant part by fraudulent practices, the Officer Defendants (defined below) profited lavishly.

20. In addition to top line and earnings growth, individual performance metrics in the Company's executive compensation scheme were inextricably connected to cross-selling. In determining Tolstedt's incentive compensation, the Board "considered, among other things . . . [Tolstedt's] success in achieving strategic objectives in the business line[] for which [she was] responsible . . . , including success in furthering the Company's objective[] of cross-selling products from other business lines to customers."[34] Shrewsberry received incentive compensation, in addition to stock options and salary, because of his "integral part in the Company's achievement of 2015 financial priorities."[35] Sloan's incentive compensation was determined by his role in increasing deposits and loan growth in Wholesale Banking, where he "provided strong and effective strategic, operational and financial leadership" and would "continue to be critical to achieving the Company's strategic priorities."[36] Finally, the Board recognized Carroll's achievement of "a number of important strategic objectives, including continued net customer asset inflows in Retail Brokerage, as well as growth in loan balances and deposits."[37] The following chart summarizes the compensation received by several of the Officer Defendants in 2014 and 2015.[38]

Name	Incentive Compensation[39] 2014-2015	Total Compensation 2014-2015
Carrie L. Tolstedt	$15,150,094	$18,609,939
John G. Stumpf	$33,000,083	$40,744,995
John R. Shrewsberry	$13,750,072	$16,481,405
Timothy J. Sloan	$17,600,137	$21,486,826

[34] Wells Fargo & Co., Proxy Statement (Schedule 14A) at 50 (Mar. 17, 2015) (hereinafter "2015 Proxy Statement").

[35] Wells Fargo & Co., Proxy Statement (Schedule 14A) at 51 (Mar. 16, 2016) (hereinafter "2016 Proxy Statement").

[36] *Id.* at 52.

[37] *Id.*

[38] 2015 Proxy Statement at 56; 2016 Proxy Statement at 57.

[39] 2015 Proxy Statement at 56; 2016 Proxy Statement at 57.

David M. Carroll	$15,250,094	$18,792,424
Totals:	**$94,750,480**	**$116,115,589**

21. Many of the Defendants also enriched themselves by selling or otherwise disposing of their personal holdings of Wells Fargo common stock during the Class Period. ¶¶241-246. Given their insider roles, these individuals were able to take advantage of material, non-public information, including the various internal and regulatory investigations regarding Wells Fargo's cross-selling business model, as they traded and disposed of massive amounts of Wells Fargo stock.

22. By any measure, the sales and incentives practices that ultimately developed as a result of the Company's overly aggressive cross-sell goals were at odds with Wells Fargo's publicly-touted Vision and Values, and the way that Defendants presented cross-selling to investors. But Defendants chose not to change course.

D. Senior Executives at Wells Fargo Knew of Widespread Misconduct Related to the Company's Sales Practices

23. At least as early as 2011, following an "uptick in bad sales behavior" in 2009 and 2010, internal reports began to surface within Wells Fargo that its employees were engaging in unlawful sales practices.[40] The Company hired an outside firm, Q & A Research Inc., to investigate[41] and beginning in 2011, the Company started firing approximately 1,000 employees per year in connection with fraudulent sales practices. It has since been revealed the Company was also firing certain employees who reported, or refused to engage in, such practices. In April 2012, Wells Fargo began generating "Quality of Sales Report Cards" ("QSRs") to track cross-selling figures (numbers of accounts opened, funded and for which signatures were obtained) and grade each branch on cross-selling; however the QSRs set only minimum thresholds and did not require full compliance.[42]

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[40] Emily Glazer, *How Wells Fargo's High-Pressure Sales Culture Spiraled Out of Control*, Wall St. J., Sept. 16, 2016, http://www.msn.com/en-us/money/companies/inside-wells-fargos-high-pressure-sales-culture/ar-BBwffcR (hereinafter "Glazer, *Inside Wells Fargo*").

[41] Thomas R. Fox, *Wells Fargo Week, Part III – The Bank Knew All Along*, FCPA Compliance & Ethics (Sept. 21, 2016), http://fcpacompliancereport.com/2016/09/wells-fargo-week-part-iii-the-bank-knew-all-along.

[42] *Id.* at 4.

24. Also in 2012, recognizing that Wells Fargo's sales and incentive programs were rewarding illegal behavior, the Company reduced sales goals and implemented ethics training to address the uptick in fraud. Indeed, Stumpf acknowledged these changes in sworn testimony before Congress:

> [Stumpf:] I wanna tell you that we did do things. . . . By 2012, [the Consumer Business within Wells Fargo] w[as] reducing goals and doing more ethics training. By 2013, corporate resources were brought in. And we – and we worked with the OCC. In 2014, more reductions in goals.[43]

Yet, the misconduct continued to escalate in the years that followed. For example, Stumpf admitted under oath that he was aware of fraudulent activity of a "significant scale" as of 2013,[44] a year in which the employee firings were at their peak and surpassing firings seen in 2011 and 2012.[45]

25. Even though Wells Fargo's senior executives knew that the Company's cross-selling misconduct had reached a "significant scale" by 2013, when some employees complained to the *Los Angeles Times* in late 2013 about the Company's sales culture in the Los Angeles region, a Wells Fargo spokesperson stated that the misconduct was limited to "a small number of our team members." Far from "a small number," Wells Fargo's sales misconduct spanned across at least 40 states, and involved millions of accounts that more than 5,000 employees systematically fabricated in response to Wells Fargo's "cross-selling" incentives and pressure. Later confronted with some of these facts, Stumpf admitted this obvious point under oath: "5,000 people don't just do 5,000 random things on their own."[46] This systematic, nationwide cross-selling misconduct eventually reached the attention of government officials.

E. Amid Increasing Regulatory Scrutiny of Wells Fargo's Sales Practices, Defendants Refused to Disclose and Outright Denied Problems Within Its Sales Culture

26. In early 2014, the OCC, in connection with the investigation that it initiated in 2013, directed Wells Fargo to "address weaknesses in compliance risk management" by requiring the

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[43] "Holding Wall Street Accountable: Investigating Wells Fargo's Opening of Unauthorized Customer Accounts Before the H. Comm. on Fin. Servs.," 114th Cong., at 16 (Federal News Service Sept. 29, 2016) (hereinafter "House Tr."), attached hereto as Exhibit B.

[44] Senate Tr. at 24.

[45] House Tr. at 15.

[46] Senate Tr. at 29.

Company to establish a comprehensive program addressing unfair and deceptive sales practices.[47] The OCC also would assess the Company's sales practices during its upcoming examination into Wells Fargo's governance processes.[48] Thus, at the beginning of the Class Period in early 2014: (1) the OCC was closing in; (2) thousands of employees had been terminated; (3) some of those employees had actually reported the improper sales practices to Human Resources; and yet the relentless pressure to meet sales quotas persisted while the Company continued to tout its "legendary" cross-selling to investors. None of this was disclosed to investors. Instead, Wells Fargo doubled down. Throughout 2014, the Company issued numerous false and misleading statements regarding sustained cross-sell ratios and the significance and successes of cross-selling to the Company:

- February 26, 2014 (Form 10-K): "Our primary strategy to achieve this vision is to increase the number of our products our customers utilize and to offer them all of the financial products that fulfill their needs. . . . We can grow by expanding the number of products our current customers have with us, gain new customers in our extended markets, and increase market share in many businesses."[49]

- February 26, 2014 (Form 10-K): "Selling more products to our customers – 'cross-selling' – is very important to our business model and key to our ability to grow revenue and earnings especially during the current environment of slow economic growth and regulatory reform initiatives."[50]

- May 7, 2014 (Form 10-Q): "We have steadily increased the growth rate of this higher cross-sell . . . through product enhancements and consistent focus."[51]

- May 20, 2014 (Wells Fargo & Co. Investor Day Presentation): "[H]elping our customers succeed financially": "We estimate to achieve our long-term goal of an average of eight products per household will mean around 100 million additional products, owned and used by new and existing customers, satisfying all their [financial] needs."[52]

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[47] *Hearing Before the Senate Committee on Banking, Housing, and Urban Affairs*, 114th Cong., at 5 (Sept. 20, 2016) (statement of Thomas J. Curry, Comptroller of the Currency) (hereinafter "Curry Statement").

[48] *Id*.

[49] Wells Fargo & Co., Annual Report (Form 10-K) at 30 (Feb. 26, 2014).

[50] *Id*. at 129.

[51] Wells Fargo & Co., Quarterly Report (Form 10-Q) at 4 (May 7, 2014).

[52] 2014 Investor Day Tr. at 20, *supra* n.24.

- May 20, 2014 (Tolstedt at the Wells Fargo & Co. Investor Day Presentation): "[T]he cross-sell model . . . . This ties directly to our vision of helping our customers succeed financially and meeting all of their needs. Together, the density and cross-sell model drive revenue."[53]

- November 13, 2014 (Shrewsberry at the Bank of America Financial Services Conference): "You can see in this slide that we have generated more fee income per average asset than our peers. This outperformance demonstrates our consistent focus on earning more of our customers' business and our culture of cross sell."[54]

27. Unbeknownst to investors, the OCC's investigation of the Company continued throughout 2014 and into 2015. In April 2015, the OCC advised Wells Fargo in a "Matters Requiring Attention" letter ("MRA") to address the lack of a formalized governance framework related to sales practices within the Company.[55]

28. Two months later, in June 2015, the OCC issued another supervisory letter that required Wells Fargo "***to take significant action to address the inappropriate tone at the top***" by responding to the following observations:

> [T]he lack of an appropriate control or oversight structure given corporate emphasis on product sales and cross-selling; . . . the lack of an effective enterprise-wide customer complaint process; the lack of a formalized governance process to oversee sales practices and effectively oversee and test branch sales practices; and the failure of the Bank's audit services to identify the above issues or to aggregate sales practice issues into an enterprise[-level] view.[56]

29. The letter also noted that the Company's sales and incentive program was deficient and instructed the Company to:

> [T]ake certain corrective actions to address the practices at issue, including improving processes to manage sales practices risk; re-evaluating compensation and incentive plans to ensure they did not provide an incentive for inappropriate behavior; improving processes to independently oversee sales practices risk at an enterprise-wide level; accelerating the implementation of a fully effective customer complaint process and establishing policy and processes for evaluating complaints related to protected classes; having management of the Bank's Community Bank division establish effective oversight, as well as a testing and quality assurance function, to

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[53] *Id.* at 12.

[54] Transcript of Bank of America Merrill Lynch Banking & Financial Services Conference at 4 (Nov. 13, 2014)

[55] Curry Statement at 6, *supra* n.47.

[56] *Id.* at 6-7

review branch sales practices; and having the Bank's audit services develop an enterprise-wide risk management process for sales practices.[57]

30. The OCC directed Wells Fargo to "remediate any consumer harm that resulted from the sales practices at issue" and ordered Wells Fargo "to retain an independent consultant to conduct a thorough review of the [Company]'s approach to enterprise-wide sales practices and to assess consumer harm."[58]

31. Other regulators were opening investigations as well. By May 2015, probes by the Los Angeles City Attorney and the CFPB into Wells Fargo's sales and compensation practices were underway.[59] The Los Angeles City Attorney's nearly 18-month investigation led to a May 2015 lawsuit alleging that the Company had opened accounts and charged fees without customer consent, failed to inform customers that those accounts had been opened and caused further negative financial harm in violation of California law. Wells Fargo expressly denied each and every allegation made in the lawsuit and continued to laud its cross-sell growth to investors, and maintained that its culture was "'focused on the best interests of its customers and creating a supportive, caring and ethical environment for our team members.'"[60]

32. By any measure, throughout 2015, Defendants continued to present Wells Fargo's cross-selling activities to investors in a favorable light by repeatedly touting the significance and success of Wells Fargo's cross-sell strategy in statements to the public:

- <u>February 25, 2015 (Form 10-K)</u>: "Our 'cross-selling' efforts to increase the number of products . . . is a key part of our growth strategy . . . . Selling more products to our customers – 'cross-selling – is very important to our business model and key to our ability to grow revenue and earnings . . . ."[61]

- <u>August 5, 2015 (Form 10-Q):</u> "Cross-sell: Our cross-sell strategy is to increase the number of products our customers use by offering them all of the financial products that satisfy their financial needs. Our approach is needs-based as

[57] *Id.* at 7

[58] *Id*.

[59] *See* Senate Tr. at 30.

[60] E. Scott Reckard, *Suit seeks damages for all victims of alleged Wells Fargo customer abuses*, L.A. Times, May 13, 2015, http://www.latimes.com/business/la-fi-wells-fargo-consumer-lawsuit-20150513-story.html.

[61] Wells Fargo & Co., Annual Report (Form 10-K) at 126 (Feb. 25, 2015) (emphasis omitted).

> some customers will benefit from more products, and some may need fewer. We believe there is continued opportunity to earn more business from our customers as we build lifelong relationships with them."[62]

33. In fact, at no time during the Class Period did Defendants disclose or otherwise address the increasing regulatory scrutiny concerning the Company's core business model, nor the fraudulent activities that contradicted the Company's favorable statements about its cross-selling strategy and metrics.

34. U.S. Senator Pat Toomey made this point to Stumpf in September 2016:

> [Senator Toomey:] ***Well, we haven't been able to discover such a disclosure and the SEC clearly requires disclosure of material adverse circumstances. And I don't know how this could not be deemed material.*** I think the market cap lost nine percent over the last couple of weeks [and] that's pretty material.[63]

35. A September 28, 2016 letter from U.S. Senators Jeff Merkley, Elizabeth Warren and Bob Menendez to the SEC further highlighted the fact that Wells Fargo concealed its sales misconduct and related investigations:

> Mr. Stumpf admitted that he became aware of widespread fraud at the bank in 2013, yet neither he nor the company disclosed that information to investors until . . . September 2016. . . . [D]uring quarterly earnings calls, ***Mr. Stumpf personally touted Wells [Fargo's] cross-sell ratio – its measure of the average number of accounts per customer – as well as Wells [Fargo's] success in opening new deposit accounts and credit card accounts. He did so apparently with knowledge that many of these retail accounts were created without customer authorization.***
>
> ***The SEC has previously found securities fraud when an executive makes misleading statements on earnings calls.***[64]

36. That same letter also referenced inaccurate Sarbanes-Oxley Act of 2002 ("SOX") certifications that had been executed by Stumpf and others:

> Mr. Stumpf's testimony under oath before the Senate Banking Committee raises questions about whether he violated the Sarbanes-Oxley Act. According to his testimony before the Banking Committee, ***Mr. Stumpf became aware of the widespread fraud occurring at his bank in 2013, yet Mr. Stumpf and the company's CFO submitted certifications relating to SEC filings after 2013 that did not indicate any knowledge of this massive fraud.***[65]

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[62] Wells Fargo & Co., Quarterly Report (Form 10-Q) at 11 (Aug. 5, 2015).

[63] Senate Tr. at 14.

[64] *See* Letter from U.S. Senators Jeffrey A. Merkley, Elizabeth Warren & Robert Menendez to Mary Jo White, Chair, SEC at 2-3 (Sept. 28, 2016) (hereinafter "Letter to SEC").

[65] *Id.*

37. On October 4, 2016, in a public letter to then-U.S. Attorney General Loretta E. Lynch, 14 U.S. Senators demanded that the U.S. Department of Justice ("DOJ") initiate a criminal investigation to "thoroughly investigate the culpability of senior executives at the bank."[66] The letter denounced Wells Fargo's senior management for failing to alert the market of the widespread fraud and the Company's failure to address known, systemic and illegal sales practices:

> ***Mr. Stumpf testified under oath that he became aware of employees creating fraudulent bank accounts in 2013. Yet for years thereafter, Mr. Stumpf did not disclose that information to investors . . . .***[67]

38. The Company's egregious failure to meet its disclosure obligations was not lost on corporate governance experts. As reported by *The Charlotte Observer* in January 2017:

> "On the basis of what we know, it's hard to argue this wasn't material," said Philip Nichols, professor of legal studies and business ethics at University of Pennsylvania's Wharton School. "I cannot understand why they didn't think that was. It just makes me laugh."
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> * * *
>
> In Wells Fargo's case, Nichols said, it was "pretty clear" the problems with fake accounts at a bank famous for getting multiple products in customers' hands should have been publicly disclosed.[68]

F. Wells Fargo Quietly Retaliated Against Branch-Level Employees Who Reported Problems

39. In addition to Defendants' efforts to keep material information about the illegal sales practices and investigations from investors and the public, Wells Fargo also went to great lengths to silence branch employees who knew about the fraudulent sales practices. The Company retaliated against those employees who tried to report the problems to their managers or compliance staff, in violation of federal whistleblower protection laws and Wells Fargo's own (stated) compliance and ethics policies.

40. Wells Fargo promoted its ethics and anti-retaliation policies as a significant part of its publicly-touted "Vision and Values" culture. The Company's Vision and Values document

[66] *See* Letter from U.S. Senators Mazie K. Hirono, Elizabeth Warren, Tammy Baldwin, *et al.*, to Loretta E. Lynch, U.S. Attorney General at 1 (Oct. 4, 2016).

[67] *Id*. at 2.

[68] Deon Roberts, *Emails show Wells Fargo kept sales probe to itself for at least 6 months*, Charlotte Observer, Jan. 11, 2017, http://www.charlotteobserver.com/news/business/banking/bank-watch-blog/article125973184.html (hereinafter "Roberts, *Kept Sales Probe to Itself*").

emphasized that "compliance and risk management [are] part of our culture, an extension of our code of ethics."[69] That document also "encourage[d] all team members to identify and bring risk forward. We should thank them for doing so."[70] Similarly, Wells Fargo's written Code of Ethics was supposed to provide a safe harbor for employees who reported inappropriate conduct:

> ***We do not engage in or tolerate retaliation of any kind*** against anyone for providing information in good faith about suspected unethical or illegal activities, including possible violations of this Code, violations of laws, rules, or regulations by others, or concerns regarding accounting, internal accounting controls, or auditing matters.[71]

41. Stumpf assured the Senate during a September 20, 2016 hearing that Wells Fargo had "ethics lines, we have a culture in the company if you see something that you don't think is proper, raise your hand, talk to a manager."[72] But these policy statements paid mere lip service to compliance and protections from retaliation. In reality, Wells Fargo's incentive structure encouraged managers to punish retail bank employees who reported wrongdoing.

42. As set forth in detail below at ¶¶203-204, retaliation clearly was tied to Defendants' scheme, and reported instances of retaliation were widespread.[73] Wells Fargo retaliated against branch-level employees with reprimands, termination or the filing of inaccurate or incomplete reports to credentialing regulators. Numerous former Company employees have come forward with detailed accounts of retaliation for reporting unethical and illegal sales tactics. By way of example, between 2011 and 2015, Wells Fargo filed false and misleading reports with the Financial Industry Regulatory Authority ("FINRA"), a non-governmental organization that regulates member brokerage firms on the terminations of employees related to the illegal behavior. These reports, filed on what is known as a "Form U5," did not just conceal key information from those investigating the malfeasance at Wells Fargo. The false and misleading Form U5s made it nearly impossible for fired

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[69] 2012 *Vision & Values* at 19, *supra* n.10.

[70] *Id.*

[71] *Our Code of Ethics & Business Conduct: Living Our Vision & Values* at 7 (Wells Fargo & Co. 2016).

[72] Senate Tr. at 6.

[73] *See* Matt Egan, *Wells Fargo admits to signs of worker retaliation*, CNNMoney, Jan. 24, 2017, http://money.cnn.com/2017/01/23/investing/wells-fargo-retaliation-ethics-line/ (hereinafter "Egan, *Admits to Signs*").

employees, who were trying to do the right thing, to find subsequent equivalent employment in the banking industry.[74] The Company's fraudulent reporting to FINRA likely had a chilling effect on other employees who witnessed inappropriate conduct.

43. Specific examples of wrongful terminations came to light following Wells Fargo's settlement with regulators in September 2016. During the September 20, 2016 Senate hearing, Senator Menendez asked Stumpf whether he read his emails, and Stumpf responded that he did. Then, Senator Menendez read a New Jersey woman's 2011 email to Stumpf, in which she described improper sales tactics she felt were wrong. Senator Menendez asked Stumpf if he had read it. "I don't remember that one," Stumpf replied. "OK, well she was fired. So, so much for the safe haven," Senator Menendez said.[75] Other examples were highlighted in lawsuits and news reports. A lawsuit filed by two former Wells Fargo bankers alleged that the Company retaliated against them for reporting a "co-worker's continued opening of rogue accounts and the number of customers receiving service charges for bank accounts they had never approved."[76] Additionally, a January 24, 2017 *CNNMoney* report included several accounts of employees who were terminated for refusing to open fraudulent accounts, including employees who, in an effort to follow the Company's Vision and Values policy, reported the inappropriate conduct to Wells Fargo's purportedly anonymous ethics hotline.[77] Indeed, as further reported by *CNNMoney*, Wells Fargo actually admitted in a January 2017 town hall meeting to signs of worker retaliation: "Wells Fargo says it has found evidence that at least some of these whistleblower retaliation claims published by CNNMoney and elsewhere may have merit. . . . Asked to clarify if that means there were signs of retaliation, a Wells Fargo spokeswoman told CNNMoney: 'Yes, that is how I would read it.'"[78]

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[74] *See* Letter from U.S. Senators Elizabeth Warren, Ron Wyden & Robert Menendez to Timothy J. Sloan, President & CEO, Wells Fargo & Co. (Nov. 3, 2016).

[75] Senate Tr. at 37.

[76] Howard Yune, *As Wells Fargo scandal unfolds, St. Helena whistleblower recalls ordeal*, Napa Valley Register, Oct. 9, 2016, http://napavalleyregister.com/news/local/as-wells-fargo-scandal-unfolds-st-helena-whistleblowerrecalls-ordeal/article_dfeb4847-8463-53d8-bea3-6ec2446912df.html (hereinafter "Yune, *Scandal Unfolds*").

[77] Egan, *Admits to Signs*, *supra* n.73.

[78] *Id*.

III. PARTIES

44. Lead Plaintiff Union was appointed as such by Court order dated January 5, 2017. Dkt. No. 58. Union's funds purchased Wells Fargo common stock during the Class Period, and were damaged by Defendants' conduct as alleged herein.

45. Plaintiff City of Hialeah Employees' Retirement System ("Hialeah") purchased Wells Fargo common stock during the Class Period, as detailed in its attached Certification, and was damaged by the conduct alleged herein.

46. Plaintiff Gary Hefler ("Hefler") purchased Wells Fargo common stock during the Class Period and was damaged by the conduct alleged herein.

47. Plaintiff Marcelo Mizuki ("Mizuki") purchased Wells Fargo common stock during the Class Period and was damaged by the conduct alleged herein.

48. Plaintiff Guy Solomonov ("Solomonov") purchased Wells Fargo common stock during the Class Period and was damaged by the conduct alleged herein.

49. Plaintiffs Hialeah, Hefler, Mizuki and Solomonov are collectively referred to as the "Named Plaintiffs."

50. Defendant Wells Fargo is a diversified financial services company that provides retail, commercial, and corporate banking services principally in the United States. Wells Fargo is a Delaware corporation with its headquarters located in San Francisco, California. Founded in 1852, Wells Fargo is the world's second largest bank by market capitalization and has $1.9 trillion in assets and $1.2 trillion in deposits.[79] The Company offers banking, insurance, investments, mortgage, and consumer and commercial finance services to over 70 million customers.[80] Wells Fargo operates through three segments: Wholesale Banking, Wealth and Investment Management, and Community Banking.[81] The Community Banking segment offers diversified financial products and services for consumers and small businesses. These products include checking and savings accounts,

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[79] Wells Fargo & Co., Quarterly Report (Form 10-Q) at 3-4 (Nov. 3, 2016).

[80] *Id.* at 3.

[81] *Id.* at 3, 15-16.

credit and debit cards, automobile, student, and small business loans, investments, insurance and trust services, and mortgage and home equity loans.[82]

51. Defendant Stumpf – during the entirety of the Class Period – was Chairman of the Board and CEO of Wells Fargo. Stumpf served as the Company's CEO from 2007 until October 2016, as a director from 2006 to October 2016 and as President from 2005 until November 2015. Stumpf received 2014 and 2015 compensation of $19.3 million and $19.3 million, respectively.

52. Defendant Shrewsberry is, and was during part of the Class Period, the Company's CFO. Shrewsberry received 2014 and 2015 compensation of $8.1 million and $9.05 million, respectively. Shrewsberry served on the Operating Committee, which was led by Stumpf and responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture.

53. Defendant Tolstedt was at all relevant times during the Class Period until her resignation on July 31, 2016, the Company's Senior Executive Vice President of Community Banking. At various times during the Class Period, Tolstedt reported directly to Stumpf and/or Sloan. Tolstedt also served on the Company's Operating Committee, which was led by Stumpf and was responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture. Tolstedt received 2014 and 2015 compensation of $9.5 million and $9.05 million, respectively.

54. Defendant Sloan is Wells Fargo's current CEO. During the Class Period, Sloan was Wells Fargo's CFO, Chief Operating Officer, and Head of the Company's Wholesale Banking. As of October 13, 2016, he serves as the Company's CEO. Sloan also served on the Company's Operating Committee, which was led by Stumpf and was responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture. Sloan received 2014 and 2015 compensation of $17.6 million and $21.4 million, respectively.

55. Defendant Carroll is, and was during the Class Period, the Company's Senior Executive Vice President in charge of the Company's Wealth, Brokerage and Retirement Group. Carroll was also a member of the Company's Operating Committee, which was led by Stumpf and

[82] *Id.* at 15.

responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture.

56. Defendant David Julian ("Julian") is, and was during the Class Period, the Company's Chief Auditor. Julian was also a member of the Company's Operating Committee, which was led by Stumpf and responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture.

57. Defendant Hope A. Hardison ("Hardison") is, and was at all relevant times during the Class Period, the Company's Senior Executive Vice President and Human Resources Director. In September of 2015, Hardison became the Company's Chief Administrative Officer. Hardison was also a member of the Company's Operating Committee, which was led by Stumpf and responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture.

58. Defendant Michael J. Loughlin ("Loughlin") was at all relevant times during the Class Period the Company's Senior Executive Vice President and Chief Risk Officer. As Chief Risk Officer, Loughlin oversaw all of the Company's risk taking activities, and was required by the Company's corporate governance policies to participate in executive sessions with the Board's Risk Committee.[83] Loughlin was also a member of the Company's Operating Committee, which was led by Stumpf and responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture.

59. Defendant Avid Modjtabai ("Modjtabai") was at all relevant times during the Class Period Head of Consumer Lending. Modjtabai was also a member of the Company's Operating Committee, which was led by Stumpf and responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture.

60. Defendant James Strother ("Strother") is, and was during the Class Period, the Company's General Counsel. Strother was also a member of the Company's Operating Committee, which was led by Stumpf and responsible for setting the tone at the top of the Company and establishing and reinforcing the Company's risk management culture.

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[83] The Risk Committee is discussed below at ¶82(a).

61. The Defendants identified in ¶¶51-60 are herein referred to as the "Officer Defendants."

62. Defendant John D. Baker II ("Baker") is, and was at all relevant times during the Class Period, a Wells Fargo director and member of the Company's Audit and Examination Committee ("Audit Committee"), as well as the Corporate Responsibility Committee ("CRC") and Credit Committee. Defendant Baker joined the Board in 2009.

63. Defendant John S. Chen ("Chen") is, and was at all relevant times during the Class Period, a Wells Fargo director and member of the Company's Human Resources Committee ("HRC"). Defendant Chen joined the Board in 2006.

64. Defendant Lloyd H. Dean ("Dean") is, and was at all relevant times during the Class Period, a Wells Fargo director, member of the Company's CRC, Governance and Nominating Committee ("GNC") and Risk Committee, as well as the Chair of the HRC. Defendant Dean joined the Board in 2005.

65. Defendant Elizabeth A. Duke ("Duke") is, and has been since January 1, 2015, a Wells Fargo director and member of the Company's Credit and Risk Committees. On January 26, 2016, Duke became a member of the Company's Finance Committee.

66. Defendant Susan E. Engel ("Engel") is, and was at all relevant times during the Class Period, a Wells Fargo director and member of the Company's Credit, Finance, and HR Committees. Defendant Engel, who joined the Board in 1998, informed the Company on February 28, 2017, that she would not seek reelection and would retire from the Board on April 25, 2017.

67. Defendant Enrique Hernandez, Jr. ("Hernandez") is, and was at all relevant times during the Class Period, a Wells Fargo director, member of the Company's CRC and Chair of the Finance and Risk Committees. Hernandez joined the Board in 2003 and was, during the period from 2014 to March 1, 2016, a member of the Company's Audit Committee.

68. Defendant Donald M. James ("James") is, and was at all relevant times during the Class Period, a Wells Fargo director and member of the Company's Finance and HR Committees. Defendant James joined the Board in 2009.

69. Defendant Cynthia H. Milligan ("Milligan") is, and was at all relevant times during the Class Period, a Wells Fargo director, member of the Company's CRC, GNC and Risk

Committee, as well as the Chair of the Credit Committee. Defendant Milligan joined the Board in 1992.

70. Defendant Federico F. Peña ("Peña") is, and was at all relevant times during the Class Period, a Wells Fargo director and member of the Company's Audit Committee and GNC. On March 1, 2016, Peña also succeeded Judith M. Runstad as the Chair of the CRC and a member of the Risk Committee. Defendant Peña joined the Board in 2011.

71. Defendant James H. Quigley ("Quigley") is, and was at all relevant times during the Class Period, a Wells Fargo director, member of the Company's Credit and Risk Committees and the Chair of the Audit Committee. Defendant Quigley joined the Board in 2013.

72. Defendant Judith M. Runstad ("Runstad") is, and was at all relevant times during the Class Period, a Wells Fargo director, and from 2014 to March 1, 2016, a member of the Credit, Finance and Risk Committees, and Chair of the CRC. Defendant Runstad joined the Board in 1998.

73. Defendant Stephen W. Sanger ("Sanger") is, and was at all relevant times during the Class Period, a Wells Fargo director, Lead Director of the Board of Directors, member of the HRC and Risk Committee, as well as the Chair of the GNC. Defendant Sanger joined the Board in 2003.

74. Defendant Susan G. Swenson ("Swenson") is, and was at all relevant times during the Class Period, a Wells Fargo director and member of the Company's Audit Committee and GNC. Defendant Swenson joined the Board in 1998.

75. Defendant Suzanne M. Vautrinot ("Vautrinot") is, and has been since February 24, 2015, a Wells Fargo director and member of the Company's Audit Committee. On February 23, 2016, Vautrinot became a member of the Company's Credit Committee.

76. The defendants named in ¶¶62-75 and Stumpf are sometimes referred to herein as a group as the "Director Defendants."

77. All Defendants named herein are collectively referred to as "Defendants."

IV. CONTROL PERSONS

78. As officers, directors and controlling persons of a publicly held company whose common stock was and is traded on the New York Stock Exchange ("NYSE") and is governed by the provisions of the federal securities laws, the Officer and Director Defendants each had a duty to promptly disseminate accurate and truthful information with respect to the Company's financial

condition, performance, growth, operations, financial statements, business, markets, management, earnings, and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of the Company's common stock would be based upon truthful and accurate information. The Officer and Director Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

79. The Officer and Director Defendants participated in the drafting, preparation and/or approval of the various SEC filings, shareholder and investor reports and other publicly disseminated communications complained of herein and knew of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and executive and managerial positions with Wells Fargo, each of the Officer and Director Defendants had access to the adverse undisclosed information about the Company's financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Wells Fargo and its business or adopted by the Company materially false and misleading.

80. The Officer and Director Defendants, because of their positions of control and authority as officers and/or directors were able to and did control the content of the various SEC filings, news releases and other public statements pertaining to the Company during the Class Period. Each of the Officer and Director Defendants was provided with copies of documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Officer and Director Defendants is responsible for the accuracy of the public reports and news releases detailed herein and is therefore liable for the representations contained therein.

81. The Company, the Officer Defendants and the Director Defendants are liable as participants in a fraudulent scheme and course of business that operated as a fraud on purchasers of Wells Fargo's common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding Wells Fargo's business, operations, management, and the intrinsic value of Wells Fargo's common stock;

and (ii) caused Lead Plaintiff's funds, Named Plaintiffs and other members of the Class to purchase Wells Fargo's common stock at artificially inflated prices.

82. The Director Defendants, in particular, due to their membership on Board committee(s) whose charge was to oversee the implementation of controls over risk, compensation, human resources and governance, had the power and ability to control the Company's conduct, reputation and disclosures by virtue of the charters governing each committee. For example, during the Class Period, the Company's Board maintained seven separate standing committees, including the Risk Committee that oversaw the Company's three main reportable segments – Community Banking, Wholesale Banking and Wealth and Investment Management – while also overseeing the Company's communications to investors about those businesses. The Risk Committee oversaw the six other standing committees of the Board – Audit Committee, HRC, CRC, GNC, Finance Committee and Credit Committee. The powers and responsibilities of each committee are set forth below:

(a) Risk Committee. The Risk Committee's primary responsibility is to oversee every other Board committee. The Risk Committee oversaw the Company's risk-management framework, and its members included the Chairs of every other Board committee. The Risk Committee's charter required the committee to meet at least quarterly, and to meet in separate executive sessions with the Company's Chief Risk Officer Loughlin (and other members of management as it determines appropriate).[84] In addition to its governance obligations, the Risk Committee also oversaw Loughlin's performance in his role as the Company's Chief Risk Officer. The Risk Committee charter also required each of the members of the Board's other committees to bring to the attention of his or her committee Chair, or the Chief Risk Officer, any risk issues that such committee member believed should be discussed by the committee.

(b) Audit and Examination Committee. During the Class Period, the Board also maintained the Audit Committee. The Audit Committee – according to its charter – oversaw, among other things, the integrity of the Company's financial statements and the adequacy and reliability of disclosures to stockholders, including management activities related to accounting and financial

[84] The Risk Committee met six times in 2014, six times in 2015 (according to the Company's proxy statements) and at least four times in 2016 (per the committee's charter).

reporting and internal controls. These obligations included, among other things: (i) reviewing and discussing, prior to filing, the Company's quarterly unaudited and annual audited financial statements, including the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations; (ii) reviewing the Company's earnings news releases, prior to release; (iii) reviewing disclosures to the Audit Committee by the CEO and CFO regarding any significant deficiencies or material weaknesses in the design or operation of internal controls; and (iv) monitoring the Company's progress towards correcting, and resolving any matters that could materially jeopardize the Company's financial condition, such as unacceptable control conditions and deviations from policy.[85]

(c) Corporate Responsibility Committee. The CRC, by its formal charter, reviewed, approved and recommended to the Risk Committee for its approval, the Company's reputation risk management framework. In addition, the CRC monitored the Company's reputation generally, including with customers, and "review[ed] and receive[ed] updates and reports from management" regarding, among other things, "customer service matters and other metrics relating to the Company's brand and reputation," and "the Company's complaints management policies and processes, including complaints relating to customers."[86]

(d) Human Resources Committee. The HRC was responsible for the Company's overall compensation strategy, including incentive compensation practices, which did not encourage excessive risk taking. The HRC was also responsible for overseeing the implementation of risk management methodologies for incentive compensation plans and programs for senior executives and other top officials. In making the 2014 annual incentive compensation award determinations for Carroll, Sloan, Modjtabai, and Tolstedt, the HRC considered, among other things, success in furthering the Company's objectives of cross-selling products from other business lines to customers.[87]

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[85] The Audit Committee met ten times in 2014, 14 times in 2015 (according to the Company's proxy statements) and at least nine times in 2016 (per the committee's charter).

[86] The CRC met three times in 2014, three times in 2015 (according to the Company's proxy statements) and at least another three times in 2016 (per the committee's charter).

[87] The HRC met five times in 2014, another five times in 2015 (according to the Company's proxy statements) and at least three times in 2016 (per the committee's charter).

(e) Governance and Nominating Committee. The GNC was responsible for ensuring the adequacy of the Company's corporate governance and oversaw the Company's engagement with stockholders and other interested parties concerning governance matters, according to the Company's proxy statements.[88] The GNC's Chair, Sanger, sat on the Risk Committee throughout the Class Period and the Risk Committee's charter obligated Sanger to communicate with the GNC.

(f) Finance Committee and Credit Committee. The last two standing committees of the Board during the Class Period were the Finance Committee and the Credit Committee, which oversaw the financial risk management policies and processes used to assess and manage market risk, interest rate risk, and other credit-related activities, including the credit stress testing, respectively. Hernandez served as the Chair of the Finance Committee throughout the Class Period while he also served as the Chair of the Risk Committee.[89] Milligan served as the Chair of the Credit Committee during the Class Period.[90]

83. Board members on the above listed committees had knowledge of the unlawful sales practices as early as 2011, and knew that such activity had reached a "significant scale" by 2013. They received additional reports on sales misconduct through 2015. According to a letter, dated January 5, 2017, that the Company sent to nine U.S. Senators over the signature of Defendant Sanger, in 2015, Tolstedt addressed sales integrity issues with the full Board:

> [U.S. Senator's Question:] To the extent applicable, please provide the date on which Wells Fargo's auditors raised the unacceptable sales practices (or a related issue) with a Board member.
>
> [Wells Fargo Response:] ***In October 2015, Carrie Tolstedt addressed the Board of Directors on sales practices***. In November a member of the KPMG audit engagement team made inquiry of the Chair of the Audit & Examinations Committee regarding that meeting. External auditors also attended Audit & Examinations

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[88] The GNC met three times in 2014, four times in 2015 (according to the Company's proxy statements) and at least three times in 2016 (per the committee's charter, updated on November 29, 2016).

[89] The Finance Committee met three times in 2014, four times in 2015 (according to the Company's proxy statements) and at least another four times in 2016 (as required under the committee's charter, updated on November 23, 2016).

[90] Similarly, the Credit Committee met four times in 2014, eight times in 2015 (per the Company's proxy statements) and at least four times in 2016 (per the committee's charter).

Committee meetings where sales integrity issues were referenced in Committee materials.

84. The following chart shows the members of the Board during the Class Period:

Chairman of the Board – CEO John Stumpf

	Risk	Audit and Examination	Corporate Responsibility (CRC)	Human Resources (HRC)	Governance and Nominating (GNC)	Finance	Credit
Hernandez	Chair	X[91]	X			Chair	
Quigley	X						X
Dean	X		X	Chair	X		
Runstad	X		Chair[92]			X[93]	X
Sanger	X			X	Chair		
Milligan	X		X		X		Chair
Peña	X[94]	X	Chair		X		
Duke	X[95]					X	X[96]
Baker		X	X				X
Swenson		X			X		
Vautrinot		X[97]					X[98]
Engel				X		X	X
Chen				X			
James				X		X	

85. The Operating Committee. While Stumpf was both the CEO of the Company and Chairman of the Company's Board of Directors, he also led the Company's Operating Committee, which was comprised during the Class Period of defendants Stumpf, Sloan, Tolstedt, Shrewsberry, Carroll, Loughlin, Modjtabai, Julian, Hardison and Strother. The Operating Committee met every Monday and reportedly managed all of the Company's business lines, including the Company's Community Banking business, which Tolstedt led during the Class Period. The Operating Committee was responsible for, among other things, setting the tone at the top with regard to the

[91] Hernandez sat on the Audit Committee from 2014 to 2015.

[92] Runstad sat on CRC from 2014 until March 1, 2016, when Peña took over that role.

[93] Runstad sat on the Finance Committee from 2014 to 2015.

[94] Peña sat on the Risk Committee starting in 2016.

[95] Duke sat on the Risk Committee starting in 2015.

[96] Duke sat on the Credit Committee starting in 2016.

[97] Vautrinot sat on the Audit Committee starting in 2015.

[98] Vautrinot sat on the Credit Committee starting in 2016.

Company's risk management culture, promoting proactive risk management, and ongoing risk training.

V. JURISDICTION AND VENUE

86. Jurisdiction is conferred by 28 U.S.C. §1331 and §27 of the 1934 Act. The claims asserted herein arise under §§10(b), 20(a) and 20A of the 1934 Act (15 U.S.C. §§78j(b), 78t(a) and 78t-1) and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

87. Venue is proper in this District pursuant to 28 U.S.C. §1391(b), because Wells Fargo is headquartered in this District and many of the acts and practices complained of herein occurred in substantial part in this District.

VI. FRAUDULENT SCHEME AND FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

88. <u>False and Misleading Statement.</u> On February 26, 2014, the Company filed with the SEC its Form 10-K for the fiscal year ended December 31, 2013.[99] On the same day, the Company published its 2013 Annual Report, which emphasized that Wells Fargo had generated record earnings because the Company had continued to focus on meeting its customers' financial needs, and in so doing had achieved record cross-sell across the Company. The 2013 Annual Report also suggested that that strategy could lead to growth even during a weak economy:

> Our vision is to satisfy all our customers' financial needs . . . . ***Our primary strategy to achieve this vision is to increase the number of our products our customers utilize and to offer them all of the financial products that fulfill their needs. Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles . . . .***
>
> **Financial Performance**
>
> * * *
>
> ***[W]e continued to focus on meeting our customers' financial needs and achieved record cross-sell across the Company . . . .***

89. <u>False and Misleading Statement.</u> In addition to addressing the Company's 2013 financial performance, the Form 10-K and 2013 Annual Report specifically discussed the impact of Wells Fargo's cross-selling efforts in each of its key business segments and stated that its cross-sell efforts were a very important part of the Company's overall business strategy:

[99] The February 26, 2014 Form 10-K was signed by Stumpf, Sloan, Richard Levy ("Levy"), Baker, Dean, Engel, Hernandez, James, Milligan, Peña, Quigley, Runstad, Sanger and Swenson.

> **<u>Community Banking</u>** offers a complete line of diversified financial products and services for consumers and small businesses. . . . ***Cross-sell of our products is an important part of our strategy to achieve our vision to satisfy all our customers' financial needs. Our retail bank household cross-sell was a record 6.16 products per household in November 2013, up from 6.05 in November 2012 and 5.93 in November 2011.***
>
> * * *
>
> **<u>Wholesale Banking</u> . . .** ***Wholesale Banking cross-sell was a record 7.1 products per customer in September 2013, up from 6.8 in September 2012 and 6.5 in September 2011.***
>
> * * *
>
> **<u>Wealth, Brokerage and Retirement</u> . . .** ***Wealth, Brokerage and Retirement cross-sell reached a record 10.42 products per household in November 2013, up from 10.27 in November 2012 and 10.05 in November 2011.***

90. <u>False and Misleading Statement.</u> The February 26, 2014 Form 10-K and 2013 Annual Report further identified the Company's cross-selling efforts as key to its revenue and earnings growth and purported to warn investors that if these efforts were unsuccessful, the Company's financial results could suffer:

> ***Our "cross-selling" efforts to increase the number of products our customers buy from us . . . is a key part of our growth strategy, and our failure to execute this strategy effectively could have a material adverse effect on our revenue growth and financial results. Selling more products to our customers – "cross-selling" – is very important to our business model and key to our ability to grow revenue and earnings . . . .***

91. <u>Material Omission.</u> Wells Fargo failed to disclose in the "Legal Actions" section of the Form 10-K (or anywhere else for that matter) that by this time the OCC already was "notified" and "active[ly]" investigating potential unsafe or unsound practices in risk management and oversight of the Company's sales practices. Senate Tr. at 30. Wells Fargo also failed to disclose in its Form 10-K that high level executives, including Stumpf, were aware of sales practice issues of a "significant scale" at this time. ¶¶108(c), 152(c), 176(c); Senate Tr. at 24.

92. Finally, the Form 10-K attached the false and misleading certifications of defendants Stumpf and Sloan executed pursuant to §302 of SOX, and covered also by §§304 and 906, which certified that Stumpf and Sloan had designed and evaluated internal and disclosure controls over financial reporting, and falsely assured the reliability of financial reporting and that the 2013 financial statements fairly and accurately presented the financial condition of the Company:

> I, . . . certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2013, of Wells Fargo & Company;

2. Based on my knowledge, ***this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, . . . not misleading*** . . . ;

3. ***Based on my knowledge, the financial statements, and other financial information*** included in this report***, fairly present in all material respects the financial condition***, results of operations and cash flows of the registrant . . . ;

4. ***The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures*** (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) ***and internal control over financial reporting*** (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> (a) Designed such disclosure controls and procedures . . . to ensure that material information relating to the registrant . . . is made known to us . . . ;
>
> (b) Designed such internal control over financial reporting . . . to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements . . .;
>
> (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures . . . ; and
>
> (d) ***Disclosed in this report any change in the registrant's internal control over financial reporting*** that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. ***The registrant's other certifying officer(s) and I have disclosed*****,** based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

> (a) ***All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting*** which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
>
> (b) ***Any fraud, whether or not material, that involves management or other employees*** who have a significant role in the registrant's internal control over financial reporting.[100]

* * *

[100] In connection with each subsequent quarterly and annual reports Wells Fargo filed with the SEC in the Class Period, defendants Stumpf, Sloan and/or Shrewsberry executed false SOX certifications, in substantially identical forms as those attached to the February 26, 2014 Form 10-K. *See* ¶¶102, 114, 119, 128, 135, 143, 147, 154, 161, 175.

> [And, under SOX §906, that the] Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
>
> The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

93. On February 27, 2014, Barclays published an analyst report about the Company's 2013 Form 10-K. That report provided market participants with Barclays' favorable rating of Wells Fargo stock while citing "cross-selling" as one of the factors that made Wells Fargo a good investment:

> ***We expect its cross-selling traction to continue as it drives further revenue*** and expense synergies from its WB acquisition.
>
> * * *
>
> **Cross-sell metrics**: its retail household cross-sell metric stood at 6.16, up from 6.15 at 3Q13. Meanwhile, its commercial cross-sell metric was 7.1 as of 4Q13, up from 7.0 in 3Q13.

94. False and Misleading Statement. Wells Fargo's Vision and Values statement in effect in 2014 and 2015, repeatedly referenced in the Company's public filings during the Class Period, included the following false and misleading statements:

- "***What's right for customers*** . . . Our customers – external and internal – are our friends. ***We advocate for their best interests***."[101]
- "The reason we wake up in the morning is to help our customers succeed financially and to satisfy all their financial needs. The result is ***we make money because of our focus on serving customers, not the other way around***. This time-tested vision will forever be what matters to Wells Fargo. ***We'll never put the stagecoach ahead of the horses***."[102]
- "***Reputation. We will not engage in activities or business practices that could cause permanent or irreparable damage to our reputation***."[103]

95. On March 18, 2014, the Company filed its Form 14(A) DEF Proxy Statement ("2014 Proxy Statement") with the SEC. The 2014 Proxy Statement included some of the annual reports, including Audit and Compensation, of the Board's committees and also emphasized that the Company's risk management culture was rooted in the vision and value of meeting customers' needs.

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[101] 2012 *Vision & Values* at 9, *supra* n.10.

[102] *Id*. at 5 (some emphasis in original).

[103] *Id*. at 19.

In addition, the report identified the responsibilities of the Board committees, explained that executive incentive compensation for Carroll, David Hoyt (former Senior Executive President of Wholesale Banking), Modjtabai and Tolstedt was in part measured by cross-sell success and referenced Stumpf, the Board and the Operating Committee as ***the*** individuals responsible for setting the "tone at the top" of the organization with regard to risk management and the Company's "culture":

> Key elements of our risk management framework and culture include understanding and following our overall enterprise statement of risk appetite, which describes the nature and level of risks that we are willing to take to achieve our strategic and business objectives, and the "tone at the top" set by our Board, CEO and Operating Committee members, which consists of our Chief Risk Officer and other senior executives.
>
> * * *
>
> In making the 2013 annual incentive compensation award determinations for Messrs. Carroll and Hoyt, and Mses. Modjtabai and Tolstedt, the HRC considered, among other things, the following:
>
> * * *
>
> - . . . success in furthering the Company's ***objectives of cross-selling products from other business lines to customers, continuing to strengthen risk management practices in our businesses*** . . . .

96. False and Misleading Statement. On April 11, 2014, the Company issued a release announcing its first quarter of 2014 financial results. The release detailed Wells Fargo's cross-selling growth and metrics across its reporting lines, stating:

> **WELLS FARGO REPORTS RECORD QUARTERLY NET INCOME**
> **Q1 Net Income of $5.9 Billion, Up 14 Percent YoY; EPS of $1.05**
>
> - Continued strong financial results:
>   - Net income of $5.9 billion, up 14 percent from first quarter 2013
>   - Diluted earnings per share (EPS) of $1.05, up 14 percent
>   - Revenue of $20.6 billion, compared with $21.3 billion
>
> * * *
>
> ***Regional Banking***
>
> - Retail banking
>   - Retail Bank household cross-sell ratio of 6.17 products per household, up from 6.10 year-over-year
>   - Primary consumer checking customers up a net 5.1 percent year-over-year

* * *

Wholesale Banking . . . .

* * *

- Cross-sell of 7.2 products per relationship up from 7.1 in prior quarter and 6.8 in first quarter 2013

* * *

Wealth, Brokerage and Retirement . . . .

* * *

> ***WBR cross-sell*** ratio of 10.42 products per household, up from 10.33 in first quarter 2013.

97. False and Misleading Statement. On April 11, 2014, the Company held a conference call for analysts and investors concerning its first quarter 2014 financial results. Defendants Stumpf and Sloan hosted the call. During the call, Defendants touted Wells Fargo's record cross-sell growth that served as a fundamental driver of the Company's business, ultimately resulting in growth in income and earnings per share ("EPS"):

> [Sloan:] ***[W]e had strong year over year growth in the fundamental drivers of our business: in commercial and consumer loans, deposits, cross-sell***, . . . which resulted in growth in net income, capital, and earnings per share, and produced higher returns on assets and equity.

98. Following the Company's first quarter 2014 earnings release, Wells Fargo's stock traded at over $48.00 per share and securities analysts praised the Company's operational performance and continued emphasis on management's cross-selling strategy. For example, on April 14, 2014, RBC Capital Markets ("RBC") analysts wrote a report that pointed to factors that the analysts believed would offer growth opportunities. The RBC report – which included an "Outperform" rating – noted the expectation that the Company would deliver above-average growth primarily through market share gains and ***increased cross-selling*** of both its legacy Wells Fargo and newer Wachovia customers.[104]

99. On April 25, 2014, BMO Capital upgraded the Company's stock. BMO Capital addressed the Company's cross-selling strategic advantage, particularly the strength of cross-sell through its branches and overall sales culture:

[104] Joe Morford, *1Q14: The Streak Continues* at 2 (RBC Capital Markets Apr. 14, 2014).

- Despite its dominant size, Wells Fargo increased its US deposit market share from 10.7% in 2012 to 11.1% in 2013 by leveraging its branch network, its cross-sell focused sales culture and status as a flight-to-quality bank.[105]

100. The Company's stock price reached $50.01 on May 2, 2014.

101. False and Misleading Statement. On May 7, 2014, the Company filed its Form 10-Q for the period ending March 30, 2014.[106] The Form 10-Q reiterated the Company's first quarter 2014 financial results as set forth in the April 11, 2014 news release, and falsely stated that the Company's business strategy and "Vision and Values" – including its cross-sell strategy – was designed to increase the number of products customers ***utilize and need***. The Company again added that its cross-sell strategy would drive growth even during a weak economy:

> ***We use our Vision and Values to guide us toward growth and success. Our vision is to satisfy all our customers' financial needs . . . . Important to our strategy to achieve this vision is to increase the number of our products our customers utilize and to offer them all of the financial products that fulfill their needs. Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles.***
>
> * * *
>
> ***We had strong year-over-year growth or improvement in the fundamental drivers of our business: commercial and consumer loans, deposits, cross-sell,*** credit, and expense management, which resulted in growth in net income, EPS and capital.
>
> * * *
>
> We grew our primary consumer checking customers by a net 5.1% from a year ago (February 2014 compared with February 2013). ***We have steadily increased the growth rate of this higher cross-sell, more profitable customer base*** over the past four quarters through product enhancements and consistent focus.

102. The Form 10-Q contained SOX certifications, signed by Stumpf and Sloan, that were substantially identical to the certifications set forth in ¶92.

Wells Fargo Investor Day Boasted of the Virtues of the Company's Cross-Sell Strategy and the Revenues to Be Driven by Its Methods

103. On May 20, 2014, the Company held its Investor Day conference for analysts and investors. During the conference, the Company – through specific representations by Stumpf,

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[105] Peter J. Winter, *Deserves a Higher Premium, Upgrading to Outperform and Raising PT to $55* at 1 (BMO Capital Markets Apr. 25, 2014).

[106] The May 7, 2014 Form 10-Q was signed by the Company's Controller Levy.

Tolstedt, Carroll and Modjtabai – emphasized its commitment to cross-selling and the positive financial results Wells Fargo had achieved due to the effectiveness of its cross-selling strategy. In fact, Stumpf indicated that more deposits and more credit cards were important to the Company's revenue growth. Shrewsberry characterized Wells Fargo's cross-selling performance capability as "legendary":

> [Stumpf:] We have the broadest coast-to-coast banking franchise, and in serving these customers, we want to help them succeed financially. . . .
>
> . . . But if I had to pick just one number, one area I would focus most on, I could only pick one, it would be revenue. Because when you are growing revenue, you are growing the business.
>
> * * *
>
> ***And what is revenue? It is deposits and loans and more credit cards, deeper cross-sell, longer relationships, more assets under management.***
>
> * * *
>
> [Shrewsberry:] ***Our relationship focus and cross-sell capability is hopefully legendary at this point. It has been our vision for decades. We've stuck to it.***[107]

104. False and Misleading Statement. In addition, during the Investor Day conference, defendant Tolstedt, as head of Community Banking, discussed the financial performance of that segment and the growth resulting from its cross-selling efforts, emphasizing that Wells Fargo's cross-selling of products to its existing customers was helping those customers succeed financially and meet all of their needs. Notably, Tolstedt highlighted that credit card sales grew by 30% and that cross-sell was helping drive revenue:

> [Tolstedt:] We've also earned more business from our existing customers over the last two years. For example, ***we saw outstanding growth in our credit card business with retail bank credit card penetration up 30% . . . .***
>
> * * *
>
> Ensuring the right physical distribution density, format mix, and site quality so that we can grow households faster than the market, complemented by our very strong virtual distribution. ***Second, the cross-sell model. This ties directly to our vision of helping our customers succeed financially and meeting all of their needs. Together, the density and cross-sell model[s] drive revenue.***[108]

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[107] 2014 Investor Day Tr. at 3, 7, *supra* n.24.

[108] *Id*. at 11-12.

105. False and Misleading Statement. During the same conference, Tolstedt and Mike Johnson ("Johnson") (EVP of Commercial) each made material misrepresentations concerning the Company's cross-sell strategy and that the Company's growth in cross-sell numbers, which it had promised investors in years prior, was remarkable because cross-sell growth was achieved in the midst of slow customer demand.

106. False and Misleading Statement. Gary Wolfe ("Wolfe") and Johnson addressed how customer trust was driving the cross-sell business model with Wolfe specifically referencing the strength of the Company's credit card business growth. Wolfe credited Tolstedt's group in the Community Banking for the increased credit card numbers:

> [Wolfe:] ***Carrie Tolstedt's business model is our salesforce for our consumer credit products for our existing customers, and they do a great job in selling and cross-selling our products. When Carrie refers to a 30% growth in credit card penetration, it's because her sales team accomplished that goal.***
>
> * * *
>
> ***85% or 83% [of our credit cards] come from the store channel today as a cross-sell through Carrie Tolstedt's world***.[109]

107. Further, in addressing cross-sell, Johnson described the depth of the Company's customer relationships with its customer base, and stated unequivocally that Wells Fargo's customers viewed the Company as "trusted advisors":

> [Johnson:] [A]bout two-thirds of our revenue comes from noninterest income. That is also very broad-based. I think that speaks to the fact that we are, again, back to the longevity of the relationships we have with our customers, ***as well as the success we are having with cross-sell.***
>
> * * *
>
> But I think the most important part is this demonstrates that ***our clients are viewing us as a trusted advisor, and that only comes about through deep relationships. Those deep relationships result in cross-sell opportunities***.[110]

108. Between May 20-23 of 2014, investment analysts praised the Company's statements during the Investor Day conference and its assurances regarding the value of cross-selling. The reports emphasized the Company's strong risk management and due diligence:

Deutsche Bank:

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109 *Id*. at 31.

110 *Id*. at 61-62.

The overall message hasn't changed in terms of mgmt remaining focused on driving good risk adjusted growth, mostly by further penetrating its current customer base – or as mgmt calls it, "cross sell."

Jefferies:

We continue to like WFC due to its defense nature (sound risk mgmt., revenue diversity, and ability to improve efficiency)

* * *

Plenty of runway for growth. WFC has ample growth opportunities across its businesses. **Examples include increasing debit/credit card penetration helped** by new card offerings . . . .

UBS:

Management is focused on growth and execution of cross-selling strategy

WFC's investor day highlighted a growth strategy – the presentations mention growth 116 times versus 39 mentions of costs. ***The strategy for growth is unchanged and focuses on cross-selling across all products and client segments with particular attention paid to cards . . . .***

Guggenheim:

The reasons we believe WFC has not been forced to overhaul its risk management system and spend meaningfully more expense dollars is that ***its track record has displayed the effectiveness of the current system***, WFC insists that every team member take responsibility for risk management, encourages and expects early problem identification, and has a system of constant monitoring with thorough due diligence.

109. Reasons Why Defendants' Statements in ¶¶88-108 Were Knowingly False and Misleading: Defendants' statements set forth in ¶¶88-108 concerning: (i) reported financial statements and cross-sell metrics; (ii) the Company's overall cross-selling strategy and that the purported purpose of such strategy was to provide customers with products they needed; (iii) risk management and effectiveness of internal controls over financial reporting; and (iv) the Company's "culture" and related business practices, as set forth in its Vision and Values, were each knowingly false and misleading for the following reasons:

(a) Defendants knew or deliberately disregarded that during the period leading up to and including the Class Period, Wells Fargo's cross-selling sales and incentive practices led to widespread, serious misconduct, including the opening of millions of fake credit card or deposit accounts in the names of customers who did not authorize the account openings; employees were creating fake personal identification or PIN numbers to open fake debit cards, using phony email addresses to enroll customers in additional services that customers did not request via forgery or other illegal means – all culminating in "fraudulent conduct [that] occurred on a massive scale," as the government found (¶¶4-5, 177-78, 191).

(b) Defendants knew or deliberately disregarded that Wells Fargo materially and artificially inflated the cross-sell metrics that it reported to investors by including millions of accounts in those metrics that Wells Fargo either fabricated completely, or created by engaging in serious, pervasive sales misconduct. Reportedly, to inflate cross-selling metrics, Wells Fargo's senior management turned an otherwise conservative and stable retail banking business into a sales "pressure cooker" via sales incentives and penalties. These sales incentives and penalties took the form of financial bonuses when employees hit sales targets, and termination threats (followed by terminations) when they did not. Senior management's pressure cooker sales incentives and penalties, in turn, gave thousands of employees powerful incentives to engage in a wide array of unethical, unlawful and fraudulent sales practices to inflate the cross-selling metrics that Wells Fargo reported to investors, and that contradicted the meaning and purpose of Wells Fargo's "cross-selling" business model altogether. The scope of the fraud was far-reaching and supports the inference that Defendants knew or recklessly disregarded the falsity of their cross-selling statements made in 2014. That malfeasance included:

- using made-up email addresses to open fake accounts, sometimes referred to as "ghost accounts"
- opening deposit and checking bank accounts without client authorization or knowledge, including forgoing customer signatures on application cards.
- using fake contact and customer information to open accounts without authorization so customers would not discover the fake accounts;
- applying for and opening credit card accounts without customer authorization or knowledge, including submitting phony and forged credit applications to the credit bureaus;
- transferring funds from one account to another without the customer's authorization, to make it appear as though an unauthorized account had in fact been legitimately funded with permission (Wells Fargo sometimes referred to this aspect of its misconduct as "simulating" accounts);
- using customer's electronic signature from one account, to open different accounts without customer's authorization;
- engaging in sham calls, *i.e.*, friends would impersonate customers and then provide phony "authorizations" to open fake accounts for real customers;

- opening custodian checking accounts for customers' children without authorization; and
- stealing from customers.

(i) Defendants also knew or deliberately disregarded facts demonstrating that the improper methods that Wells Fargo employed to execute "cross-selling" contradicted the stated meaning of "cross-selling," which Wells Fargo told investors simply referred to "[s]elling more products to more customers."[111] These improper methods further belied the Company's statements that it designed its culture and strategy of cross-selling to meet its customers "needs," or to drive customer satisfaction. Instead, Wells Fargo implemented cross-selling as a performance management system that incentivized and rewarded employees to push products on customers that customers did not want or need and without customers' consent, through forgery or other improper means. Wells Fargo's high-pressure tactics and incentives led employees to open millions of deposit and credit card accounts in the names of customers without the customers' knowledge or authorization, and ultimately generated unearned fee income and illusory growth in the form of false "cross-selling" financial metrics. Moreover, certain Defendants' annual incentive compensation depended, in part, on these very cross-selling metrics, and they were indeed rewarded handsomely for hitting the cross-selling targets. ¶¶19-21.

(ii) Defendants also knew or deliberately disregarded the fact that Wells Fargo assigned unreasonable sales objectives to management-level employees in Wells Fargo's Retail Banking business who, in turn, put enormous pressure on lower-level sales employees to meet and obtain often unobtainable quotas, or face termination. The investigation conducted in connection with the preparation of this Complaint uncovered reports that management's pressure to meet sales goals was "soul-crushing," and that this pressure came from the Company's top leadership while filtering down to branch employees. For example, some district managers reportedly had quotas of up to 200 "solutions" per day. (A "solution" consisted of a new product – like a credit card, or new service – like another checking account.) Branch managers had quotas as well, and if those quotas were not met, they faced discipline and termination. Moreover, in some branches, bankers reportedly were required to generate certain numbers of business accounts and mortgage referrals per day.

[111] *See, e.g.*, Wells Fargo & Co., Annual Report (Form 10-K) at 129 (Feb. 26, 2014).

Some sales personnel (who called customers to offer credit card applications) were reportedly required to make 200 calls per day and complete more than 20 applications per month to obtain a bonus, or, faced a "discussion" with their manager, write-up or termination. Finally, Wells Fargo's management reportedly increased the pressure to generate cross-selling numbers during the month of January, when managers would increase sales employees' sales targets, sometimes doubling or even tripling the targets.

(iii) To implement cross-selling, area presidents reportedly exerted extreme pressure on district managers, requiring the district managers to call their branches three and four times per day to communicate the consequences of not meeting sales goals. Branch managers tracked cross-selling activities, sometimes on an hourly basis, often patrolling personal bankers' desk areas to inquire how many accounts had been opened, requiring them to work late at night ("call nights") and on weekends (reportedly without pay),[112] and writing them up or terminating them if quotas were not met. Wells Fargo further tracked cross-selling statistics regularly and graded each branch's cross-selling numbers.

(iv) In addition to designing sales policies and practices that encouraged and rewarded unlawful behavior and fomented an unethical "culture," the Company and its senior executives (including the Officer Defendants) knew or deliberately disregarded facts showing Wells Fargo's "risk management practices" actually perpetuated the very "risk" that had materialized in the form of widespread, serious sales misconduct. Wells Fargo's risk management practices reportedly included an ***early warning system*** that gave branch managers an opportunity to shred evidence of their branch's misconduct ***before*** "compliance" employees inspected the branches. Indeed, after the Class Period, *Vanity Fair* published an article disclosing the late night shredding of documents and forgery of account documents to conceal the unethical behavior, no doubt allowing compliance employees to file clean reports. ¶207.

(v) Stumpf knew or deliberately disregarded facts showing the scope and severity of the unethical and unlawful behavior fomented by Wells Fargo's cross-selling incentives

[112] The United States Department of Labor has launched an investigation into whether Wells Fargo has violated labor statues by forcing unpaid overtime. Matt Egan, *Wells Fargo made me work overtime without extra pay*, CNNMoney, Sept. 30, 2016, http://money.cnn.com/2016/09/30/investing/wells-fargo-workers-wage-theft-overtime/.

and culture. At least one branch manager reported the misconduct to Stumpf as early as 2011. At that time, an Assistant Vice President and branch manager wrote Stumpf an email expressing frustration that Wells Fargo's sales policies pressured her and her staff to open accounts and move money around just for the sake of showing illusory growth. Wells Fargo reportedly fired her after she sent the following message in an email to Stumpf in 2011:

> [Senator Menendez quoting Branch Manager:] "I'm currently," and I'm quoting now, "I am currently an assistant vice president manager at a [branch] in northern New Jersey. I have been an employee of Wachovia for over 22 years, of which Wells Fargo acquired. I'm writing to you because as a team member I feel hurt and disappointed with this company."
>
> "***There are challenges that team members are faced, with but those should not be the reason to move money from one account to another and to fool the motivator . . . .***"
>
> ***"These funds that are moved to new accounts to show growth, when in actuality there is no net gain to the company's deposit base, is wrong***. In the past months ***I was placed on warning for not meeting these goals*** and the reason that the bankers underneath me do not is because I will not tolerate the movement of existing money just because we need checking account solutions and profit proxy to move to the motivator. ***These accounts make no sense for the customer***."[113]

(c) Stumpf further knew or deliberately disregarded facts showing the scope and severity of the unethical and unlawful behavior fomented by Wells Fargo's cross-selling incentives and culture. Indeed, he testified that he knew the cross-selling misconduct had reached a "significant scale" by the end of 2013, and that he told the Board about it. ¶¶9, 193(a).

(d) In addition, by virtue of their membership on Wells Fargo's Operating Committee, Stumpf and other senior executives further knew or deliberately disregarded and failed to disclose facts pertaining to Wells Fargo's abusive cross-selling practices, which made the Company's cross-selling metrics, and related statements about the purpose and meaning of cross-selling, materially false and misleading. Stumpf led the Operating Committee, which included the heads of Wells Fargo's business functions such as Officer Defendants Sloan, Tolstedt, Modjtabai, Loughlin and Carroll. According to the Company's 2014 proxy materials, the Operating Committee met weekly, ***to review***, among other things, strategic, operational, and risk issues at the enterprise level. Wells Fargo further admitted the sales misconduct problems were "likely raised with Ms. Tolstedt ***in or around 2011***," and she sat on the Operating Committee and reasonably raised these

[113] *See* Senate Tr. at 37.

issues at the committee's meetings.[114] By 2013, there is no question that the Operating Committee learned more facts showing the scale and severity of the cross-selling misconduct. Stumpf's testimony to the House of Representatives shows the Operating Committee did discuss the Company's improper sales activities, at least by 2013, and likely during the Operating Committee's weekly meetings because that was when Stumpf recalled the issue being brought out of the business "line" (Tolstedt's Community Banking unit) and into the "corporate" level that the Operating Committee ran:

> [Representative Hill:] Yeah. And you had 14 meetings at the audit committee during 2015, according to your proxy.
>
> ***But operating committee meets every Mondays***, so the one question I have is, when was – ***do you remember this being talked about at that operating level when line managers bring their top concerns to you*** and was it in this same time frame, it wasn't until maybe two years after this really manifesting itself in Los Angeles?
>
> [Stumpf:] ***Yeah,*** it was being managed within the business.
>
> [Representative Hill:] Yeah.
>
> [Stumpf:] In 2011, it – there's – each business has their own corporate or their own compliance, their own sales efficacy and so forth. So it was brought out of the sales part into the line's control function.
>
> And then by 2012, they were producing goals. ***By 2013, is where we brought the corporate resources in, like corporate human resources, corporate investigations and so forth because we had saw a spike in that behavior***.[115]

See ¶196(a).

(e) Wells Fargo and the Officer Defendants further knew or deliberately disregarded facts showing the Company's cross-selling metrics and other statements were materially false and misleading by virtue of the expanding investigations into the cross-selling misconduct. By the time that Wells Fargo made the cross-selling statements identified above (¶¶88-109) in 2014, the Company had already launched internal investigations into the issue and secretly started firing employees, under the cover of arbitration clauses that made it impossible for fired employees to air the reasons for their terminations in court. Specifically, as reported by a *Wall Street Journal* investigative report, dated September 17, 2016, titled "Wells Fargo Tripped By Its Sales Culture –

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[114] *An Examination on Wells Fargo's Sales Practices and Management and Board Oversight*, Background Paper at 5, attached hereto as Exhibit C (hereinafter "Background Paper").

[115] *See* House Tr. at 64.

Hourly Targets and Fear of Firings Drove Employees to Break the Rules," "[f]or five years [beginning in 2011], Wells Fargo conducted investigations into improper practices, hired consultants and tinkered with sales and compensation incentives." The report relied on interviews with more than three dozen current and former Wells Fargo area presidents, district managers, branch managers and other bank employees. *The Wall Street Journal*'s investigation also uncovered a continuous "investigation" ***that began in 2011***, morphed and spread over five years. These undisclosed investigations continuing in 2015, were reported by *The Wall Street Journal* in September 2016 and later confirmed through testimony as discussed below:

(i) In 2011, Wells Fargo hired an outside firm called Q & A Research Inc. to research and investigate Wells Fargo's employee issues, that found – among other things – that some bank employees felt uncomfortable with what certain managers had asked them to do, when pushing customers to sign up for products they may not want or need, according to *The Wall Street Journal.*

(ii) In 2012, Tolstedt's Community Banking unit assembled a "task force" to identify suspicious patterns in sales practices and examine geographic areas where customer complaints of aggressive sales practices were prevalent, including Southern California, as *The Wall Street Journal* uncovered. That review, reportedly found that a local management team in the Los Angeles area was very aggressive in the use of questionable tactics to achieve sales targets. Wells Fargo has since admitted that in 2012, it changed the way it handled reports of "unauthorized accounts," by assigning it to a risk management function in the Community Banking business. In April 2012, the Company began generating a report called the Quality of Sales Report Card (or QSR) to monitor how their bankers were performing. The QSR was reportedly generated weekly and specifically identified: (i) how many accounts were opened; (ii) how many had actually been funded within three months of being opened; and (iii) how many accounts had signature cards at the time the accounts were opened.

(iii) In 2013, due to concerns that some bankers might be trying to manipulate the sales-integrity metrics, and particularly the rate of accounts funded within the first 30 days, by "simulating" funding of the accounts through transfers of funds, Wells Fargo initiated what it has called a "data analysis" to identify bankers who were opening accounts in which money was initially deposited, but then removed and no further account activity occurred.[116]

(iv) In 2013, the OCC received complaints and thus launched an investigation into potential sales misconduct at Wells Fargo.[117] *See* ¶¶23-25. In early 2014, the OCC uncovered sales problems and directed Wells Fargo to address weaknesses in compliance risk through the establishment of a comprehensive compliance risk management program related to unfair and deceptive practices. *See, e.g.*, ¶26. At that time, the OCC concluded that it needed to assess the Company's cross-selling and sales practices as part of its upcoming examination of the bank's governance processes. Also during 2014, Wells Fargo expanded its internal investigation into fake or simulated accounts to a national scope.[118]

(v) Defendants further knew or deliberately disregarded that the credit card penetration rates and growth metrics that they touted to investors rested, in part, on illusory credit cards and unsustainable growth that cross-selling misconduct generated, as discussed below in detail (¶152(f)).

(f) All of the facts identified above show that certain of the Defendants knowingly or recklessly made materially false and misleading statements about the Company's cross-selling activities which they knew or should have known were materially false and misleading.

110. False and Misleading Statement. On July 11, 2014, the Company issued a news release reporting its financial results for the second quarter of 2014 reporting continued cross-sell growth in the Retail Banking, Wholesale Banking and Wealth, Brokerage and Retirement. The release states:

Regional Banking

- Retail banking

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[116] *See* Background Paper at 4, *supra* n.115.

[117] *See also* Curry Statement, *supra* n.47.

[118] *Hearing Before the Senate Committee of Banking, Housing, and Urban Affairs*, 114th Cong. (Sept. 20, 2016) (Statement of John Stumpf) (hereinafter "Stumpf Statement") at 4 ("In ***2014,*** the Sales and Service Conduct Oversight Team ***expanded the simulated funding review to a national scope***.").

- ***Retail Bank household cross-sell ratio of 6.17 products per household, up from 6.14 year-over-year***

- ***Primary consumer checking customers up a net 4.6 percent year-over-year***

* * *

<u>Wholesale Banking</u> . . . .

* * *

- ***Cross-sell of 7.2 products per relationship, up from 6.9 in second quarter 2013 driven by new product sales to existing customers***

* * *

<u>Wealth, Brokerage and Retirement</u> . . . .

* * *

WBR cross-sell ratio of 10.44 products per household, up from 10.35 a year ago.

111. <u>False and Misleading Statement.</u> On July 11, 2014, the Company held a conference call for analysts and investors concerning its second quarter 2014 financial results. The call was hosted by Stumpf and Shrewsberry. During the call, Defendants repeated the financial results and cross-sell growth results that had been reported in the news release of the same day, particularly in Retail Banking, Wholesale Banking and Wealth Brokerage and Retirement.

112. On July 11, 2014, Jefferies published a report titled, "Wells Fargo & Co. (WFC) Core Metrics Progressing Well; '15 Estimate Up a Nickel.'" The Jefferies report addressed the Company's cross-selling strategy and specifically expressed its confidence in the Company's growth trajectory, noting specifically that underlying growth "***metrics continue to show good momentum, with cross-sell***, ***credit card volumes/penetration rates***."

113. <u>False and Misleading Statement</u>. On August 6, 2014, the Company filed its Form 10-Q for the period ending June 30, 2014. The Form 10-Q was signed by Levy. The report underscored the material importance of cross-sell to the Company's overall growth strategy and financial results and stated that the Company's culture and business practices were supported by prudent risk management practices:

Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles. We can grow by expanding the number of products our current customers have with

> ***us, gain new customers in our extended markets, and increase market share in many businesses.***
>
> * * *
>
> ***Our ability to grow primary customers is important to our results because these customers have more interactions with us, have higher cross-sell and are more than twice as profitable as non-primary customers*.**
>
> * * *
>
> ***Cross-sell of our products is an important part of our strategy to achieve our vision to satisfy all our customers' financial needs.***
>
> * * *
>
> ***Our risk culture is strongly rooted in our Vision and Values, and in order to succeed in our mission of satisfying all our customers' financial needs and helping them succeed financially, our business practices and operating model must support prudent risk management practices*.**[119]
>
> * * *
>
> The Company's management evaluated the effectiveness, as of June 30, 2014, of the Company's disclosure controls and procedures. The Company's chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2014.

114. The Form 10-Q also contained SOX certifications signed by Stumpf and Shrewsberry that were substantially identical to the certifications set forth in ¶92.

115. False and Misleading Statement. On September 10, 2014, the Company made a presentation at the Barclays Global Financial Services Conference. During the conference, Shrewsberry compared Wells Fargo's financial performance to its peers. In that regard, he stated that the Company generated more fee income than its peers in large part due to the Company's focus on cross-selling. Sloan failed to disclose that reported cross-sell growth was inflated by known, pervasive and unlawful sales practices:

> [Shrewsberry:] ***[W]e generate more fee income per average assets than our peers. This outperformance demonstrates our consistent focus on earning more of our customers' business and our culture of cross-sell.***

[119] The Vision and Values statement regarding the Company's risk culture was repeated throughout the Class Period in each of its annual statements.

116. After the September 10, 2014 Barclays conference, Wells Fargo's stock traded above $51 per share.

117. False and Misleading Statement. On October 14, 2014, the Company issued a news release reporting its financial results for the third quarter of 2014. The release states:

Regional Banking

- Retail banking
- Primary consumer checking customers up a net 4.9 percent year-over-year
- Retail Bank household cross-sell ratio of 6.15 products per household, unchanged year-over-year

* * *

Consumer Lending Group

* * *

- Consumer Credit
  - ***Credit card penetration in retail banking households rose to 39.7 percent, up from 36.0 percent in prior year***

* * *

Wholesale Banking . . . .

* * *

  - ***Cross-sell of 7.2 products per relationship, up from 7.0 in third*** quarter 2013 driven by new product sales to existing customers

* * *

Wealth, Brokerage and Retirement . . . .

* * *

WBR cross-sell ratio of 10.44 products per household, up from 10.41 a year ago.

118. False and Misleading Statement. Following the release of the Company's third quarter financials, the Company held a conference call for analysts and investors to discuss the results. During that call, the Company repeated the foregoing financial results and falsely assured investors that all necessary litigation accruals had been disclosed and accounted for. The Company made no mention of ongoing investigations into the Company's toxic sales culture, which had already resulted in thousands of firings:

[Shrewsberry:] ***Well, we've mentioned that this month's elevated – or this quarter's elevated level reflects primarily litigation accruals. And as a result there's not much more specific color we can offer except to point you to our crystal clear disclosure in our Qs and K that describe everything that's probable and estimable and then some.***

And like anything else, it's hard to know whether you're cresting or not until you're on the other side of it. So we feel this is a somewhat higher level than it's been recently, ***and we think it's well disclosed***.

119. False and Misleading Statement. On November 5, 2014, the Company filed its Form 10-Q for the period ending September 30, 2014 with the SEC. The Form 10-Q repeated the financial results and cross-sell metrics addressed in the October 14, 2014 news release. The Form 10-Q attached false SOX certifications signed by Stumpf and Shrewsberry that were substantially identical to the certifications set forth in ¶92.

120. Senior management continued to promote cross-selling at every opportunity, including in one-on-one meetings with analysts, as a report from RBC shows. On November 5, 2014, RBC published a report titled, "Wells Fargo & Co. Highlights from Recent Company Visit," describing its meetings with senior executives at Wells Fargo including "CEO John Stumpf, CFO John Shrewsberry, Treasurer Paul Ackerman, Head of Consumer Lending Avid Modjtabai, Chief Risk Officer Mike Loughlin, as well as Jim Rowe and John Campbell from Investor Relations." The wide-ranging RBC report noted "cross-sell" and commitment to risk management, including the Company's "ability to identify and escalate problems quickly," were factors supporting RBC's favorable investment analysis.

121. On November 6, 2014, RBC published another report titled "WFC – Highlights From Wells Fargo BAAB Presentation." The report stated:

Focused on Increased Cross-Selling. At the same time, Wells is looking to ***increase its client penetration rates and improve the cross-sell activities across business lines. . . .*** The efforts to ***improve cross-sell activity*** have been gaining momentum with ***~11% of WBR revenues directly traceable*** to other businesses. With the implementation of Partners-On-Demand in 2013, bankers and brokers are working together to generate new business, and in fact WBR currently receives roughly ***~$1B in closed investment leads per month from the community bank, up ~31% on average from 2011 (prior to the roll-out of these cross-sell initiatives).***

122. On December 14, 2014, BMO Capital analysts published a report after hosting meetings with the Company's Investor Relations head, Jim Rowe ("Rowe"). Afterward, the BMO Capital analyst wrote that the "two main areas for WFC to drive revenue growth are loan growth and

growing its fee income business, with the biggest opportunity in its trust and investment business, which equals 35% of total fee income and 17% of total revenues, a bigger contributor to revenues than mortgage banking." They also wrote:

> ***One of the strengths at Wells Fargo that cannot be replicated is its culture, which is focused on serving the customer and increasing profitability through strong cross-sell.*** The average Wells Fargo consumer customer uses six products. Part of the reason for WFC's culture is the long tenure of both senior management and relationship managers. WFC has been focused on this for decades and the ***cross-sell opportunities are built into its systems.***

123. In the context of generating credit card revenue, the analysts viewed the Company's credit card strategy as "deeper penetration" of its existing customer base. The analysts similarly wrote – in connection with the Company's Wealth Management Business – that "[f]or ***years***" "Wells Fargo has been ***developing the right incentives and systems to promote cross-selling***/referrals between the community bank and the private bankers/retail brokers, which are beginning to take hold."

124. <u>False and Misleading Statement.</u> On January 14, 2015, the Company issued a news release reporting Wells Fargo's financial results for the fourth quarter of 2014. The Company stated:

> ***Regional Banking***
>
> - Retail banking
>   - Primary consumer checking customers up 5.2 percent year-over-year
>   - Retail Bank household ***cross-sell ratio of 6.17 products per household, up from 6.16 year-over-year***
>
> * * *
>
> ***Consumer Lending Group***
>
> * * *
>
> - Consumer Credit
>   - ***Credit card penetration in retail banking households rose to 41.5 percent, up from 37.0 percent in prior year***
>
> * * *
>
> **<u>Wholesale Banking</u>** . . . .
>
> * * *

- Cross-sell of 7.2 products per relationship, up from 7.1 in fourth quarter 2013 driven by new product sales to existing customers

* * *

Wealth, Brokerage and Retirement . . . .

* * *

WBR cross-sell ratio of 10.49 products per household, up from 10.42 a year ago.

125. False and Misleading Statement. On January 14, 2015, Wells Fargo held a conference call for analysts and investors to discuss the Company's fourth quarter 2014 and fiscal year 2014 financial results. During the call, Stumpf emphasized high growth rates in the Company's credit card business. But, unbeknownst to investors, these growth rates rested, in material part, on fraudulent credit cards:

> [Shrewsberry:] We've also been successfully adding retail bank households. Through November, our ***year-to-date household growth rate was the highest since 2010***. Meeting the financial needs of these new households will help drive across our diversified product line.
>
> Our debit and credit card businesses are examples of where we've had success and yet still have opportunities for continued growth. . . .
>
> Our ***credit card penetration rate increased to 42%, up from 37% a year ago. Credit card purchase volume grew 17% from a year ago, reflecting account growth*** and increased usage among our existing customers.
>
> * * *
>
> [Analyst:] ***I had a question on your credit card growth strategy***. I think most would agree that credit card asset yields have held up quite well in this low-rate environment relative to other asset classes. Would you consider competing more aggressively on rates in an effort to grow your share of outstanding balances, particularly since the high-return business, where you arguably have room to give up a bit on pricing while still generating returns that are attractive relative to other lower-return, lower-yielding asset classes?
>
> [Stumpf:] Well, let me say it this way: ***First of all, we love the card business, especially for our Community Bank customers. And we have grown from the low to mid-20%s penetration to now to 42% of our customers carry our credit card. And we like that business a whole lot***. Not only from the balances we get, but to be relevant to our customers as far as handling their payments, providing them services that are even around payments and so forth for them. We want to provide great value; pricing sure is part of that

126. False and Misleading Statement. On February 25, 2015, the Company filed a Form 10-K report for the fiscal year ended December 31, 2014.[120] The report repeated the financial and cross-sell results that Wells Fargo had published in its January 14, 2015 news release. On the same day, the Company published its Annual Report to Stockholders for fiscal 2014. Stumpf's introductory remarks in the 2014 Annual Report falsely assured investors that the Company's emphasis on culture was a strength for Wells Fargo:

> [Stumpf (Introductory Message):] I have always believed ***that culture is the most important part of a company's success***. It is the heart of any organization and a significant contributor to long-term performance and stability.
>
> This is certainly true for Wells Fargo . . . .
>
> Today, I sum up Wells Fargo's culture with this word: "Relationships." It captures the passion we all share for serving our key stakeholders — customers, communities, investors, and team members. ***To earn their trust***, we strive to do the right thing and ***act under the highest ethical standards where honesty, trust, and integrity matter***.

127. Finally, the Form 10-K again conceded that the Company's risk culture was dependent on the "tone at the top" and stated that the Company "could" face increased costs to its reputation "in the event" it did not comply with increased regulatory requirements. As detailed herein, ¶¶23-31, Defendants already knew that internal findings had or would lead to increased costs:

> ***Our risk culture is strongly rooted in our Vision and Values, and in order to succeed in our mission of satisfying all our customers' financial needs and helping them succeed financially***, our business practices and operating model must support prudent risk management practices.
>
> * * *
>
> ***Our risk culture seeks to promote proactive risk management and puts the customer first by implementing an ongoing program of training, performance management, and regular communication. Our risk culture also depends on the "tone at the top" set by our Board, CEO, and Operating Committee members.***

128. The Form 10-K also attached false SOX certifications signed by Stumpf and Shrewsberry that were substantially similar to the certifications set forth in ¶92.

129. Material Omission. Wells Fargo failed to disclose in the "Legal Actions" section of the Form 10-K (or anywhere else for that matter) that by this time the OCC already was "notified" and "active[ly]" investigating potential unsafe or unsound practices in risk management and

[120] The Form 10-K was signed by Stumpf, Shrewsberry, Levy, Baker, Chen, Dean, Duke, Engel, Hernandez, James, Milligan, Peña, Quigley, Runstad, Sanger and Swenson.

oversight of the Company's sales practices.[121] Wells Fargo also failed to disclose in its Form 10-K that high-level executives, including Wells Fargo's CEO, were aware of sales practice issues of a "significant scale" two years earlier in 2013. ¶¶9, 193(a).

130. False and Misleading Statement. On March 17, 2015, the Company filed its Form 14(A) DEF Proxy Statement with the SEC. The 2015 Proxy Statement represented that the "HRC ***continued to enhance our strong compensation risk-management practices*** to discourage imprudent short-term risk taking by requiring executives to bear the long-term risk of their activities."[122]

131. False and Misleading Statement. On April 14, 2015, the Company issued a news release discussing its financial results for the first quarter of 2015. The release discussed, among other things, the results of the Company's cross-selling efforts:

WELLS FARGO REPORTS $5.8 BILLION IN NET INCOME
Diluted EPS of $1.04, Revenue Up 3 Percent from Prior Year

* * *

- Net income of $5.8 billion, compared with $5.9 billion in first quarter 2014
- Diluted earnings per share (EPS) of $1.04, compared with $1.05
- Revenue of $21.3 billion, up 3 percent

* * *

- ***Strong growth in average loans and deposits***:
  - Total average loans of $863.3 billion, up $39.5 billion, or 5 percent, from first quarter 2014

* * *

Regional Banking

- Retail banking
  - Primary consumer checking customers up 5.7 percent year-over-year
  - ***Retail Bank household cross-sell ratio of 6.13 products per household, compared with 6.17 year-over- year.***

[121] Senate Tr. at 30.

[122] 2015 Proxy Statement at 36.

132. On April 14, 2015, Morningstar analysts issued a report underscoring that Wells Fargo had reported increased income of 6.7% sequentially for its largest unit, Community Banking. Morningstar further stated that Wholesale Banking's results had increased 3.25%. The analysts attributed the growth specifically to Tolstedt's Community Banking segment. The analysts wrote that the incentives Wells Fargo provided to employees to grow cross-sell results were well worth the expense:

> ***Wells Fargo's emphasis on cross-selling is associated with significant incentive spending. We see these expenses as worthwhile*** in building long-term customer relationships and consequently, switching costs.

133. Similarly, on April 15, 2015, analysts from RBC published a report titled, "Wells Fargo & Co. 1Q15: Consistency in Operating Trends Continues." Among other things, the analysts commented that "Wells reported 1Q15 EPS of $1.04 beating both our $0.93 estimate and the $0.98 consensus due in part to $0.07/share of tax benefits." The analysts further commented on solid fee gains over the quarter. "While acknowledging the challenges of regulatory reform and a sluggish economy" – the analysts wrote – "we still expect the company to deliver above-average ***growth primarily through market share gains and increased cross-selling*** of both its legacy Wells and newer Wachovia customers."

134. On May 6, 2015, the Company filed its Form 10-Q for the period ending March 31, 2015. Among other statements and omissions, the Form 10-Q stated:

> [Wells Fargo] strive[s] to make risk management a competitive advantage by ***working hard to ensure that appropriate controls are in place to reduce risks to our customers***, maintain and increase our competitive market position, ***and protect Wells Fargo's long-term safety, soundness and reputation***.[123]

135. The Form 10-Q contained SOX certifications, signed by Stumpf and Shrewsberry, that were substantially identical to the certifications set forth in ¶92.

136. False and Misleading Statement. On May 29, 2015, the Company gave a presentation at the 2015 Sanford C. Bernstein Strategic Decisions Conference. During the conference, an analyst specifically asked Stumpf about regulatory investigations and whether Stumpf was concerned that the Company was pushing products onto customers that the customers did not want. Stumpf rejected the notion that Wells Fargo could cross-sell products that customers did not need, as such conduct

[123] Wells Fargo & Co., Quarterly Report (Form 10-Q) at 3 (May 6, 2015).

was not in the best interest of the customers or Wells Fargo. Instead, according to Stumpf, the Company's sales culture and business practices helped satisfy customers' financial needs:

> [Analyst:] There's a question about the regulatory investigations. A key part of your strategy has been sales. You have always been revenue focused on cross-selling. Sometimes that might be able to go too far and I guess there's been some investigations; ***are you selling the wrong thing to the wrong people***?
>
> ***How do you make sure you're pushing a sales culture but not giving a customer something that they don't need or don't understand***?
>
> . . . [Stumpf:] Our culture for 163 years has been to help our customers succeed financially and provide all their ***financial needs. It is not in our interest, not in our team members' interest, not in our customers' interest, surely not in our shareholders' interest to have a customer have a product or service they didn't want, don't need, or it doesn't help them***.

137. After the conference, Wells Fargo's stock price continued to trade above $56 per share.

138. On June 23, 2015, Morningstar analysts published a report consolidating its recently published research, noting that since Stumpf expertly ran Wells Fargo, the Company was not "'too big to manage.'" Importantly, Morningstar noted that the Company provided its employees with incentives to grow the bank's cross-selling efforts:

> ***Wells Fargo's longstanding focus on cross-selling helps lock in customer relationships and access to low-cost funding – namely, $1 trillion in deposits at a cost of only 9 basis points as 2014 came to a close.***
>
> * * *
>
> ***Wells Fargo's emphasis on cross-selling is associated with significant incentive spending. We see these expenses as worthwhile in building long-term customer relationships and consequently, switching costs***.

139. <u>False and Misleading Statement.</u> On July 14, 2015, the Company reported its financial results for the second quarter of 2015. The Company noted the cross-selling results for its three business units, purporting to show growth in two out of the three units:

WELLS FARGO REPORTS $5.7 BILLION IN NET INCOME
Diluted EPS of $1.03, Revenue of $21.3 Billion

- Continued strong financial results:
  - Net income of $5.7 billion, in line with second quarter 2014
  - Diluted earnings per share (EPS) of $1.03, compared with $1.01

* * *

- Strong growth in average loans and deposits

* * *

Regional Banking

- Retail banking
  - Primary consumer checking customers up 5.6 percent year-over-year
  - ***Retail Bank household cross-sell ratio of 6.13 products per household, compared with 6.17 year-over- year***

* * *

<u>Wholesale Banking</u> . . . .

* * *

Wholesale Banking reported net income of $2.0 billion, up $214 million, or 12 percent, from first quarter 2015. Revenue of $6.1 billion increased $171 million, or 3 percent, from prior quarter. Net interest income increased $147 million, or 5 percent, on broad based loan growth . . . .

* * *

<u>Wealth, Brokerage and Retirement</u> . . . .

* * *

WBR cross-sell ratio of 10.53 products per household, up from 10.44 a year ago.

140. <u>False and Misleading Statement.</u> On the same day, July 14, 2015, the Company held a conference call for analysts and investors to discuss the second quarter 2015 financial results. Stumpf and Shrewsberry hosted the call. In addition to repeating the cross-sell metrics referenced in the July 14, 2015 news release, Stumpf and Shrewsberry misled investors about the adequacy of the Company's litigation accrual disclosures, stating that even though the accruals were not itemized, all issues were likely already known to the market:

> [Analyst McDonald:] Just a question, John, on the efficiency ratio. You were at the high end of your range the last couple of quarters. Do you see opportunities to drive down the efficiency ratio prior to rates going up? Or is it more likely to stay still at the upper end of the range until we see interest rates move higher?
>
> [Shrewsberry:] I think it's going to stay in the upper part of the range until revenue moves higher, which will probably happen as a result of – or at least most meaningfully over a short period of time because of rates moving higher.
>
> We are spending the money that we think we need to spend to run a great business today and manage risk as well as invest in the future around things that customers want, things that we needed to be a well-run, resilient compliant, risk managed, technologically savvy firm and that gets us to 58% plus or minus, which I would remind you is a very good number for a bank of our size.

* * *

> [Analyst:] ***Did you indicate how much your legal accrual was for the period***?
>
> [Shrewsberry:] ***We didn't. We've indicated the size of operating losses in total. The amount of the change – and the amount of the change is reflected-reflects increased litigation accruals, but we don't split that out from our other operating losses***.
>
> [Analyst:] ***And are those legal accruals for issues related – disclosed in the 10-K or for new ones***?
>
> [Shrewsberry:] ***It's for a variety of matters, most of which you would already be familiar with***.

141. On July 15, 2015, Barclays analysts published a report commenting on the Company's second quarter 2015 results. Barclays noted that "EPS matched consensus" estimates and that "WFC benefits from a talented management team, diversified business mix, and a retail deposit base that helps drive the highest NIM amongst its U.S. large-cap peers," and that they expected "*cross-selling traction to continue as it drives further revenue* and expense synergies from its [Wachovia Bank] acquisition."

142. <u>False and Misleading Statement.</u> On August 5, 2015, the Company filed its Form 10-Q for the period ending June 30, 2015. The Form 10-Q repeated financial results referenced in the July 14, 2015 news release.

143. The Form 10-Q contained SOX certifications, signed by Stumpf and Shrewsberry, that were substantially identical to the certifications set forth in ¶92.

144. On September 16, 2015, the Company presented at the Barclays Global Financial Services Conference. During the conference, the Barclays analyst quoted from the Company's oft-repeated Vision and Values statement regarding cross-sell and providing customers only the products that customers needed:

> [Goldberg (Barclays Analyst):] I thought it would be interesting to actually take some quotes from that Vision and Values publication.
>
> * * *
>
> "***Our strategy is not product-centric, it's customer-centric, selling all the financial products a customer needs.***"

> ***"Cross-selling is what we call needs-based selling. It's our most important strategy."***[124]

145. False and Misleading Statement. On October 14, 2015, the Company reported its financial results for the third quarter of 2015. In its release, the Company stated:

> "Wells Fargo's strong third quarter results reflected the ability of our diversified business model to generate consistent ***financial performance in an uneven economic environment*** while continuing to meet our customers' ***financial needs***," said Chairman and CEO John Stumpf.
>
> * * *
>
> ***Regional Banking***
>
> - Retail banking
>   - Primary consumer checking customers up 5.8 percent year-over-year
>   - Retail Bank household cross-sell ratio of 6.13 products per household, compared with 6.15 year-over-year
>
> * * *
>
> ***Consumer Lending Group***
>
> * * *
>
> - Consumer Credit
> - Credit card penetration in retail banking households rose to 42.9 percent, up from 39.7 percent in prior year
>
> * * *
>
> **Wholesale Banking** . . .
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> * * *
>
> - Cross-sell of 7.3 products per relationship, up 0.1 from third quarter 2014
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> * * *
>
> **Wealth and Investment Management (formerly Wealth, Brokerage and Retirement)** . . . .
>
> * * *
>
> ***Brokerage and Wealth cross-sell ratio of 10.52 products per household, up from 10.44 a year ago.***

[124] Barclay's Global Financial Services Conference Transcript at 1 (Sept. 16, 2015).

146. False and Misleading Statements. On November 4, 2015, the Company filed its Form 10-Q for the third quarter of 2015. The Form 10-Q reiterated the segment cross-sell metrics that were included in the October 14, 2015 financial news release and added the following representations concerning the Company's cross-sell strategy and how the strategy purportedly served customers' needs:

> **Cross-sell** ***Our cross-sell strategy is to increase the number of products*** our customers use by offering financial products ***that satisfy their financial needs. Our approach is needs-based*** as some customers will benefit from more products, and some may need fewer.

147. The Form 10-Q attached the false SOX certifications signed by Stumpf and Shrewsberry that were substantially similar to the certifications set forth in ¶92.

148. Throughout November 2015 and December 2015, the Company's stock price traded at prices as high as $56.00 per share.

Wells Fargo and Top Executives Falsely Denied Claims that Sales Culture Caused Employees to Break the Law

149. On December 1, 2015, *The Wall Street Journal* published a story about Wells Fargo's cross-selling culture, but Wells Fargo denied that it had engaged in any improper conduct. The article stated that the OCC and the San Francisco Federal Reserve were investigating whether the bank pushed employees too hard to meet sales quotas and whether it had done enough to prevent questionable behavior. This article also referred to the Los Angeles City Attorney's lawsuit against Wells Fargo, filed in May 2015, and to stories from current or former employees who had addressed the same conduct in a *Los Angeles Times* piece, dated December 21, 2013. Wells Fargo, however, specifically denied the allegations levied against it: "A bank spokesperson . . . said ***the bank disagrees*** with the allegations in the lawsuit . . . . '***Wells Fargo's sales culture is focused on the best interest of its customers and creating a supportive, caring and ethical environment for our team members***.'"[125]

150. The Company's denials were consistent with previous public denials of any systematic or widespread wrongdoing tied to the Company's sales culture. For example, in the

[125] Emily Glazer, *Regulators Probe Extent Wells Fargo Went To Push Cross-Selling Culture*, Wall St. J., Dec. 1, 2015.

December 2013 *Los Angeles Times* article, Sloan disclaimed any knowledge of an overbearing sales culture within the bank. In January 2014, Sloan told the *American Banker* that "I disagree with the L.A. Times story."[126] Wells Fargo also formally denied legal claims that employees were fired after being directed by mangers to open accounts in the name of family members.[127]

151. Moreover, responding to the Los Angeles City Attorney's lawsuit making many of the allegations reported by the *Los Angeles Times* in December 2013 and by *The Wall Street Journal* in December 2015, Wells Fargo was even more blunt. The Company stated in its formal answer: ***"Wells Fargo generally denies each and every allegation contained in the City's unverified Complaint."***[128]

152. <u>Reasons Why Defendants' Statements Were Knowingly False and Misleading:</u> Defendants' statements set forth in ¶¶110-151 concerning: (i) reported financial statements and cross-sell metrics; (ii) the Company's overall cross-selling strategy and that the purported purpose of such strategy was to provide customers with products they needed; (iii) risk management and effectiveness of internal controls over financial reporting; and (iv) the Company's "culture" and related business practices, as set forth in its Vision and Values, were each knowingly false and misleading for the following reasons:

(a) Defendants knew or deliberately disregarded that during the period leading up to and including the Class Period, Wells Fargo's cross-selling sales and incentive practices led to widespread, serious misconduct, including: (i) the opening of millions of fake credit card or deposit accounts in the names of customers who did not authorize the account openings; (ii) the creation of fake personal identification or PIN numbers to open fake debit cards; and (iii) the use of phony email addresses to enroll customers in additional services that customers did not request via forgery or other illegal means – all culminating in "fraudulent conduct [that] occurred on a massive scale," as the government found (¶¶4-5, 177-78, 191).

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[126] Kevin Wack, *Wells Execs Stuck to the Script as Evidence of Sales Abuses Mounted*, Am. Banker, Dec. 21, 2016.

[127] Wells Fargo & Company's and Wells Fargo Bank, N.A.'s General Denial of and Affirmative Defenses to Plaintiffs' Complaint, filed on June 2, 2015 in *The People of the State of California v. Wells Fargo & Company, et al.*, No. BC580778 (Cal. Super. Ct., L.A. Cty.).

[128] *Id*. at 1.

(b) Defendants knew or recklessly disregarded that Wells Fargo's cross-selling incentives, quotas and penalties severely undermined the Company's cross-selling metrics and cross-selling strategy, and turned the Company's retail branches into a "pressure cooker."

(c) Stumpf knew of the sales misconduct by 2011, and admittedly understood that the problems had reached a "significant scale" by 2013; he conveyed these facts to Wells Fargo's Board by 2013 (¶¶9, 110(b), 196(a)).

(d) Wells Fargo's Operating Committee met weekly, and the cross-selling misconduct rose to its attention likely by 2011, when Tolstedt learned of the misconduct (¶109(d)).

(e) Defendants knew or deliberately disregarded that Wells Fargo's internal investigations, which started in 2011, continued to expand alongside parallel investigations by government agencies in 2014 and 2015. These investigations made clear to Company leadership, including the Officer and Director Defendants, that Wells Fargo's cross-sell strategy had fostered a sales culture in which employees, under intense pressure to sell more and more products to Wells Fargo's clients, created phony accounts, forged signatures, destroyed records, and engaged in unlawful and unethical practices, in order to create the false appearance of successful "cross-selling" business practices and metrics. As detailed above in ¶109(e), the investigations in 2011, 2012, 2013 and 2014 had already resulted in mass firings, an internal task force and the beginnings of an OCC investigation. The OCC investigation was "active" and notified in 2013. In early 2014, the OCC uncovered sales problems and directed Wells Fargo to address weaknesses in compliance risk through the establishment of a comprehensive compliance risk management program related to unfair and deceptive practices. *See* ¶109(e). At that time, the OCC concluded that it needed to assess the Company's cross-selling and sales practices as part of its upcoming examination of the bank's governance processes. *Id.* During the same year, 2014, Wells Fargo expanded its internal investigation into fake or simulated accounts. *See* Stumpf Statement at 4 ("In 2014 the Sales and Service Conduct Oversight Team ***expanded the simulated funding review to a national scope***."). In 2015, as these material investigations continued to expand, Defendants continued to conceal them:

(i) In 2015, Wells Fargo hired two more outside consultants – Accenture and PricewaterhouseCoopers ("PwC") – in response to an OCC directive related to Wells Fargo's sales culture. Also in 2015, the OCC's investigation uncovered additional sales problems that required corrective action and wrote a letter to Wells Fargo specifically stating that the bank ***lacked a formalized governance framework to oversee sales practices***. The letter reportedly "included an MRA[129] requiring [Wells Fargo] to address the governance of sales practices within its Community Bank division." In June of 2015, the OCC sent a supervisory letter to Stumpf issuing five MRAs that required the bank "to take significant action to address ***the inappropriate tone at the top***" – issues that were admittedly the responsibilities of Stumpf and the Operating Committee. The OCC wrote to Stumpf that Wells Fargo had the following, serious problems, including: (a) the lack of an appropriate control or oversight structure given corporate emphasis on product sales and cross-selling; (b) the lack of an enterprise-wide sales practices oversight program; (c) the lack of an effective enterprise-wide customer complaint process; (d) the lack of a formalized governance process to oversee sales practices; and (e) the failure of the bank's audit services to identify the above issues or to aggregate sales practice issues into an enterprise view.

(ii) The June 2015 OCC letter also issued a series of instructions to address Wells Fargo's internal systemic problems that were the direct result of cross-selling misconduct. ***First***, the OCC instructed Wells Fargo to take certain corrective actions to address the issue, including: (a) improving processes to manage sales practices risk; (b) re-evaluating compensation and incentive plans to ensure they did not provide an incentive for inappropriate behavior; (c) improving processes to independently oversee sales practices risk at an enterprise-wide level; (d) accelerating the implementation of a fully effective customer complaint process and establishing policy and processes for evaluating complaints related to protected classes; (e) having management of the bank's Community Banking division establish effective oversight, as well as a testing and quality assurance function, to review branch sales practices; and (f) having the Company's audit services develop an enterprise-wide risk management process for sales practices, as he OCC explained to the Senate. ***Second***, the OCC also instructed Wells Fargo to remediate any consumer harm that resulted from the sales practices at issue. *See* ¶30. ***Third***, the OCC also ordered

[129] As the OCC explained to the Senate, MRAs have particular significance: "MRAs describe practices that deviate from sound governance, internal control, and risk management principles, and have the potential to adversely affect the bank's condition, including its financial performance or risk profile, if not addressed; or result in substantive noncompliance with laws and regulations, enforcement actions, supervisory guidance, or conditions imposed in writing in connection with the approval of any application by the bank."

Wells Fargo to retain an independent consultant to conduct a thorough review of the bank's approach to enterprise-wide sales practices and to assess consumer harm. The OCC issued its findings in October 2015, February 2016 and May 2016.

(iii) Contemporaneous with the expansion of the OCC investigation and its findings and instructions discussed above, in May of 2015, the CFPB launched ***its*** investigation into Wells Fargo's unlawful sales practices.[130] In June and July 2015, Wells Fargo provided sales practices information to the CFPB, according to the Company's written responses to questions from the Senate. During this time, the Company also reportedly hired consulting firm Accenture (along with the law firm Skadden, Arps, Slate, Meagher & Flom LLP) to conduct an investigation into the sales misconduct, and Wells Fargo's Board was ***briefed regularly*** about the investigation's progress, according *The Wall Street Journal.*

(iv) Also in mid-2015, and also in response to the OCC's investigation, Wells Fargo retained PwC to evaluate deposit products, unsecured credit cards and other customer transactions during 2011-2015 to determine whether customers may have incurred financial harm from having been provided an account or service they may not have requested. *See* ¶¶28-30; Stumpf Statement, *supra* n.119. PwC reportedly used Wells Fargo's account records and other data analytics to determine who may have incurred fees or other bank charges from unauthorized account openings.[131]

(f) Separate and apart from the foregoing, Wells Fargo's stated "credit card penetration" rates throughout the Class Period (*see, e.g.*, ¶152(f)), along with the metrics that it used to promote credit card penetration growth,[132] were also knowingly false and misleading. Each of

[130] Electronic meeting calendar events suggest Stumpf may have met with the CFPB telephonically numerous times before the Company told the CFPB about the City of Los Angeles lawsuit regarding sales misconduct. These electronic meeting calendar events suggest Stumpf met telephonically with the CFPB on October 9, 2013, October 17, 2013, January 17, 2014, February 13, 2014, January 12, 2015, January 15, 2015 and February 4, 2015.

[131] *See* September 16, 2016 report by *The Wall Street Journal, The Wall Street Journal Online*, "How Wells Fargo's High-Pressure Sales Culture Spiraled Out of Control; Hourly targets, fear of being fired and bonuses kept employees selling even when the bank began cracking down on abuses; 'not a team player.'"

[132] Wells Fargo defined "credit card penetration" percentages to be the percentage of "retail banking deposit households that have a credit card with Wells Fargo," and reported any growth in that percentage in quarterly and annual percentage point differences. For example, when Wells Fargo

these three types of statements – relating to the Company's credit card penetration rates, quarterly growth and annual growth – all were false and misleading throughout the Class Period because unsustainable cross-selling misconduct inflated those metrics with fraudulent or unwanted credit cards:

(i) Stumpf has admitted that ***5.8%*** of all new consumer credit cards opened during the 2011-2015 timeframe were unauthorized or not activated.[133] These illusory credit cards exaggerated the Company's credit card penetration numbers, making them appear to be more favorable than they really were. *See* ¶¶4-5, 177-78, 191. The Company's October 14, 2016 quarterly supplement further admits that Wells Fargo never corrected its credit card penetration metrics, while attempting to minimize the impact of illusory credit cards by claiming "the maximum impact in ***any one quarter*** was not greater than ***86 basis points***, or ~2%."

(ii) Subtracting at least "86 basis points" of spurious credit cards from the Company's credit card penetration metrics in any one quarter in the Class Period, shows the numbers were materially false when issued. For example, in the first quarter of 2014, reducing the 0.94 bps of ***reported*** quarterly growth by 0.86 bps (the "86 basis points" identified above) would cause that 0.94 bps of growth to drop to 0.08, for ***a decline of 91%***. Had Wells Fargo made a similar adjustment to its other credit card penetration "growth" metrics in any other quarter during the Class Period, the effect would have been similarly material.

(iii) The credit card penetration growth rates were also materially false and misleading for another, independent reason: the cross-selling that drove the purported credit card "growth" was based, in material part, on fraudulent sales practices. The cross-selling practices in Tolstedt's Community Banking unit were material to Wells Fargo's credit card business because – as Wells Fargo bragged to investors – the Retail Banking business delivered more than 80% of the

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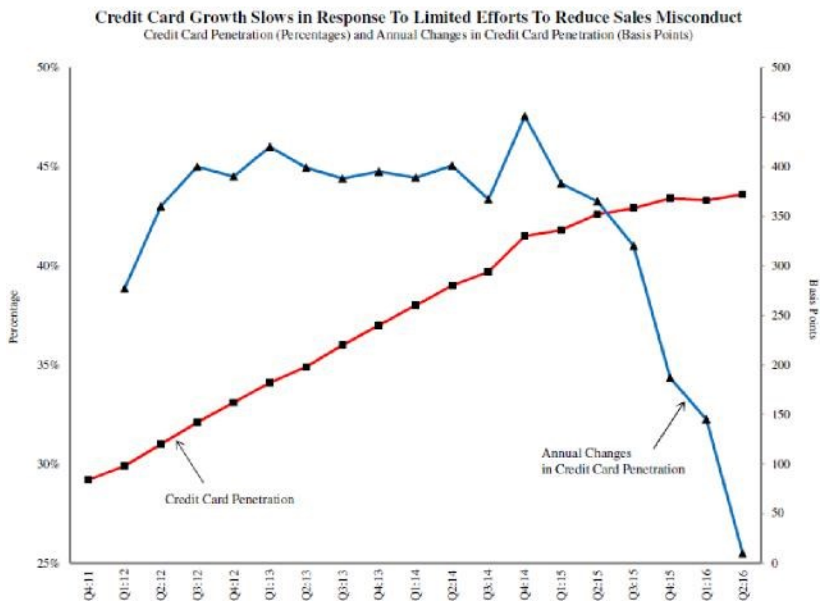
reported first quarter 2014 credit card penetration of 38.0%, it also stated that this 38.0% metric had grown by 94 basis points on a quarterly basis and had grown 389 basis points over the first quarter of 2013, or increased by 3.98 percentage points when considering the annual increase. Wells Fargo reported these three types of metrics on a quarterly basis throughout the Class Period. On July 15, 2016, Wells Fargo stated that it changed its method for calculating credit card penetration rates, as discussed in footnote 141, below.

[133] This number will increase materially because Wells Fargo must increase the scope of PwC's study to comply with the government's instructions on this subject, which will simply increase the magnitude of Wells Fargo's credit card misrepresentations.

credit card business's new cardholders ***and*** delivered them for half the cost that Wells Fargo's competition paid to add new credit card customers to their businesses. ¶106.

(iv) Yet, Defendants knew or recklessly disregarded the fact that this cheap supply of credit card "growth" depended upon a cross-selling strategy marked by pervasive sales misconduct.[134] On September 20, 2016, Stumpf told the Senate that Wells Fargo made limited reductions to sales incentives in 2012, 2014 and 2015, to reduce this sales misconduct.[135] To the extent Stumpf's testimony warrants any credit on this point, it shows that ***merely reducing*** sales employees' incentives to engage in misconduct caused credit card penetration growth to ***fall in late 2014 or early 2015***, as the following summary of the Company's growth rates shows:[136]



(v) When Wells Fargo made limited reductions to sales incentives, it knew or recklessly disregarded the fact that any attempt to reduce sales-related misconduct would also

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134 *See, e.g.*, ¶¶4-5.

135 Senate Tr. at 5.

136 In the second quarter of 2016, Wells Fargo changed its methodology for reporting credit card penetration percentages in a way that added approximately 1.90 to 2.00 percentage points to its reported credit card penetration percentages; 2.00 percentage points have been subtracted from the reported percentages in second quarter of 2016 in this chart in order to provide comparable metrics that more closely follow the reporting convention that Wells Fargo applied before the second quarter of 2016.

reduce its ability to grow its credit card business. Wells Fargo's executives saw that fact in real-time, but concealed that growth rates rested on unsustainable cross-selling misconduct.

(g) Additionally, throughout 2015, certain of the Defendants continued to realize financial compensation that they obtained, in part, by achieving cross-selling targets. *See* ¶¶19-21.

(h) All of the facts identified above were either known to or deliberately disregarded by the Defendants, and demonstrated that the statements, identified above, were materially false and misleading when made.

<u>Even as Evidence of Fraudulent Sales Conduct Mounted and Government Investigations Increased in Intensity, Top Executives and the Director Defendants Continued to Misrepresent and Conceal the Material and Illegal Elements of the Cross-Sell Strategy and Their Impact on Wells Fargo's Financial Condition.</u>

153. <u>False and Misleading Statement.</u> On January 15, 2016, Wells Fargo reported its earnings for the fourth quarter of 2015. In its release, the Company stated:

> ***Regional Banking***
>
> - Retail banking
>   - ***Primary consumer checking customers up 5.6 percent year-over-year***
>   - ***Debit card purchase volume of $73 billion in fourth quarter, up 8 percent year-over-year***
>   - Retail Bank household cross-sell ratio of 6.11 products per household, compared with 6.17 year-over-year
>
> * * *
>
> ***Consumer Lending Group***
>
> * * *
>
> - Consumer Credit
>   - ***Credit card purchase volume of $19 billion in fourth quarter, up 12 percent year-over-year***
>   - ***Credit card penetration in retail banking households rose to 43.4 percent, up from 41.5 percent in prior year***
>
> * * *
>
> **<u>Wholesale Banking</u>** . . . .
>
> * * *

- Cross-sell of 7.3 products per relationship, up 0.1 from fourth quarter 2014

* * *

Wealth and Investment Management (formerly Wealth, Brokerage and Retirement) . . . .

* * *

Brokerage and Wealth cross-sell ratio of 10.55 products per household, up from 10.49 a year ago.

154. False and Misleading Statement. On February 24, 2016, Wells Fargo filed its report on Form 10-K for the year ended December 31, 2015 with the SEC, which repeated the false cross-sell metrics in the January 15, 2016 news release. The Form 10-K was signed by Stumpf and Shrewsberry.[137] The February 24, 2016 Form 10-K also attached the false SOX certifications signed by Stumpf and Shrewsberry that were substantially similar to the certifications set forth in ¶92. On the same day, the Company issued its 2015 Annual Report to stockholders and emphasized, among other things, the Company's "relationship based culture," and its commitment to risk management:

Relationships are at the core of our culture

[O]ur highest honor is the trust that customers place in us. . . .

No document better captures our relationship-based culture and focus on customers than The Vision & Values of Wells Fargo, which was first published more than 20 years ago.

155. False and Misleading Statement. In addition to repeating the false cross-sell metrics that Wells Fargo reported in the January 15, 2016 news release, the Annual Report noted the material significance of cross-selling and emphasized how the Company purportedly based that strategy to the needs of its customers:

Cross-sell . . . ***Cross sell is the result of serving our customers well, understanding their financial needs . . . . Our approach to cross-sell is needs-based as some customers will benefit from more products,*** and some may need fewer.

* * *

[137] The Form 10-K was also signed by Levy, Baker, Chen, Dean, Duke, Engel, Hernandez, Milligan, Peña, Quigley, Sanger, Swenson and Vautrinot.

Products included in our retail banking household cross-sell metrics must be retail products and have the potential for revenue generation and long-term viability.[138]

156. Additionally, the Annual Report included the following statements claiming Wells Fargo's "strong risk culture":

- ***A strong risk culture starts with the tone at the top, which is set by the Company's Board of Directors, CEO, Operating Committee (which consists of our Chief Risk Officer and other senior executives) and other members of senior management, and emphasizes a prudent approach to taking and managing risk.***

* * *

- ***Wells Fargo's incentive-based compensation practices are designed to balance risk and financial reward in a manner that does not provide team members with an incentive to take inappropriate risk or act in a way that is not in the best interest of customers***.[139]

157. Material Omission. Further, Wells Fargo failed to disclose in the "Legal Actions" section of the Form 10-K (or anywhere else for that matter) that by this time the OCC already was "notified" and "active[ly]" investigating potential unsafe or unsound practices in risk management and oversight of the Company's sales practices.[140] Wells Fargo also failed to disclose in its Form 10-K that high-level executives, including Stumpf, were aware of sales practice issues of a "significant scale" years earlier. ¶9.

158. False and Misleading Statement. On April 14, 2016, the Company announced its financial results for the first quarter of 2016, discussing, among other things, the impact of cross-selling on its Retail Banking unit:

WELLS FARGO REPORTS $5.5 BILLION IN QUARTERLY NET INCOME; Diluted EPS of $0.99; Revenue Up 4 Percent from Prior Year

- Continued strong financial results:
    - Net income of $5.5 billion, compared with $5.8 billion in first quarter 2015

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[138] In February 2016, according to Stumpf, Wells Fargo began the process of remediating the deposit and credit card customers that PwC identified. Stumpf testified that of the more than 82 million deposit accounts and nearly 11 million credit card accounts that Wells Fargo opened during the 2011 – 2015 time frame, PwC "identified approximately ***1.5 million*** such accounts (or 1.9%) that could have been unauthorized" and PwC identified a population of approximately ***565,000*** consumer credit cards that had never been activated or used by the customer.

[139] Wells Fargo & Co., Investor Annual Report at 58 (2015).

[140] Senate Tr. at 30.

- Diluted earnings per share (EPS) of $0.99, compared with $1.04

* * *

Regional Banking

- Retail Banking
  - Primary consumer checking customers up 5.0 percent year-over-year

* * *

  - ***Retail Bank household cross-sell ratio of 6.09 products per household, compared with 6.13 year-over-year***

* * *

<u>Wholesale Banking</u> . . . .

* * *

Wholesale Banking reported net income of $1.9 billion, down $183 million, or 9 percent, from fourth quarter 2015. Revenue of $7.0 billion increased $399 million, or 6 percent, from prior quarter . . . .

* * *

- ***Cross-sell of 7.3 products per relationship, up from 7.2 products in first quarter 2015.***

159. Before the Company issued its April 14, 2016 news release, the Company had already begun negotiating a potential settlement with the regulators concerning the unauthorized opening of accounts and credit cards. The settlement negotiations started in March 2016 and were ultimately disclosed six months later in September 2016. *See* ¶205 (January 11, 2017 *The Charlotte Observer* article: "Emails show Wells Fargo kept sales probe to itself for at least 6 months").

160. <u>False and Misleading Statement.</u> On May 4, 2016, the Company filed its Form 10-Q for the first quarter of 2016. In addition to repeating the cross-sell metrics reported in the April 14, 2016 news release, the Company again falsely stated that its cross-sell strategy was "needs-based":

> **<u>Cross-sell</u>** We aspire to create deep and enduring relationships with our customers by providing them with an exceptional experience and by discovering their needs and delivering the most relevant products, services, advice, and guidance. ***An outcome of offering customers the products and services they need, want and value is that we earn more opportunities to serve them, or what we call cross-sell… Our approach to cross-sell is needs based as some customers will benefit from more products, and some may need fewer.***

161. The Form 10-Q was signed by Levy and also contained SOX certifications signed by Stumpf and Shrewsberry that were substantially similar to the certifications set forth in ¶92.

162. False and Misleading Statement. On May 24, 2016, the Company held an Investor Day conference in San Francisco for analysts and investors. Defendants Stumpf and Tolstedt hosted the conference. Presentation materials at the conference described "Household growth and products per household," as follows:

- Households & Cross-sell: Retail checking households: +5.3% from 2013; Household & Cross-sell: Average Products Held per Household: 6.36 in 2013 and 6.29 in 2015;
    - Total Products: Total Products Held: +4.2% from 2013;
    - Revenue Drivers: Products Used Monthly: +7.8% from 2013; and
    - Revenue Drivers: Total Deposit and Investment Balances: +10.8% from 2013.

163. Tolstedt further represented at the conference that Wells Fargo anchored its cross-selling business practices in satisfying customer needs:

> [Tolstedt:] ***[P]roducts per household or cross-sell, the first thing we anchor ourselves on is our vision of satisfying our customers' needs and helping them succeed financially. And so everything that we do is really about that.***

164. False Statement: Additionally, during the May 24 conference, attendees asked Stumpf and Shrewsberry why the Company appeared to say "cross-selling" fewer times in 2016 as compared to previous conferences:

> [Rowe:] At the Investor Day in 2014, you guys mentioned the word cross-sell 80 times, which is down from 110 times in 2010. Don't have the final tally yet for this year, but I suspect it's lower than two years ago. ***So, maybe talk to is there a change in emphasis in terms of the Company in terms of how approaches the consumer or change in consumer's behavior, just because that's a phrase that we heard many, many times from Wells Fargo previously and seem to hear about it less in today's sessions***.
>
> . . . [Stumpf:] No, you know what, I wouldn't take that as any indication of how we have – that we've fundamentally changed the business. Whether you call it cross-sell or you call it mining the relationships that we have, fulfilling our vision of satisfying our customers' ***financial needs***, you can call it whatever you want. I think the word that John started the morning about was and to really reinforce the day, it's about relationships. And so the business hasn't fundamentally changed in terms of how we think about our relationships and how we think about serving our customers.
>
> [Sloan:] The absolute best opportunity for us to do more business is with our existing customers, and we have, as you heard today, a very compelling culture, view, mutual value exchange, as we think about serving our customers. ***And when they are thrilled, we are thrilled. And nothing has gotten – we are as committed today as we've been to deepening customer relationships, helping them succeed financially, partnering using plural pronouns and that will result in more cross-sell, deeper relationships, more satisfied customers, more raving fans and that's what's it's all about. There is no change in that area.***

165. On May 25, 2016, Evercore analysts issued a report discussing the Company's May 24, 2016 conference titled, "Investor Day Wrap: Targets Sliced, but Still a Conservative Drive Down the Fairway." The report discussed, among other things, the growth in the Company's credit card business due to its cross-selling ability:

> **Wells Fargo hosted its Investor Day yesterday in San Francisco**. Bottom line: While long-term profitability targets were cut due to the challenging rate and operating environment, such is not a major surprise, and we remain positive on the bank's L/T above-peer returns.
>
> * * *
>
> **Card biz growth to remain above industry pace with greater cross-sell and new products. . . .** ***Mgmt noted they have improved their penetration rates with 43.2% of checking customers now holding a WFC card, versus 33.5% in 2012.***

166. On May 25, 2016, analysts from Oppenheimer issued a report titled, "Wells Fargo Investor Day Takeaways: The Right Business Model For The Economy." Regarding cross-selling, the analysts wrote as follows:

> Throughout the day the watchword this year was "***relationship***" banking rather than "***cross-sell***" as in the past, which we found an odd sign of the time. The ***company had been using the "cross sell" mantra since the Norwest days in the late 1980s*** but apparently in the politically charged post crisis environment the idea that one would "sell" a financial product is somehow not PC. In reality of course it is all just smart business and customer service, anticipating needs and wants, and ***Wells is a model for how it should be done***.

167. After the Company's Investor Day of May 24, 2016, Wells Fargo stock continued to trade at artificially inflated prices above $50.00 per share.

168. <u>False and Misleading Statement.</u> After the May 24 conference, Defendants continued to promote Wells Fargo's cross-selling business model. On June 3, 2016, for example, an analyst asked Sloan at the 2016 Sanford C. Bernstein Strategic Decisions Conference whether the Company's cross-sell business model, which "has been a linchpin of the Wells Fargo's strategy" over the last two or three years, had changed:

> [Analyst:] [T]hat came in from the audience about cross sell, which has been a linchpin of the Wells Fargo's strategy philosophy. ***It did seem like there was a little less emphasis or mentioning of that strategy at the Investor Day last week. Is that just a change in nomenclature or does it get tougher as you get better at it?*** Does technology change the ability to do it?"
>
> [Sloan:] ***Yes, I think it's much more of just the change in the nomenclature because the way we think about our business is that we are very relationship oriented*** – you probably heard the word relationship used more than maybe even risk

> last week. And it's very relationship oriented and so when we bring a relationship into Wells Fargo we want to broaden that relationship. Sometimes we use the word cross-sell. Sometimes we use the word intensity. Sometimes we use the word penetration. It's all the same and that is how do we take a relationship and broadened it over time not only to satisfy our customers but bring additional revenue to Wells Fargo and, as you broaden those relationships, you also lower the risk of the relationship because you know your customer better. But the fundamental strategy has not changed at all.[141]

169. False and Misleading Statement. On June 17, 2016, the *American Banker* magazine published the text of an interview with Sloan, who was the Company's Chief Operating Officer at the time. During the interview, Sloan was specifically asked about cross-selling and whether the Company had gone too far in cultivating a sales culture that pushed employees too hard to sell products that customers may not have wanted. Sloan implied, without disclosing the true set of circumstances, that the Company engaged in cross-selling correctly and appropriately, making sure it followed regulations and satisfied customers' needs:

> [American Banker:] On the topic of cross-selling – Wells has come under scrutiny for its strong sales culture. ***Is there any sense that the bank has pushed that strategy to the limit***?
>
> [Sloan:] ***No. Because when you think of our vision, it's to satisfy our customers' financial needs***, and to help them succeed financially. We know a lot about our customers, and so doesn't it make sense that we would use our data and match it with our product set to try to broaden our relationship with our customer?
>
> How we do it, how we talk about it, ***making sure that we do it correctly, and appropriately – and making sure we follow regulations* – that will continue to evolve. *But the fundamental strategy that we have is not going to change***.

Wells Fargo Fired Tolstedt But Called It "Retirement," Failing to Disclose the Termination Was Because of Fraudulent Sales Practices – While Continuing to Report False Cross-Sell Metrics and Strategy

170. On July 12, 2016, the Company issued a news release announcing the retirement of Tolstedt and stating that Mary Mack would be taking over as Head of Community Banking. The news release characterized Tolstedt as among the Company's most valued executives, never mentioning the true facts and events that led to a largely forced retirement:

> **Wells Fargo's Carrie Tolstedt to retire at year's end; Mary Mack to succeed her as head of Community Banking effective July 31**
>
> Tolstedt led the nation's largest retail banking branch network

[141] Transcript of Sanford C. Bernstein Strategic Decisions Conference at 16 (June 3, 2016).

Wells Fargo & Company announced today that Carrie Tolstedt, the company's head of Community Banking, ***has decided to retire at year's end after a long and successful career*** . . . .

. . . ***The Community Bank enjoys industry leadership in many areas, including retail deposit market share, debit card transaction volume***, small business lending and mobile banking. Additionally, ***Tolstedt's team is a leader in building and deepening customer loyalty and team member engagement across the business*** . . . .

"A trusted colleague and dear friend, Carrie Tolstedt has been one of our most valuable Wells Fargo leaders, ***a standard-bearer of our culture, a champion for our customers, and a role model for responsible, principled and inclusive leadership," said John Stumpf*** . . . .

. . . Through her transition to retirement, she will continue to report to Tim Sloan, the company's president and chief operating officer, working closely with him and Mack, who also will report to Sloan. Mack's successor in her Wells Fargo Advisors role will be announced at a later date.

171. False and Misleading Statements. On July 15, 2016, the Company issued a news release announcing its financial results for the second quarter of 2016. The release discussed cross-selling results, this time only for the Company's Retail Banking unit:

WELLS FARGO REPORTS $5.6 BILLION IN QUARTERLY NET INCOME;
Diluted EPS of $1.01; Revenue Up 4 Percent from Prior Year

- Continued strong financial results:
  - Net income of $5.6 billion, compared with $5.7 billion in second quarter 2015
  - Diluted earnings per share (EPS) of $1.01, compared with $1.03
  - Revenue of $22.2 billion, up 4 percent

* * *

- Strong growth in loans and deposits . . . .

* * *

- ***Regional Banking***
  - Retail Banking
    - Primary consumer checking customers up 4.7 percent year-over-year

* * *

    - ***Retail Banking household cross-sell ratio of 6.27 products per household, compared with 6.32 year-over- year.***

172. False and Misleading Statement. On July 15, 2016, the Company held a conference call for analysts and investors to discuss the Company's second quarter 2016 financial results. During the call, Stumpf noted that the Company had previously announced that Tolstedt was

retiring. However, Stumpf continued to knowingly conceal the fact that the Company had made substantial findings of unlawful and unethical activity and fraud within its Community Banking segment as part of its investigation, which not only exposed millions of customers to unlawful fees and potential identity theft, but put the Company in the crosshairs of numerous government investigations. Instead, Stumpf and Shrewsberry falsely emphasized that Wells Fargo was committed to "transparency . . . and ensur[ing] customers are ***receiving the right products to meet their financial needs***," with Stumpf claiming that Tolstedt had built an extraordinary franchise that met the needs of millions of customers:

> [Stumpf:] Before I conclude, I want to highlight the announcement we made earlier this week, Carrie Tolstedt, Head of Community Banking who has been with Wells Fargo for 27 years ***has decided to retire at year end. She and her team have built an extraordinary franchise***, one that meets the needs of millions of customers nationwide, and has served investors very well for decades.
>
> [Shrewsberry:] Turning to our business segments, starting on page 14, community banking earned $3.2 billion in the second quarter, down 1% from a year ago, and 4% from the first quarter. . . .
>
> ***We continually work to enhance customer satisfaction and transparency, and ensure customers are receiving the right products to meet their financial needs, because the key to our success is long-lasting customer relationships built on trust***.

173. Following the release of Wells Fargo's financial results on July 15, 2016, Wells Fargo stock traded at prices above $48 per share.

174. <u>False and Misleading Statement.</u> On August 3, 2016, the Company filed its Form 10Q for the second quarter of 2016.[142] The Form 10-Q included the following statements referencing generic modifications to Wells Fargo's cross-sell metrics, but falsely claiming that this was due to "ongoing changes in Community Banking's business and products" and without referencing the various on-going investigations into the Company's sales practices:

> As described below, ***in second quarter 2016 we modified our methodology for Community Banking to better align our cross-sell metrics with ongoing changes in Community Banking's business and products***. For similar reasons, we are currently in the process of evaluating changes in our cross-sell methodology for Wholesale Banking and [Wealth and Investment Management].

* * *

[142] The Form 10-Q was signed by Levy.

> As previously mentioned, ***we are currently evaluating changes in our cross-sell methodology to better align our metrics with ongoing changes in Wholesale Banking's business and products***.[143]

175. The Form 10-Q also attached false SOX certifications signed by Stumpf and Shrewsberry, that were substantially similar to the certifications set forth in ¶92.

176. Reasons Why Statements in ¶¶153-175 Were Knowingly False and Misleading: Defendants' statements set forth in ¶¶153-175 concerning: (i) reported financial statements and cross-sell metrics; (ii) the Company's overall cross-selling strategy and that the purported purpose of such strategy was to provide customers with products they needed; (iii) risk management effectiveness of internal controls over financial reporting; (iv) the Company's "culture" and related business practices, as set forth in its Vision and Values, were each knowingly false and misleading for the following reason; and (v) Tolstedt's "retirement":

(a) Defendants knew or deliberately disregarded that during the period leading up to and including the Class Period, Wells Fargo's cross-selling sales and incentive practices led to widespread, serious misconduct, including the opening of millions of fake credit card or deposit accounts in the names of customers who did not authorize the account openings; the creation of fake personal identification or PIN numbers to open fake debit cards, and the use of phony email addresses to enroll customers in additional services that customers did not request via forgery or other illegal means – all culminating in "fraudulent conduct [that] occurred on a massive scale," as the government found (¶¶4-5, 177-78, 191).

(b) Defendants knew or recklessly disregarded that Wells Fargo's cross-selling incentives, quotas and penalties severely undermined the Company's cross-selling metrics and cross-selling strategy, and turned the Company's retail branches into a "pressure cooker."

(c) Stumpf knew of the sales misconduct by 2011, and admittedly understood that the problems had reached a "significant scale" by 2013; he conveyed these facts to Wells Fargo's Board by 2013 (¶¶9, 193(a)).

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[143] Wells Fargo & Co., Quarterly Report (Form 10-Q) at 12-14 (Aug. 3, 2016).

(d) Wells Fargo's Operating Committee met weekly, and the cross-selling misconduct rose to its attention likely by 2011, when Tolstedt learned of the misconduct (¶¶9, 109(b), 193(a)).

(e) Defendants further knew or deliberately disregarded that the credit card penetration rates and growth metrics that they touted to investors rested, in part, on illusory credit cards and unsustainable growth that cross-selling misconduct generated.

(f) Ongoing internal investigations had found that in excess of 5% of the sales employees in the Community Banking segment had engaged in a wide ranging scheme to inflate the Company's financial performance figures by, among other things, opening millions of unauthorized deposit and credit card accounts. Such findings resulted in mass terminations of employees, ultimately reaching more than 5,000 firings. Moreover, statements regarding Tolstedt's decision to retire were materially false and misleading when made as Defendants, and specifically Stumpf and Sloan, knew that there was more to the story regarding Tolstedt's "retirement" than was reported publicly (¶193(c)). In truth, Tolstedt was forced to retire in part due to the investigations and findings regarding unethical and unauthorized sales practices.

(g) Further, certain Defendants continued to realize financial compensation that they obtained, in part, by achieving cross-selling targets (¶¶19-21).

(h) All of the facts identified above were either known or deliberately disregarded by the Officer Defendants and Director Defendants, and demonstrated that Wells Fargo's statements, identified above, were materially false and misleading when made.

VII. THE TRUE FACTS CONCERNING KNOWN AND LONGSTANDING FRAUDULENT CONDUCT BEGAN TO BE DISCLOSED

177. On September 8, 2016, the CFPB published its enforcement action and Consent Order with Wells Fargo detailing the Company's fraudulent practices, which were centered on a corporate culture intent on growing its cross-selling opportunities in an unlawful fashion and without its customers' consent. The agency also imposed a fine of $100 million citing the Company's widespread illegal activity. The announcement noted that the underlying facts were known to the Company prior to the CFPB probe through an internal investigation that had revealed widespread fraudulent practices:

> **Consumer Financial Protection Bureau Fines Wells Fargo $100 Million for Widespread Illegal Practice of Secretly Opening Unauthorized Accounts**
>
> Bank Incentives to Boost Sales Figures Spurred Employees to Secretly Open Deposit and Credit Card Accounts
>
> Today the Consumer Financial Protection Bureau (CFPB) fined Wells Fargo Bank, N.A. $100 million for the ***widespread illegal practice of secretly opening unauthorized deposit and credit card accounts***. Spurred by sales targets and compensation incentives, employees boosted sales figures by *covertly* opening accounts and funding them by transferring funds from consumers' authorized accounts without their knowledge or consent, often racking up fees or other charges. ***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***. . . .
>
> "***Wells Fargo employees secretly opened unauthorized accounts to hit sales targets and receive bonuses***," said CFPB Director Richard Cordray.

178. The September 8, 2016 CFPB announcement explained that the widespread illegal conduct was not caused by rogue sales staff, but had been driven by the Company's culture and had been further spurred by financial incentives to bank employees to report growing cross-sell product sales:

> ***In recent years, the bank has sought to distinguish itself in the marketplace as a leader in "cross-selling***" these products and services to existing customers who did not already have them. When cross-selling is based on efforts to generate more business from existing customers based on strong customer satisfaction and excellent customer service, it is a common and accepted business practice. ***But here the bank had compensation incentive programs for its employees that encouraged them to sign up existing clients for deposit accounts, credit cards, debit cards, and online banking***, and the bank failed to monitor the implementation of these programs with adequate care.
>
> According to today's enforcement action, thousands of Wells Fargo employees ***illegally enrolled consumers in these products and services without their knowledge or consent in order to obtain financial compensation for meeting sales targets***. The Dodd-Frank Wall Street Reform and Consumer Protection Act prohibits unfair, deceptive, and abusive acts and practices. Wells Fargo's violations include:
>
> - ***Opening deposit accounts and transferring funds without authorization***: According to the bank's own analysis, employees opened roughly 1.5 million deposit accounts that may not have been authorized by consumers. ***Employees then transferred funds from consumers' authorized accounts to temporarily fund the new, unauthorized accounts***. This widespread practice gave the employees credit for opening the new accounts, allowing them to earn additional compensation and to meet the bank's sales goals. Consumers, in turn, were sometimes harmed because the bank charged them for insufficient funds or overdraft fees because the money was not in their original accounts.
>
> - ***Applying for credit card accounts without authorization: According to the bank's own analysis, Wells Fargo employees applied for roughly 565,000 credit card accounts that may not have been authorized by consumers. On***

those unauthorized credit cards, many consumers incurred annual fees, as well as associated finance or interest charges and other fees.

- **Issuing and activating debit cards without authorization**: Wells Fargo employees requested and issued debit cards without consumers' knowledge or consent, going so far as to create PINs without telling consumers.

- ***Creating phony email addresses to enroll consumers in online-banking services***: Wells Fargo employees created phony email addresses not belonging to consumers to enroll them in online-banking services without their knowledge or consent.

179. Also on September 8, 2016, the OCC issued a press release announcing it had assessed a $35 million penalty against Wells Fargo and had ordered the bank to make restitution to customers who were harmed by the bank's "unsafe or unsound" sales practices. These practices included the unauthorized opening of deposit or credit card accounts and the transfer of funds from authorized, existing accounts to unauthorized accounts. The $35 million civil money penalty reflected a number of factors, including the bank's failure to develop and implement an effective enterprise risk management program to detect and prevent the unsafe or unsound sales practices, and the scope and duration of the practices.

180. The OCC Consent Order for a Civil Money Penalty, which sets forth the above terms, also required Wells Fargo to take corrective action to establish an "enterprise wide sales practices risk management and oversight program to detect and prevent unsafe or unsound sales practices." The OCC's actions were taken "in coordination with" the CFPB and the Los Angeles City Attorney.[144]

181. In response to the regulatory settlements, on September 8, 2016, Wells Fargo issued a news release that did not deny the allegations, as it had done previously. *See* ¶¶149-151. Rather, the Company largely confirmed the CFPB's contentions and indicated that Wells Fargo had entered into the settlement agreements with regulators to "put[] th[e] matter behind [them]." Nevertheless, the release shockingly (and wrongfully) blamed lower-level employees for "acting counter" to the values of the bank. That false information, blaming branch employees to deflect attention away from

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[144] On November 18, 2016, the OCC further announced that it was revoking certain provisions of its original deal and that Wells Fargo would be required to comply with a host of new restrictions, including that the OCC could reject the hiring of senior executives, ban the payments of "golden parachutes" and closely review any branch openings and closures by Well Fargo.

sales and incentive practices imposed by senior management, helped buoy the stock price from decline that would occur with later disclosures:

> **Wells Fargo Issues Statement on Agreements Related to Sales Practices**
>
> ***Wells Fargo Bank, N.A., a subsidiary of Wells Fargo*** & Company, ***reached agreements*** with the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, and the Office of the Los Angeles City Attorney, ***regarding allegations that some of its retail customers received products and services they did not request***.
>
> The amount of the settlements, which Wells Fargo had fully accrued for at June 30, 2016, totaled $185 million, plus $5 million in customer remediation.
>
> The company issued the following statement related to today's news:
>
> ***Wells Fargo reached these agreements consistent with our commitment to customers and in the interest of putting this matter behind us***. Wells Fargo is committed to putting our customers' interests first 100 percent of the time, and we regret and take responsibility for any instances where customers may have received a product that they did not request.
>
> Our commitment to addressing the concerns covered by these agreements has included:
>
> - An extensive review by a third party consulting firm going back into 2011, which we completed prior to these settlements. The review included consumer and small business retail banking deposit accounts and unsecured credit cards opened during the period reviewed.
> - As a result of this review, $2.6 million has been refunded to customers for any fees associated with products customers received that they may not have requested. Accounts refunded represented a fraction of one percent of the accounts reviewed, and refunds averaged $25.
> - ***Disciplinary actions, including terminations of managers and team members who acted*** counter ***to our values***.
> - Investments in enhanced team-member training and monitoring and controls.

182. On September 8, 2016, it was also announced that Wells Fargo would pay $50 million to the City and County of Los Angeles for allegedly opening fake accounts in customers' names, as well as pay restitution to affected customers. Los Angeles City Attorney Mike Feuer, called the settlement "a major victory for consumers."[145] The $50 million in civil penalties is the largest the Los Angeles City Attorney's Office has ever secured.

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[145] Dakota Smith, *Wells Fargo to pay $185 million in fines over unauthorized accounts*, L.A. Daily News, Sept. 8, 2016, http://www.dailynews.com/business/20160908/wells-fargo-to-pay-135-million-in-fines-over-unauthorized-accounts.

183. On September 9, 2016, Piper Jaffray analysts issued a report that described their expectation that Wells Fargo shares would trade lower in light of the CFPB announcement and the disclosure that Wells Fargo had terminated more than 5,300 employees for the opening of unauthorized accounts:

> ***We are incrementally more negative on shares of WFC following further revelations about the unauthorized account issues that have surfaced over the past day.*** Since our initial note (here), we learned that 5,300 employees have been let go due to their involvement in setting up unauthorized accounts, which was a bigger amount than we initially expected given WFC was considered one of the better-managed large banks (2% of workforce). ***In addition, the public relations fallout appears larger than we initially expected*** given the optics of the issue at hand. We expect this additional spotlight on WFC could open the bank to greater scrutiny from regulators and community groups, particularly if the broader public continues to take an interest in the issue (e.g., an article in Vanity Fair magazine).
>
> - . . . ***We would expect the stock to see incremental pressure in the near-term*** given the issues described will bring up a series of questions about internal controls within the bank.
>
> * * *
>
> - . . . ***We believe WFC will have a difficult time meeting Street expectations for earnings growth in a low rate environment while the stock screens as expensive at 13.0x*** . . .

184. On Friday, September 9, 2016, the price of the Company's stock fell from the prior day's close of $49.90 per share to a close of $48.72 per share on September 9, 2016, on high trading volume of 32 million shares – compared to the 14 million shares that traded on September 8.

185. On September 13, 2016, *The Motley Fool* published an article about Tolstedt, who oversaw the Community Banking segment wherein thousands of employees had created millions of fake bank and credit card accounts:

> **Wells Fargo's Massive Fraud Made This Woman Filthy Rich**
>
> **Overseeing a massive fraud translated into generational wealth for one Wells Fargo executive.**
>
> Just in case you weren't outraged enough at the fact that thousands of employees at Wells Fargo fraudulently opened up to 2 million accounts for customers without their consent, then I have a chart for you. ***It reveals the one person who, more than anyone else, appears to have personally benefited from the fraud.***
>
> I'm referring to Carrie Tolstedt, the executive who oversaw Wells Fargo's community banking division for much of the past decade. ***That includes the years from 2011 to 2015, when more than 5% of the employees under her watch engaged in a wide-ranging, systematic scheme to boost revenue by taking advantage of millions of unwitting customers.***

As an aside, Wells Fargo claims that only 1% of its employees engaged in this behavior. This is based on the fact that it fired approximately 1,000 employees a year over five years, equating to 1% of its branch-based staff each year. But if you aggregate the terminations, which I believe offers a more accurate reflection of the underlying point, then you get 5,300 terminations, or 5.3% of its 100,000 branch-based employees.

Wells Fargo reported two months ago that Tolstedt had ***decided to retire*** at the end of this year, though she stepped down from her role overseeing the bank's branch network on July 31. "A trusted colleague and dear friend, Carrie Tolstedt has been one of our most valuable Wells Fargo leaders, a standard-bearer of our culture, a champion for our customers, and a role model for responsible, principled and inclusive leadership," said chairman and CEO John Stumpf at the time.

As a parting gift, Tolstedt will earn a purported $93 million payday, according to *The Financial Times*, the lion's share of which stems from the exercise of stock awards that she received from the bank along the way. The bank's latest proxy filing shows that the 27-year Wells Fargo veteran owns more than 2.5 million shares of stock in one way, shape, or form.[146]

186. That same day, the Company also issued a news release announcing that it would eliminate the sales goals and incentives that substantially contributed to the fraudulent conduct, as Defendants knew:

Wells Fargo to Eliminate Product Sales Goals for Retail Bankers

Wells Fargo & Company, announced today that it will eliminate all product sales goals in retail banking, effective January 1, 2017.

"Our objective has always been and continues to be to meet our customers' financial needs and drive customer satisfaction," said CEO John Stumpf. "We are eliminating product sales goals because we want to make certain our customers have full confidence that our retail bankers are always focused on the best interests of customers."

. . . "The elimination of product sales goals represents another step to reinforce our service culture, helps ensure that nothing gets in the way of our ability to achieve our mission, and is consistent with our commitment to providing a great place to work," concluded Stumpf.

187. On September 13, 2016, the price of Wells Fargo stock fell another 3%, from a close of $48.54 per share on September 12, 2016, to a close of $46.96 per share on September 13, 2016, on huge volume of 59 million shares traded – compared to the 35.5 million shares that traded on September 12.

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[146] John Maxfield, *Wells Fargo's Massive Fraud Made This Woman Filthy Rich*, The Motley Fool, Sept. 13, 2016, https://www.fool.com/investing/2016/09/13/wells-fargos-massive-fraud-made-this-woman-filthy.aspx.

188. On September 14, 2016, *CNNMoney* reported that the DOJ had issued subpoenas to Wells Fargo regarding the opening of millions of fake accounts at the bank and further reported that multiple U.S. attorneys' offices were investigating Wells Fargo.[147]

189. On the same day, September 14, 2016, *Bloomberg* published an article reporting that Stumpf had been subpoenaed to testify before Congress on September 20, 2016:

> Wells Fargo's scandal surrounding allegations that it opened two million accounts for customers without their knowledge is proving to be far-reaching. Chief Executive Officer John Stumpf faces damage to the bank's reputation and his personal legacy and has been called to testify before Congress next week, while investor Warren Buffett lost $1.4 billion after Wells Fargo shares fell 3.3 percent.[148]

190. On September 16, 2016, a *Reuters* article discussed the 7.5% stock price decline caused by the surprise revelations that the Company had created millions of bank accounts and applied for credit cards without account holders' permission. The article noted specifically that Wells Fargo had not previously provided investors with any indication of the scale and scope of the malfeasance, the disclosure of which caused $19 billion in market losses:

> A phantom account scandal at Wells Fargo & Co has put the U.S. bank's disclosure policies under a harsh spotlight.
>
> Despite press reports that a federal regulator and the Los Angeles prosecutor were investigating sales practices at retail branches of the San Francisco-based lender, the bank, which agreed to a $190 million settlement, ***gave investors no indication of the scale of the problem.***
>
> ***The surprise spooked investors and has lopped roughly $19 billion off its market value since the probe disclosed last week that*** Wells employees had created roughly 2 million accounts for customers without their knowledge in order to meet internal sales targets. The bank has fired 5,300 people over the scandal.
>
> While the settlement barely makes a dent in the $23 billion of profit the bank earned last year, ***the scandal's aftermath has caused a 7.5 percent drop in Wells' stock compared with a roughly 2.4 percent decline for the Dow Jones US Banks Index.***
>
> Investors, analysts and legal experts who spoke to Reuters said Wells Fargo'[s] silence did not mean it had broken the law. But there is broad agreement ***that it made matters worse by not being more forthcoming with Chief Executive John Stumpf*** under pressure to explain why this happened on his watch.

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[147] Matt Egan, *et al.*, *U.S. opens investigation into Wells Fargo fake accounts scandal*, CNNMoney, Sept. 14, 2016, http://money.cnn.com/2016/09/14/investing/wells-fargo-investigation-federal-fake-accounts/.

[148] *Wells Fargo's Fake Account Scandal Snares CEO Stumpf*, Bloomberg, Sept. 14, 2016 (hereinafter "*Scandal Snares CEO*").

> "Look, they're lawyered up to the sky. They did the minimum legally required. Do I think that that's fair to investors or that that's all that investors need to know or want to know? No I do not," said Nell Minow, vice chair of ValueEdge advisors, a corporate governance advisory firm.
>
> "***It further diminishes their already significantly diminished credibility in terms of their willingness to be transparent.***"
>
> * * *
>
> Meanwhile, Stumpf will testify before the Senate Banking Committee next week and U.S. prosecutors have begun an investigation into the bank's sales practices.
>
> "It is a scandal of almost unimaginable proportions," former U.S. Securities and Exchange Commission Chairman Arthur Levitt told Reuters this week. "You cannot hold management immune from its consequences."
>
> MATERIAL OR NOT?
>
> The tactics deployed in its branches were not a surprise for Wells. The bank had been looking into them since 2011, when it started firing employees over "inappropriate sales conduct." A Los Angeles Times investigation published in 2013 described a "pressure-cooker sales culture" at the bank.
>
> ***No mention is made of the bank's internal probe, or authorities' probes in the "legal actions" section of its latest quarterly or annual securities filings***. The bank also did not say until this week that during the second quarter it had set aside money for the settlement.
>
> Stumpf has since apologized and said management takes responsibility for what happened. Spokesman Mark Folk said the bank did not believe it had to disclose information to investors ahead of the settlement.
>
> "Each quarter, we consider all available relevant and appropriate facts and circumstances in determining whether a litigation matter is material and disclosed in our public filings," he said. "Based on that review, we determined that the matter was not material."
>
> * * *
>
> Experts said Wells Fargo would have been wise to at least flag the issue earlier.
>
> "They should have tried to get control over the release of the news, so that it wasn't ***a bombshell*** that went off on someone else's schedule." Said Erik Gordon, a University of Michigan business professor.
>
> "Now they're in the terrible position of looking like they did something and hid it."[149]

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[149] Dan Freed & Ross Kerber, *Wells Fargo Faces Scrutiny Over Lack of Scandal Disclosure*, Reuters, Sept. 16, 2016, http://www.reuters.com/article/us-wells-fargo-accounts-disclosure-idUSKCN11M0A8.

191. On September 20, 2016, the CFPB, through its Director, Richard Cordray, provided testimony before the U.S. Senate's Banking, Housing, and Urban Affairs Committee on "Wells Fargo's Unauthorized Accounts," reiterating the agency's findings and describing the fraud as a ***staggering corporate-wide breach of trust***:

> ***The fraudulent conduct [at Wells Fargo] occurred on a massive scale***. As detailed in our Order, Wells Fargo opened 1,534,280 deposit accounts that may not have been authorized, including transferring funds from some customer accounts without their knowledge or consent. Wells Fargo also initiated applications for 565,443 credit card accounts that may not have been authorized, by using consumers' information without their knowledge or consent. ***These activities . . . represent a staggering breach of trust and conduct that should never occur at any bank. . . .***
>
> ***The gravity and breadth of the fraud that occurred at Wells Fargo cannot be pushed aside as the stray misconduct of just a few bad apples. As one former federal prosecutor has aptly noted, the stunning nature and scale of these practices reflects instead the consequences of a diseased orchard***. As our Order describes, Wells Fargo built and refined an incentive-compensation program and implemented sales goals to boost the cross-selling of products, but did so in a way that made it possible for its employees to pursue unfair and abusive sales practices. It appears that the bank did not monitor the program carefully, allowing thousands of employees to game the system and inflate their sales figures to meet their sales targets and claim higher bonuses. ***Rather than put its customers first, Wells Fargo built and sustained a program where the bank and many of its employees served themselves instead, violating the basic ethics of a banking institution, including the key norm of trust***.[150]

<u>Stumpf Testified Before Congress Twice and Admitted Knowledge of Fraudulent Conduct as Early as 2011</u>

192. On September 20, 2016 and September 29, 2016, Stumpf testified under oath before the Senate Committee on Banking, Housing, and Urban Affairs and the House Financial Services Committee, respectively. Among other things, Stumpf provided testimony that essentially established the Company's knowledge of the wrongdoing and its failure to disclose it. In fact, after Stumpf's testimony on September 20, 2016, the Company issued a news release discussing that testimony, accepting responsibility for the unethical behavior, yet continuing to state falsely that Wells Fargo "never directed . . . team members to provide products . . . to customers that they did not want." Thus, the true scope of the issues and management's knowledge and involvement in the pervasive malfeasance continued to be concealed:

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[150] *Hearing Before the Senate Committee on Banking, Housing, and Urban Affairs*, 114 Cong., at 12 (Sept. 20, 2016) (Statement of Richard Cordray, Consumer Financial Protective Bureau).

Wells Fargo Chairman and CEO John Stumpf Outlines a Series of New Actions to Strengthen Culture and Rebuild Trust of Customers and Team Members at Senate Banking Committee Hearing

Accepts Accountability for Wrongful Sales Practices

In testimony today before the U.S. Senate Banking Committee on Banking, Housing, and Urban Affairs, Wells Fargo & Company Chairman and Chief Executive John Stumpf addressed the wrongful sales practices that have taken place in the company's retail banking business, outlined the actions to eliminate them, and emphasized the company's commitment to rebuild trust going forward.

I accept full responsibility for all unethical sales practices in our retail banking business . . .

"I want to make it very clear that ***we never directed nor wanted our team members to provide products and services to customers that they did not need or want***."

* * *

In his testimony, Stumpf also outlined key actions to ensure its culture is wholly aligned with the interests of its customers, including:

- Ending product sales goals for everyone in the retail banking business to make certain nothing gets in the way of doing what is right for customers;
- Sending customers a confirmation email within one hour of opening any deposit account and an acknowledgement letter after submitting a credit card application;
- Contacting all deposit customers across the country, including those who have already received refunded fees, to invite them to review their accounts with their banker and calling the credit card customers identified in the review to confirm whether they need or want their credit card;
- Expanding the scope of its customer account review and remediation to include 2009 and 2010;
- Conducting an independent, enterprise-wide review of our sales practices.

"I am making a personal commitment to rebuilding our customers' and investors' trust, the faith of our team members, and the confidence of the American people," Stumpf said.

193. The details of Stumpf's two-day testimony before Congress established his knowledge of the fraudulent accounts and that the misconduct was tied to Wells Fargo's sales and incentive programs. His testimony also confirmed the knowledge of many of the Office and Director Defendants. That testimony further showed that the Company essentially fired Tolstedt (or forced her into retirement) in July 2016 because of the wrongdoing and that Wells Fargo made no

disclosure of the misconduct in question (or of the government investigations related thereto). Highlights of the testimony are set forth below:

(a) Stumpf and the Board knew by late 2013 (and possibly as early as 2011) that extensive wrongdoing had occurred within Wells Fargo's retail banking segment, including the unauthorized opening of bank and credit card accounts:

<u>September 20, 2016 Testimony</u>

> [Senator Shelby:] When did the senior management, you and others you deemed senior management, learn about this fraud?
>
> [Stumpf:] I can speak to myself, . . . and I believe others, it was 2013. Before that, it was being dealt with the audit and compliance within the business unit.[151]
>
> * * *
>
> [Senator Corker:] ***I'm asking you when the board became aware that you had a unit that was involved in committing fraud?***
>
> [Stumpf:] ***Yeah, it would have been later 2013 and then 2014 and on***.
>
> * * *
>
> [Stumpf:] I – I – I think that was later in 2013. . . . And it's to best of what I remember, ***but it was sometime later '13, surely in '14***.[152]
>
> * * *
>
> [Senator Reed:] In 2013 when you learned of this, what did you do? . . . Did you inform the regulators or instruct someone to inform the regulators of a growing problem?
>
> . . . [Stumpf:] [O]ur primary and prudential regulator was informed at that time.
>
> [Senator Reed:] ***Did you inform the board at that time***?
>
> [Stumpf:] Yes. ***I can't recall the exact meeting. . . but it was sometime in '13. And I know in 2014, various committees of the board were made aware of this. The risk committee, the audit and examination, the Corporate Responsibility***.[153]
>
> * * *
>
> [Senator Crapo:] When did each of those notify you? Or did you notify them at some point? In what order did they get involved and when?

[151] Senate Tr. at 6.

[152] *Id*. at 11.

[153] *Id*. at 12.

[Stumpf:] I don't know that I have precise dates. But I'll give you a general timeline. The City of LA lawsuit was sometime in the May timeframe of 2015, well I, '13 maybe it was.

I'm sorry I'm missing on dates here. And then the OCC was involved, we shared with them and when we learned of their lawsuit, we, well it was actually in '15 I'm sorry, 2015, May of '15. And then we shared that information with the CFPB. ***But the OCC was involved with us prior to probably the 2013 timeframe***.

[Senator Crapo:] So the OCC probably would have been involved first even before the City of Los Angeles?

[Stumpf:] They are our principle regulator and ***yes***.[154]

* * *

[Senator Vitter:] When did you and folks at your level, like board members, know of this activity on any significant scale? Was it 2013, which you have suggested, or was it earlier?

[Stumpf:] ***2013***.[155]

September 29, 2016 Testimony

[Representative Neugebauer:] Mr. Stumpf, you testified that you learned of these violations some time in 2013. When did you inform the Board that this was an issue?

[Stumpf:] Yes. So the Board had high-level ethics, line, comments or questions, or high-level kinds of activities around people who left the company, involuntary, terminations, ***really through the 2011 through 2013 time frame***. After we learned . . . .

[Representative Neugebauer:] I want you to repeat that. You said the Board was having some discussions as early as 2011 about this?

[Stumpf:] ***I was saying that the Board, from 2011 to 2013, would get reports at a Committee level***, at a high-level about ethics, lines, requests, or information at not a granular but maybe at the company level.

[Representative Neugebauer:] But you didn't find out about it until 2013?

[Stumpf:] In 2013, I became aware there was an issue in the Southwestern part of the country and by 2014 then – this was late in the year – ***by 2014, we started to provide more information to more Committees of the Board. And then by 2015 the Board had a – the Risk Committee Board had a complete report on that issue.***

[Representative Neugebauer:] ***As Chairman of the Board, the CEO, when did you tell the board we have a problem***?

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[154] *Id*. at 21.

[155] *Id*. at 24.

> [Stumpf:] ***It was in 2015 that we had a full report . . . 2014 we were starting to get more granular information that this was a risk area for the company to focus on***.
>
> [Representative Neugebauer:] Did you ever disclose this issue on a 10-K filing?
>
> ….[Stumpf:] As recently as our second quarter Q this year, when we use ***our disclosure teams and compliance teams to look at this issue,*** the facts and circumstances, ***we believe we're not material***.[156]
>
> * * *
>
> [Representative Hill:] Yeah. And you had 14 meetings at the audit committee during 2015, according to your proxy.
>
> But ***operating committee*** meets every Mondays, so the one question I have is, when was – ***do you remember this being talked about at that operating level when line managers bring their top concerns to you and was it in this same time frame, it wasn't until maybe two years after this really manifesting itself in Los Angeles***?
>
> [Stumpf:] ***Yeah***, it was being managed within the business.
>
> [Representative Hill:] Yeah.
>
> [Stumpf:] In 2011, it – there's – each business has their own corporate or their own compliance, their own sales efficacy and so forth. So it was brought out of the sales part into the line's control function.
>
> And then by 2012, they were producing goals. ***By 2013, is where we brought the corporate resources in, like corporate human resources, corporate investigations and so forth because we had saw a spike in that behavior***.[157]

(b) Through its cross-sell and manipulative conduct, Wells Fargo stole from its customers:

<u>September 29, 2016 Testimony</u>

> [Representative Duffy:] Did Wells Fargo employees steal from a million to 2 million other customers, yes or no?
>
> [Stumpf:] ***In some cases they did.***
>
> [Representative Duffy:] They did?
>
> [Stumpf:] ***Yes***.
>
> [Representative Duffy:] ***And so as Wells Fargo, back to 2011 is stealing from their customers and by the way***, banking is based on trust . . .
>
> [Stumpf:] ***Correct***.[158]

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[156] House Tr. at 8.

[157] *Id*. at 64.

(c) Tolstedt's retirement in July 2016 was, in part, precipitated by communications regarding the findings of an internal investigation of the unauthorized opening of accounts. Senator Warren also asked Stumpf questions concerning Tolstedt's departure from Wells Fargo in July of 2016. The Senator provided context in asking Stumpf these questions:

<u>September 20, 2016 Testimony</u>

> [Senator Corker:] So, she [Tolstedt] left after 27 years . . . .
>
> . . . ***I assume her departure after 27 years was based on this issue. Is that correct***?
>
> [Stumpf:] ***It was based on a number of issues. This was one of them***. . . .
>
> [Senator Corker:] So she, in essence, was terminated over this issue?
>
> [Stumpf:] No, Carrie chose to retire. Tim Sloan, our chief operating officer, with my consultation had discussion with her, and it was sometime in June or July, and said we want to go in a different direction.[159]
>
> * * *
>
> [Senator Warren:] [I]n July of this year just two months before the settlement was announced and before those facts became public . . . .
>
> * * *
>
> Before Ms. Tolstedt retired, it said – and this is from your letter, quote, "***Senior management and the board were aware*** of the pending litigation, investigation and discussions with our regulators, relating to sales practices when Ms. Tolstedt indicated her decision to retire."
>
> . . . Were you personally aware of the massive problem that occurred under Ms. Tolstedt's watch in July when she announced her retirement?
>
> [Stumpf:] I was aware that we were involved in discussions with the city attorney, the OCC and the CFPB, yes.
>
> [Senator Warren:] So you had some indication there was a massive problem?
>
> [Stumpf:] ***We had some indication that we had one percent of our people who were doing the wrong thing***.[160]

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[158] *Id*. at 19-20.

[159] Senate Tr. at 11.

[160] *Id*. at 39-40.

(d) The Company had pulled credit reports on customers who were the subject of unauthorized credit card applications. Stumpf also testified that when any credit card accounts are opened, credit bureau activity is triggered. "I know that when a credit bureau is requested, it has an impact on your credit score," to which Senator Tester replied, "[w]ell, this is a big deal." Stumpf responded, "[y]es, it is." Senator Tester further stated:

> [Senator Tester:] Well, I think it's really important that you understand that it's – it's – this is a big deal. I mean it's a big deal. And I know you feel bad about it. We feel bad about it. But the truth is there's real world implications here on young families on old families that are going to be put into a poverty situation because of this, even though we think it's just a few hundred bucks in fees. It's more than that, much more than that.[161]

(e) Wells Fargo never disclosed the known misconduct (or the government investigations related to that misconduct) in any of its Class Period filings with the SEC:

<u>September 20, 2016 Testimony</u>

> [Senator Toomey:] ***When did you begin to disclose in SEC filings that you had this potentially material adverse set of circumstances that could certainly have huge damage to your reputational value***?
>
> . . . [Stumpf:] ***I don't know***.
>
> [Senator Toomey:] ***Well, we haven't been able to discover such a disclosure and the SEC very clearly requires disclosure of material adverse circumstances. And I don't know how this could not be deemed material***. I think the market cap lost nine percent over the last couple of weeks, that's pretty material.
>
> * * *
>
> [Senator Toomey:] I get that those dollar amounts may not qualify as material to a bank the size of Wells Fargo but the ***reputational damage done to the bank clearly is material. And that has been manifested by this huge, adverse movement in stock prices***.[162]
>
> * * *
>
> [Senator Merkley:] You signed, Oxbanes – Sarbanes-Oxley reports. Did you ever reveal the problems with this high pressure sales strategy, in terms of fraudulent credit accounts?
>
> * * *
>
> [Senator Merkley:] ***Did you ever disclose the systemic problem of fraudulent accounts to your investors***?

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[161] *Id*. at 19.

[162] *Id*. at 14.

> [Stumpf:] ***It was not a material event***.
>
> [Senator Merkley:] ***So you bragged on the one end, about the intensive ability to get cross-selling and how that would be beneficial. But the problems that came from that strategy. The very problems that dozens and dozens of people have shared their stories about how it was on the ground. And you can only blame them for ethical lapses. You never disclosed you had a systemic problem.***
>
> * * *
>
> [Senator Merkley:] You sign those reports personally, that's what Sarbanes-Oxley was, didn't think that that was material? When you're saying, this is our big – this is our big win is our cross-selling strategy, not to disclose it, also had a dark side?
>
> [Stumpf:] There was a lot of things that our customers do and a lot of businesses that we have. This is one ratio . . . .[163]

(f) The Company's fraudulent business practices violated retail customers' trust and that the Company would need to work hard to regain this trust:

> [Senator Shelby:] Mr. Stumpf, is – isn't a lot of banking based on integrity or trust by your customers in the bank itself?
>
> * * *
>
> [Stumpf:] You know, Senator, you think about it exactly the way I think about it. ***Trust is the core element of any relationship, and surely in the financial services business***. . . .
>
> [Senator Shelby:] Do you believe you violated that trust?
>
> [Stumpf:] ***There is no question with some of our customers we have violated trust*** . . . .[164]

<u>The Wells Fargo Board Announced the Immediate Termination of Tolstedt – and Clawed Back $60 Million from Stumpf and Tolstedt</u>

194. On September 27, 2016, the Wells Fargo Board issued a news release, and on September 28, 2016 filed a Form 8-K, announcing the termination of Tolstedt and the potential forfeiture of her stock options. In relevant part, the news release stated as follows:

> The Independent Directors of the Board of Directors of Wells Fargo & Company today announced that they have launched an independent investigation into the Company's retail banking sales practices and related matters. A Special Committee of Independent Directors will lead the investigation, working with the Board's Human Resources Committee and independent counsel Shearman & Sterling LLP. Chairman and CEO John Stumpf, a member of the Board, has recused himself from all matters related to the Independent Directors' investigation and deliberations.

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[163] *Id*. at 33.

[164] *Id*. at 7.

> The Independent Directors have taken a number of initial steps they believe are appropriate to promote accountability at the Company. They have agreed with Mr. Stumpf that he will forfeit all of his outstanding unvested equity awards, valued at approximately $41 million based on today's closing share price, and that he will forgo his salary during the pendency of the investigation. In addition, he will not receive a bonus for 2016. Carrie Tolstedt, until recently Head of Community Banking, has left the Company, and the Independent Directors have determined that she will forfeit all of her outstanding unvested equity awards, valued at approximately $19 million based on today's closing share price. Ms. Tolstedt will not receive a bonus for 2016 and will not be paid severance or receive any retirement enhancements in connection with her separation from the Company. She has also agreed that she will not exercise her outstanding options during the pendency of the investigation. These initial actions will not preclude additional steps being taken with respect to Mr. Stumpf, Ms. Tolstedt or other executives as a consequence of the information developed in the investigation.

195. The September 28, 2016 Form 8-K stated in relevant part as follows:

> ***As part of these actions [related to recent legal and regulatory settlements***], the Company agreed with Carrie Tolstedt, former Senior Executive Vice President (Community Banking), that ***Ms. Tolstedt would separate from employment effective September 27, 2016***, that Ms. Tolstedt would not exercise any outstanding stock options previously awarded by the Company until the completion of the ongoing investigation being conducted by the Company and its Board of Directors and that, at the conclusion of the investigation the Board of Directors would have the authority to determine the extent to which such options will be forfeited. To ensure that no stock options could be exercised pending this agreement, the Board of Directors issued a precautionary notice of termination for cause of which was rescinded.

196. On September 29, 2016, Stumpf testified before the House Financial Services Committee. During that hearing, Stumpf affirmed his knowledge of the widespread wrongdoing and termination of employees. Stumpf further confirmed that committees of the Company's Board were receiving reports concerning the unauthorized accounts as early as 2011 and that by 2015, the Risk Committee of the Board had received a full report. *See* House Tr. at 5-6, 8. On that same day, the Company issued a news release concerning Stumpf's September 29, 2016 testimony:

> In testimony today before the U.S. House Financial Services Committee, Wells Fargo & Company Chairman and Chief Executive Officer John Stumpf reiterated the company's commitment to addressing improper sales practices within its retail bank, including actions the Independent members of the Board of Directors have taken to ensure executive accountability. Stumpf also reviewed changes and improvements made by the bank to date, and provided an update on its customer remediation program.
>
> * * *
>
> Stumpf also provided an update on key actions the company is taking to reinforce that its culture is wholly aligned with the interests of customers. ***This included announcing that the company is accelerating the process for the elimination of product sales goals for retail banking team members from January 1, 2017 to October 1, 2016.*** He said the reason for the action is that, "We want to make sure nothing gets in the way of doing what is right for customers."

> Another change Stumpf emphasized was that the company now sends customers a confirmation email approximately one hour after opening any retail deposit account and an acknowledgement letter after submitting a credit card application.
>
> Stumpf reported that as part of its effort to ensure that customers have only products they want and need, the company has begun contacting those with open credit card accounts identified by PricewaterhouseCoopers as possibly being unauthorized. For retail deposit account customers, the company has refunded fees and is contacting every single one of them across the country in order to ensure a full understanding of every customer affected by this problem. Stumpf emphasized that "We should have done more sooner, but we will not stop working until we get this right."
>
> "I am fully accountable for all unethical sales practices in our retail banking business, and I am fully committed to fixing this issue, strengthening our culture, and taking the necessary steps and actions to restore our customers' trust," Stumpf said.

VIII. ADDITIONAL POST-CLASS PERIOD EVENTS AND ADMISSIONS

197. After the Class Period, new disclosures and events (in addition to Stumpf's testimony before the House Committee) continued to inform the investors and the public of the breadth of the misconduct at Wells Fargo and the related reputational damage to the Company.

Wells Fargo Fired Stumpf

198. On October 12, 2016, the Company announced that Stumpf had retired as the Company's CEO. The move came after two congressional hearings during which he admitted that he knew about the Company's widespread sales misconduct. Stumpf was penalized in that he did not receive a severance package and relinquished $41 million in unvested equity, one of the biggest ever forfeitures of pay by the head of a bank. Still, Stumpf left with total compensation over $120 million. Upon his departure, the Board decided to split the Chairman and CEO roles going forward, replacing him with Sanger (as Chairman) and Sloan (as CEO):

> **Wells Fargo Chairman, CEO John Stumpf Retires; Board of Directors Elects Tim Sloan CEO, Director; Appoints Lead Director Stephen Sanger Chairman, Director Elizabeth Duke Vice Chair**
>
> Wells Fargo & Company announced today that Chairman and Chief Executive Officer John Stumpf has informed the Company's Board of Directors that he is retiring from the Company and the Board, effective immediately. The Board has elected Tim Sloan, the Company's President and Chief Operating Officer, to succeed him as CEO, and Stephen Sanger, its Lead Director, to serve as the Board's Chair. Sloan also was elected to the Board.
>
> Sloan's appointment to CEO and election to the Board are effective immediately. He will retain the title of President.

199. In addition to the departure of Stumpf, several other top executives also had quietly departed the Company in the summer of 2016, before the market was informed of the magnitude and scope of the Wells Fargo sales scandal. For example, in October 2016 *The Charlotte Observer* reported that Kenneth Zimmerman ("Zimmerman"), head of the Company's deposit groups, who reported directly to Tolstedt, left the Company. Zimmerman had been with the bank for 19 years:

> Kenneth Zimmerman, who headed Wells Fargo's deposit products group, made a personal decision to depart from the company at the end of July, spokeswoman Richele Messick said. Zimmerman left the company after initially making a personal decision in January to take a leave of absence, Messick said.
>
> * * *
>
> ***Zimmerman had reported to Carrie Tolstedt, the executive who ran the community banking unit at the center of the [unauthorized accounts] controversy.***
>
> * * *
>
> Last month, the bank disclosed that ***Claudia Russ Anderson***, the top risk manager for ***community banking, had begun a six-month leave of absence and been replaced in her role***.
>
> A source familiar with the issue said 58-year-old Anderson, who has been with the company for more than three decades, has two elderly parents who needed her help.

200. On March 1, 2017, the Company announced the Board had decided that eight Operating Committee members would not only forfeit their 2016 cash bonuses, but also "up to 50%" of their performance equity awards "received in 2014 that vested following 2016." The Company explained that the decision taken against, among others, Sloan, Shrewsberry, Carroll, Modjtabai and Loughlin was "based on the accountability of all those in senior management for the overall operational and reputation risk of the company."

<u>Federal and State Agencies Launched Civil and Criminal Investigations into Wells Fargo's Sales Practices</u>

201. As additional details concerning the Company's business practices continued to become public, multiple government investigations put further pressure on the Company to uncover, disclose and correct the wrongdoing:

(a) On September 27, 2016, Wells Fargo reported that its sales practices were being investigated by a variety of government officials and that the independent directors of the

Board had retained the law firm of Shearman & Sterling LLP to assist in the bank's internal investigation of those practices:

> Federal, state and local government agencies, including the United States Department of Justice, and state attorneys general and prosecutors' offices, as well as Congressional committees, have undertaken formal or informal inquiries, investigations or examinations relating 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.

(b) On September 30, 2016, the Company further reported that the "extensive review" conducted by an independent consulting firm actually went back to 2011 and that since the announcement of the settlements, the review had been expanded to include 2009 and 2010:

> An extensive review was performed by an independent consulting ***firm going back to 2011, which was completed prior to these settlements***. This review was conducted to identify financial harm stemming from potentially unauthorized accounts. . . . Since the announcement of the settlements, the review has been voluntarily expanded to include 2009 and 2010.

(c) On October 4, 2016, 14 U.S. Senators wrote a public letter to Attorney General Loretta E. Lynch calling for a criminal investigation of the Company and urging the DOJ to thoroughly investigate the culpability of senior executives at the bank:

> Mr. Stumpf testified under oath ***that he became aware of employees creating fraudulent bank accounts in 2013. Yet for years thereafter, Mr. Stumpf did not disclose that information to investors***.

(d) On October 5, 2016, the California Department of Justice served a search warrant on Wells Fargo in connection with its investigation into allegations of criminal identity theft over its creation of millions of unauthorized accounts. Documents filed along with the search warrant reportedly stated there was probable cause to believe Wells Fargo violated two sections of the state penal code – one outlawing certain types of impersonation, the other outlawing the unauthorized use of personal information. Both violations can be charged as felonies, punishable by imprisonment for more than a year.

(e) On October 27, 2016, four U.S. Senators sent a letter to KPMG asking it about the quality of its audits of Wells Fargo. "KPMG conducted audits assessing Wells Fargo's internal control over its financial statements," they wrote. "But none of KPMG's audits identified any concerns with illegal behavior that resulted in the creation of over two million unauthorized accounts by thousands of employees . . . . In fact, in each of your audits, your firm concluded that Wells Fargo 'maintained . . . effective internal control over financial reporting.'" The Senators requested that KPMG answer, among other questions, whether it was aware of any of the illegal sales practices committed by Wells Fargo from 2011-2015.

(f) In October of 2016, management consulting firm cg42 conducted a study and analysis of Wells Fargo, including a survey of 1,000 Wells Fargo customers and another 500 primary customers of other top ten banks, which concluded that the "***Wells Fargo fallout could tally $4 billion in revenue," and up to a "30% customer drop***." As reported by *CNBC*, the study further found that "[t]he bank stands to lose $99 billion in deposits." The study also concluded that "'[t]he breach of trust the scandal created has fundamentally changed the way that they think about their institution, the way they think about the bank.'"

(g) On November 3, 2016, Wells Fargo stated in its Form 10-Q that its sales practices were being investigated by the SEC. Wells Fargo stated that it had responded, the investigation was ongoing, and that it planned to raise its litigation reserves to $1.7 billion.

(h) On November 28, 2016, the California State Senate Committee on Banking and Financial Institutions, which had been conducting a further investigation of Wells Fargo's sales practices, issued a Background Paper in advance of an oversight hearing held "to highlight new information that ha[d] come to light since the September settlement agreements," including Wells Fargo's responses to a series of written questions posed by the U.S. Senate Committee on Banking, Housing, and Urban Affairs.[165] The Background Paper included Wells Fargo's responses and set forth the numbers of potentially unauthorized accounts opened by state, as well as the incentive pay rates and who had been held accountable by position and geographic area. The paper further stated that PwC had found that "approximately 623,000 consumer and business credit card accounts could have been unauthorized, and approximately 1.5 million deposit accounts could have experienced simulated funding."

(i) On December 23, 2016, the DOJ issued a subpoena for a key whistleblower, Yesenia Guitron ("Guitron"), to testify before a grand jury in San Francisco. Guitron had reportedly claimed that Wells Fargo made it virtually impossible to meet sales goals without cheating. She also

[165] Background Paper at 3, *supra* n.115.

claimed that Wells Fargo managers responded to her concerns by falsifying papers to show poor performance, barring her from obtaining family medical leave, and ultimately firing her.

Simultaneous with Government Investigations, Multiple State Agencies Suspended Business Alliances with Wells Fargo Further Damaging Shareholder Value

202. As the fallout from the disclosures of the fraudulent opening of accounts continued to grow, multiple municipalities announced suspension of business with Wells Fargo:[166]

- **California**: On September 28, 2016, the California State Treasurer, John Chiang, announced the imposition of sanctions against Wells Fargo, rebuking the bank in a letter to Stumpf and the bank's Board: "'How can I continue to entrust the public's money to an organization which has shown such little regard for the legions of Californians who have placed their financial well-being in its care?' . . . Chiang informed the bank that for the next year, his office [would] not invest in Wells Fargo securities, use the bank to buy stocks or bonds, or appoint the bank to underwrite certain bond offerings."[167]

- **Illinois**: On October 3, 2016, Illinois State Treasurer Michael Frerichs announced that Illinois would suspend Wells Fargo (which had worked with the state since 1970) from handling approximately $30 billion of state investment funds annually, as well as the underwriting of state debt and the handling of new bond sales.[168]

- **Chicago**: On October 5, 2016, the City Council of Chicago, with the support of Mayor Rahm Emanuel, approved a measure to freeze Wells Fargo out of any work with Chicago, including underwriting its bonds. Treasurer Kurt Summers announced he was divesting $25 million the city had invested with Wells Fargo.[169]

- **Ohio**: On October 14, 2016, Ohio Governor John Kasich announced that Ohio would bar Wells Fargo from "participating in future state debt offerings and financial services contracts initiated by state agencies under his authority" and "would seek to exclude Wells Fargo from participating in debt offerings initiated by the Ohio Public Facilities Commission."[170]

- **Massachusetts:** On October 18, 2016, Massachusetts Treasurer Deborah Goldberg instructed her staff to immediately remove Wells Fargo from Massachusetts's

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166 On October 11, 2016, it was also widely reported that Wells Fargo lost its accreditation with the Better Business Bureau as a result of the bogus account scandal. *See, e.g.*, Jeff Cox, *Wells Fargo just lost its accreditation with the Better Business Bureau*, CNBC, Oct. 11, 2016, http://www.cnbc.com/2016/10/20/Wells-Fargo-just-lost-its-accreditation-with-the-better-business-bureau-html.

167 Michael Corkery & Stacy Cowley, *California Suspends Ties with Wells Fargo*, N.Y. Times, Sept. 28, 2016, http://nyti.ms/2daytbA.

168 Press Release, Office of Illinois State Treasurer, "Treasurer Frerichs Suspends $30 Billion in Investment Activity from Wells Fargo for Predatory and Illegal Banking Practice" (Oct. 30, 2016).

169 Elizabeth Campbell, *Chicago Ends Business with Wells Fargo as Fallout Grows*, Bloomberg, Oct. 5, 2016.

170 Daniel Bases, *Ohio Latest to Bar Wells Fargo from State Business*, Reuters, Oct. 14, 2016, http://www.reuters.com/article/us-wells-farg-accounts-ohio-idUSKBN12E27k.

approved list of underwriters for a term of one year. Massachusetts spokesperson Chandra Allard stated that Massachusetts "isn't convinced that Wells Fargo has grasped the level of seriousness of their actions nor have they addressed systemic failures within their organization."[171]

- **San Francisco**: On December 14, 2016, San Francisco's Board of Supervisors suspended Wells Fargo from providing services to the city as a broker-dealer, in commercial banking and in commercial paper, for two years. The measure, sponsored by supervisor John Avalos, also removed Wells Fargo from securities investments and counterparty/repurchasing agreements. "[T]he Board of Supervisors unanimously passed a resolution urging the district attorney to investigate Wells Fargo executives and calling on the San Francisco Retirement Board to terminate all financial dealings with the bank."[172]

Former Employees Reported and Wells Fargo Admitted It May Have Fired or Otherwise Retaliated Against Employees Who Sought to Report Misconduct Even Through the Company's Ethics Hotline

203. Meanwhile, numerous Wells Fargo employees have come forward with stories of information showing that Wells Fargo fired them in retaliation for reporting unethical sales tactics and the unbearable pressure to meet unrealistic sales goals, which contradicts Wells Fargo's claims that it protected whistleblowers and encouraged their reports.

(a) For example, on September 19, 2016, *Everyday Money* published an article titled "Bank-High-Pressure Sales Techniques Are the 'Norm,' Workers Say":

> [A] former Wells Fargo branch manager, Julie Miller, ***reported she was told to increase sales by more than 35% every year***. Khalid Taha, a San Diego-based personal banker who left Wells Fargo in July [2016], reported he had a daily quota to open approximately 10 to 15 personal accounts, two to three other types of accounts, and two to three new credit cards or loans, as well as to find a daily referral for an insurance or mortgage product.
>
> ***The goals were unreasonable and created a "culture of harassment and fear when we did not meet them***," said Miller, who left Wells Fargo in 2013. She added bankers became so desperate to meet their quotas, they would resort to underhanded schemes.
>
> * * *
>
> "One way to beat the system was to "churn" accounts, in which bank employees closed an account and then immediately opened up a new one for the same

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[171] Gintautas Dumcius, *Massachusetts should end any business arrangements with Wells Fargo, Congressmen James McGovern and Stephen Lynch say*, MassLive, Oct. 17, 2016, http://www.masslive.com/politics/index.ssf/2016/10/massachusetts_should_end_any_b.html.

[172] Emily Green, *SF officials losing patience with scandal-plagued Wells Fargo*, S.F. Chron., Dec. 13, 2016, http://www.sfgate.com/politics/article/SF-officials-losing-patience-with-scandal-plagued-10794593.php.

> customer," Miller said. Additionally, bankers would automatically open a debit card account for a customer every time a new checking or savings account was started—without giving the customer a chance to decline. And signing customers up for online banking and credit cards, as part of the account on-boarding process, was another method [employees used] to add "new product" . . .

(b) In addition, on September 26, 2016, *The New York Times* published an article titled "Wells Fargo Workers Claim Retaliation for Playing by the Rules," indicating that in February 2011, Rasheeda Kamar ("Kamar"), a Wells Fargo employee for 22 years, sent an email voicing her concerns directly to Stumpf. Kamar never received a reply but was terminated soon after.[173]

(c) In September 2013, Bill Bado, a former Wells Fargo banker from Pennsylvania, reportedly refused to open fake accounts. He reached out to Wells Fargo Human Resources via email and the anonymous ethics hotline, and was terminated eight days later. One anonymous Human Resources official reported to *CNNMoney* that the bank had a method in place to retaliate against tipsters.[174]

(d) On September 26, 2016, a *CNNMoney* report titled "Wells Fargo Workers: Fake Accounts Began Years Ago" discussed and recounted interviews with multiple former Wells Fargo employees who state that the opening of false accounts was occurring as early as 2007:

> **Wells Fargo's fake accounts have been around a long time.**
>
> Almost a dozen Wells Fargo workers told CNNMoney that the shocking tactic – where employees opened unauthorized accounts to meet unrealistic sales goals – has been around much longer than the bank has acknowledged
>
> "These practices were going on way before 2011," said Susan Fischer, a former Wells Fargo branch manager, who worked at the bank for five years, starting in 2004.
>
> * * *
>
> ***Fischer said she remembers her district manager instructing her in 2007 to make the employees reporting to her open unauthorized accounts.*** . . .
>
> "My district manager told me, 'Do whatever you need to do,'" Fischer said.
>
> ***But Fischer ran into trouble when she refused take part in fraudulent activity. Superiors said she wasn't hitting her goals***. Soon, Fischer got so stressed

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[173] Stacey Cowley, *Wells Fargo Workers Claim Retaliation for Playing by the Rules*, N.Y. Times, Sept. 26, 2016, https://www.nytimes.com/2016/09/27/business/dealbook/wells-fargo-workers-claim-retaliation-for-playing-by-the-rules.html.

[174] Egan, *Admits to Sign*, *supra* n.73.

> from her work environment that she had to take a medical leave of absence and wasn't allowed to return.
>
> * * *
>
> ***Fischer's account matches those of other employees, who spoke to CNNMoney, where the bank made employees' lives difficult when they couldn't meet sales targets, whether via legitimate or illegal tactics.***
>
> * * *
>
> Emilie Ward, another Wells Fargo teller in Chaska, Minnesota, told CNNMoney that "100% this began long before 2011."
>
> Ward joined Wells Fargo in 2008 and said customers often had no idea about accounts being opened.
>
> "They would set up debit cards people didn't know about and have them mailed to the bank," she said.
>
> Another former teller, Rebecca Lewis, said she saw unauthorized accounts – especially credit cards – opened when she was hired in March 2009 in Idaho. ***Her attempts to flag the issue by calling the ethics hotline backfired, echoing allegations other former workers who say they were retaliated against.***[175]

(e) On September 28, 2016, U.S. Senators Jeff Merkley, Elizabeth Warren, and Bob Menendez requested that the SEC investigate whether Wells Fargo violated whistleblower protection laws by firing employees after they tried to report misconduct:[176]

> ***Mr. Stumpf admitted that he became aware of widespread fraud at the bank in 2013***, yet neither he nor the company disclosed that information to investors until the CFPB Consent Order became public in September 2016. In the interim, ***during quarterly earnings calls, Mr. Stumpf personally touted Wells' cross-sell ratio*** – its measure of the average number of accounts per customer – as well as Wells' success in opening new deposit accounts and credit card accounts. ***He did so apparently with knowledge that many of these retail accounts were created without customer authorization***.
>
> * * *
>
> Mr. Stumpf claimed under oath that the firing of more than 5000 employees for creating more than two million possibly fake accounts was not "material" to investors. But Mr. Stumpf personally emphasized the company's increasing number of retail accounts and growing cross-sell ratio on quarterly earnings calls with

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175 Matt Egan, *Wells Fargo Workers: Fake accounts began years ago*, CNNMoney, Sept. 26, 2016, http://money.cnn.com/2016/09/26/investing/wells_fargo_fake_accounts_before_2011/.

176 *See* Letter to SEC, *supra* n.64.

investors and analysts, and a number of analyst reports from that period recommend purchasing Wells Fargo stock in part because of those strong numbers. Mr. Stumpf and Wells Fargo investors clearly believed that the cross-sell ratio and the number of retail accounts were material to investment decisions – and yet Mr. Stumpf did not disclose that those numbers had been inflated by millions of fraudulent accounts.

* * *

Wells Fargo has reportedly fired several employees who had reported misconduct to their superiors or called Wells Fargo's internal ethics hotline.

* * *

Both Sarbanes-Oxley and the Dodd-Frank Wall Street Reform and Consumer Protection Act have anti-retaliation provisions to protect employee whistleblowers who report certain types of fraud and violations of securities law.

For instance, Sarbanes-Oxley prohibits a publicly-traded company from terminating or discriminating against an employee who provides information about what he or she reasonably believes is a type of fraud, a violation of any SEC rule or regulation, or a violation of federal law related to fraud against shareholders.

* * *

Published reports and court filings indicate that Wells Fargo harassed and ultimately terminated employees for raising concerns about the creation of fake deposit and credit card accounts.[177]

(f) On September 29, 2016, *McClatchy.com* published an article discussing a lawsuit filed in 2010 by two former Wells Fargo bankers, Guitron and Judi Klosek.[178] As noted in another article, "[b]y March 2009, [Guitron] began complaining to her supervisor, who still works for Wells Fargo in private banking, about the co-worker's continued opening of rogue accounts and the number of customers receiving service charges for bank accounts they had never approved, according to court documents. But her alerts to superiors up the chain of command – first to human resources officers, then to regional and area managers, and finally an email to CEO John Stumpf – brought no end to the repeated opening of unnecessary accounts."[179]

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[177] *Id*.

[178] Teresa Welsh, *Wells Fargo may have retaliated against employees who reported false account practices as early as 2010*, McClatchy.com, Sept. 29, 2016, http://www.mcclatchydc.com/news/nation-world/national/article104899191.html.

[179] Yune, *Scandal Unfolds*, *supra* n.76.

(g) On October 7, 2016, *National Public Radio* in a segment called, "The Wells Fargo Hustle," reported Company employees faced unrelenting pressure to sell products in branches across the country, including the San Francisco branch where CEO Stumpf worked, and through which he would walk and observe.[180] They were required to open as many new accounts as possible and were given unrealistic sales quotas of 15 to 20 per day, even in branches with little or no daily walk-in traffic. Employees were also pressured to make their numbers at any cost. They were told to call their friends and relatives to get them to open accounts and were coached on how to inflate numbers and create fake accounts. Ashley, a former Wells Fargo personal banker, explained that following a "coaching session" – a meeting, in a locked room, with two managers who threatened that "[i]f you don't meet your solutions, you will be fired, and it's going to be on your permanent record" – she became physically ill at her desk.[181] In fact, the Company fired Ashley when she refused to meet the quotas, and stamped her Form U5 record, "[f]ailure to perform job duties." Eric, another former Wells Fargo employee, was forced to quit after he developed stomach issues and an eye twitch.[182] Wells Fargo reportedly marked another employee, Jeremy's, Form U5 with a note that he had "admitted to opening up fraudulent accounts" after he had reported the fraudulent behavior to his district managers, the ethics hotline and quit when he "was told basically he could quit or the bank was going to open an investigation into him, whether he gave people accounts without their consent. And there was a good chance if that happened he'd be fired."[183]

(h) On October 13, 2016, *Reuters* published an article titled, "Wells Fargo Complaints Show Flaws in Federal Whistleblower Program." The article specifically discussed retaliation claims made by Wells Fargo employees:

> ***Former Wells Fargo & Co general manager Claudia Ponce de Leon filed a whistleblower complaint in December 2011 with federal labor regulators, alleging she was fired for telling superiors about employees opening unauthorized accounts.***

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[180] *Wells Fargo Hustle*, National Public Radio, Oct. 7, 2016, http://www.npr.org/templates/transcript/transcript.php?storyId=497084491.

[181] *Id.*

[182] *Id.*

[183] *Bad Form, Wells Fargo*, National Public Radio, Oct. 28, 2016, http://www.npr.org/templates/transcript/transcript.php?storyId=499805238.

> Nearly five years later, she has not been interviewed by investigators at the Labor Department's Occupational Safety and Health Administration (OSHA), said her attorney Yosef Peretz.
>
> ***Her complaint claiming retaliation by Wells Fargo for reporting potential misconduct is one of several dozens filed against the bank over the last 14 years, Reuters has found.***
>
> * * *
>
> As of Oct. 6, the agency had yet to close out 34 of the 91 complaints it has received ***since fiscal year 2002 from Wells Fargo employees alleging they faced retaliation after reporting potential wrongdoing***, according to department data obtained through a Reuters public records request.
>
> * * *
>
> ***In late September, Reuters identified Ponce de Leon and at least four other former Wells Fargo employees who reported to OSHA between 2009 and 2014 that they were fired for raising concerns about the opening of unauthorized accounts and credit cards***. Of the five OSHA complaints seen by Reuters, Ponce de Leon's case has been pending since December 2011 . . . .

(i) On November 3, 2016, Senators Elizabeth Warren, Ron Wyden, and Robert Menendez wrote to Sloan suggesting that Wells Fargo retaliated against its employees by filing "hundreds of Form U5 reports," which may have been "inaccurate or incomplete":

> [O]ur staff ***has obtained data*** from a major securities industry regulator, the Financial Industry Regulatory Authority (FINRA), indicating that between 2011 and 2015, ***Wells Fargo filed reports on the terminations of over 200 employees related to the illegal behavior that ultimately resulted in the bank's September 2016*** settlement with the Consumer Financial Protection Bureau (CFPB) and other regulators. ***These reports, known as Form U5s, confirm that Wells Fargo had ample information about the scope of fraudulent sales practices occurring at the bank long before the CFPB settlement, and they raise additional questions about Wells Fargo's response to this illegal activity. In addition, public reports indicate that Wells Fargo may have filed inaccurate or incomplete Form U5s for fired employees and that the bank may have done so to retaliate against whistleblowers***. If this is the case, then it would appear that Wells Fargo concealed key information from regulators . . . .

(j) According to an article published in the *Daily Mail* on October 2, 2016, Wells Fargo ignored a petition signed by more than 5,000 employees which claimed it was impossible for them to keep up with sales targets legally.[184] Another article published in America Prospect further elaborated on the petition. The Committee for Better Banks:

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[184] Jennifer Smith, *Wells Fargo bosses 'ignored a petition signed by thousands of workers asking them to get rid of unrealistic sales goals' two years before lawsuit over sham accounts*, Daily Mail.com, Oct. 2, 2016, http://www.dailymail.co.uk/news/article-3818517/Wells-Fargo-bosses-ignored-petition-signed-thousands-workers-asking-rid-unrealistic-sales-goals-two-years-lawsuit-sham-accounts.html.

> launched an online petition calling on the bank to end its sales goal "obsession," which ultimately garnered more than 11,000 signatures. Bank workers brought the petition signatures to several local bank branches, and then to the 2015 shareholders meeting in St Louis as they tried to publicize the detrimental impacts of high sales quotas on both workers and consumers.[185]

204. Wells Fargo has since admitted that it has seen examples of retaliation against its employees. On January 24, 2017, *CNNMoney* reported that the Company had "found evidence that at least some of these whistleblower retaliation claims . . . may have merit." Asked to clarify if that means there were signs of retaliation, a Wells Fargo spokeswoman told *CNNMoney*: "Yes, that is how I would read it."

<u>2017 Brought Additional Disclosures Cementing Defendants' Knowing Wrongdoing Including Claims of Evidence Destruction and Emails Confirming Defendants' Concealment of Ongoing Investigations and Retaliation Against Employees</u>

205. On January 11, 2017, *The Charlotte Observer* published an article titled "Emails Show Wells Fargo kept sales probe to itself for at least 6 months." The article was stunning and provides evidence that the Company was in discussions with the CFPB about phony account openings for six months prior to September 2016. The article noted that *The Charlotte Observer* had uncovered emails that provided proof of those conversations:

> ***Wells Fargo knew as early as March 2016 that a regulator was formally investigating its sales practices, according to emails obtained by the Observer that shed more light on when the San Francisco-based bank became aware of the probe.***
>
> Documents show the Consumer Financial Protection Bureau in discussions with Wells' attorneys, including in Charlotte, about the investigation ***six months before the CFPB fined it $100 million*** over unauthorized customer accounts. The emails connected to the investigation, requested under the Freedom of Information Act, have not been previously reported.
>
> ***The records raise fresh questions about why Wells Fargo did not disclose the investigation to the public or investors before the fine was announced. Under federal securities regulations, companies must disclose "material" information – matters that a "reasonable" investor would deem important in deciding whether to buy a stock***.
>
> * * *
>
> The earliest of the emails pertaining to the CFPB investigation dates to March 8, before Wells Fargo reported quarterly financial results for the first three months of 2016.

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[185] *See* Justin Miller, *First and Foremost, the Wells Fargo Scandal Is About Workers*, Am. Prospect, Oct. 4, 2016, http://prospect.org/article/first-and-foremost-wells-fargo-scandal-about-workers.

> ***The bank's securities filings for that quarter and the second quarter of 2016 do not mention probes by the CFPB or the other two authorities that fined the bank:*** the Office of the Comptroller of the Currency and the city and county of Los Angeles.
>
> * * *
>
> The emails show ongoing discussions between the CFPB and Wells Fargo attorneys over the course of last year leading up to the fine's announcement.
>
> In one email dated March 16, CFPB enforcement attorney Lawrence Brown told Wells attorneys Robert McGahan and David Rice, both based in Charlotte, that he "greatly" appreciated the bank's "pledge to be transparent and cooperate quickly and fully with the Bureau's investigation."
>
> * * *
>
> Richard Clayton, research director for CtW Investment Group, a Washington, D.C.-based organization that advocates on behalf of labor union pension funds holding about 12 million Wells Fargo shares, said it's "distressing" the bank did not inform investors of the investigation sooner.

206. On February 21, 2017, Wells Fargo announced that – based on the Board's investigations – that it had fired ***for cause*** four current and former prominent senior managers in Community Banking. Those individuals included Claudia Russ Anderson, the former Community Banking Chief Risk Officer, who the Company had previously stated in October 2016 had taken a leave of absence. *See* ¶199. All of the individuals who were fired forfeited their bonuses and unvested options:

> Wells Fargo & Company today announced employment terminations based on its Board of Directors' ongoing independent investigation into the Company's retail banking sales practices and related matters.
>
> Four current or former senior managers in Community Banking have been terminated by the Company for cause by a unanimous vote of the Board:
>
> - Claudia Russ Anderson – Former Community Bank Chief Risk Officer
> - Pamela Conboy – Arizona Lead Regional President
> - Shelley Freeman – Former Los Angeles Regional President (now head of Consumer Credit Solutions)
> - Matthew Raphaelson – Head of Community Bank Strategy and Initiatives
>
> None of these executives will receive a bonus for 2016 ***and they will forfeit all of their unvested equity awards and vested outstanding options***.

207. On January 24, 2017, *Vanity Fair* published an article titled "Explosive Report Suggests Vast Cover-Up at Wells Fargo." The article reported that employees were typically

provided 24 hours' notice before annual reviews and inspections which provided time for them to destroy incriminating evidence. The article also described the shredding of evidence and further referenced the forging of documents to make accounts appear legitimate:

> ***Managers and employees*** at the bank's roughly 6,000 branches across the U.S. typically ***had at least 24 hours' warning about annual reviews conducted by risk employees***, current and former Wells Fargo employees and executives said. ***That gave many employees time to cover up improper practices***, such as opening accounts or signing customers up for products without their knowledge.
>
> ***Often, managers would call for all hands on deck at a branch to stay late into the evening – or sometimes all night – to shred documents or forge signatures if they weren't there***, some current and former managers said. For instance, they would go through desks to find signature cards that hadn't been approved, **make sure wire forms** had been filled out properly and that documents in a "control binder" like cash or teller audits were filled out, said Ivan Rodriguez, a former branch banker at Wells Fargo for about six years until 2013. Some branches that opened accounts for customers without the customer present would cut and paste a signature the bank had on file for the customer and add it to the required signature card, Mr. Rodriguez said.

<u>After the September 2016 Disclosures and Settlements, New Account Openings Plummeted, Further Evidencing that Previous Results Were Inflated by the Fraud</u>

208. After the disclosure of the fraudulent account opening activity in September 2016, new customer account openings sharply declined as the reputational effect of the fraud began to materialize. Current customers closed accounts and potential new customers were choosing to bank elsewhere.

209. On October 14, 2016, the Company reported in its third quarter 2016 financial statement supplement that for the month of September 2016, new account openings plunged 25% and credit card applications fell by 20%:

> **Monitoring customer activity in Retail Banking**
>
> ***In the month of September***
>
> * * *
>
> - Customer visits with bankers, account openings and applications were down on lower referrals, marketing activity and product offerings
>   - Customer visits with branch bankers were down 10% YoY
>   - ***Consumer checking account opens down 25% YoY***
>   - Change in Account Opens = (143)K YoY vs. Total # of Accounts = 33.2 million
>   - Credit card applications down 20% YoY.

210. On October 14, 2016, *The New York Times* reported:

Wells Fargo Says Customers Shied Away After Scandal

Wells Fargo disclosed on Friday that ***new account openings had taken a nose-dive since the scandal over illegal activity at the bank erupted***: Bank executives said customers opened 25 percent fewer checking accounts and applied for 20 percent fewer credit cards in September compared with a year ago.

Wells Fargo executives acknowledged that customers may have shunned the bank as the extent of the problems came to light.

* * *

Although it was too early to assess the impact the declines might have on the bank's bottom line, the fallout from its widespread creation of sham deposit accounts and credit cards dating back to 2005 was clearly taking its toll.

* * *

In an interview, the bank's chief financial officer, John R. Shrewsberry, attributed the decline partly to the bad publicity and to the fact that customers were "irritated with Wells Fargo in September."[186]

211. On November 17, 2016, the Company reported its "October Retail Banking Customer Activity":

<u>Key Takeaways</u>

Customer Interactions

* * *

- ***Branch banker interactions were down*** from September 2016 (linked month "LM") and YoY primarily driven by a slowdown in new account openings

Deposit Balances and Accounts

* * *

- ***Consumer account opens were down 27% LM and 44% YoY*** primarily due to a full month impact of customer reaction to the sales practices settlement and reduced marketing activities

- ***Customer-initiated account closures were up modestly, 3%, both LM and YoY***

Debit and Credit Cards

[186] Michael Corkery, *Wells Fargo Says Customers Shied Away After Scandal*, N.Y. Times, Oct. 14, 2016, https://www.nytimes.com/2016/10/15/business/dealbooks/wells-fargo-says-customers-shied-away-after-scandal.html?_r=o.

* * *

- ***New credit card applications continued their downward trend with applications down 35% LM and 50% YoY*** primarily due to reduced marketing activities and a full month impact of customer reaction to the sales practices settlement

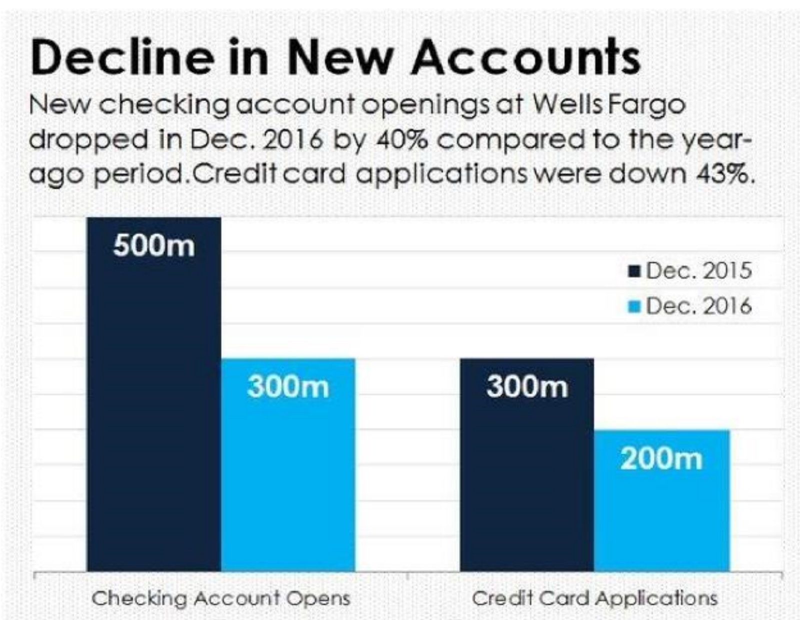
Customer Experience Surveys

- ***Customer loyalty scores were down both LM and YoY . . . .***[187]

212. On November 12, 2016, *Bloomberg* published an article titled "Wells Fargo New Accounts Tumble 44% in Wake of Scandal":

> **Wells Fargo New Accounts Tumble 44% in Wake of Sales Scandal**
>
> Wells Fargo & Co. said ***retail customers opened 44 percent fewer new accounts in October*** from a year earlier in the wake of the bank's record-setting settlement with regulators over its cross-selling scandal.
>
> ***The drop was 27 percent from September*** and is showing signs of stabilizing this month, Mary Mack, the lender's head of community banking, said in a conference call Thursday. ***New credit-card applications dropped by half to 200,000 in October.***[188]

213. On February 13, 2017, *The Motley Fool* illustrated the decline in the opening of new checking accounts – comparing 2016 to 2015 and noting declines of more than 40%:



[187] Wells Fargo, Wells Fargo Reports October Retail Banking Customer Activity at 2 (Nov. 17, 2016).

[188] Jennifer Surane, *Wells Fargo New Accounts Tumble 44% in Wake of Sales Scandal*, Bloomberg, Nov. 12, 2016, https://www.bloomberg.com/news/articles/2016-11-17/wells-fargo-says-account-openings-tumbled-44-in-October.

214. On February 17, 2017, Wells Fargo reported its "January Retail Banking Customer Activity," which illustrated that this trend is only worsening with time:

- Consumer checking account opens . . . down 0.2 million, or 31%, YoY
- Customer-initiated consumer checking account closures were up 1% L[ast] M[onth] and 4% YoY

* * *

- New consumer credit card applications . . . down .2 million, or 47% YoY.

215. On the same day, *The Mercury News* published an article titled, "Wells Fargo Customers Avoid Bank Amid Accounts Scandal."[189] The article quoted an independent banking analyst who explained the "[t]wo primary factors" "driving" the Company's latest numbers: '"***These are legitimate, real numbers compared to the old numbers that were greatly inflated*** because the bank was opening bogus accounts . . . . And the notoriety over ***the accounts scandal is prompting some existing customers to close their accounts and keeping some new people from opening their first accounts***."[190]

216. Similarly, *Bloomberg*, in a February 17, 2017 piece titled, "Wells Fargo New Accounts Drop 31% as Scandal Impact Drags On," reported that the new data reflected Wells Fargo's inability to "reverse" the deepening crisis, as "January marks ***the fifth consecutive month that new accounts and credit-card applications have fallen***."[191] And, "[t]he ***47 percent decline in credit-card applications last month was the worst since October***, when applications dropped 50 percent."[192] Most importantly, the article stated, "Shrewsberry warned investors last week" that

[189] George Avalos, *Wells Fargo customers avoid bank amid accounts scandal*, Mercury News, Feb. 17, 2017, http://www.mercurynews.com/2017/Wells-Fargo-customers-avoid-bank-amid-accounts-scandal/.

[190] *Id*.

[191] Laura J. Keller, *Wells Fargo New Accounts Drop 31% as Scandal Impact Drags On*, Bloomberg, Feb. 17, 2017, 10:09 AM PST, https://www.bloomberg.com/news/articles/2017-02-17/wells-fargo-new-accounts-decline-31-as-scandal-impact-drags-on.

[192] *Id*.

"[f]ewer new accounts may affect the pace of revenue growth [because] . . . ***Wells Fargo earned more than half of its 2016 profit from community banking***."[193]

IX. LOSS CAUSATION/ECONOMIC LOSS

217. Plaintiffs incorporate by reference the allegations in ¶¶1-216 set forth above. During the Class Period, Defendants publicly disseminated material, false and misleading statements and omitted material facts concerning the Company's true financial condition. The material misrepresentations and omissions included issues concerning: (i) the Company's cross-sell metrics and growth; (ii) the Company's overall cross-sell strategy and culture; and (iii) the Company's risk management and effectiveness of disclosure and internal controls. The conduct alleged herein and the materially false and misleading statements and omissions made during the Class Period caused Wells Fargo's common stock to trade at artificially inflated prices as high as $58.52 per share during the Class Period – and operated as a fraud on investors in the Company's common stock.

218. Specifically, during the Class Period, Defendants repeatedly boasted of the Company's financial performance both annually and on a quarterly basis and attributed its strong performance in large part to its core business model of cross-selling products to its customers across business segments. *See*, *e.g.*, ¶101. Defendants added that such cross-selling was designed to fulfill Wells Fargo's customers' financial needs. *See*, *e.g.*, ¶¶101, 113. The Company's reported performance was said to be directly attributable to its cross-sell strategy. *See, e.g.*, ¶¶107, 133, 168.

219. In truth however, as alleged herein, the Company knew or deliberately disregarded that each of these representations was materially false as: (i) the Company opened millions of deposit and credit card accounts for customers without their knowledge to generate fees and compensation rewards for Wells Fargo employees; (ii) Company employees applied for and opened credit card and bank deposit accounts on behalf of customers without their knowledge or consent; (iii) employees in the Community Banking segment had engaged in a wide ranging scheme to inflate the Company's financial performance figures by opening millions of unauthorized deposit and credit card accounts; and (iv) the Company's reported cross-selling metrics and the financial results derived from them were the product of pervasive misconduct.

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[193] *Id.*

220. When the truth began to be disclosed in September 2016, Wells Fargo's stock price suffered significant declines, as the artificial inflation was removed from the stock price.

221. On September 8, 2016, the CFPB published a press release and Consent Order with Wells Fargo detailing the Company's fraudulent practices. *See* ¶177.

222. On the same day, September 8, 2016, Wells Fargo issued a news release which did not deny the allegations as it had done previously (*see* ¶181). Indeed, the Company confirmed the CFPB contentions.

223. In response to the September 8, 2016 disclosures, the price of the Company's stock declined significantly from a close of $49.90 per share on September 8, 2016, to close at $48.72 per share on September 9, 2016, on high trading volume of 32 million shares.

224. On Saturday, September 9, 2016, *The Wall Street Journal* published an article explaining that in light of the September 8, 2016 disclosures, "Wells Fargo's shares fell 2.4% . . . a worse drubbing than other bank stocks in a down day for markets overall."[194] More specifically, the article noted how these disclosures had surprised investors and could have a negative impact going forward.[195]

> ***An immediate worry for investors is how customers react to news of how employees behaved***. Regulators, for instance, said that Wells Fargo employees, often chasing sales goals and bonuses, created fake accounts for customers, invented personal identification numbers and moved funds between accounts without authorization.
>
> ***Those allegations could hurt the bank's ability to attract new customers, could prompt current customers to look for another bank*** and affect the amount of products and services Wells Fargo is able to sell to new or existing customers, said Allen Tischler, a senior vice president at Moody's who focuses on U.S. banks.[196]

225. On September 13, 2016, the Company also issued a news release that announced that it would eliminate the sales goals and incentives that drove the culture and environment known to Defendants to have substantially contributed to the fraudulent conduct:

Wells Fargo to Eliminate Product Sales Goals for Retail Bankers

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[194] Emily Glazer, *At Wells, A Solid Image Is At Risk*, Wall St. J., Sept. 16, 2016, at B1 (hereinafter "Glazer, *A Solid Image*").

[195] This prediction proved true as following the public disclosure of the fraudulent conduct, new account openings fell precipitously in each of the calendar months afterward. *See* ¶¶208-216.

[196] Glazer, *A Solid Image*, *supra* n.195.

> ***Wells Fargo & Company, announced today that it will eliminate all product sales goals in retail banking, effective January 1, 2017.***
>
> "Our objective has always been and continues to be to meet our customers' financial needs and drive customer satisfaction," said CEO John Stumpf. "We are eliminating product sales goals because we want to make certain our customers have full confidence that our retail bankers are always focused on the best interests of customers."

226. On September 13, 2016, the price of Wells Fargo stock fell significantly again, from a close of $48.54 per share on September 12, 2016, to a close of $46.96 per share on volume of 59 million shares traded, compared to the 35 million shares traded on September 12.

227. On September 14, 2016, Deutsche Bank published a Wells Fargo Alert titled "How Much More Pain is There?" The report specifically attributed the decline in Wells Fargo's stock price to the CFPB settlement and explained, among other things, that Wells Fargo was down -6% since the disclosure of the settlement on September 8, 2016. Deutsche Bank warned that the fallout might not yet be complete:

> WFC stock is -6.6% over the last week, underperforming the BKX by 440bps as details surrounding WFC's sales tactics came to light. . . .
>
> * * *
>
> **What happens to WFC from here?**
>
> ***We can't rule out additional legal and regulatory risk*** (State AG's of NY and CA are investigating this issue per media reports this afternoon). That said, it's worth noting that WFC's 440bps of lag compare to a peak lag of 8% at BAC, 7% at MTB and 10% at JPM over different periods (with most of the pain in the first week or first month). ***This suggests that the relative sell-off could be about 50% done***, although each instance is unique.

228. On September 14, 2016, UBS also issued a report explaining the significant and ongoing operational and share price impacts of the fraud-related disclosures. UBS stated that the Company's financial condition would be impacted negatively by the disclosures, and the corresponding need for the bank to change its business culture. Specifically, UBS informed investors that the disclosures went directly to the heart of the business model that Wells Fargo had used to convince the market that its financial performance was more robust than other banks:

> **Wells' sales culture called into question**
>
> ***Wells' sales culture has been held out as a differentiated and value creating approach by both management and investors***, with above industry deposit growth shown as evidence. However, after the recent regulatory inquiry and settlement, we

> believe revenue growth could slow as Wells shifts to new metrics and employees push cross-selling less aggressively
>
> * * *
>
> **Distractions and compliance burdens could weigh on both revenues and expenses**
>
> While we believe the direct impact of WFC's $185 million settlement regarding unauthorized accounts may be limited, ***we expect this is an issue which is likely to linger for some time***. The bank's sales culture has been viewed as a differentiating factor by both management and investors, ***and this announcement could dent WFC's reputation*** as being a more Main Street focused bank.[197]

229. On September 14, 2016, it was also reported that the DOJ had issued subpoenas to Wells Fargo regarding the opening of millions of fake accounts at the bank and that multiple U.S. Attorneys' offices were investigating Wells Fargo.[198] *See* ¶188.

230. On the same day, September 14, 2016, *Bloomberg* published an article which reported that Stumpf had been subpoenaed to testify before Congress on September 20, 2016.[199]

231. As a result of the news concerning the DOJ investigation and the congressional subpoena that had been issued to Stumpf, on September 15, 2016, Wells Fargo shares suffered a significant price decline from $46.52 at market close on September 14, 2016 to $46.15 on trading volume of more than 61 million shares.

232. On September 20, 2016, Stumpf testified under oath before the Senate Committee on Banking, Housing, and Urban Affairs admitting, among other things, that both he and the Board knew in 2013 of the wrongdoing within the Company's Retail Banking segment, including the unauthorized opening of bank and credit card accounts. *See* ¶193(a).

233. On September 20, 2016, the Company issued a news release discussing Stumpf's Senate testimony. While the bank accepted responsibility for the unethical behavior, it continued to falsely state that senior management ***never directed anyone to provide products or services to***

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[197] Brennan Hawken, *Identity Crisis: Regulatory Stumble Strikes to the Heart of Wells' Strategy* at 1, 3 (UBS Sept. 14, 2016).

[198] On March 4, 2017, it was further reported that the DOJ is probing whether executives hid details from the Company Board and regulators as the problem grew over the years. Patrick Rucker, *U.S. Justice Department targets Executives in Well Fargo probe*, CNN News March 4, 2017, http://www.reuters.com/article/wells-fargo-accounts-investigations-idUSL1N1G027Q.

[199] *Scandal Snares CEO*, *supra* n.149.

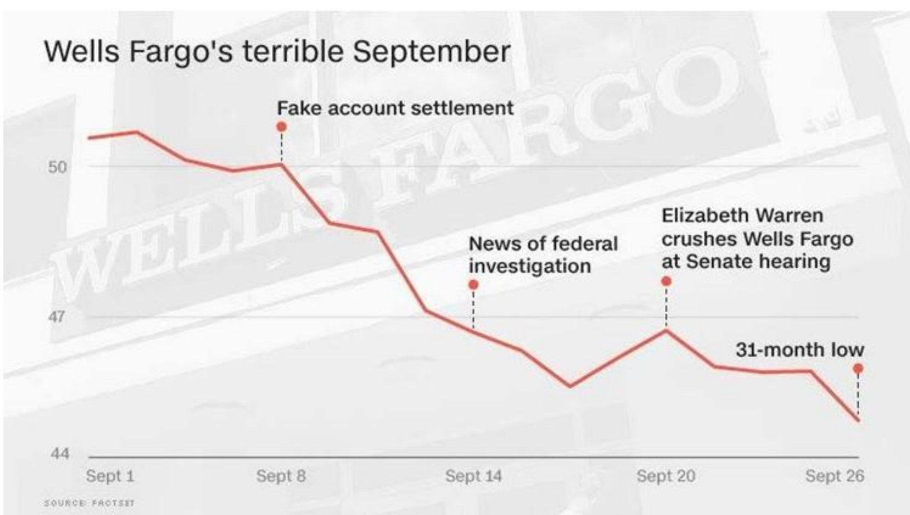
customers that they did not need or want. ¶192. Thus, the full scope of the malfeasance and how it was tied to sales and incentive practices imposed by senior management remained concealed.

234. On September 21, 2016, J.P. Morgan issued a report that discussed ongoing corporate risks and downgraded Wells Fargo stock specifically due to the testimony Stumpf provided at the Senate hearing:

> ***We are downgrading Wells Fargo to Neutral from Overweight to reflect the uncertainty from heightened scrutiny around its sale practices which is likely*** to increase expenses and modestly slow revenue growth. In addition, there is uncertainty about how long these investigations will go on and which other agencies will jump in,-including potential for criminal referrals. There is also a big reputational hit to Wells Fargo from this scrutiny. Longer term, we expect management to tum this but the timing is uncertain.[200]

235. Wells Fargo's share price fell from a high of $47.20 on September 20, 2016 to a close of $45.83 on September 21, 2016 on massive volume of more than 64 million shares.

236. Notably, after the Class Period, on September 26, 2016, *CNNMoney* published a report titled "Wells Fargo stock sinks to 2-1/2 year low" attributing the recent price declines to the fake account scandal and settlement disclosed in September 2016. The report included the following chart illustrating the negative share price movement resulting from the disclosures of fraudulent conduct:



[200] Vivek Juneja, *Senate Hearings Likely to Expand Probes; Uncertainty About Timing, Expenses - Downgrade to Neutral* at 3 (J.P. Morgan Sept. 21, 2016).

X. INAPPLICABILITY OF SAFE HARBOR

237. As alleged herein, the Defendants acted with scienter because at the time that they issued public documents and other statements in Wells Fargo's name they knew, or with extreme recklessness disregarded the fact, that such statements were materially false and misleading or omitted material facts. Moreover, the Defendants knew such documents and statements would be issued or disseminated to the investing public, knew that persons were likely to rely upon those misrepresentations and omissions, and knowingly and recklessly participated in the issuance and dissemination of such statements and documents as primary violators of the federal securities laws.

238. As set forth in detail throughout this Complaint, the Defendants, by virtue of their control over, and/or receipt, of Wells Fargo's materially misleading statements and their positions with the Company that made them privy to confidential proprietary information, used such information to artificially inflate the Company's financial results. The Defendants created, were informed of, participated in and knew of the scheme alleged herein to distort and suppress material information pertaining to Wells Fargo's financial condition, profitability and present and future prospects of the Company. With respect to non-forward looking statements and omissions, the Defendants knew and recklessly disregarded the falsity and misleading nature of that information, which they caused to be disseminated to the investing public.

239. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the false statements pleaded in this Complaint. None of the statements pleaded herein are "forward-looking" statements and no such statement was identified as a "forward-looking statement" when made. Rather, the statements alleged herein to be materially false and misleading by affirmative misstatement and/or omissions of material fact all relate to facts and conditions existing at the time the statements were made. Moreover, cautionary statements, if any, did not identify important factors that could cause actual results to differ materially from those in any putative forward-looking statements.

240. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, the Defendants are liable for those false forward-looking statements because, at the time each of those forward-looking statements was made, the particular

speaker knew that the particular forward-looking statement was false and/or the forward-looking statement was authorized and/or approved by an executive officer of Wells Fargo who knew that those statements were false when made. Moreover, to the extent that any of the Defendants issued any disclosures designed to "warn" or "caution" investors of certain "risks," those disclosures also were false and misleading because they did not disclose that the Defendants actually were engaging in the very actions about which they purportedly warned and/or had actual knowledge of material adverse facts undermining such disclosures.

XI. INSIDER TRADING

241. Certain of the Officer Defendants realized substantial financial benefits at the same time that they and the Company misrepresented and concealed Wells Fargo's fraudulent cross-selling conduct. Moreover, many of the executive officers had employment agreements containing huge incentive-based bonus structures which were tailored to reward each executive for cross-sell targets. *See* ¶95.

242. At the same time the Company issued false and misleading statements, certain Defendants collectively sold 1,561,122 shares of their Wells Fargo stock at artificially inflated prices as high as $58.28 per share for illegal insider trading proceeds in excess of $82.2 million.

Name	Date	Shares Sold	Price	Proceeds
Carroll	04/15/14	71,800	$48.54	$3,485,172
Carroll	04/16/15	77,000	$54.81	$4,220,370
Carroll	04/22/16	62,300	$50.28	$3,132,444
	Total:	**211,100**		**$10,837,986**
Loughlin	02/28/14	25,794	$46.54	$1,200,453
Loughlin	09/02/14	10,000	$51.55	$515,500
Loughlin	10/29/14	10,000	$51.77	$517,700
Loughlin	01/23/15	10,000	$53.47	$534,700
Loughlin	04/27/15	19,696	$55.10	$1,085,250
Loughlin	06/02/15	20,000	$55.98	$1,119,600
Loughlin	12/09/15	20,000	$54.48	$1,089,600
	Total:	**115,490**		**$6,062,802**
Modjtabai	04/15/14	55,000	$48.60	$2,673,000
Modjtabai	11/07/14	25,000	$54.10	$1,352,500
Modjtabai	04/16/15	70,000	$54.65	$3,825,500
Modjtabai	04/27/16	55,000	$50.77	$2,792,350
	Total:	**205,000**		**$10,643,350**
Sloan	04/28/14	80,000	$48.65	$3,892,000
Sloan	09/02/14	50,000	$51.48	$2,574,000
Sloan	01/23/15	25,000	$53.51	$1,337,750

Name	Date	Shares Sold	Price	Proceeds
Sloan	05/15/15	50,000	$56.00	$2,800,000
Sloan	10/22/15	24,000	$54.28	$1,302,720
Sloan	03/10/16	10,000	$48.16	$481,600
Sloan	08/08/16	20,500	$48.92	$1,002,860
	Total:	**259,500**		**$13,390,930**
Strother	04/15/14	50,000	$48.31	$2,415,500
Strother	10/31/14	20,000	$52.91	$1,058,200
Strother	04/15/15	50,000	$54.80	$2,740,000
Strother	07/23/15	31,000	$58.28	$1,806,680
Strother	04/27/16	40,000	$50.77	$2,030,800
	Total:	**191,000**		**$10,051,180**
Stumpf	11/06/14	160,663	$54.02	$8,679,015
Stumpf	11/07/14	168,534	$54.08	$9,114,319
Stumpf	12/11/15	30,000	$53.72	$1,611,600
	Total:	**359,197**		**$19,404,934**
Tolstedt	11/11/14	219,835	$53.76	$11,818,330
TOTALS:		**1,561,122**		**$82,209,512**

243. During Stumpf's September 29, 2016 House testimony, Representative Maloney noted specifically that Stumpf's stock sales were suspicious: "[O]n October 30, 2013, you sold $13 million worth of Wells Fargo stock on the open market. That is by far, the largest open market sale of Wells Fargo stock that you made in your 9 years as CEO," the Representative stated, asking "***did you dump $13 million of Wells Fargo stock, which you did through your family trust, right after you found out that your bank had been fraudulently opening hundreds of thousands of scam accounts ripping off your customers?***" Stumpf attempted to avoid answering, but Representative Maloney interjected, "[e]xcuse me, excuse me," my "question was, did you dump the stock after you found out about the fraudulent accounts, because it seems that the timing is ***very, very suspicious and it raises serious questions***."[201]

244. On this suspicious stock sales issue, Representative Maloney continued:

> [Representative Maloney:] Did you sell these shares or not?
>
> [Stumpf:] I sold those shares and I sold them with proper approvals, with no view about anything that was going on with sales practices or anything else.
>
> [Representative Maloney:] Well, it seems very, very suspicious that your largest sale was right after your $1.8 trillion bank was turned into a school for

[201] House Tr. at 9.

scoundrels. You acknowledge that your bank fired over 5,300 people who got caught willfully defrauding your customers.

And a recent lawsuit alleges you fired even more people because they refused to willfully defraud customers. And then, then you blame the low-level people, you fire them. ***You make profits, then you dump the stock***.

So, I just have to say that it seems that when you found out about the fake accounts, instead of helping your customers, you first helped yourself. So moving right along to the next question.[202]

245. The SEC recognizes the establishment of a 10b5-1 trading plan as a potential, but not absolute, defense to accusations of insider trading when it is entered into by an insider "[b]efore becoming aware" of inside information and was established "in good faith and not as part of a plan or scheme to evade the prohibitions" against insider trading. Therefore, trading plans properly set up under SEC Rule 10b5-1, 17 C.F.R. §240.10b5-1, "reduce the chance of [insiders] buying and selling based on confidential information"[203] and insiders are advised to "design a trading plan with the intention that it will not be modified or amended frequently, since changes to the plan will raise issues as to a person's good faith."[204] Notably, none of the stock sales referenced herein were reported to have been made pursuant to a 10b5-1 trading plan.

246. The high rate of insider selling during the Class Period also is suspicious given that senior corporate insiders, including Stumpf, caused Wells Fargo to engage simultaneously in significant stock buybacks – approximately 501 million shares for approximately $24.2 billion – during the 11 quarters that coincided with the Class Period. Stock buybacks are widely recognized as boosting a company's share price in the short term.[205] Here, the stock buybacks allowed Wells

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[202] *Id.*

[203] Tom Braithwaite, *Share Sale Signals from Bank Executives: Wells Fargo Chief Leads Insider Sales Among US Banks*, Financial Times, June 19, 2015, https://www.ft.com/content/9efdc672-15f1-11e5-be54-00144feabdc0.

[204] Thomas J. Griffith, Corporate Counsel's Guide to Insider Trading and Reporting §12:26 (2015).

[205] As noted in one piece:

By mopping up extra stock and keeping EPS up, buybacks are a convenient way for executives to maximize their own wealth. It's a way for them to maintain the value of the shares and share options. Some executives may even be tempted to pursue share buybacks to boost the share price in the short term and then sell their shares. What's more, the big bonuses that CEOs get are often linked to share price gains and increased earnings per share, so they have an incentive to pursue buybacks even when there are better ways to spend the cash or when the shares are overvalued.

Fargo's share price to be inflated further while certain of the Defendants sold massive amounts of Company stock.

XII. APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD-ON-THE-MARKET

247. Plaintiffs and the Class (defined below) will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's stock traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's stock; and

(e) Lead Plaintiff's funds, Named Plaintiffs and other members of the Class purchased Wells Fargo common stock between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

248. At all relevant times, the market for Wells Fargo common stock was efficient for the following reasons, among others:

(a) Wells Fargo common stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market. Wells Fargo shares were highly liquid during the Class Period, with an average daily volume of 3.8 million shares traded;

(b) Wells Fargo, as a regulated issuer, filed periodic public reports with the SEC and the NYSE;

(c) Wells Fargo regularly communicated with public investors via established market communication channels, including through regular disseminations of news releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

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Ben McClure, *6 Bad Stock Buyback Scenarios*, Investopedia.com, http://www.investopedia.com/articles/stocks/10/share-buybacks.asp (last visited Feb. 8, 2017).

(d) Wells Fargo was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

249. Therefore, the market for Wells Fargo common stock promptly digested current information regarding the Company from all publicly available sources and reflected such information in Wells Fargo's share price. Under these circumstances, all purchasers of Wells Fargo common stock during the Class Period suffered similar injury through their purchase of Wells Fargo common stock at artificially inflated prices and a presumption of reliance applies.

250. Plaintiffs and the Class also are entitled to a presumption of reliance under *Affiliated Ute Citizens v. United States*, 406 U.S. 128 (1972), because the claims asserted herein against Defendants are predicated in part upon omissions of material fact of which there was a duty to disclose.

XIII. CLASS ACTION ALLEGATIONS

251. Plaintiffs bring this action as a class action on behalf of all persons who purchased Wells Fargo common stock during the Class Period (the "Class"). Excluded from the Class are Defendants and their families, the officers and directors and affiliates of Defendants at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entities in which Defendants have or had a controlling interest.

252. Members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Wells Fargo has more than 5 billion shares of stock outstanding, owned by hundreds, if not thousands, of people.

253. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class that predominate over questions that may affect individual Class members include:

(a) Whether the 1934 Act was violated by Defendants;

(b) Whether Defendants omitted and/or misrepresented material facts;

(c) Whether Defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) Whether Defendants knew or recklessly disregarded that their statements were false and misleading;

(e) Whether the price of Wells Fargo common stock was artificially inflated; and

(f) The extent of damage sustained by Class members and the appropriate measure of damages.

254. Plaintiffs' claims are typical of those of the Class because Lead Plaintiff's funds, the Named Plaintiffs and the Class sustained damages from Defendants' wrongful conduct.

255. Plaintiffs will adequately protect the interests of the Class and have retained counsel who are experienced in class action securities litigation. Plaintiffs have no interests which conflict with those of the Class.

256. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

COUNT I

For Violation of §10(b) of the 1934 Act and SEC Rule 10b-5 Against the Company and the Speaking Defendants[206]

257. Plaintiffs repeat and reallege the above paragraphs as though fully set forth herein.

258. This Count is asserted against the Company and the Speaking Defendants and is based upon §10(b) of the 1934 Act, 15 U.S.C. §78j(b), and SEC Rule 10b-5 promulgated thereunder.

259. During the Class Period, the Company and the Speaking Defendants, singly and in concert, directly engaged in a common plan, scheme and unlawful course of conduct, pursuant to which they knowingly or with deliberate recklessness engaged in acts, transactions, practices and course of business that operated as fraud and deceit upon Named Plaintiffs, Lead Plaintiff's funds and the other members of the Class, made untrue statements of material facts and failed to disclose material information in order to make the statements made, in light of the circumstances under which

[206] Speaking Defendants include Stumpf, Sloan, Tolstedt, and Shrewsberry.

they were made, not misleading to Named Plaintiffs, Lead Plaintiff's funds and the other members of the Class. The purpose and effect of said scheme, plan and unlawful course of conduct was to, among other things, induce Named Plaintiffs and Lead Plaintiff's funds – as well as the other members of the Class – to purchase Wells Fargo's common stock during the Class Period at artificially inflated prices.

260. Throughout the Class Period, the Company acted through the Speaking Defendants, whom it portrayed and represented to the financial press and public as its valid representatives. The willfulness, motive, knowledge and recklessness of the Speaking Defendants are therefore imputed to Wells Fargo, which is primarily liable for the securities law violations of the Speaking Defendants.

261. As a result of the untrue statements of material facts and/or the failure to disclose material facts, the information Wells Fargo and the Speaking Defendants disseminated to the investing public was materially false and misleading as set forth above, and the market price of the Company's common stock was artificially inflated during the Class Period. In ignorance of the false and misleading nature of these defendants' statements and omissions, and relying directly or indirectly on those statements or upon the integrity of the market price for Wells Fargo common stock, Named Plaintiffs and Lead Plaintiff's funds, as well as the other members of the Class, purchased Wells Fargo common stock at artificially inflated prices during the Class Period. But for the fraud, Named Plaintiffs, Lead Plaintiff's funds and the other members of the Class would not have purchased Wells Fargo common stock at such artificially inflated prices. As set forth herein, when the true facts were subsequently disclosed, the price of Wells Fargo common stock declined precipitously. Lead Plaintiff's funds, Named Plaintiffs and the other members of the Class were harmed and damaged as a direct and proximate result of its or their purchases of Wells Fargo common stock at artificially inflated prices and the subsequent decline in the price of that stock when the truth began to be disclosed.

262. Named Plaintiffs, Lead Plaintiff's funds and other members of the Class have suffered substantial damages as a result of the wrongs herein alleged in an amount to be proved at trial.

266. By reason of the foregoing, the Company and the Speaking Defendants directly violated §10(b) of the 1934 Act and SEC Rule 10b-5 promulgated thereunder in that they: (a)

employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts and/or failed to disclose material information; or (c) engaged in acts, practices and a course of business which operated as a fraud and deceit upon Named Plaintiffs and Lead Plaintiff's funds – and the other members of the Class – in connection with its or their purchases of Wells Fargo common stock during the Class Period.

COUNT II

For Violation of §20A of the 1934 Act Against Sloan, Stumpf and Tolstedt

267. Plaintiffs repeat and reallege the above paragraphs as though fully set forth herein.

268. While Wells Fargo's securities traded at artificially inflated and distorted prices, certain Officer Defendants personally profited by selling a total of more than 1,636,122 million shares of Wells Fargo common stock while in possession of adverse, material non-public information about Wells Fargo, pocketing over $85.6 million in illegal insider trading proceeds, as detailed above.

269. By contrast, for example, Lead Plaintiff's funds and the Named Plaintiffs purchased Wells Fargo stock contemporaneously with several of the Defendants as follows:

Defendants' Open Market Sales				Plaintiffs' Purchases			
Defendant	Sale Date	Shares Sold	Price	Lead & Named Plaintiff(s)	Purchase Date	Shares Purchased	Price
Sloan	4/28/2014	80,000	$48.65	Union fund	5/12/2014	7,027	$49.44
Sloan	9/2/2014	50,000	$51.48	Solomonov	9/2/2014	20	$51.53
Sloan	5/15/2015	50,000	$56.00	Union fund	5/22/2015	6,920	$56.18
				Solomonov	6/1/2015	20	$56.35
Sloan	10/22/2015	24,000	$54.28	Mizuki	10/30/2015	91	$55.00
Stumpf	11/6/2014	160,663	$54.02	Union fund	11/10/2014	8,800	$53.98
Stumpf	11/7/2014	168,534	$54.08	Union fund	11/10/2014	8,800	$53.98
Stumpf	12/11/2015	30,000	$53.72	Union fund	12/15/2015	93,000	$54.09
Tolstedt	11/11/2014	219,835	$53.76	Hialeah	11/12/2014	100	$53.52

270. Lead Plaintiff's funds, Named Plaintiffs and all other members of the Class who purchased shares of Wells Fargo stock contemporaneously with the sales of Wells Fargo common stock by Defendants Sloan, Stumpf and Tolstedt have suffered damages because:

(a) In reliance on the integrity of the market, they paid artificially inflated prices as a result of the violations of §§10(b) and 20(a) of the 1934 Act as alleged herein; and

(b) They would not have purchased the Wells Fargo stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements and omissions alleged herein.

271. By reason of the foregoing, Defendants Sloan, Stumpf and Tolstedt violated §20A of the 1934 Act and are liable to these plaintiffs (or in the case of the Lead Plaintiff, its funds) and the other members of the Class for the substantial damages suffered in connection with their purchase of Wells Fargo common stock during the Class Period.

COUNT III

For Violation of §20(a) of the 1934 Act
Against Defendants

272. Plaintiffs repeat and reallege the above paragraphs as though fully set forth herein.

273. Defendant Stumpf acted as a controlling person of Wells Fargo within the meaning of §20(a) of the 1934 Act. By virtue of his position as Chairman of the Board and CEO of the Company, his leadership of the Operating Committee and his ownership of more than 5 million shares of Wells Fargo stock and options, Stumpf had the power and authority to cause Wells Fargo to engage in the wrongful conduct complained of herein. By reason of such conduct, Stumpf is liable pursuant to §20(a) of the 1934 Act.

274. In addition to Stumpf, each of the other Officer Defendants acted as a controlling person of Wells Fargo within the meaning of §20(a) of the 1934 Act. By virtue of their positions on the Operating Committee of Wells Fargo, and their senior positions at the Company, each of the Officer Defendants had the power and authority to cause Wells Fargo to engage in the wrongful conduct complained of herein. *See* ¶¶78-85. By reason of such conduct, the other Officer Defendants are liable pursuant to §20(a) of the 1934 Act.

275. In addition to Stumpf, each of the other Director Defendants acted as a controlling person of Wells Fargo within the meaning of §20(a) of the 1934 Act. By virtue of their positions on the Board of Wells Fargo, including various committees of the Board, each of the Director Defendants had the power and authority to cause Wells Fargo to engage in the wrongful conduct

complained of herein. See ¶¶78-85. By reason of such conduct, each of the other Director Defendants are liable pursuant to §20(a) of the 1934 Act.

276. Wells Fargo, in turn, controlled Stumpf and the other Officer and Director Defendants, and is a controlling person of those defendants within the meaning of §20(a) of the 1934 Act. Wells Fargo is liable pursuant to §20(a) of the 1934 Act as a result.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

A. Determining this action to be a proper class action and certifying Lead Plaintiff and Named Plaintiffs as class representatives under Rule 23 of the Federal Rules of Civil Procedure;

B. Declaring and determining that Defendants violated the 1934 Act by reason of the acts and omissions alleged herein;

C. Awarding compensatory damages in favor of Lead Plaintiff, Named Plaintiffs and the other members of the Class against all Defendants, jointly and severally, for the damages sustained as a result of the wrongdoing of Defendants, together with interest thereon;

D. Awarding Plaintiffs and the Class the fees and expenses incurred in this action, including, but not limited to, a reasonable allowance of fees for Plaintiffs' attorneys and experts;

E. Granting equitable and/or injunctive relief as permitted by law, equity and federal statutory provisions sued on hereunder; and

F. Granting such other and further relief as the Court may deem just and proper.

JURY DEMAND

Lead Plaintiff and Named Plaintiffs demand a trial by jury.

Dated: March 15, 2018

Respectfully submitted,

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CERTIFICATION PURSUANT TO
THE FEDERAL SECURITIES LAWS

I, Robert Williams III, on behalf of City of Hialeah Employees' Retirement System ("Hialeah ERS"), hereby certify, as to the claims asserted under the federal securities laws, that:

1. I am the Chairman of the Retirement Board of Hialeah ERS. I have reviewed the Second Consolidated Class Action Complaint for Violations of the Federal Securities Laws with the fund's legal counsel, and based on the legal counsel's knowledge and advice, authorize its filing.

2. Hialeah ERS did not purchase the securities that are the subject of this action at the direction of counsel or in order to participate in any action arising under the federal securities laws.

3. Hialeah ERS is willing to serve as a representative party on behalf of the Class, including providing testimony at deposition and trial, if necessary.

4. Hialeah ERS' transactions in the Wells Fargo & Company securities that are the subject of this action are set forth in the chart attached hereto.

5. Hialeah ERS has sought to serve and was appointed as a lead plaintiff and representative party on behalf of a class in the following action under the federal securities laws filed during the three-year period preceding the date of this Certification:

   City of Hialeah Employees' Retirement System v. FEI Company,
   No. 16-cv-1792 (D. Or.)

6. Hialeah ERS will not accept any payment for serving as a representative party on behalf of the Class beyond Hialeah ERS' pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the Class, as ordered or approved by the Court.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 14 day of March, 2018.

Robert Williams III
Chairman of the Retirement Board
City of Hialeah Employees' Retirement System

City of Hialeah Employees' Retirement System
Transactions in Wells Fargo & Company

Transaction	Date	Shares	Price
Purchase	3/24/2014	100	48.9070
Purchase	5/8/2014	100	49.3421
Purchase	6/23/2014	200	52.8672
Purchase	11/12/2014	100	53.5150
Purchase	2/13/2015	2,050	55.3822
Purchase	6/19/2015	150	57.2747
Purchase	8/26/2015	100	51.3000
Purchase	10/14/2015	565	51.1976
Purchase	10/14/2015	550	51.4214
Purchase	11/4/2015	10	54.6390
Purchase	11/6/2015	510	55.7659
Purchase	11/9/2015	105	55.6618
Purchase	11/10/2015	255	55.6798
Purchase	11/11/2015	355	55.7063
Purchase	11/18/2015	415	55.6708
Purchase	11/20/2015	170	55.9471
Purchase	12/4/2015	565	54.9261
Purchase	12/8/2015	1,560	54.6376
Purchase	12/9/2015	220	54.6155
Purchase	12/14/2015	100	53.1550
Purchase	12/14/2015	250	52.9160
Purchase	12/14/2015	320	53.2735
Purchase	12/21/2015	1,575	54.0654
Purchase	1/7/2016	235	50.4544
Purchase	1/7/2016	1,235	50.4476
Purchase	1/27/2016	2,805	48.5155
Purchase	2/3/2016	100	47.1300
Purchase	3/11/2016	100	49.9850
Purchase	5/24/2016	150	49.2520
Purchase	7/27/2016	1,835	47.9473
Sale	3/27/2014	(750)	48.8500
Sale	8/29/2014	(1,745)	51.3400
Sale	8/29/2014	(650)	51.3231
Sale	9/22/2014	(150)	53.0900
Sale	11/6/2014	(155)	54.0050
Sale	11/6/2014	(2,635)	54.0166
Sale	11/28/2014	(2,275)	54.5738

City of Hialeah Employees' Retirement System
Transactions in Wells Fargo & Company

Transaction	Date	Shares	Price
Sale	12/1/2014	(165)	54.5131
Sale	12/3/2014	(390)	54.5043
Sale	1/23/2015	(550)	53.7008
Sale	2/13/2015	(765)	55.3392
Sale	2/13/2015	(445)	55.4770
Sale	2/13/2015	(150)	55.5087
Sale	3/23/2015	(100)	55.9600
Sale	4/16/2015	(75)	54.8610
Sale	4/16/2015	(1,410)	54.5081
Sale	4/17/2015	(1,325)	54.2247
Sale	4/20/2015	(1,875)	54.3745
Sale	6/23/2015	(1,200)	58.1879
Sale	7/23/2015	(150)	58.6300
Sale	9/10/2015	(1,200)	52.5100
Sale	6/17/2016	(350)	46.6000

EXHIBIT A

Full committee hearing on "An Examination of Wells Fargo's Unauthorized Accounts and the Regulatory Response."

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Body

Subject: Wells Fargo's Unauthorized Accounts

Witnesses: John Stumpf, chairman and CEO of the Wells Fargo & Company; Comptroller of the Currency Tom Curry; Richard Cordray, director of the Consumer Financial Protection Bureau; and James Clark, chief deputy in the Office of the Los Angeles City Attorney, testify

Location: 538 Dirksen Senate Office Building

Time: 10:00:00

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SHELBY: The committee will come to order.

Today, we will learn more about the events and the circumstances that led to the enforcement action against Wells Fargo by the Los Angeles city attorney, the OCC, and the CFPB. But first today, we will receive testimony from John Stumps. He's Wells Fargo's CEO and chairman who is with us today.

Welcome, Mr. Stumpf.

We will then hear from the Los Angeles city attorney's deputy chief, whose office was the first to commence an action against Wells Fargo on this issue; and finally, from the OCC and the CFPB. We look forward to hearing from both panels because much remains unclear about what transpired at Wells Fargo and the regulators' response.

It appears that Wells Fargo's own analysis concluded that thousands of its employees opened more than 2 million accounts that may not have been authorized. Subsequently, Wells Fargo terminated approximately 5,300 employees and has agreed to pay $185 million in fines and $5 million in customer remediation.

Sales data show that Wells Fargo has been an industry leader in its ability to cross-sell products such as credit cards, checking accounts and home equity loans. A number of former Wells Fargo employees have described their work environment characterized by intense pressure to meet aggressive and unrealistic sales goals.

In a 2010 letter to shareholders, Mr. Stumpf wrote that Wells Fargo's goal was eight products per customer because eight rhymed with great. The result was a corporate culture that drove company team members to fraudulently open millions of accounts using their customers' funds and personal information without their permission.

I've often said that banking is based on trust and that trust was broken at Wells Fargo.

While much has been written about these events, I believe there are several questions that warrant answers. First, when did this conduct start at Wells Fargo and why were the regulators unaware of this growing problem? Second, when did Mr. Stumpf and his senior management become aware of these activities and how did they respond? Third, have all the appropriate Wells Fargo employees been held accountable and to what extent? Finally, where were the federal regulators while certain Wells Fargo employees were taking advantage of unsuspecting customers over a period of many years?

Here's what we do know. Wells Fargo's internal review only covers unauthorized accounts dating back to 2011. News reports and court documents suggest these problems might have existed long before then. The 2013 Los Angeles Times articles led to the L.A. city attorney's office investigation into Wells Fargo's sales practices. Thousands of man-hours by a dozen dedicated L.A. city attorneys culminated in a lawsuit filed against Wells Fargo in May of 2015.

This timeline begs the question: Where were the federal regulators during these years? If the OCC and the CFPB were aware of these issues before the L.A. city attorney's lawsuit, why did they wait until 2016 to bring an enforcement action? Why did it take an L.A. Times reporter to uncover what should have been uncovered by Wells Fargo's regulators?

If there were ever a textbook case where consumers needed protection, this was it. How many millions of unauthorized accounts does it take before the CFPB notices? And while the bureau is billing this as the largest settlement in its history, it's unclear whether it had any significant role in discovering or investigating the bank's conduct.SHELBY: Just as it is fair to ask Mr. Stumpf what he knew, when he learned it, and what he did about it, it's also fair to ask those same questions of Wells Fargo's regulators. These simple -- there are simple facts and circumstances, questions that both the OCC and the CFPB should be able to answer without violating any confidentiality restrictions.

I look forward to today's hearing as both Congress and the American people especially, the aggrieved consumers, have been kept in the dark for far too long.

Senator Brown?

BROWN: Mr. Chairman, thank you for calling this hearing.

I want to commend the city of Los Angeles, the OCC and the CFPB for their actions and in the L.A. 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 puts it. That makes it sound like there was a mix-up under the Christmas tree and I got the right-handed baseball glove that was meant for my brother Charlie.

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

Wells Fargo's reaction has been remarkable. It did not treat this as a big problem until it appeared in the newspapers. It did not begin to make customers whole until this year. And we don't know whether the bank chose to do so or was told they had to do so. Wells Fargo is taking out full-page ads claiming it is accountable and accepts responsibility. It has not admitted to responsibility for a single misdeed in the 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 the PWC calculated the cost of a lower credit score which might be paid every month for 30 years. At times, the bank has been down right 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 Wells Fargo had created.

Wells Fargo team members, many struggling to support a family on $12 or $15 an hour, my understanding is Wells Fargo tellers make about $11.80 an hour. Wells Fargo team members struggling to support a family on $12 to $15 an hour followed their manager's guidance to do whatever it took to make their quotas. Some may have worked off the clock. Others cut corners to avoid being fired, for missing goals, goals that Wells now admits were too high.

They've been accountable, these low-income workers. 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, 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. So 5,300 team members earning perhaps $25,000, $30,000, $35,000 a year have lost their jobs while Ms. Tolstedt walks away with up to $120 million.

Despite firing thousands of team members, Ms. Tolstedt apparently decided it was not important enough to alert the head of the company, Mr. Stumpf, or the board of directors or anyone else for two years, if ever, even though you both sat on that 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.BROWN: You would think the lessons of the financial crisis, which came at such a high cost to our country, would change the way that banks do business. And to be fair, many banks did take the lessons of financial crisis to heart, but for the largest banks in this country, every week we hear of a new lawsuit or enforcement action against one of them, week, after 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 a circular file.

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

Because fourth, if you pay people on the basis of how many products they sell that's what they'll do, whether it's in the interest of the customers or not, and based pay needs to be increased.

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

Wells Fargo's come up short on all five counts. That conclusion is not just based on this, it's latest scandal. Last year Well's settled with the OCC, for among other things, 11 years worth of deception about deceptive practices and selling enhanced identity theft protection.

So at the same time, think about this. The same time the bank was stealing customer identities, it was charging for protecting them. In the Wells -- if the Well's ID theft product, that they sold, didn't discover the fraudulent Well's accounts, perhaps some refunds are due.

This April, Well's settled a False Claim Act suit for $1.2 billion, in part because it has used bonus' to get staff quote "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 FH loans -- FHA loans as quickly as possible" unquote.

Thousands of American's we know so well, although, unfortunately, far too few of us know any of these people personally, thousands of American's 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 fraud that you did not fix quickly enough. Instead of focusing a damage control, you need to admit to the problems and 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 you customers, for your bank, for your industry and for our country. Thank you.

SHELBY: Mr. Stumpf, will you rise and be sworn. Raise your right hand, do you swear and affirm, that the testimony that you are about to give is the truth, the whole truth and nothing but the truth, so help you God?

You may be seated. Mr. Stumpf, your written statement will be made part of the hearing record, you proceed as you wish. Welcome to the committee.

STUMPF: Mr. Chairman Shelby, Ranking Member Brown and members of the committee, thank you for inviting me to be with you today. I am Chairman and Chief Executive Officer of Wells Fargo, where I have worked for nearly 35 years. It is my privilege to lead this company, which was founded 164 years ago. And has played a vital role, in the financial history and development of our country.

We employee more than 268,000 team members, 95 percent of whom are in the United States. One in every 600 working adults is a member of the Wells Fargo family and we have a presence in all 50 states.

I am deeply sorry that we've failed to fulfill on our responsibility to our customers, to our team members and to the American public. I've been through many challenges at Wells Fargo, but none of which pains me more than the one we will discuss this morning.

Wrongful sales practice behavior, in our retail banking business goes against everything regarding our core principles, our ethics and our culture. It runs counter to our vision of helping our customers succeed financially and it is not representative of Wells Fargo as an institution.

I'm here to discuss the situation today. Tell you about the actions we have taken, and our commitment on how to move forward. Our entire culture is centered on serving our customers, and in this case, we let our customers down.

Our retail banking practice issues -- it's sale issues, are not a reflection of our hard working, intelligent team members, who deserve thanks for helping our customers with their financial needs. I want to make very clear, that we never directed nor wanted our team members to provide products and services to customers that they did not want.

That is not good for our customers and that is not good for our business. It is against everything we stand for as a company. That said, I accept full responsibility for all unethical sales practices in our retail banking business. And I am fully committed to fixing this issue, strengthening our culture and taking the necessary actions to restore our customer's trust. And Senators, let me tell you here today, the Wells Fargo board is actively engaged in this issue.

The board has the tools to hold senior management accountable, including me and Carrie Tolstedt, the former head of our retail banking business. Any board actions taken with our named executive officers, will be appropriately disclosed. And I want to be clear on this, I will respect and accept the decision of the board.

Under new leadership, we've already began taking steps to insure that the sales culture in our retail banking business, is wholly aligned with our customer's interests. On September 13th, 2016, we announced a major decision, that we will end product sales goals for everyone in our retail banking business. Because we want to make certain that nothing gets in the way of doing what is right by our customers. The new leadership team's primary mission, will be to provide the best possible service to our customers.

I'm also announcing, today, three new initiatives that will re- enforce our commitment to our customers.

First, we're expanding the scope over our account review and remediation, to include both 2009 and 2010.

Second, we will be contacting every single one of our deposit customers, across the country, using the same process that we agreed to with the city of Los Angeles, for our California customers.

And third, we have begun contacting hundreds of thousands of our customers with open credit cards, including those for whom we've already refunded fees to confirm whether they need or want their credit card.

In addition, we've recently started sending customers a confirmation e-mail with one hour -- within one hour of opening any new deposit account and an acknowledgement letter before submitting a credit card application. We recognize now, that we should have done more, sooner, to eliminate unethical conduct or incentives that may have unintentionally encouraged that conduct. We took many incremental steps, over the past five years in an attempt to address these situations. But we now know, those steps were not enough.

In 2011, a dedicated team began to engage in proactive monitoring of data analytics, specifically for the purpose of rooting out sales practice violations. In 2012, we began reducing sales goals that team members would need to qualify for incentive compensation. In 2013, we created a new corporate wide enterprise oversight for sales practices. In 2014, we further revised our incentives compensation plans, to align pay with ethical performance.STUMPF: In 2015, we added more enhancements to our training materials, further lowered goals. And began a series of town hall meetings, to re-enforce the importance of ethical leadership and always putting our customers first.

Throughout this five-year period, we identified potential inappropriate sales practices. We investigated those and we took disciplinary actions that included terminations of managers and team members for sales policy violations, the 5,300 terminations over the five years that have been widely reported.

Despite all of these efforts, we did not get it right. We should have realized much sooner that the best way to solve the problems in the retail banking business was to completely eliminate retail bank product sales goals. And one of the areas that we missed was the possibility that a customer could be charged fees in connection with accounts opened without their authorization. Because deposit accounts that are not used are automatically closed, we assumed this could not happen.

We were wrong. And we took steps to refund fees that were charged and made changes to this could not happen again. In August 2015, we began working with a third-party consulting firm, PriceWaterhouseCoopers, which conducted extensive large-scale data analysis of all 82 million accounts -- deposit accounts, and nearly 11 million credit card accounts that we had opened from 2011 through 2015.

Of the 93 million accounts reviewed, approximately two percent, 1.5 million deposit accounts and 565,000 consumer credit card accounts, were identified as accounts that may have been unauthorized. To be clear, PWC did not find these accounts had been unauthorized, but because it could not rule out the possibility, these accounts were further reviewed to determine if any fees had been charged.

PWC calculated that approximately 115,000 of these accounts had incurred $2.6 million of fees, which have been refunded to those customers. Even one unauthorized account is one too many. This type of activity has no place in our culture. We are committed to getting it right 100 percent of the time, and when we fall short we accept responsibility and we will do everything we can to make it right by our customers.

I will close by saying again, I am deeply sorry that we have not lived up to our values in this way. I also want to take this opportunity to thank our 268,000 team members who come to work every day to serve our customers. Today, I am making a personal commitment to rebuilding our customers' and investors' trust, the faith of our team members, and the confidence of the American people.

I'm happy now to address your questions.

Thank you.

SHELBY: Thank you, Mr. Stumpf.

Mr. Stumpf, according to your testimony, Wells Fargo began making internal changes in 2011 to address the opening of unauthorized accounts. Did these problems start in 2011? Or could there have been unauthorized activity before then? Why 2011?

STUMPF: I think we all know that not every team member will do everything right every day of every minute. And we do a lot of training of our team members, coaching. They each sign an annual ethics statement. And I can't guarantee it did not happen before that time. We are trying to manage it within the business. And that's why I announced today that we're going back to 2010 and 2009. Because at that time, as you might recall, we were putting the Wachovia and Wells Fargo teams together, and we just thought we don't want to leave any stone unturned.

SHELBY: Wells Fargo fired approximately 5,300 employees in connection with these practices. What was -- what were the criteria for termination? And were any personnel actions taken short of termination? And if so, what were they? In other words, I'm sure you didn't fire everybody, but did you discipline some, and why, and so forth?

STUMPF: Correct. Yes, so Senator, thank you for that question, and it's a good one.

We have a number of triangulations around how to understand when there might be improper behavior. If some customer, for example, all of a sudden shows up with three savings accounts, they probably don't need that; or we have ethics lines, we have a culture in the company if you see something that you don't think is proper, raise your hand, talk to a manager.

So we looked at a number of situations, and some of them were perfectly legitimate. But for those who broke our trust, were dishonest, put customers at risk, we drew a very bright line. And after all, we are a regulated institution and we have a fidelity bond. And people who behave in this way simply can't work here.

SHELBY: Mr. Stumpf, your testimony also does not address when the violations were brought to the attention of senior management. Specifically, when did you find out that thousands of your employees were opening unauthorized accounts or fraudulent accounts? Did it take that long? When did you find out?

STUMPF: Thank you, again, Senator.

The business has their own audit and investigations and sales practices efficacy and so forth contained within the regional bank or the retail bank. After they had been working on this issue for a couple of years, and again this was way too many people, but it was one percent of our people. There's at any one time 100,000 team members in our banks.

And after notice -- after the business was dealing with this for a couple of years, it was then brought to the holding company and corporate assets, corporate audit, corporate compliance, the so-called second line of defense got very active. And that's when I became much more aware of the issue.

SHELBY: Does it bother you as the CEO of such a large bank that systemic fraud was not brought to your attention sooner by your employees?

STUMPF: If I could turn the clock back, and I've thought about this a thousand times, of course I wish I would have done -- we all wish we would have done something more earlier. We didn't get on this fast enough. Again, recognizing that this was, you know, the vast majority of people were doing the right thing.

SHELBY: When -- let's go back to the question of a minute ago. I don't believe you answered it specifically. When did the senior management, you and others you deemed senior management, learn about this fraud?

STUMPF: I can speak for myself, and I know that other corporate executives at the -- at the corporate area outside of the business, I can speak to myself, and I believe others, it was 2013. Before that, it was being dealt with with the audit and compliance within the business unit.

SHELBY: Mr. Stumpf, the board of directors of Wells Fargo has awarded the then-head of the community banking, Carrie Tolstedt, millions of dollars -- could be $100 million, as Senator Brown says, or more, in incentive compensation for, quote, "success in furthering the company's objective of cross-selling products," and quote, "reinforcing a strong risk culture," according to the 2015 proxy statement issued by your bank.

Explain to the American public today here what accountability at a large bank looks like when an executive departs with millions of dollars in compensation after thousands of employees defrauded customers? This question was raised by Senator Brown in his opening statement.

STUMPF: OK. I'll try to get to all of those. And if I don't, please, but it's a good question. And Carrie Toldstedt as leader of the community banking business had a lot of requirements and things that -- that her performance was measured on -- putting the Wachovia and Wells business together; doing common branding; doing -- making sure customers were treated properly.STUMPF: And throughout that entire period from 2011 until 2016, customer loyalty scores continued to improve. Today, they're top of class even by independent studies of large banks. Our team member engagement -- we do a study every year. And today, we have 15 people who are engaged in that business for every one that's disengaged. Balances and customers had grown.

Now, in this particular area, she did not do enough. We've been and -- and we decided that the chief operating officer that she was reporting to at the time, with my consultations, decided that we would go in a different direction.

But I also want to be clear, Carrie was eligible to retire when -- when she was told that we're going to go in a different direction. She chose to retire and she got no retirement severance benefits and -- and her compensation that she received in the past, some of it which is not -- which has been granted but not yet vested -- and other compensation will be considered by the board of directors in an independent process that they have. And I will respect and accept whatever decision they make.

SHELBY: Have they call back -- you have ability at the bank to call back, do you not?

STUMPF: You know, I'm -- I'm not an expert in compensation, but I will get you whatever...

SHELBY: Are you the chairman? Are you the CEO of the company, right?

STUMPF: I'm the C...

SHELBY: And so you're -- are you the chairman of the board?

STUMPF: I'm the chairman of the board.

SHELBY: OK. Then the...

STUMPF: But I do not -- excuse me.

SHELBY: And the buck stops here, so to speak?

STUMPF: It -- every -- it stops -- I'm the senior officer.

SHELBY: So are you going to look into this seriously about what this person did, her responsibility, and the big reward that she's getting that happened under her watch?

STUMPF: Senator, we will -- the board of directors, the compensation committee, and they'll refer to the board. I'm not part of that process. I want to make sure that beca -- that's a very independent process and nothing that I say would prejudice their deliberative process. But that is their decision, and they have all the tools available to them, whether she would have retired or she would have been fired.

SHELBY: Mr. Stumpf, is -- isn't a lot of banking based on integrity or trust by your customers in the bank itself?

STUMPF: I...

SHELBY: They do business with you, they put their money there, they -- they trust you. What's happened to the banking system? Not everywhere, but what has happened to the banking system?

STUMPF: You know, Senator, you think about it exactly the way I think about it. Trust is the core element of any relationship, and surely in the financial services business. And we know we have work to do in that area. And I intend to do all I can to help in that area.

SHELBY: Do you believe you violated that trust?

STUMPF: There is no question with some of our customers we have violated trust, and we have to work hard to re-earn that.

SHELBY: Senator Brown?

BROWN: Thank you, Mr. Chairman. Mr. Stumpf, I -- I'll make my questions short and ask you to be as concise as possible. Thank you. I -- to start with, your response to Senator Shelby, you made -- you became aware of the widespread fraud in 2013. Could you be more precise than that? When in 2013?

STUMPF: Yes. Well, I became aware that the problems the local business was working on in rooting out this behavior by one percent of our team members, give or take -- and I don't want to minimize that -- that we were not making enough progress.

BROWN: And when did you become aware more precisely?

STUMPF: Yeah, it was later in...

BROWN: Was it the L.A. Times article that you became -- that you...

STUMPF: Yes, later in 2013. Well, I had -- I had -- actually, I don't remember the exact timeframe. I can get back to you and staff. But it was sometime in 2013.

BROWN: Thank you for that. You suggest -- you mention that the Wachovia merger, that you're willing to go back before 2011, 2009, and '10, in part because the Wacho -- Wachovia merger. The emphasis on cross-selling dates back at least to the Norwest merger, right? I mean this has been -- this has been a Wells Fargo business plan for a number of years. What year was the Norwest merger?

STUMPF: It was 2000 -- well it was announced -- you're talking about...

BROWN: The Norwest merger with Wells.

STUMPF: Yeah, that was 1998.

BROWN: OK. And so this, while Wachovia merger there clearly was some -- we are going back to 2009 and '10, you're offering to do that. Why -- why -- why stop at 2009? We hear from people that it's gone on longer than that with the cross-selling, and the pressure, and the sales goals. Why are you only willing to go to 2009?

STUMPF: Well, I -- Senator, I would tell you this. We want to make it right by any customer. And -- and -- we we're ready. We agreed with our regulators in our agreements to go back to 2011. We made a decision to go back to 2010 and '09, and we want to make it right by any customer.

BROWN: Does that mean you're willing to go back earlier than 2009?

STUMPF: Well, I don't -- I can't tell you that today. I have to talk to our folks. I don't know about -- about records and so forth. But I want to make sure any customer who has had harm of any kind, that we will do right by them.

BROWN: Well, you have records before 2009. Is that a pledge from you to go back earlier than that, if in fact there are customers that were harmed by unauthorized accounts.

STUMPF: Senator, I will take that under advisement.

BROWN: Yeah, well, I...

STUMPF: And I will get back to your (inaudible).

BROWN: If -- if you're -- if -- And I accept your good intentions that you're going back to 2009 to -- to give restitution to those, to provide restitution to those customers. But why stop there if you know that you say you have to go back and talk to staff? I mean if you're -- if you really do want to make sure these customers are made whole, you should go back as long as you possibly can.

STUMPF: And, Senator, I again -- I think that's a -- you know, we've considered that. I -- I will take that under advisement.

BROWN: Well, I hope you more than consider it. Thank you. Talk about Senator Shelby's, Chairman Shelby's, discussion on the claw back. Understanding I think you minimize your influence. To us at least you minimize your influence over (ph) the board. You're the chairman of the board. Understand that the board goes through a process and I respect that. But you as the chairman, are you going to recommend to the board...

Oh, back up. You -- you -- you I would assume are more familiar with -- with both the pros and the cons of performance from -- from Miss Tolstedt. You were aware that -- that she is getting, she is slated to get some news reports say up to $120 million.

You're also aware that most of the 5,300 people, team members that were fired, were low-income workers, as well as eleven something an hour, maybe up to $16 or $17 an hour. But were generally low- income workers, low paid workers. So you're more familiar with that than probably any board member, at least as familiar.

So will you, with your knowledge, and your stature, and your position on the board make a recommendation to this board that they should clawback a significant amount of her compensation?

STUMPF: Senator, I -- I'll answer that question. But I just want to put something in perspective.

The lowest paid worker we have, our entry level in our least cost area, is $12 an hour. Our lowest paid worker in our high cost area is $16.50 an hour. In addition to that, about $6 per hour is also -- that doesn't include the benefits around health care, which we pay virtually all of it for low paid people.

But most of the people who lost their jobs because they violated our code of ethics, they were dishonest, were not -- those were good paying jobs. We -- we -- people lost their jobs who were bankers, bank managers, managers or managers, and even an area president. These were good paying jobs, jobs that were -- the average is I think were in the, you know, $35,000 to $60,000 area, if you just want to take an average.

But with respect to your question specifically, I'm not on the human resources and compensation committee. That's an independent committee. And -- and they will take that under their deliberation. I don't want in any way to prejudice their activity, and I'm going to accept and -- and respect any decision that they make on -- on anything (inaudible).

BROWN: Thank you for saying that. Are you -- so you are -- you are not willing to make a recommendation, based on the how this looks to the public, that -- call them good paying jobs at $16 or $17 an hour or not, compared to what, but put that aside. But whatever these workers were making, they were in the bottom some percentage of the work force.

Whatever, they -- they made mistakes, they were dishonest, they apparently deserved to be fired. I won't -- I won't dispute that. But I mean just -- you're not willing as a CEO of this bank to make a public recommendation that you think -- to make a public statement -- that you think Miss -- that -- I'm sorry, Miss Telfold (ph), Miss -- I'm sorry...

STUMPF: Tolstedt. BROWN: Tolstedt, Carrie Tolstedt. That sounds (ph) -- you're not willing to say publicly that to this committee or to anyone that -- that some of her compensation, over $100 million when she announced her retirement in the last several weeks, that any of it should be clawed back.

STUMPF: I'm going to let the process proceed, and the board's already met, and I made a -- affirmative (ph) comment in my -- in my testimony.

BROWN: OK. That's unfortunate. You said in your testimony in August, if August 2015, your words, we began working with PWC, unquote, to locate and reimburse customers who incurred fees. Was that your decision or were you directed to do so by the regulators?STUMPF: That was in consultation with -- with regulators and with the city attorney's office.

BROWN: So, you did not on your own, after finding out in late 2013 of these problems -- you -- through the rest of 2013, month to three months of 2013, through all of 2014 and then into the first seven months of 2015, it never occurred to you that you should bring in somebody without the regulators suggesting it or pushing or in consultation. It never occurred to you to bring in somebody to really find out who was hurt, what kinds of issues were going on, how do we find these customers to reimburse them?

STUMPF: Senator, that's a good question. I thought about that -- a lot about why. And it was -- it was early in 2015, about the time that we were considering or talking about who we would bring in that we finally connected a dot, and there's no excuse why we didn't connect it before.

What happens when an account is opened that is not funded, the system eliminates it within a couple of months. If it doesn't get funded, it's not used, it's not started, it's truncated (ph) or closed. It never dawned on us -- and again, no excuses and we were wrong. It never dawned that there could be a cycle, where a -- a cycle -- a 30-day cycle would have -- would have been (ph) completed and there could have been a fee associated with that. It was the first time that light bulb went on...

BROWN: I appreciate your candor about this, but I -- in 2011, 1,000 employees were fired; 2012, a similar number; 2013 was the peak number. 2014 -- 2013 was the L.A. Times article, 2015 throughout the year nothing happened. It seemed to never occur to management to any of this when I -- it's just -- and then today -- I don't question your integrity. But then today, you come in and make all of these announcements. It's been five years since -- at least five years since all of this has been happening.

Today, you make announcements that you're doing -- you apologize, we appreciate that. You make announcements you're doing the right things, we appreciate that. But it just -- it just sort of begs the issue of -- of where was management when these so many thousands of people were fired. Stories were written. Regulators were starting to come in.

I understand this a huge profit center for Wells, the retail banking writ large in terms of the unauthorized accounts and everything else. But it just doesn't seem quite right that -- that, it didn't occur to anyone on the board apparently or at least that had your ear (ph). Didn't occur to the CEO. Didn't occur to top management that they should do something more affirmatively until that August 2015 date when the regulators sort of helped you suggest and come to that conclusion.

Thank you, Mr. Chairman.

SHELBY: Senator Corker.

CORKER: Thank you Mr. Chairman.

Mr. Stumpf, thank you for being here. Just as an observation, I know that you have a whole host of people here with you and I'm sure one of those people is a communications person. I would just make the observation, look, I know you talk daily with board members, and you know, been on boards before myself.

I would suggest, just again as an observation, that to not invoke some degree of claw back for yourself and others involved would be committing malpractice from the standpoint of just public relations. So at a minimum, I'm sure that is going to take place. I would be surprised if it doesn't.

Let me just -- you found out about this through reading the L.A. Times is that correct?

STUMPF: No, I don't recall back in '13 exactly the time frame, but I learned about it later in 2013. Remember, the...

CORKER: But...

STUMPF: I'm sorry.

CORKER: So -- but it's sounds like it really was brought to your attention after a story in a newspaper. Well, that's when the focus really began. I'm not criticizing that, I'm just asking.

STUMPF: No. And I -- only thing I want to make, Senator Corker, is that we had dismissed a number people, and that's what caused the L.A. Times...

CORKER: The story. So you all had taken some actions. They wrote a story and...

STUMPF: Exactly, yes.

CORKER: Your board -- you know, I know public boards today, you know, intense scrutiny, this all kind of committees that are set up. When did the board realize that you had a unit that was committing fraud? It seems to me that that's one of those things you flag pretty quickly or at least a committee of the board.

STUMPF: Yes. And -- and -- I just want to say, these team members, you're absolutely right. They did not do us right. It was...

CORKER: I -- I didn't ask that.

STUMPF: OK...

CORKER: I'm asking you when the board became aware that you had a unit that was involved in committing fraud?STUMPF:

Yeah, it would have been later 2013 and then 2014 and on.

CORKER: So, they -- they weren't even aware of the L.A. Times story?

STUMPF: I -- I -- I think that was later in 2013. I'd have to go back and check my records. And it's to best of what I remember, but it was sometime later '13, surely in '14.

CORKER: I read a story about Ms. Tolstedt today. I don't know her. Actually sounds like she was an incredibly hard worker. Got to work early, rode a bus, you know, micromanaged, signed leases herself. I don't know if any of this was true.

But how do you -- when you have somebody that's that involved in sort of micro details, is this a case of not raising their head up to 5,000 or 10,000 feet and understanding the kind of culture that was being created by slogans like eight is great and those kinds of things?

I mean, it's just hard -- you know, it seems to me that within a bank with all the data you use to contact customers and -- I mean, you can, with algorithms, I mean you guys can pick this stuff up so quickly. It's hard to believe that there isn't some report within the bank that would cause -- cause this to jump out at people and say something really bad is happening here.

STUMPF: Senator Corker, I think that is -- that's a good question. And in a retail business, where you have 100,000 people in seats at any one time in our 6,200 branches, there is a lot of turnover. And I'm not justifying...

(CROSSTALK)

CORKER: But there's an officer, there's a compliance officer.

STUMPF: Absolutely.

CORKER: And -- and all banks have these. I mean, you all are regulated to death, and that's their job. And this kind of -- this is something that I -- you would think would be flagged and jump out at someone who was in that job.

STUMPF: I was -- and -- thank you, and that's what I was trying to explain. That, in her business, surely she was, I believe, reporting situations where there was ethical breakdowns and...

CORKER: But not to the board? STUMPF: And it -- it got to the board level -- it got to the corporate level in 2013 because progress was not being made. And the board level in '14, as the corporate resources started to, and we've been actually seeing improvements since that time.

CORKER: It does seem like, just in fairness -- again, there does seem like a big disconnect there. So, she left after 27 years. And I think it would be good for the audience at some point, not during my time, to explain the entire compensation. I think it's a little different than most people think based on some of the comments that have been made.

But I assume her departure after 27 years was based on this issue. Is that correct?

STUMPF: It was based on a number of issues. This was one of them. We want to take the business in a different direction and we...

CORKER: So she, in essence, was terminated over this issue?

STUMPF: No, Carrie chose to retire. Tim Sloane, our chief operating officer, with my consultation had discussion with her, and it was sometime in June or July, and said we want to go in a different direction. We want to put an end -- we want to put more focus on this issue. But it was a variety of things and she was eligible for retirement and she decided to retire.

CORKER: Well, my time is up, and out of respect for other members, I will stop. I have numbers of other questions. We thank you for being here.

STUMPF: Thank you.

SHELBY: Senator Reed.

REED: Well, thank you very much Mr. Chairman.

And thank you, Mr. Stumpf, for being here. Let me try to clarify a bit more your position going forward with respect to the issues of compensation. Not just Ms. Tolstedt, but even your own conversation. Will you formally recuse yourself from board deliberations?

STUMPF: Well, I'm not even -- I'm not even involved in board discussions around what the HRC does with anything respect with me and/or as they recommend to the board. So there's no recusal required. But if -- but I'm happy to do that, but I'm not even involved with that.

REED: It will ultimately come up, though, to the board for a vote of affirmation of the compensation committee, correct?

STUMPF: It would and I'm not part of that. That's done in an executive session without me. It's always been done that way.

REED: All right. In 2013 when you learned of this, what did you do? This has been asked several different ways. Did you inform the regulators or instruct someone to inform the regulators of a growing problem?

STUMPF: Thank you, Mr. Reed. Yes. And I should have mentioned that earlier, but yes. The -- our primary and prudential regulator was informed at that time.REED: Did you inform the board at that time?

STUMPF: Yes. I can't recall the exact meeting. And -- and -- but I can -- I can -- but it was sometime in '13. And I know in 2014, various committees of the board were made aware of this. The risk committee, the audit and examination, the Corporate Responsibility.

REED: Did you take any steps to internally notify your employees of this type of behavior which going back was, you know 11,000 people are gone (ph), 12, 13, including an area manager. Did you communicate that or did you simply keep these discussions internal to the board?

STUMPF: I do a team member town hall every quarter, where I go to one of our various cities and there will be a couple thousand people in the audience and then we webcast that broadly across our company. And I you know typically talk about ethics and doing what's right for customers.

And in the case, the vast majority do it. But I was trying to really bring home this fact.

REED: But there -- there was given specific evidence of techniques used to essentially, the words of some of my colleagues and to defraud customers. Those specific practices were not focused upon and made very clear that they were not tolerated? Or it would seem to be a generic discussion of follow the rules.

STUMPF: Again, Senator Reed, at the time that the escalation happened in 2013, there were many different meetings and things happening. As I mentioned in my oral testimony, about reducing goals, talking about sales efficacy, having manager meetings, talking with leaders, putting more controls in place. And again, not fast enough, not far enough, and I apologize for that.

REED: Well, it seems that you know and I would suspect looking back, that the emphasis on meeting sales objectives, cross-selling was unremitting. And yet, you had examples here, specific examples of things that you knew were happening and should not be happening.

And yet, what I've -- what I'm hearing is more or less a generic make those sales oh, and by the way, you know, we have these ethical rules in place, too. Again, you know, I think you've said it and it's obvious that the tone, emphasis, what the leader does, what the leader says, is sometimes more important than anything else.

STUMPF: Yeah. REED: For a period there, this was recognized but there was no specific stop, you know, stop this stuff.

STUMPF: Well, I can tell you, we said stop this stuff. And -- and the thing about cross-sell is, I'd rather have a customer with two products that they use and they need and they want and they value than four products that are not used and valued. In the first case, customer wins, we win, we all do well.

In the second case, everybody loses. We lose money. It does not help us. So we've been -- we tried very hard. And again, we were not as effective as we could have been in talking about -- you know, the goal here is not, you know, products. The goal here is deep relationships. We had the wrong tool for too long to make that happen.

REED: A simply conclusion (ph) that it seems that it took too many -- too many months, years, literally, for some simple steps which should have been taken to be taken to be taken and it was only, I think, as a result of what ultimately Los Angeles County and the regulators and others did that forced the issue. Thank you, Mr. Stumpf.

STUMPF: Thank you.

SHELBY: Senator Toomey?

TOOMEY: Thank you, Mr. Chairman. Thanks for calling this hearing.

I have to say, what we've been learning is so deeply disturbing at so many levels. First, we discover that Wells Fargo had a sales culture that was blatantly antithetical to what's best for customers. We discover that management had far too few common-sense controls in place to prevent the kind of abuse that customers were subject to.

We discover Wells Fargo executives completely out of touch. In a 2011 Forbes article, Wells Fargo was rated the best at cross-selling its products. Only problem is, we discovered Wells Fargo wasn't always cross-selling, signing up customers for products when you know the customer doesn't want the product, failing to notify customers about these sham accounts -- and this isn't cross-selling, this is fraud.

That's what this is. And then we discover, way too little done to prevent it from continuing, even after it was discovered. So Wells Fargo employees continued for years, to literally forge customers' signatures, including my constituents, on documents to open up accounts.

And then the case of Carrie Tolstedt, my understanding is that something on the order of over $20 million in bonuses for her between 2010 and 2015, were awarded because of strong cross-sell ratios. Yet, we know in some cases, she was hitting numbers by these fraudulent accounts. So this is unbelievable. But let me -- let me begin, Mr. Stumpf, do you acknowledge that the employees who engaged in this activity were committing fraud?

STUMPF: You know, I'm not a criminal, you know, officer and I don't know the -- the -- I'm not a lawyer, I don't know the legal term. I know this, they broke our code of ethics, they were dishonest and we did everything we can to support law enforcement, police...

(CROSSTALK)

TOOMEY: So I'm not a lawyer either, neither are most adults in America. But I think most people understand the meaning of the word fraud. Black's Laws Dictionary does provide a useful definition. It says fraud is, "A knowing misrepresentation or knowing concealment of a material fact made to induce another to act to his or her detriment."

How -- how does falsely signing a customer up for an account they don't want, how does it not meet that definition?

STUMPF: Well, and again, if that's the definition that -- you know, I can tell you this, it is absolutely wrong. We found this out. We got rid of those people and they have no place. That behavior has no place in our culture, if that means fraud that means fraud.

(CROSSTALK)

TOOMEY: At what point did you alert your regulators and law enforcement that you had probably criminal activity happening on a large scale?

STUMPF: Yeah, well, again, it was one percent of our people, senator. And I know that...

(CROSSTALK)

TOOMEY: But 5,000's a big number.

STUMPF: It's bigger than my hometown, I do know that. And it was -- but we also had the vast majority who did the right thing. But let's talk about those, every time --and we made a very bright line. If it happened one time it was one time, it was one time...

(CROSSTALK)

TOOMEY: I have only five minutes, here.

STUMPF: And to answer your question. I'm sorry, we sent it. We did everything we needed to do...

(CROSSTALK)

TOOMEY: Did you refer it to law enforcement?

STUMPF: When it was -- when it was required, we did. We did everything according to the rules.

TOOMEY: When did you begin to disclose in SEC filings that you had this potentially material adverse set of circumstances that could certainly have huge damage to your reputational value?

STUMPF: Well, I don't -- the -- I can't answer that; I'd have to get to our legal team. I don't have that in front of me. But this was not a -- I'd just have to get back to you on that. I don't know.

TOOMEY: Well, we haven't been able to discover such a disclosure and the SEC very clearly requires disclosure of material adverse circumstances. And I don't know how this could not be deemed material. I think the market cap lost nine percent over the last couple of weeks, that's pretty material.

STUMPF: Yeah, well, from a financial perspective, you know $2.6 million. And it's $2.6 million too much. And $185 million was not deemed...

(CROSSTALK)

TOOMEY: I get that those dollar amounts may not qualify as material to a bank the size of Wells Fargo but the reputational damage done to the bank clearly is material. And that has been manifested by this huge, adverse movement in stock prices.

Let me -- let me raise one other issue. You mentioned in your testimony and you state unequivocally that there are no orchestrated effort or scheme, as some have called it, by the company. But when thousands of people conduct the same kind of fraudulent activity, it's a stretch to believe that every one of them independently conjured up this idea of how they would commit this fraud.

Isn't it very probable that there was some orchestration that happened at some level, if not -- I'm not suggesting it was you personally, by any means. But doesn't it defy common sense to think that there wasn't some orchestration of this?STUMPF: Senator, I don't know how -- what motivated or why people did this, but we did fire managers and managers of managers and in the case, area president. So again, you know -- you know, this one percent is way too many. I don't want to minimize it, but I also want to make sure that we recognize that the vast majority of the people did exactly the things that we wanted them to do; to help customer relationships, help them succeed financially. And also, we have put a number of other controls in place besides taking sales goals off the table.

We now have, we don't open any deposit account today, or any credit card without a signature. And, well there's a couple cases were ADA, where they can't, we'll have a dual notice. We're also doing mystery shopping and we're also giving customer's a one hour notice by e-mail or then by an e-mail, by letter, to make sure exactly and they know exactly what they've opened.

TOOMEY: It -- it seems like it took an awfully long time, to impose those sort of basic controls. I see I'm out of time. Thank you Mr. Chairman.

SHELBY: Senator Menendez.

MENENDEZ: Thank you Mr. Chairman. First of all, thanks for and in response, I know you said you were already on the way. But through a letter that we sent asking you for this hearing, so I appreciate you for holding it. Mr. Stumpf, let me just say, I'm personally appalled by the size, the scope, the duration, and the impact of the scandal. And I must say that I'm shocked and incredibly disappointed by the response of Wells Fargo's corporate executives.

In the last week, you and your chief financial officer have taken to the press and laid the blame squarely on low paid, retail bank employees. And while I don't excuse what they did by any stretch of the imagination, I find that despicable. Wells Fargo touts to its investors and its customers that we will never put the stagecoach before the horses.

Well I'll tell you what, the bank recklessly rolled over 2 million of your customers, in what is, no way can be viewed as a -- other than a large scale scheme to boost, you know your growth, and whatever that meant for your shares, and whatever that meant to your shareholders. So, you didn't fire 10 employees right? You didn't fire 500 employees, you fired 5,300 employees is that right?

STUMPF: Yes, 5,300 that did not honor our culture. MENENDEZ: And they were not located in one branch of one district, is that right?

STUMPF: That is correct.

MENENDEZ: They were located across the country. Is that fair to say?

STUMPF: That is fair to say.

MENENDEZ: Now, shouldn't the workplace actions of employees, reflect the values of the institution, no matter what part of the country that they're in?

STUMPF: I absolutely agree with that.

MENENDEZ: So do you believe that senior executives, like yourself, are responsible for nurturing and honing a company wide culture for your employees and your employee's actions?

STUMPF: Absolutely.

MENENDEZ: So this isn't the work of 5,300 bad apples. This is the work and the result of sowing seeds that rotted the entire orchard. And whether tacitly to sales guides and employee training manuals, some of which I've reviewed, or more explicitly through demands from hard driving managers. You and your senior executives created an environment in which this culture of deception and deceit thrive. And yet, you know, I see this as a toxic combination of low wages.

Now I know that in response to Senator Brown's question as what is an average banker at Wells Fargo made, you said between $30,000 and $60,000, you said that's good money. How much money did you make last year?

STUMPF: $19.3 million.

MENENDEZ: Now that's good money. Now that's good money. Is it a combination of low wages, punishing sales quotas and a grossly misaligned compensation incentive throughout the bank's organizational structure. As is evidence that you've removed it. Now, when you were holding these ethics sessions, did you ever specifically, seeing this information, begin to blip up on your radar screen and then more insignificantly, did you ever specifically say, in those sessions, we do not want to open accounts for our customers that they don't ask for? Did you specifically say that?

STUMPF: Senator, I will get to that question. But I just want to go back for a second. When a team member that opens an account that's not used, that does not help customer and does not help us. And the vast majority did the absolute right thing.

MENENDEZ: Did you specifically say...

STUMPF: And I specifically said, yes, we do not push products. We sit down with a customer. We have a needs base analysis. And based on what we hear, where the customer is on their actual journey.

MENENDEZ: Did you specifically say, that in fact, I don't want to see accounts opened for customers that they did not ask for?

STUMPF: Absolutely.

MENENDEZ: When did you say that?

STUMPF: I've said that many times, in many town halls.

MENENDEZ: Let me ask you. Ms. Tolstedt made about $9 million in salary, did she not last year?

STUMPF: Yes. It's in the, it's in our public...

MENENDEZ: You made about $1.1 million in salary, bonus and stock awards. The average -- according to Glass Door -- the average Wells Fargo banker teller salary is $24,545 and the average salary for a Wells Fargo personal banker is $37,560. So imagine, do you know what the, what the poverty wage is for a family of three?

STUMPF: I do not have that with me.

MENENDEZ: Well, let me just share that with you. I didn't think you would. It's $24,300. For a family of three, it's $20,160. So imagine for a moment. You're a single parent working with two young children as a personal banker in Wells Fargo's branch. Let's say your base salary is somewhere in the $30,000 range. You have a hard driving boss, breathing down your neck, to meet rigorous sales quotas.

You've got to call in to a call center when you don't meet those quotas and if you don't meet the quota one day, it gets carried over to the next day. So you've got even a higher quota. And you're being told, forget about the incentive of making more money, in essence this is about losing your job.

And you think that that environment was the appropriate environment to protect your customers? And to have the culture that you portray here that Wells Fargo had?

STUMPF: Senator Menendez, I get your question. We have been reducing sales goals and bringing other goals into place. Even before we decided to get rid of the sales product goals. And the vast majority -- the vast majority loved, you know, loved Wells Fargo. In fact, when we go to our regional banking, our retail banking people, 15 of our people in survey, it's actually a census done by Gallop, every year, loved the environment in Wells Fargo. And they put customers first. I can't excuse the behavior of the 1,000, I know it's too many. But the culture is a very caring and collaborative culture.

MENENDEZ: Well, let me just, I know that my time is up. But let me just ask you a final question before, hopefully the chairman will have a second round. Did you or any senior executive at Wells Fargo suffer any financial consequence as a result of what's transpired over the years? STUMPF: The board will take. Well, first of all...

MENENDEZ: To date. Have you suffered any financial consequences?

STUMPF: The board has gone through and yes people have been held accountable.

MENENDEZ: Senior executive financially?

STUMPF: Senior executive...

MENENDEZ: I'd like you to classify for me what that is?

STUMPF: OK. People that are in charge of risk, in the retail bank. People who are in charge of sales efficacy. Regional presidents who don't meet their goals around -- proper sales. Yes. People are held accountable and they will be held accountable.

SHELBY: Senator Heller.

HELLER: Mr. Chairman, thank you for holding this hearing and for our witness for being here today. I appreciate it. For years, the people of Nevada have struggled to regain what they lost in the aftermath of the housing crisis. And we all know that this housing crisis was caused by greed and excess.

And for too long, Nevada often has had the unfortunate distinction of having one of the highest rates of unemployment, foreclosures, underwater homes, homes sold in short sales, and personal bankruptcies. So trust, to me is the center point of any relationship with a business. And I assume it's the same that Wells Fargo has broken that trust.

I consistently fight to insure Nevadans retain the protections of their personal privacy. So I was shocked to hear the reports. Mr. Chairman, the employees of Wells Fargo opened millions of bank accounts and credit cards without customer's consent. The actions of some Wells Fargo employees directly took money from American's pockets, in order to artificially inflate company quotas.

I had a constituent and I've had number of constituents call my office. This one happened to be from Henderson, Nevada. E-mailed me and says, she was affected by Wells Fargo's tactics. She said she was insulted, that leadership at Wells Fargo was unaware of these policies.

And given the culture of wrongdoing that some of your employees exhibited, taking responsibilities, refunding customers and conducting internal investigations should only be the first step. As we plan to fix this mess. Accountability to perform and putting your customer's interests first should be Wells Fargo's top priority. And so with that, Mr. Stumpf, just a couple of questions.HELLER: Do my constituents have a right to be insulted? I've heard a number of comments. Probably more directed at you, that you take the Sergeant Shultz position. That you knew nothing as this was moving ahead. But perhaps you even took -- and I heard this from one of my constituents -- the Hillary Clinton approach, what difference does it make attitude. And let me tell you why they're talking this.

About your -- your letter to your valued customers since you tried to explain to them some of the problems that, you may have seen news recently that some Wells Fargo customers received products and services that they did not need. You didn't tell them you were sorry, in your customer service letter. You came to this committee and told us you were sorry, but you didn't tell your customers you were sorry.

Do they have a right to be insulted?

STUMPF: Well, first of all, let me tell you, every -- I had a number of media contacts last week, one broadcast, and four in -- in print. And I am sorry, I am accountable when we don't it right 100 percent of the time. And I was even -- I was I think misquoted or misunderstood in one where I -- I blamed team members. I don't like -- we don't accept behavior that's not consistent with our culture, but I do accept responsibility and I am sorry.

HELLER: This letter appears that you're downplaying some of the concerns and you said that some Wells Fargo customers, well, you know, we're talking almost two million accounts that were opened up. Let me ask you this question. Were -- was anybody on your board or yourself, did -- did any of you have any opened unauthorized accounts in your names?

STUMPF: You know, I don't know that. I've not seen a letter, you know, on mine. And I was not -- and I was not refunded any of the dollars.

HELLER: What would you have done if you had an unauthorized account where somebody forged your own name? What would you have done about that?

STUMPF: Well, I've had that before where people have...

HELLER: Your bank, in your bank.

STUMPF: ... forged or stolen my identity.

HELLER: Yes. STUMPF: But of course I would be -- I would be very disappointed, and I can surely understand your constituents' disappointment, and we have a lot of work. Nevada is a wonderful, important state to us. We've been there a long time. And -- and I apologize to all of the American people and our customers, and we'll make it right.

HELLER: Can I go back to Carrier Tolstedt for a moment? You said you're not on the compensation board. But if the compensation board were to send you a recommendation to approve $100 million as a compensation package for her, would you support that?

STUMPF: You know, I -- I'm not on that board. And I think it's probably maybe -- if I could just take a second. As I understand, and -- and I'll get you the information about her $100 million. It's -- part of it is stock she has either purchased in the open market or exercised and owns for her 27-year career. There're -- there are some dollars that are in the money options that she's not yet exercised, and then finally there is a part of -- of a future grants that will be vesting over the number -- a few number of years. And the board will consider all of those things. They'll consider her entire situation in their deliberations.

HELLER: Would you app -- would you approve that?

STUMPF: You know, I -- again, Senator, I'd want to be respectful of the committee and respectful of their process, and not any way bias their decision.

HELLER: Mr. Chairman, my time's run out. Thank you.

SHELBY: Senator Tester.

TESTER: Thank you, Mr. Chairman, Ranking Member Brown, for having this hearing. I've been on this committee for nearly 10 years now. You have done something that has never happened in the last 10 years, and united this committee on a major topic, and not in a good way.

Credit card accounts were opened. Folks didn't know about them. There were fees charged, potentially fines charged. And if customers were aware that -- unaware that there accounts were opened up, there must have been many instances -- there were two million accounts opened up -- that negative information was sent to credit bureaus.

Is that accurate?

STUMPF: The part that's accurate is there's 565,000 credit cards that were opened up that were never activated. About 400,000 of those have customers' signatures on them, and 5.7 percent or -- less than six percent of those accounts that we opened at that time were not activated, which is a pretty standard industry -- because people might have them -- we're going to go back to each one of those customers now and find out if that was a legitimate signature and opened. And, if it's not, we'll make it right. TESTER: OK, but that's not what I asked. I asked was negative information turned into the credit -- bureaus because of these actions.

STUMPF: You know, I -- I don't know the algorithms of how credit bureaus...

TESTER: But this...

STUMPF: But -- but I want to answer your question. I -- I -- I know that when a credit bureau is requested, it has a impact on your credit score.

TESTER: Well, this is a big deal.

STUMPF: Yes, it is.

TESTER: And I'm telling you it is a big deal. I could ask you for the -- age breakdown on this, these two million accounts that were opened up. But I am telling you that, if information was sent into the credit bureaus because of these falsely opened accounts, the impacts on this are far,, far more than the -- than the fees or fines that could be associated with that.

What is Wells Fargo doing about that?

STUMPF: Yeah, Senator...

TESTER: Or did that information not get reported to the credit bureaus?

STUMPF: Well, when we pull a credit...

TESTER: Just -- just ask me. Just tell me. Did the information, if there was fees and fines involved, and the credit bureaus requested, or even if they didn't, did that information get forwarded to the credit bureaus?

STUMPF: I -- I'm trying -- sir, I'm trying to work with you. I -- I'm...

TESTER: But a yes or no works.

STUMPF: Yes, we -- we pulled a credit bureau for each one of these cards.

TESTER: OK. So what's Wells doing about fixing that problem, and be concise.

STUMPF: We are calling each credit card customer to find out if this truly was a card that they wanted.

TESTER: OK.

STUMPF: If they want it, we don't want to take away their credit. If they did not want it, we're going to go back and make sure that it's made right by the credit bureau, and made right by the customer.

TESTER: And what's the timeframe for that?

STUMPF: We already started that process.

TESTER: OK. So now this took five years. It's been documented, 2011, maybe even started before that. But 2011 till fairly recently. Now, if I had had a credit card issued in the first volley, and in the meantime, between 2011 and now, I decided to buy a house and that information was reported to the credit bureau, it could make -- you probably could know the figure -- but maybe half a percent, maybe more than that. And on a $500,000 mortgage, the difference between three and a half and four percent if 50 grand over 30 years.

What's being done about that?

STUMPF: We will look at each one of those and determine what...

TESTER: So you're going to go back in and find out, even if they didn't do business through Wells, if they bought a house and what Wells did impacted their credit rating, you're going to go back and find those folks?

STUMPF: I'm going to go back. We -- we've committed to go back to all of our credit card customers and find out...

TESTER: What about the ones that got -- you've refund all their fines, you've refund all their fees, you went back to credit bureau and reestablished their credit rating as of today, what about the folks that may have bought a house through Chase and got a higher interest rate because of it?

How are you going to find those folks?

STUMPF: You know, we're -- we're working on that. I told our people go back and make it right. And I can -- I can, as we start going through that, I'm happy to have our team come back and report to you how we're working on it.

TESTER: Well, I think it's really important that you understand that it's -- it's -- this is a big deal. I mean it's a big deal. And I know you feel bad about it. We feel bad about it. But the truth is there's real world implications here on young families on old families that are going to be put into a poverty situation because of this, even though we think it's just a few hundred bucks in fees. It's more than that, much more than that.

So you found out in 2013, and I don't want to beat this horse any more, but did you find out that they were actually setting up accounts with fraudulent signatures in 2013?

STUMPF: You know, I learned that some of our team members were not doing the right thing and they were opening accounts on customers, and then we truncated them.

TESTER: Because it would seem to me that, if you guys knew about that, a simple edict would have been pretty helpful. Don't do this, if you do this, you're gone.

STUMPF: And that's -- we had even more than that. And -- and what we should have done is get rid of our incentive program.

TESTER: But the last thing, and this is a statement, it's not. But I can tell you that you've said multiple times here that 5,300 people went, and that's basically one percent of your workforce. Every time you say that, you give ammunition to the folks who want to break up the big banks.

5,300 people are more people are more people than live in most towns in Montana. 2 million people is twice the population of the entire states. This is a major screw up that went on for far, far, far, far too long. And I think you know that. But, man, there's going to be a lot of work that has to be done to rectify this situation, if it ever can be rectified.

Thank you, Mr. Chairman.

SHELBY: Senator Crapo.

CRAPO: Thank you, Mr. Chairman.

And, Mr. Stumpf, I want to follow up on the line of questioning that Senator Tester was just discussing with you. But first I want to ask a couple of questions about just data basically. Consumers expect that their private information is going to be protected at their bank and not used to open an unauthorized account. You've gone through that extensively today.CRAPO: Did the third-party analysis that you engaged in determine if these unauthorized accounts were created uniformly across the United States? Or were there areas in the United States where they were more heavily created?

STUMPF: Yes there was a more heavily bias towards the Southwestern part of the country.

CRAPO: The information I have indicates that that, even more specifically includes California and Arizona. Would that be correct?

STUMPF: That would be correct.

CRAPO: I also have New Jersey here on my list. Was New Jersey more heavily impacted?

STUMPF: Well I have numbers by state and it typically related to, there were some, over indexed, over, people did more wrong things. But it more associated with the size of the business we're a much larger bank in Southern California and Arizona, New Jersey. There are places where we're larger and it fit more the pattern of the size of our organization in those communities.

CRAPO: So because of that, it wasn't necessarily that the management in those communities were potentially the ones who were driving this more aggressively, but simply the size of your business in those communities?

STUMPF: Senator it was a bit of both.

CRAPO: All right thank you. Obviously one of the questions that my constituents and constituents across the country have is am I one of those who has had an unauthorized account created in my name? And you've indicated that right now Wells Fargo is calling every customer, is that correct?

STUMPF: We are contacting all of our deposit customers. And the credit, and incidentally virtually all of these accounts came on the books and were closed within a 60-day period. And so there's of the potential again, the 2 million accounts we, that could not be eliminated, I think I said that in oral testimony, so I don't know you know, we just couldn't eliminate them, or PWC could not.

But we're calling all of our credit card customers and contacting all of our deposit customers and we have a special call a number. We're asking people to come into our banks and talk to our people... CRAPO: That was my next question. If there's somebody who doesn't want to wait for the call, what can they do?

STUMPF: I mean they're going to get a notice and say you know, if you have an interest you can e-mail us, we'll call you, we'll do whatever it takes to make sure that, and I know our study was quite, PWC was very comprehensive. We tried to err on the side of the customer.

In fact we're getting people come into our bank today saying, I got a $25 check but I wanted this service. And I'm not saying that, I'm just saying that we want to make sure that we don't hurt any customer and that if they wanted credit they have it. If they didn't want it, we'll try to make it right by them.

CRAPO: All right now getting back to Senator Tester's question about the credit impact. The simple opening of an account causes an impact to a credit rating doesn't it?

STUMPF: It does on, and again I'm not an expert in this field, but I know on the credit card side we pull a bureau. And depending on how many bureau, well I know that, that is a strike against, it lowers your credit score depending on how many requests are in that time. There's also a positive impact and I'm not here to justify or under, we will do what's right to make that right.

CRAPO: Well and that's what I wanted to get at, finally in the last minute I have in my questioning. You said to Senator Tester and you just said again to me, that you're going to make it right. How do you do that?

For example, you said the calls have been being made. I assume that in the calls that the bank is making that they are finding customers, some, who have unauthorized and unwanted credit card accounts. How do you make it right with regard to the impact that that and potentially charges on that account have caused to the credit rating of that cardholder?

STUMPF: And Senator that is a very good question. We're just starting that process. I don't have enough to give you right now. But we'd be happy to come back to the committee and tell you more about what we learn as we do that.

CRAPO: All right thank you. In the little bit of time I have left I want to shift topics. My understanding is that the primary regulators that you have been dealing with are the City of Los Angeles and the OCC and the CFPB. Is that correct?

STUMPF: That is correct.

CRAPO: Could you just give me a timeline? When did each of those notify you? Or did you notify them at some point? In what order did they get involved and when?

STUMPF: I don't know that I have precise dates. But I'll give you a general timeline. The City of LA lawsuit was sometime in the May timeframe of 2015, well I, '13 maybe it was.

I'm sorry I'm missing on dates here. And then the OCC was involved, we shared with them and when we learned of their lawsuit, we, well it was actually in '15 I'm sorry, 2015, May of '15. And then we shared that information with the CFPB. But the OCC was involved with us prior to probably the 2013 timeframe.

CRAPO: So the OCC probably would have been involved first even before the City of Los Angeles?

STUMPF: They are our principle regulator and yes.

CRAPO: All right and then the CFPB would have been the final entity that was the last entity?

STUMPF: We noticed we called them -- someone from our legal department called them I believe in the May timeframe of 2015.

CRAPO: All right I'm sorry I see my time is well over now. Thank you Mr. Chairman.

SHELBY: Senator Warren?

WARREN: Thanks Mr. Chairman. Mr. Stumpf the Wells Fargo Vision and Values Statement which you frequently cite says "We believe in values lived not phrases memorized. If you want to find out how strong a company's ethics are, don't listen to what its people say watch what they do." So let's do that.

Since this massive year's long scam came to light, you have said repeatedly, "I am accountable." But what have you actually done to hold yourself accountable? Have you resigned as CEO or Chairman of Wells Fargo?

STUMPF: The board, I serve at the...

WARREN: Have you resigned?

STUMPF: No I've not.

WARREN: All right. Have you returned one nickel of the millions of dollars that you were paid while this scam was going on?

STUMPF: Well first of all this was by 1 percent of our people...

WARREN: That's not my question...

STUMPF: And, and...

WARREN: My question, it's about responsibility. Have you returned one nickel of the millions of dollars that you were paid while this scam was going on?

STUMPF: The board will take care of that.

WARREN: Have you returned one nickel of the money you earned while this scam was going on?

STUMPF: And the board will do...

WARREN: I will take that as a no then. Have you fired a single senior executive? And by that I don't mean a regional manager or branch manager. I'm asking about the people who actually led your community banking division or your compliance division?

STUMPF: We've made a change in our regional, to lead our regional bank.

WARREN: I just said, I'm not asking about regional managers, I'm not asking about branch managers, I'm asking if you have fired senior management. The people you actually led community banking division, who oversaw this fraud, or the compliance division that was in charge of making sure that the bank complied with the law?

STUMPF: Carrie Tolstedt...

WARREN: Did you fire any of those people?

STUMPF: No.

WARREN: No. OK. So you haven't resigned. You haven't returned a single nickel of your personal earnings. You haven't fired a single senior executive. Instead evidently your definition of accountable is to push the blame to your low level employees who don't have the money for a fancy PR firm to defend themselves.

It's gutless leadership. In your time as Chairman and CEO Wells has been famous for cross-selling which is pushing existing customers to open more accounts. Cross-selling is one of the main reasons that Wells has become the most valuable bank in the world. Wells measures cross-selling by the number of different accounts a customer has with Wells.

Other big banks average fewer than three accounts per customer. But you set the target at eight accounts. Every customer of Wells should have eight accounts with the bank. And that's not because you ran the numbers and found that the average customer needed eight banking accounts. It is because "8 rhymes with great." This was your rationale right there in your 2010 Annual Report.

Cross-selling isn't about helping customers get what they need. If it was, you wouldn't have to squeeze your employees so hard to make it happen. No, cross-selling is all about pumping up Wells' stock price isn't it?

STUMPF: No. Cross-selling is shorthand for deepening relationships. We -- what we do well...

WARREN: Whoa, let me stop you right there. You say no? No?STUMPF: I -- I...

WARREN: Here are the transcripts of 12 quarterly earnings calls that you participated in from 2012 to 2014, the 3 full years in which we know this scam was going on. I'd like to submit them for the record, if I may, Mr. Chair. Thank you.

These are calls where you personally, made your pitch to investors and analysts about why Wells Fargo is a great investment. And in all 12 of these calls, you personally cited Wells Fargo's success at cross-selling retail accounts as one of the main reasons to buy more stock in the company.

Let me read you a few quotes that you had. April 2012, quote, "We grew our retail banking cross-sell ratio to a record, 5.98 products per household." A year later, April 2013, quote, "We achieved record retail banking cross-sell of 6.1 products per household." April 2014, quote, "We achieved record retail banking cross-sell of 6.17 products per household."

The ratio kept going up and up. And it didn't matter whether customers used those accounts or not. And guess what? Wall Street loved it. Here, is just a sample of the reports from top analysts in those years, all recommending that people buy Wells Fargo stock in part because of the strong cross-sell numbers.

And I'd like to submit them for the record.

SHELBY: Without objections.

WARREN: Thank you, Mr. Chair.

So when investors saw good cross-sell numbers -- they did, while this scam was going on -- that was very good for you personally, wasn't it, Mr. Stumpf? Do you know how much money, how much value your stock holdings in Wells Fargo gained while they scam was under way?

STUMPF: Well, first of all, it was not a scam. And cross-sell is a way of deepening relationships. When customers...

(CROSSTALK)

WARREN: We've been through this, Mr. Stumpf. I asked you a very simple question. Do you know how much the value of your stock went up while this scam was going on? STUMPF: It's all of my compensation is in our public stock...

(CROSSTALK)

WARREN: Do you know how much it was?

STUMPF: It's all in the public filing.

WARREN: You're right, it is all in the public records because I looked it up. While this scam was going on, you personally held an average of 6.75 million shares of Wells Stock. The share price during this time period went up by about $30 which comes out to more than $200 million in gains all for you personally.

And thanks, in part, to those cross-sell numbers that you talked about on every one of those calls. You know, here's what really gets me about this, Mr. Stumpf. If one of your tellers took a handful of $20 bills out of the crash drawer, they'd probably be looking at criminal charges for theft.

They could end up in prison. But you squeezed your employees to the breaking point so they would cheat customers and you could drive up the value of your stock and put hundreds of millions of dollars in your own pocket. And when it all blew up, you kept your job, you kept your multimillion dollar bonuses and you went on television to blame thousands of $12-an-hour employees who were just trying to meet cross- sell quotas that made you rich.

This is about accountability. You should resign. You should give back the money that you took while this scam was going on and you should be criminally investigated by both the Department of Justice and the Securities and Exchange Commission.

This just isn't right. A cashier who steals a handful of $20s is held accountable, but Wall Street executives who almost never hold themselves accountable, not now and not in 2008 when they crushed the worldwide economy. The only way that Wall Street will change, is if executives face jail time when they preside over massive frauds.

We need tough, new laws to hold corporate executives personally accountable and we need tough prosecutors who have the courage to go after people at the top. Until then, it will be business as usual. And at giant banks like Wells Fargo, that seems to be cheating as many customers, investors and employees as they possibly can. ' Thank You, Mr. Chair.

SHELBY: Senator Vitter?

VITTER: Mr. Stumpf, what astounds so many Americans and virtually all of us is how significant this fraud was, how widespread it was, for how long a period of time. And related to that, I'm very concerned about this timeline of when top corporate leadership like yourself knew about it.

You have been talking, in general, about 2013. Is that when the issue was a focus of board discussions, or was that the first time you knew of fraudulent activity and these unwanted accounts being opened against customers' wills?

STUMPF: As I -- thank you, Senator Vitter -- as I testified before, this -- people in our regional bank, knew that not every team member would do everything right every day and they tried to root it out at the business level with their compliance and so forth. And once...

VITTER: When did you and folks at your level, like board members, know of this activity on any significant scale? Was it 2013, which you have suggested, or was it earlier?

STUMPF: 2013.

VITTER: OK so in 2011, about 1,000 employees were fired over this. That's about one percent of the whole retail business. So one percent of a whole, big part of your business was fired over fraud and you were never told about that?

STUMPF: That was -- that was dealt with in the business unit at that time.

VITTER: Is it normal for one percent of a business unit to be fired over fraud, not high turnover, not incompetence, fraud and this never is mentioned to you?

STUMPF: Yeah, in a -- in a large retail business that has other turnovers and so forth, if I could go back, I would have, you know, spent more time on this.

(CROSSTALK)

VITTER: Why isn't this crystal-clear proof that an entity as big as Wells is not only too big to fail but it's too big to manage and it's too big to regulate? One percent of a big part of your business is fired over fraud but that doesn't rise to your level?

STUMPF: Yeah and senator, that's a good question and I've thought about that. This was a problem of focus and not of size. Today...

(CROSSTALK)

VITTER: Let's talk about corporate culture. You've often referred to people not living up to the Wells culture. Culture is not something written in a handbook. Culture, as has been suggested, is an atmosphere and what is lived.

STUMPF: I agree.

VITTER: Wasn't this practice, in fact, by the numbers part of the Wells culture by definition because it was so widespread for so long a period of time?

STUMPF: I think this is not part of our culture. This was the -- and again, it's a large number, but I -- the vast majority of our people do it right every day and they provide great value and they live according to our culture and vision of values.

(CROSSTALK)

VITTER: And it's been a widespread practice for many years. I'll just make a statement, that makes it part of the culture, in my opinion. So it seems to me your challenge is to change the culture, not to enforce the culture.

STUMPF: Well...

VITTER: Finally, what level of confidence, from zero percent to 100 percent, do you have that this type of fraudulent activity does not exist in other wells business lines?

STUMPF: Yeah, I -- we've looked at other things, other businesses. They're -- they're different and I --- we believe that this is situate in our regional bank. Other areas have different levels of compliance and different volumes and different requirements.

But we've looked across a number of things and I have confidence that we have this one now solved and we've made a lot of changes.

VITTER: So just as an example, Wells is the biggest participant in the SBA's 7(a) Loan Program. I happen to chair the Small Business Committee, so I'm focused on a lot of small business issues. Are you 100 percent confident that no fraudulent activity like this or no extreme quotas and goals exist in that 7(a) program?

STUMPF: Yeah we don't have product goals to my knowledge in any -- any -- on one of our other businesses and we have, of course because of this situation, we've doubled down on compliance and review in a lot of our businesses across the board.

VITTER: Well, I'm -- I'm writing several of those compliance folks to urge a look at anything small business related, including the 7(a) program since Wells is the leader in that activity.

Thank you, Mr. Chairman.SHELBY: Sure.

Senator Donnelly?

DONNELLY: Thank you, Mr. Chairman.

Mr. Stumpf, you had previously talked to me about Wells Fargo values. Look at the mess we are in.

A community banker from my state called the office unsolicited, and just sick. And he said, here we go again, where my bank is -- and a local community bank -- my bank is going to be slandered because of what these guys are doing.

And he said, if my bank had a widespread practice of opening unauthorized accounts and moving customer money without permission, I would be in jail, my bank would be sold, and my entire management team and board would be sued by the regulators for a lack of oversight.

And he is sick to his stomach about what has happened here. And so am I. Over 5,000 people from Indiana, 5,000 Hoosiers who, every day, as everybody has talked about from their own states, every day these people work nonstop to try to pay the bills, take care of their family, make sure that they can make ends meet, and they hope that they can.

Over 2 million-plus across the country. But over 5,000 Hoosiers who had unauthorized accounts opened. Now, the second many of these credit cards are opened, these folks' credit was immediately dinged. And this is something Senator Tester was talking about.

Then you go to take out a mortgage and you've got a 30-year mortgage that's at half a point or a point higher because your credit rating has gone down. So, what I want to know is, one of these things, is will you pay back every single extra dime that these people are going to incur over the 30 years because of the fraudulent action of the people at Wells?

It wasn't Sam or Judy who works at the mill, who was hoping to get a payment that they could afford. It was that their account had fraud committed to it, and now they have to pay more every single month for the next 30 years. How do you pay that back?

STUMPF: Yeah. Thank you, Senator. We've been thinking about that. We're starting to call, make those calls to our constituents and find out, our customers. And I don't have a final answer for you, but we will -- our intention is to make it right by every customer.

DONNELLY: So, do you promise to pay back every single extra dollar these people are going to incur over the next 30 years?

STUMPF: You know, Senator, I want to work with you and I'm trying to be cooperative. I just don't have all those answers for you today. But I surely get the issue. And my instructions have been to make it right by every customer.

DONNELLY: One of the things that rubs everybody wrong around here, but not just here, around the country -- Americans are fair people. And everybody in this country tries to make sure that there's a square deal done. It's not a square deal when the people that are fired are the tellers who make 15 bucks, and the senior execs walk off with $100 million.

Americans can smell an unfair deal a mile away. And when this teller -- these 5,300 tellers, they didn't come up with this scheme on their own. This is the only way they could keep their jobs because of what was going on. And you called them dishonest.

And my question is, was Carrie Tolstedt, the head of all this, is she dishonest? And how do you fire someone making 15 bucks and not the person -- that's like firing the guy throwing coal in the engine and letting the captain go strolling off to $100 million new ship. How do you do that?

STUMPF: I think that's an important question. First of all, most of the people were bankers who were not making $15 an hour, managers of those and managers of those. And there is something very different about violating our code of ethics and putting customers at risk and being dishonest versus someone who did not spend enough time making sure that this issue had been closed. I see a very big difference there.

DONNELLY: Well, I think one of the things that the American people are just disgusted about is it seems like it all flows downhill. And the people down the hill get fired, don't even know if they can then pay their mortgage because of the job they had, they're gone, and that the people up on the top of the hill make $20 million, $10 million.

You know, the fellas who started the Wells Fargo, stagecoach, this was not their plan. This is not what we do. And the only last question I have, and I apologize, Mr. Chairman, but it's this -- for five years! Five years! And so, when folks say this too big to fail, for five years you were not able to end this.

And you look and you go, for five years, Americans were taken advantage of and were cheated, had their credit ratings ruined, had accounts opened that they never even knew about, and this bank -- either you didn't know or you knew and it was great for the story. You know, under any circumstance, none of the conclusions is good.

STUMPF: Well, I couldn't agree with you more. We did not move fast enough. We should have done better. But I also may remind you that the vast majority of people also had families to feed and they did exactly the right thing. But we are sorry and we needed to do better. Thank you.

DONNELLY: Thank you, Mr. Chairman.

SHELBY: (inaudible).

SCOTT: Thank you, Mr. Chairman.

Good morning, Mr. Stumpf.

STUMPF: Good morning, Mr. Scott -- Senator Scott.

SCOTT: I'll tell you, as a senator, I am frustrated, angry, and really unhappy with what appears to be a toxic culture in parts of your sales organization. As your customer, with two or three mortgages, a couple of accounts, I'm disappointed.

I'm disappointed in my financial institution that I've put so much confidence and trust in. I am, however, thankful for the real heroes that we've heard so little about this morning, the heroes, the employees who went to the press, the customers who went to the OCC, bringing oxygen to a very important conversation, and hopefully, resolution.

I ask myself, and perhaps Rita Morillo (ph) gives me the answer, why did not these employees find a safe haven up the chain? If you'll remember, I owned a couple of Allstate Insurance agencies, and so, the sales culture that was so toxic is also incredibly important for folks looking to support their families, who are working paycheck to paycheck.

And anyone who suggests that folks who make just a little money must cheat the system is an inconsistent suggestion. I know a lot of folks who are poor who would find that comment quite disrespectful. Lots and lots, most poor folks have strong integrity and would never put themselves in this situation.

I would suggest that perhaps the higher you go in that chain, in the sales organization, the more you find the problem, not the person making the 15 bucks an hour, to be honest with you. My question, though, is why was there not a safe haven? And have you created safe havens for employees who see things that are just running amuck?

Do they have a safe place to go? And not to "The L.A. Times," not to the OCC, but is there a culture that is being established -- I know you're limiting some of your sales goals, which have unintended consequences as well -- but is there a culture being established where the average employee feels empowered, encouraged to come forward and speak and be heard in Wells Fargo?

STUMPF: Senator Scott, I really appreciate that line of questioning because it's absolutely -- and I should have mentioned it. Each team member, no matter where you are in the organization, is encouraged to raise their hand. If something is being asked of them that they think is not right, not consistent with our values and our culture, they're asked to raise their hand, they're asked to go to a manager's manager in HR.STUMPF: We also have an anonymous ethics line. They can speak up and show us and talk to us about anything going on. We want to hear from them, because we don't want this behavior. And I wish, you know, we would not have this behavior, but we've also instituted some things today, you know -- and you mentioned getting rid of the sales goals -- but we also today have a -- have an e-mail we send within an hour of opening an account. No account gets -- can get opened today on a deposit side or a credit card without a signature.

And we're also doing a big mystery shopping program, by an independent third party to help tie it together.

SCOTT: (inaudible) this is important for me to finish my line. Of course I'm glad to hear that you're making progress.

Mr. Chairman, I would love for the record to have a better understanding of the culture of checks and balances that were not there that are now there that will help customers -- thousands of customers throughout South Carolina, have more confidence in all financial institutions. And perhaps having done it wrong you become a model for being -- doing it right.

STUMPF: Thank you.

SCOTT: The second question I have, it goes back to the question we heard from Crapo, from Tester and so many others that -- and Donnelly, as well. That when you look at the impact on the consumer, the customer, you open an account -- I apologize now for going over my time for a minute or so. You have an account, I have a couple with the bank.

STUMPF: Thank you.

SCOTT: I hope to keep them there.

STUMPF: Thank you, I -- we agree.

SCOTT: I hope to keep them there.

STUMPF: Yes.

SCOTT: Someone opens an account, a fraudulent account. The definition of fraudulent -- God bless Black's dictionary -- if I didn't sign for it, it's fraudulent. I like to have simple definitions. So I open an account in my name. I don't know the account's open so there are fees attached to some of the accounts. The fees that are attached aren't paid because I'm ignorant of those accounts. Those fees that are not paid because I don't know about them, at some point is reported to a credit agency because I didn't pay the fees because, I didn't know about it because, I didn't open the account.

So when these fees that create a negative impact on my credit statement, it translates to higher interest rates or, said differently, a different way of exacting resources out of my very limited pocket. Especially for folks working paycheck to paycheck throughout South Carolina.

STUMPF: Correct.

SCOTT: So when that happens, it is nearly impossible for us to figure out the actual dollar amount -- as Senator Donnelly was looking for -- of impact on all the customers it goes through. And I would like for it also to be included in the questions for the record, some way of helping me and others understand how we create a solution for those customers who will obviously be identified by you or by a group of attorneys looking to sue.

So I would love to understand and appreciate that process so that I can go back to my constituents who I work for and give them a plausible path forward for actual resolution for those who are injured and a clear path forward for restoring confidence in financial institutions.

Because my fear, is that this is not going to simply be a Wells Fargo question, it will be a question for the entire financial footprint in our nation.

STUMPF: And I -- I think it's a good point and I think -- and, again, I only did a check with our team but I think we've already gone back on the deposit side and made those fixes with the -- with the credit bureau and are working to rectify that. But I'll make sure we get back to you on -- on -- work with you on that issue.

SCOTT: Thank you, sir.

Thank you, Mr. Chairman.

SHELBY: Senator Heitkamp?

HEITKAMP: Thank you, Mr. Chairman and thank you for calling this meeting.

I know Mr. Stumpf there's probably many other places you'd rather be right now. But I think this is a critical time, as we look at the push that we've seen for financial institutions for lower regulatory burdens and trust us. What we've now lost has been trust, between not only you and your customers but between in a very bipartisan way -- between this committee and large financial institutions.

You have said repeatedly that one of your failures was that you did not act fast enough. Today, you're sitting in front of this committee and I'm telling you, you are still not acting fast enough. You still do not have the answers that we need to say that we're moving forward. And so let's start with remediation and by that, I mean repairing credit ratings, taking a look at refunds, taking a look at restoring the customer -- to the customer, what the customer lost.

You have said repeatedly to the folks here, you know, we're working on it, we're working on it. You know, we -- we start this story as far back as we don't know, but let's start at 11.

At 11, there's something going on and Wells Fargo is addressing it. At 13, there's something going on and Wells Fargo is addressing it. At 15, there's something going on and Wells Fargo is addressing it.

But yet, it didn't get done and now, you're coming to us and saying, trust us, we now get it. Now, we know. Now, we figured it out. And so we need a clear dialogue. But I think -- I think that one of the failures today is you haven't come with a whole lot of remediation, you haven't come with a whole lot of dialogue to us on, this is what we're doing to restore customer confidence.

And, like Senator Scott, I'm one of your customers. My whole family is. You aren't doing what you need to do to restore customer confidence but you're also not doing what you need do to restore confidence with this committee and with the American public.

I wanna talk about changing culture. There is no one on this committee who believes that 5,000 people independently act with impunity and with dishonesty. No one here believes that. And if they do, I've done law enforcement. This is -- this is -- this is a behavior that was created by the culture that was allowed.

Created by a whole lot of folks saying, you know, let's do it this way. This is not -- and I get what you're saying, that it wasn't just the tellers, its wasn't just the lower level. But yet the one person, the one person who was responsible directly, other than yourself, for making sure this doesn't happen isn't in front of this committee today.

In fact, she's walked off with a pretty good deal and hoping that all of this blows over. And the other thing, when you say you didn't act quickly enough, the board should have already acted to claw back those salaries. If you had come here and said, the board now is clawing back, these the things that we're doing and -- and -- you would be in a lot better position sitting in that chair right now.

And so I will tell you, you have not done enough to restore confidence today and this dialogue will continue with this committee and with the American public. Now, with that said, I wanna -- I wanna turn to the 5,000 people and I wanna -- wanna say maybe they deserve to have their reputation restored.

Maybe, they deserve to not be that person whose now resume says "fired" on a resume. Maybe, instead of just focusing on your customers, you ought to focus on the 5,000 people who I'm pretty sure did not unilaterally decide to be dishonest. And so it's an issue that hasn't been raised here.

But I think it's a critical issue because when you punish the guy at the end of the line and you don't punish in any way someone at the top, we end up with a -- we end up with a -- an attitude that, quite frankly, this is a corporate culture that doesn't care.

They're just trying to get through the day and I don't think that your day yet has ended and so I wanna thank you for appearing but it's not enough and it's not nearly what I had hoped you would come with today.

Thank you.

SHELBY: Senator Moran?

MORAN: Mr. Chairman, thank you.

Mr. Stumpf, good morning.

STUMPF: Good morning.

MORAN: The -- as I understand the circumstances, the factual circumstances, many of the problems, while they were system-wide, many of the problems were focused in the Los Angeles area within your banking system, is that true?

STUMPF: It's true that that's the largest part of our business but they were also focused there, yes.

MORAN: And is -- have you analyzed sufficiently to determine what was different about Los Angeles than places elsewhere in your banking system that would suggest that the number of times, the volume of fraudulent acts that occurred there, how do you explain that?

STUMPF: Well, as Senator Heitkamp said and if I did not share this, I wanna make sure -- I also agree 5,000 people don't just do 5,000 random things on their own. I'm sure there were people talking to one another within a branch and so forth but that analytical work is being done and has been done.

I don't happen to have it here, I'll have our team work with your staff to make sure that you have whatever you need on that.MORAN: I would welcome that. I'm interested in knowing if you see this as a customer issue, a more vulnerable population of banking customers.

Or, as the word culture has been used here a number of times, was there something different about Los Angeles, which I assume -- again, I think illegal behavior, immoral behavior, breaking the rules is wrong wherever it happens, but our goal in management, your management of a financial institution, is to diminish the chances of that happening.

So you never condone bad behavior, but we want to make certain that the circumstances in which it is discouraged and never encouraged, and I don't have a feel for that circumstance. I don't know what really is the facts within the banking leadership that may have encouraged this behavior. We've seen this before.

I serve and a number of my colleagues, including Senator Brown, on the Veteran's Committee, where we saw the consequences of a system that rewarded appointments for veterans who needed medical care. We saw a scandal across the country in which veterans were put on a list suggesting they had an appointment; they didn't.

And the circumstances in which those individuals -- those individuals were listed as having an appointment, the allegation certainly exists that there was death as a result of the failure of the V.A. system to provide necessary health care.

(UNKNOWN): Correct.

MORAN: I think the point that Senator Heitkamp made I would make to you again.

There's a number of us on this committee and in Congress who work to try to find the right regulatory balance for financial institutions, and just to stress with you the importance of then having our financial institutions behave, their behavior, conduct be a certain level; otherwise, it undermines the efforts for that attempt to change the regulatory environment for financial success and we particularly focus that on community banks, but we care about those financial institutions that have a relationship with their customers.

And one of the arguments that has been made is those relationship bankers can rely upon the relationship. And what we're hearing from the circumstance that we find at Wells Fargo is that relationship was taken advantage of. It didn't accrue to the benefit of the customer. STUMPF: And, Senator, you are right for that portion. And what hurts so much is that we spend so much time trying to do the right thing and when a customer gets a product that's not used or not benefiting them, that hurts them and it hurts us. We have no interest -- and if I could just take one second.

I want to correct, Mr. Chairman, or share something that I wasn't as clear on.

On deposit account fees, none of those were reported to credit bureaus. So the credit bureau impact relates exclusively to credit cards and we're going to run each one of those down.

(UNKNOWN): Thank you.

MORAN: Mr. Stumpf, let me ask a final question. So I don't think you provided us with a precise timeframe in which regulators were notified, but I'd be interested in knowing what regulators were notified, when, who, and what steps they then took as regulators in response to the information they had.

STUMPF: OK. And again, my recollection is that our credential regulator, the OCC, was involved and notified and active in the 2013 timeframe. At about the time of the lawsuit from the City of Los Angeles, we informed the CFPB. And so I can tell you what we did. And I know you have a panel later with them, but that's what my recollection is.

MORAN: None of these actions at Wells Fargo came to light as a result of the regulators finding that behavior. It was reported to them subsequent. Is that true?

STUMPF: Again, I want to be -- I don't want to speak for them and I don't know what part of this is confidential supervisory information, but my recollection of what we did was deal with this issue, terminate people, inform our credential regulator, and after the City of L.A. inform the CFPB.

MORAN: Finally, I would say in my experience in dealing with the Department of Veteran's Affairs and their circumstance, in way too many instances in my view the employees became the scapegoat for what I saw as actions or encouragement behavior by their supervisors. And I would encourage your circumstance -- in your circumstance to make certain that the employees are not the scapegoat for behavior at higher levels.

STUMPF: I think that's a great point, Senator. And I am, you know -- the 268,000 that come to work every day of our team members, they're the most fabulous people, you know. And I just love them and what they do, but I -- the 5,300 for whatever reason, they were dishonest, and I'm not scapegoating, but that is not part of our culture. And some of those jobs, many of those jobs, most of them, were very good American jobs.

MORAN: Thank you. Chairman. Senator Merkley. MERKLEY: Thank you. Mr. Stumpf, did Wells Fargo create a pressure cooker sales culture that put personal bankers and tellers in a possible situation between a rock and a hard place?

STUMPF: I do not believe that. Because 90 -- you know, the vast majority...

MERKLEY: Let me continue. You got your answer, thank you. So Rita Murillo, a branch manager, says, "Regional bosses required hourly conferences on her Florida branch's progress toward daily quotas for opening accounts and selling customers extras, such as overdraft protection," an issue that hasn't been addressed yet.

"Employees who lagged behind had to stay late and work weekends. Then came the threats: Anyone falling short after two months would be fired. We were constantly told we'd be working for McDonald's. If we did not make the sales quotas, we had to stay for after school detention, it felt like, or report to a call session on Saturdays."

Is that a pressure culture situation, putting tellers and personal bankers in an impossible situation?

STUMPF: Senator, that has no place in our culture. I've actually read that, and it hurt to hear those words. And people like that do not belong there.

MERKLEY: Eric Estrada, former Wells personal banker and business specialist, said managers coached workers on how to inflate sales number. Employees opened duplicate accounts, sometimes without customers' knowledge. They used a database of customers who had been pre-approved for credit cards and ordered them. They were coached on it.

Is that a setting in which a pressure culture -- pressure cooker culture really puts the personal bankers in an impossible situation?

STUMPF: That has no place in Wells Fargo. There's nothing that we did to encourage that.

MERKLEY: Nothing you did, but bank managers were being coached on how to coach their employees on how to do this? How about a branch in the Pacific Northwest where I come from? She was very upset when employees had talked a homeless woman into opening six checking accounts. She said, "It's all manipulation. We are taught exactly how to sell multiple accounts. It sounds good, but in reality it doesn't benefit most customers."

Or let's talk about Yesenia Guitron who in 2008, after being hired for two months, found that this was happening -- these false accounts were happening. She went to her trainer, then she went to her manager, and she was basically found -- she was pushed very hard to shut up in all kinds of different ways.

So you say, "Well, the employee could have gone to somebody." She did, and eventually she filed a whistleblower suit. And why did Wells Fargo say that that was not legitimate? I'll just save you the time, the answer is because Wells Fargo said, "We fired her because we didn't meet her quotas."

So here we have a situation where employees are written up, they have to stay late, they have to come in on weekends to be coached, they're at risk of being fired. That sounds like a systemic management strategy for cross-selling. But your refuse to take any responsibility, blaming on the personal ethics of individual employees, who were at risk of losing their job if they didn't meet their "daily solutions" target.

Can you even conceivably place yourself in the position of an ordinary working person, has a child in daycare, they're told they're going to be fired if they don't meet these solutions, they're being coached on how to do it by their manager, and say that there was no culture established that caused these problems?

STUMPF: Senator, I am very sorry that that happened. That was not what we wanted to have happen. When those things happened, I wish we would have rooted all of it out. And the vast majority of our people did it the right way...

MERKLEY: Sheriff Kellogg (ph) said, the "branch managers were always asking, 'How many solutions,' that's the signing of new accounts, 'did you sell today?' They wanted three to four a day."

"In my mind, that was crazy. That's not how people's financial lives work. I was always getting written up for failing to bump up my solutions numbers. Some employees would ask local business owners who they knew well to open additional accounts as favors to them.MERKLEY: "It seems as though you'd have to be willing fully ignorant to believe that these goals are achievable through any other means."

Cross-selling is a major pride point for the management of Wells Fargo, including your reports to annual -- annual reports to customers. It was so high because you created a culture of cross- selling that pushed everyone to the maximum. And the casualties of these folks who are going to be fired because they'd lose their jobs if they didn't meet it. And yet you can only sit here and say, it was -- there was no coaching, there was no management strategy. Cross- selling was at the heart of Wells Fargo's program and you were at the top of this for a very long time.

Let's go back to 2005, 2007, 2010. You had one major position and promotion after another. Cross-selling was at the heart of it and you just sit here and blame the little person who was pressured into an impossible situation. Isn't that -- really kind of -- for want of another word, a failure to accept responsibility?

STUMPF: Senator, I started out today by accepting full responsibility. We like the idea of having...

MERKLEY: Full responsibility for establishing a culture that put people in impossible situation would be to resign, as my colleagues suggested. It would be to return your funds and help fund assistance for all these people who were fired because of the culture you established. And that you personally benefit an enormous amount from.

But all you say, you say, I accept responsibility and by the way, it's the fault of those 5,000 people who just weren't ethical enough and opened an account that they shouldn't have opened. That's not accepting responsibility. This was a systemic problem, that you benefited from enormously. The bank benefited enormously and you are scapegoating the people at the very bottom.

STUMPF: Senator, I just need -- I don't want to be confrontational but I want to just tell you. That the vast majority did the right thing. We loved the idea of having deep mutually beneficial relations with our customers. Having a product, that a customer does not use, does not need or does not want, does not help the customer, it does not help me and it does not help the shareholder.

MERKLEY: You signed, Oxbanes -- Sarbanes-Oxley reports. Did you ever reveal the problems with this high pressure sales strategy, in terms of fraudulent credit accounts? Any time in that course towards two million -- two million fraudulent accounts. Did you ever disclose that to your investors?

STUMPF: Well, let me just say...

MERKLEY: Well yes or no.

STUMPF: Well, Senator...

MERKLEY: It's a simple question.

STUMPF: It -- it Senator, the question is two million fraudulent. There was two millions accounts that we could not rule out, as a possibility that they weren't authorized.

MERKLEY: I'm so glad you crossed that t and dotted that i. Did you ever disclose the systemic problem of fraudulent accounts to your investors?

STUMPF: It was not a material event.

MERKLEY: So you bragged on the one end, about the intensive ability to get cross-selling and how that would be beneficial. But the problems that came from that strategy. The very problems that dozens and dozens of people have shared their stories about how it was on the ground. And you can only blame them for ethical lapses. You never disclosed you had a systemic problem.

STUMPF: Again...

MERKLEY: You sign those reports personally, that's what Sarbanes-Oxley was, didn't think that that was material? When you're saying, this is our big -- this is our big win is our cross-selling strategy, not to disclose it, also had a dark side?

STUMPF: There was a lot of things that our customers do and a lot of businesses that we have. This is one ratio, and most of this business -- first of all -- all of deposit accounts are off the books. Most of them went on and off within the same quarter in which they happened. Having a customer have a product that they do not need is not helpful. It's not what we want.

MERKLEY: I'm going to close just by saying, I would like to hear about the -- the amount of slamming that went on -- on overdraft protection. Since that's come up and a number of employees talked about they were pressured into adding that.

Do you have details on that?

STUMPF: I do not.

MERKLEY: Can you get us extensive details on that?

STUMPF: I don't know of that issue, off the top of my head. But I'll have my staff -- I'll instruct them to work with your team as quickly as they can. MERKLEY: Can you get the information for the full committee?

STUMPF: I'll have my team work with your team. I don't even know exactly what we're talking about.

MERKLEY: You don't know what overdraft protection is?

STUMPF: I know what overdraft protection is. I know that we had a credit card product for overdraft protection. But I'll have my team work with your team.

MERKLEY: And please get the information to the full committee. Thank you.

SHELBY: Senator Brown, you have another question?

BROWN: Thank you Mr. Chairman. And thank you for starting a second round, I appreciate that. There's so much more to discuss. First, I ask the man of consent, to enter to the record the testimony within the House, by colleague Taha (ph), and Julie Miller (ph), two people who worked at Wells Fargo.

SHELBY: Without objection.

BROWN: Thank you Mr. Chairman.

A couple of clarification of points and then two or three more questions Mr. Stumpf. I've -- we've discussed who was fired, where the employees were fired, understand it, for just those watching and listening for the record especially, 90 percent of the people fired were not managers on that. It means they were tellers, $12 to $15 personal bankers, $16 to maybe $18, $19 or $20 an hour, but most of the people fired were not branch mangers and were not regional mangers.

On second, there's a mention that only credit cards would affect credit scores in the answer to one of these questions. But if funds were removed out of a checking account and someone bounced a check for a car payment. That could end up effecting credit scores. So, while it may narrowly be only credit cards, it really isn't in that definition.

A couple of questions, Senator Scott asked about where employees can go with ethics concerns, Mr. Stumpf. It sounded, from whistleblower lawsuits, that an ethics -- that ethics complaint often resulted in confronting the very managers condoning this behavior, is that true?

STUMPF: I don't believe that is true. I don't know. I can get back to you on that.

BROWN: How do they, how do they register an ethics complaint, other than calling CFPB or the L.A. prose county attorney or the L.A. Times?

STUMPF: As I understand, how are ethics line works, you call. It's an anonymous call. It's handled by a third party outside the company, who does work on that and then reports it to the company.

BROWN: OK. I would like more on that. Because my understanding is, at least initially, you have to confront your supervisor who has much to say about it. Now that we know what we do, will Wells Fargo continue to take the position in court, to contractual agreements on mandatory arbitrations. Question about mandatory arbitration, the fine print of so many of these contracts if you will.

Will Wells Fargo continue to take the position in court, the contractual agreements on mandatory arbitration, covering real accounts will apply to fraudulent ones well? And that customers will be forced into arbitration rather than having access to the courts?

STUMPF: Well, I've instructed our team to do whatever it takes, within reason to take care of these customers. I'd have to talk to my legal team and we can get back to you on that.

BROWN: All right. Understanding, they, what has happened in the past. These mandatory arbitration clauses, which many of us I know on this committee don't think fair generally. And most consumers don't understand that they are part of a mandatory -- even know what it is -- and part of a mandatory arbitration arrangement. That that's been applied to these fraudulent -- fraudulent accounts in addition to the ones that were not fraudulent. Understand that's what's happened so I hope your answer is specifically in response to that.

STUMPF: Again, I'll talk to our team and we'll get back to you. I just -- again I'm not an expert in that.

BROWN: Mr. -- Ms. Tolstedt reported directly to you. How frequently did you talk to one another?

STUMPF: We had at least, weekly meetings.

BROWN: OK. And from 2007, when you both took your perspective roles, until the end of 2013, did none of this firing and for fraudulent accounts and all, did none of this ever come up in your weekly or more than weekly meetings?

STUMPF: I remember being, at least, making an impression upon me in 2013.

BROWN: But from 2007, when you had your perspective roles. So for six years, regular meetings with one of your most important -- one of your most important managers, this discussion of 1,000 people a year beginning in '11. But we may go beyond, earlier than that we think.

Those discussions, you have no recall that that ever came up?

STUMPF: I -- I -- not in the way that I had in 2013.

BROWN: OK. Over the past 10 years, your bank just had approximately 39 enforcement actions. Just a few of which have come up today. Many were related to failure to serve or abusive conduct towards customer and investors. You talk much about Wells culture, how proud you are of it and it's ethics. What does this say? If you had 39 enforcement actions, what does this say about Wells culture and compliance programs?

STUMPF: We have more work to do. And we're trying very, very hard to build out all of the compliance that we need to be, you know, to treat customers fairly. And to make sure that we do things right everyday.

BROWN: Last question Mr. Chairman, I appreciate your indulgence.SHELBY: Senator Menendez.

BROWN: No, can I just, this is the last question. I'm sorry Mr. Chairman.

People -- we know about the 5,300 employees who you say committed some -- many people up here have said that the pressure was on them, was so great that they did things that they shouldn't have or maybe apparently, you said they all -- I think you said they deserve to be fired.

What about the people who got -- I mean, understanding, too, that's 5,300, then there were at least hundreds more who refused to cheat or quit just because they didn't want to be part of this and they saw what happened to others -- but what about the people who got fired for not meeting goals that you now are saying were ill-advised?

So there was a large -- if I think -- a large -- certainly a significant number of people who were fired for not meeting their goals. No you say those goals were ill advised. What do you do to make those employees -- how do you identify them, how many are there, and what do you do to make those employees whole?

STUMPF: Yeah. I -- I have to talk with that team. I don't know about those numbers. I don't know how -- how significant or -- or widespread that is and I can get back to you on that.

BROWN: Well, will you -- well then more precisely, I understand I expected you not to know that number, but if there is one, that's one. If there are a hundred or a thousand. For those that were fired for not meeting those goals that you say are now ill-advised, do you have plans to make them -- to make them whole?

STUMPF: Yeah, I have to talk to our team. Again, I don't know the numbers and I just -- I -- frankly haven't worked closely...

BROWN: I didn't expect you to know the numbers, but doesn't it -- does it -- in your mind and -- does it -- in your conscience does it say those people were fired because they didn't meet -- reach goals, the goals were ill-advised, shouldn't you make it up to them?

STUMPF: Well, again, I don't even -- you know -- I know where you're going with your line of questioning. I'm trying to be cooperative. I just haven't -- I haven't talked to our HR team. I don't know the numbers, I don't know the situations, I don't know if there are other things involved. So I -- I... BROWN: Again, I'm not -- I'm less concerned about the numbers than the morality of it. I would like to at least ask you to do this, then. Once you've made that determination of how many there are, I would like you to make them whole and if you're not willing to make them whole, I'd like a written response about why you have made the decision not to make them whole.

STUMPF: OK. I'll talk to our team and we'll get back to you.

BROWN: Thank you.

SHELBY: Senator Menendez.

MENENDEZ: Thank you, Mr. Chairman. Mr. Stumpf, let me give you a real life example, we're (ph) talking about people whose credit scores were hurt. Linda Edwards and her daughter are Wells Fargo customers from New Jersey.

Accounts were opened in their name without their acquiescence, knowledge, including credit cards, of her daughter who is just starting college. She has a negative consequence on her credit score, which has not been resolved by Wells Fargo.

She happened -- you got the wrong person when you did it to this lady because she happened to be a former staffer at the New Jersey Division of Banking and Insurance. And when she called your company and asked for the fraud division, she was said (ph) no, don't just, said call customer service.

So to this date, that question of her daughter's credit score, who's starting college and obviously wants a good credit score, is affected. So there's real life people here who Wells Fargo has not responded to.

Let me ask you this, is cross-selling an industry-wide reality, as is evidenced by Wells Fargo, or is it unique to Wells Fargo?

STUMPF: I don't know what other companies do. I know we view it as an important metric as it relates to depth of relationship. And relationship...

MENENDEZ: You don't know if other banks do this?

STUMPF: I wouldn't -- I do not know.

MENENDEZ: You don't review what your competition is doing to figure out whether there's something you should be doing? So you don't have any idea if they do cross-selling?

STUMPF: I do not know that...

MENENDEZ: OK, we'll have to ask the regulators. Let me ask you this. Material -- he said it was not a material event to Senator Merkley. Not a material event?

STUMPF: Material financial event. This is a... MENENDEZ: How about a material for the SEC disclosure which you said you never made?

STUMPF: You don't -- I'm not a lawyer and I -- I rely on my legal team...

MENENDEZ: Based upon what's happened to the stock for your shareholders, it definitely was a material event that should have come forward. Let me ask you this.

Miss Tolstedt, I -- in response to one of the questions you said that you, and I think the COO met with her and said you wanted to move in a different direction...

STUMPF: Correct.

MENENDEZ: ... and she decided to leave. That sounds to me a lot like you can either leave or you're not going to -- you're going to be fired, maybe, but is it that you created a situation to give her the option to leave because you were concerned about what she might say about practices of the bank and higher ups?

STUMPF: In fact, when Tim talked -- Tim Sloan, our chief operating officer and president -- talked with her, we said we want to go in a different direction, there were a number of things he was thinking about doing different in the business and we had not made enough, along with my consultation, (inaudible) enough progress here and she was retirement eligible, she decided to retire. It never went beyond that.

MENENDEZ: You had no concerns of what she might say if brought before the Senate or any other entity and put under oath about what she might say about what was known or not known?

STUMPF: That didn't even come into the...

MENENDEZ: Let me ask you this. How -- what were the repercussions of not meeting sales quotas besides not getting the bonus. Can you tell me how many workers faced discipline over the same five-year period for failing to meet sales goals? How many workers that failed to meet those sales goals were terminated?

STUMPF: I do not have those numbers, but I will tell you this, Senator...

MENENDEZ: I think it's important to know those numbers. You don't know how many people you terminated? You know how many people you terminated who you said did the wrong thing, but you don't know how many people you terminated because they didn't meet the overwhelming cooker boiler that you put them under.

STUMPF: You know, I don't have those -- I don't have those numbers.

MENENDEZ: Well I'd like you to get those numbers to the committee. STUMPF: I'll talk with our team and -- and I'll...

MENENDEZ: Let me -- let me...

STUMPF: ... as far as I can.

MENENDEZ: You said to Senator Scott that of course there were opportunities when he asked about Safe Harbors. You could raise your hand, there was an anonymous ethics line, there was no pressure cooker. Now, do you read your e-mail, Mr. Stumpf?

STUMPF: I read my e-mails.

MENENDEZ: OK. So I'd like to read to you an excerpt from an e- mail one of my constituents sent to you in 2011. She was a branch manager at Wells Fargo and I spoke to her yesterday about her experiences at Wells Fargo.

In 2011 she wrote to you, "I'm currently," and I'm quoting now, "I am currently an assistant vice president manager at a" -- and I'll leave the location out -- "in northern New Jersey. I have been an employee of Wachovia for over 22 years, of which Wells Fargo acquired. I'm writing to you because as a team member I feel hurt and disappointed with this company.

"There are challenges that team members are faced, with but those should not be the reason to move money from one account to another and to fool the motivator" -- the person who you had to go to -- who constantly was badgering you about whether or not you had opened enough accounts -- "that we have new accounts.

"These funds that are moved to new accounts to show growth, when in actuality there is no net gain to the company's deposit base, is wrong. In the past months I was placed on warning for not meeting these goals and the reason that the bankers underneath me do not is because I will not tolerate the movement of existing money just because we need checking account solutions and profit proxy to move to the motivator. These accounts make no sense for the customer."

Did you read that e-mail?

STUMPF: Yeah -- I don't remember that one.

MENENDEZ: OK, well she was fired. So, so much for the safe haven. So much for coming forth. She went to the president and CEO of the company, that's about as good as it gets, and she found no safe haven there.

Finally let me ask you this. In 2012, Wells Fargo, then and now the largest mortgage lender in the country, agreed to pay $175 million to settle accusations that the bank discriminated against African- Americans and Hispanic borrowers in their mortgage lending from 2004 to 2009.

An investigation by the Department of Justice's civil rights division found that Wells Fargo discriminated by steering approximately 4,000 African-American and Hispanic borrowers into subprime mortgages when non-Hispanic white borrowers with similar credit profiles received prime loans.

When I look at this history, I get concerned with what's going on here. Do you have demographics of those customers who were hurt in this process and can you share it with the committee?

STUMPF: Yes -- let me just go back to that particular case. I regret that that was done through a wholesale business. We were -- other people outside of our company originated those mortgages and we were closing them and we shut down that division.

In this case we don't -- when we take applications or when we do business for deposits and credit card, we capture age and there was no -- in fact, it skewed towards younger to middle age Americans.

MENENDEZ: Well, I'd suggest you read page 36-D, item 36-D on page nine of the Los Angeles City Attorney's 2015 complaint filed against Wells Fargo describing a Wells Fargo gaming practice of targeting individuals holding Mexican consulate cards.

STUMPF: I don't -- I'll look at that, yes.MENENDEZ: Thank you.

SHELBY: Senator Schumer.

SCHUMER: Well, thank you.

And I apologize to the witness. It's been a busy morning.

First, I want to just say -- and I know other people have spoken about this -- in terms of rescinding the bonuses, to the average American it just seems appalling that somebody who could make such large mistakes should be rewarded to almost an obscene amount of money, $120 million.

And so I would simply -- I'm not gonna -- I know this has been discussed, I would say your bank has overall a good reputation. For the reputation of your bank, for the value of your shares, as well as relationships with customers, I would urgently urge you to not allow those bonuses to occur and urge the compensation committee -- I know which you sit on -- to do that.

That's just a statement for the record. Now, I'd like to talk about the CFPB because they have done incredible work over the past five years. But this case exemplifies why the CFPB was created. The Consumer Financial Protection Bureau was formed to ensure that financial institutions that harm consumers through unfair, deceptive or abusive practices, are held accountable and that the consumers are made whole again.

In fact, over the course of it's short history, it's gotten $12 billion in relief and restitution. Today's hearing reminds us, why the CFPB was formed. We need a cop out on the beat. The incentives and practices that cross-selling goals promoted at Wells Fargo were very, very wrong and bad, as I'm sure you've said.

They infected the work environment at branches in the country and including in New York. Beyond the financial damage, Wells Fargo's actions violated consumer trust. Wells will have to work long and hard to regain the trust of millions of Americans but those Americans can rest assured, now more than ever, knowing that there's a CFPB out there.

So I would just ask you, Mr. Stumpf, given what you've been through and I know it's not been a pleasant experience, do you agree federal regulators like CFPB and OCC serve a valuable role in promoting safety and stability, as well as necessary consumer protections?

I'm saying this because a lot of our friends on the other side of the aisle want to either get rid of or greatly reduce the power of the CFPB.

STUMPF: We share the mission of all of our regulators created by Congress, including the CFPB and we're working with all of them.

SCHUMER: So you think the CFPB is a necessary thing?

STUMPF: Well, I -- again, it's created by Congress and we agree to work with all of them and we've worked closely in this matter with them.

SCHUMER: OK and do you believe that the reforms -- I'll let the answer speak for itself. I would -- we think the CFPB has done an outstanding job and what's happened at the bank whether you know, however it happened shows the need for it.

OK do you believe the reforms that Wells committed to and goals required under the consent agreement you signed with the CFPB will allow Wells to go back on a path of protecting customer's interests and putting consumers first?

STUMPF: Yes, we believe that we have a lot of work to do.

SCHUMER: OK as per the terms of the consent agreement, will you work with the CFPB to ensure that Wells' customers that were negatively impacted are made whole?

STUMPF: Yes.

SCHUMER: Good. OK were you aware that the CFPB was aware of the cross-selling and looking into concerns about cross-selling as early as 2013.

STUMPF: You know, I only know what we did. I don't know what the CFPB did.

SCHUMER: OK they were. So they were on this case I think before at least your top management discovered this which is to their credit.

STUMPF: I don't know that.

SCHUMER: OK, OK well, Director Cordray will be here in a little bit so we'll ask him and see if that was the case, I believe it to be the case. And finally, do you believe that the actions taken by the CFPB here will lead to other financial institutions to re-evaluate and reconsider their own cross-selling practices?

STUMPF: I have no idea on that.

SCHUMER: Yeah I think they will. I think they will and I think the CFPB has had a very salutary influence and I hope you'd come around to the view that it's a necessary part of our system of banking and governing. Thank you.

STUMPF: Thank you -- Mr. Chairman, if I might make one comment.

Thank you, Senator Schumer, for your questions. You made a comment that I'm on the Human Resources and Compensation Committee, I am not. I just wanna make sure that's part of the record.

SCHUMER: Oh OK well, I would still urge you to -- is that the committee, though that's in charge of the bonuses?

STUMPF: That's the one that makes the recommendation to the full board and of course, I'm not part of the full board and those decisions.

SCHUMER: OK I would urge you to urge everybody who is on these committees to do just what we had asked.

STUMPF: OK thank you.

SCHUMER: OK thank you.

SHELBY: Senator Warren?

WARREN: Thank you, Mr. Chairman and I wanna say again, thank you very much for being so responsive to us, for holding this hearing when we sent you a letter to ask you to do it and thank you for being so generous about time.

SHELBY: I hope (ph) responsive to the American people, not just to you.

WARREN: Thank you very much. I really appreciate your holding this hearing.

Mr. Stumpf, as you know, some of my colleagues and I sent you a letter last week about the board's plans to claw back compensation from senior executives who are responsible for overseeing this scam.

Wells Fargo provided us with a response yesterday, I noticed that although we sent the letter to you, that the response actually came from somebody else in the company, which I guess is another example of holding yourself accountable. I wanna focus now, on the mysterious circumstances surrounding Carrie Tolstedt's retirement in July.

As you know, Ms. Tolstedt ran the community banking division, the division where this scam occurred for the entire time that this scam took place. She was in charge of all the 5,300 employees who were fired and she oversaw the creation of 2 million fake accounts. Now, in July of this year just two months before the settlement was announced and before those facts became public, Ms. Tolstedt retired at age 56.

You indicated in the letter, responding to our letter, that she walks away with over $90 million in stocks stock options and awards. Fortune Magazine says it's actually about $125 million. But -- and here's the key part -- according to Fortune, if Ms. Tolstedt has been fired instead of returning, she would've had to forfeit as much as $45 million of that award.

Mr. Stumpf, the response to our letter confirms that knew of this scandal. Before Ms. Tolstedt retired, it said -- and this is from your letter, quote, "Senior management and the board were aware of the pending litigation, investigation and discussions with our regulators, relating to sales practices when Ms. Tolstedt indicated her decision to retire."

Is that accurate, Mr. Stumpf, what this letter says? Were you personally aware of the massive problem that occurred under Ms. Tolstedt's watch in July when she announced her retirement?

STUMPF: I was aware that we were involved in discussions with the city attorney, the OCC and the CFPB, yes.

WARREN: So you had some indication there was a massive problem?

STUMPF: We had some indication that we had one percent of our people who were doing the wrong thing.

(CROSSTALK)

WARREN: Also known as a massive problem.

STUMPF: Well...

WARREN: If you knew this, did you consider firing Ms. Tolstedt before she retired?

STUMPF: Well, at the time she was reporting to our president and chief operating officer and...

(CROSSTALK)

WARREN: It's a simple question, you knew there was a problem, did you consider firing her?

STUMPF: No because of her full...

WARREN: Seriously? You found out that one of your divisions had created 2 million fake accounts, had fired thousands of employees for improper behavior and had cheated thousands of your own customers and you didn't even once consider firing her ahead of her retirement?

STUMPF: In fact, when I look at her full body of work and I look at the -- at the customer loyalty improvement and the customer service improvement...

(CROSSTALK)

WARREN: Are you sure that those were not fake?

STUMPF: All the work that was done, she chose to retire and I'd also like to make one other comment because you made...
(CROSSTALK)

WARREN: So -- so you -- no just on this, you never considered firing her. So now Ms. Tolstedt has apparently retired but is also staying with the firm through the end of the year. And in the response to our letter, you state -- or the person writing it -- states, quote, "Ms. Tolstedt is eligible to be considered for a 2016 annual incentive award."

An incentive award for doing a great job in 2016? Mr. Stumpf, that is unbelievable. You are the chairman of the board and the CEO. In those roles, do you think it would be appropriate for Ms. Tolstedt to get another bonus on top of the millions that she has already gotten as a reward for her role in this massive scam?

STUMPF: The board will consider that and I don't wanna prejudice the board but I also want to make one comment...

(CROSSTALK)

WARREN: I don't understand that answer.WARREN: You know, you and your board have already made changes. You've made changes to the compensation scheme for thousands of employees. You've sat here today and talked about that. You've removed sales quotas, I think you've told us. You've reformed incentives.

Why can't that be done quick as a wink across the entire bank but a question about cutting compensation for a highly placed executive who oversaw a massive fraud takes long deliberation? Why is that?

STUMPF: Because there's a board governance process and we want that to work properly. And whether Carrie was retired or she was fired there'd be no difference with respect to how the board can deal with that.

WARREN: I'm sorry if she was fired, it is my understanding she would not be entitled to large parts of her compensation. This is not just a claw back issue we're talking about she doesn't get them to begin with if she gets fired. But you let her walk out of the door with a retirement. I don't quite understand. How do you explain this to your own shareholders?

STUMPF: There is a process that the board goes through and they will do that. They've already met (ph)

WARREN: Mr. Stumpf...

STUMPF: ... and everyone give that their...

WARREN: I don't understand. You keep saying there's, you know, the board, the board, as if these are strangers that you met in a dark alley. Under the bylaws of Wells Fargo and I'm quoting here "The Chairman shall preside at all meetings of the board."

STUMPF: (inaudible)

WARREN: You were able to make changes. Why can you not make a change here?

STUMPF: I'm not on the Human Resources Committee of the board. They have their own governance and structure. We want that to proceed in the process in which we have.

WARREN: All right so we'll do this your way. Our letter asked a number of questions about claw backs of Ms. Tolstedt's and other executive's pay, including yours. Wells Fargo answer to our letter was just basically, you punted, that the decision would be up to the board. The same punt you've given here.

So you're the Chairman of the Board, let me ask it this way: will you personally support clawing back all or part of Ms. Tolstedt's pay?

STUMPF: I'm not going to in any way try to influence or prejudice the board as they do their deliberation.

WARREN: So you have absolutely no opinion on this?

STUMPF: I'm not going to opine on that--

WARREN: You're not going to opine. You're going to say get out there, defraud, cheat, lie, steal, and I have nothing to say about whether or not you ought to still be getting your bonus?

STUMPF: I never said, and I would, we'd never say as our company, go out there and do any of those things. We try to do the right thing every day.

WARREN: But you say if you do them, you can count on Chairman Stumpf not to stand up and say you shouldn't get your incentive bonus.

STUMPF: The board has a process...

WARREN: I think you started this whole thing by saying, don't tell me what you say, tell me what your actions are. And your actions are, people do this and you're not going to take a single step to shut it down.

So I guess I can ask this question again, will you personally support clawing back any or all of the pay for the person in charge of compliance, someone we haven't talked about much today. The person who is supposed to be responsible to make sure that the bank is following the law.

Will you have any recommendation about that person?

STUMPF: I'm going to have the board do their process.

WARREN: You are going to have no recommendation at all?

STUMPF: I...

WARREN: Ever? At any point in this process?

STUMPF: Whatever the board accepts, whatever they do I will accept and I will support.

WARREN: You are not passive here. If you have nothing to do then what are you doing serving as Chairman of the Board? If you have no opinions on the most massive fraud that has hit this bank since the beginning of time how can it be that you actually get to continue to collect a paycheck for being Chairman of the Board?

STUMPF: Well first of all, I disagree with the fact this is a massive fraud. But secondly the board will do their work and I'm not going to prejudice their work. And I will accept whatever they come up with and I will be supportive.

WARREN: Now, I, you accepted all along as this fraud built up, this massive fraud, you accepted all of the performance bonuses based on the cross selling that is at the heart of this. You watched your own stock go up by more than $200 million based in part on exactly this massive fraud.

You got out and you pumped it to Wall Street and you said to Wall Street, hey we are doing such a great job cross selling here at Wells Fargo, you should tell everybody to buy our stock.

And now you turn around and say I shall remain passive and simply accept what Wells Fargo wants to do. You know in 2008 Wall Street promised change. But it looks like it is business as usual. A giant bank cheats the little guys and the executives line their own pockets.

Mr. Stumpf you make it clear that Wall Street won't change until we make it change. Thank you Mr. Chair.

SHELBY: Mr. Stumpf thank you for appearing today. We have some questions for the record. We have another panel.

STUMPF: OK.

SHELBY: I hope you will answer these questions for the record; we have a number of them.

STUMPF: OK, thank you very much.

SHELBY: Thank you.

MORESHELBY: Our next panel we will hear from Mr. Jim Clark, the Chief Deputy for the Los Angeles City Attorney's Office whose office brought the 2015 case against Wells Fargo. Next we will hear from Mr. Curry, the Comptroller of the Currency, Wells Fargo's prudential regulator. And then we will hear from Director Cordray of the Consumer Financial Protection Bureau.

Gentleman we appreciate all of you. We appreciate your patience today. We've had a very important and a lengthy hearing. Mr. Clark we will start with you but all of you's written testimony be made part of the record in its entirety. You start. Get the mike.

CLARK: Sorry about that. Chairman Shelby, Ranking Member Brown, key members of the committee, I'm Jim Clark the Chief Deputy City Attorney of the City of Los Angeles. I'm appearing on behalf of our City Attorney Mike Feuer who submitted written testimony but could not be with us today.

I would like to tell you briefly what our office did and why, what we discovered and the relief for consumers we sought and obtained. On a Sunday morning in December of 2013, Angelinos opened the "Los Angeles Times" to find a shocking story by "Times" reporter Scott Reckard. The story described Wells Fargo Bank's sales culture and the harm that culture had cost its customers.

The story read in part, "to meet quotas employees have opened unneeded accounts for customers, ordered credit cards without customer's permission and forged client signatures on paperwork. Some employees begged family members to open ghost accounts."

Our City Attorney like thousands of other California consumers was appalled by what he read. He immediately convened a meeting of key lawyers in our office begin an investigation the allegations of the story and to determine if an action could be brought by our office under the California laws designed to protect consumers against unfair business practices.

California's Consumer Protection laws do not afford our office pre-litigation subpoena powers. So our investigation essentially consisted of good old fashioned detective work. We conducted dozens of interviews with current and former Wells Fargo employees and customers, pored over public documents including court documents that were records of wrongful termination suits brought by terminated Wells Fargo employees.

And we went to the Consumer Financial Protection Bureau and FTC Consumer Complaint databases. We found the bank had victimized consumers by opening customer accounts, issuing credit cards and other products without the customer's knowledge or authorization.

Our investigation revealed that the bank had failed to notify consumers once these unauthorized accounts had been opened. It had not refunded fees for those unwanted products and services once the misconduct had been detected.

We found instances in which the bank made it difficult, if not impossible, for customers to receive accurate information as to what exactly had happened to them. Many consumers were told that the unauthorized accounts would be closed however often that was not that case.CLARK: We also found that Wells Fargo's business model imposed unrealistic quotas on their salespeople which incentivized their employees to engage in highly aggressive sales tactics, creating a perfect storm for the unlawful activities we discovered.

Our investigation consumes some 16 months and culminated on May 4th of 2015 with our filing of a civil enforcement action in the name of the people of State of California. That proceeding sought relief for consumers harmed by Wells Fargo's conduct and equally important, was intended to put a stop to the illegal practices Wells Fargo had employed.

In the days following our lawsuit, our officers received calls, letters and e-mails from more than a thousand Wells Fargo customers and current and former employees. They described a veritable litany of horrific experiences. The consumers had money withdrawn through their authorized accounts to pay fees assessed by Wells Fargo through their unauthorized accounts.

They complained that their unauthorized accounts were sent to debt collection agencies and derogatory notes were placed on the credit reports. For Wells employees, we learned of the perverse sales incentives Wells used and extreme pressure placed upon employees to achieve often unrealistic sales quotas.

In short, what we've learned both before and after we filed our case, was that it was not only that Wells Fargo's conduct is inexcusable but that it also seemed to be systemic and widespread. Earlier this month, we reached a settlement with Wells Fargo which in conjunction with the resolution speech for the federal agencies represented here today, provides for comprehensive remediation and corrective actions and it sends a strong message to Wells and its customers by imposing a $15 billion penalty, the largest in the history of our office.

Our agreement first establishes a complaint remediation system for California consumers harmed by the bank's practices and also requires Wells to continue a restitution program for those customers negatively affected by the practices.

Wells Fargo also must alert all of its California customers, that if consumer or business, checking or savings accounts, credit cards, unsecured lines of credit to visit their local bank or call Wells Fargo to review their accounts, close accounts, discontinue services they don't want to resolve any remaining problems. But crucially, for the next two years, every six months Wells Fargo must provide our office with audit reports signed by an officer or director of the bank under penalty of perjury, assessing the bank's compliance with our agreement. It's critical to note that our settlement was coordinated with enforcement efforts of our federal partners, the Consumer Financial Protection Bureau, the office of the control of the currency.

As a result remediation, and corrective actions now extends nationwide. We'd like to thank both agencies for their outstanding work. In our view, robust government oversights crucial to protecting consumers who in federal, states and local enforcement collaborate and coordinate their efforts, protections consumers need -- are entitled to are much more likely to be affected.

There's a sacred trust that consumers put in their financial institutions. A faith that their hard earned money will be safe and secure and that all of your bank's actions would be at the highest ethical standards. Wells Fargo broke that trust. It cannot be allowed to happen again. Thank you.

SHELBY: (OFF-MIKE)

CURRY: Thank you, Chairman Shelby, Ranking Member Brown and members of the committee, thank you for holding this hearing related to the unsafe and unsound sales practices at Wells Fargo.

Let me begin, by stating clearly, that the sales practices at Wells Fargo involving employees opening unwanted accounts and making unauthorized transfers of customer funds, even temporarily, are outrageous. These practices driven by misplaced incentives and enabled by weak risk management and controls undermine the fundamental trust that goes to the heart of the bank customer relationship.

They are unacceptable and have no place in the federal banking system. The OCC's September 8th Enforcement Action builds on examination work that identified weakness and compliance risk management and consumer protection and subsequently focused on sales practices beginning in January 2014. The action requires Wells Fargo to pay a $35 million penalty to the United States Treasury, orders the bank to reimburse affected customers and directs comprehensive corrective action to prevent such practices in the future.

OCC examiners are closely monitoring the bank's corrective action and its reimbursement of harmed customers. Our work on this matter continues. I've ordered agency staff to review individual misconduct and culpability in this case. I've also directed our examiners to review the sales practices at all the large and mid-sized banks we supervise and assess the sufficiency of controls with respect to sales practices.

As we continue to review this matter, more facts may come to light. My written testimony provides further details about the OCC's supervision of Wells Fargo leading to our environment action. The actions the OCC took, together with the Consumer Financial Protection Bureau and the Los Angeles City attorney, rightfully hold the bank accountable and require necessary corrective action.

However, I believe the OCC can and must do better. To that end, I've have asked my senior deputy comptroller for enterprise governance, to conduct a postmortem to identify potential gaps in our supervision. And I will address any identified gaps.

Enforcement action such as these, require thousands of hours of examination and investigation work. I want to express my appreciation for OCC staff to work tirelessly on this issue, as well as our colleagues at the CFPB and L.A. City Attorney's Office.

The coordination in this case allowed us to take collective action that addressed the safety and soundness and the consumer protection aspects of the bank's deficiencies. Together, the orders demonstrate that such practices will not be tolerated. Since I became comptroller, I have worked to strengthen our supervisory effectiveness, including through the 2014 adoption and implementation of heightened risk governance standards for our largest institutions.

These enforceable guidelines emphasize the importance of three lines of defense and the detection and mitigation of risk. Front-line business units, independent risk management and internal audit, as well as the vital role of the board in providing a credible challenge to management actions.

Had these structure elements been functioning properly, they would have prevented the type of abuses we have witnessed at Wells Fargo. The continued application of OCC's heightened standards for large banks, will help ensure that they have the governance and controls necessary to prevent these sorts of practices in the future.

The practices that the bank also demonstrate, the importance of lining and incentives with appropriate behavior which highlights the need to finalize the interagency incentive compensation rule sooner rather than later. As proposed, the rule would provide clear direction regarding the application of sound incentive compensation programs, including claw backs, forfeiture and other mechanisms to hold senior executives and other employees with significant responsibilities accountable.

For those reasons, I support prompt completion of the final rule. Again, thank you for holding this important hearing today and I look forward to answering your questions.

SHELBY: Mr. Cordray.

CORDRAY: Thank you, Chairman Shelby, Ranking Member Brown and members of the committee.

I will briefly discuss one, what our investigations found about the sales practices at Wells Fargo. Two, what we're seeking to achieve by our order. And three, some thoughts about further steps to improve the culture and practices of the banking industry.

On September 8th, the Consumer Bureau together with our partners at this table, took an enforcement action against Wells Fargo bank. Our investigations found that in order to meet sales goals and correct bonuses for themselves, bank employee created unauthorized deposits in credit card accounts, enrolled consumers in online banking services and ordered debit cards for consumers all without their consent or even their knowledge.

Some of these practices involved fake e-mail accounts and phony pin numbers. The fraudulent conduct occurred on a massive scale. As detailed in our order, Wells Fargo opened at least a million and a half deposit accounts that may not have been authorized, including transferring funds from some customer accounts without knowledge or consent.

Wells Fargo also initiated applications from more than a half million credit card accounts that may not have been authorized by using consumer's information without their knowledge or consent. These activities caused some consumers to incur fees and even apart from that, they represent a staggering breach of trust in conduct that should never occur at any bank.

Wells Fargo has demonstrated the epic scope of its failures by terminating at least 5,300 people thus far, including branch managers and managers of managers. The gravity and breadth of the fraud that occurred at Wells Fargo cannot be pushed aside as a stray misconduct of just a few bad apples.

As one former federal prosecutor has happily noted, the stunning nature and scale of these practices reflects some deadly consequences of a diseased orchard. As our order identifies, Wells Fargo built and refined an incentive compensation program and implemented sales goals to boost the cross-selling of products. But did so in a way that made it possible for its employees to pursue unfair and abusive sales practices.CORDRAY: And I have a question for you. Do we really believe that 5,300 people applied for jobs with Wells Fargo over the years, intending and expecting and wanting that they were gonna go into the bank and abuse consumers trust and open phony accounts in their name? No. It was the Wells Fargo culture that made that happen.

It appears that the bank did not monitor its program carefully, allowing thousands of employees to game the system and inflate their sale figures to meet their sales targets and claim higher bonus' under extreme pressure.

Rather than put it's customers first, Wells Fargo built and sustained a cross selling program where the bank and many of its employees served themselves instead, violating the basic ethics of a banking institution including the key norm of trust. Our order accomplishes several things.

First, the details in the order, that are the result of our investigation, expose Wells Fargo illegal misconduct, including its scale for all to see for themselves. It is upon vigorous public scrutiny over the past two weeks, that no doubt will continue.

Second, the order helps answer one question many of you have asked me from time to time. What is the term abusive mean in our governing statute? Although, we've been careful in analyzing all the ramifications of that new term, we did not hesitate for one minute to imply it emphatically to what we found here. In this manner -- matter, Wells Fargo engaged in abusive conduct toward it's customers and consumers. We have said so, and executives, shareholders and investors throughout the financial system will now have to consider what that means in their own efforts to address their cultures and practices going forward.

Third, we have insured that all consumers who suffered financial harm as a result of these practices will be fully compensated for that harm. Wells Fargo is required to set aside $5 million to cover all of that. And if it turns out to exceed $5 million and now it appears we're going to go back further years. The bank will cover that as well.

Fourth, we fined Wells Fargo $100 million. The largest fine that the Consumer Bureau has imposed on any financial company to date. That is a dramatic amount as to compare to the actual financial harm to consumers. But it is justified here by the outrageous and abusive nature these fraudulent practices on such an enormous scale. Some have said maybe this is not enough. Some have said it's too much. As for whether we've done enough here, it is notable that the order itself has generated considerable consequences, including market affects, shareholder activity, further potential lawsuits and follow up investigations by other public officials. That may be either civil or criminal in nature.

Fifth, the order requires independent consultants to be installed at Wells Fargo, to insure that all consumers are fully compensated. And that changes in sales practices are fully implemented so this conduct does not reoccur. The top executives at Wells Fargo and it's board of directors will be directly engaged in this work. If the independent consultants identify any further issues or concerns, and they may. We will address those as well.

Let me conclude with some more general concerns. As one of the biggest investment banks in the United States, Wells Fargo is in a position to lead by example in terms of how every bank should treat it's customers. In the wake of this order, it now must do so. Much bank growth these days occurs by cross selling customers on more products and services. There's a right way to do that. Which should leave banks to focus on strong customer service that produces high levels of customer satisfaction, which in turn, generates repeat business from existing customers and positive word of mouth to others.

There's also a wrong way to do that. As we've seen here, unchecked incentives and unrealistic and uncaring culture of high pressure sales targets can lead to serious consumer harm. Incentive compensation structures are common in businesses and they can motivate positive behavior. Yet, companies need to pay close attention to their compliance monitoring systems, in order to prevent violations of the law and abusive practices.

This action should serve notice to the entire industry. The sales targets and incentives compensation schemes 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've seen the risks such programs pose across the entire financial sector. We've dealt with it in debt collection, mortgage origination, credit card add-on products and now here. And we will continue to take action to protect consumers.

Thank you again to our partners here at this table. I'm proud of our team and their teams, who worked with us on this important enforcement action. And I'm happy to answer your questions. Thank you.

SHELBY: Thank you all three. Mr. Clark, I'll start with you. The L.A. see the attorney efforts, every important here.

CLARK: Thank you sir.

SHELBY: I applaud your efforts on this case, by as you say, it engaging in good old fashioned detective work. And I just want to clarify the facts, as I understand them and for the record from your written testimony. Correct me if I'm wrong. A dozen or so attorneys in your office, the L.A. City Attorneys Office, without subpoena power, conducted numerous interviews with former Wells Fargo employees. Met with agreed victims, poured over public records, including voluminous court records from wrongful termination lawsuits, searching for victims who uncover fraud.

Is that correct?

CLARK: Yes it is Mr. Chairman.

SHELBY: Other than accessing the CFPB's consumer complaint data base, your first contact with the CFPB are the OCC, Office of the Comptroller of the Currency, did not come until after your lawsuit was filed in May of 2015, is that correct?

CLARK: That is correct.

SHELBY: Mr. Cordray, the CFPB's efforts. In your written testimony sir, you state that Wells Fargo opened over 1.5 million deposit accounts that may have not been authorized. That's a lot of accounts.

CORDRAY: That's the facts we found through our investigation.

SHELBY: Is that number based on PWC, Price Waterhouse Coopers analysis?

CORDRAY: It's based on our investigation and there were internal documents Wells Fargo provided that confirmed and were consistent with what we found through our investigation.

SHELBY: In your written testimony, you state that Wells Fargo also initiated applications for over 500,000 credit card accounts, that may not have been authorized.

Is that come from internal analysis or PWC?

CORDRAY: These are staggering numbers. That's what we found through our investigation, which included civil investigators demands disclosure of tremendous amounts of documents from Wells Fargo, investigative testimony and working with our partners here and their staffs to uncover as much as we could.

SHELBY: Also, in your written testimony, you described your engagement with the Los Angeles City Attorney's Office, and you just a few minutes ago did as a partnership. Prior to the filing of the City Attorney's lawsuit in May of 2015, did CFPB personnel accompany Mr. Clark's investigator as they did the following; conducted numerous interviews with former Wells Fargo employees, met with aggrieved victims, poured over public records including court records from wrongful termination lawsuits while at Wells Fargo.

Did they?

CORDRAY: So, these investigations merged over time, what work we were doing, work the OCC was doing...

SHELBY: They initiated the investigation. Did they not?

CORDRAY: Well they investigated their -- they initiated their investigation. We initiated our own efforts in our office.

SHELBY: After they...

CORDRAY: No. No. We first heard about these problems in mid 2013 through whistleblower tips. The L.A. Times investigative series confirmed that there were issues in this industry. Now there were different kinds of issues. And we were looking at financial incentive programs and a number of fronts. We were dealing with credit card add-on, deceptive marketing actions, which got back billions of dollars for consumers. We were looking at an in-debt collection, where we ended up having the largest enforcement action...

(CROSSTALK)

SHELBY: ... Wells Fargo and other banks.

CORDRAY: We've been looking at these problems in all of the banks and non bank financial companies. There's been -- believe me -- there's been a lot of problems to look at and a lot of problems to deal with. This is a fairly major one and there have been other major ones. Credit card add-on products has led to billions of dollars in relief for consumers.

SHELBY: Is there anything that the bureau has learned from working -- with the work that the L.A. City Attorney's Office did? Have you learned anything there?

CORDRAY: So, I think, I think, we learned from their investigation and they learned from our investigation. They were able to take, I don't want to speak to much what other people did here, and I don't know that it matters. We don't sit around as partners and think about what percentage of the credit we should allocate to one another. We're looking to get a good result for consumers. And together we did that here.

But they conducted various parts of the investigation. The OCC has conducted various parts of the investigation. We've conducted various parts of the investigation. We've been able to take this and turn it into a nationwide relief for consumers, which the L.A. City Attorney's Office is unable to do under California law. And we and the OCC going forward will be active in working to clean it up here and across the industry. And let me say something specific here, about whistleblower tips.

We are getting a large and increasing number of whistleblower tips all the time. When a bank -- like Wells Fargo here -- does not come forward quickly, with a problem that they recognize is occurring at their bank. They should not assume that we're not hearing about it from employees or customers or others, we probably are. So it makes sense for them to come forward more quickly, and to self report. That was not done here. It was a very late contact from Wells Fargo on this problem as I see it.

SHELBY: Thank you. Senator Brown.

BROWN: Thank you Mr. Chairman. Thank you all for being here and for your public service, all of you. Following up on the self report Mr. Cordray, banks are -- are banks required to report to you when they uncover fraud against customers in their own banks?

CORDRAY: We think it is by far the best practice and I know that the Comptroller would agree, and we see eye to eye on this. We believe that compliance at a bank starts with the bank. They shouldn't expect us to come along and make sure they're complying with the law. They have that responsibility and the first instance to do it themselves. And our job is to make sure they're doing it.

BROWN: But no legal requirement?CORDRAY: There is no legal requirement for them to report a problem. But they're in more trouble than when they don't.

BROWN: I understand. Mr. Curry -- well, for all three of you.

So for Mr. Curry, your testimony states your agency started to receive customer and employee complaints about improper sales practices in early 2012.

Mr. Cordray, your letter says your agency first learned about this from whistleblowers in mid-2013. You both heard Mr. Stumpf's answer to my question, I assume you were watching.

You both heard Mr. Stumpf's answer to my question about when he learned. What does that say about the bank's governance and priorities, Mr. Curry, if you would start with that?

CURRY: Sure. Our supervisory activity really has focused historically, and this goes back to 2012, really on the adequacy of their operational risk and compliance risk management systems.

There have been -- as our written test -- testimony indicates, there have been repeated issues with the sufficiency of those systems and those controls. So this has been an ongoing issue.

I think the sales practices issues that have been uncovered by the three agencies represented on this table are really a manifestation of the overall weaknesses in their risk management, particularly in the compliance area.

BROWN: I remember a discussion we had soon, I believe, after you took this position, about the importance of a risk officer in a bank and the role they should play and, Thomas, you pointed out some do it better than others.

Mr. Curry, as part of OCC supervisory activities began in 2013, you would have been meeting with executives, and my understanding, you would meet regularly with the bank's board. Correct?

CURRY: Our teams meet regularly with management and with the boards of directors, particularly the independent members of the board.

BROWN: Those -- not -- not Mr. -- not Mr. Stumpf, those that are...

(CROSSTALK)

CURRY: Those are independent employees of (inaudible) management.

BROWN: And -- we just checked the employee -- the compensation of board members ranges from the, I believe, high $290,000s up into the $400,000 a year, again, looking -- making the contrast of the 90 percent of the employees who lost their jobs through various reasons, but acts they committed, were not managers, were making under $35 or $40,000 a year.

What -- does it strain credibility that neither the board nor Mr. Stumpf really knew this was going on as it sounded like from the testimony today?

CURRY: I don't know -- have personal knowledge what they knew or didn't know, but I think our focus is in making sure that they have structures in place that facilitate the flow of important information about deficiencies in complaint processing structure or in terms of escalating issues that arise in the compliance function or in the ordinary business of the bank.

BROWN: No, I -- thank you. I found it particularly telling -- and then Mr. Clark I'd like your comments just on this whole area -- telling that Mr. Stumpf said he met pretty much weekly, sometimes more often, with Miss Tolstedt and these issues apparently never came up until he learned about them in 2013, in part from the three regulators.

Mr. Clark, your thoughts? Or three government agencies. Mr. Clark?

CLARK: We don't know precisely, Senator Brown, exactly what they knew and when they knew it. But I think, as a longtime trial lawyer, one can draw inferences like courts and lawyers do. And it's difficult to believe based on the information we developed in our investigation, both before and after we filed our complaint, that the knowledge of this didn't -- didn't extend far beyond a regional manager level.

BROWN: Two -- two more quick questions, Mr. Curry and one for Mr. Cordray. Your agencies have the authority to make criminal referrals. Have you done so in this case? Is there anything you can tell us about actions in that way? Both of you answer that, and then one more question.

CURRY: Generally our position is to cooperate with criminal law enforcement. Our focus now at the conclusion of our supervisory activities (ph), (inaudible) look at the civil enforcement remedies we have at our disposal.

That would be personal cease and desist orders, civil money penalties against individuals, or removal of prohibition from banking, which is -- would prohibit someone from serving in any capacity at a bank. That process is ongoing now.

BROWN: Mr. Cordray.

CORDRAY: So I've been told I should not publicly acknowledge whether we've made criminal referrals or not. I think about this question. I thought there's something I think I can do without getting in trouble, which is quote our Statute 12 USC 5566.

It says, "If the bureau obtains evidence that any person, domestic or foreign, is engaged in conduct that may constitute a violation federal criminal law, the bureau shall transmit such evidence to the Attorney General of the United States, who may institute criminal proceedings under appropriate law." We follow that statute to the letter.

BROWN: OK. Mr. Cordray, last question. I mentioned a group of Wells Fargo customers sought compensation for their fraudulent accounts in 2013, even before "The L.A. Times" series was published. Rather than accepting responsibility, Wells Fargo forced them into arbitration, effectively preventing them from being made hole. How would CFPB's arbitration rule have helped Wells customers in that case?

CORDRAY: You know, I'm not familiar with all the lawsuits, but my understanding is that these financial products typically did carry an arbitration clause. When that happens, as happened here, when there's massive wrongdoing on a wide scale, but small amounts of harm to individual consumers, it will be very difficult to get any relief other than through a class action.

And yet I believe an arbitration clause here would -- might -- might defeat a class action. I think that's going to be litigated here and courts will decide it. But they have often decided that it bars relief on an individual scale through a class action mechanism.

BROWN: OK. Thank you. Mr. Chairman.

SHELBY: Senator Reed.

REED: Thank you very much, Mr. Chairman. Thank you, gentlemen. Mr. Clark, you and your colleagues did a superb job. Looking back when you filed your complaint, were you anticipating extended litigation or was Wells Fargo cooperative from the very beginning about recognizing this problem and settling?

CLARK: It was interesting, Senator Reed. The initial response the day after we filed, they said something to the effect that we don't give our customers any accounts or services or products they don't need. They didn't say, in response to our complaint, we didn't give Wells Fargo customers anything they didn't ask for. Those (ph) was pretty telling to us.

We negotiated with Wells over a period of time, ultimately were joined by our partners here before (ph) those negotiations were complete. But we -- at the end I think they cooperated, in the sense that we ended up with what we believed to be a very robust series of reforms. The largest penalty in the history of our office. And because of the cooperation and working together with the other agencies here, those reforms and practice changes are nationwide.

REED: With respect to the negotiations, would you -- is your view that the added weight of OCC and CFPB made a decisive distance -- difference in terms of the outcome as well as the speed?

CLARK: I can't be sure of that, Senator, but I really believe that to be the case.

REED: Thank you. There's one other aspect here (ph) of your testimony. You said that Wells Fargo made it difficult, if not impossible, customers to receive accurate and clear information as to how accounts had been opened up in (ph) a consent, which suggests, to me at least, it wasn't just the individual, quote, "bad apple," but it was larger than that.

Is it your sense that there was some type of, either deliberate or negligent sort of treatment of customers that contributed to this and is liable at the company level?

CLARK: Yes, I do, Senator, in this sense that customers who go into Wells Fargo's branches but ask about accounts, they've got their statements either electronically or in paper, couldn't figure out what was going on and they just couldn't get clear answers.

Because the practices were improper, in our view, the -- most employees in the experience of our witnesses were not willing to come forward and they didn't really give them honest answers. Sometimes, as I said in my oral testimony here, accounts were asked to be closed. They were supposed to be closed and they weren't closed.

REED: Thank you. Mr. Curry, you point out that, you know, culture is key in any organization. And I think that's obvious. It seems that for years the culture at Wells Fargo was profit (ph) rather than a customer satisfaction and customer service. Do you think that's changed, or is that an accurate view of what's happening recently?

CURRY: I think this episode indicates how important it is, in fact. I think, you know, what we're looking for as a supervisor is to make sure that the institutions have a full understanding of the importance of culture, the reputational risks that -- and the financial consequences that can flow when you lose that reputation or engage in activity that calls into question the culture of the institution.

And again, our focus is making sure that they have the appropriate oversight structure incentives, incentive programs -- compensation programs are something that we look at very closely in our heightened standards program because it does guide and dictate the culture of the institution.REED: One of the impressions that emerges I think not just myself but across a wide spectrum of opinion is that the company might have been whispering about ethical standards and treating the customer right. But they were shouting about this is the way you make money, sell more of these. Is that fair?

CURRY: Possible, yes.

REED: Director Cordray, the CFPB has been engaged in this effort, and again, with your partnership I think done an outstanding job. Your -- protection and consumer laws is something that you are expert in. Working with the Comptroller, working with the City of the Los Angeles, you brought special expertise. Can you describe the special expertise you brought to the issue?

CORDRAY: Yeah, I think we all bring a different expertise to this. The Los Angeles City Attorney's Office is working purely from an enforcement perspective. They brought a lawsuit. They are familiar with local conditions, which is tremendously valuable as we partner across the country, often with state attorneys general or with state banking regulators, in some cases with local officials who are forward-leaning on consumer issues like the L.A. City Attorney's Office.

The OCC brings its deep knowledge of safety and soundness regulation at the institutions, and under this Comptroller, I will say an increasing attention and focus on consumer compliance and how safety and soundness actually affects the individual consumer which has been a point of collaboration with the bureau.

I think what we bring to this is we bring both unique ability to engage not only in supervisory but also enforcement activity, and we do both frequently. The fact that we have separate laws that we can enforce here, including identifying abusive practices which is alone an authority granted to this agency, that we also bring a consumer- focused perspective and market analysis and expertise and the ability to use our CID power aggressively even outside the scope of a lawsuit in order to get information and process that information.

And I think we brought those tools to the table, each of these other teams brought their tools to the table. Together, it makes for a strong result. If you look back at our enforcement actions over our five years, many of them have been done with partners. Many of them -- I can tell you almost all of them have been more affective for doing that. Sometimes it takes a little longer because working back and forth with other offices takes certain procedures and other things to get into place. But it is always the best answer if we can do it well. And people did it well here.

REED: Thank you very much.

SHELBY: Senator Menendez?

MENENDEZ: Thank you Mr. Chairman.

Thank you all for your service and the work that you've done here. And Director Cordray, the subject of today's hearing is, in my mind, the ultimate affirmation of your agency and its employees.

In the wake of the 2008-2009 financial crisis when unfair and abusive practices ran rampant in the industry, I know that as a member of the committee at the time, one of the things that I wanted to insure that we did in Wall Street reform legislation and to fight tooth and nail to get it is to empower a cop on the beat. So that would be on the side of consumers. And I must say you, as the director, and your bureau and agency have lived up to every bit of those expectations from my point of view.

Now, I hope to use this as a teaching moment for some of my colleagues that aren't aware of the bureau's latest list of accomplishments. I'd point out that since its creation in 2011, the bureau has recovered and sent back nearly $12 billion to 27 million consumers harmed by illegal practices of credit card companies, banks, debt collectors, mortgage lenders and others, $12 billion to 27 million consumers.

And it's amazing that despite all of those accomplishments, my Republican colleagues are hell bent on killing this agency. Just three legislative days after the announcement of the settlement of Wells Fargo, one of my Republican colleagues introduced and the Majority Leader Senator McConnell fast-tracked a bill that would fundamentally alter the funding mechanism for the bureau and subject it to the annual appropriation process.

So in view of that, can you tell me, Director, what would it mean for the Bureau to be subject to the annual appropriations process vis- a-vis the work that you do?

CORDRAY: Let me start in a general sense, which is what we can see here is there's a very big job to be done to change the culture and practices at the banks. It doesn't happen overnight. This is on top of the robo-signing mortgage servicing scandal. It's on top of the mortgage origination scandals that led to the financial crisis. It will take considerable time for us to root out all of these things in the financial institutions, banks as well as non-banks.

But if we can remain on the job, if we can continue to exert our authorities in matters like this, if we can continue to work with our partners across the country, we will continue to make progress. Those changes...

MENENDEZ: I appreciate that. What happens if you're put on the annual appropriation process?

CORDRAY: Well it would compromise our independence and make it harder for us to do our job...

MENENDEZ: Now...

CORDRAY: ... as it is for all the banking agencies.

MENENDEZ: If the bill were to become law, and trust me when I tell you that we won't let it, how might it undermine the bureau's efforts to protect consumers from unfair, deceptive and abusive practices?

CORDRAY: Again, anything that is attempting or seeking -- and some of these efforts are -- to compromise our independence will make it harder for us to do our job.

MENENDEZ: Now, let me ask all three of you, do any of you disagree? And if so, please explain to me why, that in essence here at Wells Fargo, what we had was a pressure cooker environment with perverse incentives and a culture that ultimately led to the type of wrongdoing that took place. Does anybody disagree with that view?

CORDRAY: Not at all.

CLARK: No.

CURRY: No.

MENENDEZ: OK.

CORDRAY: In fact they sent mixed messages at best if they countervailed that culture at all.

MENENDEZ: Now, Mr. Curry, let me ask you, do you believe that you, meaning the Comptroller's Office, should have been notified earlier than what you were notified by Wells Fargo?

CURRY: I think it's critically important that there be open and frank disclosure of relevant information by a bank with our examiners. It's not entirely clear at what point that occurred here and...

MENENDEZ: Is it fair to say that this is a material -- what happened here is a material event as it relates to the bank?

CURRY: I think there's always difficulty when you try to define a term like material depending on the context. I would say from the OCC's standpoint and the facts of this particular case, the fact that 5,300 employees were terminated was material and that there were two million accounts involved that would be material.

MENENDEZ: Let me ask you did you...

(UNKNOWN): Go ahead, Director Cordray.

CORDRAY: There was something in the earlier testimony that bothered me, which was an acknowledgement that the bank alerted the OCC in 2013 but did not alert the CFPB until 2015. We had known about these types of problems from our own sources, but if any institution feels that they can divide and conquer among the regulators, they should know that that is a mistake. It's a mistake...

MENENDEZ: Let me ask you this, how widespread is the issue of cross-selling, at least in the perverse way that it took place at Wells Fargo? Do you have any sense whether this is a one off or is this an industry-wide concern?

CURRY: I think our view is, and I mentioned this in my testimony, what we generally look at incentive compensation at an institution in general, with what we've seen here at Wells Fargo, I have directed that we are to do a horizontal review so we will be looking specifically at sales practices at our largest banks and mid- sized banks.

MENENDEZ: I'll look forward to...

CORDRAY: I agree with the Comptroller on that. We'll be doing joint action. I would say the incentive compensation has been a problem we've seen across a number of different markets. So it is a broader issue. As to cross-selling, Wells Fargo Bank no doubt was the industry leader in aggressively cross-selling products, which led in part to the extreme circumstances we find here.

But to the extent others are engaged in it, you should be focused on customer satisfaction not on bare numbers. And there are monitoring systems that can be put in place. I agree with something the Comptroller said earlier, which is we're all going to go back on this and think more about what we can do to make sure that the cultures are changing at these banks. And we need to do some rethinking ourselves and as always learn from new events.

MENENDEZ: Lastly to Mr. Curry and then Mr. Clark, in reading the OCC's consent order, I'm struck by the group of orders attempting to remedy what appears to be a longstanding gross deficiency in the bank's risk management governance structure and oversight protocols.MENENDEZ: For an institution with $1.85 trillion in total consolidated assets, I'm incredibly concerned about the bank's ability to identify and manage risk across its various lines of business. At what point do you think Wells Fargo executives should have been aware of these deficiencies? And how far back do you think these risk management deficiencies go?

And then separately, for you Mr. Clark, and I'd like to hear both your answers and I'll rest there. I read with interest the complaint that your office filed where you said, the complaint says, "Managers consistently hound, berate, demean, threaten employees to meet these unreachable quotas."

And where you talked about Wells Fargo gaming practice of targeting individuals holding Mexican consulate cards, I assume that when you made those assertions they are based upon factual evidence that you discovered in the course of your investigation. Mr. Curry, could you speak to what I asked you? And Mr. Clark to you?

CURRY: Yes, I think our testimony which discusses our supervisory history demonstrates that there has been a significant period where we've identified weaknesses and their operational risk and compliance risk management.

What we've attempted to do with Wells Fargo is really to address those weaknesses that have been identified through our matters requiring attention. That was escalated after we conducted our heightened standards review to be a part 30 of the compliance plan, which is an enforceable requirement under our safety and soundness guidelines.

And ultimately the weaknesses that we saw on their safety and soundness program resulted in the enforcement order that we had, and that is a significant major tool at our disposal for institutional weaknesses and their programs.

CLARK: Senator Menendez, let me answer your second question first. And that is, we based our allegations on 16 months' worth of work. It was public documents, witness interviews, former employees, every source we could come to; again, lacking pre-indictment -- pre- filing subpoena power.

As to how early they could have known, some of the documents we looked at were wrongful termination lawsuits. They described this kind of conduct, for example in Saint Helena which is part of our Napa Valley Wine Country, as early as 2009. SHELBY: Senator Warren.

WARREN: Thank you, Mr. Chairman. So buried in the fine print of Wells Fargo's checking and credit card contracts is a forced arbitration clause. It says that if a customer has any dispute with the bank about anything related to that checking account or that credit card, then they have to -- they cannot go to court and they cannot join with other customers who have the same problem.

Instead, they have to go one by one through arbitration. Now a feature of arbitration that the banks particularly love is that it's nearly always all secret. Filings and documents aren't available, and even if the customer wins, there's no public record of it like there would be if we were in a court case.

Director Cordray, do you think forced arbitration clauses make it easier for big banks to cover up patterns of abusive conduct, including the years of misconduct by Wells Fargo in this case?

CORDRAY: I do think so, yes.

WARREN: So, in other words, these forced arbitration clauses make it easier for Wells to get away with scamming their customers, which is why it is good news for customers that the CFPB has proposed strong new rules that would ban forced arbitration clauses that prevent customers from joining together to bring a public action in court. And I think this is just one more way.

We're talking here about the CFPB's enforcement division, which I'm very glad that we're doing and that's powerfully important, but you get better rules in place, and this kind of fraud gets exposed much earlier. If we had class actions on this back in 2010, 2009, 2008, then the problem never would have gotten so out of hand. So I think that's really important. Please.

CORDRAY: There's another sort of somewhat related indicator here that shows you the focus on these things. One of the first things that Wells Fargo did in the L.A. City action that was brought was aggressively seek a protective order to keep the proceedings as much as possible from public view.

WARREN: Yes. That's right, trying to keep it all secret. And that's what the arbitration clause does that they put in these contracts. Everything out of public view for as long as humanly possible. You know, I also want to hit another point about how you make structural change, because I think that's so important here.

And Mr. Clark, I want to thank you for your testimony today and for the great work that your office has undertaken in this case.CLARK: Thank you, Senator.

WARREN: One of the really powerful things that the CFPB has done is create a new complaint hotline, which allows customers to register complaints against any financial product. And we'll just put in the record, you can go to CFPB.gov and file a complaint online. Right? Anyone can do this.

And since its inception, the agency has fielded nearly a million complaints. Is that right, Director Cordray?

CORDRAY: It's going to be a million later this week.

WARREN: All right. Almost there. We'll have to have a -- we'll have to mark the occasion.

CORDRAY: I think Thursday.

WARREN: And one of the best parts about this is not just you fielded the complaints. It's that you made them public and you made them searchable online. And that allows everyone from researchers and academics, to law enforcement authorities, to the banks themselves to be able to spot growing problems and then to address them.

So Mr. Clark, I wanted to ask, in the process of conducting your investigation into Wells Fargo, did you use the CFPB's complaint database?

CLARK: Yes, we did.

WARREN: Good. And it was helpful to you?

CLARK: Very helpful, as was the FTC sentinel database.

WARREN: Excellent. I'm very glad to hear that. You know, this is yet another way that the consumer agency is protecting customers and holding banks accountable. It's bringing a lot more transparency to the market, which helps identify banks that are consistently harming their customers. And just as important, it rewards the banks that are doing a good job for their customers.

You know, there must be a lot of community bank presidents who are standing by watching this hearing saying, "We don't engage in this kind of behavior; you won't find those kind of complaints against us in the CFPB database; move your accounts over where you can actually trust your banker." In light of all of the great CFPB work in investigating this case, and everyone working together on this, from the arbitration rule to the complaint database to stop this kind of scam from happening again, because that's the part we really want to make sure we focus on.

I think you're sending a very loud message to the banks that -- and a loud message to my Republican colleagues who continue to attack the agency. Wells Fargo may wish that the CFPB would disappear, and some Republicans may keep trying to leash-up this watchdog, but that's not going to happen.

Thank you.

Thank you, Mr. Chairman.

SHELBY: Thank you.

Senator Merkley?

MERKLEY: Thank you.

Earlier, I mentioned several of the features that came out of interviews with employees of the high-pressure environment, employees who were given daily quotas for, quote, "daily solutions" -- that is, sales of accounts that they had to stay late or come in on weekends if they didn't meet them; high-pressure sales meetings; bonuses that were tied to meeting those -- the threats of being put on probation or being fired because they did not meet those quotas.

In some cases, managers conducting coaching sessions on how to meet the quotas through creating these accounts. Regional sales meetings conducted on an hourly basis to keep checking in.

In this whole structure that was established in the Wells Fargo culture of how to do intensive cross-sales, was this a high-pressure sales culture for the people who were the personal bankers and the tellers?

Just each of you, your opinion on that.

CURRY: Yes, I think that's really what we were addressing in our supervisory letter from June of 2015. Those were all deficiencies.

MERKLEY: Thank you.

Do both of you agree with that?

CORDRAY: Yes, if I could just elaborate. It was excruciatingly high pressure in various settings. When you first start to hear about something like this, it takes some time to untangle conflicting accounts, and there's different pieces of this. There were some different angles on it.

One issue was whether employees themselves were being abused, and that was part of the complaints that people were seeing. Another issue was whether they were pressuring consumers to open accounts, ultimately getting their consent, but pressuring them into improper or not suitable accounts.

And then the third, which sort of emerged a little later, was that potentially they were just opening accounts without consumers even knowing about it. It's the third thing we're focusing on here, but it takes some time to bring this into focus as you conduct an investigation.

MERKLEY: Thank you.

Mr. Clark, Director Cordray described it as excruciatingly high pressure. Does that fit your impression?

CLARK: It does, Senator. Let me tell you a quick anecdote. I am a Wells Fargo customer. I was in my bank on Friday doing a transaction. The senior person there recognized me, asked me about this, and said, "You can't believe, Jim, what the pressure was like; it was excruciating; I'm so glad I'm out of that now because I'm in a different kind of bank."

This was on Friday and he told me this. I found that extraordinary, Senator.

MERKLEY: So, just a few moments ago, when I was asking the CEO of Wells Fargo about the establishment of this high-pressure situation that left bank tells and personal bankers in a no-win, between a rock and a hard place position, he denied that there was any such structure. Is that completely inconsistent with your complete understanding of the situation?

CURRY: Senator, again, I'd go back to our June 2015 supervisory letter, in which we found that the program was deficient.

MERKLEY: And -- and Mr. Curry, that's a -- that's a nice way of saying yes. Yes, OK.

(LAUGHTER)

CORDRAY: It does differ from my understanding of the situation that we found in our investigation.

MERKLEY: So why, after this extensive public review of the establishment of this high-pressure culture, why would the CEO, after working with you all and having these various letters and so forth, after paying a fine, come in here and say no such thing existed; these were just individual employees who had ethical lapses. Why possibly did we hear that testimony today?

CORDRAY (?): I don't know.

CLARK (?): I don't either, Senator.

MERKLEY: Any insight, Mr. Curry?

CURRY: It's inconsistent with our findings. MERKLEY: OK. It's inconsistent with everything. Is it because the bank is trying to insulate itself from lawsuits?

CURRY (?): I'd speculate. I don't know.

CORDRAY (?): I don't know.

MERKLEY: Is it possibly because the top executives who were in charge during this whole period want to have kind of no responsibility, claim no responsibility and instead it's just those 5,000 low-level people who had nothing to do with the system they set up to sell?

CURRY: I think there is responsibility here. We have a consent order with the OCC, with the CFPB, and with the city of Los Angeles.

MERKLEY: I'd like to enter into the record "Banking on the Hard Sell" article from the National Employment Law Project.

SHELBY: Without objection.

MERKLEY: It lays out these high-pressure cultures that have happened in many financial retail banking groups. And I think when the question was asked earlier, Mr. Curry, you noted that that's something you'll horizontally be looking into. But is it -- is it -- do any of you have some impression based on what you've seen so far, that these practices -- that at least maybe not to the same degree, but these high-sale practices, high-pressure practices did result in similar creation of fake accounts or adding things to customers they didn't ask for?

CURRY: That really will be the focus of our horizontal review. Banks are under enormous margin pressure. And that could be a bad environment.

MERKLEY: That could be the case.

CORDRAY: I'll just say that we started with our first deceptive marketing with credit card add-on enforcement action, many of which we took jointly with the OCC. That mushroomed into 12 eventually across the industry. It was worth millions of dollars. We will certainly follow up as aggressively here.

MERKLEY: I've had the experience of opening an account in partnership with -- going to the bank with my daughter. And it was very clearly -- we went through -- this was a no-fee account for a student, right? Yes, right, right, right. Then the paperwork comes, and it's a fee account.

And I had another case where I opened an account, and I said I don't want the overdraft protection or the fee that goes with that. I want the free account. Yes, yes, absolutely. Got the paperwork. Funny thing, I had the fee account.

And I just thought it was sloppy paperwork. I had no idea until now that there was a hard-sell system of quotas that was causing folks to basically slam me with stuff that I had explicitly said I didn't want. And that was not at Wells Fargo. So I'll just say that I suspect that you'll find lots of this activity elsewhere.

Turning to Sarbanes-Oxley, where a CEO must sign off on the sufficiency of internal audits, and clearly from this hearing, the conduct was relevant to a bank's reputation, and therefore to its, certainly of material interest to its investors.

Should the SEC launch an investigation of this in terms of those Sarbanes-Oxley reports?CURRY: I'll leave that to the SEC.

MERKLEY: OK.

And finally, in the settlement, Wells Fargo was allowed to neither admit nor deny wrongdoing. And we heard today the result, the head of the bank comes in here and said no, no we didn't do anything it's just a bunch of bad apples who were ethically misguided. And it bothers me.

Was that debated and wrestled with? And why was Wells Fargo allowed to not to admit wrongdoing?

CORDRAY: So here's my point of view on that, Senator. The order speaks for itself, it is very detailed, it tells the facts as we establish them through our investigation. That is the story. People can quibble with it if they want, but that is the story and it is the story that is forming vigorous public scrutiny going forward and potentially other investigation by other public officials, which we will be welcoming and assisting any way we can.

MERKLEY: Doesn't it make it harder though to -- to hold the managers accountable to the board of directors of a company when they haven't admitted any wrongdoing?

CORDRAY: I think actions speak louder than words. The notion that nothing happened here but they fired 5,300 people, those things cannot be -- possibly be squared.

CLARK: I also think, Senator, that we wanted to get relief to consumers as quickly as we could. It's very typical -- I practiced law at a big law firm for 35 years -- for these non-admissions to be part of an agreement. It would have taken years to litigate this case, at least from our perspective.

And we went and got relief for consumers. We thought the consumers needed to be -- needed to get relief now and the practices had to stop. And so that one reason, from our perspective, it went (ph) that way.

MERKLEY: I do applaud all of that. But I've got to say, from the men and women on the street perspective, it's enormously frustrating to see the people at the bottom be fired from their jobs, be threatened with firing, forced in an untenable situation and see the managers take no responsibility. They're -- they take their bonuses, they aren't clawed back, they keep their jobs. Let me take -- and I'll just close with this, Mr. Chairman. The -- the manager of this unit who worked to establish this very successful -- I say successful from the cross-selling profitability system that produced these fraudulent activities is walking away. You can call it a bonus or you can call it a platinum parachute or you can call it money she's already earned, which is what we've heard.

But more than $100 million, not counting what came previously. It would take a bank worker earning $25,000 a year, and that's roughly in the ballpark because a lot of these workers were paid $11 to $12 an hour, $25,000. It would take them 4,000 years to earn that $100 million, 4,000 years. Or to put it differently, 100 lifetimes working 40 years.

It's phenomenal distinction and that managers are taking home those kinds of profits from developing a system that destroyed so many consumers and affected so many of their own employees by putting them in an impossible situation, it is wrong. It is ugly. It is criminal. There should be accountability for the managers.

Thank you.

SHELBY: Thank you, Senator Merkley.

We appreciate your appearance today. It's been a lengthy hearing. I think maybe this is the beginning of a lot of things. But a lot of us are worried about -- that perhaps there's similar doings going on in other banks. We hope not, because I've said from the beginning, banking should be based on integrity, on trust. I think you would agree with me on that.

(UNKNOWN): We do.

SHELBY: And most banks have that, but some don't. Thank you.

Committee's adjourned.

END

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Industry: BANKING & FINANCE REGULATION (90%); LAWYERS (89%); BANKING & FINANCE (78%); CHECKING & SAVINGS ACCOUNTS (78%); GOVERNMENT CONTROLLERS & AUDITORS (78%); CREDIT CARDS (65%); HOME EQUITY LENDING (50%)

Person: JOHN G STUMPF (79%); ALFRED JAMES CLARK (58%)

Load-Date: September 20, 2016

EXHIBIT B

Full committee hearing on "Holding Wall Street Accountable: Investigating Wells Fargo's Opening of Unauthorized Customer Accounts." (SD/24)

Federal News Service

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Body

Subject: Wells Fargo Unauthorized Accounts

Witnesses: John Stumpf, chairman and CEO of the Wells Fargo & Company, testifies

Location: 2128 Rayburn House Office Building

Time: 10:00:00

Date: 2016-09-29

HENSARLING: The committee will come to order.

Without objection, the chair is authorized to declare a recess of the committee at any time.

The hearing is entitled "Holding Wall Street Accountable: Investigating Wells Fargo's Opening of Unauthorized Customer Accounts."

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

We are here today because millions of Americans were ripped off by their bank and seemingly let down by their government. Fraud is fraud. Theft is theft. And what happened at Wells Fargo over the course of many years cannot be described any other way.

In fact, a whole host of federal laws were potentially violated, including the Truth in Savings Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Electronic Funds Transfer Act, the Securities and Exchange Act of 1933, the Securities Exchange Act of 1934, and the Sarbanes-Oxley Act of 2002.

All charges must be thoroughly investigated and all culpable individuals must be held accountable.

And while the fine Wells Fargo will pay, roughly 3 percent of the bank's second quarterly profits, is tiny by Wall Street standards, the harm caused to consumers and employees is not. To the factory worker who just had her credit score dinged because of the fraud Wells Fargo perpetrated, the cost is big. To the waiter at the local diner, living paycheck to paycheck, who had to pay fees associated with a fraudulent account, the cost is big. To the Wells Fargo employee with kids to support, who lost her job because she refused to participate in the scheme, the cost is big.

HENSARLING: We will make sure those who were betrayed by Wells Fargo are not forgotten. It is in their behalf that our committee has launched an in-depth investigation, Mr. Stumpf, of your bank's activities. And let me be clear, today's hearing is just the beginning of our investigation. It is not the end. And as I speak our committee is gathering thousands of pages of records and documents from both Wells Fargo and the relevant federal regulators.

In the coming weeks we will be questioning Wells Fargo executives. If necessary, I will not hesitate to issue subpoenas because we will do what is necessary to get to the bottom of the matter.

Mr. Stumpf, we don't yet know what you knew when you knew it and what -- and what you chose to do about it. But we know it happened on your watch and we hold you accountable for the answers to why this happened.

At last week's Senate hearing you were uncertain of many matters. In the intervening days we trust that you have had a chance to refresh your recollection, to review your records, therefore we hope and expect you'll provide more complete answers today.

We need to know exactly when and how you and other executives at Wells Fargo found out about this endemic fraud. We need to know today what you directed others to do about it when you found out.

We need to know today who in management is being held accountable. We already know that as far back as 2009, former Wells Fargo employees started filing wrongful termination lawsuits, alleging fraudulent accounts, and improper sales tactics were taking place.

Approximately 5,300 Wells Fargo employees were fired over a five- year period for these improper sales practices, and perhaps as many as two million unauthorized accounts were fraudulently opened.

Based on these facts, we will also be asking serious questions of our regulators in the course of this investigation. If OCC had examiners on site at Wells Fargo during the time when these fraudulent accounts were open, and the CFPB was conducting regular examinations, why did it seemingly take "The L.A. Times" to expose the fraud? And once exposed, why did it take almost 18 months for the CFPB to initiate a supervisory review?

Today I don't know the answers to the questions. Perhaps our federal regulators deserve a pat on the back, but perhaps they deserve a swift kick on the backside. We'll find out which.

But we launched this investigation ultimately because it is our -- ultimately because it is both our job to hold both Wall Street and Washington accountable and to protect consumers from the excesses of both.

True consumer protection is the preservation of competitive, innovative, free markets that are vigorously policed for force (ph), fraud, and deception.

Mr. Stumpf, I know that Wells Fargo represents an iconic brand. I know that your bank has a very rich and proud heritage. I also know that you have hundreds of thousands of good employees who had nothing to do with this sordid affair, who do good work in building their communities.

But this sordid affair does remind me why I trust markets and I do not trust individual companies. And Mr. Stumpf, I regrettably have a mortgage with your bank. I wish I didn't. If I was in the position to pay it off, I would, because you have broken my trust and you have broken the trust of millions of others and it will be a long, long time to earn that trust back.

I now recognize the ranking member for five minutes.

WATERS: Thank you very much, Mr. Chairman. And I thank you for agreeing to hold this hearing so that we can examine the fraudulent activity that occurred at Wells Fargo.

Mr. Stumpf, the word games stop today. Borrowing a customer's money without permission is not a sales practice violation, it's stealing. Using customer Social Security numbers to open credit cards without their consent is not wrongful sales behavior, it is identity theft. So let's call it what it really is.

Some of the most egregious fraud we have seen since the foreclosure crisis. For at least five years, Wells Fargo pushed aggressive sales goals for low-wage employees that were so unrealistic and so unattainable that some felt pressured to commit crimes just to keep their jobs.

It may have happened over two million times. Two million times. In fact, we have two former Wells Fargo workers, Julie Miller and Ruth Ladranverde (ph) today in the audience, who have borne the brunt of your choices.WATERS: Meanwhile, your senior management, board of directors encouraged, even bragged about behavior amounting to widespread fraud.

Today I hope you came to -- prepared to explain both how and why. While you personally told me you were prepared to take full responsibility, we have seen your testimony in front of the Senate Banking Committee and there are still answers that need to be given.

The testimony that we have witnessed in the Senate trying to explain what happened is not satisfactory, and we still do not have all of the information we need to understand how this happened, when the sales culture turned toxic, and who knew about it and when. Despite your statements to the contrary, any legitimate investigation shows that executives at Wells Fargo knew -- either knew or should have known much earlier than 2013 that these practices were taking place.

I think that executive conduct at Wells Fargo deserves a thorough investigation by the Department of Justice. Someone is responsible for the broken culture that led to this behavior, and (ph) needs to be held responsible; not the lower-level employees that have been left to bear the weight of the mistakes that have been made. This issue is personal for me. The size of Wells Fargo -- Wells Fargo's footprint in California means that many, if not most, of the employees and customers who were victimized by this are my constituents and neighbors. They don't deserve to have their trust violated by Wells Fargo, no one did.

I'm still receiving calls in my office complaining about Wells Fargo now and one caller described how he went into the bank, complained about excessive accounts that he knew nothing about, the employees called the police on him, and he was arrested; and yet violating the public's trust to drive up profits is exactly what Wells Fargo did. In the Senate hearing, it was revealed that even you benefit from that, Mr. Stumpf, your own bank account benefited from that deception. Now I know that you said you take responsibility for these practices and that you're conducting your own investigations, and that you and other managers are forgoing some of your compensation. That is welcomed, but let me be clear, it's not enough.

Unfortunately, this is not the first time we have seen abusive practices at Wells Fargo. We thought that you were working on these practices six years ago. Your mortgage executives said right here in this very chair, reassuring my subcommittee that you were committed to fixing Wells Fargo's forgery of mortgage documents, and yet we haven't seen the problem fixed, we have just seen it migrate to another part of your bank. So I hope today we can hear from you, Mr. Stumpf, because the American public deserves to know what happened at Wells Fargo and why customers are ripped off so blatantly and repeatedly. You can also rest assured that this is just the beginning and that we will be demanding more information until we get to the bottom of this.

And of course, I urge your cooperation and I must tell you that I have known you for awhile, I have communicated with you. At times you have been very helpful to my constituents, so I'm very disappointed and we must get to the bottom of this.

And I want to be able to receive the documents and information that we requested from you, I'm told that they have been refused. I think it is to your best interest to come forward with those documents.

Mr. Chairman, I yield back the balance of my time.

HENSARLING: The gentlelady yields back. Today we'll receive the testimony of Mr. John Stumpf, who is the Chairman and CEO of Wells Fargo and Company. Mr. Stumpf has held a number of senior management positions at Wells and its predecessors where he has worked for 34 years.

Mr. Stumpf, would you please rise and raise your right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

STUMPF: (OFF-MIKE)

HENSARLING: Thank you, please be seated.

Let the record reflect that the witness has answered in the affirmative. Without objection, the witness' written statement will be made part of the record.

Mr. Stumpf, you are now recognized for five minutes to give an oral presentation of your testimony.

STUMPF: Chairman Hensarling, Ranking Member Waters, and members of the committee, thank you for inviting me to be with you today. I'm the Chairman and Chief Executive Officer of Wells Fargo, where I have worked for nearly 35 years.STUMPF: It is my privilege to lead this company, which was founded over 164 years ago, and played a vital role in the financial history and development of our country.

I am deeply sorry that we failed to fulfill our responsibility to our customers, to our team members, and to the American public. I am fully accountable for all unethical sales practices in our retail banking business and I'm fully committed to fixing this issue, strengthening our culture, and taking the necessary steps and actions to restore our customers' trust.

We should have done more sooner, but we will not stop working until we get this right. This morning, I will update you on a number of steps taken to address our retail bank sales practices problem and make things rights for customers who may have been harmed. At Wells Fargo, we have new leadership in our retail banking business, focused on ensuring that all team members in our retail bank provide the best service to our customers.

Secondly, we recently announced the elimination of product sales goals for everyone in retail banking, effective January 1. Today, I am announcing that we are accelerating this process and ending all product sales goals effective at the end of this week. We want to make sure nothing gets in the way of doing what is right for our customers.

Also, we now send out to all customers a confirmation e-mail approximately one hour after opening a savings or checking account, and an acknowledgement letter after a customer applies for a credit card. We're also making it right for customers. We have begun contacting the customers with open credit cards identified by PriceWaterhouseCoopers to determine whether they wanted these credit cards.

It's early in the process, but so far we have reached more than 20,000 of these customers and talked to them about their credit card accounts. Fewer than 25 percent have told us they either did not apply for the card or they cannot recall whether they applied or not for the card. For those customers who want the card, the card will remain open. For any customer who does not want their card, we are closing the account and informing the credit bureaus. Any fees these customers may have paid already have been refunded and we are developing a process to deal with any other forms of harm.

For deposit customers, we have refunded fees and are contacting every single one of them across the country to ensure that we have a full understanding of every customer affected by this problem. In addition, we are voluntarily expanding the scope of the reviews we have done, to go back in time to 2010 and 2009.

While these issues we will discuss today are deeply disappointing and will take time to repair, they do not represent the true culture and nature of Wells Fargo. Some have suggested the problem was cross- selling, but that is not the case. At its core, cross-selling is all about deepening customer household relationships with products they want, they use and they value. It is not about improper sales practices used to create unwanted accounts. That's not good for our customers and not good for Wells Fargo.

If we take care of our customers, they will deepen their relationships with us and trust us more with their business. That is good for customers who benefit from lower costs we pass on, and that is cross-selling done the right way.

In closing, I'd like to talk about my commitment to accountability. When I say I am accountable, I'm referring to the actions our board took at my recommendation to forfeit the stock awards that are the largest part of my compensation for the past three years, and any bonus this year, as well as my agreement to work without salary until the board completes its investigation. I respect and accept the board's decision.

And when I say I'm accountable, I also mean accountable for leading Wells Fargo as the company restores the trust of customers, team members, and investors.

Thank you for this opportunity to testify today.HENSARLING: The chair now yields himself five minutes for questions.

Mr. Stumpf, to the American people, this kind of feels like deja vu all over again. Some institution is found engaging in terrible activities. There's a headline, fine. And yet no one seems to be held accountable. I mean, let's face it; the fine that's been assessed to you is probably a rounding error again, in your quarterly earnings report.

So my question is, you know, with almost perhaps as many as 2 million fraudulent accounts over the course of five years, 5,000 dismissed employees, it's just beyond credibility that somebody up the food chain didn't either order this, condone it or turn a blind eye to it.

So my question to you is who is the highest ranking official at Wells, who's the highest person in the management team who's been dismissed because of these activities?

STUMPF: Well, thank you, Mr. Chairman, for that question. As you know within -- or maybe you don't know -- but within the 5,300, there were managers and managers and managers of a manager. We are doing a full review...

HENSARLING: But were these branch managers?

STUMPF: Yes about 10 percent or more...

HENSARLING: And nobody above the branch manager level?

STUMPF: No there was managers of the branch manager and a manager of those within the line of business. But we're doing a full review of other control functions within the company. That process has already begun.

The board is gonna be involved. Management will be involved. As I mentioned, we...

HENSARLING: And when will this be complete? When will your own internal investigation be complete to hold management accountable?

STUMPF: I can't give you a specific time frame, Mr. Chairman. But I will tell you, we're moving in that directly and we're gonna get to the bottom of this.

HENSARLING: OK well, is anybody at the bank holding company level being held accountable?

STUMPF: People will be reviewed across the board at holding company, activities, corporate activities. Anybody who is involved in -- in promoting or supporting this behavior will be help accountable.

(CROSSTALK)

HENSARLING: OK but holding people accountable, isn't it true Mr. Stumpf, in the settlement agreement that Wells entered into with the OCC, the CFPB and the L.A. city attorneys office, no individual admits guilt. Is that correct? Is that part of that settlement agreement?

STUMPF: I -- I believe we either did not admit or deny. So -- so the facts there are the facts that we agreed to.

HENSARLING: Mr. Stumpf, let's go back to 2011 which I think is the first year we know for a fact that these fraudulent activities were taking place.

The records that I believe your bank has shared with us show that 939 employees were terminated from the retail banking sector for improper sales practice in that year. Does that comport with your memory?

STUMPF: Yes it does, Mr. Chairman.

HENSARLING: OK so in 2011, isn't it true that Wells Fargo entered into a consent order with the Federal Reserve that required wells to cease and desist from certain practices in the mortgage lending department?

And that you paid an $85 million civil penalty is that true?

STUMPF: Mr. Chairman, that's true. That was in a different business area. But that is a true statement.

HENSARLING: It was in a different business area, but I will read from the consent order, quote, "Wells Fargo's internal controls were not adequate to detect and prevent instances when certain of its sales personnel, in order to meet sales performance standards and receive incentive compensation altered or falsified income documents and inflated perspective borrowers' income to qualify them for loans that they would not otherwise have been qualified to receive.

This sounds eerily like the retail banking division. Also as I understand it, the Fed required Wells Fargo to submit a plan to investigate and to change policies and procedures. So I think you testified on the senate side that you were not personally aware of the problems in the retail banking division until 2013.

Surely, you are aware of the problems in the mortgage lending division in 2011, correct?

STUMPF: That is correct. And chairman, Mr. Chairman, we shut that division down. That -- that was even shut down...

HENSARLING: But if you solve the problem in one area of the business, why didn't you thoroughly investigate in the other?

STUMPF: There is no question Mr. Chairman, we should have done more sooner.

HENSARLING: It just seems, Mr. Stumpf that five years later your bank is being fined for exactly the same transaction. And again, it just feels like deja vu all over again. And I hope and trust. But please tell me, that these fines are not simply a cost of doing business for Wells.

STUMPF: Mr. Chairman, it's not a cost of doing business. This has -- this is a serious you know, trust issue with our customer. But I also want to say there's 268,000 people who came to work this morning at Wells Fargo.

Trying to do their very best to serve customers and they do it wonderful every day. And I don't want our culture to be defined by these mistakes. And we take accountability.

HENSARLING: I understand that, Mr. Stumpf. But it appears to be a little late and particularly when you get caught doing it five years ago, you get caught doing it once again. Somebody has to be held accountable.

I now yield to the ranking member.

WATERS: Thank you very much.

Mr. Stumpf, you had said repeatedly that you were not aware of this widespread fraud in your bank until late in 2013. And it appears that there were activities going on that indicates you may have known much earlier than that.

For example, in 2007 just months after you became CEO, the sales quality manual for the community bank and division was updated with your executive guidance. As them manual states, that sales guide reminded employees what should have been obvious.

That they needed to obtain a customer's consent before opening an account. And so, am I to understand that you discovered that there was something going on and there was a need for you to do this?

The manual also said that sales practices that show quote, "Questionable activity," unquote, would be sent via high priority to bank executive. So it appears that, you knew something in 2007 that unauthorized accounts were a big enough problem that you had to correct your employee manual.

And as early as 2008, I have documents from court filings showing your employees we're contacting your ethics hotline, reporting bank fraud and complaining to managers over unauthorized accounts.

And so, it looks as if you certainly knew in 2008. What's more, I have here a consent order with the Fed from 2011 that puts your company on watch for sales quotas and compensation schemes that pushed employees to break the law. Does this sound familiar?

STUMPF: Ranking Member, I -- I acknowledge that we had a 2011 order from the Federal Reserve. And I think we've always known, any sales organization you're gonna half to be diligent because not every team member will do everything right, every day.

So we have controls built in, we have ethics lines and I knew -- and I still know that you know, you put people to work everyday and mistakes are gonna happen. It was not until 2013 when I learned that this problem had been growing, it had been more prevalent and in a certain part of the country which happens to be in -- in -- in the wonderful part of California in which you live.

So these are -- these are things we're been working on. All of our strategies around training team members which get two weeks of classroom training before they go out into a branch is about -- about doing things right, about ethics.

And I'd also just wanna remind the committee that there are the vast majority of our people who had same opportunities, the same training (ph), the same goals who get it right everyday for our customers.

In fact, our customer and loyalty scores now are the highest they've ever been in our company's history.

WATERS: Let me just point out some other activities that should sound familiar to you. While you were under the consent order for the mortgage arm of Wells Fargo, this fraud was surging in the retail arm of Wells Fargo.

But you didn't connect the dots on these high-level trends across the bank. Do you or didn't you know in 2011 that perhaps your sales incentive were -- were driving this fraud?

STUMPF: Congresswoman, I -- I knew that -- at least I know today -- that we should've done more soon. But maybe -- and not only maybe -- some of our people and again it's one percent. But that's a big number for a big organization.

Any time -- any one time we have 100,000 people in our branch network and if 800 people for whatever reason either misunderstood or use this as a way to be dishonest and break our code of ethics and do something wrong for a -- for a customer and something wrong for us.STUMPF: That's why we're removing sales goals. They'll be gone as of this weekend. In fact, we don't even think they're an important requirement anymore for us to continue to grow.

WATERS: Mr. Stumpf, some people assume that you changed your customer agreement to add forced arbitration clauses for checking accounts and that these clauses proved to be incredibly helpful when you use them to dismiss multiple customer lawsuits. Is that true?

STUMPF: That's not true. Actually, I think arbitration does make sense. But in this case, for any customer that might have been harmed in this situation, we're also paying for a mediation process so they have a mediator.

WATERS: All right, thank you very much. My time is up and I'll get to this later on if I can, thank you. I yield back.

HENSARLING: time of the gentlelady has expired. The chair now recognizes the gentlemen from Texas, Mr. Neugebauer, Chairman of our Financial Intuition Subcommittee.

NEUGEBAUER: Thank you Mr. Chairman. You serve as both the Chairman and CEO of the Wells Fargo, is that correct?

STUMPF: Congressman, that is correct.

NEUGEBAUER: And as you're aware, section 972 of Dodd-Frank requires an issuer of securities to disclose the annual proxy statement, the reason why the issuer has chosen to allow the same person to serve as the Board Chairman and the CEO. Fisher Wells states that your dual role is a result of your extensive experience and knowledge regarding the company and provides the most efficient leadership of the Board and the company.

Mr. Stumpf, do you think it's a good idea for the Chairman and to be the Chairman of the Board and the CEO?

STUMPF: Thank you Congressmen for that question. In our company, we have 14 outside directors. We have a Lead Director. All Directors are New York Stock Exchange, independent by their standards. I'm not a member of any standing committee of that Board. The independent Directors and the Lead Director help set the agenda for the Boards. They always have meetings that are Executive Session without me. And you as you probably read about what happened this weekend because we filed an 8-K yesterday about actions that they took as an independent Board and I was not part of that. So the Board acts quite independently.

NEUGEBAUER: So the current situation is that you've recused yourself from Board decisions on this situation?

STUMPF: Congressman, you're right. I have either recused or I've not been invited. I'm' not part of that. I serve at the pleasure of the Board.

NEUGEBAUER: So, give me a good idea of how your Board is structured, but the original question was, do you think that's a good idea for the CEO to be also the Chairman. Would the board and stock shareholders, customers, be better served if there was some separation in that area?

STUMPF: Thank you, for our company I believe we have the right structure. But again, I serve at the will of the Board and the Board can make a decision on that.

NEUGEBAUER: Mr. Stumpf, you testified that you learned of these violations some time in 2013. When did you inform the Board that this was an issue?

STUMPF: Yes. So the Board had high-level ethics, line, comments or questions, or high-level kinds of activities around people who left the company, involuntary, terminations, really through the 2011 through 2013 time frame. After we learned...

NEUGEBAUER: I want you to repeat that. You said the Board was having some discussions as early as 2011 about this?

STUMPF: I was saying that the Board, from 2011 to 2013, would get reports at a Committee level, at a high-level about ethics, lines, requests, or information at not a granular but maybe at the company level.

NEUGEBAUER: But you didn't find out about it until 2013?

STUMPF: In 2013, I became aware there was an issue in the Southwestern part of the country and by 2014 then -- this was late in the year -- by 2014, we started to provide more information to more Committees of the Board. And then by 2015 the Board had a -- the Risk Committee Board had a complete report on that issue.

NEUGEBAUER: As Chairman of the Board, the CEO, when did you tell the board we have a problem?

STUMPF: It was in 2015 that we had a full report. Again, as I've already said in my testimony to the Senate and here today, 2014 we were starting to get more granular information that this was a risk area for the company to focus on.

NEUGEBAUER: Did you ever disclose this issue on a 10-K filing?

STUMPF: Our 10-K or all of our K or Q filings are facts and circumstances, what we knew at the time. As recently as our second quarter Q this year, when we use our disclosure teams and compliance teams to look at this issue, the facts and circumstances, we believe we're not material.

NEUGEBAUER: I think that's just -- I'm not for Congress setting the corporate structure, but I do think there is some question, whether the company would have been better served with those roles being separated. I yield back.

HENSARLING: Time Mr. Gentlemen has expired. The Chair now recognizes the gentlelady from New York, Ms. Maloney, Ranking Member of our Capital Markets Subcommittee.

MALONEY: Mr. Stumpf, we know now that whistleblowers first contacted the Consumer Financial Control board about the fraud at Wells Fargo in mid-2013. And you said in your Senate hearings last week that you first found out about the fake accounts in late 2013. And the L.A. Times article about the scandal was published in December 21, 2013.

I have right here your form for filing, which I'd like to submit to the record that shows...

HENSARLING: Without objection.

REP. MALONEY: That shows that on October 30, 2013, you sold $13 million worth of Wells Fargo stock on the open market. That is by far, the largest open market sale of Wells Fargo stock that you made in your 9 years as CEO. So my question is, did you dump $13 million of Wells Fargo stock, which you did through your family trust, right after you found out that your bank had been fraudulently opening hundreds of thousands of scam accounts ripping off your customers?

STUMPF: Thank you for the question. First of all, the vast majority of our people go to work every day...

MALONEY: Excuse me, that was not my question.

STUMPF: But I'll get to the...

MALONEY: Excuse me, excuse me. My question was, did you dump the stock after you found out about the fraudulent accounts, because it seems that the timing is very, very suspicious and it raises serious questions.

STUMPF: I did not sell shares at the time because anything related to...

MALONEY: But your form 4 said you sell the shares.

STUMPF: I sold the shares. Today I hold four times as many shares as I'm required. I want to...

MALONEY: Did you sell these shares or not?

STUMPF: I sold those shares and I sold them with proper approvals, with no view about anything that was going on with sales practices or anything else. MALONEY: Well, it seems very, very suspicious that your largest sale was right after your $1.8 trillion bank was turned into a school for scoundrels. You acknowledge that your bank fired over 5,300 people who got caught willfully defrauding your customers.

And a recent lawsuit alleges you fired even more people because they refused to willfully defraud customers. And then, then you blame the low-level people, you fire them. You make profits, then you dump the stock.

So, I just have to say that it seems that when you found out about the fake accounts, instead of helping your customers, you first helped yourself. So moving right along to the next question.

Mr. Stumpf, you've said that Wells Fargo is conducting a review of all accounts going back to 2009 in order to identify any scam accounts. But last week in the Senate hearings, you were asked if you would extend the review period to before 2009? And you refused to commit to extending the review period back to even earlier.MALONEY: So, if you were -- if you were presented with hard core evidence that Wells was engaged in some of these practices, these illegal scams prior to 2009, would you change your mind about extending the review?

STUMPF: Thank you for that question. We have agreed with our regulators to go back to 2011. We voluntarily said last week that we'll go back to 2010 and 2009, I told our team to leave no stone unturned, and if we find a situation where a customer is harmed that goes back prior to that, we will make it right for that customer.

MALONEY: Thank you, because I have the evidence right here, and I'd like to submit for the record a court case in Montana in which six Wells Fargo employees were fired. Among other things, ordering debit cards for customers without their permission, which is clearly illegal, and according to the court documents, these illegal sales go back to 2007.

HENSARLING: Without objection.

MALONEY: So now we have evidence of illegal sales practices going back to 2007. Will you agree to extend the review period back to 2007 to cover this evidence that we're submitting today?

STUMPF: Again, Congresswoman, we're going to go back to 2009, if we can find -- and we're going to contact every customer...

MALONEY: But this is evidence that it went back to 2007. My question is -- and we thank you for going back to 2009 -- my question is, we have clear evidence that it goes back to 2007. Will you live up to your commitment of helping your customers that were defrauded with clear evidence back to 2007?

STUMPF: We will go back and if we find any evidence of any customer that was harmed to 2007 through our review through 2009, we will take care of each customer.

HENSARLING: The time of the gentlelady has expired. The Chair now recognizes the gentleman from North Carolina, Mr. McHenry, Vice Chairman of our committee.

MCHENRY: Thank you, Mr. Chairman. So I have the honor of representing the suburbs of Charlotte, North Carolina. North Carolina had an incredible banking culture over decades, yet in Charlotte, First Union, homegrown bank, great reputation, went through challenging times in the economic crisis as you well know. But before that time, they teamed up with a bank based in Winston-Salem, Wachovia, and as you know in acquiring what was then called Wachovia, which was really First Union and Wachovia, the pitch was that your culture from California was very similar to this North Carolina culture -- this banking culture.

You know -- you -- and as you well know, John Grimes Medlin, who was a great Chairman of Wachovia, sort of imbued in Wachovia this culture that a banker is a civil servant as well. There is this obligation to society they have in their community, you eulogize him.

STUMPF: Yes.

MCHENRY: Paid tribute to that culture.

STUMPF: Yes.

MCHENRY: So I want to think about that culture, because what -- what is so sad to me is that pitch of culture doesn't conform with my experience with my constituents in North Carolina. It doesn't conform what I know about First Union, what I know about Wachovia, and this cultural pitch that you had in acquiring them in the financial crisis. I know you have a huge head count in North Carolina, we're grateful for it, but what's sad to me is the impact of this on them and those employees you have in North Carolina. So, I wanted to look at your code of conduct, the (inaudible).

So, let's look at your code of ethics and business conduct. You said in your message as CEO, "we are all responsible for maintaining the highest possible ethical standards and how we conduct our business and serve our customers." The code of ethics in fact says, "our code applies to all team members, including officers, as well as directors of Wells Fargo and Company and its subsidiaries."

It also says "we are all accountable for complying with the code as well as all company policies and applicable laws." And finally, "it's critical that all team members have a solid understanding of our Company's code of ethics and business conduct and understanding that noncompliance with the policy may result in disciplinary action up to and including termination of employment."

You clearly have failed. You've clearly failed in your own ethical standards internally, you have broken and your company has broken long-standing law. You have broken long-standing ethical standards that you have within your company. This has nothing to do with this debate about Dodd-Frank or anything else. You have broken a long-standing law and you have defrauded your customers, how can you rebuild trust? How can you rebuild trust and how can you get through this thing?

What standards are you holding yourself to that sends a message to the rest of these folks in your organization that look to you for leadership and guidance? What are you doing to restore that?

STUMPF: Well thank you, Congressman. The culture of the company is strong. I don't -- I know... MCHENRY: It's really hard to say that when you're before Congress for the second time and -- and behind you was all the settlements you've had for problematical -- problematic relationships you had with your customers by taking their money, right, counter to the law, counter to your ethical standards. So it's great that you say you have a strong culture, but why are we here today? How are you addressing that?

STUMPF: We are addressing it, first of all with respect to culture, you know we have 268,000 people who have made their life's work and careers out of helping customers. There is people today who are...

MCHENRY: And that's why I raise this in the way that I do, by severe disappointment -- severe disappointment. That's all. You broke the law. We make the law in Congress, this is not new stuff, that all of a sudden Congress changed some rules. And you can't have your employees create fake accounts and take fees from customers unknowingly, unwittingly. That is - that is -- there is never in human history when that has been an ethical OK, right?

So for you to say the culture is OK, this seems to me that you're just tone deaf to this. The final thing you need to think about and your Board of Directors needs to think about is this, the impact you have is not simply on your institution, but the wider conversation on how my consumers can access credit. And the implications on what you've done, and your leadership has done has this broader societal impact that is very negative.

HENSARLING: Time of the gentleman has expired. The Chair now recognizes the gentlelady from New York, Ms. Velazquez.

VELAZQUEZ: Thank you, Mr. Chairman.

Mr. Stumpf, now that you were on the Senate side and you testified and we -- the Senators asked you whether or not the 5,300 Wells Fargo employees that were fired for their misconduct, how many of them were fired because they failed to meet sales quotas? At that time you say you didn't know, now that a week has passed and you have had a chance to consult your records and speak to your staff, are you prepared to tell us how many employees were fired for failing to meet their sales roles?

STUMPF: Thank you, Congresswoman. Of the 5,300, which is about 1,000 people per year out of our team, and I don't want to minimize it, it was 1 percent, equals about 100,000 people in our branch at any one time, all of those people through our investigation were terminated because of their unethical behaviors. We found them -- we decided we don't -- we can't have them here, they are not consistent with our culture and ethics.

VELAZQUEZ: Out of that 5,300 employees, were there any employee that was fired because they didn't meet their sales quota?

STUMPF: There were -- my understanding...

VELAZQUEZ: I'm not talking about the 5,300. Outside of that...

STUMPF: Outside -- outside of that, my understanding is that people should not be fired -- terminated, for missing sales goals. I'm not saying it didn't happen in...

VELAZQUEZ: How should I trust that that was the case?

STUMPF: And we're doing a review of whatever -- whoever might have been terminated for that.

VELAZQUEZ: OK, so my next question is, if your review shows that there were employees that were fired because they didn't meet their sales quota, would you be rehiring those individuals?STUMPF: First of all, we don't have sales quotas, we have goals, and there's other goals that our people also have as part of their performance management. We're reviewing that and we're going to try to make it right for every team member.

VELAZQUEZ: Mr. Stumpf, I'm sure you're aware that Wells Fargo is the most active SBA 7A lender in the country.

STUMPF: Correct.

VELAZQUEZ: As ranking member of the House Small Business Committee I am very concerned about the illegal practices uncovered by the CFBB on the consumer side may have spread to the small business side. Were you front-line employees under similar pressure to cross sell products to the banks SBA 7A clients.

STUMPF: First of all thank you Congresswoman. We are the nations largest small business lender. I am very proud that we do a lot of work helping men and women across this country start businesses and so forth. That's a very different business and I don't know of any product sales goals, which again we've eliminated in our retail bank in that business. It's a very different business.

VELAZQUEZ: So the 7A program is just a fraction of your overall small business lending portfolio. Can you provide us today with assurances that these illegal practices did not affect any of your small business clients at Wells Fargo.

STUMPF: I don't have that information in front of me. I'm happy to work with my staff or team and get back to your staff and cooperate on that best I can.

VELAZQUEZ: Well, so given the fact that you lack the leadership to give us assurances that this was not the case, I'll be writing to the SBA administrator so that they could review all the 7A portfolios to make sure that we protect small businesses as well as tax payers.

My next question to you is, now that you have decided to end product sales goals and financial rewards, have you considered raising the salaries of your retail banking employees in order to make up for this loss in compensation?

STUMPF: Yes we are working on a new incentive program, it'll be out by the first of the year, and we want to make sure that our team members are totally aligned with our customers. And we want to make sure that compensation for our team again, through the vast majority do it right, are not hurt in this process.

VELAZQUEZ: I know you're not aware, but it is very difficult for any person in this country to live with a $25,000 salary.

HENSARLING: Time of the gentlelady had expired. The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee.

GARRETT: Thank you Mr. Chairman.

So Mr. Stumpf let me start by making a few observations then I'll end with a couple questions. First and foremost I find it, as we all do, extraordinarily troubling as I look through the history timeline of the scandal, timeline that stretches over years. You see as we've already been testified to, 5000 Wells Fargo employees were dismissed for their involvement opening unauthorized accounts. It was also interesting and troubling that the firings did not happen all at one time.

My understanding as we've heard already today is that roughly 1000 employees per year, '11, '12, '13, '14, '15. It's extraordinary how Well Fargo managed to not actively and decisively move to stop those activities after the first 100 or 500, 750, or 1,000 employees were fired is beyond me. The fact that it was allowed to go on and on and on and on for years is apparently a failure of corporate governments and a failure, quite candidly of your management.

Your management to what is foremost and that is to protect the customers who have trust in you. It concerns me even more over that it appears that most of the 5000 employees that were fired were low- level or mid-level employees. I think the Chairman just found out the highest level was a branch manager. And it doesn't even include those that resigned due to the culture at Wells Fargo. As I say, meanwhile no -- to the best of my knowledge -- senior executives have been held accountable in the same manner that the lower-level employees were.GARRETT: I would not be surprised if a number of those people ended up losing their homes, going into massive debt after they were dismissed. No I'm not defending their actions, just making a point that we have a problem in this country where it would seem, as we've seen previously, that the well connected and the well connected on Wall Street, or the well connected here in Washington, the elite if you will in Washington and on Wall Street seem to play by a different set of rules while everyone else has to play by another.

Yes, I know you just lost, reportedly I hear, $41 million of your salary but if I understand that correctly that's only a quarter of your pay over the last decade or so and so you will forgive all of us if we don't really feel that sorry.

Second point I'd like to make is that under Dodd-Frank, Wells Fargo remains fully eligible for taxpayered (ph) bailout going forward under Title II of the law should you run into trouble going forward. Taxpayers have already spent a lot of money bailing out poorly run Wall Street firms over the last decade.

Mr. Stumpf, I hope you're aware that anger now directed at you by my constituents and others around the country isn't just over the actions of the employees, it's a fact that they seem forever on the hook to underwrite whatever kind of risky, or in this case, fraudulent activities Wells or other large banks engage in.

Fortunately, earlier this month, I'll just make a side note, we passed a bill out of this committee, the Choice Act which will ensure that if Wells Fargo does run into trouble again, it's only its shareholders and its management that would pay the consequences and the taxpayers will no longer be on the hook.

Third and final point I'll make, I know they are not here, but once again, the financial regulators apparently were -- more than apparently completely asleep at the wheel as this massive fraud was occurring.

If you look at one of those, the CFPB, the CFPB has one job. CFPB has only one job in a regulatory framework and they completely blew it. It took a reporter from the L.A. Times to uncover what was going on at Wells Fargo and so I hope my friends on the other side of the aisle will keep that in mind as they may pat the CFPB on the back for a job well done.

So, in the time remaining, to get to the security point -- questions, the Securities Exchange Act require a company to keep a disclosure in place that's under socks (ph) require the CEO and the CFO to -- to attest to financial statements.

You referred to some of that. Are you saying that all those quarterly reports that you were following, that the information you had in 11 and 12 and 13 and 14, none of that material was -- none of that information was material?

STUMPF: At the time, through the facts and circumstances, we filed accurate reports and we did not believe it was material.

GARRETT: And when you got the PricewaterhouseCoopers analysis, when was that by the way?

STUMPF: That was late in 2015 -- early '16.

GARRETT: And was -- as soon as you had that, has that been filed as a material statement?

STUMPF: We consider the facts and circumstances and we believe that not to be material.

GARRETT: It's not material? Why not?

STUMPF: Remember -- or at least this -- the PWC material looked at 93 million accounts that we opened over four years. They could not rule out through a large data analytics about 1 1/2 percent of those accounts. That's still a lot because of the size of the organization.

GARRETT: Well, that -- that, to me, Mr. Chairman, if that's not material, this occurring over a five-year period of time, a systemic problem in the organization, I don't know what is.

I yield back.

HENSARLING: Time of the gentleman has expired. The chair now recognizes the gentleman from California, Mr. Sherman.

SHERMAN: Mr. Chairman, the American people need an assurance that this cross-selling mania that has afflicted Wells Fargo is not to be found at the other Behemoth banks. And I would urge you to have hearings where we hear from the CEOs of B of A, Citi, of the others.

And until then, I hope that you would join with me in a letter of inquiry to ask what account -- new account opening quotas they had for their bank tellers, how many people they fired for not meeting their quotas, or how many people they fired for opening phony accounts.

We have Wells Fargo before me but I don't think, Mr. Stumpf, that you should be alone in this joyous experience. Your colleagues should at least come forward with some assurance.

We're now engaged in an important national ritual where the CEO comes before the representatives of the American people to apologize, to take full responsibility, to do so humbly. Mr. Stumpf, welcome to Washington. What plane did you fly in on? What airline?

STUMPF: Virgin American. SHERMAN: And when you came to the Senate?

STUMPF: I think it was United but it was one of the two.SHERMAN: It shows Wall Street's learned something. Thank you.

STUMPF: Thank you.

SHERMAN: Now, you've -- you've got these forced arbitration clauses in your agreement with your customers. You've said "Oh, they can have mediation too." Some of them want their day in court.

Are they going to hold them to these forced arbitration clauses and screw them again out of their day in court, or are you willing to waive those clauses and say if you're caught up in this you get your choice whether you have arbitration or not?

STUMPF: Thank you, Mr. Congressman.

I believe in arbitration. I think it's a fair way to...

(CROSSTALK)

SHERMAN: But your customers may want something else. Are you going to -- are you going to deprive them of that?

STUMPF: No, we're not. You're going to have them -- we're going to pay for a mediator and...

(CROSSTALK)

SHERMAN: Would they want their day in court are you gonna screw them out of that?

STUMPF: This is not -- we're -- we're taking this very seriously. I told our...

(CROSSTALK)

SHERMAN: Will you let them to go to court if they want to go to court, yes or no?

STUMPF: No but with an explanation...

(CROSSTALK)

SHERMAN: No, but -- OK thank you.

That's a no. This sham was not an attempt to steal a few million dollars in fees from your customers, although that's important. Because you could say that few million dollars wasn't material.

What was material is the price of your stock. You opened 2 million phony accounts and then went and told -- and had to be material because you were bragging about it to the people investing in your stock that you had higher penetration rates, more accounts per customer, that the number of banking customers that had credit cards had grown from the mid 20 percent up to 42 percent.

So it had to be material, you were -- you were talking about it. The peak firings, according to your own documents, was in 2013. So you knew you had a problem then.

STUMPF: Correct.

SHERMAN: Why didn't you tell shareholders, our penetration rates are phony, our new accounts are phony accounts and when we tell you we're deepening our relationship with the customers we're putting them through the ringer?

What internal audit system did you have that assured you that you didn't have a material problem?

STUMPF: Congressman, I have -- I have to push back here. The -- this is the behavior of people that we found that we did not want. And the vast majority of everything we do is right by our team members and customers...

(CROSSTALK)

SHERMAN: Mr. Stumpf, you were -- you -- you were firing according to your own documents, the highest number of people in 2013 but bragging about your penetration rates, the number of accounts opening in 2014.

So you knew it was material to shareholders and you knew it was a phony number that you'd fired people from -- for falsifying.

STUMPF: Congressman, may I just have a second? Because we've gone back and looked. The 2 million accounts could not be ruled out. We don't know if those are good accounts or not good accounts because we already looked at 20,000 credit cards...

(CROSSTALK)

SHERMAN: Reclaiming my time, sir. You fired 5,300 people. You took 5,300 good Americans and turned them into felons with a system that you created, benefited from and drove your stock price up by bragging about your levels of new accounts.

STUMPF: Congressman, I...

(CROSSTALK)

SHERMAN: We know that the...

(CROSSTALK) STUMPF: ...have to disagree with that.

SHERMAN: I -- I'm not surprised. The two -- we have institutions that are too big to fail. In 2008, we found that they were too big not to bail. The -- Eric Holder has told us they are too big to jail saying he fears for putting them -- for bringing a criminal indictment.

We now learn they're too big to manage, too big to regulate. It's time to break them up.

HENSARLING: Time of the gentleman has expired.

The chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, chairman of our Housing and Insurance Subcommittee.

LUETKEMEYER: Thank you, Mr. Chairman.

Today, we're here to confront, in my judgment, a total travesty in the financial market. The consumers in this case were failed on all accounts. Their financial institution, with whom they trusted their family's finances, failed them.

The federal regulators who were charged with overseeing their protection failed them. The federal regulators in charge of Wells Fargo failed to stop the ripping off of consumers and the consumers lost.

And slapping a bank with a fine isn't gonna make that go away. Only five percent of that fine is gonna go back to consumers who were harmed. Mr. Stumpf, giving back your bonus isn't gonna make that go away.

More rules and regulations are gonna make this go away. The fact is, regulators sat in that bank for years and did nothing. Meanwhile, thousand employees were being fired for these bad practices, yet nothing was changed to address the issues.

The regulators need to be doing their job as well from day one. Instead, the institution pushed forward the whatever it takes approach to meet sales targets and regulators sat idly by even either oblivious or uncaring these bad practices, even after reported in the news.

To top it off, regulators neglected to fill their enforcement obligations after the fact. Instead, they opted for a quick settlement and waived their right to pursue additional action for other violations so they wouldn't be views as late to the game.

Wall Street needs to be held accountable but so does Washington. That's what we're here today, for. So my question to you Mr. Stumpf first is how many regulators do you have in your bank on a daily basis?

STUMPF: I don't have precise account...

(CROSSTALK) STUMPF: I think there's -- maybe the OCC our prudential (ph) regulator picked 80, for example.

LUETKEMEYER: OK the CFPB, they have some folks in their pre- regulator as well, do they not?

STUMPF: I -- I don't know the number on that.

LUETKEMEYER: OK just kind of curious you know, as a former bank regulator as well as a banker, this is a really, really disappointing situation for me.

STUMPF: I couldn't agree more...

(CROSSTALK)

LUETKEMEYER: From the standpoint that I tell people I'm shocked and dismayed. I'm dismayed that the bank allow this to happen because you did have a culture in place that allowed this to happen.

And I'm shocked that regulators sat on their thumbs this long and did nothing. And while you're being fined, which I think is appropriate, the regulators ought to be fined as well. For them to take the fine and keep it is a travesty.

They need to be fined as well and let that money go back to consumers because they were asleep at the switch, as well. There's so much to blame to go around on this, it's unbelievable.

A while ago, you made the comment that there was -- that you have a good culture in your -- in your institution. That this shouldn't be happening. Well, Mr. -- Mr. Stumpf, your own testimony says that you're firing a thousand people a year.

A thousand people a year, the only one way that that can happen and that there's a culture there that allows it to happen year, after year, after year. There's a laissez-fair approach to what you're doing in your bank.

Somewhere along the line, somebody's -- call a time out and say enough is enough. This can't continue. And yet, year after year you're firing people, trying to hope this thing goes away and that regulators are watching it and still sitting on their thumbs.

These actions much have consequences and for not only you, but they need to have consequences for the regulators, as well.

STUMPF: Thank you for that question because I -- I wanna tell you that we did do things. In 2011, within the business, they moved the -- the -- compliance or -- or the concern for this issue into a compliance area.

By 2012, they were reducing goals and doing more ethics training. By 2013, corporate resources were brought in. And we -- and we worked with the OCC. In 2014, more reductions in goals.

In 2015 and the OCC also was in 2013 we get (ph) our study. This does not represent the culture. In fact, we do an outside company...

(CROSSTALK)

LUETKEMEYER: I respectfully disagree with you, Mr. Stumpf. I -- I've been in business like this all my life. You can't tell me that when you have to fire people year after year after year after year after year, that there isn't a problem.

You know, for a year or two that's one thing. But four or five years? Listen, your own testimony says this. I have another question, I need to go one, one -- one more -- I got to -- in my examining days, there was a -- I examined a bank and found a teller skimming money out of her -- out of her cash drawer.

Took it to the president and he said well, you know she's a good employee, as long as she keeps it to a minimum I think we're gonna be OK. My floor -- my -- my jaw hit the floor. That -- this reminds me of that situation.

As long as they can keep it to a minimum I think we're gonna be OK. My comment back then (ph) with that point was, have you reported this to your blanket bond insurance company that has a dishonesty clause on it? Do you have a blanket bond or are you self insured?

STUMPF: We have a -- we have a Fidelity bond and that's where we draw a very bright line. When people do the wrong thing, they cannot be...

(CROSSTALK)

LUETKEMEYER: ...when did you report this action of your employees to your blanket bond company?

STUMPF: I don't -- I don't -- do we have a group that does that, our corporate relations with our legal team and I can assure that and we can have our people get...

(CROSSTALK)

STUMPF: ...very bright line.

LUETKEMEYER: This -- this is a really, really big question because if you didn't report that immediately when you found this going on and you allowed for year after year to have a thousand people...

STUMPF: We do that.

LUETKEMEYER: Your blanket man -- bond company is gonna be going bonkers over this. We will have a request for that and I hope you will answer that...

(CROSSTALK)

STUMPF: We'll work with your team.

LUETKEMEYER: Thank you, Mr. Chairman.

HENSARLING: Time of the gentleman has expired.

The chair now recognizes the gentleman from New York Mr. Meeks.

MEEKS: I can't believe some of what I'm hearing, here. So let me -- let me understand, you've been the CEO since 2007. You've been the chair of the board and the CEO since 2010, is that correct?

STUMPF: That is correct, Congressman.

MEEKS: And in the time that you have been that chair, I have a chart here that shows you've been penalized almost systematically every year since you have been in charge. Every year, $1.2 billion in April of '16, $53 million in October of '15, $4 million in June of '15.MEEKS: Another $24 million in January '15, $5 million in September of '14 I mean -- and I can go on and on, $869 million in September '13 while you were the CEO, right? And you're gonna tell me that there's not a culture of something wrong at Wells Fargo when you are the head -- you get credit. You get credit as CEO when you bring in all this money because that's how you get your bonuses, is that not correct?

You get a bonus from your board because X amount of dollars come in. But yet, are you telling me that you don't have the responsibility of losing your position when you have a culture of being fined and costing the bank year after year, month after month, there's no responsibility.

You can just stay to be the chairman and the CEO? Is that what you want us to believe?

STUMPF: Congressman, that is not the case. I serve at the pleasure of the board. I'm willing -- I told you...

MEEKS: Then the whole board needs to go if they're going to allow someone to be in charge when time after time -- you just talked about you fired 5,300 employees when you found out that they were doing something wrong. They were fired because they were doing something wrong. Well something is going wrong at this bank and you are the head of it so shouldn't the board then turn -- from your own admission.

If the buck stops with you, as you came out here and said, I apologize, the buck stops with me, and you have to also admit that criminal activity was going on in your bank then you should be fired because it stops with you.

STUMPF: Again, congressman, the board has that power. That's their -- and my energy right now is to lead this company forward. I also want to remind...

MEEK: So you came here and you started out by saying, I apologize, et cetera. If somebody walked into Wells Fargo tomorrow and robbed your bank or defrauded your bank and then after they're caught they said, well, I'm sorry. I'm going to take full responsibility for robbing this bank and I am sorry that I robbed this bank. So please, don't prosecute me because I am sorry now that I robbed this bank.

Would you allow the person just to walk out after robbing your bank because he is now sorry that he robbed this bank after he took the money already?

STUMPF: Congressman, I see something very different between being honest and breaking our code of ethics and taking advantage of...

MEEK: You didn't break code of ethics?

STUMPF: And -- I...

MEEK: Does your bank -- do you realize that you have not only given -- would you admit this? That not only did your bank have a black eye that your bank, Wells Fargo, has given the entire financial service industry a black eye. Your responsibility. You heard Mr. Sherman, now he wants -- and I agree with him. He wants everybody to come in here.

Why? There's only one reason why. Your bank, you, CEO, chairman -- basically for me, was on top of what basically has been a criminal enterprise.

Because when I look at consistency, time after time after time and time again, you have to get fines. Now, it must mean that you're making a lot of money because it's easier to pay the fine because you know that nothing else is going to happen to you. So, you pay the fine, you get away, you make a lot of money. Now, I'm upset. I'm from New York. I -- a lot of times, you know, I believe in financial institutions.

That's why I'm so mad. I believe that they make our country better until they rip us off and they ripped us off tremendously, taking advantages of customers and consumers when we had the financial crisis.

I've got individuals right now who are on the street -- on the street, they're not back in their homes. They had these fraudulent mortgages. Nobody has said, I'm sorry that we gave you these fraudulent mortgages. We're going to put you back in your home and we're going to make sure that everything is OK. No one has done that for them. You haven't volunteered to do that.

Will Wells Fargo put people back in their homes?

STUMPF: Congressman, if I could just respond for a second, please. There's no question we don't do everything right and we've made mistakes. We're upping our game...

MEEK: So who should pay for it? If you're not doing everything right, who's accountable for it?

STUMPF: We're going to make it right for every one of our customers...

MEEK: Your V.P. made $125 million bonus package. Your institutions making over $22 billion yearly. Who is paying for it? Who's taking responsibility for it? Don't come tell me your sorry.

STUMPF: We're -- we're taking care of every one of our customers who was impacted.

HENSARLING: Time of the gentleman has expired. The chair now recognizes the gentleman from Wisconsin, Mr. Duffy, chairman of the Oversight Investigations Subcommittee.

DUFFY: Good morning, Mr. Stumpf. I want to tell you I'm a 20 year customer of Wells Fargo. I actually started at Norwest.

STUMPF: Thank you.

DUFFY: My wife was with Wells Fargo. We got married and it made it easy to join our accounts. I've had a pretty good experience with your bank. That's why I've been there for 20 years. The people I've dealt with have treated me incredibly well and that's why I'm there. But what I'm hearing today is incredibly disturbing. And so, I just want to make sure you and I are on the same page.DUFFY: How do you classify what Wells Fargo did with this potentially 2 million account holders?

STUMPF: Well, the 2 million account holders were accounts, was about -- the PWC looked at 93 million accounts, the 2 million are -- I'm sorry.

DUFFY: Was this -- was this -- was this fraud? Was this just a H.R. problem, was this theft, how do you see this?

STUMPF: The 2 million accounts could not be ruled out...

DUFFY: I'm not asking about accounts. I'm asking about -- well, how do you classify when you took $22 to $25, from whatever the number is, maybe it's one million, maybe it's 2 million, how do you classify that?

STUMPF: Well, I think it was dishonest; it broke our code of ethics and the people who are responsible...

DUFFY: Was it theft?

STUMPF: Pardon me?

DUFFY: Was it theft? Did you steal?

STUMPF: Our people did not do what was right.

DUFFY: That's not my question. Did you steal? I want to know if you and I are on the same page. Did Wells Fargo employees steal from a million to 2 million other customers, yes or no?

STUMPF: In some cases they did.

DUFFY: They did.

STUMPF: Yes.

DUFFY: And so as Wells Fargo, back to 2011 is stealing from their customers and by the way, banking is based on trust...

STUMPF: Correct.

DUFFY: Right? So I don't care if it's 10 percent or 1 percent or half a percent of the people that you do business with, if you're stealing from them -- in 2011, 1,000 people are fired for stealing, and what do you do? You don't fix the problem. And 1,000 people are fired in 2012 and you don't fix the problem. And in 2013, 1,200 people are fired and we still have a problem. And you're stealing from people.

So how do you -- how is it -- I guarantee you that any bank in my community, if they were stealing from someone at the lower level, fired and fixed the problem on day one.

STUMPF: Well that's what we're trying to do, in fact...

DUFFY: No. Trying to do, we're five years on.

STUMPF: Well let me just say as we about -- as we understood this problem, we didn't -- when somebody would open an unauthorized account, a savings account or checking account, it was not until -- and when an account gets opened and not funded, it's really important, please. When they open and not funded, it gets auto closed. We didn't -- we didn't believe, as we looked at that, until sometime in 2015 that there could be the possibility of a zero account that could affect a customer.

DUFFY: You got to be kidding me. You have got to be kidding me.

STUMPF: No, that is absolutely our analysis.

(CROSSTALK)

DUFFY: ...the Board members. You are not saying that knew, but Board members knew in 2011. They were looking at this and if they are looking at a thousand people fired, that they don't know why they're being fired, that they don't look in to say, what were these people doing that caused them to be canned? And they look -- just pull the curtain back a little bit and they go, man, whether you want to call it defrauding our customers or stealing from our customers, Wells Fargo has a big problem.

So that you tell me it took one year, 2 years, three years to 2015, I don't buy it. What I think is Wells Fargo was making a lot of money off what you were doing, and I think you were hoping that you wouldn't get caught, and so it's a risk of doing business. You know what, we're willing to fire a few people so I can come in here and go, weren't we great? We fired a couple of people, we were trying to make it right, but we kept the practice in play because we were making big profits.

Did you win the practice? Is this over?

STUMPF: And yet we're stopping all of our sales. Let me...

DUFFY: How could you stop it? How could you stop it now but not in 2011 or 2012 or 2013 or 2014 or 2015?

STUMPF: Well we should have done more earlier -- we should have done more earlier. But it's really important I make this point, please. The $2.6 million of fees that were on accounts -- that these 2 million accounts that we could not rule out, it cost us $10 million to open those accounts and close them; forget even the cost of the team member and the dismissal. This is a loser for us, it only helps when customers uses it.

DUFFY: It's a loser for you, I guarantee that.

STUMPF: It only helps when customers -- I would rather have a customer have 2 products they use, than four they don't. This is what we align with...

DUFFY: The concern we have Mr. Stumpf -- and I told you I like Wells Fargo, I've been there 20 years. That -- that you were turning a blind eye to your customers who were being stolen from, people who couldn't afford $22, people who couldn't afford $25, and that you didn't fix that problem. In an institution that's based on trust with your customer, that you didn't take this seriously, that you didn't remedy it, that it's taken this long, shame on Wells Fargo.

And I didn't get to my question, I would hopefully at one point, hear you testify to how many CFPB employees were embedded at Wells Fargo.

HENSARLING: The time of the gentleman has expired. The Chair recognizes the gentleman from Massachusetts, Mr. Capuano.

CAPUANO: Thank you, Mr. Chairman.

Thank you, Mr. Stumpf. I want to thank you, particularly, for doing something here today that no one other person has been able to do in the last four years. You have brought true bipartisanship to Congress. We're all together on this, we are not happy. Last -- they already started, but the last few minutes they have been running a graphic in the back and my colleague had went through some of them. I think it's important to know what some of the other things you have done, what they were.

They weren't just fines, you screwed student loan holders, credit unions, Fannie Mae, Freddie Mac, mortgage holders, African-Americans, Hispanics, health care workers, on and on and on. And by the way, I understand this isn't material, just five months ago, you paid $1.2 billion in a fine, this is only 15 percent of that. Who cares? We'll pretend to be sorry, we'll fire some workers and we'll get through this.

You know when I heard that before? The guys who ran Enron, the guys who ran Arthur Anderson, thought the same thing. We're not your problem, we can't criminally prosecute you, you can keep -- hell, you're your own boss, you are the CEO and the Chairman. Hold yourself to accountability, my God, you've been bad -- no, you haven't. That's ridiculous, your problem is coming, it's not today. You think today's tough, it's coming. When the prosecutors get a hold of you, you're going to have a lot of fun.

So I want to thank you for that. I want to ask you, you got the graphic up here. You know this guy? See, I'm not a real good researcher, I'm not a prosecutor. This is simple internet research, that's all I'm capable of doing, Google it -- Wells Fargo, boom. Whole bunch of stuff shows up. This is Mr. Robert Holmes who apparently robbed your bank in Lancaster, Pennsylvania. He did not use a weapon. He got caught; they got all the money back. He's in jail as we speak on a $750,000 bail.

You on the other hand have run an enterprise that has a culture of corruption. You encourage subordinates to abuse existing customers by opening fake bank accounts. You charge those victims illegal fees, interest and late charges and then you send some to collection agencies because they didn't pay them. Then, you fired 5,300 workers, as if you care, to cover everybody's tracks.

In my opinion, you and your entire leadership team are clearly and unequivocally guilty of at least conspiracy to commit fraud, conspiracy to commit identity theft, clearly racketeering which is something a lot of my friends know something about, and probably a dozen other crimes.

Only simple question, what the heck's the difference between you and Mr. Holmes? Why shouldn't you be in jail? He didn't use a gun, you got the money back, I understand at his arraignment he said he was sorry. What's the difference? Why shouldn't you be in jail right along with Mr. Holmes?

STUMPF: Congressman, I think that when you do something unethical or dishonest, which I've tried to exercise my duties as leader and our senior leadership team...

CAPUANO: You haven't done a real good job, you have had 16 violations in five years. That's a good job, this is a minor fine, you've had a lot of -- this is only the seventh largest fine that you've had, you've had six others that are a lot bigger. That's a good job? I guess I forgot, you're the one judging yourself because you are also Chairman of the Board.

I actually think I'm the greatest Congressman in the history of the world, I should be Speaker, President and maybe Emperor of the world, that's my judgment of myself. Sound good to you?

STUMPF: There is no question that we had done things that we need to improve on and we've paid fines and we're trying to get better at every one of our...

CAPUANO: So if Mr. Holmes pays a little fine, you know, a few bucks based on the amount of money he stole and the victims he had, you think he should be let out and have no criminal record?

STUMPF: Again, being dishonest and breaking the law is something very...

CAPUANO: So it's not breaking the law, stealing my identity and opening an account that I didn't ask for?STUMPF: And our culture is about not doing that. We train for that not to happen.

CAPUANO: I don't know how -- what kind of a culture you have (ph) you have 16 violations...

HENSARLING: ... Time -- time of the gentleman...

CAPUANO: ... you have 5,300 employees that you say did it but you don't know (ph)...

HENSARLING: ... time -- time of the gentleman has expired. The chair now recognizes the gentleman from California, Mr. Royce, chairman of the House Foreign Affairs Committee.

ROYCE: Thank you, Mr. Chairman.

Mr. Stumpf, the idea of a cross-selling target of at least eight products clearly is part of a long term practice at Wells Fargo going back at least to your predecessor because in 1998 Fortune Magazine quotes "doubling the average product purchase to eight" as your predecessor's quote "current obsession." You know, morphing the goal to a mandate here seems to be a big part of the problem and I say mandate because if people are fired for not hitting that goal, it's a mandate.

And that seems to be at the center of a toxic sales culture that you've overseen. But I'd ask you was the goal of eight cross-sold products something understood and embraced by management and by your sales force?

STUMPF: It was a rallying cry to help work together. The average consumer household has about 14 financial products...

ROYCE: ... I understand but I'm going to ask you a question. In retrospect, do you think that that target contributed in some way to the negative change in your sales culture?

STUMPF: We never had a target of eight. Again, it was an aspirational. We had team members who would work with customers on need-based selling and when they did that right, they -- the customer won and it was good for us.

ROYCE: Did you read the L.A. Times article when it came out in 2013?

STUMPF: I don't -- I'm sure I did, I just -- I can't recall it right now.

ROYCE: Was it something discussed at the board level?

STUMPF: We did discuss the L.A. article.

ROYCE: Well, here's my question. Did the information in that article give you pause about reporting cross-selling metrics or ratios in your annual reports, in your quarterly reports, in the analyst conference calls that were clearly inflated here by fake accounts generated by your sales force?

STUMPF: We love cross-sell because it helps -- helps define...

ROYCE: ... I -- look, I understand your argument about that. Here's the question. If you know fake accounts are going into that ratio, why would you keep reporting that ratio?

Because I've got a copy here of your investor day. I've got a copy of what is in your quarterlies and you know, you turn to Mr. Duffy here, when he was asking the question and you were saying "Well, it isn't that material in terms of our bottom line, in terms of the fee income from these fake accounts."

But what you're reporting on your products per household is a constant upswing quarter by quarter by quarter. It certainly is material in terms of the stock price.

What you were doing in constantly reporting these ever-increasing numbers was driving your stock price up and the point I'm making is you have this story in 2013 that shows how much of that was based upon fraudulent behavior. That becomes material, right?

STUMPF: Well, let me just talk about that specifically. The cross-sell ratio -- even if you include all 2 million accounts in that -- and we know we can't because we're already finding out in credit card that 75 percent -- or less than 25 percent either did not order or not remember.

We've looked back for all the quarters going back to -- I can't remember. It's 2010 or '11 and it has a, I think, one 200ths of one product impact. It's absolutely immaterial.

ROYCE: Look, Mr. Stumpf. This is a California company. You've got a lot of California customers. You've got people all over the world dependent upon this company. You've got your employees, and from what I understand, a thousand of them being fired a year connected to this.

I believe rebuilding that -- the trust and righting the wrongs are going to take a course of action here that I've yet to see you set and through opening unauthorized accounts or playing the shell game with a person's money, your employees and your company negatively impacted the credit of many people in this country.

And I just want you to think for a minute about what that meant in terms of their ability maybe to qualify to get that home or maybe to qualify to get that car or maybe in terms of the student loan to send that son or daughter to university.ROYCE: Not to mention, again, working Americans wrongfully terminated by your company for what? Refusing to break financial laws, refusing to break ethical laws, that's what we have to come to grips with here. And this is at the very least the result of actions over the last five years. That didn't happen by accident.

HENSARLING: The time of the Gentleman has expired. The Chair now recognizes the gentleman from Massachusetts Mr. Lynch.

LYNCH: Thank you Mr. Chairman. I have a unanimous consent request to enter to the record a letter sent by ranking member Cummings, Gentleman from Maryland of the Oversight committee to Mr. Stumpf requesting related documents by October 13th.

HENSARLING: Without objection.

LYNCH: Thank you Mr. Chairman. I would also like to ask the Chairman to consider doing a hearing at a later time with a Member of the Employees, both whistleblowers who were fired and others who were fired for retaliatory attempts to provide information on the fraudulent conduct being conducted at Wells Fargo. I'm aware of at least three U.S. attorney's that have also issued subpoenas in this case. So I'm hopeful that we may eventually get to the bottom of this.

And while the City of L.A., the city attorney there and the CFPB and OCC have done good work in this case, the fines thus far are pathetic really. Totally inadequate to try to bring Wells Fargo into compliance with the law. And that is certainly reinforced by the way Mr. Stumpf, you have diminished the offenses that have gone on at your bank.

It is really proof positive that whatever the OCBF or -- excuse me -- the OCC has done, is not adequate to make you realize the level of your offenses hear. Again the 5,300 employee were fired. Up to 2 million fraudulent accounts. And this has gone on for at least five years. And I want to point out here, and Mr. Duffy has hit on this, this is the banking industry. It exists based on trust. And what your employees did at least -- well, as many as 565,000 fraudulent credit cards were secretly opened by your employees using the social security numbers of your customers.

So they opened fake credit cards so they could charge them for that. They assigned fictitious pin numbers when the customer didn't even know that that was going on they put pin numbers and then they assigned e-mail addresses so they could comply with it and get the bonus so that the account was opened, and these are your customers.

Now we've had credit card companies up here who have sent credit cards to non-credit worthy borrowers and seniors who didn't understand what they were getting. But in this case these are your customers. These are the people that -- they became victims because they did business with your bank, that is unbelievable. And I know that Mr. Meeks and Mr. Capuano before me have made comparisons to criminal activity, but I do want to note that under the Racketeer Influence and Corruption Act, you've satisfied that.

You've satisfied all the elements of that. Two of the predicated offenses under RICO. Number one, is fraud and there's no question about that, mail fraud, securities fraud, you've done it all, you've covered basically every aspect of fraud in your bank over the last five years. And secondly, in many cases these employees -- these whistle blowers were intimidated or fired in some cases. You've got an H.R. employee here who says you had a system to retaliate in your bank against whistle blowers. And that's another predicate offense under RICO.

So let me ask you, as the CEO and Chairman of the Board you had a responsibility to file SAR -- Suspicious Activity Reports.STUMPF: Correct.

LYNCH: Right. You have up to 2 million separate accounts being opened. Up to 565,000 bogus credit cards being opened by your employees in secret, against your customers. And yet, when we asked FinCEN -- we asked the Treasury Department for the suspicious activity reports that you filed, they don't match up you know in compliance.

STUMPF: Well, let me just say a couple of things. We filed -- we did everything that was necessary to abide by every regulator and regulation issue...

LYNCH: Are you saying you -- you filed a sector report on...

STUMPF: I can't say on that because that's...

LYNCH: Well, it's your responsibility. Let me read you the law...

STUMPF: I know...

(CROSSTALK)

LYNCH: I'll close with this.

STUMPF: It's a response (ph) but I -- that there's actually a -- a -- a -- prohibition I mean I have -- I have to do what's right according to the law.

(CROSSTALK)

LYNCH: This is my time, I'm claiming it back. The board of directors, this is out of the Bank Secrecy Act in anti-money laundering stature. The board of directors acting through senior management is ultimately responsible for ensuring that the bank maintains an effective bank (inaudible) act, AML, internal control structure including suspicious activity reporting and monitoring.

STUMPF: And we do that.

LYNCH: It's your responsibility...

STUMPF: And we do that.

HENSARLING: The time of the gentleman -- the time of the gentleman has expired. The chair now recognizes the gentleman from Oklahoma, Mr. Lucas.

LUCAS: Thank you, Mr. Chairman.

Mr. Stumpf, while my day job is that of a Congressman, I am a farmer by trade. And my university degree is in agricultural economics and looking at your resume, about the time you were entering into the banking industry 30 some years ago, I can remember taking a class on money and banking at Oklahoma State.

And we had a professor who was very enthusiastic about the market economy and we discussed how the banking model we use now went back essentially 500 years to Italy. And the concept that under a market economy, bankers were the individuals who determined what savings were worth can pull those (ph).

And by the same token, made risk determinations, figured out what the cost of money should be and allocated that out through loans. A glowing example. And he would compare Western Europe at the time, North America -- much of the rest of the world, how effective that was compared to the demand economy model of the old communist countries at the time, China, Russia, all of those sort of places.

A very glowing discussion. I don't know that I have a particular question for you about what's going on. I think between the other committee and my colleagues here, they've done an exceptional job with getting to the facts.

And I suspect as a number of my colleagues have discussed quite straightforwardly, this has legal implications far and beyond the activities of this -- of this committee or the other committee in the other body.

But I'd say, Mr. Chairman, the most challenging thing you've done is, by the actions of your company -- by your management of the company, you made it hard for those of us who are defenders of the market economy to continue to maintain the system that has helped drive this -- this successful enterprise called the United States of America and the free market system.

That's probably the most tragic thing about this. Now, in those econ classes used to lecture us about the concepts of enlightened self interest. That's the nature of any consumer, that's the nature of any business person.

But then there are the responsibilities that we used to talk about of good corporate citizenship, about self restraint, about not pursuing greed. I guess I just simply note to you sir, whatever ultimately legally comes out of this process, and clearly, a number of my colleagues thinks something will or whatever your stock holders determine or your fellow board members, you've just made it really hard.

Really hard for those of us who want to maintain that concept of a market economy who want to continue to make sure that bankers -- not some bureaucrat somewhere -- are the arbitragers of capital to effectively make this country move forward.

I don't know how you correct this. But I suspect sir, when you interact with your peers within the industry, you're gonna have some challenges for a long time to come, because the brush with which you will be painted will stroke all of them, too.

And I suspect that's blatantly unfair and it's unfortunate. But then you know, I'm just a farmer by trade. Multi-generation bidder, working hard to service my debts every -- every year. You have to think about that. You have to think about that.

What this episode has done to your industry and ultimately to me and all of my fellow consumers out there. It's just very unfortunate.

STUMPF: May I make a comment?

LUCAS: Please.

STUMPF: Thank you and I -- we take this very seriously and I also come from a farm. I understand what its like to be on a small farm, or at least ours was small with a large family. I know right from wrong.

I know we have a lot of wrongs to right here. But I also wanted to tell you that Wells Fargo is a great corporate citizen. We employ 268,000 wonderful team members across the country. We have a -- a culture based on ethics and do what's right. Not everyone does that.

We've made mistakes, we're one of the nation's largest tax payers, we're one of the largest philanthropic organizations, we're involved in our communities and we have a lot of work to do. There's no question about that.

But I stand with our -- the people who are doing the right thing, who honor our culture and our ethics. They are terrific people and they're out there with our customer's everyday and we have work to do, I understand that.

LUCAS: This disservice has been under them.

With that, Mr. Chairman I yield back.

HENSARLING: The time of the gentleman has expired.

The chair now recognizes the gentleman from Georgia, Mr. Scott.

SCOTT: Yes Mr. Stumpf, this is one of the most outrageous acts that any banking executive has done in my lifetime that I know of. How in the world could you in good conscious, set up these fraudulent accounts?

What was going through your mind when you were doing this?

STUMPF: Congressman, I didn't set up any of these accounts. I -- our team, worked together at the business level then at the corporate level to finding... (CROSSTALK)

SCOTT: Wait a minute, Mr. Stumpf...

(CROSSTALK)

STUMPF: ...we found these accounts and we found these people and we said that behavior is not possible.

SCOTT: Mr. Stumpf, you took advantage of unsuspecting, loyal customers. People in almost every single district is represented on this financial services committee. You did that and you are the chief executive officer, you set the tone and you should be downright ashamed of yourself.

And you should apologize right now. If you have any strain of respect for the people of the United States, for the customers that you have defrauded with this, for the rancid example that you're setting and not only that. For the damage that you yourself with your action is being done to the entire banking industry.

Because you know what? All this cross selling now you have caused an extraordinary spotlight to be focused on every bank in this country. You have done that.

STUMPF: Congressman...

SCOTT: And you should apologize.

STUMPF: Congressman, I have said in my opening testimony, I am sorry. I am accountable for this. I'm very sorry that we broke trust with our customers, our communities, the American people.

I am deeply sorry for that and do everything that I can to repair that.

SCOTT: And you know what hurts me so much? I'm one of your customers. I have an account in Wells Fargo in the bank, in Atlanta, Georgia. I was on the phone with my district director about this.

And she has told me that -- and our constituent services, when it comes to the mortgages systems particularly with the bill that we pass here, the Hardest Hit Bill in which we're offering and helping those people with mortgages to be able to pay up to 24 months of free mortgages.

And she says, we have no better cooperation from the staff of banks than we have from Wells Fargo.

STUMPF: Thank you.

SCOTT: I'm your customer and (inaudible).

STUMPF: Thank you.

SCOTT: But the example that you set -- is just absolutely terrible. Now, what I wanna ask you is -- because my number one concern is my constituents in Georgia. Lemme ask you, could you tell us exactly how many customers of yours in my home state of Georgia, had fraudulent accounts set up in their name without their consent? How many in Georgia?STUMPF: I can get that for you if I have the right -- sorry, I know I'm using up your time here.

SCOTT: Well, maybe the Chairman will give me a little extra here but it's important for us to know. How many...

STUMPF: In Georgia...

SCOTT: Yes sir?

STUMPF: We had 55,579 accounts that -- that we could not rule out as possible. Again, now I just...

SCOTT: Fifty five thousand?

STUMPF: I -- I need to -- if you may let me -- we're finding out that on the credit card side, less than 25 percent did not want those but here's my commitment to you, Congressman. We're going to work with every one of these accounts and make it right for every customer. That is our commitment. I'm interested in results, not in process here. Each account we're going to take care of it and I don't care whether there was, you know, I mean -- and the biggest thing here is secondary harm.

I want to make sure that -- I think it was asked by another Congressman or woman about that issue. We take this very seriously.

SCOTT: My time is scratching down. Here's the fundamental question I want to ask you. Do you think what you did was criminal?

STUMPF: I'm not a criminal...

SCOTT: No, but do you think -- do you think that?

STUMPF: I led the company with -- with courage and -- and with...

SCOTT: If another bank president had done this or chief executive officer, would not you say it's criminal?

STUMPF: I didn't break our code of ethics and I didn't do anything dishonest.

SCOTT: Thank you, Mr. Chairman.

HENSARLING: Time of the gentleman has expired. The chair now recognizes the gentleman from New Mexico, Mr. Pearce.

PEARCE: Thank you, Mr. Chairman.

Thank you sir, appreciate you being here. I suspect it's not all fun. The -- so, you've talked about the 5,300 that were terminated. Is -- how big a percent of the people in the company that were terminated -- surely out of 268,000 people, you'd get more than 5,300.

So what percent of the terminations did that actually represent?

STUMPF: You know, I don't have that. I can work with our team and see but it's...

PEARCE: Don't worry about it. That's OK.

STUMPF: I don't have that.

PEARCE: So -- so, just looking at this from the 30,000 viewpoint and keep in mind I'm like Mr. Lucas. Grew up on a small five acre farm. Dad was a sharecropper before he went to work as a roustabout. We have a blue collar company just working there in oil fields of Southeast New Mexico so all the numbers that get thrown around here are a little bit big but I can't fathom, somewhere in the process that you got 5,300 people terminated and that doesn't come to your attention as a CEO.

You get calls on the ethics line saying, hey, we're doing unethical stuff. 2008, according to one of the other people. According to your comments, people inside your company are breaking the law. They're creating criminal acts and that doesn't come to your attention. You get $10.8 billion in settlements and that doesn't come to your attention. So what is -- I mean, if I'm sitting here thinking about this stuff just coming in a clear -- just quiet room, bored. Seeing these things at some point, somebody's going to say, Houston, we've got a problem.

But it doesn't appear that anybody ever said, Houston, we've got a problem. L.A. city attorney brings charges and nobody on the board says, Houston, we've got a problem. What in your assessment looking back, what was it that would cause all those things to go under the radar and not be recognized, not be seen.

STUMPF: Thank you for that question. As -- as we learned more about this issue, we made investments. We made investments in training, we reduced sales goals, we brought in a regulator, we tried...

PEARCE: I understand. You've already -- you've been through that. What kept you from seeing -- what kept this from rising to the -- I'm sure that today that you probably consider the problem somewhat different than you did in 2011, '12, '13, '14, '15.

Why did not you see the importance that you would attribute to it today at any stage of the process?

STUMPF: Congressman, it's a good question. I've said in my testimony, I've said...PEARCE: I read your testimony, I did not see the answer, what. So, since you appear not to want to see it, I'm sitting here on a balanced scale as a business manager is always there.

Do we want to take that job cleaning out that well, and when we can't clean it out, we get a bad reputation? Well, that's worth a lot -- maybe we will. Or maybe we won't. Are we going to overlook the numbers of terminations?

We're getting the calls. Do we really want to investigate? The stock price is doing OK. My compensation is OK. You get the balance is there. Your compensation in that period of time is approximately $200 million. That would cause one to say, "I think things are running OK/ yeah, maybe we got that little problem over there."

But another thing on the side of the scale that says, I don't want to look at this or I can't see $10 billion in settlements -- that -- it just doesn't come to my attention; 5,300 terminations doesn't come to my attention because my -- we've got 260,000 employees. Obviously we're doing things 99 percent right. Forget the 2 million people that we defrauded. Mostly we're doing OK.

And so I see size and complexity being a great problem when you can't see 5,300 being terminated; when you can't see $10.8 billion in settlements, then you've got a problem in size and complexity.

And I would say there is no community banker in this country that would not have seen people doing illegal acts. And so maybe it was your stock compensation; maybe it was size and complexity. But sir, I think today listening to things that everyone has said, you have proved that you did not offer leadership in this.

You have kind of shirked around and said the board can do anything it wants at any time. I, sir, think you ought to submit a resignation and your board cannot hold off action on that.

Thank you. I yield back.

STUMPF: Mr. Chairman, may I just make a comment about that?

HENSARLING: Witness may comment.

STUMPF: We -- we did take accountability. We did invest in things to help reduce this. And -- and we saw the numbers coming down. PEARCE: The problems continued, sir. The problems continue right on through your actions. In 2011, you did this; 2013, you did that, and the problems continued.

HENSARLING: The time -- the time of the gentleman has expired.

The chair now recognizes the gentleman from Texas, Mr. Green, ranking member of the Oversight and Investigations Subcommittee.

GREEN: Thank you, Mr. Chairman.

I thank the ranking member as well.

I'm grateful that you have given us a very positive response, and we are holding this hearing.

Mr. Chairman, with $5.6 billion in earnings in the second quarter, Wells Fargo is not in this because of need. This is about greed. It's about the same kind of greed that created credit default swaps; that created negative amortization; that created no-doc loans; that created prepayment penalties that coincided with teaser rates.

The same kind of greed called exotic products that created the housing bubble. This greed has caused this cross-selling to become the equivalent of an exotic product, a product that has now created a cross-selling bubble for Wells Fargo. The cross-selling bubble exists because you were marketing yourself as a company in a growth mode by virtue of the new products you were having with your customers. You had customers that were coming in and you were growing.

This enticed investors. It enticed consumers to buy your stocks. When your stocks were bought, it benefited you and top-level executives to the detriment of lower-level entry employees. They get fired; top-level executives get golden parachutes, and it's business as usual. Well, Mr. Chairman, this will not end by simply having some lower-level employees go to jail. If top-level executives go free and lower-level employees go to jail, it doesn't end it because there is no reason for this to cease and for top-level employees to be more mindful of what's going on.

So we've reached a point now where the public expects to see more than lower-level people punished; 5,300 -- 5,300 working people who, by what I seem to read, were encouraged to the point of having themselves coerced to engage in this activity. These were people who were trying to make a living, not trying to make a big bonus and a big payday. These people deserve a fair day, not just an exit from your company.

And what do I mean by a fair day? I think they deserve an opportunity to be heard in terms of what happened at Wells Fargo to cause them to do what they've done. I think that they ought to be given an opportunity to come before Congress. They ought to be able to explain.

And I would also add this. We have to find out how pervasive this bubble is. We have to. We do have to bring before the Investigations Committee, Oversight and Investigations, other CEOs, top-level executives and let them tell us.

And I think we have to start with you. So tell me, please sir, how commonplace is this cross-selling in the banking industry?

STUMPF: Thank you, Congressman.

For our company, cross-sell is a good thing because it represents the depths of...

(CROSSTALK)

GREEN: If you would, I'm going to have to intercede. I have to intercede because I'm asking you about the industry now.

STUMPF: I have no idea what...

GREEN: You have no idea of how pervasive the product is?

STUMPF: I don't know what other companies use.

GREEN: Well, are they using cross-sell? You -- are you saying you have no belief or no idea that other companies are cross-selling?

STUMPF: I do not have that.

GREEN: I must tell you, I cannot believe your answer. You're telling me that you have no idea that -- as to whether or not they even engage in cross-selling?

STUMPF: I -- I don't know their -- their performance standards.

GREEN: But do you know they engage in it?

STUMPF: I -- I -- every bank -- every retailer out there has some motivation, some way to make sure they recognize their people.

GREEN: Do they engage in cross-selling?

STUMPF: Well, I don't know -- I don't know their situations. I'm honest...

GREEN: You -- you don't talk to your colleagues? You don't talk to other bankers? You have no idea as to whether they engage in cross-selling?

STUMPF: I don't know what they use.

GREEN: Well, listen, I thank you for your answer. Let me finish, because, Mr. Chairman, this is the evidence that we need to bring the others in. We have to ask them what they're doing, given that this gentleman refuses to give us what I believe to be a correct answer.

HENSARLING: The time -- time of the gentleman has expired.

The chair now recognizes the gentleman from Florida, Mr. Posey.

POSEY: Thank you, Mr. Chairman.

Mr. Stumpf, members of this committee have already expressed outrage that we all feel that this atrocity was able to happen. It's absolutely deplorable that your customers were subject to this practice. And I'm sure the fine that Wells Fargo will pay will be insufficient to comfort the customers or adequately compensate them.

At best, at the very best, you and our federal regulators were asleep at the switch. You know, at worst, it's almost, if not a criminal enterprise. My biggest concern -- and I think it's the biggest concern of every member on both sides of the aisle here, is that we need to ensure that it doesn't ever happen again. That means we have a shared interest in understanding what caused and what perpetrated the unprecedented level of fraud. And I have just a couple of questions that I think will help drive us in that direction to understand it.

First, Mr. Stumpf, I understand Wells Fargo sets goals for new banking products each employee was expected to sell daily. Is that correct?

STUMPF: I -- I don't believe that's the case. I know as part of our reward system and our performance management that products was part of their -- their performance management, along with customer service, customer loyalty, doing things right. But again, as of this Friday we're getting rid of those goals.

POSEY: OK. I've read a range of reports that puts these sales goals somewhere between eight to five new sales each day, compared to the reported industry standard of three to five per day.

Briefly, I was going to ask you if you could give us an idea of how the goals were determined.

STUMPF: Determined with -- within our business? I wasn't part of that process and I don't know if that's an -- I don't, you made a reference to industry standard and what ours is. I -- I wouldn't have specifics. I can try to get back to you on that.POSEY: Are you aware that the expected targets vary between bank branches of different size, location, or constituencies?

STUMPF: I believe that is the case, yes.

POSEY: You think they did?

STUMPF: I -- I -- I believe that was -- I don't know when that was introduced but I believe in the past, you know, locations that would have more activity, we'd either have more bankers or more goals.

POSEY: Thank -- thank -- thank you for the straight answer. As a follow up, did the bonuses associated with those goals vary between those branches, or did Wells Fargo use a single uniform system?

STUMPF: Again, that's a level of detail I don't know. I can try to get back to you on that.

POSEY: OK. Now, so far in the investigation of bad actors, you've -- have you found any correlation between the likelihood of employees committing fraud and the demographic or socioeconomic characteristics of the people being served?

STUMPF: Yeah, first of all, I don't know, I'm not trying to be careful on words here. I don't know what fraud exactly -- I mean I know what's right and know what's wrong, and I don't know what the intent of all these people were.

But to answer your question specifically there was no -- that I understand, racial or ethnicity difference other than what the communities are, because we try to have people in our banks that represent the communities.

POSEY: All right, so we'll take racial and ethnicity (ph) offs the table here. As someone who also represents district heavily populated by seniors I'm worried that Wells Fargo may have intentionally preyed upon those they saw as vulnerable. Do you believe seniors were purposely targeted as a result of employees stretching to meet their sales goals?

STUMPF: In fact, we've looked at -- because we actually capture date of birth that so we can tell that, and no, there was no disproportionate -- it did not -- in fact it was, younger people; not seniors. If there was any emphasis at all or any...

POSEY: OK. To be clear, I don't think sales goals are inherently evil. Anyone who's owned a business understands the need to incentivize employees to succeed and reward their successes.

Unfortunately your company forgot the most important part of any business, more important than sky-high stock prices, year-end bonuses, or fat retirements. It's the people that you serve.

I'm increasingly concerned that this misguided idea of success that puts actual customers in a category of least concern is perpetrated more than just Wells Fargo by the way. To the best of your knowledge, was this practice of creating fake accounts exclusive to Wells Fargo?

STUMPF: You know, again I don't know and I only know that, what I know about our company -- but I'd also like to make, if I just -- in your few seconds left, the investment -- reason people buy Wells Fargo -- invest in us, is a whole lot more, it's about our broad product model. It's about our -- our -- distribution in the United States --

POSEY: One quick question --

(CROSSTALK)

POSEY: Can you tell me any action the CFPB has taken that would stop something like this from happening again?

HENSARLING (?): Brief answer from the witness.

STUMPF: We worked with the CFPB. We made an agreement and we're going to continue to work with them on this issue.

POSEY: But any action that they've taken that would stop it from happening again?

HENSARLING: Time -- time of the gentleman has expired. The Chair now recognizes the gentleman from Missouri, Mr. Cleaver, Ranking Member of Our House and Insurance Subcommittee.

CLEAVER: Thank you, Mr. Chairman. Mr. Stumpf, thank you for being here. I know you -- you're not -- this is not one of your better days, but, and hopefully you understand -- I have a plane to catch, I may not finish my -- my -- my time and I dare not get on a plane and go back to Kansas City and conduct myself in a way that everything is fine and we'll all join hands and sing kumbaya and fix the problem.

One of the reasons that everybody in this place is upset, we -- each of us represents about 840,000 people; and probably every one of them is angry, especially those who had problems, you know, getting loans and people who were ripped off during the crisis from 2008 and 2009.

And so I think many of them think that they had a preview of this Gordon Gecko. Greed is good, greed is right, greed works in the movie "Wall Street," and I think that's one of the problems we have here. Now, you have already been "Warren'ed" before I had my opportunity, so I'm not going "Warren" you, but I do need to ask you a couple of questions, maybe just one.

There were $2.6 million in overdraft charges that incurred on linked accounts and late fees, that were thousands of consumers on fire figuratively and your bank had tubs of water, but the people there decided to drink it and let the people burn, including the people who had gotten fired.

My question is how far up the chain have you been able to determine that this scheme, this fraud occurred?

STUMPF: We are -- we know that 5,300 people broke our trust, did -- were not honest, and we know that we're going to do a complete review of anybody who would have been part of this.

And if they were dishonest and -- and -- and broke our code of ethics and took advantage or our customers, they will be held accountable, and we have returned that money with interest with an apology.

CLEAVER: Yes, I know, but -- but I'm -- I'm trying to find how far up the chain have you determined thus far that this -- this game went?

STUMPF: First of all, it was -- most of our people do it right and -- and I -- this was just the opposite of what we train for; just the opposite of what we -- we talked about. So when I -- when I say it's a scheme.

I mean it -- it -- it's -- again, 1 percent of our people. I know that's a lot of people given our size of our company, but -- and we'll do a full review and we're going to do a review of that.

CLEAVER: Well God bless you, but what I'm -- what I'm trying to find out is how far up the chain?

STUMPF: We're not going to let the chain impede -- we're not going to let the chain impede -- the Board's going to do a review and the company to make sure everybody is held accountable.

CLEAVER: OK so, OK, I appreciate that. How far up the chain?

STUMPF: So far of the people that we have found is branch managers, their manager in some cases, and a manager of a manager. So that's the work we have done so far.

CLEAVER: So the manager of manager would be what? A vice president?

STUMPF: Yeah, I -- I -- I don't know exactly the title, but it's -- I think it's called an area president.

CLEAVER: Area?

STUMPF: Yeah, I think it was an area president.

CLEAVER: OK, so have any of those folks been fired? STUMPF: Pardon me?

CLEAVER: Have any of them been fired?

STUMPF: Yes.

CLEAVER: All the vice presidents?

STUMPF: Well I don't know again -- I don't know if this person was a vice president -- I don't know what the title was. But I know it was banker, then branch manager, manager of the branch managers -- I think they're called district, and then an area manager.

CLEAVER: So, no -- so -- so no matter how high it goes, they are going to be fired.

STUMPF: They are going to be held accountable. I can't say what -- I don't want to prejudge...

CLEAVER: I understand -- I understand, so no matter how far it goes up they'll be fired?

STUMPF: As far as it goes up, they'll be held accountable, whatever that means.

HENSARLING (?): Time of the gentleman has expired.

CLEAVER: That's why everybody's beating you up.

STUMPF: Pardon me?

HENSARLING: The Chair now recognizes the gentleman from Pennsylvania, Mr. Fitzpatrick.

FITZPATRICK: Thank you Chairman. Mr. Stumpf, I want to -- I want to follow up on Mr. Cleaver's questions.

First of all I represent a district outside of Philadelphia, Pennsylvania, and I, like probably most of my colleagues here have received letters from customers, from our constituents, from former employees of the bank, and they have a lot of questions of their own which we have to help them try to answer.

First I want to ask sort of a foundational question, this is a question that you have been asked many times already, today, last week in the Senate, about when you first heard of this situation, this so- called situation with your customer accounts.

You have given us approximate dates, which we appreciate, but first and foundationally, if you could tell the Committee, tell the American people, when you first heard about the problem where were you? Who told you? What did they say to you? What did you do about it? At the first moment?STUMPF: Yes, OK. So I'll answer your question and thank you for that. I have always known as I think most Americans know, that not every bill due (ph) everything right (ph) every day and we have you know, 100,000 different people in this business.

So we knew and I knew that this had to be managed, it was being managed in the business. Sometime later in 2013 before the L.A. story came out, because that did not surprise me because heard that we were seeing an acceleration of this activity in a certain marketplace.

And I can't recall if my -- if chief legal counsel told me, I can't remember if it was in a meeting with the business leader at the time, or compliance, and that's when I first knew that this was becoming a bigger issue.

So resources were brought in to -- to bring corporate resources in to assist the business line and then we spent -- or the business and the corporate group called CORE (ph), spent time working on that issue and we saw the issue come down. It was not until 2015, and we should have learned earlier, we should -- we did...

FITZPATRICK: Mr. Stumpf, you're not answering the question. When you -- when you first heard where you were? Who told you, and what did you do about it when you first heard?

STUMPF: Again I -- I don't remember where I was sitting, what I was doing, where I -- but I recall hearing it sometime in the summer- fall timeframe of 2013. I can't -- I don't ember the exact minute or the person.

FITZPATRICK: Mr. Stumpf, there have been so many people who have been hurt by what we know right now. Not just your customers, you're going to lose many customers, never get them back. There have been lower level and mid level employees who have been injured.

You mentioned earlier in your testimony, 268,000 people went to work today at Wells Fargo to do the right thing and for the most part we all believe that. You also mentioned there were some 5,000 employees who lost their positions.

As employers, we're responsible, when you bring somebody young into an organization, somebody perhaps right out of high school or right out of college; you have a special responsibility to that employer -- employee to train them, to make sure they are being trained in the ways of ethics in banking.

How many of those lower-level employees were part of the 5,500 who lost their jobs?

STUMPF: Yeah, the vast majority -- and I don't have exact numbers, but I believe about 7 percent or so would have been at the teller population.

And the remainder, the other 93 percent were someplace, as my understanding, were banker, senior banker, branch manager, and so forth. And incident (ph) we do give two weeks of training for all our team members before they go out into the -- because you -- you're right.

We have a special responsibility to help them understand our culture. They sign a code of ethics and -- and -- and we

FITZPATRICK: They're they being told in those employee trainings about the so-called goals? Quotas?

STUMPF: They are told about all the responsibilities of their job, including, I've done town halls which I do every quarter, I did one in Philadelphia just couple months ago and I have been talking -- in every one of those, generally I talk about doing the right thing -- putting customers first.

FITZPATRICK: Mr. Stumpf, there have been reports from multiple whistle blowers from the bank, that they provided information up the chain of command and were ignored; as a matter of fact, some were fired. Are you familiar with those cases?

STUMPF: I have heard about those. Those are regrettable. We have a non-retaliation policy on whistleblowers.

FITZPATRICK: You know being fired in the Federal Government for being a whistleblower is a very serious matter. Hopefully you are taking it as seriously as anybody would?

STUMPF: We are -- we're taking that very seriously. We have a non-retaliation policy.

HENSARLING: Time of the gentleman has expired. The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore, Ranking Member of our Monetary Policy and Trade Subcommittee.

MOORE: I thank you so much Mr. Chairman and -- and want to welcome our witness here today. I have learned so much here and I know when you go to the Wells Fargo website, there your picture is, John G. Stumpf, the vision and values of Wells Fargo. And it features you -- you say that you started with Wells Fargo in 1981?

STUMPF: In 1982.

MOORE: In '82, Ok my math is not that good. And you succeeded Mr. Kovacevich, and they had already started a -- so you -- you were you trained and you knew the culture of this Norwest Company, I guess that was a merger of Wells Fargo and Norwest.

And so did you receive trading or do you know if the employees were -- received trading on this Going for Great program that you -- we've talked about here today where you know, most of your customers only had five accounts in your bank and that there was an effort to get at least eight -- sort of accounts, for the customers. Was that part of the culture?

STUMPF: Thank you for the question, as I mentioned before that was an aspirational (ph) goal. Most of our customers have -- most households have 14...

MOORE: All right, OK, because I don't have much time. And so as your predecessor noted, there is just abundant growth potential in the Wells Fargo customer base. And that one of sayings around that place was, hey, "we inspect what we expect."

So were there constant monitoring to see if people were meeting these goals? "It said that we inspect what we expect." What does that statement mean?

STUMPF: Yeah, that statement means that we expect our people to live according to our vision and values, our ethics and our culture, and...

MOORE: Well, good. I am so happy; I'm going to congratulate you on draining the swamp of these 5,300 low-level employees and -- because they almost brought down one of the greatest companies that our country has ever known; I remember Wells Fargo, the old wagon train days.

I'm happy that you got rid of those employees. And I am sorry for your loss, your $41 million, and I'm sorry for the loss of the investors whose stock dropped, but I am wondering what the relief is for one of my constituents, and I have her letter and I want to enter it into the record, she worked at Wells Fargo...

HENSARLING: Without objection.

MOORE: OK, thank you. And she started making $13 an hour and ended making $15 an hour and she was one of those whistle blowers who complained to the manager, and then they changed her performance numbers and pushed her out.

And so she's the person that kind of lost her job, and other stuff that happens to you when you make $13 an hour -- $15 an hour, I'm sorry. And you're pushed out by people because you don't want to -- because you don't fit in with the expectations and the -- and the culture.

What is the remedy -- is there a fund for these employees; the good ones, not these 5,300. What is it $12 an hour, $13 an hour employees? What is the remedy for my constituent at Wells Fargo? I know...

STUMPF: We want to know about everyone and we're going to review their files for anyone who had anything to do --if they were...

MOORE: She has a case with Wisconsin Equal Rights Division. How come she couldn't just come to you and tell you...

STUMPF: And -- and -- and we have people she can talk to.

MOORE: No, see (ph) the people she talked to, fired her.

STUMPF: If -- we'll have corporate resources here. If you could give me that name, Congresswoman, let our people know...

MOORE: OK, I want to ask a question (ph), I have 49 seconds. I was very disturbed to hear about -- you said the numbers were just not large enough to ride to the level of being material for security law purposes; I don't really -- I don't understand that.

Would you as an investor invest in sort of the Bernie Madoff-type enterprises? It seems it was these huge dividends; would you make this kind of investment yourself?

STUMPF: This is not a (ph) -- this is a quality company who made some mistakes, but our investment basis is all about our capital, our growth --

MOORE: I've got nine seconds left, but I just want to ask this one question. You have stated previously that you think the Dodd- Frank over regulates. Do you believe that?

STUMPF: I -- I never said that.

MOORE: Really?

STUMPF: I don't -- I don't recall saying that.

HENSARLING: Time of the gentlelady has expired.

MOORE: Thank you so much Mr. Chairman.

HENSARLING: The Chair now recognizes the gentleman from Indiana, Mr. Stutzman.

STUTZMAN: Thank you, Mr. Chairman. And Mr. Stumpf, I -- I'll tell you, I'm a -- I got my first loan from Norwest bank for a motorcycle when I was 20 years old and I've been a happy customer of Wells Fargo for over 20 years.STUMPF: Thank you.

STUTZMAN: And I have been frustrated with Wells Fargo as of late, because of the new website. And I have voiced that, and I think part of this -- I think you need to do something about it, because the transparency on the website right now -- I can't find some of my accounts.

I think that there needs to be at this point, a time where you can give customers confidence through the website to make sure that every account can be seen, because I got notices all of a sudden of accounts that I didn't recognize because I didn't see them on a daily basis. I found them after I called Wells Fargo and talked to them, but what my question is to you, and I -- your story is remarkable.

You came from a dairy farm I believe in Minnesota, correct? And if you'd have taken a different choice -- I grew up on a dairy farm, still part of our family farming operation, I'm curious to know what you would do today if you would have taken a different path.

And these (ph) a dairy farmer in Minnesota and you had been trying to buy land and you were trying to buy some more cows and you realized that your credit score, something's wrong with it, and you have not been able to get your credit score up and all of a sudden you find out that maybe your credit score was dinged because your bank was opening accounts. I mean when accounts are opened, it dings your credit score, correct?

STUMPF: That is correct.

STUTZMAN: That's right. So 2 million people, potentially, had their credit score dinged because someone else was opening accounts in their name, is that correct?

STUMPF: That is not correct. There is about 565,000 credit cards which we already now have contacted 20,000 of those and less than 25 percent saying, and I don't want to minimize the numbers, these are still big numbers, even one is too many, but we're going to go back and my instruction is make it right for every one of those customers.

STUTZMAN: Here's what I was surprised to just watch a little bit ago when Mr. Cleaver was asking you, what was the highest level officer at Wells Fargo to be fired, and he didn't really know, he kind of said area manger...

(CROSSTALK)

STUMPF: Excuse me, I know the title, I know the functional title, I don't know if that person is a vice president, a senior vice president, I just don't know that. I do know that that's a manager -- it's a branch manager's manager's manager and we're also not done with our investigation.

STUTZMAN: I understand but you know this broke for the public within the past month. You apparently knew about it, what 2012, 2013?

STUMPF: We knew that not everyone does it right. It was sometime in 2015 we did our PWC study and those results came in early in '16.

STUTZMAN: But you're the CEO. When 939 employees are fired for improper sales in 2011. In 2012 another thousand. All you have to do is stand up in front of your company, and I know it's a large company, and say this is going to stop and it should've -- it should be stopping. I'm curious to hear from employees who were fired, what their experience was and I hope we do a hearing with some of those.

But let me ask you this, I mean Wells Fargo, it's a huge company. Is it too big to manage?

STUMPF: No it is not. This was a focus problem. We -- and we do a lot of areas really, really well like model risk and market risk and capital liquidity. We know we have work to do in operational and compliance risk. We should invest in more, today I've told our folks, no stone unturned, no dollar unspent, get this right and we're getting rid of sales goals.

STUTZMAN: I know you've said that today but where was the outrage from you a couple years ago when you first heard about it?

I mean there's outrage on this committee, and rightly so, I'm outraged about it, but I don't sense the same outrage from you when you have -- when we're seeing your -- the lady here, her name is Ms. Tolstedt I believe, she's walking away with millions of dollars. The American people and your customers are going to be very upset when they see exactly what happens here.

Final question and I hope that you will -- I didn't hear the question from this committee but will you get the number to this committee of CFPB regulators that were embedded at Wells Fargo bank?

STUMPF: I can talk to our team and we'll be as cooperative as we can. I don't know whether that's covered under confidential supervising but I'll be as helpful as I can be on that issue.

STUTZMAN: Please do that. I think not only have you and Wells Fargo let customers down but so have CFPB and people across this country are mad at both.

STUMPF: Thank you.

STUTZMAN: Thank you Mr. Chairman. HENSARLING: Time of the gentleman has expired, the chair now recognizes the gentleman from Minnesota, Mr. Ellison.

ELLISON: Mr. Chairman, I ask for unanimous consent to enter into the record a report entitled, Banking on the Hard Sell, Low Wages and Aggressive Sales Metrics Put Bank Words and Customers At Risk," I'd like to enter it into the record.

HENSARLING: Without objection.

ELLISON: I'd also like to enter into the record an op ed I wrote in the Daily Beast just the other day entitled, "John Stumpf's Wells Fargo Wreck It Shows Why Bank Workers Need a Union."

HENSARLING: Without objection.

ELLISON: And I'd also just like to note for my colleagues, Progressive Caucus held a June 10th briefing listening to the workers that we've been talking about today. We'd be happy to do another one.

But on June 10th we had workers come in and testify to the very thing we've been talking about today which is these high pressure sales techniques. Mr. Stumpf, if you're a worker and you're at Wells Fargo and you are expected to seek out and reach sales goals, you mentioned that right?

STUMPF: We had sales goals...

ELLISON: That's a yes or no sir. Yes or no sir because I don't have a lot of time. I'm not trying to be unkind to you but I'm not going to let you waste my time. OK so yes or no.

STUMPF: Yes we had sales goals.

ELLISON: OK thank you so could you tell me, do you all have something known as prospecting calls that were expected for bankers to make?

STUMPF: I don't know that level of detail.

ELLISON: OK you don't know whether there was prospectors. Would you be surprised -- do you deny that there were prospecting calls?

STUMPF: I do not know that level of detail in our retail bank.

ELLISON: Were you aware that each banker was expected to make at least 100 prospecting calls a day? Are you aware of that?

STUMPF: That -- I had -- that's the first time I've ever heard that.

ELLISON: Mr. CEO Chairman, are you aware that there were weekly meetings held by -- no, morning huddles to talk about these sales goals, are you aware of that?

STUMPF: I realize -- I know that some...

ELLISON: You've got to answer yes or no sir.

STUMPF: It's yes with an explanation.

ELLISON: Well, OK. Morning huddles or not? Yes or no? Did they occur?

STUMPF: Yes with an explanation.

ELLISON: All right at these morning huddles, were there questions asked of workers, how are they going to sell more credit cards and were they given goals for specifically selling a number of credit cards?

STUMPF: I don't know that (ph) everyone holds -- I have to give you an explanation, sir...

ELLISON: Home equity loans. Were they given goals...

STUMPF: I don't know that. I don't know that every branch held a morning huddle. I know our team works together.

ELLISON: Were there publishing of charts on who sold how many products in your bank?

STUMPF: That's a level I do not know that...

ELLISON: Were they publishing charts on who did not make their sales goals?

STUMPF: Again, I don't have that level of detail.

ELLISON: Workers say that there were.

STUMPF: OK.

ELLISON: Now if a worker did not reach their sales goals, were they put on initial written warnings?

STUMPF: I don't know the process..

(CROSSTALK)

ELLISON: Excuse me. If they did not -- if workers did not meet second -- sales goals again, were they given second warnings?

STUMPF: I don't know that level of detail.

ELLISON: OK if they were not reached second warnings, were they written up? Given written admonishments for not making sales goals?

STUMPF: Congressman you're asking a question I can't answer.

ELLISON: OK, so yes you're the CEO and you don't know this. And were they given performance improvement plans if they did not make the sales goals. STUMPF: Congressman I don't know that level of detail.

ELLISON: All right and did -- how did you generate these lists for workers to have to make calls? How were the lists generated?

STUMPF: Congressman I don't even know if there were lists, I just don't know that level of detail.

ELLISON: OK so you're the CEO and you don't know if there were sales -- if there were prospecting lists that each worker was made to make calls (ph) on?

STUMPF: I don't know that level of detail Congressman.

ELLISON: OK and if sales weren't important, why were workers given credit card and home equity loan goals to meet?

STUMPF: Yes, I don't know what their goals were.

(CROSSTALK)

ELLISON: Why were workers encouraged to open numerous accounts for customers?

STUMPF: Our team members are encouraged to stell (ph) at a customer, talk about their financial journey and help provide the right products and services.

(CROSSTALK)

ELLISON: So if a worker got a person to open up an account, isn't it true that that account, let's say a debit account, that there has to be a certain minimum balance in that account and there is a fee to hold that account if there's not the minimum balance met? Am I right about that?

STUMPF: I don't believe you are right about Congressman. I don't believe that's correct.

(CROSSTALK)

ELLISON: If there's an account, does there have to be a certain number of uses of that debit account per month?

STUMPF: I believe that's one way...

(CROSSTALK)

ELLISON: And if it's not met, is there a fee associated with that?

STUMPF: I believe there's a minimum balance...

ELLISON: What is that fee? What is the minimum balance fee?

STUMPF: I don't know what those numbers are.

HENSARLING: Time. Time of the gentleman has expired. Chair now recognizes the gentleman from South Carolina, Mr. Mulvaney.MULVANEY: Thank you Chairman. Just some (ph) from over here. I don't know I can't tell you how disappointed I am to even have to be here today as one of the many members of this committee who, every single day in here, defend the banking system.

Defend capitalism, defend free markets, to sit here and have to watch you essentially validate everything that the other side has said about you and your business and your industry, I don't know for the last three or four generations, is extraordinarily disappointing to me and the damage that you have done to the market, to your industry far exceed the damage that you've done to your own business, but again, there's nothing I can do about that.

I want to ask you I think just one question. I know a little bit about this, not nearly as much as you do. What little I do know I didn't learn from college or business school. I learned from my dad, who was actually raised very similar to you. He was from Minnesota, born into a lower middle class family went to Winona, went on to the university, a little bit older than you, but not much.

And I remember him telling me one time when I was first getting into business, he said, "You know what? You can learn a lot about an enterprise, about an organization, by looking at the leader. And the organization will take on the personality of the leader or the owner or the person in charge. If you walk into a lobby and you're received nicely by the young man who's sitting there answering phones, it's probably a really good indication that the lady that owns the place is a really good person.

Conversely, if you walk in and you get treated like crap and disdain it probably says a lot about the people at the top of the chain. I happen to think that the folks that work with me in my office reflect and you come to my office you get treated well, because that's important to me.

The place that you ran, Mr. Stumpf, and I don't know that much about Wells, I knew a little about Wachovia and Wells being the First Union (ph) because of where I grew up -- you all were rotten.

We've heard some stories today that everybody's heard about -- I'm sitting here looking at the story from 2009 about the lawsuit that got filed. It says, "Wells Fargo," Ms. Jacobs, (inaudible), New York Times, "saw the black community was fertile ground for sub-prime mortgages as working class blacks were hungry to be part of the nation's home growing mania. Loan officers," she said in an affidavit, "stated that employees referred to blacks as mud-people, and to sub- prime lending as ghetto loans."

I can't tell you how hard it is for me to even say that. You all targeted black churches -- I'm not gonna defend that. That doesn't deserve defense. I'm gonna ask you one question. Does this organization reflect you?

STUMPF: I am deeply sorry and I read that article that you just said, and that has no place in our culture, no place in what we've done, and we are today the largest lender to low and moderate income people in housing. We make more loans to African-Americans, Latinos, persons of color and we're proud of that, and that kind of language and that kind of behavior is not who I am.

I've learned my life lessons also from my parents. My dad is 94 and he's still a wonderful guy and is still a big influence on my life and so is my mother. And I try to lead with courage and conviction.

Our company is based on those values, of ethics, of doing what's right and the company -- of course we've made mistakes. Not everybody lives up to our vision and values but the vision and values -- our 286,000 people aspire to, and do every day, is consistent with what I want to live my life and what our culture is of our company.

MULVANEY: Thank you Mr. Stumpf, I appreciate that. With the minute I have left I want to say something to my Democratic colleagues, who I know will see this, and believe me if the roles were reversed I might see this as an opportunity to try and push a political initiative, a political agenda, to bang the drums for more heavy regulation -- everything that we're talking about here today, including what I just read, which I won't read again, happened since CFPB and Dodd-Frank.

It happened after we supposedly fixed all of this with regulation. And maybe I would suggest this -- you can't fully regulate bad actors. I'm not here in a position to say if Mr. Stumpf is a bad person or not.

That's not up to me, I'm trying not to be in the position of judging other people, that's for his board. I know how I would vote if I were the board. In fact you wouldn't even be here if I were on the board of that company.

But you're never going to be able to fully regulate bad actors, and I hope we look at this with a certain level-headedness as we move forward. Thank you.

HENSARLING: The time of the gentleman has expired. The Chair now recognizes gentleman from Colorado, Mr. Perlmutter.

PERLMUTTER: First Mr. Chair I'd like to introduce into the record the reports, the Community Banking Report, May 24, 2016 from Wells Fargo ...

HENSARLING: Without objection.

PERLMUTTER: ... and the report from May 20, 2014. HENSARLING: Without objection.

PERLMUTTER: Mr. Stumpf, about eight years ago you were before this committee and I was so proud of you and proud of Wells Fargo and the fact that I thought that the guy's operated as a bank.

And really looked after me, a customer, somebody who's been with the bank -- I mean all these young guys, I've been with one of the predecessor banks for 40 years. And I represented some of the predecessors -- First Interstate, Security Pacific, United.

The culture is what I want to talk about. Because that really is you and it is your board of directors. And I've heard terms today that I don't really align with the banking business, if you will. I look at banks as something different.

We came in with $800 billion to save the banking system when it was collapsing because it's something different. But I hear you use words today, and this is where I think the root of this problem is -- sales organization. Retail sales. Stores.

I never, ever in my life referred to my branch bank in Applewood, Colorado as a store. You don't sell Veg-O-Matics. You don't sell grapefruit. You take people's money, you safeguard it, and you lend it out to people who may need it for interest. Maybe me.

And to get in -- this is where Mr. Green was going with the products -- I don't know how many products you've got. I looked at my account -- I do like the online banking, by the way, because I can look at all my accounts. I turn out, as Mr. Royce says, I have eight accounts with you. How I have eight, the great eight, I don't know. But I do.

So talk to me about why you're calling these things stores. Why you use words like retail sales and cross-selling. You're a bank.

STUMPF: We are a bank, and the idea here is that we want to make sure our team members, when you come into a bank, or any one of our customers do, that we treat them with respect, and that we provide products and services that help them. When they do more with us we can give them a better deal.

They get more value, it helps them and it helps us. And whether we call them a store, a branch or a location, it's what is in the hearts and minds of the people who are inside there.

PERLMUTTER: And I'll accept that. But I still think you're a bank. And we treat banks differently than we treat grocery stores. Because you're the heart of the financial system. But here's where I want to go.

I go into my bank. There's been some turnover there, but they always treat me well, they're nice young people, sometimes they're saying, "Do you need this, do you need that?" I generally am saying, "No." When you talk about these goals that are established, why are you even setting goals? I mean the goal should be -- if your customer needs something, try to help him.

STUMPF: Correct. We're getting rid of product sales goals and the ...

PERLMUTTER: Why did you have the goals in the first place?

STUMPF: It was an idea that for people to make sure that they used the right way of sitting down so they have a conversation with a customer. I don't want our people in our branches, our banks, to be apathetic and just not care when people come in.

I want them to sit down and have a conversation with about where that customer is in their financial journey, so they can meet a need with a product. And when it works well it deepens relationships, everyone wins.

No one should be ever, whatever the goals are, should be forcing a product or saying, "Why don't you do this? Or why don't you buy this?" It doesn't -- that's not the way we train, that's not the way we incent for, but even today, we have taken that off the table because we're learning that customers grow with us when they're happy. When they're satisfied. When -- our satisfaction scores, our loyalty scores have never been higher. That's a better way of doing business.

PERLMUTTER: Look. I'm just here as a member of Congress who has worked with banks before. But I'm just telling you, you got to stop, "Our stores. Our stores generate more deposits than our competitors."

You know you've got Denver up here on your chart -- that creates the wrong culture. And I yield back.

HENSARLING: The time of the gentleman has expired. The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.PITTENGER: Thank you Mr. Chairman. Mr. Stumpf, good afternoon. Mr. Stumpf I'm from Charlotte.

STUMPF: Great. We love Charlotte.

PITTENGER: Well, you have very major presence in our community. That I think are some 23,600 employees...

STUMPF: Correct.

PITTENGER: ...that work there. They are my constituents.

I do have deep respect and appreciation for the corporate citizenship that you all have -- have been in Charlotte. You have been exemplary in terms of what you've done in our community.

You take active roles -- your employees do in many non-profit organizations. And that leadership is commended.

And of course we cherish the Wells Fargo golf tournament. And so, you have a -- a major presence in our community.

And that's why today is such a sad day. I know it is for you.

STUMPF: Mmhmm.

PITTENGER: I'm sure as you look back on these 35 years, and where you are today, you think what if. What if I had done this?

STUMPF: Mmhmm.

PITTENGER: What differences could I have made? Where was I blindsided? What mistakes -- what -- where did I err?

STUMPF: Mmhmm.

PITTENGER: And so I think I'm asking you to look as if you were sitting in our seat. We represent these people. We say there (ph) are (ph) some 750 to 800 thousand plus people.

And you have a lot of outrage, a lot of righteous indignation because we haven't seen what I've -- what we've all expected.

You know, in the SouthPark, Wells Fargo facility that you have, there's writing behind the tiller station -- the counter -- the statement by Mr. Wells. It came from I believe 1864. Do you recall that statement?

That -- I think it's -- it's very prominent. And maybe perhaps it is another Wells Fargo -- it seems to be the motto of your -- of your bank.

STUMPF: Are you asking me a question?

PITTENGER: Yes, sir.

STUMPF: Yeah, I -- I don't -- he's made a lot of statements. But treat every customer with respect. And -- -and I -- I -- I can't recall the...

PITTENGER: Well it's -- what we have there at the SouthPark, it says, "We have one very powerful business rule. It's concentrated in one word, courtesy."

So, I think as you look at all of -- there's a lot embedded in that word courtesy. But I think that that's the challenge that we had today.

What could have been done different? Certainly the regulators were there. Yet, this was reported by a news agency.

What would you have done different today? As you look back in the changes, in the mistakes that were made as the CEO, what happened in that corporate culture that did not allow that information to come to you in a more timely fashion that would of caused you to take even greater direction in leadership?

STUMPF: Yeah. I -- I think that's a great question. I've already asked myself that if a thousand times, a million times.

And -- and while you know I want to defend our culture and our people, I recognize that we could've done more, earlier. And I don't know there's any one point.STUMPF: But surely we should have got a -- we should have realized earlier that product sales goals could illicit behavior that's inconsistent with our culture. Even if it happened, like this case with 1 percent of our team, it's way too much. It's simply not worth it.

And frankly, it's not even consistent with -- with where we're going, given the business today. So, you know I don't -- I don't know if I can be clearer than that. And there's a lot of people doing a lot of introspection within the company today to make sure that we never, ever put a customer, or a team member -- we want always customers to be foremost of what we do.

And if courtesy is the right word -- we think of relationship. We love long-term, mutually-beneficial relationships with our owners, our team members, and most importantly, our customers.

PITTENGER: Yes sir, I think those of us who understand free markets -- I was on a bank board -- small bank -- but we understood the customer.

We understood the importance of the financial industry and what it does to facilitate economic growth and that's why we're so challenged today, because we see, there's been a strangling of regulations on financial industry and yet with that we're having to deal with you and with this bank, and with this problem.

It's going to have ripple effects. And the messaging is going to be there that there needs to be even more oppressive regulations.

STUMPF: Thank you.

HENSARLING: Time of the gentleman has expired, the chair now recognizes the gentleman from Connecticut, Mr. Himes.

HIMES: Thank you, Mr. Chairman. Mr. Stumpf, we've focused a lot today on accountability.

I want to go back to something that like Congressman Lucas' concerns troubles me which is kind of the focus on culture and the materiality of what happened here. We're hearing that there's not a problem with the culture and you're hearing an awful lot of disagreement up here and we're hearing, certainly, in the senate hearing that this wasn't material.

And I guess if you sort of exquisitely, finely define materiality, the way maybe the SEC defines it, maybe $185 million in fines is not material.

But this is - this is about much more than a legal definition of materiality and we need to hear you say that you understand the magnitude of what has occurred here. It's more than $185 million. It's about the trust and the faith and the belief in the system.

It's not about the ups and downs of one company. It's about people's faith in the banking system. It's about their faith in the market economy. It's about whether competition is perceived as a good thing by the American public or a bad thing.

It's really about people's faith in organizations like yours and like the one that you're testifying with - in front of today. But let me start with the numbers quickly here.

What matters to an investor, of course, is the value of the company they own and your shareholders have already paid out $185 million including, by the way, the State of Connecticut's pension funds. Mr Stumpf, do you know what the market cap, the value of your company is today?

STUMPF: I didn't look this morning but I think it's 200 or 230...

HIMES: ...$228 billion. On September 7 when this all started, it was $253 billion and there's been no other material impact so just this event has cut $25 billion off of the value of Wells Fargo. That's a big number. Do you know what the value of Ford Motor Company is, Mr. Stumpf?

STUMPF: I do not follow Ford.

HIMES: It's $50 billion. So, just since the 7th we have - you have and your organization and the culture have obliterated a full half of a Ford Motor Company. That has to be material, doesn't it?

STUMPF: Congressman, I take this as much more than the $185 million. I don't want to diminish this. I am deeply sorry that we didn't do the right thing and I understand that re-earning the trust of our customer and the American people is going to be our biggest challenge.

HIMES: I appreciate that and I do want to get away from the numbers because, again, I'm troubled by this whole culture thing. Do you think that you can fully measure Wells Fargo's value with the hard assets, the dollars and cents, the number of accounts? Let me ask it another way. Are intangible things like Wells Fargo's reputation and brand an important part of the company's value?

STUMPF: There's no question. I think the most important...

HIMES: ...The answer is yes. Do you believe that Wells Fargo...

STUMPF: ...With an explanation, though, may I?

HIMES: Yes, yes, OK, go ahead.

STUMPF: I think, frankly, what is in the hearts and minds of our people and the trust with our customer is by far the most important thing because they make all the rest happen.

HIMES: Do you think that Wells Fargo's reputation has been damaged in a material way by this?

STUMPF: I think there's been damage, yes.

HIMES: OK. What I worry about is bigger than Wells Fargo. It's the fact that the system comes apart if people don't have faith and trust. Mr. Stumpf, can you see what I'm holding up right here?

STUMPF: I'm near-sighted but I think it's a dollar (ph).

HIMES: It's - it's a one dollar bill. It's the almighty dollar.

STUMPF: Yes.

HIMES: It's a piece of paper with some green ink on it.

STUMPF: Yes.

HIMES: Does this thing have any intrinsic value? Can I eat it if I'm hungry, can I use it to cut wood if I...

STUMPF: ...No.

HIMES: Does it have any intrinsic value at all?

STUMPF: It represents a promise.

HIMES: It's a promise.

STUMPF: Yes.

HIMES: So it relies on the faith and the belief in the American people that this has some value otherwise it's a piece of paper with green ink on it. Is that not correct?

STUMPF: I totally agree with you, congressman.

HIMES: And can I not expand that point to the banking system? If Americans really started getting anxious about the fact that you don't have enough money in your banks on any given day to cover their deposits, we'd have a problem, wouldn't we?

STUMPF: There's no question about that.

HIMES: And the only thing standing between us and this meaning - being meaningful - meaningless and between them believing that the banking system doesn't work is trust and faith in the fact that it does.

STUMPF: Congressman, you are absolutely right. Trust is the absolute critical element here and we have a lot of work to do to work on that.

HIMES: So - so your investors are equity investors. They accept risk including the possibility that something like this could happen. If you don't want this kind of risk, you buy bonds or treasuries or whatever it is.

I would implore you as somebody who I think understands that the market economy is important and that the financial services industry is important, I would implore you to please don't continue to focus on this idea that this is not material. I think we're now agreeing that it is material.

STUMPF: I never said - go ahead.

HIMES: And please work with your colleagues to repair some of the damage that has been done to the faith and the trust that we both here today have acknowledged is the only underpinning of the system that has done so well by you, sir.STUMPF: Thank you for your comments and I couldn't agree more. This is bigger than the 185. In fact, I don't even think in those terms regaining trust.

HIMES: Thank you.

I yield back, Mr. Chairman.

HENSARLING: Time of the gentleman has expired.

The chair now recognizes the gentlelady from Missouri, Ms. Wagner.

WAGNER: Thank you, Mr. Chairman.

Mr. Stumpf, you've some before this committee today to answer for the appalling actions taken by your company, Wells Fargo. I have a number of questions but I want to start by expressing my outrage.

Outrage, that your company was taking advantage of your customers, our constituents for years and years and years. I don't understand how your employees could create millions of unauthorized accounts without someone raising a red flag.

And if that happened, how you failed to act on that knowledge. You had a responsibility to your customers and you failed big time. Placing one's money and wealth in the custody of an organization like Wells Fargo is one of the biggest displays of what are we talking about?

Public trust. And you sir, and your company, have betrayed that trust and taken advantage of consumers in order to meet sales performance goals and fraudulently improve earnings in share prices. This is wrong. This is immoral. And this may even be criminal.

And as you state sir, the buck stops with you. Not only did Wells Fargo and your employees fail these customers, but our regulators failed, as well. They neither identified nor prevented this malpractice from occurring in the first place.

It wasn't the OCC or the CFPB that first uncovered these deceptive sales practices that were taking place. But it was in fact the L.A. Times. The media that first brought your company's shameful practices to light.

And while it is the regulator's job to prosecute the banking institutions that break the law, it is our job as members of Congress to prosecute the regulators who were in fact, asleep at the wheel.

From what we know, and there is a lot that we don't know, sir, this widespread abuse was occurring as long ago as 2011. Some have -- have said maybe back as far as 2007. With 1,000 employees being terminated every year for creating fraudulent accounts.

Yet, this behavior persisted for years without management intervening. And even when regulators began to investigate, Wells Fargo did nothing to notify customers and shareholders.

Your company abused its customers. While you have apologized, that apology carries no weight with me, sir. You still have a lot to explain to this committee and frankly, to my constituents.

Mr. Stumpf, how many of your customers have been impacted by your fraudulent activities?

STUMPF: Well, I don't know -- I know what the WPC numbers showed...

(CROSSTALK)

WAGNER: What is that number?

STUMPF: It was -- it's -- there was 2 million accounts that they could not rule out and now we're going back and contacting those customers. Within our credit card business, as I mentioned, we already talked to 20,000 of them...

WAGNER: How many in Missouri, Mr. Stumpf?

STUMPF: I can get you that.

WAGNER: Quickly as you can, please. How many customers have been abused in my home state of Missouri?

STUMPF: There were 1,191 accounts.

WAGNER: What course (ph) do these customers were defrauded after you became aware of the fraudulent activities?

STUMPF: I don't know what -- I don't have a timeline on that. I just know it (ph) was broken out by credit card...

(CROSSTALK)

WAGNER: So over 2 million customers, you're going back to even find out there are more and you don't have a timeline -- you have a timeline for the -- for the employees that you fired year after year after year. But you have no timeline of the number of fraudulent accounts?

STUMPF: I don't -- I -- I -- I can work on that and get that to you. I don't happen to have it in my book right now, here...

(CROSSTALK) WAGNER: You keep saying sir, that you're going to make it right.

STUMPF: Correct.

WAGNER: Those are your words. You're going to make it right. I'd like to know when, when will these customers be made whole, Mr. Stumpf? When will we know and when will they know whether their credit scores have been affected, when?

STUMPF: Yes well, we're starting to work on that right now and we've already talked to 20,000 of our customers and we're hearing that 75 percent or 20 -- less that 25 percent either didn't want the card or didn't know they had the card and then we're gonna...

(CROSSTALK)

WAGNER: Twenty thousand out of 2 million plus customers, you're just getting started now?

STUMPF: No...

(CROSSTALK)

WAGNER: You took five years sir, just to identify and begin rectifying the problem and Wells Fargo only just announced their sales incentives will eliminate in October. When will customers -- will they have to wait five years sir? Or longer in order to get relief?

STUMPF: Twenty thousand we've talked (ph) so far is out of the 565,000 -- the other ones did not have, from my understanding, a bureau involved. But we're gonna talk to all of our customers. We're gonna contact all of them...

(CROSSTALK)

HENSARLING: Time -- time of the gentlelady has expired.

The chair now recognizes the gentleman from Delaware, Mr. Carney.

CARNEY: Mr. Stumpf, I represent the whole state of Delaware, it's over 900,000 people, one of the bigger districts here in the Congress. We are a banking center. As you may know, we don't have a huge Wells Fargo presence.

But could you look in your book please and find out how many fraudulent accounts were attributed to people who live in the state of Delaware so I know what we're talking about.

STUMPF: I can tell you how many accounts that the PWC analysis could not rule out, I'm -- these aren't...

(CROSSTALK)

CARNEY: And your commitment is to make right each of these accounts in some way or another?

(CROSSTALK)

STUMPF: Exactly right. And in Delaware, let me see if I have this number right.

CARNEY: So while you're looking at it...

STUMPF: Yeah one -- 100 and -- excuse me, 4,255 accounts.

CARNEY: So my responsibility is to make sure and your commitment is to make sure that each of those accounts will be -- you will make right by those people?

STUMPF: We're gonna -- we're gonna go contact every deposit account, we're gonna talk to every credit card customer that we -- that -- that we can make contact with. We'll try to contact all 565 in your district -- or in your state.

There looks like there's 1,793 cards and again, I don't know how many of those won't be wanted versus wanted and we're gonna look for the secondary harm.

CARNEY: Thank you very much. So part of our responsibility as members of Congress in this hearing is to figure out what went wrong, whether people are being held accountable and most importantly, what we should be doing going forward.

And the thing that I'm struggling with is how long this went on before you were able to stop it. And you've heard that question on and on again.

STUMPF: Correct.

CARNEY: And it does for me, as Mr. Stutzman asked from the other side of the aisle -- by the way, I agree with Mr. Capuano, there are very few issues in the six years that I've been here where both sides of the aisle are on the same page.

When Mr. Meeks and Mr. Capuano and Mr. Posey and Mr. Duffy are outraged on the same subject, you know that something really is going on, here. So does -- what about that question about whether this is -- whether this is an institution that's too big too manage?

STUMPF: You know again, as I mentioned to another...

CARNEY: Mr. Stutzman asked the question.

STUMPF: Yes and I think this is a focused problem. We -- we can get our arms (ph) around this and we will. We have...

CARNEY: So how -- so how can you manage such a large organization with 260 whatever thousand employees and not be able to answer the questions that Mr. Ellison posed to you about things that were happening on the front lines.

How do you control that activity which was really what was going on, here? STUMPF: Again, we have leaders in those businesses that could answer those questions. I don't have that level of detail. I can surely get that.

CARNEY: I would -- I'd appreciate it if you would (ph). One of the things that I've worked (ph) here and I'm not gonna be here after this next election. And one of the things that I've worked here since -- since coming is on mortgage finance reform.

And entered into the record by Mr. Meeks was a list of Wells Fargo settlements for state and federal -- state and federal regulators and there's a whole list of these $5 billion plus related to mortgage fraud, if you will.

Could you explain to me how your chain in control got out of hand with respect to these violations?

STUMPF: Let me -- regarding the...

(CROSSTALK)

CARNEY: Much more impactful on the economy frankly than these fraudulent accounts although the fraudulent accounts are really important.

STUMPF: I don't want to minimize any of our mortgage settlements. But we are by far the largest mortgage originator. In fact...

CARNEY: Hence (ph) it's why I asked the question, right? If you have these -- the level of fraud that was going on Fannie Mae and Freddie Mac.

STUMPF: We've made settlements with a number of agencies as other companies in our industry have. Our settlements have been -- we've had far fewer issues, even though it was the largest mortgage originator (ph).

And I'd like to make this point...

CARNEY: Well, the settlements were over warnings (ph) represented and representations made to Fannie and Freddie which basically indicated that the mortgages are -- were what you said they were, correct?STUMPF: I -- I believe what you're referring to as an FHA issue that -- that we settled in the last six months about...

CARNEY: That was $1.2 billion...

(CROSSTALK)

CARNEY: No the Fannie and Freddie settlements were $869 million to Freddie and $591 million to Fannie Mae and essentially as I understand, these settlements they're over information that was misrepresented to -- to the GSE's.

STUMPF: You know, I don't have that level of detail right now, but I know this, since 2009, we've made 11 million mortgages in America to help people get lower rates or buy homes and that's been very important to our customers.

CARNEY: So with an institution that large and that difficult to manage, how do you make sure these kinds of things don't happen on the mortgage side as well?

STUMPF: You know we have a terrific team on the mortgage side. We've done a lot of work to improve there and - and we have great leaders in those businesses and we're trying every day to get better.

CARNEY: Well, I'd like to have some additional information if you can provide it. My time has run out on the basis of these settlements.

STUMPF: OK, I'd do what I can with our team to get back to you. Thank you

HENSARLING: The time of the gentleman has expired. The gentleman from Kentucky, Mr. Barr is recognized for five minutes.

BARR: Thank you. While I share in my colleague's outrage over the unethical and illegal sales practices at Wells Fargo which opened up over one and a half million fake bank, credit card and web service accounts in the names of real customers, costing those consumers millions of dollars in fraudulent, overdraft and inactivity fees, potentially hurting their credit scores through no fault of their own.

And while Wells Fargo does not have a major retail presence in Kentucky, it's likely, it's very likely that many of my constituents in the sixth congressional district in central Kentucky were defrauded through Wells Fargo's credit card programs. And if you could reference your materials again and identify the number of my constituents who may have been impacted.

STUMPF: OK, let me get that, and while I'm getting that, I'd like to make clear the 1.5 million deposit accounts, very few, if any, had any credit impact. We didn't report that to the credit bureau.

(CROSSTALK)

STUMPF: But let me...

BARR: ...Potentially the accounts in Kentucky.

STUMPF: There are - there were 629 accounts that could not be ruled out. We didn't know...

BARR: You - for those 600 of my potential constituents, you testified today that what happened at your institution over the last several years was not consistent with your culture and ethics.

STUMPF: Correct.

BARR: But I have to think about those 600 Kentuckians.

STUMPF: No question.

BARR: And my constituents who may have had an account opened without their knowledge, without their consent, middle income, hardworking Kentuckians, and that may have resulted in overdraft fees, in activity fees, and could very well damage their credit score and, again, no fault of theirs.

So you've said that you want to make this right, but I would say that my constituents who have been damaged by your conduct would say that that culture that allowed that to happen, that's a rotten culture.

So my question to you is, let's not lose focus on these victims. Let's not focus -- let's not lose focus on those defrauded Wells Fargo customers. And you said your bank will make this right for your customers and this committee's job is to hold you accountable to make this right.

So will you commit to me - and we all have caseworkers and it won't surprise me at all if we get a call from a customer who's been wronged. Will you commit to me and your government relations team commit to me on the record that you will work with us and our constituents to make this fully right for them?

STUMPF: Yes. So let me -- the answer is, yes, with an explanation. We are committed to making it right for every one of our single customers. In fact, we are working with -- we're going to have a consultant that the CFE has to approve. We're going to have mediation, we're going to go back, and I'm interested in results, I'm not interested in...

BARR: Thank you.

STUMPF: I'll have our teamwork with your team.

BARR: I appreciate that because clearly there was a lot that went wrong with your bank. No one did enough -- no one did enough fast enough to fix it.

Secondly, I want to tell you who I also think about in addition to those constituents who have been harmed. I think about the community banks and credit unions in my district.

And I've talked to many people who worked for small institutions in rural Kentucky who are your competitors, and the fact that this scandal has painted a bad picture for the entire banking sector, and frankly, the institutions in my district that all those community banks and credit unions, they don't have your culture.

But now they have a tarnished reputation because they've been swept into this with you.

And we've been fighting for regulatory relief for these small community banks and these credit unions that frankly represent competition to big banks like you. So what I worry about are these small community banks and credit unions that are now going to have to deal with the ramifications of the bad acts of your institution.

Can you comment on your colleagues in the banking sector that now are going to have to live with the regulatory onslaught that is likely going to sweep them into this when they - they are not at fault? Frankly, they don't have a culture like yours.

STUMPF: Well, again, I'm sorry for what we did, I'm sorry that we didn't move fast enough. Again, the vast majority of our people, even in our regional bank, especially our regional bank did exactly what was right; they followed our culture.

This is about people who did not do the right thing or at least about -- behavior that was not right and I accept responsibility for that and I'm sorry about what happened.

BARR: And one final question is, is you testified today you that should have known sooner that product sales goals should've - would've have elicited bad behavior. Was it your policy at the time that this was going on to notify customers when an account was opened?

STUMPF: You know, when an account was opened that was not funded, we had an automatically within 90 days remove from the account file. It was not until 2015 that we finally put it together that there could be a fee during this, so that's when we did the full-blown study back to 2011.

BARR: Well, I would think best practices going forward at least, and in the past is to notify a customer when you open an account. I yield back.

STUMPF: In fact, we do that today. Within one hour of an account being opened today, they get a notice that an account has been opened and we won't pull up credit bureau until we have a signature. HENSARLING: I now recognize the gentlewoman from Alabama, Ms. Sewell, for five minutes.

SEWELL: Thank you Mr. Chairman. So it looks as if Wells Fargo has done somewhat of a deep dive on the one - I guess it's 1.5 million checking accounts and half a million credit cards?

STUMPF: Correct.

SEWELL: So can you tell me with any specificity what demographics were most affected? Was it California? I represent Alabama? Can you tell me how many folks in the state of Alabama were affected by this?

STUMPF: OK. I can tell you. It does not -- it was more in the west and the southwest, but let me get to my numbers here.

SEWELL: And while you're looking, I also want to know whether or not you have identified any commonality between those folks that were affected? Either geographical, demographics, race, ethnicity, income level? Have you sort of isolated as to who was most affected by the fraudulent action?

STUMPF: That's a good question. Of the two million accounts that we could not identify, we couldn't rule them out, there was - there was no -- in fact, the deposit side skewed to younger people, not older people. And we don't take -- we don't use race or ethnicity. We don't capture that information. Only age is what we capture, but I do have a number for...

SEWELL: What about income? I mean obviously when you -- when people are opening up credit cards they have to tell -- say what range of income. Any of those identifiable commonalities between those?

STUMPF: I should have mentioned that. On the deposit side, I don't think we do that. On the credit card side I don't have that information but I can surely get back to you on that, or at least have our team talk to you about that.

SEWELL: And you were looking up Alabama, to see the state of Alabama, how many customers from affected.

STUMPF: Yes. And Alabama had 22,795 accounts. Accounts, not necessarily customer accounts that they could not rule out. I don't know how many of those are going to be...

SEWELL: So 22,700?

STUMPF: And 95.

SEWELL: And 95. And I can assume from all your testimony repeated here today that my -- that the customers in my state will be made whole or made right, as you like to say?

STUMPF: That is our goal for every customer and...

SEWELL: Now my real question is this, being made right includes more than just being made whole for the damage that was done personally to the customer. The reality is that you violated the public trust.

It seems to me being made whole also should go to all of the bonuses that were received off of fraudulent information over the time period that has been identified.

Now, how much money have you made over the five years of 2009 to - to - to 2015 in just bonuses? I'm not talking about your compensation. Just bonuses.

STUMPF: I don't recall exactly but let's say - let - let's say it's in the...

SEWELL: Would it surprise you to know that you were paid $12 million in bonuses for at least the last three years?STUMPF: Let's say its $18 million or $20 million. I don't recall exactly the number.

SEWELL: So I guess my frustration is that being made right is not just about the personal damage that was done to the customer base.

It really is about the public trust and that to me goes to every level of your company being unjustly enriched by a fraudulent scheme such as this. And I'd like to know what your thoughts are about how Wells Fargo plans to make right to the public on such a magnitude.

STUMPF: Yes, thank you for that. First of all I think it's important to note that fraudulent or unused accounts hurt customers and they hurt us. In fact the $2.6 million of fees that we found for this four years cost us $10 million to produce. That's a losing operation.

There was -- people invest in our company for a whole lot of reasons and one is about deep relationships of customers who use products so an unwanted product, an unused product is just...

SEWELL: Well, with all due respect sir, I understand that it hurts you but I'm here to tell you that the customer base and the 22,000 folks in Alabama are much more egregiously hurt than you and I just want to...

(CROSSTALK)

SEWELL: ... my -- to the comments of my colleague Mr. Ellison who was really trying to capture the bad business practices of your sales force. Now do you still have that line of business? Is that line of business still a part of the portfolio of Wells Fargo?

STUMPF: We have a great retail banking business. We love it and we're getting rid of sales goals. In fact, our customer...

SEWELL: What else are you doing to make sure that this does not happen again?

STUMPF: Yes, if I can just quickly answer that. For any credit card opened or any deposit account opened, there has to be a signature today. If there's not a signature by a customer, it can't get opened. We're also doing mystery shopping to make sure our people are doing the right thing...

SEWELL: What's to stop a fraudulent signature?

STUMPF: It'd be because you have to put in your pin. Only the customer knows that.

HENSARLING: Time of the gentlelady has expired. The chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus.

ROTHFUS: Thank you Mr. Chairman and Mr. Stumpf. These charges against Wells Fargo violate any legal or ethical standard. We know that Wells Fargo employees (AUDIO GAP) years opened 2 million accounts for customers without authorization.

To hit sales targets and draw additional fees, bank employees falsified accounts and engaged in egregious deceptive practices. This was theft, plain and simple. That the offending Wells Fargo employees did and what they did in a systematic way represents a gross violation of trust. When I first heard about these activities, my first thought was this falls into the, you've got to be kidding me, category.

One's left asking, how does this happen? Over the course of the last 5 years, Wells Fargo was firing 1,000 lower level employees each year. We learned in last week's testimony that it was not until 2014 that various committees on Wells Fargo's board were informed.

It's incredible that this did not rise to the attention of the board immediately and it's incredible that it did not end sooner. By any standard, these actions were wrong, 5,000 people, perhaps more, lied, cheated and stole from customers who they thought would trust them. How many people in Pennsylvania were affected by this?

STUMPF: I'll take a look at that. As I'm doing that, I just want a couple of comments. Many of these people, over 10 or 15 percent, were bankers, or bank managers. These weren't all lower level people, they were in their mid-30's...

(CROSSTALK)

ROTHFUS: How many levels in the organization chart at Wells Fargo are there?

STUMPF: It depends on the operating business. So there could be...

ROTHFUS: Are there 10 layers?

STUMPF: It could be eight or nine or 10 layers.

ROTHFUS: Eight or nine or 10 so a third level employee wouldn't be considered a lower level employee?

STUMPF: These were...

ROTHFUS: How many people in Pennsylvania?

STUMPF: In Pennsylvania, 79,918 accounts we could not exclude, again that's about the 2 million. There's -- you know we're looking at -- we're also understanding right now in credit card, only 20 -- not only, but 25 percent could not remember or did not order...

ROTHFUS: How many branches does Wells Fargo have?

STUMPF: In our total company?

ROTHFUS: Across the country.

STUMPF: Six thousand two hundred.

ROTHFUS: How many branches are identified as being involved in this scandal.

STUMPF: I don't have that number. I don't know if there was a team member...

ROTHFUS: Is this a coast to coast scandal?

STUMPF: This is -- well, first of all it's exception -- it's behavior that we did not want and I don't know if it affected every state or every region. I just don't happen to have that...

ROTHFUS: In the last five years, how many branches you visited personally?

STUMPF: You know I don't keep a count of that but I'm -- pick a number of maybe 1,000?

ROTHFUS: Do you make it a practice to go behind the counter and work...

STUMPF: Absolutely.

ROTHFUS: And work as a teller or as a...

(CROSSTALK)

STUMPF: To work as one?

ROTHFUS: Yes.

(CROSSTALK)

ROTHFUS: Did you ever the see the show about the undercover boss? Where the CEO comes in and does the frontline work?

STUMPF: Yes, I'm not trained or allowed to do that but I walk behind the teller line and I meet our people. I talk out in front with our bankers.

ROTHFUS: So you wouldn't have waited on a customer and maybe stood in the shoes of one of those frontline employees and..

(CROSSTALK)

ROTHFUS: And have you tried the cross-selling practice?

STUMPF: I've talked with them and the vast majority of people are excited. Our culture and our -- in fact, we have engagement scores. Every year we do about 93 or 94 percent of our people participate in the regional bank in a gallop score that brings into account, are you happy at your job? Do you get rewarded? Whatever. And our people are 14 to one, 15 to 1, engaged...

(CROSSTALK)

ROTHFUS: Some of those employees had an issue. How many whistle blowers are there? Do you know?

STUMPF: I do not have that number.

ROTHFUS: Do you appreciate the kind of courage that it takes? Do you appreciate the kind of courage it takes to be a whistleblower?

STUMPF: Well, I absolutely -- our people can call an ethics line and they can do it...

ROTHFUS: You have no idea how many -- you'd have no idea how many whistleblowers...

(CROSSTALK)

ROTHFUS: CNN's reporting dozens. Do you think that's accurate?

STUMPF: I don't know and we're going to work on -- every name that we get, we're going to work on.

ROTHFUS: Do you have any idea of how many of these people are no longer employed at Wells Fargo?

STUMPF: I don't have that number for you.

ROTHFUS: And any idea would've been demoted?

(CROSSTALK)

ROTHFUS: Any idea how many may have been demoted, if any?

STUMPF: I don't have that number for you sir.

ROTHFUS: I would suggest that that -- again, given the courage it takes for somebody who's found (ph) something like to this, to speak and the historic protections that should be attributable to whistleblowers, that this would be a top priority.

STUMPF: And we have an anti...

(CROSSTALK)

ROTHFUS: Well now how many people at Wells Fargo are now working on the whistleblower issue?

STUMPF: I don't know that issue. I could have my team work with your staff and tell you.

ROTHFUS: Do you have any idea how many honest Wells Fargo employees may have lost out in a race with some of the fraudsters?

STUMPF: I don't have that answer for you. Well we've got 268,000 terrific team members.

ROTHFUS: Thank you.

HENSARLING: Time of the gentleman has expired, the chair now recognizes the gentleman from Illinois, Mr. Foster.

FOSTER: Thank you Mr. Chairman for holding this hearing so we can examine the abusive and fraudulent practices that were so pervasive at Wells Fargo.

I'd like to start by reiterating what many of my colleagues have said in that this corporate malfeasance is exactly why we need a strong and independently funded CFPB. As Director Cordray testified in the Senate last week, the CFPB learned about the fraud at Wells Fargo through its whistleblower line.

It's my understanding that he offered to be here today but it appears that his testimony was not needed to understand the role that his agency played in bringing the fraud to light and I supposed that we don't need his testimony because the CFPB has returned more than $12 billion to 27 million Americans and this case adds to that record.

The CFPB did not learn about the fraud because Wells Fargo self reported. In fact, the record suggests that you, Mr. Stumpf, were informed about the fraudulent accounts anywhere between two and four years before self-reporting by Wells.

In the wake of this incredibly egregious institutionalized conduct, you've now come to Washington to say you're sorry. Well, of course your (AUDIO GAP) compensation but that does not address the core problems in the culture of the institution and the governance rules that allowed it to develop.

As someone who started a manufacturing business and served on its board, I understand that corporate culture starts at the top and eventually permeates the entire organization but your response to the gross misconduct that drove results that you've prided yourself and the bank on, has been underwhelming to say the least.

Because it's clear that the simple motivations of keeping the trust of customers, of shareholders and the jobs of 5,300 front-line employees has not been enough incentive to drive a culture of compliance among management.

So my first question to you, Mr. Stumpf, given this situation, which actually should be a case study for corporate mismanagement in every business school and law school in the country, what specific governance rules should have been in place that would have prevented these abusive practices?

STUMPF: Thank you for question. I've acknowledged before that we should have done more earlier. We should have brought our corporate resources in earlier and we should have, obviously, got rid of sales goals earlier because we were misunderstood or misrepresented by some of our team members. I think that would have been good governance.FOSTER: OK. Well I think I'd like to actually focus on specific proposals. I think we've all been impressed by this list of settlements and penalties that have been imposed on Wells since the financial crisis that's been scrolling on (ph) the monitors and without objection I'd like to enter that in the record.

HENSARLING: Without objection.

FOSTER: And one specific proposal that's been made is regulators' penalties for illegal practices should be paid first out of the bonus pool for top executives.

So that you and every one of your top executives would have your bonuses at risk for any malfeasance in any corner of the organization rather than having the regulatory fines being taken largely out of the hides of shareholders.

So my question to you is, if everyone knew that the regulatory fines were to be paid out of the bonus pool, would that have helped change the corporate culture that led to these abuses?

STUMPF: You know, I can't speculate on that. I know that in my case, the Board is independent and the Board actually took my recommendation and - and -- and passed that. We filed a AK (ph) on that yesterday, and I'm going to do all I can to lead this company going forward.

FOSTER: And we all can speculate on what fraction of that compensation club act (ph) would have happened without the attention and the press and by Congress on this.

So I mean, for example, if you knew that the bonus pool would take a hit for any regulatory fines, wouldn't that actually create an incentive not to develop a bank which was effectively too big to manage?

STUMPF: First of all, I disagree we're too big to manage. We need to focus more on this issue, on operational issues and on compliance issues, but again, we do many, many areas really well and I'm sorry we didn't get everything right along the way, and we've made settlements.

We tried to make it right for customers. But recognizing also we're - we -- we do a lot of really good things, we're a great corporate citizen and 268,000 team members really try to get it right every day for all of our customers. FOSTER: OK, well as we look for bipartisan solutions to try to prevent this sort of thing from happening, again, I find that a very interesting suggestion. And just a last quick question.

The -- many of the actions that were taken here hurt the credit scores which may -- of customers which made it difficult for them to buy mortgages. And are you specifically looking to find out if any of your customers have been denied mortgages because of actions you've taken?

STUMPF: We're going - we're going to dig into that and make it right.

FOSTER: We will. Thank you

HENSARLING: The time of the gentleman has expired. The Chair recognizes the gentleman from New Hampshire, Mr. Guinta.

GUINTA: Thank you very much, Mr. Chairman. Thank you, Mr. Stumpf, for being here. I share in the frustration and the anger and the displeasure of my colleagues on both sides of the aisle relative to this particular issue.

I have listened over the course of this -- of your testimony, and there are a number of what I would consider inconsistencies either based on what you said today, what was in your oral testimony or what you had stated in the Senate hearing last week, so I want to clarify a few things.

In your oral statement you said that you made a recommendation to the Board that it takes certain actions regarding your salary and other pay.

STUMPF: That is - that is -- my testimony and that's accurate.

GUINTA: When did you make that recommendation?

STUMPF: I -- it was -- today is Thursday, it was sometime before -- the independent Board met without me, I don't recall. It might have been -- it was before or during the Board meeting. But I - but I referred -- I made comments about that to our lead director that I wanted to do that.

GUINTA: Are we talking about last week or this month?

STUMPF: No, last week.

GUINTA: Last week. Before or after the 20th?

STUMPF: What day is today?

GUINTA: 20th is Tuesday, today is the 29th.

STUMPF: It was sometime after -- it was sometime on the weekend, I believe, to the best of my recollection.

GUINTA: So it was after the Senate...

STUMPF: It was after the Senate hearing.

GUINTA: So before you had said to the Senate Banking Committee that you didn't want to prejudice the compensation committee where (ph) the Board process.

STUMPF: Correct.

GUINTA: Since the 20th, you did exactly that, so what's changed from the 20th to today, and the 29th?

STUMPF: I felt that it would not prejudice them - I didn't want to prejudice them, but I thought it was - and they can do more if they want to. They can - they have all the rights and responsibilities...

GUINTA: No, I understand that. What I don't - what I don't understand is on the 20th you said to the Senate you did not want to prejudice them and then four days later, the 24th, which is the Saturday over the weekend, you did a reverse course. So what happened between the 20th and the 24th for you to change your mind on that issue?

STUMPF: I decided that this was a good way to show at least a step - a start to show my level of - of commitment.

GUINTA: Why was that not important then before the 20th?

STUMPF: I was preparing for other things. It didn't cross my mind at that time, I -- I developed that thinking sometime over the weekend.

GUINTA: That's a pretty big compensation hit, right?

STUMPF: It - it was - it -again, it's - it's what I thought was right for me to do to recommend to the board at that time and - and -- and they can do more. They have all the independence and -- and I didn't believe that -- I thought that was the right thing for me to do.

GUINTA: what about the claw back of Ms. Volstead's pay, when did you make that recommendation?

STUMPF: That recommendation -- she does not report to me, that recommendation was made by her boss.

GUINTA: When were you aware of that recommendation?

STUMPF: I was aware of that sometime...

GUINTA: Before the 20th?

STUMPF: It was sometime over the weekend also, I believe -- I don't recall the exact days, maybe...

GUINTA: Was it before or (ph) after the 20th? STUMPF: Yes.

GUINTA: OK. I want to go to a different issue. Do you currently have sales goals at Wells Fargo today?

STUMPF: We have - they end at our regional bank tomorrow. Because - and the reason we didn't take them out before - we have - you know, the vast majority of our people do the exact right thing. We don't want to hurt them from a compensation perspective.

And we - and we thought we would do this, you know, and do it right and - and put other goals like customer loyalty and other things that customers really appreciate by January 1, we now know that we can do it by October 1. So we don't want to hurt them, and we also want to make sure our customers get treated well.

GUINTA: Let me move on to the COPB (ph). You've been asked several times how many employees of the COPB (ph) were embedded at Wells Fargo and I think you said something to the effect that you will do your best to work with us, but you didn't say clearly whether you would actually provide us that number.

So I'm curious, would you provide us with that number when you - when you get it?

STUMPF: Again, I don't know that answer, I'll work with our team. The best I can do is promise you that I'll work - I'll consult my team.

GUINTA: I understand you don't know the number today. I'm saying when you work with your team to identify the number, will you then share it with Congress?

STUMPF: Again, I don't know if that's a confidential supervisory matter of (ph) information.

GUINTA: COPB (ph) employees are public employees, aren't they or are they not (ph)?

STUMPF: I don't want to make a promise to you I can't keep. So I will promise that our team will look at it.

GUINTA: Speak with your leadership and try to get us something in writing as to whether you can provide us with that answer.

STUMPF: I will - I will - I will work with them as soon as -- one of things I said I'd get done (ph).

GUINTA: Thank you sir.

HENSARLING: The time of the gentleman has expired. The Chair recognizes the gentleman from Maryland, Mr. Delaney.

DELANEY: Thank you, Mr. Chairman. Thank you, sir, for being here. A lot of focus has been on your cross-sells or your cross-sell culture at the institution. It's something that the institution has been very proud of, when you acquired Wachovia back in 2008, your former chairman, Dick Kovacevich, who I think was probably the architect of your cross-sell program, said "we're combining the industry's number one ranked customer service culture of Wachovia."

And I was a very substantial Wachovia customer in my prior life in business and I had nothing but a terrific experience.

STUMPF: Thank you.

DELANEY: With the industry's number one sales in cross-selling culture of Wells Fargo -- this is 2008.

Analyst reports across the last decade, we talk about the cross- sell culture of Wells Fargo, but several analysts -- analysts also pointed out there was risk inherent in this and in fact this culture might be undermining the customer experience, including a well-known banking analyst who said, "Wells Fargo suggests that a successful bank is one that keeps seeking new customers and selling as aggressively as possible more products to them and not getting bogged down in customer service."

So the question I have is, your board of directors -- because when you have a very large enterprise like you do, the governance process is incredibly important. Did the board of directors ever discuss at the board level whether the cross-sell culture had gotten out of control at the bank?

Because you were clearly outperforming did the board of your peers, and you were proud of that, and you bragged about it and you had a swagger about it, and the law of large numbers just leads us all to believe it's very hard to significantly outperform your peers particularly when they're very big and they're also sophisticated operators like your competitors are.

Did your board ever talk about this issue? Did they ever actually sit around and - and examine whether this culture had gotten out of control, particularly after four, five years of having to let go so many people?STUMPF: You know I -- Congressman, I don't know all of the things that our board talks about because I'm not in all the meetings but I will say this, cross-sell is our shorthand for depth of relationship. We love that. When customers do more, they get more value, it helps everyone --

DELANEY: Right, but you also make more money when you cross cell. I mean there's two ways of looking at cross cell. It's either really good for you or it's really good for the customer depending upon whether they actually needed the product or not. I'm really getting at the board's responsibility because your board is responsible to make sure that your setting the right tone at the top.

STUMPF: Correct.

DELANEY: You're also responsible for that, I'll come back to that in a second. But the board is responsible for actually examining the business practices of the bank. So did your board -- you're the chairman of your board.

STUMPF: Correct.

DELANEY: So you may not be there -- they have executive session where they may ask you to leave. You're certainly not there when they discuss your compensation but for most of the meetings you're there.

You set the agenda, you probably sit in on most of the committee meetings. I chaired a public company board for many years. Did you ever -- did the board ever talk about whether the culture in retail banking business and all of the accolades you were receiving for your cross cell success?

And the fact that several analysts had focused on the fact that you were overly aggressive with respect to this, did they ever actually ask the question, should we look into this? Did they ever exercise their fiduciary responsibilities around this issue? In other words, ensuring that your customers were getting an appropriate service, which they obviously weren't?

STUMPF: Yes and yes, the answer is yes.

DELANEY: So you can get us evidence that the board actually has examined this issue across the last several years?

STUMPF: Yes, I can do that. DELANEY: Did you ever give speeches where you said it is as important to make sure we're putting our customers' interests first, as it is to achieve our cross cell objectives?

STUMPF: I don't recall. I give lot's of speeches but I always talk, when I'm with team members or out in the public, I try to talk about the fact that what's good for customers, good for us. And I think it's really important because you're asking some really good questions here, that the idea that somehow having customer have more products that they don't use helps us, is absolutely wrong.

(CROSSTALK)

DELANEY: If they pay for them, it helps you.

STUMPF: Virtually all of them are free.

(CROSSTALK)

DELANEY: Can you find any evidence to share with us where you actually said it is as important to make sure we put our customer's interest first as it is to achieve the sales goals we've set for this institution.

STUMPF: In fact I don't know -- I can't recall all my words but I do know this. Every time I talk about, it's about customers and putting them first.

DELANEY: Now your largest shareholder has a famous expression where he says, takes your whole life to build your reputation and you can lose it in five minutes. Do you think you and your institution have permanently lost its reputation?

STUMPF: We have a lot of work to do to build it back and I'm committed to do all I can to make that happen, thank you.

HENSARLING: Time of the gentleman has expired. The chair now recognizes the gentleman from Texas, Mr. Williams.

WILLIAMS: Thank you Mr. Chairman. Mr. Stumpf, just like many hardworking Americans and members of this committee, I am really angry and I also am a customer of your bank. But I am amazed at what you do not know about your business. I am really amazing and I have heard more I don't know's from a CEO than I think I've ever heard in my life.

You know I came to Congress to deregulate and because of your actions, it's really making it extremely difficult for me to advocate for Main Street or community banks. So I've got one simple question for you, when are you going to resign?

STUMPF: I serve at the pleasure of the board. I am giving them all my energy now to leading this company through this.

WILLIAMS: But you can resign without the board telling you but so -- I just wanted to know that answer. I'm also angry because by a large number of Wells Fargo employees who opened accounts for existing customers without their knowledge, which is pure wrong, it's just wrong, and I'm angry because Wells Fargo agreed to pay $190 million in collective fines and restitutions, which we talked about today.

You don't even have to admit any wrongdoing and I've got news for you. People don't care about your hurt. They care about their hurt and I'm tired of hearing about that today.

And I'm angry because under the Dodd-Frank Act, Wells Fargo would still be eligible for taxpayer funded bailout. And I'm angry because I'm a strong supporter of banks, both big and small, but today you really make it hard. What you've done has really hurt Main Street. And finally Mr. Stumpf, I'm angry because I own -- I'm a business owner.

I own a business right now. I'm a borrower, I've been in debt more than I've been out of debt in my life. For 44 years I've owned my business and it sickens me to think that you took advantage of customers in the manner that you've done. Customers are important, they don't make that many customers. And Mr. Chairman I have also learned, if I've learned anything over the last 44 years, it's two things.

The customer is always right and you've tried to teach us your business today. We don't need to hear that. And reputation, which we've already talked about, is all you have when you go to bed at night. And when you lose your reputation, you've got nothing.

And frankly, it's going to take Wells Fargo a long time before they can restore customer confidence in that reputation we're talking about. So let me start off with this, in the past I've been part of a banking board like many have in here.

Big banks, small banks. So I understand what that entails. I certainly understand the charge that is given to that board to make the bank successful but ultimately you answer to the shareholders.

But as we heard you discuss with the Senate Banking Committee and earlier today, top executives knew about the fraud under your watch in 2013. So again, as someone who has sat on a board, I find it troubling that no action would be taken at all. So we've established that no action was taken by you or your board in 2013.

But what about your outside auditors which we've talked about? Can you tell this committee again, and you've touched on a little bit, who they were and if you advised them of this two year old systematic fraud?

STUMPF: Yes, so I'll get to your question. Our outside auditor is KPMG, they do a wonderful job and this is on us. We should have done more earlier and there's no question about that and I don't in any way want to minimize whatever portion of those 2 million accounts were unauthorized. We take that seriously and they are the ones we put first.

WILLIAMS: So, let me move on. As CEO and chairman of the board at Wells Fargo, how often did you meet before the directors?

STUMPF: We have eight board meetings a year.

WILLIAMS: Did anyone on your board tell you to stop the incentive program, that they didn't like it, they didn't think it was good?

STUMPF: There is a committee of the board that is human resources and compensation and that's not chaired by me, I'm not a member of that committee.

WILLIAMS: So you don't know?

STUMPF: I do know that we have incentive programs and we have controls and we have so forth and I don't -- that's what I know about that committee and about our business.

WILLIAMS: Did anyone on the board raise any concerns with the incentive program?

STUMPF: There was people, as we start to understand this issue, the board took direct action to make sure that, along with management, we understood where the customer harm was and to make sure that the sales process -- that we did not have unethical behavior going on.

WILLIAMS: Running short of time, I'm from Texas.

STUMPF: I lived in Texas for six years.

WILLIAMS: How many people in Texas were affected by your mismanagement?

STUMPF: There were 149,857 accounts that we could not rule out as a possibility of being unauthorized.

WILLIAMS: Thank you Mr. Chairman, I yield back.

HENSARLING: Time of the gentleman has expired. Pursuant to Clause D4 of Committee Rule 3, the gentleman from Washington, Mr. Heck, will be recognized for an additional five minutes upon the conclusion of the time allotted to him under the five minute rule. The gentleman from Washington is recognized.

HECK: Thank you Mr. Chairman. Mr. Stumpf after sitting here patiently for nearly four hours, my takeaway frankly sir is that you are in denial. And I say that because I can't reconcile much of what you have said with the known fact pattern. You have said, I didn't know, in essence.

You have said a very small percentage of our dedicated workforce was actually engaged in this behavior. You've said you're sorry, in fact you're very sorry and you've said, we're going to fix it.

But the facts are that 5,300 of your employees were fired for inappropriate behavior and they were fired because they in effect, misappropriated millions of dollars in fees without the agreement of your customers. An act, which you yourself agreed with Congressman Duffy, constituted stealing. And all of this and the publicity surrounding it led to a $25 billion reduction in the market capitalization of your company.HECK: I cannot reconcile what you said with those facts and conclude -- and I can therefore only that you are in denial. Some here, several, have said you should resign. Frankly, I don't personally see how you'd survive.

I don't know this but I too have been on a board of directors and it's virtually inconceivable to me that your board of directors would see fit to claw back $41 million in bonus and incentive pay without also concluding you're no longer the correct person to lead this organization. But the truth is it's not your survival that I am concerned about.

I'm concerned about your company, your bank, your institution, the 268,000 people that you employ and more importantly, the millions and millions of depositors. I'm more concerned about the trust level in Wells Fargo and in the financial sector. Banks and credit unions.

Because it is in fact, vital and the heart beat of a market-based and capitalist economy and I'm very concerned about what you and the company have done in the way of damage to that.

I'm not going to suggest that you resign. I don't think it'd do any good because I think you are in denial, but I am going to remind you of some things that you have said. I know right from wrong. I try to lead with courage. I'm going to make it right. You also said that you feel privileged to lead Wells Fargo, and on that sir, I'm going to take you at your word.

And so my hope, my request, and this is not a question. In fact I would suggest that it's beyond a hope, it's a prayer. That in the quiet and solitude of your home and in discussions with your family, you ask yourself, what's in the best interest of Wells Fargo?

What's in the best interest of Wells Fargo, sir? Not you. I do have a quick question. I think some other people have noted that it looks like you're repeating some mistakes and the facts of this case, falsified applications, consumers being pushed in products they don't want and all driven by aggressive sales goals are almost identical to your practices that led to a record fine against you in 2011.

In fact, in 2012, you paid violations for violating the Service Member Civil Relief Act for foreclosure of homes in violation of federal law. I privilege beyond measure to represent 20,000 uniformed personnel at Joint Base Lewis-McChord.

You're under investigation again sir, for violating the Service Member Civil Relief Act. For foreclosing on cars, also prohibited. We don't want men and women in uniform worrying about that when they're putting their life in harms way.

And I'm going to predict. I'm going to predict you're going to pay another fine for violation of SCRA in the millions of dollars. So rather than ask a question, I'll just say, this pattern just keeps repeating itself. You pay a fine, you promise to fix it and then lo and behold, a few years later, we're back at it, the same thing again. And with that, Mr. Chair, I would like to yield the balance of my time to the ranking member from California.

WATERS: Thank you very much Mr. Heck for yielding this time to me. As you know, as ranking member, I have the responsibility for some kind of leadership here and I'm very pleased that I was able to work with the chair of this committee, Mr. Hensarling, today to get this hearing.

But as I have sat here recognizing the size of Wells Fargo, $1.9 trillion in assets, with over 6,200 bank branches, 268,000 employees, it's really striking me how huge this bank is.

I'm also concerned about whether or not, as chairman and CEO, you can really know what is going on at the bank. I am concerned about the length of time it took you to know what's going on and I'm concerned that maybe you don't have a handle on your management and what the reporting process is that would make you aware of what's going on.

You praised Ms. Tolstedt for her management of the division even though she had fired 1,000 employees for this fraud in 2011 and yet supposedly it took you two years to know about what had happened.

She didn't tell you, she withheld the information and you indicated in her glowing (ph) retirement that she had gone a great job.

I'm really concerned about whether or not, in fact you understand that we have been sitting here fighting to implement Dodd-Frank and trying to work out some of the problems that have been identified with Dodd-Drank but you on the board of directors of the Financial Services Roundtable, it's an advocacy group for the banking industry that has worked to defund the CFPB, hobble its structure and remove its ability to curb abusive practices.

Now I want to know, perhaps what you think, now that Wells Fargo has been caught by the CFPB for all of this fraud and I wonder if you denounce the Financial Services Roundtable's actions to gut the CFPB.

In addition to that, while we have been sitting here, I have learned that maybe not only is Wells Fargo too huge to manage, but maybe the reason you don't know some of the detail is because you also sit on a number of big boards. You're sitting on the board of Chevron with $375,000 in total compensation per year.

And you're on the board of Target Corporation for $272,000 in total compensation per year. You have a responsibility to them, you have a fiduciary responsibility and in addition to that, during this hearing, Bloomberg sent out an alert that you would be facing a $20 million penalty for improperly repossessing cars from members of the military.

It appears that the company just can't make it through even this Congressional hearing without us learning more and more information about what is going on at Wells Fargo.

I appreciate your apology. I appreciate the claw back and all of that, but Mr. Chairman, and members who are left, I have come to the conclusion that Wells Fargo should be broken up. It's too big to manage. You know I served on the conference committee for Dodd-Frank.

We talked a lot about the living wills and how to learn more about how these banks are put together and how they operate. And of course the five largest banks in this country have failed the living will's test, including Wells Fargo.

And so I'm looking at living wills and the inability to pass the test. I'm looking at stress testing, I'm looking at size, I'm looking at this particular fraud that has gone on and I'm worried for the whole banking community that the public cannot and will not continue to trust our banks, who we need in this economy in order to do the business to make the economy work and run.

But they're looking at us and they're saying for all of you, particular those of you who serve on the Financial Services Committee, you're letting us down.

You're not protecting us. And so with that, Mr. Chairman, I'm going to be talking with you and the members of this committee who showed their outrage here today. I'm moving forward to break up Wells Fargo bank.

STUMPF: May I respond to that please?

HENSARLING: We'll give the witness an opportunity to respond.

STUMPF: As I said before, I'm sorry that we didn't get this right. I take this very seriously. I'm not in denial and we will get this right. We will fix this. We do a lot of things really great. California is our home state. We've been for 164 years, we are a major employer, a major philanthropic and we are privileged to serve so many great customers there and we'll do that the best way possible.

HENSARLING: Time of the gentleman from Washington has expired. Pursuant to Clause D4 the Committee Rule 3, the gentleman from Arkansas, Mr. Hill will be recognized for an additional five minutes upon the conclusion of the time allotted to him under the five minute rule. Gentleman from Arkansas.

HILL: Thank you Mr. Chairman. Thank the ranking member for holding this hearing. Mr. Stumpf thank you for being willing to appear today. Appreciate your forthright testimony.

You know I've been a customer of your company and I've admired your company and I have used your company as an example for my own businesses in the past 20 years in developing what I thought were best practices and goal setting for retail bankers across the businesses that I was associated with in the 1990's and the 2000's.HILL: And during that period of what's happened recently, I've recommended your company as a company to do business with and a stock to own so that comes with a pretty heavy burden for me. I have the same knot in my stomach that you probably have.

Because in my view as a former person who has worked in finance on and off for 35 years, this just isn't a one off situation down in the Los Angeles Basin that Wells Fargo is struggling with. It really is a systemic, a compliance failure inside the, I assume, principally the retail portion of the bank.

And I know that it's a huge frustration for those of us on this committee and for your members of your board and your management team and very hurtful to the customers that have been damaged by their reputations, their credit potentially, including the 933 people in Arkansas that have been affected by this, that resulted in four people who apparently worked for you in Arkansas that were fired as a part of the sweep across your company.

So you told us today about line management between you and the branch manager, many layers, branch managers, regional managers, area managers that were forwarded up, I assume, to Carrie Tolstedt who's been discussed today. Is that generally right?

STUMPF: Yes. There's a new leader now in that retail banking business, her name is Mary Mack, and they have -- and she's now in charge of that organization.

HILL: And did Carrie report to Tim Sloan or report to you?

STUMPF: She reported to me until maybe about a year ago or so, I don't recall the exact date but then she reported to Mr. Sloan after that.

HILL: And the credit card issue, I assume, doesn't report to her. Does that report to the consumer lending executive or to the community bank?

STUMPF: That's -- that -- the -- there's a relationship that reports in someplace else.

HILL: Okay.

STUMPF: That's right.

HILL: So it's matrix management to the retail side but through the consumer lending channels where credit cards --

STUMPF: Yeah. I would describe it this way, that the retail bank would talk to customers and then they would send their request over to the credit card group where they would the underwriting and fulfillment.

HILL: And all those people that I named all sat on your operating committee of management. And how often does that group meet and is it by teleconference or is it face to face?

STUMPF: It's largely face to face, it's every Monday.

HILL: Every Monday. And so, unrelated to the board, which is board's meet just -- I think you said nine -- in 2015, you had nine meetings with the board, you had -

STUMPF: I thought it was eight, but it might have been nine but -

HILL: Yeah. And you had 14 meetings at the audit committee during 2015, according to your proxy.

But operating committee meets every Mondays, so the one question I have is, when was -- do you remember this being talked about at that operating level when line managers bring their top concerns to you and was it in this same time frame, it wasn't until maybe two years after this really manifesting itself in Los Angeles?

STUMPF: Yeah, it was being managed within the business.

HILL: Yeah.

STUMPF: In 2011, it -- there's -- each business has their own corporate or their own compliance, their own sales efficacy and so forth. So it was brought out of the sales part into the line's control function.

And then by 2012, they were producing goals. By 2013, is where we brought the corporate resources in, like corporate human resources, corporate investigations and so forth because we had saw a spike in that behavior.

HILL: Right. So now, your Lead Director, Steve Sanger, is the former CEO of General Mills is conducting an independent investigation that he is hired independent of the corporation, he's hired his own resources. It's -- and that's commenced recently. Is that right?

STUMPF: As I understand it, the -- Steve Sanger is our lead director along with the other independent directors have higher council and they are doing their investigation.

HILL: When do you expect they'll finish their work?

STUMPF: I'm not part of that process. So I don't know. But I know they're going to do a full comprehensive review. HILL: I hope that that gets released to the public once the board has seen it and reviewed it and that it could be posted on your website because I think that sort of independent view news confidence in the corporate government system and I would encourage that to be done.

You know, when I was at the Treasury Department in 1990, '91, we had a little problem in the government securities business and your largest shareholder, Mr. Buffett, became the CEO of Solomon Brothers in that midst of that crisis and Solomon Brothers was found guilty of manipulating the US treasury market at that time.

Have you talked with Mr. Buffett about this or sought his advice on this matter you're facing?

STUMPF: You know, I have talked to a lot of our investors and I have had one conversation with Warren Buffett.

HILL: Because Warren Buffett in two minutes before the Senate Banking Committee in 1991 probably did the best job, I think, on behalf of Corporate America. Do you remember what he said at that time?

STUMPF: I've read a lot of his things. I think it was something about, you know, I better make less money and about integrity and -- but go ahead and read it to me. I don't remember that testimony.

HILL: Well, I'm going to paraphrase it. He said -- first of all, he wanted every employee to be their own compliance officer, his or her own compliance officer, and he wanted every employee, every day when they came to work to think about the actions they took on behalf of customers if they could read that in their own hometown newspaper written by a critical journalist.

But he summarized it, and what I think you need to summarize if you're going to be successful in this endeavor, he made this quote, which I think people have quoted now for 25 years, "Lose money for the firm and I will be understanding. Lose a shred of reputation for the firm and I will be ruthless."

STUMPF: Yeah, that's what I was trying to refer to and that's what I remember from that and I agree with him.

HILL: Well, that's where we are because I agree with my colleagues, this is hurting the ability of the banking industry to do consultative selling, something that we all pride ourselves on in financial services is that we seek to understand the needs of our customers and try to meet them.

And this damage about what's happened at Wells Fargo is going to hurt that effort on behalf of community banks all over this country and cause sweep investigation of incentive sales programs and cross selling programs. We're consultative selling, which is really what we're talking about.

But I hope that we will also ask our regulators where they were at this time. The OCC clearly had a need to improve rating for you and compliance and some intensive work you were doing over those two years, but I see no evidence so far at the CFPB which actually is the statutory obligation to be engaged here was taking action.

So the last thing I'll ask you about is Mr. Himes talked about materiality. And in any one quarter, accountants and lawyers and bean counters in companies in your finance department tell what's material and what's not.

But we see that sometimes that trees for the forest in that situation and you've got the ability and your board has that ability to address that in the chairman's letter to your shareholders, you don't need a lawyer to tell you what to write in your chairman's letter, and when you spend 50 percent in fines and penalties of your net income over a three, four, five-year period, that's material, 10 billion compared to 22 billion. It's a big deal.

No matter how many small bites at the apple that it comes, and I hope in your 2016 letter to shareholders, that you and your lead Director, Mr. Sanger, will address what I think is a systemic failure in a few areas of Wells Fargo that's tarnished this beautiful three -- almost two century reputation of your country -- of your company.

And with that, I yield the balance of my time to Mr. Guinta, from New Hampshire.

GUINTA: Thank you gentleman from Arkansas. Mr. Stumpf, I want to follow up a little bit on the regulators. OCC, how many onsite did they have at the time?

STUMPF: I didn't hear the question. Please -

GUINTA: OCC. OCC, how many examiners did they have in -- at Wells Fargo at the time?

STUMPF: I think -- just about earlier, I think it's around 80.

GUINTA: Okay. And how many do they have at Wells Fargo today?

STUMPF: I don't have that number, but I think it's about the same number.

GUINTA: The same number?

STUMPF: Yes.

GUINTA: How about the Federal Reserve?

STUMPF: I don't know that number.

GUINTA: And how about the CFPB today?

STUMPF: I don't know that number.

GUINTA: Did anyone at the CFPB instructs you or your team or advice you not to share those numbers with congress?
STUMPF: I have not spoken with the CFPB on that.

GUINTA: Is anyone in your team, to your knowledge?

STUMPF: Nobody in my team has said anything to me about not sharing any numbers.

GUINTA: I asked that because -

STUMPF: I'm not as sure.

GUINTA: I asked that because it seem -- you seem very reluctant to share the information with us as to how many examiners from CFPB either were or are currently at Wells Fargo and that concerns me.

STUMPF: I want to make sure I'm very clear at this. I happen to know the OCC number because I was talking to some (inaudible) but I don't know the other ones.

HENSARLING: The time of the gentleman from Arkansas has expired. Now, the gentleman from Colorado, Mr. Tipton is recognized.

TIPTON: Thank you, Mr. Chairman. Mr. Stumpf, I have a letter from someone who's never had an account with Wells Fargo, had an account fraudulently opened and was getting sent back from your compliance department, the Wells Fargo Financial Crimes manager, telling someone who wasn't your client that he needed to be able to provide a complete signed notarized return affidavit of identity theft, provide documentation, collection letters he may have received, request the letter of verification for Social Security number from this Social Security administration, send a copy of a police report stating he was a victim of identity fraud, send a copy of his driver's license, send proof of address, send a copy of previous bills, statements, invoices during the time frame of fraud.

He didn't even have an account with you. Isn't that a little burdensome and what are you doing to be able to respond to people who had no connection with Wells Fargo but yet are now swept up in the net of the challenges that your organization is creating?

STUMPF: Yeah. And so on that issue, I would like to see it so our people could take a look at it. I don't know that issue specifically but that sounds to me a lot like identity theft by someone else.

Most of what we saw, and I can't say exclusively, but of the 2 million accounts that could not be excluded, those were accounts that people already had at the bank and one of your bankers improperly opened a second account that our system closed.

So I -- this sounds a lot like identify theft to me, but I don't know that situation in particular. I'd like to look at it.

TIPTON: I'd like to be able to get a little personal assessment by you of you.

STUMPF: Okay.

TIPTON: Would you label yourself as CEO, Chairman of Wells Fargo as aware and engaged?

STUMPF: Well, I believe I am. I love this company. I've been here a long time and I spend most of my waking hours thinking about this company.

TIPTON: So you know, I'd like to be able to follow up a little bit, maybe I (inaudible) in regards to the board. You said you think about a lot, all of your waking hours, when did you make the broad aware of the issues?

STUMPF: The board was made aware, generally, of issues by -- in committees, at high levels in the 2011, '12 time frame. By 2013, we had talked about maybe in one -- I can't remember which committee it was, surely by 2014, and then when we finally connected the dots on customer harm (ph) in '15, the board was very active on this.

TIPTON: So you discovered in 2013, you were aware, you were engaged, we are now in 2016 and now rapidly starting to respond. You know, there seems to be a little bit of a disconnect in terms of the response mechanism that you're having there.

Mr. Hill had just brought up and you gave a response saying that you had a sense of urgency. Who have you fired?

STUMPF: As I mentioned, we fired managers, managers -- manager, managers and another manager and we're doing a full review of anybody who was responsible for any behavior of any kind that would not put customers first.

TIPTON: So you're -- are you trying to be able to say really that these were just kind of lone wolfs acting independently or were they following policies that came from the engaged urgent manager who is the CEO and chairman of Wells Fargo?

STUMPF: These -- they were doing exactly the opposite of what a CEO wanted them to do. Everything I've talked about, everything that we train, everything that we publish -

TIPTON: So do you have a problem with monitoring from the top down?

STUMPF: We should have done it more early. It was our monitoring that found this behavior. We should have done more sooner. I give you that, Congressman.

TIPTON: What -- all right. You have an infrastructure that is set up, a chain of command in terms of your organization chart. Somebody was overseeing the manager over the manager over the -- however you -

STUMPF: Yes.

TIPTON: -- want to be able to describe that. Are there going to be any consequences of that level?

STUMPF: We're going to let the facts take us where they are and people will be held accountable. I can (inaudible) that.

TIPTON: Do you have any kind of time frame for that?

STUMPF: You know, I don't want to make -- you know, foreclose anything that we do to make sure we do it right and people are held accountable.

TIPTON: You know, there was a report that came out at Wall Street Journal that said the person in charge of creating the yearly sales claim for the community banking unit didn't know that the numbers were exaggerated. Can you identify exactly though when you're looking at this, where the breakdown did first start?

STUMPF: You know, I don't -- I didn't read that article. I don't know what that's referring to but I know that a lot of us, including myself, should have done more earlier.

TIPTON: Thank you. Mr. Chairman, my time is up. I yield back.

HENSARLING: Gentleman yields back. The chair now recognizes the gentleman from Maine, Mr. Poliquin.

POLIQUIN: Thank you, Mr. Chairman. Appreciate it very much. Mr. Stumpf, you're the CEO and the chairman of the board of Wells Fargo. Is that correct?

STUMPF: That is correct.

POLIQUIN: How long have you had that position?

STUMPF: I was named CEO in December of 2007 and I was -

POLIQUIN: Okay. So -

STUMPF: -- named chairman in -

POLIQUIN: Right.

STUMPF: -- okay, beginning of 2010.

POLIQUIN: Okay. So six, eight, nine years in that -

STUMPF: Yes.

POLIQUIN: -- roughly in that position. How long have you been at the bank?

STUMPF: I've been at the bank -- it'll be 35 years in -

POLIQUIN: Okay. So you've been at the bank a long time and one could conclude, and I think you would agree with me, is you know the bank pretty well.

STUMPF: I -

POLIQUIN: Yeah.

STUMPF: -- love this company.

POLIQUIN: Okay.

STUMPF: Yes.

POLIQUIN: You know what really bothers me, Mr. Stumpf, along with other things, is it I'm looking at this pattern of you folks ripping off your customers, getting caught, paying a fine and going the damn thing all over again.

Now, we just had on the board a minute ago 13 instances of this in the last six years and you paid a total of $11 billion in settlement fines. Now, you just stood here before us and told us several times you know the difference between right and wrong.

You're the head banana over there. I look at you I look at Wells Fargo. I know it's a big organization, 268,000 employees, 268,000 jobs. Thank you for that, sir.

But you know something, I don't think management, which means you, knows the difference between right and wrong. And I'll you who does, the people I represent, Maine. I represent 650,000 of the most honest hardworking people you can ever find anywhere. They know the difference between right and wrong.

And one thing I want to just throw out in your lap right now, be very clear, I don't know where this is going but I will not support in any way, shape or form any kind of bailout using tax payer money for Wells Fargo. You're going to get through me, through a lot of other people on this committee.

Now, here's what I worry about. I don't worry about Wells Fargo. You have 268,000 employees. How many attorneys you got over there?

STUMPF: I don't have that number.

POLIQUIN: Okay. You have more than ten?

STUMPF: Yes.

POLIQUIN: You have more than a thousand?

STUMPF: I don't know. I don't think so.

POLIQUIN: Okay. You get a lot of attorneys, right?

STUMPF: Yes.

POLIQUIN: I don't worry about you folks. Somehow, someway, you're going to make your way through this. You know who I worry about? I worry about our 31 community banks, local banks in the district that I represent. Highly (inaudible), Mr. Stumpf. Thirty- one community banks, 500 branches, 9,200 employees.

Good paychecks, good jobs with good benefits. We also have 58 credit unions with 196 branches and 2,250 employees. These folks are relied upon in their communities. They take their paychecks and they trust the teller and they trust the bank manager. But you know what happens? Is when this happens, it flows downhill.

And that's exactly what happened in the fiscal -- excuse me, financial meltdown seven, eight years ago.

Is that all of a sudden because of a handful of -- a small handful of big money center banks that took too much risk with the problem with the regulators, I understand this, everyone was comfortable, but all of a sudden we have this very smothering set of financial regulations that are choking off home loans, mortgages to the folks of my district, they can't get a small business going to put it in diesel in large (inaudible). Now, you come along.

I don't know where this is going to go but I will tell you this, the probability will be high that your organization and the actions of you in your organization, this systemic pattern of misbehavior and gross mismanagement and it looks like fraud is going to find its way to the community banks and the folks that rely on them in Rural Maine.

You ought to be ashamed of yourself. What do you tell a family -- so what do you tell a family that is -- that was looking to add their fourth child to their family and then you (inaudible) put a new bathroom on their house in Ellsworth, Maine and they can't get along because of the regulations and now it's going to get worse? What do you tell them?

STUMPF: Senator, I'm -

POLIQUIN: Congressman.

STUMPF: Congressman -

POLIQUIN: You're asleep over there.

STUMPF: I am so sorry, Congressman. There -- I'm sorry for what we've done. Our people also live and work in these neighborhoods, in these communities and we're trying to do the right thing. I can't -

POLIQUIN: You should have been trying to do the right thing, Mr. Stumpf, during these 13 settlements, fines, call them what you want, over six years totaling $11 billion. That's the pattern that I see.

STUMPF: Well, there's no question that we've had a lot of settlements. And that everyone we've learned from and we're trying to do a better job. Thank you much.

HENSARLING: The time of the gentleman has expired. There are no members in the queue. I wish to thank our witness for his testimony today. Without objection, all members will have five legislative days within which to submit additional written questions for the witness to the chair which would be forwarded to the witness for his response. Mr. Stumpf, we will expect you and your organization to respond promptly and to fully cooperate with our ongoing investigation.

Without objection, all members will have five legislative days within which to submit extraneous materials to the chair for inclusion in the record.

This hearing stands adjourned.

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EXHIBIT C

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AN EXAMINATION OF WELLS FARGO'S SALES PRACTICES AND MANAGEMENT AND BOARD OVERSIGHT

BACKGROUND PAPER

OVERSIGHT HEARING: AN EXAMINATION OF WELLS FARGO'S SALES PRACTICES AND MANAGEMENT AND BOARD OVERSIGHT

BACKGROUND PAPER

INTRODUCTION

On September 8, 2016, the Consumer Financial Protection Bureau (CFPB), Office of the Comptroller of the Currency (OCC), and Office of Los Angeles City Attorney Mike Feuer announced they had entered into separate regulatory settlements with Wells Fargo Bank, N.A., in connection with Wells Fargo's illegal practice of opening deposit and credit card accounts that has not been requested or authorized by their accountholders. As a condition of these settlements, Wells Fargo agreed to pay full restitution to customers who had unauthorized accounts opened in their names, hire an independent consultant to conduct a thorough review of its procedures, and pay a $100 million fine to the CFPB's Civil Penalty Fund, $50 million fine to the City and County of Los Angeles, and $35 million fine to the OCC. In November, 2016, the OCC modified its settlement agreement with Wells Fargo and announced it would require the bank to obtain OCC's approval before changing any of its directors or senior executive officers or authorizing any golden parachute payments for these individuals.

The September, 2016 settlement agreements referenced above brought to light activities that had been allowed to go on at the bank at least as far back as 2011, and possibly earlier. According to Wells Fargo on the basis of an analysis performed by Pricewaterhouse Coopers (PwC), Wells Fargo employees opened as many as 1.5 million checking and savings accounts and as many as 565,000 credit card accounts that may not have been requested or authorized by their accountholders. The distribution of these accounts by state is shown on Table 1.

Table 1. Potentially Unauthorized Accounts By State[1]

State	Number of Potentially Unauthorized Deposit and Credit Card Accounts Opened
Alabama	22,795
Alaska	5,970
Arizona	178,972
Arkansas	1,310
California	**897,972**
Colorado	64,481
Connecticut	11,497
Delaware	4,255
Florida	117,752
Georgia	55,579
Hawaii	805
Idaho	14,316
Illinois	4,890
Indiana	5,222

[1] Source: Wells Fargo's written response to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, pages 88-89.

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State	Number of Potentially Unauthorized Deposit and Credit Card Accounts Opened
Iowa	12,630
Kansas	1,296
Kentucky	629
Louisiana	862
Maine	217
Maryland	15,391
Massachusetts	1,142
Michigan	2,891
Minnesota	31,238
Mississippi	2,355
Missouri	1,191
Montana	8,352
Nebraska	12,348
Nevada	53,675
New Hampshire	217
New Jersey	95,921
New Mexico	18,847
New York	24,048
North Carolina	38,722
North Dakota	1,939
Ohio	1,579
Oklahoma	761
Oregon	35,202
Pennsylvania	79,918
Rhode Island	192
South Carolina	23,327
South Dakota	4,803
Tennessee	3,534
Texas	149,857
Utah	41,686
Vermont	144
Virginia	41,703
Washington	38,861
Washington, D.C.	2,433
West Virginia	341
Wisconsin	8,922
Wyoming	2,317

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Although many of these checking and savings accounts were automatically closed by Wells Fargo when they were not funded by their accountholders, and many of these credit card accounts were automatically closed by Wells Fargo when their account holders failed to activate the cards, at least 115,000 of these potentially unauthorized accounts remained open long enough to trigger fees, which were charged to the people in whose names the accounts were opened. According to Wells Fargo, accounts for which PwC could find no clear evidence of customer authorization racked up $2.6 million in fees during the 2001 to 2015 time period examined.

On November 28, 2016, the California Senate Banking and Financial Institutions Committee will convene an oversight hearing to highlight new information that has come to light since the September settlement agreements were announced and identify key questions that remain unanswered about Wells Fargo's actions. A significant amount of this new information is contained in Appendix A, which includes responses provided by Wells Fargo to a series of questions posed by Chairman Glazer, and Appendix B, which includes responses provided by Wells Fargo to a series of questions posed by members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

WHEN WAS WELLS FARGO'S WRONGDOING DISCOVERED, BY WHOM, AND HOW WAS IT ALLOWED TO CONTINUE FOR YEARS?

Definitive answers to these and related questions are the subject of ongoing investigations and may not be known for quite some time. However, the testimony of ex-Chairman and Chief Executive Officer (CEO) John Stumpf before the U.S. Senate Committee on Banking, Housing and Urban Affairs[2], and a written response provided by Wells Fargo to members of that U.S. committee and to the California Senate Banking and Financial Institutions Committee on November 18, 2016 (see Appendix B), help shine light on some of these questions.

Wells Fargo's simplest answer provides context for the more detailed responses that follow: "This was a problem of focus. While information related to sales-practice problems existed prior to 2013, it was believed that the problem was more isolated than it actually was. We were wrong."[3]

Mr. Stumpf's written testimony and Wells Fargo's written response to the U.S. Senate Committee provide more detail on when the problems first came to light and on how Wells Fargo responded to them. For example, on September 20, 2016, John Stumpf testified before Congress that "our efforts to detect and deter unethical conduct have progressively evolved over the last five years. They were put in place out of concerns that some employees were not doing what was right for customers and were providing products to customers they did not want. For example, in 2011, we piloted our Quality-of-Sale Report Card in California, and it was implemented in 2012 across retail banking. The Quality-of-Sale Report Card was designed to,

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[2] http://www.banking.senate.gov/public/index.cfm/2016/9/an-examination-of-wells-fargo-s-unauthorized-accounts-and-the-regulatory-response

[3] Wells Fargo's written response to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, page 43.

among other things, deter and detect misconduct through monitoring of sales patterns that may correlate with unethical behavior.

"In 2011, a dedicated team (now called the Sales and Service Conduct Oversight Team) began to engage in proactive monitoring of data analytics, specifically for the purpose of rooting out sales practice violations. In addition, during 2011, Wells Fargo began to reduce the number of sales that team members would need to meet to qualify for incentive compensation. Between 2012 and 2015, we steadily reduced sales goals by up to 30% for branch-based team members.

"Along with the reduction in sales goals in 2013, we introduced an expanded set of training materials for our managers, which managers use to train bankers on ethical practices and prohibited conduct. Further, in the first quarter of 2013, we incorporated the Quality-of-Sale Report Card into the incentive compensation plan for our retail banking district managers. Starting in 2013, we further strengthened our oversight of potential sales integrity issues and revised our performance evaluation system to put less emphasis on sales goals. These revisions were made to enable bankers to earn acceptable ratings on their performance evaluations, even if they did not meet their sales goals."[4]

Further detail is found in Wells Fargo's November, 2016 follow-up responses to the U.S. Senate Committee:[5] "Prior to the summer of 2011, it was Wells Fargo's practice to address individual instances of alleged unauthorized accounts as they were brought to its attention by customers or bank team members. In 2012, the task of dealing with such complaints was assigned to the risk management function within Community Banking, which initiated a number of efforts to proactively monitor sales-integrity issues—which might include unauthorized accounts, but might also involve opening accounts that are a poor fit for the customer. This monitoring included tracking metrics such as how many accounts were funded within the first 30 days, how many accounts were closed within the first 30 days after opening, and how frequently accounts were downgraded from a higher value account type to a lower value account type. In April 2012, a report called the Quality of Sales Report Card was created to assist managers to monitor how their bankers were performing on these measures.

"In 2013, Wells Fargo conducted its first data analysis intended to identify bankers who were opening accounts in which money was initially deposited, but then removed and no further account activity occurred. This analysis was conducted out of concern that bankers might be trying to manipulate the sales-integrity metrics – particularly the rate of accounts funded within the first 30 days, by "simulating" funding of the accounts through transfers of funds. Based on the findings from this analysis, Wells Fargo's Corporate Investigations conducted an intensive investigation in the Los Angeles/Orange County region, resulting ultimately in the termination of several team members. The fact of this investigation, and some of the terminations, were what was publicized in the *Los Angeles Times* article on October 3, 2013. Wells Fargo's investigation continued into 2014 and resulted in further terminations.

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[4] Written testimony of John Stumpf before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, page 2.

[5] Wells Fargo's written response to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, page 73.

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"Based on the information learned from this initial proactive analysis, Wells Fargo began to implement changes to its policies and procedures in 2014 to attempt to mitigate the occurrence of sales-practices violations. Wells Fargo's efforts to further refine its policies and procedures and to investigate instances of sales-practices violations continued up until, and after, the Los Angeles City Attorney lawsuit was filed in May 2015. A third-party consulting firm, PricewaterhouseCoopers (PwC), was engaged in September 2015 to conduct a massive data-driven analysis of deposit and credit card accounts going back to May 2011. The results of this analysis for checking and savings accounts and credit cards were available in 2016."[6]

WHEN DID JOHN STUMPF, CARRIE TOLSTEDT, AND THE BOARD OF DIRECTORS LEARN OF THE WRONGDOING?

According to Wells Fargo, "It is our understanding that, from time to time, because of Mr. Stumpf's position, individuals would contact him directly and complain about issues and that Mr. Stumpf did receive complaints about sales-practice issues over the years. When Mr. Stumpf received such complaints, our understanding is that his practice was to forward them to the appropriate internal team, such as Human Resources, to address. Mr. Stumpf has said that he recalls learning of the increase in the number of reports of sales-practice issues in late 2013. Please note that the Independent Directors of Wells Fargo's Board of Directors have launched an investigation into sales-practice issues, and that investigation is ongoing."[7]

Further, "Wells Fargo cannot determine for certain the first time Ms. Tolstedt was told that a team member's employment was terminated for committing a sales violation. It is our present understanding that these issues were likely raised with Ms. Tolstedt in or around 2011 but the ongoing investigation by the Independent Directors of the Board of Directors and others is looking carefully at this question."[8]

Finally, "From at least 2011 forward, the Board's Audit and Examination Committee received periodic reports on the activities of Wells Fargo's Internal Investigations group (which investigates issues involving team members), as well as information on EthicsLine and suspicious activity reporting. Among other things, several of those reports discussed increases in sales integrity issues or in notifications to law enforcement in part relating to the uptick in sales integrity issues. Some reporting discussed reasons for increases in sales integrity investigations and reporting, which included improved controls, tightening existing controls, and enhancements to better facilitate referrals of potential sales integrity violations to Internal Investigations.

"Later, the Risk Committee began to receive reports from management of noteworthy risk issues, which included, among other risks, sales conduct and practice issues affecting customers and management's efforts to address those risks. The Board's Human Resources Committee also

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[6] Ibid.
[7] Id., page 30.
[8] Id., pages 25 and 76.

received a report from management that it was monitoring sales integrity in Community Banking. Sales integrity issues also were discussed periodically with the Board.

"We are not presently aware of any document or instance prior to the settlement with the CFPB that informed the Board of the total number of employees who had been terminated for misconduct related to improper sales practices. The number of terminations and the reasons for them are subjects that the Independent Directors are addressing in their investigation."[9]

WHO HAS BEEN HELD ACCOUNTABLE FOR THE WRONGDOING?

Non-Executive Level Employees: Between 2011 and 2015, Wells Fargo terminated 5,367 employees for engaging in unethical sales practices. Approximately 1,000 employees were terminated each year, a number that represents approximately 1% of Wells Fargo's total population of Community Banking team members.[10] According to a response provided by Wells Fargo to Chairman Glazer on October 29, 2016 (see Appendix A), "Approximately 65% of the terminated team members were in Personal Banker positions or functionally similar roles and 17% were in Teller positions or functionally similar roles. Over 480 managers were terminated. Most of those were Store Managers, but five District Managers and one Area President – none of whom worked in California – were also terminated. A total of 1,421 team members were terminated for sales-practice violations in California, comprising about 26% of the 5,367 terminations for sales-practice violations made nationwide."

All of the terminated individuals were employed in Wells Fargo's Community Banking Division. When asked by members of the U.S. Senate Committee on Banking, Housing and Urban Affairs if Wells Fargo was confident that the wrongdoing was limited to the Community Banking Division, Wells Fargo responded, "We believe that the activity at issue here was limited to certain team members within the Community Banking Division."[11]

The following table, excerpted from Wells Fargo's response to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, illustrates Wells Fargo's Regional Bank job classifications as of 2015 and is intended to help give context to the job classifications cited by Wells Fargo in its response to Chairman Glazer:[12]

Job Title	Median Full-Time Equivalent Base Pay
Teller	$26,187
Customer Sales and Service Representative	$31,533
Personal Banker	$38,501
Service Manager	$42,848

[9] Id., page 54.
[10] Id., page 32.
[11] Id., pages 74-75.
[12] Id., pages 1-2.

Job Title	Median Full-Time Equivalent Base Pay
Business Banking Specialist	$49,358
Store Manager	$65,012
Private Banker	$70,013
District Manager	$119,995

Executives: On September 27, 2016, Wells Fargo announced that its Board was initiating an investigation into Wells Fargo's retail banking practices and related matters. According to the press release that accompanied the announcement, "A Special Committee of Independent Directors will lead the investigation, working with the Board's Human Resources Committee and independent counsel Shearman & Sterling LLP. Chairman and CEO John Stumpf, a member of the Board, has recused himself from all matters related to the Independent Directors' investigation and deliberations.

"The Independent Directors have taken a number of initial steps they believe are appropriate to promote accountability at the Company. They have agreed with Mr. Stumpf that he will forfeit all of his outstanding unvested equity awards, valued at approximately $41 million based on today's closing share price, and that he will forgo his salary during the pendency of the investigation. In addition, he will not receive a bonus for 2016. Carrie Tolstedt, until recently Head of Community Banking, has left the Company, and the Independent Directors have determined that she will forfeit all of her outstanding unvested equity awards, valued at approximately $19 million based on today's closing share price. Ms. Tolstedt will not receive a bonus for 2016 and will not be paid severance or receive any retirement enhancements in connection with her separation from the Company. She has also agreed that she will not exercise her outstanding options during the pendency of the investigation. These initial actions will not preclude additional steps being taken with respect to Mr. Stumpf, Ms. Tolstedt or other executives as a consequence of the information developed in the investigation." [13]

On October 12, 2016, John Stumpf, who had been named CEO of Wells Fargo in June 2007 and took on the additional role of Chairman of the Board of Directors in January 2010, announced his retirement, effective immediately. He was replaced as CEO by Tim Sloan, who first joined Wells Fargo in 1987 and rose to President in November, 2015.[14]

WHY DID WELLS FARGO'S EMPLOYEES CREATE UNAUTHORIZED ACCOUNTS?

To date, Wells Fargo has not provided a definitive answer to this question. Both this Committee and members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs have posed several questions to Wells Fargo intended to better understand its incentive compensation schedules and how those schedules changed over time. Questions have also been posed

[13] https://www.wellsfargo.com/about/press/2016/independent-directors-investigation_0927
[14] https://www.wellsfargo.com/about/corporate/governance/sloan/

regarding the extent to which former employees may have been threatened with the loss of their jobs for failing to meet sales targets. Key information gained through those inquiries is summarized below and included in the appendices to this background paper. However, at the present time, it remains unclear how these incentives may have affected the behavior of the employees who engaged in the wrongdoing that is the subject of this oversight hearing and the ongoing investigations.

Incentive Compensation Practices

Lower-level Employees: "The actual incentive payouts based on sales-performance objectives (distinct from service and other performance objectives) declined from 2011 to 2015. The median incentive paid as a percentage of total salary for sales-related objectives for tellers, for example, declined from 4.6% in 2011 to 0.9% in 2015. Historically, the target incentive opportunity for overall performance objectives was approximately 3% of base compensation for tellers and approximately 10% of base compensation for personal bankers. All incentive plans were capped."[15]

Higher-level Employees: "Prior to our elimination of product sales goals, Regional Bank store managers in our retail branches earned incentive compensation based in part on the store's performance relative to store goals. If a particular store met its sales goal, the store manager would have been eligible for bonus compensation. The store manager would have been eligible for additional bonus compensation for exceeding the goal at various levels. For the purposes of context, between 2011 and 2014, the median incentive payout as a percentage of total salary earned by store managers based on sales-related performance objectives (versus incentive opportunities provided for service and other performance objectives) declined from 8.5% in 2011 to 4.0% in 2014. The median payout earned by district managers, who supervise store managers, also declined between 2011 and 2014, from 13.1% to 3.0%."[16]

Terminated Employees: "The average incentive compensation (sales and service-related) for the terminated team members was 3.3% of base salary. Sales incentives included incentives for Regional Banking products and cross-sell partner referrals. There were no specific percentages or delineation between the products, as both were components of the sales-related incentive metrics."[17]

Incentive Compensation Offered in Wells Fargo's Other Divisions: Several business groups outside of Wells Fargo's Community Banking Division also offer incentive compensation plans to some of their team members. These groups include consumer lending, wealth and investment management, wholesale bank, insurance, and capital finance. Although Wells Fargo has discontinued sales-based incentive compensation within its Community Banking Division, it has not done so in any of the other divisions where incentives can be earned based on sales. According to the bank, "None of our incentive plans currently have minimum product-specific

[15] Wells Fargo's written response to the U.S. Senate Committee on Banking, Housing, and Urban Affairs page 33.
[16] Id., page 87.
[17] Id., page 45.

sales goals as a condition of eligibility for an incentive, but many of our plans have minimum revenue or volume production thresholds that must be met to qualify for an incentive. While some of these plans use production thresholds, many are predominately commission-based and have no product, revenue, or volume goals of thresholds. Wells Fargo is currently reviewing all of its incentive compensation plans to ensure the structures and production thresholds are appropriate to the roles and do not inadvertently incent inappropriate sales practices."[18]

Punishment for Failing to Meet Product Sales Goals

"Wells Fargo cannot quantify with any degree of confidence how many team members' employments, if any, were at risk of being terminated for not meeting sales goals. The bank tracks involuntary terminations for failure to perform job duties, which can include a range of issues. It is possible that team members' employments were terminated solely for not meeting sales goals; however, Wells Fargo has safeguards in place to help ensure that managers remain focused on assessing team members' overall performance in helping customers succeed financially, not just whether they meet an individual sales goal."[19]

WHAT HAS WELLS FARGO DONE TO REMEDIATE THE DAMAGE AND PREVENT THE PROBLEM FROM REOCCURRING?

In connection the settlement agreements Wells Fargo reached with the CFPB, OCC, and LA City Attorney's Office, Wells Fargo has refunded all $2.6 million in fees it assessed on customers whose accounts may have been unauthorized. The company is also working to help identify customers who may have been harmed as a result of having unauthorized credit cards opened in their names.

According to Wells Fargo, "We are in the process of determining how many customers obtained a credit product with Wells Fargo or another company, during the time period in which their credit score may have been impacted by an unauthorized credit inquiry or existence of the trade line. While it may be difficult to calculate the precise impact for every customer, our intent is to err on the side of the customer and compensate them for impacts to their other credit accounts. This could include impacts on pricing, line or loan size, or credit decision. We have allocated significant resources to this effort and are working with the credit bureaus to develop a plan for submission to our regulators."[20]

Wells Fargo has also taken a series of initial steps, pending the completion of the Independent Directors' investigation into its sales practices. For example, Wells Fargo has eliminated product sales goals for retail bankers, branch managers, and district managers in its Community Banking division, effective October 1, 2016. It has also begun contacting accountholders, whenever it opens a new checking, savings, or credit card account in their name.

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[18] Id., pages 7-8.
[19] Id., page 32.
[20] Id., page 92.

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ONGOING REGULATORY INVESTIGATIONS

In the weeks following the September, 2016 announcement Wells Fargo's settlements with the CFPB, OCC, and LA City Attorney, additional investigations into Wells Fargo were reported by the press. Among those reportedly investigating the bank include the United States Department of Justice; several state Attorneys General, including California Attorney General Kamala Harris; and the Securities and Exchange Commission. Details of these investigations are unavailable, due to their pending nature.

APPENDIX A

WELLS FARGO'S WRITTEN RESPONSES TO QUESTIONS POSED BY SENATOR STEVEN GLAZER, CHAIRMAN OF THE CALIFORNIA SENATE BANKING AND FINANCIAL INSTITUTIONS COMMITTEE

Provided on October 29, November 6, and November 22, 2016

ANSWERS PROVIDED BY WELLS FARGO ON OCTOBER 29, 2016

Questions from California Senate Banking and Financial Institutions Committee:

1) **Incentive compensation schedules:**
   a. **Can we get comp schedules for 2009, 2011, 2013, and 2015?**

   Response: Below is a chart that identifies the primary positions in the Regional Bank, which is a line of business within the Community Banking division. It provides each position's median Full Time Equivalent (FTE) annual base pay for 2015. In addition, all team members classified as regular or part-time (i.e., those who are regularly scheduled to work 17.5 hours or more per week) are eligible for Wells Fargo-sponsored benefits, including tuition reimbursement, health insurance, dental insurance, vision insurance, life insurance, short and long term disability, paid parental leave, 401(k), and more.

Teller	CSSR	Personal Banker	Business Banking Specialist	Service Manager	Store Manager	Private Banker	District Manager
$24,752	$31,304	$36,837	$48,859	$42,037	$63,752	$69,680	$118,248

* *Data based on active population as of 12/31.*
** *Median FTE Base Pay calculated as hourly rate X 2080.*

   b. **Can we get a better idea of what percentage of a teller's or a Manager 1's total compensation is comprised of incentive comp, versus salary?**

   Response: As Wells Fargo previously announced, effective October 1, 2016, product sales goals for our Regional Bank team members in our bank branches and call centers have been eliminated. The chart below shows the median total incentive compensation as a percentage of total salary paid to team members in the Regional Bank group in 2015, as well as the median incentive compensation as a percentage of total salary that was based on sales-related performance objectives (versus incentive opportunities provided for service or other performance objectives).

	Teller	CSSR	Personal Banker 1	Personal Banker 2	Business Specialist	Service Manager	Store Manager
Total Incentive Compensation	2.1%	3.3%	4.4%	4.8%	2.0%	4.2%	6.8%
Sales Performance Objectives	0.9%	2.1%	3.2%	2.5%	1.3%	2.2%	4.8%

Wells Fargo is currently reviewing its compensation structures with respect to other Wells Fargo team members to ensure all incentive programs are properly aligned with the interests of our customers.

2) **The involuntary terminations:**

a. **What is the geographic distribution of the fired employees, by state and, within California, by region)? (i.e., how many people and at what levels were fired where?)**

Response: Approximately 65% of the terminated team members were in Personal Banker positions or functionally similar roles and 17% were in Teller positions or functionally similar roles. Over 480 managers were terminated. Most of those were Store Managers, but five District Managers and one Area President—none of whom worked in California—were also terminated. A total of 1,421 team members were terminated for sales-practice violations in California, comprising about 26% of the 5,367 terminations for sales-practice violations made nationwide.

b. **Related to this, what was the location of the one area president that was fired?**

Response: Of the approximately 5,300 team members terminated from 2011 to 2015 for sales-quality violations, the highest ranking Wells Fargo team member terminated held the position "Regional Banking Area President 2." This Area President was based in New Jersey.

c. **Were any exit interviews or other inquiries made by Wells to determine the motivations of the people who were fired? Does Wells know of any way we can determine why, exactly, the people who opened the fraudulent accounts did so?**

Response: The vast majority of team members in the Community Banking division did the right thing, but too many did not do the right thing. For example, investigations initiated in 2013 by the Corporate Investigations group resulted in the termination of 1,245 Community Banking team members for sales practice issues. That is 0.9% of the 129,570 team members who comprised Wells Fargo's Community Banking team that year.

We do not believe any exit interviews were performed with respect to the terminated team members, so it is difficult to know why these team members violated their customers' trust and Wells Fargo's ethics policy. Generally speaking, team members would have been interviewed by Internal Investigations in connection with sales practice misconduct and had the opportunity to respond to the issues raised by those investigations. We continue to examine causes of sales practice misconduct.

d. **Can we confirm what percentage of total involuntary terminations were represented by the terminations for unethical sales practices? (During our conversation, we backed into an estimate of about 1/3rd. Is that accurate?)**

Response: The approximately 5,300 terminations made for sales-quality violations represent approximately 11% of the total involuntary terminations over the time period within the Community Bank.

e. **Can we learn how many of the people who were fired for unethical sales practices were fired for reasons having nothing to do with the opening of unauthorized accounts?**

Response: The definition of improper sales practice did cover a range of activities broader than opening unauthorized accounts and included, for example, bundling, delaying in opening an account, changing email addresses in connection with online banking enrollment, and changing phone numbers to avoid customer satisfaction surveys. Many of the terminations were unrelated to the opening of unauthorized accounts.

3) **The PwC Investigation:**
   a. **What were the reasons for choosing PWC (as opposed to another accounting firm) to conduct the internal investigation?**
   b. **During our conversation, Mr. Galasso indicated that PWC had done some prior work for Wells but was unsure of what that work entailed. What prior type of work did PWC do for Wells during the last five years or so, before it was hired to conduct the internal investigation into unauthorized accounts?**
   c. **Who is the lead person for PWC on the internal investigation, and has that person had any prior experience working for PWC or another accounting firm on Wells Fargo matters?**

   Response: PricewaterhouseCoopers is a highly reputable accounting firm with which Wells Fargo has worked successfully in the past. For example, PwC had done some fair lending analysis for Wells Fargo and had consulted on other projects. PwC was therefore familiar with Wells Fargo's systems, and Wells Fargo had a high level of confidence in the integrity, thoroughness, and reliability of PwC's work. The lead person on the PwC investigation was Dr. Ric Pace. Dr. Pace had previously done work for Wells Fargo in connection with statistical reviews.

4) **Financial costs of the unauthorized accounts to Wells Fargo:**
   a. **Mr. Galasso quoted a figure of $10 million as the cost of the unauthorized accounts but wasn't sure what costs went into that $10M. Can we get more information on that? Were those costs all administrative, as Mr. Galasso speculated, or is the cost of incentive comp included in those costs?**

   Response: The unauthorized accounts cost Wells Fargo more than $10 million, far more than the income generated in fees. Specifically, with respect to the potentially unauthorized deposit accounts, $2.2 million was generated in fees while they cost the bank $8 million in administration costs, therefore resulting in $5.8 million in total net cost to Wells Fargo. And for the potentially unauthorized credit cards, $400,000 was generated in fees while the cost to the cost to the bank totaled over $5 million in administration costs, resulting in approximately $4.5 million in total net cost to Wells Fargo. Thus, the total net cost of the unauthorized accounts to Wells Fargo was approximately $10 million.
   After PwC completed its analysis, Wells Fargo promptly made direct deposits and issued checks to refund all fees, with interest. These refunds were issued, even if it could not be conclusively determined whether a particular account was actually unauthorized. Therefore, the cost to Wells Fargo of the unauthorized accounts greatly exceeded $10 million.
   b. **How much revenue did Wells realize from its interactions with the State of California last year (i.e., all California state entities for whom it did work)?**

Can Wells provide us with an estimate of the financial cost of the State Treasurer's actions on the bank?

We do not currently have this information.

c. **How much revenue does Wells realize from its interactions with local agencies in California annually? If possible, please provide a breakdown by agency.**

We do not currently have this information.

ANSWERS PROVIDED BY WELLS FARGO ON NOVEMBER 6, 2016

1. When we asked for compensation schedules, we meant incentive compensation schedules. We are still hoping to obtain your incentive compensation schedules for the years listed. The Chair is interested in seeing how those schedules evolved over time.

Historically, the target incentive payment for overall performance objectives, not just sales-related objectives, was approximately 3% of base compensation for tellers and approximately 10% of base compensation for personal bankers.

Between 2011 and 2015, the median incentive payout as a percentage of total salary earned by store managers based on *sales-related performance objectives* alone (apart from incentive opportunities provided for service and other performance objectives) declined, from 8.5% in 2011 to 4.8% in 2015. The median payout earned by district managers, who supervise store managers, also declined, from 13.1% in 2011 to 4.4% in 2015.

2. You've provided us with information regarding the Regional Bank, which you state is a line of business within the Community Banking division. What else is in the Community Banking division besides the Regional Bank? Is there a reason why you didn't provide us with information regarding the entire Community Banking division? We're just trying to put the information you provided in context, and that's hard to do without getting a better understanding of how Wells' Community Banking division is organized.

The Regional Bank is by far the largest business group within the Community Banking division, but there are other business groups within Community Banking as well. These include Distribution Strategies and Services Group, Small Business supporting customers through Business Direct, Business Payroll, and Centralized Business Relationship Management, and Business Strategy Analytics and Initiatives. During much of the time period in question, the Community Banking division also included the Business Banking and Virtual Channels[1] groups. Business Banking (with the exception of Centralized Business Relationship Management mentioned above) moved to the Wholesale division effective December 2015 and Virtual Channels moved to a newly created division, Payments, Virtual Solutions and Innovation, effective November 2016.

3. We understand that Wells has done away with product sales goals within its Regional Bank. Has Wells done away with product sales goals throughout its entire organization, or only within its Regional Bank? What about the other elements of the Community Banking division, the commercial banking division, the wealth management division, and the other divisions within Wells Fargo, N.A.?

Wells Fargo tailors its compensation structure to each line of business, the services our team members perform, compliance with applicable laws, and the best interests of our customers. All incentive compensation plans require ongoing compliance with Wells Fargo's Code of Ethics

[1] The Virtual Channels group is responsible for Wells Fargo's digital, phone, and other remote channels' strategies and capabilities.

and Business Conduct, Information Security Policy, Risk Management Accountability Policy and other employment and compliance requirements applicable to the role. Violations may subject the team member to disqualification from the plan or downward adjustments to the incentive award.

None of our incentive plans currently have minimum product–specific sales goals as a condition of eligibility for an incentive; however, many of our plans have minimum revenue or volume production thresholds that must be met to qualify for an incentive.

As Wells Fargo previously announced, product sales goals for our Regional Bank team members who serve customers in our retail branches have been eliminated. This means there are no minimum product-specific sales goals and no minimum revenue or volume production thresholds for this group of team members. However, two Community Banking business groups separate from the retail banking business—Practice Finance (which provides financial services to medical-related businesses) and Business Payroll Services—are eligible for compensation incentives. The incentive plans offered to team members in these two business groups do not involve product sales goals: Practice Finance incentives are based on funded volume goals, and Business Payroll Services incentives are based on revenue goals.

Several business groups outside Community Banking—such as Consumer Lending, Wealth and Investment Management, Wholesale Bank, Insurance, and Capital Finance—also offer incentive compensation plans to some of their team members. Many of these team members are in business development or sales roles, offering customers home mortgages, commercial loans, wealth management advice, insurance plans, or other Wells Fargo products and services. While some of these plans use production thresholds, many are predominately commission-based and have no product, revenue, or volume goals or thresholds.

Wells Fargo is currently reviewing all of its incentive compensation plans to ensure the structures and production thresholds are appropriate to the roles and do not inadvertently incent inappropriate sales practices.

4. Your answer to 2e seems inconsistent with what Bob McGahan told us on the phone last week, but perhaps I'm simply not understanding what Mr. McGahan said. I thought I understood him to say that about 90-95% of the terminations for unethical sales practices involved unauthorized accounts. Your response below says that many of the terminations were unrelated to the opening of unauthorized accounts. I'm just trying to reconcile the two statements.

The 5,367 terminated team members identified includes terminations not associated with unauthorized accounts. For example, the number includes team members who were terminated for changing customer phone numbers in order to avoid customer satisfaction surveys. It may also include some who were terminated for process violations with respect to the opening of authorized accounts.

5. During our first follow-up phone call, you stated that the $10 million figure Wells is citing as the net cost of the unauthorized accounts does not include any incentive compensation payments paid to employees. However, you weren't 100% sure of that statement and offered to go back and confirm whether your assumption was correct. The specific question we asked was, "is Wells including any incentive compensation payments

in its tally of administrative costs attributable to the opening of unauthorized accounts?" Can you please get back to us on that question?

The cost of the potentially unauthorized accounts to Wells Fargo was approximately $10 million. These figures include costs incurred by Wells Fargo directly as a result of the opening of the accounts, such as the costs of generating and mailing statements, the cost of the credit cards themselves, and incentive compensation. They do not include costs such as overhead or compensation expenses that would have been incurred even if the accounts had not been opened.

CONFIDENTIAL

Responses to Third Set of Questions from California Senator Glazer:

1. Are we correct in our understanding that Wells will automatically close a consumer demand deposit account if it is not funded within sixty days of opening?

Response: With some exceptions, Wells Fargo's current system will generally close a consumer checking or savings account at the end of its monthly service period if it has a zero balance and has gone 62 days without a customer-initiated transaction. Additionally, certain categories of consumer demand deposit accounts, if unfunded and without such customer-initiated transactions, will generally close after a longer time period.

2. When did Wells adopt this policy?

Response: This specific closure policy was implemented across the Regional Bank between 2012 and 2014. Other automatic closure processes existed prior to 2012.

3. Is it an industry norm?

Response: We are not aware of the account closure protocols used by our competitors.

4. Is there a financial disadvantage to Wells from keeping an unfunded account open? (asked another way, would Wells derive any benefit from keeping an unfunded account open)?

Response: In the current situation, fees associated with unauthorized accounts are far surpassed by the costs associated with opening and closing the unused accounts.

5. How many demand deposit accounts were closed automatically due to nonfunding during the 2011-2015 time period?

Response: Please see our response to Question 1.

6. In an e-mail sent October 29th, you provided us with the median total incentive compensation as a percentage of total salary paid to team members in the Regional Bank group in 2015, as well as the median incentive compensation as a percentage of total salary that was based on sales-related performance objectives (versus incentive opportunities provided for service or other performance objectives). You provided those figures for the job classification "teller" up through "store manager." You did not provide us with those figures for Private Bankers or District Managers. Can you please do so now?

Response: As Wells Fargo previously announced, effective October 1, 2016, product sales goals for our Regional Bank team members in our bank branches have been eliminated. The table below shows the median incentive compensation as a percentage of total salary that was based on sales-related performance objectives (versus incentive opportunities provided for service and other performance objectives) paid in the Regional Bank for the period 2011 through 2015.

Position	2011	2012	2013	2014	2015
Teller	4.6%	2.7%	3.5%	2.5%	0.9%
CSSR	4.2%	2.8%	2.7%	1.7%	2.1%
Personal Banker 1	5.2%	2.3%	2.8%	3.0%	3.2%
Personal Banker 2	7.2%	2.6%	3.4%	2.3%	2.5%
Business Specialist	10.4%	5.8%	4.5%	1.8%	1.3%
Regional Bank Private Banker	5.8%	5.7%	7.4%	7.1%	6.5%
Service Manager	6.0%	2.2%	2.7%	3.3%	2.2%
Store Manager	8.5%	2.5%	4.8%	4.0%	4.8%
District Manager	13.1%	4.0%	7.5%	3.0%	4.4%

7. **Finally, can you tell us what steps, if any, Wells Fargo has taken to hold people accountable for the unauthorized account openings, other than the 5,300 terminations and the actions involving John Stumpf and Carrie Tolstedt?**

Response: The Independent Directors of the Board of Directors of Wells Fargo announced on September 27, 2016 that they have launched an independent investigation into the Company's retail banking sales practices and related matters. A Special Committee of Independent Directors is leading the investigation, working with the Board's Human Resources Committee and outside counsel.

The Independent Directors have taken a number of initial steps to promote accountability at the Company, including—as you allude to in the question—forfeiture of compensation from Mr. Stumpf and Ms. Tolstedt.

These initial actions will not preclude additional steps being taken with respect to Mr. Stumpf, Ms. Tolstedt, or other employees as a consequence of the information developed in the investigation.

APPENDIX B

WELLS FARGO'S WRITTEN RESPONSE TO THE UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Provided to the California Senate Banking and Financial Institutions Committee on November 18, 2016

Questions for Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Company, from Ranking Member Brown:

1) **Please describe the personnel structure of the Community Banking division of Wells Fargo Bank, N.A., including:**

- **The name of each position, the description of each position's responsibilities, and whether each position is salary or hourly;[1]**

Response: The improper sales practices at issue occurred in the Regional Bank, which is a line of business within Community Banking. Below is a table that identifies the primary positions in the Regional Bank and for each position provides (1) average headcount, (2) Fair Labor Standards Act ("FLSA") overtime classification, (3) median hourly base pay, (4) median Full Time Equivalent (FTE) base pay, and (5) average annual overtime hours for nonexempt positions. The table is followed by a description of each position's responsibilities. In addition, all salaried and hourly team members classified as regular or part-time (i.e., those who are regularly scheduled to work 17.5 hours or more per week) are eligible for Wells Fargo-sponsored benefits, including health insurance, life insurance, dental and vision insurance, short- and long-term disability, 401(k) plan, and paid parental leave.

Regional Bank Job Summary

Job Title / Group	Avg. Headcount[2]	FLSA Classification	Median Hourly Base Pay[3]	Median FTE Base Pay[4]	Avg. Annual Overtime Hours[5]
TELLERS	**33,734**	**Non Exempt**	**$ 12.59**	**$ 26,187**	**17.17**
TELLER	*25,241*		*$ 12.00*	*$ 24,960*	*35.71*
LEAD TELLER	*8,493*		*$ 14.75*	*$ 30,680*	*11.64*
CUST SLS & SVC REPS	**4,931**	**Non Exempt**	**$ 15.16**	**$ 31,533**	**30.28**
CUST SLS & SVC REP-RTL (SAFE)	*1,067*		*$ 15.11*	*$ 31,429*	*47.65*
CUST SLS & SVC REP-RTL (LO)	*3,864*		*$ 15.16*	*$ 31,533*	*25.85*
PERSONAL BANKERS	**19,519**	**Non Exempt**	**$ 18.51**	**$ 38,501**	**35.75**
ASST STORE MANAGER (SAFE)	*763*		*$ 20.80*	*$ 43,264*	*86.07*
PERSONAL BANKER (SAFE) 1	*14,199*		*$ 17.25*	*$ 35,880*	*35.83*
PERSONAL BANKER REG (SAFE) 1	*379*		*$ 19.04*	*$ 39,603*	*35.01*
PERSONAL BANKER (SAFE) 2	*2,326*		*$ 21.64*	*$ 45,011*	*35.85*
PERSONAL BANKER REG (SAFE) 2	*1,853*		*$ 25.50*	*$ 53,040*	*35.20*
SERVICE MANAGERS	**7,019**	**Mixed**		**$ 42,848**	**63.86**

[1] Please note that we are responding to these Questions for the Record based on information we have available at this time. Investigations relating to these issues are ongoing, and we expect to learn more as they reach conclusions.
[2] Data reported based on 2015 annual headcount.
[3] Data reported as of September 1, 2016.
[4] Median FTE base pay calculated as hourly rate X 2080.
[5] Data reported based on 2015 overtime.

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Regional Bank Job Summary

Job Title / Group	Avg. Headcount[2]	FLSA Classification	Median Hourly Base Pay[3]	Median FTE Base Pay[4]	Avg. Annual Overtime Hours[5]
SERVICE MANAGER (LO) 1	*3,318*	*Non Exempt*	*$ 18.87*	*$ 39,250*	*63.86*
*SERVICE MANAGER (LO) 2**	*3,701*	*Exempt*	*N/A*	*$ 46,176*	
STORE MANAGERS	**5,816**	**Exempt**	**N/A**	**$ 65,021**	
*RB STORE MANAGER (SAFE) 1**	*1,983*		*N/A*	*$ 55,682*	
RB STORE MANAGER (SAFE) 2	*2,648*		*N/A*	*$ 64,792*	
RB STORE MANAGER (SAFE) 3	*1,121*		*N/A*	*$ 78,562*	
STORE MANAGER SENIOR (SAFE) 3	*65*		*N/A*	*$ 92,227*	
BUS BANKING SPECIALISTS	**1,437**	**Non Exempt**	**$ 23.73**	**$ 49,358**	**46.13**
BUSINESS BANKING SPEC (SAFE)	*1,385*		*$ 23.54*	*$ 48,963*	*45.22*
SR BUSINESS BNKG SPEC (SAFE)	*52*		*$ 25.44*	*$ 52,915*	*64.89*
PRIVATE BANKERS	**1,687**	**Mixed**		**$ 70,013**	**22.03**
RB PRIVATE BANKER UL (SAFE) 1	*76*	*Non Exempt*	*$ 31.25*	*$ 65,000*	*20.44*
RB PRIVATE BANKER (SAFE) 1	*1,100*	*Non Exempt*	*$ 31.38*	*$ 65,270*	*22.11*
RB PRIVATE BANKER (SAFE) 2	*505*	*Exempt*	*N/A*	*$ 81,557*	
WM PRIVATE BANKER (SAFE) 3	*7*	*Exempt*	*N/A*	*$ 94,078*	
DISTRICT MANAGERS	**596**	**Exempt**	**N/A**	**$ 119,995**	
REGIONAL BKG DISTRICT MGR 1	*22*		*N/A*	*$ 92,664*	
REGIONAL BKG DISTRICT MGR 2	*240*		*N/A*	*$ 104,000*	
REGIONAL BKG DISTRICT MGR 3	*334*		*N/A*	*$ 130,000*	

** Service Manager (LO) 2 and RB Store Manager (SAFE) 1 will be reclassified to nonexempt in November 2016 in anticipation of the FLSA amendments.*

The job descriptions for these positions are as follows:

Teller
Tellers in the Regional Bank primarily perform the following functions:

- Greeting customers;
- Processing transactions for customers;
- Finding ways to make financial services more convenient for customers;
- Referring customers with more complex needs to Wells Fargo bankers and other internal partners; and
- Accurately maintaining and balancing a cash drawer.

Customer Sales and Service Representative (CSSR)
CSSRs in the Regional Bank primarily perform the following functions:

- Providing excellent and prompt service in all customer interactions to ensure satisfaction;

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- Following up with customers who are referred by tellers based on confirmed needs;
- Completing teller job duties as necessary; and
- Based on the specific branch needs, a CSSR may spend a portion of his or her time handling cash transactions.

Personal Banker
Personal Bankers in the Regional Bank primarily perform the following functions:
- Having conversations with customers and conducting detailed financial reviews, offering products and services that meet their needs and help them succeed financially;
- Contacting customers by phone to follow up to ensure customer satisfaction, build relationships, and address any additional financial needs based on the customers' financial priorities;
- Setting performance objectives and working with branch manager to increase effectiveness in serving customers and meeting their financial needs;
- Building loyalty while helping customers with service requests; and
- May handle cash transactions.

Business Banking Specialist
Business Banking Specialists in the Regional Bank primarily perform the following functions:
- Proactively growing and deepening relationships with existing small business customers as well as actively prospecting for new Wells Fargo small business and retail customers;
- Attempting to earn all of the business of a small business owner, including their consumer and small business needs, while ensuring retention and exercising excellent customer service in all customer interactions;
- Championing for small business and bringing focus and attention to small business opportunities;
- Offering deposit, lending, and other small business product solutions in order to serve as an expert to meet the customer's needs and financial goals;
- Providing product delivery and service support to retail customers; and
- Reaching out into the community by visiting businesses, making outbound calls to customers, and conducting educational seminars in the community.

Service Manager
Service Managers in the Regional Bank primarily perform the following functions:
- Assisting with hiring, training, coaching and developing a highly engaged service team;
- Filling in for the Store Manager when necessary;

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- Observing, coaching, and providing feedback to ensure consistent service team performance and excellent customer satisfaction;
- Managing complex customer concerns and transactions;
- Ensuring compliance with all operational regulations, sales and service processes, policies and procedures, and completion of compliance requirements; and
- Assisting with effective scheduling, managing the Teller line, lobby management, and delegating essential tasks to ensure operational integrity while creating a positive customer experience.

Store Manager
Store Managers in the Regional Bank primarily perform the following functions:
- Developing in-depth knowledge about products and systems;
- Using initiative and good judgment to manage the branch's expense budget and lead the store to achieve projected performance;
- Supporting the Service Manager and observing, coaching, and providing feedback to the service team;
- Hiring, coaching, training, scheduling, and developing all branch team members to achieve performance objectives;
- Managing the store's compliance requirements; and
- Holding team members accountable for the delivery of exceptional customer service, performance expectations, and operational integrity.

Private Banker
Private Bankers in the Regional Bank primarily perform the following functions:
- Providing full-service banking to high-value customers and overseeing a portfolio of simple and/or packaged-product account relationships;
- Consulting with customers regarding financial needs, recommending product/solutions, and financial services to meet those needs;
- Resolving inquiries, opening and servicing accounts such as checking, savings, credit/loan, and identifying investment opportunities;
- Partnering and/or acting as a liaison to other business partners and working to deepen customer relationships by offering partner products and services to existing clients; and
- Building a network of internal and external sources and resources to further enhance the customer experience and meet the customer's needs.

District Manager
District Managers in the Regional Bank primarily perform the following functions:
- Managing multiple Wells Fargo locations, each with one line of business that provide products and services to a designated marketplace;

- Developing and implementing sales and service strategy, as well as the locations' retail banking, marketing, and performance plans;
- Working with staff to develop and implement individual performance objectives against established standards;
- Managing the relationship with various partner business entities to ensure the ability to deepen customer relationships along with managing service quality to ensure ongoing customer satisfaction;
- Serving as the sales product and services manager and providing formal and informal training;
- Implementing and maintaining prescribed security controls while managing within the framework of Wells Fargo standards, policies, and procedures; and
- Actively participating and representing Wells Fargo in various community, civic, and professional organizations.

- **The number of employees in each position;**

  Response: Please see the response to the first bullet point of Question 1 above for additional detail. Currently, approximately 75,000 team members work in the Regional Bank.

- **The median salary of each salaried position;**

  Response: Please see the response to the first bullet point of Question 1 above.

- **The median hourly wage of each hourly position;**

  Response: Please see the response to the first bullet point of Question 1 above.

  Wells Fargo has set its own minimum pay at $12.00/hour effective March 2016, which is significantly higher than the federal minimum wage of $7.25. In addition, all salaried and hourly team members who are classified as regular or part-time (i.e., regularly scheduled to work 17.5 hours or more per week) are eligible for Wells Fargo-sponsored benefits, including tuition reimbursement, health care insurance, dental insurance, vision insurance, life insurance, short- and long-term disability, 401(k) plan, and paid parental leave.

- **Average overtime hours worked for each position; and**

  Response: Please see the response to the first bullet point of Question 1 above.

  Wells Fargo's policy states that non-exempt team members are compensated for all hours worked, including all overtime hours. Wells Fargo's Team Member Handbook states:

  > *If you're in a nonexempt position, you are entitled to pay for all hours actually worked, even those exceeding your regular schedule or those not authorized before working them. Therefore, you must report all hours worked in Time Tracker.*

  Wells Fargo supports and enforces this policy and wage and hour compliance.

- **Whether each position is considered to be exempt or nonexempt for FLSA purposes and the justification for any exemptions.**

  Response: Please see the response to the first bullet point of Question 1 above.

  At the time each new job is created, Wells Fargo completes an analysis of job duties to determine FLSA classification. The Wells Fargo Compensation Team also periodically reviews jobs or adjusts job classification as necessary in accordance with current regulations and court decisions.

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Questions for Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Company, from Senator Menendez:

1) **When did Wells Fargo first institute cross-selling strategies in the Community Banking Division? When did Wells Fargo first start encouraging employees to engage in strategies to boost sales, including but not limited to gaming, pinning, sandbagging, bundling, and simulated funding? Please provide copies of any company materials sent to retail banking employees regarding cross-selling strategies.**

   Response: "Cross-selling" is the term Wells Fargo uses to describe its strategy for deepening its relationships with its customers, and this strategy has been present in some form at Wells Fargo since at least 1999.[6] Wells Fargo offers a variety of financial products and services. When an existing customer has a financial need that Wells Fargo can fulfill with a product or service that the customer does not have, Wells Fargo wants to ensure that the customer is made aware that the Company can fulfill that particular financial need. To do this, Wells Fargo trains our team members to listen to our customers, consider their financial needs, determine which Wells Fargo product or service can fulfill that need, and offer that product or service to the customer.

   This approach is called needs-based selling, and it is the essence of Wells Fargo's cross-selling strategy. This strategy enables Wells Fargo to deepen its relationships with its customers because Wells Fargo is fulfilling more of our existing customers' financial needs. Cross-sell numbers are therefore one metric for measuring relationship depth, and Wells Fargo has traditionally encouraged its team members to build and maintain strong customer relationships through needs-based selling. It does not benefit either Wells Fargo or its customers to open accounts that our customers do not need, use, or want.

2) **When did Wells Fargo first institute product sales goals in the Community Banking Division? Please provide details on the structure of the sales goals and the specific thresholds employees were required to meet.**

   Response: Product sales goals have been present at Wells Fargo in some form since at least the early 2000s. The specific goals have varied across markets and years, and from 2012 to 2015, Wells Fargo steadily reduced sales goals for Regional Bank team members. Wells Fargo has now eliminated product sales goals entirely for Regional Bank team members who serve customers in our retail branches, effective October 1, 2016.

3) **For the employees required to meet product sales goals in the Community Banking Division, on average, what percentage of their pay was based on meeting and/or exceeding sales thresholds?**

   Response: Please see question 7, below.

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[6] Wells Fargo, 1999 Annual Report, at 7 (available online at http://www.wellsfargohistory.com/download/annualreports/1999annualreport_wf.pdf).

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4) **Has there been any attempt to quantify how many customers succumbed to pressure from bank employees to sign up for bank products they did not need or want? Will Wells Fargo attempt to identify these customers?**

Response: Wells Fargo has worked to contact holders of an open consumer or small business credit card account that the third-party consulting firm, PricewaterhouseCoopers (PwC) identified as never having been used and never having been "fraud activated" by the customer calling an 800 number after receiving the card, unless there were indications of customer consent, under the assumption that non-activation may indicate a customer's lack of desire or need for the account. The purpose of contacting these inactive credit card accountholders is to determine whether they want these credit cards. Approximately 25 percent have informed the bank that they either did not apply, or did not recall whether or not they applied, for their card. For those customers who want the credit card, the card will remain open. For those customers who want the credit card, the account will remain open. For any customer who does not want their credit card, Wells Fargo is closing the account and correcting credit bureau reporting. This means we are removing the account from the customers' credit reports going forward and suppressing the existence of the inquiry so that it is not viewable to other lenders or requestors. (The Fair Credit Reporting Act prohibits us removing the inquiry altogether and it will still be visible to customers pulling their own credit reports.) These results demonstrate that PwC's findings were over-inclusive, containing accounts where the customer authorized the opening of the account.

5) **Does Wells Fargo utilize cross-selling strategies or other similar initiatives across any of its other divisions? If so, please describe the structure of the sales programs and any related incentives.**

Response: Businesses may sometimes use the terms "referral program" and "cross-sell" interchangeably. These programs exist across the Company and might typically involve:

- A line of business referring a customer to another group or line of business at Wells Fargo for a product or service offered by that separate group; or
- A line of business that is unable to approve a customer's request for a product, helping the customer pursue an alternative product or service from another line of business.

Please refer to our answer to question 6, below, for additional information on this topic.

6) **Does Wells Fargo provide compensation incentives based on meeting product sales goals in any of its other divisions? If so, please describe the structure of the programs and the specific thresholds employees are required to meet.**

Response: Wells Fargo tailors its compensation structure to each line of business, the services our team members perform, compliance with applicable laws, and the best interests of our customers. Incentive compensation plans require ongoing compliance with Wells Fargo's Code of Ethics and Business Conduct, Information Security Policy, Risk Management Accountability Policy, and other employment and compliance requirements applicable to the role. Violations may subject the team member to disqualification from the plan or downward adjustments to the incentive award.

None of our incentive plans currently have minimum product-specific sales goals as a condition of eligibility for an incentive; however, many of our plans have minimum revenue or volume production thresholds that must be met to qualify for an incentive.

As Wells Fargo previously announced, product sales goals for our Regional Bank team members who serve customers in our retail branches have been eliminated. This means there are no minimum product-specific sales goals and no minimum revenue or volume production thresholds for this group of team members. However, two Community Banking business groups separate from the retail banking business—Practice Finance (which provides financial services to medical-related businesses) and Business Payroll Services—are eligible for compensation incentives. The incentive plans offered to team members in these two business groups do not involve product sales goals: Practice Finance incentives are based on funded volume goals, and Business Payroll Services incentives are based on revenue goals.

Several business groups outside Community Banking—such as Consumer Lending, Wealth and Investment Management, Wholesale Bank, Insurance, and Capital Finance—also offer incentive compensation plans to some of their team members. Many of these team members are in business development or sales roles, offering customers home mortgages, commercial loans, wealth management advice, insurance plans, or other Wells Fargo products and services. While some of these plans use production thresholds, many are predominately commission-based and have no product, revenue, or volume goals or thresholds.

Wells Fargo is currently reviewing all of its incentive compensation plans to ensure the structures and production thresholds are appropriate to the roles and do not inadvertently incent inappropriate sales practices.

7) **How many Wells Fargo employees, across all divisions, are eligible to receive compensation based on meeting and/or exceeding product sales goals? For those employees, on average, what percentage of their pay is based on meeting and/or exceeding product sales goals?**

Response to Questions 3 and 7: Please see our response to Question 6 above for information about Wells Fargo's incentive plans across divisions that require minimum production thresholds (i.e., may be minimum revenue or minimum volume) as a condition of eligibility for incentive compensation. There are no minimum product-specific sales goals.

With respect to the Regional Bank team members, as Wells Fargo previously announced, effective October 1, 2016, product sales goals for our Regional Bank team members in our bank branches have been eliminated. Leading up to the elimination of product sales goals, the actual incentive payouts based on sales-related performance objectives (distinct from service and other performance objectives) declined considerably: the median incentive paid as a percentage of total salary for sales-performance incentives for tellers, for example, declined from 4.6% in 2011 to 0.9% in 2015. Historically, the target incentive payment for overall performance objectives, not just sales-related objectives, was approximately 3% of base compensation for tellers and the target for the majority of personal bankers was approximately 10% of base compensation. All incentive plans were capped.

We are currently reviewing our compensation structures with respect to other Wells Fargo team members to ensure all incentive programs are properly aligned with the interests of our customers.

8) **What does Wells Fargo plan to do to address the issue of the bank targeting individuals holding Mexican Matricula Consular Cards, as raised in the Los Angeles City Attorney's May 5, 2015 complaint?**

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

9) **Please provide the proportion of the employees terminated who are: racial/ethnic minorities, military/veterans, and persons with disabilities.**

Response: Of the 5,300 team members whose employments were terminated for sales-integrity violations from 2011 to 2015, 39% were white, 33% were Hispanic, 15% were black/African-American, 1.9% self-identified as veteran, and 0.7% self-identified as having a disability.

10) **How does Wells Fargo plan to address and remediate the multiple reports of former employees who were fired or demoted after refusing to open fake accounts, including those employees who called the bank's ethics hotline about what they had witnessed? What steps will Wells Fargo take to reform its internal processes to ensure that employees have a mechanism to report fraudulent and illegal practices without facing retribution from their managers or the bank at large? How will Wells Fargo ensure the anonymity of employees who raise flags about questionable practices or behavior?**

Response: Wells Fargo has long had internal processes in place for team members to raise issues or concerns through multiple channels, including managers, HR, Compliance, and/or the EthicsLine. We encourage team members to speak up if they experience or witness something that makes them feel uncomfortable and have measures in place to protect team members from retaliation. The EthicsLine provides team members with a confidential way to report possible violations of Wells Fargo's Code of Ethics and Business Conduct or any laws, rules, or regulations. Team members have the option to remain anonymous through the EthicsLine. It is available to all team members (U.S. and international) 24 hours a day, seven days a week, via toll-free telephone or online web reporting. 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 ensure team member confidentiality and preserves anonymity when requested.

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All team members who call the EthicsLine are provided with an EthicsLine ID that is associated with their EthicsLine Report. Team members who elect to remain anonymous are asked to either call back to the EthicsLine or log into the EthicsLine Web Portal in ten calendar days to provide additional information or answer any questions relating to their report. To further protect the integrity of the confidential hotline, the vendor does not record any data related to the incoming telephone calls or web reports. Team members who self-identify are advised that since they provided their name and contact information, Wells Fargo now has the option to contact them directly if needed. They are also told they can call the EthicsLine at any time to provide additional information.

Interview specialists with the EthicsLine vendor listen, ask clarifying questions if necessary, and then write a summary report of the call. The summary is then provided to Wells Fargo's Office of Global Ethics and Integrity for assessment and referral to the appropriate review team.

Wells Fargo takes measures to protect team members from retaliation, including maintaining confidentially during the review process. Specifically:

- All reports of suspected unethical or illegal activities are taken seriously and measures are in place to ensure concerns are promptly evaluated and reviewed.

- The review of concerns in many cases will require a fact-finding that may involve interviews with individuals the Company determines may have information relevant to the underlying issue or concern. However, management of any review and updates regarding facts, progress, and outcomes are limited to only those who have a legitimate business need to know.

- It may be possible in some cases for the researcher/investigator to determine the identity of the team member due to the nature of the issue reported and the information shared by the team member. However, the researcher/investigator would not ask the team member to self-identify as the person who made the EthicsLine Report.

In no circumstances is the team member told the specifics about any corrective action taken against another team member as it is not Wells Fargo's practice to discuss confidential information regarding one team member with another. Wells Fargo will only share information regarding the review, including any corrective action taken, with those who have a legitimate business need to know.

Wells Fargo's Nonretaliation Policy, which is available to all team members in the Team Member Handbook and reiterated in the Code of Ethics and Business Conduct, mandates that no team member may be retaliated against for providing information in good faith about suspected unethical or illegal activities, including fraud, securities law, or regulatory violations, or possible violations of any Wells Fargo policies. Retaliatory behavior has always been, and continues to be, grounds for corrective action, up to and including termination of employment. Team members who believe that they or someone else has been retaliated against for reporting an issue are instructed to report it as soon as possible to their supervisor or manager, HR Advisor team, or Corporate Employee Relations, to ensure that a prompt review is conducted and, where appropriate, corrective action is taken. Team members can also report retaliation concerns via the EthicsLine.

Wells Fargo has additional safeguards to prevent any form of retaliation, including the fact that Wells Fargo's Human Resources personnel are typically consulted in every termination decision. Additionally, team members whose employments have been terminated may utilize Wells Fargo's termination review process to request to have that decision reviewed by a Corporate Employee Relations professional who was not previously consulted in the termination decision.

To further strengthen our program and foster an environment where all team members feel comfortable escalating matters without fear of retaliation, we are making improvements to the program, including:

- Enhancing our Company-wide standards to ensure a consistent team member experience and safeguards, regardless of the type of issue reported or which group is conducting the research or investigation.

- Reinforcing our standards and processes that protect team members from retaliation. This will include requiring that the appropriate review unit evaluating the underlying issues or concerns must provide a reminder of the Company's Nonretaliation Policy to all individuals interviewed or contacted as part of the review, as well as all managers who may be part of any corrective action decisions arising out of the review.

- Ensuring that reports of suspected unethical or illegal activities are evaluated, investigated, and appropriately escalated in a timely and confidential manner by continually monitoring and refining our EthicsLine research and investigative processes. This will include the adoption of Speak Up, Investigative, and Nonretaliation Standards to help guide the research and investigative process.

- Creating additional training, communications, and resources to help team members understand their responsibilities under the Code of Ethics and Business Conduct and related policies, the importance of speaking up, and what to do when faced with an ethical dilemma.

With respect to allegations from former team members who claim that their employment was terminated or they were demoted after refusing to open unauthorized accounts and/or after reporting concerns to the EthicsLine, we are reviewing each of the situations. As described above, team members have the option to raise concerns anonymously, so Wells Fargo likely will not have records identifying former team members who raised concerns anonymously through the EthicsLine. Nevertheless, Wells Fargo is taking steps to review such corrective action decisions where possible and has engaged outside consultants to help us with this review. Moreover, Wells Fargo has established a process to enable former team members who contact the Company today to request a review of their termination, even if they did not utilize the Company's termination appeal and review processes at the time of their departure. Former team members who did utilize the Company's appeal processes in the past will be provided with an additional review. Former team members who express interest in reemployment and are deemed to be eligible for reemployment through this review process will be able to work with a special recruiting team to assist in exploring opportunities at Wells Fargo.

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Questions for Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Company, from Senator Reed:

1) **Through the lens of my service on both this Committee and the Armed Services Committee, I have been focused on the well-being of our service members in the consumer finance marketplace because predatory lending and personal financial issues can have a real impact on military readiness. This is why I worked on a bipartisan basis to establish the Office of Service member Affairs at the CFPB. Can you please tell me how many of the harmed customers are service members or veterans?**

   Response: Wells Fargo is committed to serving our service member customers. We are grateful for their significant sacrifices to our country and are honored to serve their banking needs.

   We asked PricewaterhouseCoopers (PwC) to analyze approximately 82 million deposit accounts for instances of potential simulated funding and approximately 11 million credit card accounts for instances of lack of authorization. The accounts reviewed were opened between 2011 and 2015. Of the accounts reviewed, PwC found that approximately 623,000 consumer and business credit card accounts ***could have been*** unauthorized, and approximately 1.5 million deposit accounts ***could have*** experienced simulated funding, that is, the unauthorized deposit and withdrawal of funds intended to create the false appearance that the account was being used by the customer. PwC ***did not*** conclude that any of these accounts were unauthorized and/or experienced simulated funding; it just could not rule out these possibilities. In that way, its analysis of credit card authorization and potential simulated funding in deposit accounts was designed to be over-inclusive. We took this intentionally expansive approach because we were willing to refund fees to customers who in fact approved account openings, but subsequently allowed the accounts to lapse, so that we did not exclude customers who may have suffered harm.

   We have found indications that the PwC number includes accounts where the customer authorized its opening. For example, Wells Fargo has worked to contact customers with open, inactive credit card accounts identified by PwC (i.e., the customers with accounts that could have been unauthorized) to determine whether they want these credit cards. Approximately 25 percent have informed the bank that they either did not apply, or did not recall whether or not they applied, for their card.

   Of the 2.1 million accounts that PwC identified, 5,089 accounts were associated with customers who are identified in the Defense Manpower Data Center (DMDC) as being active duty, reserve, or National Guard. In other words, less than 0.3% of the accounts identified by PwC were associated with customers who are identified in the DMDC.

   We are committed to making it right for all customers—including any customer who is a service member or veteran. This includes refunding any fees that were assessed on unauthorized accounts, correcting credit bureau reporting, and addressing any other forms of harm.

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2) **In the most recent proxy statement dated March 16, 2016, Wells Fargo discloses its intention to structure compensation packages so that they are tax deductible under Section 162(m) of the Internal Revenue Code. In Wells Fargo's last tax filing, what was the value of these 162(m) deductions? What is the cumulative value of these 162(m) deductions taking into account the value of each and every 162(m) deduction Wells Fargo has ever taken?**

Response: Wells Fargo is proud to be a valuable partner to the communities we serve and pays all required federal, state, and local taxes.

Wells Fargo reports executive compensation on its federal income tax return according to the rules in the Internal Revenue Code, including the rules under Section 162(m). The amount of executive compensation paid by Wells Fargo is reported on its proxy statement filed annually pursuant to the Securities Exchange Act of 1934. For example, Wells Fargo's 2015 proxy statement reports that the 2015 compensation paid to Wells Fargo's executive leadership was as follows:[7]

Name and Principal Position	**Salary ($)**	**Stock Awards ($)**	**Non-Equity Incentive Comp. ($)**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)**	**All Other Comp . ($)**	**Total ($)**
John G. Stumpf ***Chairman & CEO***	2,800,000	12,500,054[8] (dollar value on date of grant of 2015 Performance Shares at "target"—actual will be determined in the first quarter of 2018 and may range from zero to 150% of the target shares, depending on Company performance)	4,000,000[9] (833,333 of which was paid in Restricted Share Rights that vest over three years)	N/A	18,550	19,318,604
John R. Shrewsberry	1,700,000	6,500,036	850,000	3,395	18,550	9,071,981

[7] Wells Fargo, 2016 Proxy Statement, at 57 (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516506771/d897049ddef14a.htm).
[8] Mr. Stumpf agreed to forfeit this award. *See* Wells Fargo, "Independent Directors of Wells Fargo Conducting Investigation of Retail Banking Sales Practices and Related Matters (press release)" (Sept. 27, 2016) (available online at https://www.wellsfargo.com/about/press/2016/independent-directors-investigation_0927/).
[9] Mr. Stumpf agreed to forfeit this award. *See Id.*

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Name and Principal Position	Salary ($)	Stock Awards ($)	Non-Equity Incentive Comp. ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Comp . ($)	Total ($)
Senior Executive Vice President & CFO		(approximately 5,500,000 of this amount consists of Performance Shares, the actual value of which will be determined in the first quarter of 2018 and may range from zero to 150% of this amount, depending on Company performance; approximately 1,000,000 consists of Restricted Share Rights which will vest over four years beginning on the first anniversary of the grant date)				
Timothy J. Sloan *President & COO*	2,000,000	8,000,084 (approximately 6,500,000 of this amount consists of Performance Shares, the actual value of which will be determined in the first quarter of 2018 and may range from zero to 150% of this amount, depending on Company performance; approximately 1,500,000 consists of Restricted Share Rights which will	1,000,000	20,054	18,550	11,038,688

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Name and Principal Position	**Salary ($)**	**Stock Awards ($)**	**Non-Equity Incentive Comp. ($)**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)**	**All Other Comp. ($)**	**Total ($)**
		vest over four years beginning on the first anniversary of the grant date)				
David M. Carroll ***Senior Executive Vice President (Wealth and Investment Management)***	1,700,000	6,500,036 (approximately 5,500,000 of this amount consists of Performance Shares, the actual value of which will be determined in the first quarter of 2018 and may range from zero to 150% of this amount, depending on Company performance; approximately 1,000,000 consists of Restricted Share Rights which will vest over four years beginning on the first anniversary of the grant date)	850,000	25,620	18,550	9,094,206
Avid Modtjabai ***Senior Executive Vice President (Consumer Lending)***	1,700,000	6,500,036 (approximately 5,500,000 of this amount consists of Performance Shares, the actual value of which will be determined in the first quarter of 2018 and may range from zero to 150% of this amount, depending	850,000	9,254	18,550	9,077,840

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Name and Principal Position	Salary ($)	Stock Awards ($)	Non-Equity Incentive Comp. ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Comp. ($)	Total ($)
		on Company performance; approximately 1,000,000 consists of Restricted Share Rights which will vest over four years beginning on the first anniversary of the grant date)				
Carrie L. Tolstedt ***Senior Executive Vice President (Community Banking)***	1,700,000	6,500,036[10] (approximately 5,500,000 of this amount consists of Performance Shares, the actual value of which will be determined in the first quarter of 2018 and may range from zero to 150% of this amount, depending on Company performance; approximately 1,000,000 consists of Restricted Share Rights which will vest over four years beginning on the first anniversary of the grant date)	850,000	23,095	18,550	9,091,681

3) In the Consent Order with the CFPB, Wells Fargo agreed not to take advantage of tax loopholes to write off portions of fines and civil penalties from its federal taxes. But

[10] The Independent Directors determined in September, 2016 that Ms. Tolstedt would forfeit all outstanding equity awards.

because loopholes in the tax code are so broad and unclear, Wells Fargo could still claim a business deduction for money it reimburses to its victims. Your company agreed to pay consumers for the harm it caused, and it should pay in full without help from American taxpayers. Will you commit now that Wells Fargo will not take any deduction for the amounts it pays under the Consent Order?

Response: Wells Fargo is currently reviewing these issues as they relate to various tax implications. As noted in our response to Question 2 above, Wells Fargo pays all required federal, state, and local taxes.

4) **In light of the revelations of unauthorized accounts being opened, could you please describe how you are confident Wells Fargo is still in compliance with anti-money laundering rules and regulations?**

Response: Wells Fargo has policies, procedures, and internal controls that are reasonably designed to comply with applicable anti-money laundering laws and regulations.

5) **Did you or any member of the Wells Fargo Operating Committee specifically notify Wells Fargo employees in writing that using a customer's identification information to open unauthorized accounts would not only be unethical, but also unlawful? If so, please provide this written material, indicating the date(s) on which this material was shared with employees.**

Response: Language prohibiting the opening of unauthorized accounts has existed for several years in sales integrity and ethics training materials, and as part of essential learning paths, among other communications Wells Fargo makes to its team members.

Additionally, business ethics are discussed in quarterly Company-wide town halls. Specifically, Mr. Stumpf addressed the unauthorized accounts issues during a town hall meeting following the December 2013 *Los Angeles Times* story. During that town hall, Mr. Stumpf informed team members that he "want[ed] to address" the issues discussed in the article "head on." Of note, he said:

> Our culture is about service. We want to help our customers succeed financially, and we're not in the product pushing business. Think of . . . yourselves [] no matter what business you're in, whether you help those who service our external customers or if you serve them directly, I think of all of us as being financial physicians. We meet our customers . . . and we have a conversation with them. And we listen carefully for their needs. And once we discover a need, we then through our skill set, understanding, and experience, our value-add, we offer a product or a service or a series of products and services to help them. We don't try to sell them something that they don't need or don't want[.][11]

[11] Hollywood, FL, Town Hall, February 5, 2014 (Transcript on file).

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> Here's my ask of you and for everybody listening today. If you believe that your team, your boss, your boss' boss somehow is putting pressure on you to sell things that your customers don't want, don't need, raise your hand. . . . And if you're not comfortable doing that, there's an anonymous . . . ethics line, [or you can] talk to somebody in HR. We want to do the right thing. We're in the long-term business.

6) **As of September 20, 2016, is it still possible that unauthorized customer accounts may be opened by Wells Fargo employees?**

7) **What changes have you made to better protect the identification information of your customers so that unauthorized accounts are never opened again?**

Response to Questions 6-7: Wells Fargo has made several recent changes to its policies and practices to enhance oversight, expand customer transparency, and improve the customer experience. We would like to highlight the following points:

- We have named a new head of our retail banking business.
- We have also changed the retail banking business's risk management processes. This is consistent with the reorganization of enterprise functions we have conducted across the Company to create a stronger risk and control foundation that allows senior team members across the Company to provide more independent, credible challenges to how we operate.
  - To this end, we are transitioning a number of control functions out of the lines of business, which includes Community Banking, and centralizing them within Wells Fargo's independent corporate Risk function, which will be responsible for sales-practice oversight, as well as establishing an independent Sales Practices Office.
- We have made system and process enhancements, including sending automated confirmation emails to our customers when a new personal or small business checking account or a savings account is opened; and acknowledgements are also sent for credit card applications. We are also working to improve multi-factor authentication to protect our customers' information, and signatures are captured electronically approximately 99% of the time for new checking, savings, and credit card applications. In addition, we are closing automatically inactive new deposit accounts that, after 62 days, have a zero balance, without assessing a monthly fee.
- This year alone, we have committed more than $50 million to enhanced quality assurance monitoring.
- We have expanded an independent third-party mystery shopper program, adding risk professionals to provide greater oversight, and expanding our customer complaint servicing and resolution process.
- We are surveying team members to understand their views on our Company's approach to ethics and integrity.

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- We also have commenced the process with our regulators to engage an independent consultant to review sales practices in Community Banking. In addition, we will be engaging external consultants to review sales practices across the Company.
- And we will be engaging outside independent culture experts to help us understand where we have cultural weaknesses that need to be strengthened or fixed.

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Questions for Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Company, from Senator Merkley:

In the case of *Gutierrez v. Wells Fargo*, Judge William Alsup found Wells Fargo guilty of manipulating the order of its customers' transactions from 2004 to 2008 in order to maximize overdraft fees. Judge Alsup found that Wells Fargo reordered transactions, charging the largest transaction first rather than charging the transaction in chronological order. By reordering the transactions, Wells Fargo ensured that the consumer's bank account was depleted faster and the bank would be able to charge a higher number of overdraft fees.

1) **After the 2008 lawsuit, are you aware of any more instances and/or cases where Wells Fargo was accused of engaging in reordering?**

2) **If so, please list the instances and/or cases.**

Response to Questions 1-2: Many banks, including Bank of America, Capital One, Citibank, Citizens Bank, HSBC Bank, JP Morgan Chase Bank, KeyBank, TD Bank, U.S. Bank, and Union Bank have confronted lawsuits alleging transaction reordering. Several of the lawsuits filed against Wells Fargo (and Wachovia, with which it merged in 2008) have been dismissed, including *Phillip Pena v. Wachovia Bank, N.A.* (D.N.J., Case No. 1:08-5263); *Vollmer v. Wachovia Bank, N.A.* (N.D. Ga., Case No. 1:09-560); *Poulin, et al. v. Wachovia Bank, N.A.* (S.D. Fla., Case No. 09-cv-21863-JLK); *Williams v. Wachovia Bank, N.A.* (N.D. Cal., Case No. 3:09-5622); *Green, Jr. v. Wachovia Bank, N.A.* (N.D. Ga., Case No. 1 10-1176); *Churchwell v. Wells Fargo Bank, N.A.* (S.D. Fla., Case No. 1:09-cv-23153); *McMillan v. Wells Fargo Bank, N.A.* (N.D. Cal., Case No. 3:08-5739); *Egan v. Wells Fargo Bank, N.A.* (D. Col., Case No. 1:09-253); *Mortenson v. Wells Fargo Bank, N.A.* (D. Nev., Case No. 3:09-65); *Ray v. Wells Fargo Bank, N.A.* (N.D. Cal., Case No. 3:09-4700); *Mitchell v. Wells Fargo Bank, N.A.* (S.D. Tex., Case No. 4:09-2578); *Preston & Assoc. Int'l v. Wells Fargo Bank, N.A.* (D. Col., Case No. 1:09-2940); *Braden v. Wells Fargo Bank, N.A.* (C.D. Cal., Case No. 2:10-3423); *Townsend v. Wells Fargo Bank, N.A.* (C.D. Cal., Case No. 2:10-550); and *Kennedy v. Wells Fargo Bank, N.A.* (N.D. Cal., Case No. 3:11-01222).

The remaining cases brought against Wells Fargo and Wachovia have been consolidated in a multidistrict litigation proceeding in the United States District Court for the Southern District of Florida. These cases include *Garcia, et al. v. Wachovia Bank, N.A.* (S.D. Fla., Case No. 1:08-cv-22463-JLK); *Spears-Haymond v. Wachovia Bank, N.A.* (S.D. Fla., Case No. 1:09-cv-21680-JLK); *Dolores Gutierrez v. Wells Fargo Bank, N.A.* (S.D. Fla., Case No. 1:09-cv-23685-JLK); *Martinez v. Wells Fargo Bank, N.A.* (S.D. Fla., Case No. 1:09-cv-23834); and *Zankich v. Wells Fargo Bank, N.A.* (S.D. Fla., Case No. 1:09-cv-23186-JLK). The consolidated cases against Wells Fargo and Wachovia are currently on appeal to the Eleventh Circuit.

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Earlier this month Wells Fargo admitted to opening 2 million unauthorized bank accounts and credit cards. Given the recent revelations of unauthorized activity committed by Wells Fargo, along with a history of reordering transactions, your consumers deserve to know if they were unknowingly opted-in to overdraft protection.

3) **During your tenure, has Wells Fargo ever enrolled customers in overdraft protection without their knowledge or authorization?**

4) **If yes, how many customers were opted-in to overdraft protection without their authorization?**

Response to Questions 3-4: Wells Fargo is committed to providing only those services that our customers need or want, including overdraft services. The reviews to be undertaken will examine this issue. Customers are encouraged to contact us if they have any issues or concerns.

Please note that Wells Fargo has not "admitted to opening 2 million unauthorized bank accounts and credit cards." That figure refers to accounts that ***could have been*** unauthorized. Please see our Response to Sen. Reed's Question 1 for additional details.

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Questions for Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Company, from Senator Sasse:

1) **I'd like to discuss how this scandal impacted Nebraska.**

   a. **Of the roughly 5,300 employees who were fired, how many of them worked in Nebraska?**

   Response: Of the approximately 5,300 Wells Fargo team members whose employments were terminated for sales-integrity violations from 2011 to 2015, 47 worked in Nebraska.

   b. **During the 2011 through 2015 period covered by the CFPB's fine, were any Wells Fargo employees fired for failing to meet sales quotas? If so, how many?**

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

   Response to Question 1, subparts (b-c): Wells Fargo cannot quantify with any degree of confidence how many team members' employments, if any, were terminated, solely for not meeting sales goals. The bank tracks involuntary terminations for failure to perform job duties, which can include a range of issues. It is possible that team members' employments were terminated solely for not meeting sales goals; however, Wells Fargo has safeguards in place to help ensure that managers remain focused on assessing team members' overall performance in helping customers succeed financially, not just whether they meet an individual sales goal. This includes a strong performance management program, which provides for coaching and feedback to help team members succeed, involvement of Human Resources in disciplinary decisions, including termination decisions, and a termination review process undertaken by the Employee Relations function that is independent of the members of business management who made the termination decision. Additionally, Wells Fargo has established a process to enable former team members who contact the Company today to request a review of their termination, even if they did not utilize the Company's termination appeal and review processes at the time of their departure. Former team members who did utilize the Company's appeal processes in the past will be provided with an additional review. Former team members who express interest in reemployment and are deemed to be eligible for reemployment through this review process will be able to work with a special recruiting team to assist in exploring opportunities at Wells Fargo. All of the team members referenced in Question 1(a) were terminated for sales-integrity violations, not for failing to meet product sales goals.

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

Response: The majority held personal banker (51%) or teller (23%) positions at the time of termination. The other team members who were terminated were employed in a variety of Regional Bank roles, including Customer Sales & Service Representative, Business Banking Specialist, Assistant Store Manager, Service Manager, and Store Manager.

e. **How many of those accounts classified as potentially fraudulent were opened in Nebraska?**

f. **How many unauthorized fees and fines were levied on Nebraska consumers in relation to this scandal? What is the total cost of these fees and fines?**

Response to Question 1, subparts (e-f): We asked PricewaterhouseCoopers (PwC) to analyze approximately 82 million deposit accounts for instances of potential simulated funding and approximately 11 million credit card accounts for instances of lack of authorization. The accounts reviewed were opened between 2011 and 2015. Of the accounts reviewed, PwC found that approximately 623,000 consumer and business credit card accounts ***could have been*** unauthorized, and approximately 1.5 million deposit accounts ***could have*** experienced simulated funding, that is, the unauthorized deposit and withdrawal of funds intended to create the false appearance that the account was being used by the customer. PwC ***did not*** conclude that any of these accounts were unauthorized and/or experienced simulated funding; it just could not rule out these possibilities because its analysis of credit card authorization and potential simulated funding in deposit accounts was intentionally designed to be over-inclusive. For example, PwC flagged all credit card accounts that were not used and were not "fraud activated" by the customer calling an 800 number after receiving the card, unless there were indications of customer consent, even though there are many reasons why a customer may not activate their card. We took this intentionally expansive approach because we were willing to refund fees to customers who in fact approved account openings, but subsequently allowed the accounts to lapse, so that we did not exclude customers who may have suffered harm.

We have found indications that the PwC number includes accounts where the customer authorized its opening. For example, Wells Fargo has worked to contact customers with open, inactive credit card accounts identified by PwC (i.e., the customers with accounts that could have been unauthorized) to determine whether they want these credit cards. Approximately 25 percent have informed the bank that they either did not apply, or did not recall whether or not they applied, for their card.

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Of the approximately 2.1 million accounts that PwC identified, PwC identified approximately 12,000 Nebraska-based deposit and credit card accounts in its review for which it could not rule out the possibility that they were unauthorized and /or experienced simulated funding. For the reasons described, it is likely that not all of these accounts had simulated funding and/or were unauthorized.

For the approximately 2.1 million deposit and credit card accounts that PwC identified, Wells Fargo refunded all potentially unauthorized charges. PwC's review found that of the roughly 2.1 million accounts identified, approximately 115,000 accounts were charged a fee, totaling $2.66 million in revenue to Wells Fargo. That figure, substantially all of which has been refunded to affected customers via check or direct deposit, is far surpassed by the costs associated with opening and closing the unused accounts.

To Nebraska customers specifically, Wells Fargo paid approximately $14,000 to remediate potentially unauthorized charges. Again, for the reasons described, the remediation amount likely overstates the actual amount of unauthorized charges on these accounts.

2) **I'd like to ask about Carrie Tolstedt's role in the fraudulent accounts scandal.**

   a. **When was Ms. Tolstedt first informed about Wells Fargo employees who were fired for creating fraudulent accounts? Please provide a specific date.**

   Response: Wells Fargo cannot determine for certain the first time Ms. Tolstedt was told that a team member's employment was terminated for committing a sales violation. Like any large employer, Wells Fargo constantly monitors sales-integrity issues so that, as issues came up that needed to be addressed, Ms. Tolstedt would be informed about those issues. It is our present understanding that these issues were likely raised with Ms. Tolstedt in or around 2011 but the ongoing investigation by the Independent Directors of the Board of Directors and others is looking carefully at this question.

   b. **If Ms. Tolstedt was fired for her role in the scandal, would she have received less total lifetime compensation (in any form)? If so, how much less compensation?**

   c. **How much of Ms. Tolstedt's total, lifetime compensation (in any form), as of September 20, 2016, was eligible for clawback?**

   d. **How much of Ms. Toldstedt's total, lifetime compensation (in any form) was earned from 2011 through 2016?**

   e. **What legal and/or contractual standard must Wells Fargo evaluate in order to determinate if any of Ms. Tolstedt's compensation (in any form) should be clawed back?**

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Response to Question 2, subparts (b-e): Ms. Tolstedt has left Wells Fargo. She has agreed to not exercise any outstanding stock options previously awarded by Wells Fargo until the completion of the Board of Directors' investigation and that, at the conclusion of this investigation, the Board (or the Independent Directors of the Board or the Human Resources Committee, through Board delegation) will have the authority to determine the extent to which such options will be forfeited.[12]

The Board's Independent Directors have determined that all of Ms. Tolstedt's unvested equity compensation, valued at approximately $19 million, would be forfeited, and that she would not receive a bonus for 2016 or any retirement enhancements or severance package in connection with her separation from Wells Fargo. No incentive compensation was granted to Ms. Tolstedt as a result of her separation from the Company, and none of her equity awards will be "triggered" or otherwise increased or accelerated by her separation. Ms. Tolstedt could be subject to further compensation and other actions based upon the results of the Independent Directors' investigation.[13]

Ms. Tolstedt's total compensation from 2011 to 2015, as reported in accordance with SEC rules, is provided in the table below:[14]

Year	Annual Salary ($)	Stock Awards ($)	Non-Equity Incentive Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
2011	1,700,000	5,500,004	1,400,000	84,172	19,600	8,703,776
2012	1,700,000	5,500,008	1,530,000	105,204	20,000	8,855,212
2013	1,700,000	5,500,003	1,530,000	N/A	20,400	8,750,403
2014	1,700,000	6,500,058	1,300,000	N/A	18,200	9,518,258
2015	1,700,000	6,500,036	850,000	23,095	18,550	9,091,681

[12] Wells Fargo, September 27, 2016 Form 8-K (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516722259/d266244d8k.htm).
[13] Wells Fargo, "Independent Directors of Wells Fargo Conducting Investigation of Retail Banking Sales Practices and Related Matters (press release)" (Sept. 27, 2016) (available online at https://www.wellsfargo.com/about/press/2016/independent-directors-investigation_0927/).
[14] 2011–2013 compensation figures available in Wells Fargo, 2014 Proxy Statement, at 53 (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312514104276/d663896ddef14a.htm); 2013–2015 compensation figures available in Wells Fargo, 2016 Proxy Statement, at 57 (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516506771/d897049ddef14a.htm).

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Ms. Tolstedt's stock holdings and outstanding compensation as of September 16, 2016 fell into three categories: (a) Wells Fargo shares that Ms. Tolstedt owned outright and acquired during her 27-year career with the Company; (b) vested, but unexercised stock options granted in February 2008 and February 2009; and (c) unvested and unpaid restricted share rights and performance share awards granted between February 2014 and February 2016:

(1) Ms. Tolstedt owned 960,175 shares of Wells Fargo stock that were worth approximately $43.6 million based on Wells Fargo's September 16, 2016 closing stock price.

(2) Ms. Tolstedt had vested, but unexercised stock options granted in February 2008 and February 2009 that were worth approximately $34.1 million pre-tax, based on Wells Fargo's September 16, 2016 closing stock price and each award's exercise price.

(3) Ms. Tolstedt had unvested and unpaid equity awards in the form of restricted share rights and performance share awards, granted between February 2014 and February 2016, with a target value of approximately $18.9 million pre-tax based on Wells Fargo's September 16, 2016 closing stock price.

On September 27, 2016, the Board announced that the Independent Directors had determined that Ms. Tolstedt would forfeit all of this last category, i.e., the outstanding unvested equity awards, valued at approximately $19 million.[15] Ms. Tolstedt also agreed that she would not exercise her outstanding options during the pendency of the investigation undertaken by the Independent Directors. These initial actions do not preclude additional steps being taken with respect to Ms. Tolstedt as a consequence of the information developed in the investigation.

For example, the Board has the authority to evaluate previously paid incentive compensation, including prior annual incentive awards, under its Extended Clawback Policy. Wells Fargo's Extended Clawback Policy applies to any bonus payment (such as previously-paid annual incentive awards and vested equity awards) already made to Wells Fargo's executive officers, if the bonus payment was based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria. The Board delegated to the Human Resources Committee the authority to make determinations with respect to the application of the Policy, including the value of the bonus payment, the amount of bonus payment (if any) that was based on materially inaccurate performance

[15] Wells Fargo, "Independent Directors of Wells Fargo Conducting Investigation of Retail Banking Sales Practices and Related Matters (press release)" (Sept. 27, 2016) (available online at https://www.wellsfargo.com/about/press/2016/independent-directors-investigation_0927/).

metric criteria, whether a performance metric criteria is material or materially inaccurate, and whether the inaccurate measurement of performance or application of performance to performance criteria is material. Under the Policy, the Company must exercise its rights to the fullest extent permitted, unless it would be unreasonable to do so.

More generally, Wells Fargo has multiple recoupment or clawback policies and provisions in place that are applicable to current and former executive officers, including Ms. Tolstedt. The following table[16] describes these policies:

Policy/Provision	Trigger for Clawback or Recoupment	Compensation Subject to Recovery	Impacted Population
Unearned Compensation Recoupment Policy	Misconduct by an executive that contributes to the Company having to restate all or a significant portion of its financial statements	Any bonus or incentive compensation that was based on achievement of financial results that were restated downward	Executive Officers
Extended Clawback Policy[17]	Incentive compensation was based on materially inaccurate financial information or any other materially inaccurate performance metric criteria, whether or not the executive was responsible	Incentive compensation that was based on materially inaccurate financial information or any other materially inaccurate performance metric criteria	Executive Officers and certain other highly compensated employees
Performance-Based Vesting Conditions	Misconduct which has or might reasonably be expected to have reputational or other harm to the Company or any conduct that constitutes "cause," Misconduct or commission of a material error that causes or might be reasonably expected to cause significant financial or reputational harm to the Company or the executive's business group, Improper or grossly negligent failure, including in a supervisory capacity, to identify, escalate, monitor or	Restricted Share Rights ("RSR") awards and Performance Share awards granted to named executives are subject to cancellation if the Board of Directors' Human Resources Committee determines that a trigger event has occurred	Executive Officers Other team members in receipt of RSRs as part of annual incentive/ bonus awards

[16] Wells Fargo, 2016 Proxy Statement, at 47–48 (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516506771/d897049ddef14a.htm).
[17] Adopted June 15, 2009 and extended February 2010.

Policy/Provision	Trigger for Clawback or Recoupment	Compensation Subject to Recovery	Impacted Population
	manage, in a timely manner and as reasonably expected, risks material to the Company or the executive's business group, An award was based on materially inaccurate performance metrics, whether or not the executive was responsible for the inaccuracy, or The Company or the executive's business group suffers a material downturn in financial performance or suffers a material failure of risk management.		
Clawback Provisions Included in All Equity-Based Awards	In accordance with the terms of any recoupment or clawback policy or requirement from time to time maintained by Wells Fargo or required by law, as set forth in award agreements for equity-based compensation grants since 2009. The Long-Term Incentive Compensation Plan ("LTICP") also provides that awards are subject to any Company recoupment policy or any recoupment requirement imposed under applicable laws.	All equity awards granted under the LTICP, whether vested or unvested, for which the applicable Company clawback or recoupment policy or legal requirement is triggered	All team members who receive equity awards under the LTICP

The Board (or the Independent Directors or the Human Resources Committee, through Board delegation) will assess the relevant facts and circumstances, the award terms, and Wells Fargo's recoupment and clawback policies to determine whether to cancel or clawback any more of Ms. Tolstedt's incentive compensation.

f. **On what specific date did Ms. Toldstedt (or any other Wells Fargo employee) first inform you of any item relating to the fraudulent accounts scandal?**

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Response: It is our understanding that, from time to time, because of Mr. Stumpf's position, individuals would contact him directly and complain about issues and that Mr. Stumpf did receive complaints about sales-practice issues over the years. When Mr. Stumpf received such complaints, our understanding is that his practice was to forward them to the appropriate internal team, such as Human Resources, to address.

Mr. Stumpf has said that he recalls learning of the increase in the number of reports of sales-practice issues in late 2013.

Please note that the Independent Directors of Wells Fargo's Board of Directors have launched an investigation into sales-practice issues, and that investigation is ongoing.

3) **It has been reported that Wells Fargo is going to end sales goals for its retail products by the end of the year.**

   a. **Please describe the new system that will replace these sales goals.**

   Response: While our go-forward plan is still being developed under the leadership of Mary Mack, the new head of our Community Banking Division, we contemplate using customer service, growth, and risk management as criteria on which we will evaluate our teams and individual team members, focused on positive customer outcomes.

   b. **Will any employee compensation be contingent on this new system?**

   Response: Regional Bank team members who serve retail customers in bank branches will be eligible for bonus compensation based upon a combination of the factors enumerated in Question 3, subpart (a) above.

   c. **Will employees who fail to meet the criterion under this new system be fired?**

   Response: As has always been, and will remain, the case in the Community Banking Division, decisions to terminate a team member are made on a case-by-case basis upon consideration of all relevant facts and circumstances.

   d. **Will product sales be considered as a part of this new system?**

   Response: No. Regional Bank team members who serve retail customers in bank branches will not be evaluated on product sales goals going forward.

   e. **What steps will Wells Fargo take to ensure that the new system does not incentivize the creation of fraudulent accounts?**

Response: While our go-forward plan is still being developed, we are confident that our customer service, growth, and risk management metrics will align our team member incentives with our customers' interests.

4) **I'd like to discuss the geographic distribution of the potentially fraudulent accounts.**

a. **What percentage of the potentially fraudulent accounts were located in the City of Los Angeles? What about the percentage of employees fired for creating potentially fraudulent accounts?**

Response: Approximately 9% of the deposit and credit card accounts identified by PwC were located in the City of Los Angeles. Please see the response to Question 1, subparts (e-f) above for more information about PwC's process for identifying these accounts.

Of the approximately 5,300 Wells Fargo team members whose employments were terminated from 2011 to 2015 for sales-integrity violations, approximately 5% worked in zip codes located in the City of Los Angeles.

b. **What percentage of the potentially fraudulent accounts were located in the Southwest Region? What about the percentage of employees fired for creating potentially fraudulent accounts?**

Response: Approximately 16% of the deposit and credit card accounts identified by PwC were located in the Southwest region, specifically the states of Texas, Oklahoma, Arizona, and New Mexico. Please see the response to Question 1, subparts (e-f) above for more information about PwC's process for identifying these accounts.

Of the approximately 5,300 Wells Fargo team members whose employments were terminated from 2011 to 2015 for sales-integrity violations, approximately 15% worked in the Southwest region.

c. **What factors contributed to the geographic distribution of the fraud?**

Response: Wells Fargo is working hard to address any Company-wide or region-specific processes that may have led certain team members to behave in a way contrary to Wells Fargo's vision, values, and culture. That is one reason Wells Fargo has eliminated product sales goals entirely for Regional Bank team members who serve customers in our retail branches.

d. **Did Wells Fargo evaluate the potential for geographic diversity in terms of the ability to meet product sales goals?**

Response: Yes. From 2011 to 2016, product sales goals varied by store year-to-year and across regions.

e. **Did Wells Fargo adjust the product sales goals to match each region?**

Response: Effective October 1, 2016, Wells Fargo no longer uses product sales goals for Regional Bank team members who serve customers in our retail branches. From 2009 to October 1, 2016 for the western markets and following the Wachovia/Wells Fargo conversion for the eastern markets, Wells Fargo centralized responsibility for setting store goals with its national leadership team working in conjunction with regional and local managers to determine appropriate goals for each store. A variety of factors were considered in determining the specific goals at the regional and store level, including customer demand and traffic, market demographics, and staffing levels.

5) **I'd like to discuss the employees who were fired for creating fraudulent accounts.**

a. **Starting in 2009, when was the first employee fired for creating fraudulent accounts? Please provide a specific date.**

b. **Starting in 2009, when were the first 100 employees fired for creating fraudulent accounts? Please provide a specific date.**

c. **Starting in 2009, when were the first 1,000 employees fired for creating fraudulent accounts? Please provide a specific date.**

Response to Question 5, subparts (a-c): From 2011 to 2015, the employments of approximately 5,300 team members were terminated for sales-integrity violations. Approximately 1,000 were terminated each year. For example, investigations by the Corporate Investigations group in 2013 resulted in the termination of 1,245 Community Banking team members. That is approximately 1% of Wells Fargo's total population of Community Banking team members.

d. **How many employees were fired for failing to meet sales quotas during the 2011 through 2015 period covered by the CFPB's fine?**

e. **Were any of the employees who were fired for creating fraudulent accounts at risk of being fired for missing product sales goals? If so, what percentage of these employees were at risk?**

Response to Question 5, subparts (d-e): Wells Fargo cannot quantify with any degree of confidence how many team members' employments, if any, were at risk of being terminated for not meeting sales goals. The bank tracks involuntary terminations for failure to perform job duties, which can include a range of issues. It is possible that team members' employments were terminated solely for not meeting sales goals; however, Wells Fargo has safeguards in place to help ensure that managers remain focused on assessing team members' overall performance in helping customers succeed financially, not just whether they meet an individual sales goal.

f. **During the period covered by the CFPB's fine, how much of an employee's salary was contingent upon meeting product sales goals? Please provide a detailed breakdown, covering each category of employees who were fired for creating fraudulent accounts.**

Response: Prior to our elimination of product sales goals, Regional Bank team members serving customers in our retail branches were eligible for earned incentive compensation based in part on sales performance. Leading up to the elimination of product sales goals, effective October 1, 2016, the actual incentive payouts based on sales-related performance objectives (distinct from service and other performance objectives) declined considerably: the median incentive paid as a percentage of total salary for sales-related objectives for tellers, for example, declined from 4.6% in 2011 to 0.9% in 2015. Historically, the target incentive opportunity for overall performance objectives was approximately 3% of base compensation for tellers and the target for the majority of personal bankers was approximately 10% of base compensation. All incentive plans were capped.

g. **What was the position of the highest ranking Wells Fargo employee who was fired in connection with this scandal?**

Response: Of the approximately 5,300 team members whose employments were terminated for sales-integrity violations from 2011 to 2015, the highest ranking Wells Fargo team member terminated held the position "Regional Banking Area President 2."

h. **Please provide a percentage breakdown of the position held by each of the fired employees before they were fired.**

Response: Approximately 65% of the terminated team members were in Personal Banker positions or functionally similar roles and 7% were in Teller positions. In addition, we terminated the employment of over 480 team members in supervisory positions, including store managers and persons up to three levels above bankers and tellers, when investigations have found that those team members engaged in or directed improper sales practices or exhibited excessive pressure and did not respond promptly and decisively to change their behavior.

6) **I'd like to follow up on Senator Toomey's questioning about Wells Fargo's SEC filings.**

a. **Did Wells Fargo ever disclose in its SEC filings that it had a materially adverse set of circumstances relating to false accounts that could result in a large fine from multiple regulators? If so, when? If not, why?**

b. **If Wells Fargo did not disclose this information, would Wells Fargo have disclosed it if Wells Fargo had known about the public and market reaction to the fraudulent accounts scandal, along with the size and the associated fines?**

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c. **If not, what are the conditions under which Wells Fargo would disclose in its SEC filings that it is facing a significant regulatory or criminal risk?**

d. **In response to the fraudulent accounts scandal, has Wells Fargo changed its standards and process for evaluating if and how to disclose potential regulatory risk in SEC filings?**

Response to Question 6, subparts (a-d): Each quarter, we look at the relevant and appropriate facts available to us to determine whether a legal matter is material and should be disclosed in our public filings. Discerning materiality is not a mechanical exercise but rather is a determination based on judgments informed by the facts and circumstances known at the time the determination is made.

Based on the facts and circumstances as we knew them at the time, we concluded that the sales-practices investigations by the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Los Angeles City Attorney were not material. This was a considered determination based upon what we understood at the time these investigations were occurring.

As part of our ongoing review process, we continued to evaluate the ongoing developments since the announcement of the settlements to determine whether any filings or disclosures should be made. In conjunction with our Form 8-K filing on September 28, 2016 announcing our former CEO John Stumpf's and our former Community Banking head Carrie Tolstedt's forfeiture of their unvested equity awards, we determined that it was appropriate to disclose the relevant legal developments that had occurred *since* the announcement of the settlements. As noted in our Form 8-K, these included "formal or informal inquiries, investigations or examinations" from "[f]ederal, state, and local government agencies, including the United States Department of Justice, and state attorneys general and prosecutors' offices, as well as Congressional committees. . . ."[18] Furthermore, our Form 10-Q filing on November 3, 2016 contained additional disclosures concerning sales practices matters, including an update to our legal actions disclosures and the addition of a new risk factor summarizing the legal developments and related events that had occurred since the announcement of the settlements and noting the potential that "negative publicity or public opinion resulting from these matters may increase the risk of reputational harm to our business . . . ."[19] We will continue to review developments related to sales

[18] *See* Wells Fargo, September 28, 2016 Form 8-K (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516722259/d266244d8k.htm).

[19] *See* Wells Fargo, November 3, 2016 Form 10-Q at 67 (available online at https://www.sec.gov/Archives/edgar/data/72971/000007297116001340/wfc-9302016x10q.htm).

practices matters and make additional disclosures as the facts and circumstances warrant.

7) **I'd like to discuss the compensation that Wells Fargo provided to its customers that were impacted by the fraudulent accounts scandal.**

   a. **When did Wells Fargo first learn that it had customers who were charged fraudulent fines and fees for fake accounts that were opened in their name?**

   Response: Because of the way that inactive accounts are automatically closed and the way that fees are assessed, Wells Fargo did not initially realize that certain customers may have paid fees on accounts that they did not authorize or use. In 2015, the Company realized that, in a small percentage of cases, fees had been paid.

   b. **How soon after learning about these inappropriate fines did Wells Fargo compensate their customers for this fraud?**

   Response: After realizing that fees were paid in a small percentage of cases, PwC analyzed deposit and credit card accounts. PwC's analysis focused on potential simulated funding in deposit accounts, and the potential lack of customer authorization of credit card accounts. After PwC completed its analysis, Wells Fargo promptly made direct deposits and issued checks to refund substantially all fees, with interest, that were assessed on the approximately 2.1 million accounts identified by PwC.[20] These refunds were issued without determining that any particular account was unauthorized.

   c. **Does Wells Fargo plan on compensating its customers for all reasonable costs associated with this fraud, including any potential drop in their customer's credit score?**

   d. **If so, how does Wells Fargo plan on identifying and compensating every customer who may have suffered a drop in credit score in association with the fraudulent accounts scandal?**

   Response to Question 7, subparts (c-d): Wells Fargo is working very hard to remediate harm that may have been caused to our customers. To that end, pursuant to the CFPB and OCC Consent Orders, Wells Fargo will retain the services of an independent consultant and develop redress and reimbursement plans to identify the population of consumers who may have been affected by improper sales practices. We fully expect that, once approved by our regulators, the redress and reimbursement plans will encompass various forms of harm, including harm related to credit bureau inquiries, and that Wells Fargo will issue and track reimbursement payments.

[20] Refunds were not made if the amount paid by the customer plus interest was less than $1.00.

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We asked PwC to analyze approximately 82 million deposit accounts for instances of potential simulated funding and approximately 11 million credit card accounts for instances of lack of authorization. The accounts reviewed were opened between 2011 and 2015. Of the accounts reviewed, PwC found that approximately 623,000 consumer and business credit card accounts ***could have been*** unauthorized, and approximately 1.5 million deposit accounts ***could have*** experienced simulated funding, that is, the unauthorized deposit and withdrawal of funds intended to create the false appearance that the account was being used by the customer. In other words, PwC ***did not*** conclude that these accounts were unauthorized and/or experienced simulated funding; it just could not rule out these possibilities because its analysis of credit card authorization and potential simulated funding in deposit accounts was intentionally designed to be over-inclusive. For example, PwC flagged all credit card accounts that were not used and were not "fraud activated" by the customer calling an 800 number after receiving the card, unless there were indications of customer consent, even though there are many reasons why a customer may not activate their card.

Of the subset of accounts identified, PwC determined that approximately 115,000 accounts were charged a fee, averaging less than $25 per account and totaling $2.66 million in revenue to Wells Fargo. That figure is far surpassed by the costs associated with opening and closing the unused accounts. Wells Fargo has already made direct deposits and issued checks to refund these fees. We took this intentionally expansive approach because we were willing to refund fees to customers who in fact approved account openings, but subsequently allowed the accounts to lapse, so that we did not exclude customers who may have suffered harm.

We have found indications that the PwC number includes accounts where the customer authorized its opening. For example, Wells Fargo has worked to contact customers with open, inactive credit card accounts identified by PwC (i.e., the customers with accounts that ***could have been*** unauthorized) to determine whether they want these credit cards. Approximately 25 percent have informed the bank that they either did not apply, or did not recall whether or not they applied, for their card. These results demonstrate that PwC's findings as to credit card accounts were over-inclusive, containing accounts where the customer authorized the opening of the account.

For those customers who want the credit card, the account will remain open. For any customer who does not want their credit card, Wells Fargo is closing the account and correcting credit bureau reporting. This means we are removing the account from the customers' credit reports going forward and suppressing the existence of the inquiry so that it is not viewable to other lenders or requestors.

(The Fair Credit Reporting Act prohibits us removing the inquiry altogether and it will still be visible to customers pulling their own credit reports.)

Moreover, we are in the process of determining how many customers obtained a credit product, with Wells Fargo or another company, during the time period in which their credit score may have been impacted by an unauthorized credit inquiry or existence of the trade line. While it may be difficult to calculate the precise impact for every customer, our intent is to err on the side of the customer and make them whole for negative repercussions that were tied to a drop in their credit score. This could include impacts on pricing, line or loan size, or credit decision. We have allocated significant resources to this effort and are working with the credit bureaus to develop a plan for submission to our regulators.

Going forward, Wells Fargo is voluntarily expanding its review of accounts to include 2009 and 2010. Wells Fargo also provides resources to help customers request free credit reports and is offering a no-cost mediation option to impacted customers to help identify and remediate any other forms of harm.

Ultimately, if any customer has any questions or concerns regarding his or her accounts—regardless of when those accounts were opened—he or she is invited to contact us so that Wells Fargo can address those questions or concerns.

e. **Is Wells Fargo aware of a material amount of fraudulent accounts created in the names of customers prior to 2009?**

f. **What constraints would prevent Wells Fargo from compensating customers for losses associated with fraudulent accounts, from actions dating back prior to 2009?**

g. **Does Wells Fargo plan to reach back earlier than 2009 to refund customers for loss associated with their fraudulent accounts scandal? Why or why not?**

Response to Question 7, subparts (e-g): We appreciate and share your concern that any and all customers who may have been impacted should be identified. Therefore, we are continuing to examine whether there are ways to identify unauthorized accounts opened prior to 2009. As an important initial step, we are notifying all of our consumer and small business Community Banking customers with a checking, savings, credit card, or line of credit account of this issue; we are also inviting and encouraging them to speak with a Wells Fargo representative if they have any questions or concerns about their accounts. Please also note that the Independent Directors of Wells Fargo's Board of Directors have launched an investigation into these issues, and that investigation is ongoing.

Further, we would note again that pursuant to the CFPB and the OCC Consent Orders, Wells Fargo will retain the services of an independent consultant and develop redress and reimbursement plans to identify the population of consumers who may have been affected by improper sales practices. We fully expect that, once approved by our regulators, the redress and reimbursement plans will encompass various forms of harm, including harm related to credit bureau inquiries, and that Wells Fargo will issue and track reimbursement payments.

8) **I'd like to discuss Wells Fargo's interactions with law enforcement officials and regulators.**

   a. **Please provide the specific date that Wells Fargo first discussed the fraudulent accounts scandal with the Consumer Financial Protection Bureau (CFPB).**

   b. **Does the CFPB have any employees embedded in Wells Fargo? If so, how many?**

   Response: The CFPB has 4 employees who are resident on-site. In addition, additional CFPB employees may be on site at Wells Fargo when they are engaged in conducting examinations of our consumer businesses.

   c. **When (if at all) did Wells Fargo first provide the CFPB with internal documents relating to the fraudulent accounts scandal?**

   Response to Question 8, subparts (a, c): Wells Fargo's General Counsel notified the CFPB of the Los Angeles City Attorney's lawsuit at or about the time it was filed in May of 2015. The CFPB requested information shortly after Wells Fargo notified it of the lawsuit. In June and July 2015, Wells Fargo provided information to the CFPB.

   d. **Please provide the specific date that Wells Fargo first discussed the fraudulent accounts scandal with the Office of the Comptroller of the Currency (OCC).**

   e. **Does the OCC have any employees embedded in Wells Fargo? If so, how many?**

   Response: Several OCC employees are embedded at Wells Fargo.

   f. **When (if at all) did Wells Fargo first provide the OCC with internal documents relating to the fraudulent accounts scandal?**

   g. **Please provide the specific date that Wells Fargo first discussed the fraudulent accounts scandal with the Office of the Los Angeles City Attorney.**

   Response: The City Attorney filed its complaint in May 2015. Wells Fargo did not have substantive conversations with the City Attorney's office prior to that time.

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h. **When (if at all) did Wells Fargo first provide the OCC with internal documents relating to the fraudulent accounts scandal?**

Response to Question 8, subparts (d, f, h): As Comptroller Curry testified before the Senate Banking Committee on September 20, 2016, Wells Fargo management meets regularly with the Office of the Comptroller of the Currency (OCC), our prudential regulator, about a variety of issues. Wells Fargo immediately cooperated with the OCC upon its first contact with the bank concerning these issues. Ultimately that involved addressing Matters Requiring Attention (MRAs) the OCC imposed as well as providing relevant documents in 2015.

9) **I'd like to discuss the fraudulent accounts that were created by Wells Fargo.**

a. **What standards did the independent audit consult in identifying the fraudulent accounts?**

Response: Please see the response to Question 7, subparts (c-d) above.

b. **Could a fraudulent account had escaped notice of the independent audit if it had all of the characteristics of a fraudulent account, but it contained or was billed for more than $100? What about more than $1000?**

Response: PwC's analysis looked at all consumer and small business checking, savings, and credit card accounts opened during the relevant period—over 93 million accounts in total—to identify characteristics consistent with potential simulated funding in deposit accounts, and a potential lack of customer authorization in credit card accounts. Accounts were not excluded on the basis of how much they were charged in fees. The characteristics of deposits and withdrawals were factors considered by PwC in conducting its analysis and so the nature of the deposits made in an account would have affected whether the account was identified as possibly having simulated funding.

c. **Of the fraudulent accounts, roughly what percentage of them were canceled within 3 days?**

d. **Of the fraudulent accounts, roughly what percentage of them were canceled within a week?**

e. **Of the fraudulent accounts, roughly what percentage of them were canceled after a month?**

Response to Question 9, subparts (c-e): Deposit accounts that are not used by a customer are automatically closed pursuant to Wells Fargo's policies and procedures. Under those policies and procedures, unused accounts typically would not automatically be closed within a 30-day period.

f. **Did any of these fraudulent accounts ever contain or were billed for more than $1? If so, roughly, what percentage of accounts?**

g. **Did any of these fraudulent accounts ever contain or were any of them ever billed for more than $10? If so, roughly what percentage of accounts?**

h. **Did any of these fraudulent accounts ever contain or were billed for more than $100? If so, roughly what percentage of accounts?**

i. **Did any of these fraudulent accounts ever contain or were billed for more than $1000? If so, roughly what percentage of accounts?**

j. **Did any of these fraudulent accounts ever transfer money to other accounts, other than those that were held by the named customer of the account? If so, roughly what percentage of accounts?**

Response to Question 9, subparts (f-j): Please see the response to Question 7, subparts (c-d) above. In some instances, Wells Fargo team members temporarily funded unauthorized accounts with their own deposits. After a certain time period, those funds were removed by the team member.

k. **Did Wells Fargo ever file suspicious activity reports in association with the accounts that were identified by the independent audit as potentially fraudulent? If so, how many?**

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).

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Questions for Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Company, from Senator Warner:

1) **One of the things that concerns me about this settlement is how your individual customers may have been impacted. I would like to know how many customers incurred overdraft fees or had missed payments as a result of accounts being opened without consent and, similarly, how FICO scores may have been impacted by new credit accounts being opened without consent?**

2) **You understand that new credit accounts and late payments impact a person's FICO score. In Virginia, 22,000 fraudulent deposit accounts and 19,000 fraudulent credit accounts were opened by Wells Fargo employees. How many customers might have been downgraded from Prime to Sub Prime as a result of this?**

3) **If FICO scores were indeed affected due to Wells Fargo's fraudulent behavior, resulting in denial of a loan in the future or a higher interest payment, how will you make this right for those customers?**

4) **I understand you have paid back $2.6 million to customers affected and the agreement is $5 million. Do you think that an average payment of $25 per customer is sufficient for the harm caused? Do you have any plans to expand customer compensation?**

Response to Questions 1-4: Wells Fargo is working very hard to remediate harm that may have been caused to our customers. To that end, pursuant to the Consumer Financial Protection Bureau (CFPB) and Office of the Comptroller of the Currency (OCC) Consent Orders, Wells Fargo will retain the services of an independent consultant and develop redress and reimbursement plans to identify the population of consumers who may have been affected by improper sales practices. We fully expect that, once approved by our regulators, the redress and reimbursement plans will encompass various forms of harm, including harm related to credit bureau inquiries, and that Wells Fargo will issue and track reimbursement payments.

We asked PricewaterhouseCoopers (PwC) to analyze approximately 82 million deposit accounts for instances of potential simulated funding and approximately 11 million credit card accounts for instances of lack of authorization. The accounts reviewed were opened between 2011 and 2015. Of the accounts reviewed, PwC found that approximately 623,000 consumer and business credit card accounts ***could have been*** unauthorized, and approximately 1.5 million deposit accounts ***could have*** experienced simulated funding, that is, the unauthorized deposit and withdrawal of funds intended to create the false appearance that the account was being used by the customer. In other words, PwC ***did not*** conclude that these accounts were unauthorized and/or experienced simulated funding; it just could not rule out these possibilities because its analysis of credit card authorization and potential simulated funding in deposit accounts was intentionally designed to be over-inclusive. For example, PwC flagged all credit card accounts that were not used and were not "fraud activated" by the customer calling an 800 number after receiving the card, unless there were indications of customer consent, even though there are many reasons why a customer may not activate their card.

Therefore, it is important to note PwC did not determine that "22,000 fraudulent deposit accounts and 19,000 fraudulent credit accounts" were opened in Virginia. Instead, PwC found that approximately 22,000 deposit accounts ***could have*** experienced simulated funding and approximately 19,000 credit card accounts in Virginia ***could have been*** unauthorized.

Of the subset of accounts identified, nationwide PwC determined that approximately 115,000 accounts were charged a fee, averaging less than $25 per account and totaling $2.66 million in revenue to Wells Fargo. That figure is far surpassed by the costs associated with opening and closing the unused accounts. Wells Fargo has already made direct deposits and issued checks to refund these fees. We took this intentionally expansive approach because we were willing to refund fees to customers who in fact approved account openings, but subsequently allowed the accounts to lapse, so that we did not exclude customers who may have suffered harm.

We have found indications that the PwC number includes accounts where the customer authorized its opening. For example, Wells Fargo has worked to contact customers with open, inactive credit card accounts identified by PwC (i.e., the customers with accounts that ***could have been*** unauthorized) to determine whether they want these credit cards. Approximately 25 percent have informed the bank that they either did not apply, or did not recall whether or not they applied, for their card. These results demonstrate that PwC's findings as to the credit card accounts analyzed were over-inclusive, containing accounts where the customer authorized the opening of the account.

For those customers who want the credit card, the account will remain open. For any customer who does not want their credit card, Wells Fargo is closing the account and correcting credit bureau reporting. This means we are removing the account from the customers' credit reports going forward and suppressing the existence of the inquiry so that it is not viewable to other lenders or requestors (the Fair Credit Reporting Act prohibits us removing the inquiry altogether and it will still be visible to customers pulling their own credit reports).

Moreover, we are in the process of determining how many customers obtained a credit product, with Wells Fargo or another company, during the time period in which their credit score may have been impacted by an unauthorized credit inquiry or existence of the trade line. While it may be difficult to calculate the precise impact for every customer, our intent is to err on the side of the customer and make them whole for negative repercussions that were tied to a drop in their credit score. This could include impacts on pricing, line or loan size, or credit decision. We have allocated significant resources to this effort and are working with the credit bureaus to develop a plan for submission to our regulators.

Going forward, Wells Fargo is voluntarily expanding its review of accounts to include 2009 and 2010. Moreover, Wells Fargo also provides resources to help customers request free credit reports and is offering a no-cost mediation option to impacted customers to help identify and remediate any other forms of harm.

Ultimately, if any customer has any questions or concerns regarding his or her accounts—regardless of when those accounts were opened—he or she is invited to contact us so that Wells Fargo can address those questions or concerns.

5) **Did you refer any of these individuals to law enforcement? If not, why not?**

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).

6) **How did you miss this activity for such a long time? What have you changed about your internal controls to ensure this type of behavior does not happen again and, if it does, is caught at an earlier stage?**

Response: This was a problem of focus. While information relating to sales-practice problems existed prior to 2013, it was believed that the problem was more isolated than it actually was. We were wrong.

To ensure problems like this do not get missed again, Wells Fargo has made several recent changes to its policies and practices to enhance oversight, expand customer transparency, and improve the customer experience. We would like to highlight the following points:

- We have named a new head of our retail banking business.
- We have also changed the retail banking business's risk management processes. This is consistent with the reorganization of enterprise functions we have conducted across the Company to create a stronger risk and control foundation that allows senior team members across the Company to provide more independent, credible challenges to how we operate.
    - To this end, we are transitioning a number of control functions out of the lines of business, which includes Community Banking, and centralizing them within Wells Fargo's independent corporate Risk function, which will be responsible for sales-practice oversight, as well as establishing an independent Sales Practices Office.
- We have eliminated product sales goals for all Regional Bank team members who serve customers in our retail branches.
- We have made system and process enhancements, including sending automated confirmation emails to our customers every time a new personal or small business checking account or a savings account is opened; and acknowledgements are also sent for credit card applications. We are also working to improve multi-factor authentication to protect our customers' information, and signatures are captured electronically approximately 99% of the time for new checking, savings, and credit card applications. In addition, we are closing automatically inactive new deposit accounts that, after 62 days, have a zero balance, without assessing a monthly fee.
- This year alone, we have committed more than $50 million to enhanced quality assurance monitoring.

- We have expanded an independent third-party mystery shopper program, adding risk professionals to provide greater oversight, and expanding our customer complaint servicing and resolution process.
- We are surveying team members to understand their views on our Company's approach to ethics and integrity.
- We also have commenced the process with our regulators to engage an independent consultant to review sales practices in Community Banking. In addition, we will be engaging external consultants to review sales practices across the Company.
- And we will be engaging outside independent culture experts to help us understand where we have cultural weaknesses that need to be strengthened or fixed.

7) **It was only recently that you ended the incentives policy that apparently inspired the fraud. I have heard that Wells has had a culture of exercising pressure on employees to bring in accounts. Walk me through how you are going to change the overall culture at the retail bank. Have you hired independent auditors to suggest future changes to your compliance regime?**

Response: Please see the response to Question 6 above for a detailed list of changes Wells Fargo is implementing to enhance oversight, expand customer transparency, and improve the customer experience.

Senior management has recognized that there are issues that need to be fixed within our culture. There are weaknesses within it that we must change. Undue pressure on team members to do things inconsistent with our vision and values has no place in our culture. That is why the terminations over the last five years have included 483 managers, up to three levels above bankers and tellers, when investigations have found that managers engaged in or directed improper sales practices or exhibited excessive pressure and did not respond promptly and decisively to change their behavior. A team member has many avenues to escalate, including our anonymous EthicsLine. We take each matter seriously and enforce our Nonretaliation Policy.

In addition to the steps outlined in Question 6 above, Wells Fargo has also increased training in many areas related to ethics and integrity. Currently, all team members in the retail banking business go through sales-integrity training as part of their Essential Learning Program when they begin at their positions, and are required to complete additional annual compliance training over the course of their careers. New training programs implemented in 2015 are tailored to the respective positions, and include scenario-based modules to help prepare team members for situations that they are likely to encounter in the course of their work. Wells Fargo Regional Bank team members are also required to complete approximately two dozen different modules of annual compliance training. Additionally, in 2012, Wells Fargo began requiring bankers to annually certify to having read the Sales and Service Quality Manual, which is updated every year to address emerging sales-integrity issues and specifically outlines proper and improper sales practices. Wells Fargo also began to implement an annual "Leadership Summit" in 2014 to provide additional training for all leadership personnel in the retail banking business (more than 850 District Managers, Area

Presidents and Regional Presidents). This summit provides guidance on leading teams in a way that is consistent with sales ethics, including on incentivizing good behavior, and providing coaching to correct undesirable activities.

Lastly, pursuant to the Consumer Financial Protection Bureau (CFPB) and Office of the Comptroller of the Currency (OCC) Consent Orders, Wells Fargo will retain the services of an independent consultant to review the Company's policies and procedures to determine if they are reasonably designed to ensure that Wells Fargo's sales practices comply with all applicable federal consumer financial laws.

8) **What percentage of compensation for the employees engaged in the wrongful behavior was derived from the cross-selling incentives? For example, if a banker earned $50,000 for the year, was 50% derived from cross-selling?**

Response: For the terminated team members, the average incentive compensation (sales and service) was 3.3% of base salary. Sales incentives included incentives for Regional Banking products and cross-sell partner referrals. There were no specific percentages or delineation between the products, as both were components of the sales-related incentive metrics.

9) **It looks like Carrie Tolstedt, the executive responsible for the retail unit, conveniently announced plans to retire over the summer and is walking away with up to $125 million, at least $45 million of which would not have vested had she been fired instead of allowed to retire, according to *Fortune*. How do you explain this in light of the obvious misbehavior in her unit? Why was she allowed to "retire" in the middle of your negotiations with regulators? Put another way, she was in charge of the retail unit. Why did you not terminate her employment?**

10) **Do you understand that some might find it odd that the complaint was filed in 2015, but this summer you referred to Carrie Tolstedt as a "role model" and "standard-bearer for our culture?" Do you think that the way that Ms. Tolstedt ran her division exemplifies your culture?**

Response to Questions 9-10: In early 2016, Mr. Stumpf, in consultation with Wells Fargo's Chief Operating Officer, decided that for various reasons the business would move in a different direction, meaning that Ms. Tolstedt would be removed from the leadership of the Community Bank, which took place effective July 31, 2016. After Ms. Tolstedt was told of that decision, she decided that she would retire at the end of 2016. In September 2016 the Board's Independent Directors determined that Ms. Tolstedt should immediately separate from Wells Fargo, that all of her unvested equity compensation, valued at approximately $19 million, would be forfeited, that she would not receive a bonus for 2016, and that she could be subject to further compensation and other actions based upon the results of the Independent Directors' investigation. The Independent Directors also took steps to ensure that stock options awarded to Ms. Tolstedt in prior years would remain subject to forfeiture

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based upon the Board's determinations following its investigation.[21] Ms. Tolstedt has agreed to not exercise any outstanding stock options previously awarded by Wells Fargo until the completion of that investigation.

11) **I supported claw backs for executives who commit fraud, misstate earnings, or otherwise engage in wrongful behavior in Dodd-Frank. Why shouldn't aggressive claw backs, relating to the time period of this fraud (2011-2016), apply to *all* senior executives responsible for management of Wells Fargo? If you do not claw back a substantial amount of compensation, your shareholders will shoulder the burden of the $185 million in fines and restitution – do you think it is fair for your shareholders to shoulder that burden, as opposed to senior Wells Fargo management?**

Response: The Independent Directors of the Board of Directors of Wells Fargo announced on September 27, 2016 that they have launched an independent investigation into the Company's retail banking sales practices and related matters, including to determine whether compensation claw backs are appropriate. A special committee of Independent Directors will lead the investigation, working with the Board's Human Resources Committee and independent counsel.

The Independent Directors have taken a number of initial steps they believe are appropriate to promote accountability at the Company. They have agreed with Mr. Stumpf that he will forfeit all of his outstanding unvested equity awards, valued at approximately $41 million. In addition, he will not receive a bonus for 2016. Carrie Tolstedt has left Wells Fargo, and the Independent Directors have determined that she will forfeit all of her outstanding unvested equity awards, valued at approximately $19 million. Ms. Tolstedt will not receive a bonus for 2016 and will not be paid severance or receive any retirement enhancements in connection with her separation from the Company. She has also agreed that she will not exercise her outstanding options during the pendency of the investigation. These initial actions will not preclude additional steps being taken with respect to Mr. Stumpf, Ms. Tolstedt, or other executives as a consequence of the information developed in the investigation.[22]

12) **In the settlement with regulators, Wells Fargo did not admit to any wrongdoing. Why not? Do you believe what Wells Fargo employees did was wrong?**

Response: The particulars of the settlement were reached upon discussions with our regulators which are considered confidential supervisory information. However, Wells Fargo's management team did not identify or address the problems early enough. And there is no question that we view the actions of certain of our team members to be wholly unacceptable and wrong.

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[21] Wells Fargo, September 27, 2016 Form 8-K, (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516722259/d266244d8k.htm).

[22] Wells Fargo, "Independent Directors of Wells Fargo Conducting Investigation of Retail Banking Sales Practices and Related Matters (press release)" (Sept. 27, 2016) (available online at https://www.wellsfargo.com/about/press/2016/independent-directors-investigation_0927/).

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Questions for Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Company, from Senator Warren:

1) **Fees Charged as a Result of the Creation of Fraudulent Accounts**

   a. **Working with PWC, Wells Fargo identified 1.5 million deposit accounts and 565,000 credit card accounts that "may have been unauthorized." However, "PWC did not find these accounts had been unauthorized"—it simply "could not rule out the possibility." Please provide a detailed explanation of why PWC was unable to identify whether all of the 565,000 accounts were unauthorized.**

   b. **What records does Wells Fargo have of the number and amount of fees charged on unused accounts between 2011 and 2015?**

   Response to Question 1, subparts (a-b): We asked PricewaterhouseCoopers (PwC) to analyze approximately 82 million deposit accounts for instances of potential simulated funding and approximately 11 million credit card accounts for instances of lack of authorization. For example, PwC flagged all credit card accounts that were not used and were not "fraud activated" by the customer calling an 800 number after receiving the card, unless there were indications of customer consent, even though there are many reasons why a customer may not activate their card. By itself, the lack of activation and use by a customer does not mean that the customer had not authorized the card to begin with. We know that some customers will request a credit card for many reasons, including for emergencies and other reasons, but then they may not activate the card. However, because we could not confirm, based on account activity, that the customer authorized the account in the first place, we elected to consider these accounts for potential remediation. Similarly, for checking and savings accounts, the fact that the accounts have certain characteristics consistent with potential simulated funding does not mean that those accounts experienced simulated funding.

   Of the approximately 2.1 million accounts identified, PwC determined that approximately 115,000 accounts were charged a fee, averaging less than $25 per account and totaling $2.66 million in revenue to Wells Fargo. Wells Fargo has already made direct deposits and issued checks to refund these fees. We took this intentionally expansive approach because we were willing to refund fees to customers who in fact approved account openings, but subsequently allowed the accounts to lapse, so that we did not exclude customers who may have suffered harm.

   We have found indications that the PwC number includes accounts where the customer authorized its opening. For example, Wells Fargo has worked to contact customers with open, inactive credit card accounts identified by PwC (i.e., the customers with accounts that could have been unauthorized) to determine whether they want these credit cards. Approximately 25 percent have informed the bank that they either did not apply or did not recall whether or not they applied for their card. For those customers who want the credit card, the account will remain open. For any customer who does not want their credit card, Wells Fargo is closing the account and correcting credit bureau reporting. These results demonstrate that PwC's findings as to credit card accounts were over-inclusive, containing accounts where the customer authorized the opening of the account.

c. **Please provide the annual revenue that Wells Fargo gained from deposit and credit card account fees for 2011-2015.**

Response: The following table shows the line-item revenue data for Service Charges on Deposit Accounts and Card Fees as reported, according to generally accepted accounting principles, in Wells Fargo's income statements for the years 2011 through 2015. These figures are inclusive of both consumer and commercial businesses, with the commercial businesses contributing proportionately more in the Service Charge category than in Card Fees. Service Charges on Deposit Accounts are primarily composed of periodic account fees and overdraft fees. Card Fees are primarily composed of interchange fees, as well as annual and other fees.

Annual Revenue from Service Charges on Deposit Accounts and Card Fees (dollars in millions)					
	2011	**2012**	**2013**	**2014**	**2015**
Service Charges on Deposit Accounts	$4,280	$4,683	$5,023	$5,050	$5,168
Card Fees	$3,653	$2,838	$3,191	$3,431	$3,720

2) **Fair Labor Standards Act (FLSA)**

For years Wells Fargo employees have described a management culture characterized by "mental abuse," being forced to work overtime "for what felt like after-school detention" during the week and on weekends, and being "severely chastised and embarrassed in front of 60-plus managers."[23] And as a June 2016 report from the National Employment Law Project, "Banking on the Hard Sell,"[24] documents, these kinds of practices are pervasive across the industry.

Even in this context, however, Wells Fargo stands out, given allegations that the bank repeatedly violated wage and hour provisions in the FLSA by denying employees overtime pay for hours worked in excess of 40 hours a week and by misclassifying

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[23] E. Scott Reckard, "Wells Fargo's pressure-cooker sales culture comes at a cost," *Los Angeles Times* (December 21, 2013) (available http://www.latimes.com/business/la-fi-wells-fargo-sale-pressure-20131222-story.html).

[24] Anastasia Christman, "Banking on the Hard Sell: Low Wages and Aggressive Sales Metrics Put Bank Workers and Customers at Risk," *National Employment Law Project* (June 2016) (available http://www.nelp.org/content/uploads/NELP-Report-Banking-on-the-Hard-Sell.pdf).

workers as overtime exempt to avoid paying time and a half for those additional hours. My office has uncovered dozens of wage and hour complaints from Wells Fargo employees, going back as far as 1999 and cutting across many of the different business groups within Wells Fargo, including the insurance, mortgage, and retail banking groups.[25]

These and other allegations raise a number of questions about Wells Fargo's treatment of its bank tellers and associates.

a. **What are Wells Fargo's policies with regard to paying overtime for bank tellers and associates who stayed late or came in on weekends to meet their sales quotas?**

Response: Wells Fargo's policy is that non-exempt team members are compensated for all hours worked, including all overtime hours. Wells Fargo's Team Member Handbook states:

> *If you're in a nonexempt position, you are entitled to pay for all hours actually worked, even those exceeding your regular schedule or those not authorized before working them. Therefore, you must report* ***all*** *hours worked in Time Tracker.*

Wells Fargo supports and enforces this policy and wage and hour compliance.

Time Tracker is the online system that Wells Fargo nonexempt team members use to enter daily work time. Team members input, review, and approve the time reported each week. Time Tracker uploads the recorded work time to the payroll system and the team member is paid for all time worked, including any overtime pay. Supervisor approval of timesheets is not necessary for pay to be processed based upon the time entered by the team member.

A team member may report any discrepancies or concerns regarding accurate time reporting or pay, including overtime pay, via an email address to the payroll team; by

[25] See, for example, Louie Torres, "Former employee says bank didn't pay overtime," *Penn Record* (August 22, 2016) (online at http://pennrecord.com/stories/510999469-former-employee-says-bank-didn-t-pay-proper-overtime); James Rufus Koren (with the Los Angeles Times), "Wells Fargo still faces lawsuits from customers, ex-employees," *Santa Cruz Sentinel* (September 10, 2016) (online at http://www.santacruzsentinel.com/article/NE/20160910/NEWS/160919974); Overtime Pay Laws Resource Center, "$2 Million Settles Wells Fargo Overtime Lawsuit" (May 12, 2015) (online at http://www.overtimepaylaws.org/2-million-settles-wells-fargo-overtime-lawsuit/); E. Scott Reckard, "Wells Fargo's pressure-cooker sales culture comes at a cost," Los Angeles Times, (December 21, 2013) (online at http://www.latimes.com/business/la-fi-wells-fargo-sale-pressure-20131222-story.html); Top Class Actions, "Wells Fargo Loan Officer Underpaid Overtime Class Action Settlement" (October 22, 2015) (online at https://topclassactions.com/lawsuit-settlements/closed-settlements/210771-wells-fargo-loan-officer-unpaid-overtime-class-action-settlement/); Chicago Overtime Law Center, "Wells Fargo Settles Overtime Class Action for Mortgage Consultants" (December 29, 2015) (online at http://www.chicagoovertimelawyerblog.com/2015/12/1514.html); Shannon Henson, "Tech Workers File FLSA Suit Against Wells Fargo," *Law360* (May 30, 2008) (online at http://www.law360.com/articles/57871/tech-workers-file-flsa-suit-against-wells-fargo); and E. Scott Reckard, "Wells Tellers File Lawsuit Alleging Unpaid Wages," *Lost Angeles Times* (November 8, 2003) (online at http://articles.latimes.com/2003/nov/08/business/fi-wells8).

contacting the EthicsLine; or by reaching out to Human Resources (HR). The HR team investigates all such claims. If unreported time is identified, the team member is provided a document to record all previously unreported work time and pay is processed.

Nonexempt team members are directed to an online training module that details how to properly record all work time in Time Tracker. Wells Fargo managers are required to complete FLSA training no less frequently than every other year. The training explains Wells Fargo's commitment to proper pay practices and emphasizes each manager's responsibilities for ensuring that all work time is reported and proper pay is received. Supplemental resources, including Manager Tip sheets and HR professionals, provide further support to managers to help fulfill Wells Fargo's responsibilities to comply with FLSA and fulfill all time keeping requirements.

b. **What portion of Wells Fargo team members, sales associates, and bank tellers make less than the current FLSA salary threshold of $455 per week ($23,660 per year)?**

c. **For the group of employees that Wells Fargo paid above this salary threshold, how many and what percentage were classified as overtime exempt?**

d. **For those employees who were classified as overtime exempt, what percentage of their time was spent performing duties that were managerial in nature, as defined by the FLSA?**

e. **What was the median salary (or wage) earned by the 5,300 bank employees that were fired for their role in the fraudulent activities at Wells Fargo?**

f. **What percentage of fired employees were classified as overtime exempt?**

Response to subparts 2(b-f): Please see the response to Question 2, subpart (a) above. Note that Wells Fargo has set its own minimum pay at $12.00/hour effective March 2016, which is higher than the federal minimum wage of $7.25, and results in compensation higher than $455 per week for a 40-hour week. In addition, all salaried and hourly team members classified as regular or part-time (i.e., those who are regularly scheduled to work 17.5 hours or more per week) are eligible for Wells Fargo-sponsored benefits, including health insurance, life insurance, dental and vision insurance, short- and long-term disability, 401(k) plan, and paid parental leave.

At the time each new job is created, Wells Fargo completes an analysis of job duties to determine FLSA classification. The Wells Fargo Compensation Team also periodically reviews jobs or adjusts job classification as necessary in accordance with current regulations and court decisions.

The average base compensation for team members whose employments were terminated ranged from approximately $26,000 for Tellers to over $170,000 for a Regional Banking Area President. In general, Community Banking division team members earn an average total compensation of more than $50,000 ($62,000 inclusive of benefits).

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3) **Customer Restitution**

   a. **How will Wells Fargo be providing restitution to customers affected by wrongdoing in these cases?**

   b. **What is the criteria for determining which customers do or do not qualify for restitution?**

Response to Question 3, subparts (a-b): Wells Fargo is working very hard to remediate harm that may have been caused to our customers. To that end, pursuant to the Consumer Financial Protection Bureau (CFPB) and Office of the Comptroller of the Currency (OCC) Consent Orders, Wells Fargo will retain the services of an independent consultant and develop redress and reimbursement plans to identify the population of consumers who may have been affected by improper sales practices. We fully expect that, once approved by our regulators, the redress and reimbursement plans will encompass various forms of harm, including harm related to credit bureau inquiries, and that Wells Fargo will issue and track reimbursement payments.

We asked PwC to analyze approximately 82 million deposit accounts for instances of potential simulated funding and approximately 11 million credit card accounts for instances of lack of authorization. The accounts reviewed were opened between 2011 and 2015. Of the accounts reviewed, PwC found that approximately 623,000 consumer and business credit card accounts ***could have been*** unauthorized, and approximately 1.5 million deposit accounts ***could have*** experienced simulated funding, that is, the unauthorized deposit and withdrawal of funds intended to create the false appearance that the account was being used by the customer. In other words, PwC ***did not*** conclude that these accounts were unauthorized and/or experienced simulated funding; it just could not rule out these possibilities because its analysis of credit card authorization and potential simulated funding in deposit accounts was intentionally designed to be over-inclusive. For example, PwC flagged all credit card accounts that were not used and were not "fraud activated" by the customer calling an 800 number after receiving the card, unless there were indications of customer consent, even though there are many reasons why a customer may not activate their card.

Of the approximately 2.1 million accounts identified, PwC determined that approximately 115,000 accounts were charged a fee, averaging less than $25 per account and totaling $2.66 million in revenue to Wells Fargo. That figure is far surpassed by the costs associated with opening and closing the unused accounts. Wells Fargo has already made direct deposits and issued checks to refund these fees. We took this intentionally expansive approach because we were willing to refund fees to customers who in fact approved account openings, but subsequently allowed the accounts to lapse, so that we did not exclude customers who may have suffered harm.

We have found indications that the PwC number includes accounts where the customer authorized its opening. For example, Wells Fargo has worked to contact customers with open, inactive credit card accounts identified by PwC (i.e., the customers with accounts that could have been unauthorized) to determine whether they want these credit cards. Approximately 25 percent have informed the bank that they either did not apply, or did not recall whether or not they applied, for their card. These results demonstrate that PwC's findings as to credit card accounts were over-inclusive, containing accounts where the customer authorized the opening of the account.

For those customers who want the credit card, the account will remain open. For any customer who does not want his or her credit card, Wells Fargo is closing the account and correcting credit bureau reporting. This means we are removing the account from the customers' credit reports going forward and suppressing the existence of the inquiry so that it is not viewable to other lenders or requestors (the Fair Credit Reporting Act prohibits us removing the inquiry altogether and it will still be visible to customers pulling their own credit reports).

Moreover, we are in the process of determining how many customers obtained a credit product, with Wells Fargo or another company, during the time period in which their credit score may have been impacted by an unauthorized credit inquiry or existence of the trade line. While it may be difficult to calculate the precise impact for every customer, our intent is to err on the side of the customer and make them whole for negative repercussions that were tied to a drop in their credit score. This could include impacts on pricing, line or loan size, or credit decision. We have allocated significant resources to this effort and are working with the credit bureaus to develop a plan for submission to our regulators.

Going forward, Wells Fargo is voluntarily expanding its review of accounts to include 2009 and 2010. Wells Fargo also provides resources to help customers request free credit reports and is offering a no-cost mediation option to impacted customers to help identify and remediate any other forms of harm.

Ultimately, if any customer has any questions or concerns regarding his or her accounts—regardless of when those accounts were opened—he or she is invited to contact us so that Wells Fargo can address those questions or concerns.

c. **How many customers will be receiving restitution?**

d. **What is the total amount of restitution that these customers will receive?**

Response to Question 3, subparts (c-d): Please see the response to Question 3, subparts (a-b) above. The number of customers receiving restitution, and the amount of restitution, will continue to increase as our expanded review and customer outreach efforts continue and as Wells Fargo develops and implements a redress and reimbursement plan with the independent consultant required by the CFPB and OCC Consent Orders.

4) **Disclosure and Board Discussion of Problems at Wells Fargo**

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Prior to the settlement with CFPB, Wells Fargo fired over 5,000 employees for misconduct related to false accounts. Did the Wells Fargo board discuss the reason for this many employees being fired, and the problems that led to them being fired? If so, please provide copies of relevant Board committee minutes relating to this issue, including minutes of the Risk Committee and the Audit and Examination Committee, from October 2013 forward.

Response: From at least 2011 forward, the Board's Audit and Examination Committee received periodic reports on the activities of Wells Fargo's Internal Investigations group (which investigates issues involving team members), as well as information on EthicsLine and suspicious activity reporting. Among other things, several of those reports discussed increases in sales integrity issues or in notifications to law enforcement in part relating to the uptick in sales integrity issues. Some reporting discussed reasons for increases in sales integrity investigations and reporting, which included improved controls, tightening existing controls, and enhancements to better facilitate referrals of potential sales integrity violations to Internal Investigations.

Later, the Risk Committee began to receive reports from management of noteworthy risk issues, which included, among other risks, sales conduct and practice issues affecting customers and management's efforts to address those risks. The Board's Human Resources Committee also received a report from management that it was monitoring sales integrity in Community Banking. Sales integrity issues also were discussed periodically with the Board.

We are not presently aware of any document or instance prior to the settlement with the CFPB that informed the Board of the total number of employees who had been terminated for misconduct related to improper sales practices. The number of terminations and the reasons for them are subjects that the Independent Directors are addressing in their investigation.

5) **Wells Fargo's Culture of "Cross-Selling"**

In Wells Fargo's 2010 Annual Report, you described the company's cross-selling success and wrote "I'm often asked why we set a cross-sell goal of eight. The answer is, it rhymed with 'great.'"

a. **Was the "cross-sell goal" at the time eight banking products per household?**

b. **Was this goal set at eight because "it rhymed with 'great'"?**

Response to Question 5, subparts (a-b): While over 25% of our customers have more than eight products with Wells Fargo, this was an aspirational goal. The average U.S. household has more than 14 financial products, and we aspired to become our customers' primary financial institution by providing them just over half the number of products and services they need and use and by driving increased customer value through consolidating multiple financial products and services with one provider. We want to offer our customers valuable products and services and, to that end, we use our cross-sell metrics as a proxy for the depth of the relationships that we are building with our customers. As our annual reports make clear, Wells Fargo has always focused on the quality of our relationships with customers, not quantity. Providing services that the customer does not need or want is not in our interest or the interest of our customers. Clearly that happened in some cases.

6) **High Rates of Wells Fargo Broker Misconduct**

In April 2016, the Securities Litigation and Consulting Group (SLCG) used data from the Financial Industry Regulatory Authority's (FINRA) BrokerCheck database to assess rates of broker misconduct throughout the brokerage industry.[26]

As part of its analysis, SLCG compiled a list of brokerage firms that employ more than 400 brokers and ranked those firms based on the percentage of their brokers associated with "investor harm events" (defined, in this case, as "the initial filing of a grievance [reported to FINRA] that subsequently results in an arbitration award in favor of the customer or in a settlement in excess of $10,000 prior to May 18, 2009 and in excess of $15,000 thereafter").[27] Wells Fargo Advisors was ranked 16th, solidly within the Top 30 recidivist firms cited by SLCG.[28] SLCG found that nearly 9% of Wells Fargo's 1,993 brokers were associated with a harm event; 30 Wells Fargo brokers, meanwhile, had been previously fired from brokerage firms as a result of misconduct.[29]

You recently stated that "there is no incentive [for employees] to do bad things" within Wells Fargo, and that Wells Fargo's recent misdeeds "in no way reflect[] our culture."[30] But the high rate of recidivism among Wells Fargo brokers raises questions about these statements. To help me better understand the culture of Wells Fargo Advisors, please provide my office with the following information and answers:

a. **A description of the Wells Fargo Advisors broker hiring process, including any policies that outline how Wells Fargo assesses potential hires for the likelihood of**

[26] Craig McCann, Chuan Qin, and Mike Yan, "How Widespread and Predictable is Stock Broker Misconduct?" *Securities Litigation and Consulting Group* (April 2016) (online at http://www.slcg.com/pdf/workingpapers/McCann%20Qin%20and%20Yan%20on%20BrokerCheck.pdf). McCann, Qin, and Yan replicated the work of Quereshi and Sokobin, "Do Investors Have Valuable Information About Brokers?" (August 20, 2015) (online at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2652535) and Egan, Matvos, and Seru, "The Market for Financial Adviser Misconduct" (February 2016) (online at https://www.chicagobooth.edu/~/media/B76C81EFE39B4EDB9A4B4D8B34D0B0F7.pdf) to reconcile competing estimates of misconduct within the brokerage industry.
[27] Craig McCann, Chuan Qin, and Mike Yan, pg. 6.
[28] Craig McCann, Chuan Qin, and Mike Yan, pg. 32.
[29] Craig McCann, Chuan Qin, and Mike Yan, pg. 32.
[30] Emily Glazer and Christina Rexrode, "Wells Fargo CEO Defends Bank Culture, Lays Blame with Bad Employees," *Wall Street Journal* (September 13, 2016) (online at http://www.wsj.com/articles/wells-fargo-ceo-defends-bank-culture-lays-blame-with-bad-employees-1473784452).

broker misconduct and a description of how Wells Fargo Advisors factor a potential hires' past misconduct into its overall decision to hire a candidate?

b. **Does Wells Fargo Advisors hire brokers with records of misconduct, and if so, why?**

Response to Question 6, subparts (a, b): Wells Fargo Advisors, LLC ("WFA") subjects prospective financial advisors to a robust pre-hire due diligence process. More specifically, the Compliance Department performs a detailed review of the candidate's background, utilizing a comprehensive questionnaire, as well as by conducting a thorough review of the candidate's Central Registration Depository ("CRD") record at FINRA. The review takes into consideration the candidate's complaint history, regulatory history, reportable financial and criminal incidents, past disciplinary or supervisory actions, registration restrictions, terminations, outside business activities, employment history, business mix and any other incidents that may be reflected on the candidate's CRD record or identified through independent validation. Additionally, each candidate is fingerprinted and undergoes a criminal background and financial fitness check. After a thorough and qualitative review of any identified issues, the Compliance Department will either "object" or "not object" to the hiring of the prospective financial advisor. In the rare circumstance where the line of business disagrees with the Compliance Department's recommendation, the hiring decision is escalated to senior representatives from Legal, Compliance, and the line of business for further review and a decision.

c. **A description of how Wells Fargo Advisors compensates its brokers.**

Response: Please see response to question 6, subpart (f), below.

d. **How does Wells Fargo Advisors ensure that its brokers, once hired, do not engage in misconduct? Please provide copies of any training materials, policies, or procedures the company uses.**

Response: WFA has established and maintains an extensive supervisory and oversight program, which includes multiple, complementary processes to review the conduct of its Financial Advisors for potential and actual breaches of WFA's policies and procedures and/or applicable rules, regulations, and standards of practice. WFA utilizes this supervisory and oversight control system to identify potential and/or actual misconduct; of course, WFA also may learn of misconduct through customer complaints and/or the Wells Fargo corporate EthicsLine. Although not an exhaustive list, some of the more pertinent controls, systems, processes, or functions within WFA that may lead to the discovery of misconduct include:

- **Field Supervision**: As an integral part of WFA's "first line of defense," Branch Office Managers and local, qualified supervisors perform direct supervision of Financial Advisors and other branch team members by enforcing WFA's policies and procedures.

- **Centralized Supervision Units (CSUs):** Like WFA's field supervisors, the CSUs sit within the line of business organizationally, and are delegated the responsibility to review trade blotters, and daily and monthly alerts generated by WFA's electronic SuperVision system. SuperVision is a suitability-based supervisory system that assists WFA's supervisory personnel in identifying accounts and transactions that may warrant further attention, based on the triggering of established risk-based thresholds. The CSUs also coordinate the review of electronic communications for assigned branches, review annuity transactions, perform targeted account, product and Financial Advisor activity reviews, and perform self-audits, among other risk-related activities.

- **Retail Surveillance & Oversight:** The Retail Surveillance & Oversight Group within the Compliance Department consists of several distinct teams that conduct retail brokerage transaction oversight through both systematic and targeted monitoring. The group monitors activities to mitigate risk using various internal control tools, including the SuperVision, Smartstation, and Compliance Reporting applications. The group conducts oversight of the CSUs and other Qualified Supervisors to assess supervisory practices and to identify and address potential compliance and sales practice issues. The Retail Control Group within Compliance maintains WFA's restricted lists and monitors retail trading for compliance with trade restrictions. The Market Reviews Group performs targeted reviews of existing products and established supervisory programs within the business channels to assess their effectiveness.

- **Branch Examinations:** The WFA Branch Examinations Team is responsible for conducting on-site announced and unannounced compliance examinations of the retail brokerage lines of business in order to test compliance with federal, state, and SRO regulations and Firm policies and procedures. As with the other WFA Compliance units, the primary purpose of Branch Examinations is to provide oversight of branch-related activities within WFA in order to identify and mitigate potential risks. All WFA-registered branch sales locations are visited within the calendar year. The exam program is risk-based, with a strong focus on brokerage sales practices, product suitability, and supervision. The program is tailored for the specific sales practices engaged in by each retail brokerage unit. When applicable, current Securities and Exchange Commission and FINRA regulatory priorities are incorporated into the program. The exam program is reviewed and updated annually for each business unit with the advice and feedback of the Compliance Department, Legal, and senior supervisory staff. Summaries of frequent branch exam findings and trends are continually shared and discussed with business unit senior management throughout the exam cycle.

- **Special Supervision and Review (SSR):** The SSR Group conducts investigations related to potential violations of Firm policies and industry rules; recommends and tracks discipline; reviews requests by registered representatives to participate in certain Firm programs, and manages the Firm's Heightened Supervision Program. The SSR Group coordinates the application of WFA's disciplinary review standards with members of Internal Investigations, External Fraud, Human Resources, Employee Relations, Legal, and line-of-business management.

- **Trading Review Group:** The WFA Trading Review Group is responsible for preforming daily reviews of team member and client trading activity with a view toward identifying potential instances of insider trading. The Team analyzes trade data, market data, news events, and information provided by others including from various business supervisors or other Compliance personnel. The Trading Review Team serves as the primary escalation point for potential insider trading occurrences, and has the responsibility for determining whether additional escalation is warranted. Business and control function units that may refer matters to the group include: Corporate AML, the field supervisors and the CSUs described above, Legal, and other Compliance team members. Matters involving team members, or accounts within their control, are referred to the SSR group (described above) for further investigation.

- **Complaints Resolution Group:** WFA's Complaints Resolution Group within the Compliance Department gathers, reports, responds, tracks, and analyzes sales practice and operational customer complaints, in keeping with Finra's requirements and expectations. The group routinely refers and collaborates with business and control function units regarding possible violations of Firm policy, standards of care, and industry rules and regulations.

- **Internal Controls:** The Internal Controls Group within the Compliance Department is responsible for monitoring WFA's overall control environment and for implementing programs designed to improve the control environment. The group works with managers across all business units to review internal controls, help mitigate regulatory and operational risk, and to assist in maintaining high corporate governance standards. The Internal Controls Group performs independent testing throughout the year in support of WFA's 3130 program.

- **Internal Audit:** Commonly referred to as the "Third Line of Defense," internal audit is another critically important control function, which also reviews for policy breaches and misconduct.

- **EthicsLine/Employee Escalation:** All team members have the ability to raise concerns 24 hours a day, 7 days a week, anonymously via telephone or online through the Company's EthicsLine.

e. A description of the disciplinary process that Wells Fargo Advisors initiates, should it find any of its brokers guilty of misconduct.

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Response: Depending on the nature and severity of the misconduct, there are a number of ways in which misconduct can be addressed by WFA. As a general matter, all compliance policy breaches may be subject to WFA's established disciplinary review process, which is designed to provide a swift and meaningful response and to promote consistency in determining appropriate levels of discipline across WFA (and its different sales channels). The SSR Group investigates matters relating to violations of Firm policies (including the Wells Fargo Code of Ethics and Business Conduct) and industry rules, and typically coordinates with management within the line of business, and, as needed, with Internal Investigations, Legal, Risk, Human Resources, Employee Relations, among other groups to ensure that all disciplinary decisions and recommendations are thoroughly and fairly vetted. WFA may impose internal discipline ranging in severity from a Memorandum of Education all the way to involuntary termination. Policy violations that are not compliance-oriented are generally handled pursuant to corporate Human Resources Corrective Action Guidelines. Such corrective actions could include a Performance Improvement Plan, Informal Warning, Formal Warning, or Final Notice.

f. **Are there compensation policies or other business practices that Wells Fargo has changed because of concerns that they could contribute to or encourage broker misconduct?**

Response to Question 6, subparts (c, f): WFA's compensation plans are designed to be balanced, fair, and appropriately controlled, with a focus on product-neutral incentive design and deferral compensation. WFA has also developed a comprehensive process for the periodic review and approval of changes to such plans. WFA's CEO, the Head of Wealth Management (for Wealth Brokerage Services, or "WBS") and WFA's Conflicts Committee all participate in the review of field-facing compensation plans. WFA's Conflicts Committee is comprised of senior leaders from the various control functions and lines of business, including Compliance, Legal, Risk, Human Resources, Finance, Products & Advice, and the sales channels. The Chief Compliance Officer, Chief Risk Officer, Head of HR, and the senior-most WFA Legal representative each possess full "veto" authority on this Committee, which provides an opportunity for important control function representatives to help shape the design of any compensation plans.

Each compensation plan includes components to mitigate risk and incent compliance with industry rules, regulations, and standards of practice. For example, WFA incentive compensation plans include the following characteristics:

- Requirements to comply with all industry laws, rules, and regulations, and procedures applicable to the Participant's assigned job responsibilities;
- Performance-based deferrals, with specific goals, such as best practices activities that move towards long-term client-focused solutions; and
- Full discretionary authority for the Plan Administrator to adjust or amend a Participant's deferred compensation incentive award under the Plan, subject to the

approval of the Line of Business Head. This component provides the Line of Business with the authority to modify awards due to unknown or unforeseen circumstances that may arise.

Generally, branch manager compensation plans include several risk mitigation components, including:

- All operational losses and settlements are charged directly to the profit/loss (P&L) of the branch, with the branch P&L being considered in bonus awards;
- Annual branch inspections are performed on Markets and Complexes by the Branch Examinations team in Compliance (described above). Inspection failures result in a direct reduction to the branch manager's annual performance award;
- Discretionary awards recognize and reward leadership in numerous areas, including risk and culture in the manager's branch; and
- Branch manager salary is designed to compensate individuals for their role as manager, which includes financial performance, supervision, compliance, risk management, and other factors.

As referenced above, WFA conducts regular reviews of compensation plans for field-facing team members, with a view towards incenting client-focused behaviors and outcomes.

7) **Wells Fargo Campus Card Program**

a. **According to a 2012 report by U.S. PIRG, Wells Fargo had contracts with institutions of higher education serving over 2 million students to provide student identifications that can be linked to a Wells Fargo checking account.[31] In some cases, these contracts provide Wells Fargo exclusive access to market to students.**

In 2009, Congress enacted the Credit CARD Act, which banned aggressive marketing practices on college campuses. Banks are now forbidden from providing gifts to lure students into signing up for credit cards. They are also required to publicly disclose contracts. However, these requirements do not apply to student checking accounts.

i. **Have any Wells Fargo staff or service providers offered any gift of value to students as an inducement to activate a Wells Fargo checking account?**

[31] U.S. PIRG, *The Campus Debit Card Trap: Are Bank Partnerships Fair to Students?* (May 30, 2012) (online at http://www.uspirg.org/reports/usp/campus-debit-card-trap).

Response: The Wells Fargo Campus Card Program's policy has been to offer gifts of only token value to students who open Wells Fargo checking accounts. Such gifts typically have a value of less than $5.

ii. **Has Wells Fargo established any sales targets to employees regarding enrollment in student checking accounts?**

Response: The Wells Fargo Campus Card Program did not establish any student checking account sales targets.

iii. **How many accounts have been opened by students enrolled in institutions with contracts with Wells Fargo, by year from 2007 to the present?**

b. **According to a study by the Consumer Financial Protection Bureau, nearly 40% of individuals aged 18-25 incurred an overdraft, with 11% incurring more than 10 overdrafts on an annualized basis, making these young consumers, often college students, a lucrative segment for big banks.[32] What is the total amount of overdraft fees incurred by Wells Fargo student accounts, by year and by campus from 2007 to the present? By campus?**

Response to Question 7, subparts (a)(iii) and (b): Wells Fargo does not have a means to track accounts opened by students attending higher education institutions that have campus card contracts with Wells Fargo.

- Students may open accounts in any of our branches from coast-to-coast, and may or may not notify a banker of their status as a student or the school that they attend.
- Students may choose to open any of a number of Wells Fargo accounts and services that best meet their needs, further limiting Wells Fargo's opportunity to draw any conclusions about accounts held by students based solely on product type/name.
- Students may open their accounts long before enrolling in or attending a school with which Wells Fargo has a campus card contract, and the students may choose to participate in the campus card program with their pre-existing accounts.
- Students may transfer into/out of institutions or graduate from institutions without notifying Wells Fargo.
- Institutions' faculty and staff may participate in campus card programs, and may choose the same accounts that many students choose.

c. **In 2013, the Consumer Financial Protection Bureau called on financial institutions to publicly disclose their secret contracts with colleges. Has Wells**

[32] Consumer Financial Protection Bureau, *Data Point: Checking Account Overdraft* (July 2014) (online at http://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf).

Fargo made these agreements available to students and their families on an easily-accessible website? If so, where? If not, why not?

i. **Please provide all contracts with institutions of higher education to market accounts to students from 2007 to the present, including those agreements no longer in existence.**

Response to Question 7, subparts (c) and (c)(i): Campus banking agreements are subject to Department of Education rules requiring certain higher education institutions to make these agreements available to students and their families on easily-accessible websites. Due to confidentiality provisions contained in some contracts with higher education institutions, Wells Fargo cannot release that information; only the educational institutions can. Alternatively, the Department of Education has published a database of such contracts, as self-reported by higher education institutions. That database is available at this website: https://studentaid.ed.gov/sa/about/data-center/school/cash-management-contracts.

d. **In the hearing, I raised concerns regarding cross-selling practices at Wells Fargo. These concerns are comparable to cross-selling issues that have been raised regarding the Wells Fargo Campus Card Program.**

i. **Please provide all documentation regarding what policies and procedures are in place regarding cross-selling other products to Wells Fargo private student loan borrowers.**

ii. **How many private student loan customers have signed up for other accounts at Wells Fargo since 2009?**

iii. **For these accounts, what has been the total amount of fees related to other accounts charged to students who had Wells Fargo student loans?**

iv. **What incentives were provided to Wells Fargo sales and marketing staff to cross-sell student loan borrowers into other Wells Fargo products? Please provide total amount of additional compensation paid to employees for cross-selling student loan borrowers.**

Response to Question 7, subparts (d)(i-iv): For the period from January 1, 2009 through September 30, 2016, there were 570,510 customers that were first-time recipients of private student loans. Before opening their first student loan account, such customers had previously opened on average approximately 1.6 bank products with Wells Fargo. Such private student loan customers as of September 30, 2016 had on average approximately 1.8 active bank products with Wells Fargo.

From January 2014 to September 2016, Loan Origination team members for the Education Financial Services ("EFS") line of business would refer student loan customers (students and co-signers) to a banker if the customer expressed an interest in other banking products and services. EFS Loan Origination team members were eligible for closed referral payouts for every qualified closed referral – $5 per closed referral in January 2014 and $10 per closed referral from February 2014 through September 2016—with a maximum monthly payout for all closed referrals of $150 in January 2014 and $140 from February 2014 through September 2016.

The total amount of banker referrals paid to EFS Loan Origination team members for closed/qualifying referrals from January 2014 through September 2016 was $95,135.

e. The Wells Fargo student loan program offers different loan terms and interest rates for students at traditional colleges and universities (Wells Fargo Collegiate) than it does for students enrolled at career and community colleges, which have much higher interest rates. Please provide a detailed description of how the bank is pricing private student loans for students, including an explanation for why the bank charges career and community college higher interest rates.

i. **How many borrowers—by school—are in each of these student loan programs?**

ii. **Please provide the aggregate demographic information of borrowers in each of these student loan programs, by school.**

iii. **Please provide the average interest rate for borrowers in each of these student loan programs by FICO band.**

Response to Question 7, subparts (e)(i-iii): Wells Fargo is proud to partner with students at thousands of institutions across the country. A customer receives an interest rate that corresponds with a variety of applicant-specific factors, institutional loss/delinquency rate data, and competitive market considerations.

The table below includes balance and rate information for Wells Fargo's active loan programs:

	Loan Counts	Loan Balance	Avg. Loan Balance	Avg. Variable Rate	Avg. Fixed Rate	Borrower Count
Total	876,769	$10,136,602,004	$11,561	6.43%	9.07%	543,860

8) **Wells Fargo Student Loan Business Segment**

a. **On August 22, 2016, Wells Fargo's student loan business—one of the biggest in the country—was fined by the Consumer Financial Protection Bureau for illegal student loan servicing practices. According to the consent order, Wells Fargo illegally hit borrowers with multiple late fees and engaged in wrongful conduct related to credit reporting.[33] The Consumer Financial Protection Bureau warned about these practices in a detailed report in October 2013, noting that "too many borrowers have to run through an obstacle course to get their payments processed properly."[34]**

i. **What was the total annual compensation for the officers of Wells Fargo Education Services' top 5 executives, including its head, John Rasmussen, from 2010 to the present? Please specify compensation by component (base salary, cash awards, equity awards, other deferred compensation, and other perquisites).**

ii. **What remedial and corrective actions did the Board of Directors take to executives and employees engaged in the illegal student loan servicing conduct uncovered by the Consumer Financial Protection Bureau? How many executives and employees were sanctioned or terminated (please provide names and sanctions)?**

iii. **Were any executives required to return any bonuses or cash awards? Please provide all meeting minutes of the Board of Directors and the management team related to these discussions.**

Response to Question 8, subparts (a)(i-iii): The August 20, 2016 Consent Order issued by the Consumer Financial Protection Bureau covered certain legacy student loan servicing practices concerning (i) how payments were allocated across multiple loans (payment allocation), (ii) how partial payments were aggregated, and (iii) a systems programming error related to the assessment of late fees. The Consent Order requires a total amount of $410,000 of customer remediation for late fees assessed under the following scenarios:

- Payment allocation: Wells Fargo allocated payments sent in for less than the full amount due to pay a group of loans in a single account and in a manner the

[33] Consumer Financial Protection Bureau, "CFPB Takes Action Against Wells Fargo for Illegal Student Loan Servicing" (August 22, 2016) (online at http://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-wells-fargo-illegal-student-loan-servicing-practices/).
[34] Consumer Financial Protection Bureau, "CFPB Report Highlights Private Student Loan Payment Processing Pitfalls" (October 16, 2013) (online at http://www.consumerfinance.gov/about-us/newsroom/cfpb-report-highlights-private-student-loan-payment-processing-pitfalls/).

CFPB found as not for the greatest benefit of the customer. Wells Fargo amended its allocation practices in August 2012. Late fees will be refunded to customers.

- Payment aggregation: Wells Fargo did not aggregate some partial payments or overpayments paid within the same month or over multiple months when they collectively added up to a monthly payment. Wells Fargo automated the aggregation process in 2011 and eliminated the issue. Late fees will be refunded to customers. Additionally, we will make the appropriate credit bureau reporting adjustments.

- Late fees on payments made during the grace period: Wells Fargo identified a system coding error that resulted in a failure to waive late fees for some payments made on the last day of the payment grace period (i.e., payments that constituted a full monthly payment). The system coding error was corrected in May 2013, and self-identified to the CFPB. Late fees will be refunded to customers.

The matters covered by the Consent Order were operational issues and a systems coding error. As the issues came to our attention, we took action to resolve them, in each case well before the CFPB issued its Consent Order. The Consent Order does not require any changes to Wells Fargo's current student loan servicing methodologies related to payment allocation and payment aggregation, or its approach to processing payments made during the grace period. Wells Fargo is enhancing billing statements, repayment schedules and borrower-facing web pages to provide customers additional detail concerning its payment application and allocation methodologies, including with respect to partial payments.

b. In 2012, the Consumer Financial Protection Bureau released a report detailing the deeply troubling practices by the private student loan industry, including aggressive direct marketing and subprime-style lending to students, many of whom took out high-cost loans before accessing federal student aid. Many of these loans were not certified by the student's institutions of higher education.

i. How many loans did Wells Fargo (or its acquired subsidiaries) make to private student loan borrowers that were not certified by the student's institution of higher education?

Response: Wells Fargo is proud to partner with hundreds of thousands of students across the country and offer them valuable products they need, including educational loans. Since May of 2012, 100% of Wells Fargo's core undergraduate and graduate loans have required the school's certification as a condition of loan approval and funding. Wells Fargo continues to provide access to needed credit for student customers seeking to refinance/consolidate existing private student loans, to pay for bar exam study, to cover medical residency, or for similar purposes where a school certification is not applicable (e.g. for customers that have graduated from school and are seeking to refinance existing private loans, the student is no longer enrolled). These specialty loan programs constitute less than 25% of Wells Fargo's annual private student loan business and less than 3% when excluding consolidation/refinancing of existing student loan debt.

ii. **What referral fees or bonuses did Wells Fargo pay to lenders and marketers who steered business to—or sold private student loans to—the bank?**

Response: The sole private loan lead-referral arrangement with another organization is terminating at the end of November 2016. The terms of this contract are protected against disclosure by confidentiality provisions.

iii. **What incentives were provided to Wells Fargo sales and marketing staff to drive student loan volume? Please provide documentation on these incentive agreements from 2003-2015.**

Response: For Wells Fargo's education loan division, overall compensation for team members is based on a blend of salary and variable compensation plans. Variable compensation plans are based on a balance of product acquisition goals, customer satisfaction goals, and compliance and quality goals.

c. **The Consumer Financial Protection Bureau has called on the private student loan industry to aggressively offer borrowers loan modifications to reduce their principal and help struggling borrowers get back on track.**

i. **How many private student loans has Wells Fargo provided principal reduction?**

ii. **What is the total amount of principal forgiveness that has been provided?**

iii. **What are the detailed criteria for loan modifications with principal reduction?**

Response to Question 8, subpart (c)(i-iii): Wells Fargo's reliance on prudent underwriting requirements, designed to ensure that credit extensions are only made when supported by an ability to repay, facilitates access to credit within safety and soundness expectations of our prudential regulators. Our long-standing commitment to responsible underwriting has for many years translated into uninterrupted access to credit in support of access to higher education with very strong repayment performance within our overall private education loan portfolio.

Today, over 97% of our private education loan accounts that are in repayment are current, and our private education loan portfolio has reflected comparable delinquency management results for a number of years. Our servicing program also provides important tools and features to assist the very small percentage of customers who experience repayment difficulty, such as an extensive loan modification program, a long-standing loan refinancing option, and loan forgiveness in the event of the death or permanent/total disability of the student loan beneficiary.

Long-Term Repayment Options: Loan Modifications:
For the small number of Wells Fargo private student loan customers experiencing serious financial hardship and who need assistance beyond short-term payment assistance options, Wells Fargo developed and introduced its Private Student Loan Modification Program in November 2014. The Wells Fargo student loan modification program provides financially distressed customers a modified, affordable monthly payment by reducing the private student loan interest rate to as low as 1%, and, only if "affordability" is not reached through interest rate reductions, by extending the loan term up to an additional five years. The reduced interest rate approach means that more of each payment that is made is applied toward the principal of the loan, more quickly reducing the debt load of the customer while providing a payment he or she can afford given her or his current situation. Loan modifications can cover from 1 to 5 years, depending on the individual circumstances of each customer. In accordance with safety and soundness guidance, Wells Fargo's student loan modification program does not include principal forgiveness as part of the solution for the customer because principal forgiveness for unsecured debts constitutes a settlement and therefore requires an accelerated payback of the remaining balance within a short term, negating the benefit of any initial payment reduction.

Details:

- Affordability is defined as reaching a prescribed payment-to-income (PTI) ratio based upon the total of our Wells Fargo private student loan payments as a percentage of the borrower's and/or cosigner's gross income. All liable parties on the loan(s) must be demonstrating a hardship for the loan to qualify for a modification. Liable parties must provide income documentation to verify their level of income prior to approval.
- Initial temporary modification periods cover 12 to 60 months depending upon the borrower's circumstances. After this initial period, the interest rate will begin to increase in steps every 6 months until a pre-determined final market-level interest rate is reached.
- A permanent modification, where the interest rate and payment will never increase, may be offered in cases where there is no expectation for increased future income.

- Loans may be current or delinquent to be eligible; however, if they are less than 60 days past due, the parties will need to meet the "Imminent Default" criteria to qualify. Examples of Imminent Default criteria are: 10% or greater reduction in income since time of origination, unexpected ongoing increases in household expenses >10% of income (not including debt payments), temporary disability, etc. See the answer to Question 8, subpart (c)(iv) below for more detail.

iv. Are loan modifications available to borrowers who are not yet in distress? If so, please provide the criteria for providing loan modifications.

Response: Customers seeking relief through our student loan modification program do not need to be delinquent to obtain payment relief. The borrowers and any cosigners present on the loan(s) in question, however, do need to be showing some level of distress. To be considered for a loan modification, the hardship the customer is experiencing must be 6 months or greater in duration. If it is less than that we have other short-term options to help them stay current on their loans. The criteria for determining a hardship are as follows:

- Loan(s) 60 days past due or greater qualify as being in a hardship.
- For loans less than 60 days past due, a hardship must meet one of the following Imminent Default criteria:
  - The combination of the change in income and change in Education Financial Services ("EFS") private student loan payment must exceed a specified percentage of current income.
    - Payment change would not include a private student loan account(s) coming out of a deferment.
    - If origination income for the liable parties is not available, then we will use the income from the prior two years to determine if any changes have occurred.
    - For student borrowers who are in their first two years of repayment, prior income is not considered in the Imminent Default calculation as their income was not used for purposes of obtaining the loan.
  - A documented, involuntary, unplanned increase in monthly living expense (this does not include debt obligation).
  - Capacity to repay the current loan terms must be in question based on one or both of the following:
    - Exceeding a debt-to-income ratio threshold.
    - Gross residual income is less than the threshold.
    - Death of immediate family member, documented by:
      - Death certificate, or
      - Obituary or newspaper article reporting the death; and

        - Income documentation prior to the event compared to income documentation of the remaining borrower after the event.
    - Long-term or permanent disability or illness of the borrower or cosigner or dependent family member (in accordance with the IRS's definition of dependent), documented by:
        - Medical bills, or
        - Proof of monthly insurance benefits or government assistance (if applicable), or
        - Tax return showing medical deductions above the minimum for itemized deductions.

        Note: If the "disability" is a total and permanent disability of the borrower that qualifies the loan for forgiveness under EFS's Death and Disability Forgiveness Policy, the loan will be processed in accordance with such Policy rather than considered under this Policy for a loan modification. Since 2010, Wells Fargo has forgiven over $47 million in private student loans due to the death or permanent/total disability of the student borrower/ beneficiary. This loan forgiveness feature is part of the consumer credit agreement that we enter into with our customers, affording our customers a contractual right to this benefit. We also provide information about the availability of such loan forgiveness on our public website (for example, please see https://www.wellsfargo.com/student/repay/).
    - Legally documented divorce or separation, documented by:
        - Divorce decree signed by the court, or
        - Current credit report evidencing recorded divorce decree, or
        - Separation agreement signed by the court if separation is legally documented by the court, or
        - Current credit report evidencing recorded separation agreement; and
        - Income or expense documentation prior to the event compared to the income or expense documentation of the remaining borrower after the event.
- Once a hardship is established either through the delinquency level or the Imminent Default criteria, we attempt to reach affordability for our customers by targeting payment-to-income ratio thresholds as a percentage of gross income dependent upon the level of income.

d. Until it sold much of its portfolio to Navient, another student loan giant, Wells Fargo owned billions of dollars in government-guaranteed student loans and was one of the largest participants in the Federal Family Education Loan Program (FFELP).

Borrowers with FFELP loans are eligible for income-driven repayment loan modification plans to help them lower their monthly payments if they are struggling

to repay their loans. Wells Fargo, in its role as a student loan servicer, was responsible for enrolling borrowers in these programs so they could avoid default.

i. **How many borrowers on Wells Fargo's FFELP portfolio have enrolled in income-driven repayment plans since 2009? Please specify enrollment by number of borrowers, number of loans, and total dollar amount by year, from 2009.**

ii. **How many borrowers have defaulted on Wells Fargo's FFELP portfolio? Please specify defaults by number of borrowers, number of loans, and total dollar amount by year, from 2009?**

iii. **Were any Wells Fargo executives or board provided executive performance bonuses conditioned on meeting certain income-driven repayment loan modification plan targets? If so, what?**

Response to Question 8, subparts (d)(i-iii): After the sale of substantially all of its legacy federal loan portfolios in 2014 and 2015, Wells Fargo has a very small remaining FFELP loan portfolio, which materially impacts the loan-default figures and enrollment figures in 2015/2016 compared to the figures for 2012, 2013, and 2014.

The table below contains information about federal loan customers enrolled in income-based or income-sensitive repayment plans for calendar years 2012 through 2015. The data has two limitations: (1) a customer is only counted once even if she enrolled in income-based or income-sensitive repayment plans more than once in any particular year, and (2) a customer can be counted in more than one year if she was enrolled in income-based or income-sensitive repayment plans in multiple years.

Enrollment in income-based or income-sensitive repayment plans

Year	Balance	Loans	Borrowers
2012	$855,531,424	119,728	25,493
2013	$969,338,096	142,461	32,466
2014	$1,202,514,452	179,957	43,069
2015	$324,168,356	44,463	11,081
YTD 2016	$186,116,679	26,785	5,837

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The table below contains federal loan-default data for calendar years 2012 through 2015. The data has two limitations. First, the data captures the number and amount of loan(s) paid-off through the guaranty agency claim payment process, as of the date of claim payment, where the claim submission was based on "default" of the borrower. Second, the data does not include loans that may have defaulted but were not eligible for a claim payment because the loan lost the federal guaranty due to an origination or servicing defect.

Federal loan-default data

Year	Avg. Balance	Default Balance	%	Avg. Loans	Default Loans	%	Avg. Borr.	Default Borr.	%
2012	$13,742,518,645	$718,306,184	5.23%	2,789,625	171,520	6.15%	977,867	57,885	5.92%
2013	$11,383,789,852	$615,607,040	5.41%	2,306,308	142,230	6.17%	811,769	47,952	5.91%
2014	$ 8,734,218,960	$485,172,039	5.55%	1,773,611	105,570	5.95%	622,650	35,157	5.65%
2015	$ 529,848,505	$ 14,550,262	2.75%	98,161	2,937	2.99%	29,111	875	3.01%
YTD 2016	$ 159,508,128	$ 2,205,121	1.38%	27,950	380	1.36%	6,469	126	1.95%

The non-management members of the Board of Directors do not receive bonuses.

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Questions for Mr. John G. Stumpf, Chairman and CEO, Wells Fargo & Company, from Senators Brown, Reed, Schumer, Menendez, Tester, Warner, Merkley, Warren, Heitkamp and Donnelly:

1) **As was requested of you at the hearing, what is the precise date in 2013 when you became aware of these issues in the Community Banking Division? How was this information conveyed to you, and by whom?**

   Response: It is our understanding that, from time to time, because of Mr. Stumpf's position, individuals would contact him directly and complain about issues and that Mr. Stumpf did receive complaints about sales-practice issues over the years. When Mr. Stumpf received such complaints, our understanding is that his practice was to forward them to the appropriate internal team, such as Human Resources, to address.

   Mr. Stumpf has said that he recalls learning of the increase in the number of reports of sales-practice issues in late 2013.

   Please note that the Independent Directors of Wells Fargo's Board of Directors have launched an investigation into sales-practice issues, and that investigation is ongoing.

2) **As was asked at the hearing, what is the precise date when the Board of Directors became aware? How was this information conveyed to the Board, and by whom? Please provide a list of the dates of the Board meetings when this matter was discussed, as well as which Board members were in attendance at these meetings.**

3) **At the hearing, you were asked whether any Board members or executives had fraudulent accounts opened in their names. Please provide any names and titles.**

   Response to Questions 2-3: From at least 2011 forward, the Board's Audit and Examination Committee received periodic reports on the activities of Wells Fargo's Internal Investigations group (which investigates issues involving team members), as well as information on EthicsLine and suspicious activity reporting. Among other things, several of those reports discussed increases in sales integrity issues or in notifications to law enforcement in part relating to the uptick in sales integrity issues. Some reporting discussed reasons for increases in sales integrity investigations and reporting, which included improved controls, tightening existing controls, and enhancements to better facilitate referrals of potential sales integrity violations to Internal Investigations.

   Later, the Risk Committee began to receive reports from management of noteworthy risk issues, which included, among other risks, sales conduct and practice issues affecting customers and management's efforts to address those risks. The Board's Human Resources Committee also received reports from management that it was monitoring sales integrity in Community Banking. Sales integrity issues also were discussed periodically with the Board.

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4) **At the hearing, you stated that you did not learn of the systemic fraud occurring at Wells Fargo until late 2013, after interventions at lower levels of the company had failed to stem the creation of fraudulent accounts. Please provide a detailed timeline, from 2007 to 2015, of when different segments of Wells Fargo learned that employees were creating fraudulent accounts and what actions those segments took address the problem, including which Wells Fargo employees (such as senior executives) and federal and state regulators they informed of the problem.**

   Response: Prior to the summer of 2011, it was Wells Fargo's practice to address individual instances of alleged unauthorized accounts as they were brought to its attention by customers or bank team members. In 2012, the task of dealing with such complaints was assigned to the risk management function within Community Banking, which initiated a number of efforts to proactively monitor sales-integrity issues—which might include unauthorized accounts, but might also involve opening accounts that are a poor fit for the customer. This monitoring included tracking metrics such as how many accounts were funded within the first 30 days, how many accounts were closed within the first 30 days after opening, and how frequently accounts were downgraded from a higher value account type to a lower value account type. In April 2012, a report called the Quality of Sales Report Card was created to assist managers to monitor how their bankers were performing on these measures.

   In 2013, Wells Fargo conducted its first data analysis intended to identify bankers who were opening accounts in which money was initially deposited, but then removed and no further account activity occurred. This analysis was conducted out of concern that bankers might be trying to manipulate the sales-integrity metrics—particularly the rate of accounts funded within the first 30 days, by "simulating" funding of the accounts through transfers of funds. Based on the findings from this analysis, Wells Fargo's Corporate Investigations conducted an intensive investigation in the Los Angeles/Orange County region, resulting ultimately in the termination of several team members. The fact of this investigation, and some of the terminations, were what was publicized in the *Los Angeles Times* article on October 3, 2013. Wells Fargo's investigation continued into 2014 and resulted in further terminations.

   Based on the information learned from this initial proactive analysis, Wells Fargo began to implement changes to its policies and procedures in 2014 to attempt to mitigate the occurrence of sales-practices violations. Wells Fargo's efforts to further refine its policies and procedures and to investigate instances of sales-practices violations continued up until, and after, the Los Angeles City Attorney lawsuit was filed in May 2015. A third-party consulting firm, PricewaterhouseCoopers (PwC), was engaged in September 2015 to conduct a massive data-driven analysis of deposit and credit card accounts going back to May 2011. The results of this analysis for checking and savings accounts and credit cards were available in 2016.

5) **Does Wells Fargo have any information indicating that company employees created bank accounts or credit card accounts without customer consent prior to 2009? If so,**

how did the company obtain this information? When was the first reported case, and how many cases that occurred prior to 2009 have been discovered? Have you reported those cases to federal financial regulators?

6) **At the hearing, Wells Fargo announced that it would expand its "remediation review" to bank accounts and credit card accounts created in 2009 and 2010.[35] As was asked at the hearing, we have received reports of company employees creating false accounts before 2009, why have you limited your remediation review to 2009-2015? What steps will Wells Fargo take to ensure that customers with fraudulent accounts created before 2009 are compensated?**

Response to Questions 5-6: As is the case with any large organization involved in sales, Wells Fargo has never been immune to issues of sales-practice violations or related incidents of unethical behavior on the part of some of our team members.

We appreciate and share your concern that any and all customers who may have been impacted should be identified. Therefore, we are continuing to examine whether there are ways to identify unauthorized accounts opened prior to 2009. As an important initial step, we are notifying all of our consumer and small business Community Banking customers with a checking, savings, credit card, or line of credit account of this issue; we are also inviting and encouraging them to speak with a Wells Fargo representative if they have any questions or concerns about their accounts. Please also note that the Independent Directors of Wells Fargo's Board of Directors have launched an investigation into these issues, and that investigation is ongoing.

Lastly, we would note again that pursuant to the CFPB and the OCC Consent Orders, Wells Fargo will retain the services of an independent consultant and develop redress and reimbursement plans to identify the population of consumers who may have been affected by improper sales practices. We fully expect that, once approved by our regulators, the redress and reimbursement plans will encompass various forms of harm, including harm related to credit bureau inquiries, and that Wells Fargo will issue and track reimbursement payments.

7) **As was asked at the hearing, are you confident that this type of fraudulent activity does not exist in other Wells business lines? Have you discovered other types of misconduct involving other products aside from credit cards or basic banking (such as misconduct related to applications for mortgages or personal or other loans, or lines of credit, insurance, or other investment areas)? If so, how did the company obtain this information? When was the first reported case, how many cases have been discovered, and what is the nature of these cases? Have you reported those cases to federal financial regulators?**

[35] Wells Fargo, "Wells Fargo Chairman and CEO John Stumpf Outlines a Series of New Actions to Strengthen Culture and Rebuild Trust of Customers and Team Members at Senate Banking Committee Hearing (press release)" (September 20, 2016) (online at https://www.wellsfargo.com/about/press/2016/new-actions-strengthen-culture_0920.content).

Response: We believe that the activity at issue here was limited to certain team members within the Community Banking Division.

8) **Have you discovered misconduct relating to additional criminal or other misbehavior with the false accounts (such as bank employees using improperly created credit cards accounts for illegal purchases)? If so, how did the company obtain this information? When was the first reported case, how many cases have been discovered, and what is the nature of these cases? Have you reported those cases to federal financial regulators?**

Response: Although Wells Fargo can never be fully certain that it has identified all team member misconduct, the Company has increased its monitoring and compliance efforts to identify further misconduct. In addition, Wells Fargo has made significant changes to its policies and practices to prevent misconduct, enhance oversight, expand customer transparency, and improve the customer experience. We would like to highlight the following points:

- We have named a new head of our retail banking business.
- We have also changed the retail banking business's risk management processes. This is consistent with the reorganization of enterprise functions we have conducted across the Company to create a stronger risk and control foundation that allows senior team members across the Company to provide more independent, credible challenges to how we operate.
    - To this end, we are transitioning a number of control functions out of the lines of business, which includes Community Banking, and centralizing them within Wells Fargo's independent corporate Risk function, which will be responsible for sales-practice oversight, as well as establishing an independent Sales Practices Office.
- We have eliminated product sales goals for all Regional Bank team members who serve customers in our retail branches.
- We have made system and process enhancements, including sending automated confirmation emails to our customers every time a new personal or small business checking account or a savings account is opened; and acknowledgements are also sent for credit card applications. We are also working to improve multi-factor authentication to protect our customers' information, and signatures are captured electronically approximately 99% of the time for new checking, savings, and credit card applications. In addition, we are closing automatically inactive new deposit accounts that, after 62 days, have a zero balance, without assessing a monthly fee.
- This year alone, we have committed more than $50 million to enhanced quality assurance monitoring.
- We have expanded an independent third-party mystery shopper program, adding risk professionals to provide greater oversight, and expanding our customer complaint servicing and resolution process.

- We are surveying team members to understand their views on our Company's approach to ethics and integrity.
- We also have commenced the process with our regulators to engage an independent consultant to review sales practices in Community Banking. In addition, we will be engaging external consultants to review sales practices across the Company.
- And we will be engaging outside independent culture experts to help us understand where we have cultural weaknesses that need to be strengthened or fixed.

9) **At the hearing you indicated that you met with Ms. Tolstedt weekly, but you did not answer how often you talked with her. How often did you have conversations with Ms. Toldstedt? At any point in your regular conversations or meetings did she raise concerns with you about the firms' cross-selling focus, sales goals, firings related to unauthorized accounts, or other related matters? When did she first raise these concerns with you?**

10) **You testified that it was in 2013 that the discussion with Ms. Tolstedt on this topic made an impression upon you. Does this mean that she raised this with you earlier and it did not make an impression? Please explain.**

11) **Did you ask Ms. Tolstedt when she first learned about this wrongdoing? If so, when did you ask her? If you asked her, what information did Ms. Tolstedt provide you to when you asked? Did you ever ask her why she waited so long before bringing this to the attention of other members of senior management? What did she say?**

Response to Questions 9-11: It is our understanding that, from time to time, because of Mr. Stumpf's position, individuals would contact him directly and complain about issues and that Mr. Stumpf did receive complaints about sales-practice issues over the years. When Mr. Stumpf received such complaints, our understanding is that his practice was to forward them to the appropriate internal team, such as Human Resources, to address.

Mr. Stumpf has said that he recalls learning of the increase in the number of reports of sales-practice issues in late 2013.

Additionally, Wells Fargo cannot determine for certain the first time Ms. Tolstedt was told that a team member's employment was terminated for committing a sales violation. Like any large employer, Wells Fargo monitors sales-integrity and integrity issues so that, as issues came up that needed to be addressed, Ms. Tolstedt would be informed about those issues. The ongoing investigation by the Independent Directors of the Board of Directors and others is looking carefully at this question.

Again, please note that the Independent Directors of Wells Fargo's Board of Directors have launched an investigation into sales-practice issues, and that investigation is ongoing.

12) **Please provide the committee with all communication between you and Ms. Tolstedt on this topic for which a record exists from 2007 forward. By way of illustration, this**

should include communication regarding gaming, pinning, bundling, simulated funding, employee terminations, internal complaints, lawsuits, etc.

13) **As was requested in the hearing, please provide a timeline of Wells' first contact, and subsequent interactions, with the CFPB, OCC, and Los Angeles City Attorney's office. Please provide copies of the documents Wells Fargo produced to the CFPB, OCC, the Los Angeles prosecutor, and PWC in connection with this matter.**

Response to Questions 12-13: As Comptroller Curry testified before the Senate Banking Committee on September 20, 2016, Wells Fargo management meets regularly with the Office of the Comptroller of the Currency (OCC), our prudential regulator, about a variety of issues. Wells Fargo immediately cooperated with the OCC upon its first contact with the bank concerning these issues. Ultimately that involved addressing Matters Requiring Attention (MRAs) the OCC imposed as well as providing relevant documents in 2015.

Wells Fargo's General Counsel notified the CFPB of the Los Angeles City Attorney's lawsuit at or about the time it was filed in May of 2015. The CFPB requested information shortly after Wells Fargo notified the Bureau of the lawsuit. In June and July 2015, Wells Fargo provided information to the CFPB.

The City Attorney filed its complaint in May 2015. Wells Fargo did not have substantive conversations with the City Attorney's office prior to that time.

14) **Please provide the committee with all reports prepared internally or by third parties to evaluate policies and practices that led to these activities, the extent of these activities, as well as any reports to understand and address customer harm, including the PwC, Accenture and Skadden studies**

15) **Please provide the committee with all minutes and all materials related to these activities (including, but not limited to any report prepared by the investigations, compliance, bank secrecy /anti-money laundering, audit or human resources functions) provided to members of the Compensation, Risk, and Audit and Exam Committees, as well as the full board, for all meetings for the period 2007 to the present.**

16) **Please provide the committee with any communication that the Board of Directors, any committee of the Board or any individual Board member had with any government enforcement agency, any institution personnel or other Board member, regarding any matter relating to the activities.**

17) **Please identify the positions held by the personnel in the corporate General Counsel's office and other senior management offices that are involved with complaints by employees, former employees and customers that are filed in court and are subject to negotiation or arbitration and that allege or refer to the activities associated with the misuse of customer personal information or the opening of**

unauthorized accounts as well as any other practices used to further those activities, including but not limited to sales incentives and those practices described as pinning, sandbagging, bundling, gaming, or like actions.

18) **Please describe the role and level of involvement that such personnel (and the General Counsel's office and other senior management offices to which they belong) have in monitoring, hiring outside counsel, directing, negotiating or the decision making in those matters, and how such matters are reported up to the General Counsel, senior management and Board members.**

Response to Questions 14-18: The issues described above would be handled by a range of Wells Fargo team members depending on the nature of the allegations raised. Wells Fargo's Office of General Counsel monitors all legal claims against the bank and makes appropriate staffing decisions, including the use of outside counsel, when required.

19) **When asked whether you have referred any of your personnel to law enforcement between when you learned about this issue until the present, you said that you did when it was required. Can you please specify the number of employees that you have referred, their names and titles, the agencies to which they have been referred, and the violations for which they were referred?**

20) **Please provide the number of Suspicious Activity Reports (SARs) related to these activities that were filed for each year from 2007 to the present.**

Response to Questions 19-20: 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).

21) **As was requested at that hearing, when did you begin to disclose in SEC filings that you had this potentially material adverse set of circumstances that could damage your reputational value?**

Response to Question 21: Each quarter, we look at the relevant and appropriate facts available to us to determine whether a legal matter is material and should be disclosed in our public filings. Discerning materiality is not a mechanical exercise but rather is a determination based on judgments informed by the facts and circumstances known at the time the determination is made.

Based on the facts and circumstances as we knew them at the time, we concluded that the sales-practices investigations by the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Los Angeles City Attorney were not material. This was a considered determination based upon what we understood at the time these investigations were occurring.

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As part of our ongoing review process, we continued to evaluate the ongoing developments since the announcement of the settlements to determine whether any filings or disclosures should be made. In conjunction with our Form 8-K filing on September 28, 2016 announcing our former CEO John Stumpf's and our former Community Banking head Carrie Tolstedt's forfeiture of their unvested equity awards, we determined that it was appropriate to disclose the relevant legal developments that had occurred *since* the announcement of the settlements. As noted in our Form 8-K, these included "formal or informal inquiries, investigations or examinations" from "[f]ederal, state, and local government agencies, including the United States Department of Justice, and state attorneys general and prosecutors' offices, as well as Congressional committees. . . ."[36] Furthermore, our Form 10-Q filing on November 3, 2016 contained additional disclosures concerning sales practices matters, including an update to our legal actions disclosures and the addition of a new risk factor summarizing the legal developments and related events that had occurred since the announcement of the settlements and noting the potential that "negative publicity or public opinion resulting from these matters may increase the risk of reputational harm to our business . . . ."[37] We will continue to review developments related to sales practices matters and make additional disclosures as the facts and circumstances warrant.

Employees

22) Please provide the Committee with information on the following items for each year from 2007 to the present for the Community Banking Group and all of Wells Fargo, broken out by position (e.g. tellers, bankers, branch managers, district managers, regional managers, and senior management):

a. the number of employees terminated for engaging in, encouraging or tolerating such activities;

b. the number of employees who were terminated because they did not meet sales quotas;

c. the number of employees who resigned or retired or were asked or instructed to resign or retire for engaging in, encouraging or tolerating such activities;

d. the number of employees who were subject to internal disciplinary measures for engaging in, encouraging or tolerating such activities;

[36] *See* Wells Fargo, September 28, 2016 Form 8-K (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516722259/d266244d8k.htm).
[37] *See* Wells Fargo, November 3, 2016 Form 10-Q at 67 (available online at https://www.sec.gov/Archives/edgar/data/72971/000007297116001340/wfc-9302016x10q.htm).

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e. **the median pay by position.**

Response: Below is a table that provides the median Full Time Equivalent (FTE) base pay for positions within the Regional Bank from 2007 through September 1, 2016. In addition, all salaried and hourly team members classified as regular or part-time (i.e., those who are regularly scheduled to work 17.5 hours or more per week) are eligible for Wells Fargo-sponsored benefits, including tuition reimbursement, health care insurance, dental insurance, vision insurance, life insurance, short- and long-term disability, 401(k) plan, and paid parental leave.

Regional Bank Job Summary: 2007-2016 Median FTE Base Pay

Job Grouping	2007†	2008†	2009	2010	2011	2012	2013	2014	2015	2016
Tellers	$22,672	$22,880	$23,920	$23,566	$23,858	$23,920	$23,920	$24,274	$24,752	$26,187
Customer Sales & Service Representatives	$29,931	$30,638	$31,200	$30,014	$30,950	$30,514	$30,992	$31,200	$31,304	$31,533
Personal Bankers	$35,006	$35,173	$38,002	$36,046	$36,005	$35,984	$36,005	$36,712	$36,837	$38,501
Service Managers	$36,754	$37,981	$38,002	$38,896	$39,499	$39,998	$40,498	$41,330	$42,037	$42,848
Store Managers	$56,659	$58,802	$58,198	$60,008	$59,987	$60,008	$60,570	$62,400	$63,752	$65,021
Business Banking Specialists	$47,174	$49,150	$49,150	$49,150	$49,504	$49,982	$49,150	$49,130	$48,859	$49,358
Private Bankers	$62,962	$65,562	$62,296	$64,314	$63,066	$64,522	$65,354	$67,392	$69,680	$70,013
District Managers	$98,322	$102,315	$100,152	$105,934	$109,262	$111,155	$113,256	$114,899	$118,248	$119,995

† 2007 and 2008 data excludes legacy Wachovia team members (pre-Wachovia merger).
** Data based on active population as of 12/31 of each respective year (2016 as of 9/1).*
*** Median FTE Base Pay calculated as hourly rate X 2080.*

23) **Please provide the committee with any documentation related to sales quality metrics used by compliance, marketing, or any other unit within the Community Banking Division to evaluate employees' performance. Please provide documentation of how these metrics changed between 2007 and the present**

24) **Please also provide copies of written policies or procedures that outline how Wells Fargo disciplined employees that did not meet their sales quotas from 2007-2015. Finally, please provide your plans for making these employees whole.**

Response to Question 22, subparts (a-d) and Questions 23-24: From 2011 to 2015, approximately 5,300 team members were terminated for certain sales-integrity violations. The majority of the terminated team members held banker, management, or other functionally similar positions. Approximately 1,000 were terminated each year. For example, investigations by the Corporate Investigations group in 2013 resulted in the termination of 1,245 Community Banking team members. That is approximately 1% of Wells Fargo's total population of Community Banking employees.

Approximately 65% of the terminated team members were in Personal Banker positions or functionally similar roles and 7% were in Teller positions. In addition, we terminated the employment of over 480 team members in supervisory positions, including store managers and persons up to three levels above bankers and tellers, when investigations have found that those team members engaged in or directed improper sales practices or exhibited excessive pressure and did not respond promptly and decisively to change their behavior. All of these team members were terminated for sales-integrity violations, not for failing to meet product sales quotas.

Wells Fargo cannot quantify with any degree of confidence how many team members were disciplined solely for not meeting sales goals. Wells Fargo has safeguards in place to help ensure that managers remain focused on assessing team members' overall performance in helping customers succeed financially, not just whether they meet an individual sales goal. This includes a strong performance management program, which provides for coaching and feedback to help team members succeed and involvement of Human Resources in disciplinary decisions.

Wells Fargo team members who believe they were disciplined for not meeting sales goals can raise those concerns through a number of different channels, including through their management chain, Human Resources, or the EthicsLine. Moreover, Wells Fargo has established a process to enable former team members who contact the Company today to request a review of their termination, even if they did not utilize the Company's termination appeal and review processes at the time of their departure. Former team members who did utilize the Company's appeal processes in the past will be provided with an additional review. Former team members who express interest in reemployment and are deemed to be eligible for reemployment through this review process will be able to work with a special recruiting team to assist in exploring opportunities at Wells Fargo.

25) **Please provide the states and zip codes of the Wells Fargo branches where each of the 5,300 employees were terminated.**

Response: Wells Fargo team members' employments were terminated in the following states (and District of Columbia):

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Alabama
Alaska
Arizona
Arkansas
California
Colorado
Connecticut
Delaware
Florida
Georgia
Idaho
Illinois
Indiana
Iowa
Kansas
Kentucky
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Montana
Nebraska
Nevada
New Jersey
New Mexico
New York
North Carolina
North Dakota
Ohio
Oregon
Pennsylvania
South Carolina
South Dakota
Tennessee
Texas
Utah
Virginia
Washington
Washington, DC
Wisconsin

Wyoming

Please see Appendix I for the list of zip codes of the affected branches.

26) **What was Wells Fargo's policy on the employees who reported concerns to their managers, human resources division or used the hotline and were fired? Please share with the Banking Committee any internal memos, or pertinent exchanges, outlining the strategy for firing employees who raised concerns.**

27) **At the hearing, you indicated that employee ethics complaints were handled by an outside firm and to resolve an issue an employee would not be confronted by his or her supervisor. Please provide a detailed description of the ethics complaint process in 2007, and any subsequent changes to it.**

Response to Questions 26-27: It has never been a policy or practice of Wells Fargo to terminate team members who voiced their concerns to managers, the human resources division, or through the ethics hotline. We are aware that certain former team members are making these allegations and we take them very seriously. We are currently investigating the issue.

Wells Fargo has long had internal processes in place for team members to raise issues or concerns through multiple channels, including managers, HR, Compliance and/or the EthicsLine. We encourage team members to speak up if they experience or witness something that makes them feel uncomfortable and have measures in place to protect team members from retaliation. The EthicsLine provides team members with a confidential way to report possible violations of Wells Fargo's Code of Ethics and Business Conduct or any laws, rules or regulations. Team members have the option to remain anonymous through the EthicsLine. It is available to all team members (U.S. and international) 24 hours a day, seven days a week, via toll-free telephone or online web reporting. 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 ensure team member confidentiality and preserves anonymity when requested.

All team members who call the EthicsLine are provided with an EthicsLine ID that is associated with their EthicsLine Report. Team members who elect to remain anonymous are asked to either call back to the EthicsLine or log into the EthicsLine Web Portal in 10 calendar days to provide additional information or answer any questions relating to their report. To further protect the integrity of the confidential hotline, the vendor does not record any data related to the incoming telephone calls or web reports. Team members who self-identify are advised that since they provided their name and contact information, Wells Fargo now has the option to contact them directly if needed. They are also told they can call the EthicsLine at any time to provide additional information.

Interview specialists with the EthicsLine vendor listen, ask clarifying questions if necessary, and then write a summary report of the call. The summary is then provided to

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Wells Fargo's Office of Global Ethics and Integrity for assessment and referral to the appropriate review team.

Wells Fargo takes measures to protect team members from retaliation, including maintaining confidentially during the review process. Specifically:

- All reports of suspected unethical or illegal activities are taken seriously and measures are in place to ensure concerns are promptly evaluated and reviewed.

- The review of concerns in many cases will require a fact-finding that may involve interviews with individuals the Company determines may have information relevant to the underlying issue or concern. However, management of any review and updates regarding facts, progress and outcomes are limited to only those who have a legitimate business need to know.

- It may be possible in some cases for the researcher / investigator to determine the identity of the team member due to the nature of the issue reported and the information shared by the team member. However, the researcher / investigator would not ask the team member to self-identify as the person who made the EthicsLine Report.

In no circumstances is the team member told the specifics about any corrective action taken against another team member as it is not Wells Fargo's practice to discuss confidential information regarding one team member with another. Wells Fargo will only share information regarding the review, including any corrective action taken, with those who have a legitimate business need to know.

Wells Fargo's Nonretaliation Policy, which is available to all team members in the Team Member Handbook and reiterated in the Code of Ethics and Business Conduct, mandates that no team member may be retaliated against for providing information in good faith about suspected unethical or illegal activities, including fraud, securities law, or regulatory violations, or possible violations of any Wells Fargo policies. Retaliatory behavior has always been, and continues to be, grounds for corrective action, up to and including termination of employment. Team members who believe that they or someone else has been retaliated against for reporting an issue are instructed to report it as soon as possible to their supervisor or manager, HR Advisor team, or Corporate Employee Relations, to ensure that a prompt review is conducted and, where appropriate, corrective action is taken. Team members can also report retaliation concerns via the EthicsLine.

Wells Fargo has additional safeguards to prevent any form of retaliation, including the fact that Wells Fargo's Human Resources personnel are typically consulted in every termination decision. Additionally, team members whose employments have been terminated may utilize Wells Fargo's termination review process to request to have that decision reviewed by a Corporate Employee Relations professional who was not previously consulted in the termination decision.

To further strengthen our program and foster an environment where all team members feel comfortable escalating matters without fear of retaliation, we are making improvements to the program, including:

- Enhancing our Company-wide standards to ensure a consistent team member experience and safeguards, regardless of the type of issue reported or which group is conducting the research or investigation.

- Reinforcing our standards and processes that protect team members from retaliation. This will include requiring that the appropriate review unit evaluating the underlying issues or concerns must provide a reminder of the Company's Nonretaliation Policy to all individuals interviewed or contacted as part of the review, as well as all managers who may be part of any corrective action decisions arising out of the review.

- Ensuring that reports of suspected unethical or illegal activities are evaluated, investigated, and appropriately escalated in a timely and confidential manner by continually monitoring and refining our EthicsLine research and investigative processes. This will include the adoption of Speak Up, Investigative, and Nonretaliation Standards to help guide the research and investigative process.

- Creating additional training, communications, and resources to help team members understand their responsibilities under the Code of Ethics and Business Conduct and related policies, the importance of speaking up, and what to do when faced with an ethical dilemma.

With respect to allegations from former team members who claim that their employment was terminated or they were demoted after refusing to open unauthorized accounts and/or after reporting concerns to the EthicsLine, we are reviewing each of the situations. As described above, team members have the option to raise concerns anonymously, so Wells Fargo likely will not have records identifying former team members who raised concerns anonymously through the EthicsLine. Nevertheless, Wells Fargo is taking steps to review such termination/demotion decisions where possible and has engaged outside consultants to help us with this review. Moreover, Wells Fargo has established a process to enable former team members who contact the Company today to request a review of their termination, even if they did not utilize the Company's termination appeal and review processes at the time of their departure. Former team members who did utilize the Company's appeal processes in the past will be provided with an additional review. Former team members who express interest in reemployment and are deemed to be eligible for reemployment through this review process will be able to work with a special recruiting team to assist in exploring opportunities at Wells Fargo.

28) **During your testimony, you consistently cited your participation in "Town Hall" style meetings to explain how you communicated to employees that they should not, under any circumstances, create false accounts for customers in order to meet sales quotas. Please provide transcripts from all Town Hall-style meetings that you**

participated in from 2011 to 2015. Please demarcate all areas of those transcripts in which you clearly state that employees should not be defrauding customers.

Response: Mr. Stumpf addressed the unauthorized accounts issues during a town hall meeting following the December 2013 *Los Angeles Times* story. During that town hall, Mr. Stumpf informed team members he "want[ed] to address" the issues discussed in the article "head on." Of note, he said:

> Our culture is about service. We want to help our customers succeed financially, and we're not in the product pushing business. Think of . . . yourselves [] no matter what business you're in, whether you help those who service our external customers or if you serve them directly, I think of all of us as being financial physicians. We meet our customers . . . and we have a conversation with them. And we listen carefully for their needs. And once we discover a need, we then through our skill set, understanding, and experience, our value-add, we offer a product or a service or a series of products and services to help them. We don't try to sell them something that they don't need or don't want. . . .
>
> Here's my ask of you and for everybody listening today. If you believe that your team, your boss, your boss' boss somehow is putting pressure on you to sell things that your customers don't want, don't need, raise your hand. . . . And if you're not comfortable doing that, there's an anonymous . . . ethics line, [or you can] talk to somebody in HR. We want to do the right thing. We're in the long-term business.[38]

29) Were fraudulent accounts created in one branch location from the account information of customers of another branch? Did employees establish accounts or claim to sell additional products to customers in another state?

Response: Wells Fargo customers frequently utilize multiple branches and will themselves open accounts at different locations at different times. Some potentially unauthorized accounts were opened at different locations than other accounts owned by the same customer, but we are not aware whether that is due to customer choice or banker conduct. We are not aware of unauthorized accounts being opened in states other than those where the customer banked, however, our internal review is ongoing.

30) Did employees establish accounts or claim to sell additional products for minor children?

[38] Hollywood, FL, Town Hall, February 5, 2014 (Transcript on file).

Response: Wells Fargo does not currently know the extent to which unauthorized accounts were opened in the name of minor children, however, our internal review is ongoing.

We would note that the Consumer Financial Protection Bureau (CFPB) and Office of the Comptroller of the Currency (OCC) Consent Orders both require Wells Fargo to retain the services of an independent consultant and to develop redress and reimbursement plans that will identify the population of consumers who may have been affected by improper sales practices.

31) **During your testimony, you denied that the Wells Fargo incentive structure was responsible for the widespread fraudulent activity at your bank. Further, you and your colleagues at the bank have stated that the 5,300 fired employees acted without guidance from management and were rogue employees. In comparison, little has been reported on the bonuses or incentive structures for regional and branch managers. What bonuses did Wells Fargo pay to regional and branch managers for successful (either meeting or exceeding their sales quotas) cross-selling numbers?**

Response: Prior to our elimination of product sales goals, Regional Bank store managers in our retail branches earned incentive compensation based in part on the store's performance relative to store goals. If a particular store met its sales goal, the store manager would have been eligible for bonus compensation. The store manager would have been eligible for additional bonus compensation for exceeding the goal at various levels. For the purposes of context, between 2011 and 2014, the median incentive payout as a percentage of total salary earned by store managers based on sales-related performance objectives (versus incentive opportunities provided for service and other performance objectives) declined from 8.5% in 2011 to 4.0% in 2014. The median payout earned by district managers, who supervise store managers, also declined between 2011 and 2014, from 13.1% to 3.0%.

Consumer Harm

32) **Please provide a state-by-state list of the number Wells Fargo customers that you have determined may have been harmed by this misconduct.**

Response: We asked PwC to analyze approximately 82 million deposit accounts for instances of potential simulated funding and approximately 11 million credit card accounts for instances of lack of authorization. The accounts reviewed were opened between 2011 and 2015. Of the accounts reviewed, PwC found that approximately 623,000 consumer and business credit card accounts ***could have been*** unauthorized, and approximately 1.5 million deposit accounts ***could have*** experienced simulated funding, that is, the unauthorized deposit and withdrawal of funds intended to create the false appearance that the account was being used by the customer. PwC ***did not*** conclude that these accounts were unauthorized and/or experienced simulated funding; it just could not rule out these possibilities.

Below is the state-by-state list of the number of deposit and credit card accounts that PwC identified, within the total of approximately 2.1 million accounts identified. Although PwC identified accounts in all 50 states, for the reasons discussed it is not clear that unauthorized credit card accounts were actually opened and/or deposit accounts experienced simulated funding in all 50 states:

State	Number of Accounts Identified by PwC (Credit & Deposit)
Alabama	22,795
Alaska	5,970
Arizona	178,972
Arkansas	1,310
California	897,972
Colorado	64,481
Connecticut	11,497
Delaware	4,255
Florida	117,752
Georgia	55,579
Hawaii	805
Idaho	14,316
Illinois	4,890
Indiana	5,222
Iowa	12,630
Kansas	1,296
Kentucky	629
Louisiana	862
Maine	217
Maryland	15,391
Massachusetts	1,142
Michigan	2,891
Minnesota	31,238
Mississippi	2,355
Missouri	1,191
Montana	8,352
Nebraska	12,348
Nevada	53,675
New Hampshire	217
New Jersey	95,921
New Mexico	18,847
New York	24,048

State	Number of Accounts Identified by PwC (Credit & Deposit)
North Carolina	38,722
North Dakota	1,939
Ohio	1,579
Oklahoma	761
Oregon	35,202
Pennsylvania	79,918
Rhode Island	192
South Carolina	23,327
South Dakota	4,803
Tennessee	3,534
Texas	149,857
Utah	41,686
Vermont	144
Virginia	41,703
Washington	38,861
Washington, DC	2,433
West Virginia	341
Wisconsin	8,922
Wyoming	2,317

33) **As requested at the hearing, please provide the proportion of customers who were harmed by Wells' misconduct who are: elderly, racial/ethnic minorities, and military/veterans.**

34) **Please provide the number of customers identified by the PwC study as having had a fraudulent account opened by age cohort: 0-17; 18-30, 31-40, 41-50, 51-60, 61-70, 71-80, 81-90, 91+**

Response to Questions 33-34: Wells Fargo collects date of birth data and our initial review indicates that elderly customers were not overrepresented among the population of customers who may have had an unauthorized deposit account opened in their name.

Of the 2.1 million accounts that PwC identified, 5,089 accounts were associated with customers who are identified in the Defense Manpower Data Center (DMDC) as being active duty, reserve, or National Guard. In other words, less than 0.3% of the accounts identified by PwC were associated with customers who are identified in the DMDC.

We do not collect data concerning race or ethnicity during the application process.

35) **Please provide the committee with a list of the written policies for 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, and 2015 that Wells Fargo provided to consumers upon**

their opening of a bank account or credit card account that explain the fees associated with those accounts.

36) **Will Wells Fargo be providing any non-monetary compensation (such as free credit reporting, ID protection, or discounted or free Wells Fargo services) to customers? Please explain.**

37) **Does Wells Fargo have a policy for assisting customers who had their identification stolen and faced significant costs due to actions taken by Wells Fargo employees? Please explain.**

38) **You indicated at the hearing that you would consult with your team as to any data limitations that would prevent you from identifying customers harmed earlier than 2009. What are the results of those conversations? How far back can Wells Fargo conduct an examination similar to the one conducted by PwC?**

Response: We appreciate and share your concern that any and all customers who may have been impacted should be identified. Therefore, we are continuing to examine ways to discern if any unauthorized accounts were opened prior to 2009. As an important initial step, we are notifying all of our consumer and small business Community Banking customers with a checking, savings, credit card, or line of credit account of this issue; we are also inviting and encouraging them to speak with a Wells Fargo representative if they have any questions or concerns about their accounts. Please also note that the Independent Directors of Wells Fargo's Board of Directors have launched an investigation into these issues, and that investigation is ongoing.

Further, we would note again that pursuant to the CFPB and the OCC Consent Orders, Wells Fargo will retain the services of an independent consultant and develop redress and reimbursement plans to identify the population of consumers who may have been affected by improper sales practices. We fully expect that, once approved by our regulators, the redress and reimbursement plans will encompass various forms of harm, including harm related to credit bureau inquiries, and that Wells Fargo will issue and track reimbursement payments.

39) **As requested during the hearing, please provide specific information related to overdraft protection products, including sales goals related to overdraft, the number of consumers who overdrew their accounts, the number of overdraft protection products sold without customer knowledge, and dollar amount of overdraft fees charged to consumers related to this episode.**

Response: Wells Fargo is committed to providing only those services that our customers need or want. Overdraft protection is one of those services. Customers are encouraged to contact us if they have any issues or concerns.

40) **During the hearing you were asked how Wells Fargo's cross selling and sales targets compare to its competitors. Please provide your understanding of this answer.**

Response: Wells Fargo is not aware of the degree to which our competitors use cross-sell strategies.

Restoring the Credit Scores of Wells Fargo Customers

41) Has Wells Fargo contacted and instructed Transunion, Equifax and Experian, and any other credit bureaus, to determine and remediate any possible harm resulting from the opening of, and activity on, unauthorized credit cards? Please provide the date(s) of any outreach by Wells Fargo to these bureaus, the instructions and information provided to the bureaus, and the proposed remediation for those customers who may have suffered harm.

42) Your credit restoration plan provides Wells Fargo with the opportunity to push new products onto customers, urge them to hold on to credit cards they may or may not have wanted, and gather additional information from customers unrelated to closing fraudulent accounts—opportunities that benefit Wells Fargo, not affected customers. Please provide a copy of the scripts that your company will use to contact affected customers, highlighting any instance in which Wells Fargo attempts to convince customers to purchase new products or retain (potentially unwanted) accounts.

43) Senator Tester asked you how you planned to identify and provide restitution to customers whose credit ratings were negatively impacted because of Wells Fargo employees' actions against its customers, including but not limited to transactions with other financial institutions. You stated that you would call each of Wells' credit card customers to identify any who have been harmed and "have [y]our team come back and report to you how we're working on it." Please provide a detailed explanation of how Wells Fargo plans to identify and provide remediation to these customers, and to other customers who may not have had credit cards, but whose credit may have been harmed due to other products.

44) How will you confirm that inaccurate information on your customers' credit files has been removed? It's one thing to say they're removing the inaccurate info, it's another to ensure the bureaus go ahead and actually remove it.

Response to Questions 35-37, 41-44: Wells Fargo is working very hard to remediate harm that may have been caused to our customers. To that end, pursuant to the CFPB and OCC Consent Orders, Wells Fargo will retain the services of an independent consultant and develop redress and reimbursement plans to identify the population of consumers who may have been affected by improper sales practices. We fully expect that, once approved by our regulators, the redress and reimbursement plans will encompass various forms of harm, including harm related to credit bureau inquiries, and that Wells Fargo will issue and track reimbursement payments.

Wells Fargo is contacting credit card customers for the purpose of determining whether they want their credit cards and to help us identify customers who may have an unauthorized credit card account. We are not using these calls to promote other products or services. Our script simply informs customers that we are calling them about an inactive account and asks whether they want the account.

For those customers who want the credit card, the account will remain open. For any customer who does not want their credit card, Wells Fargo is closing the account and correcting credit bureau reporting. This means we are removing the account from the customers' credit reports going forward and suppressing the existence of the inquiry so that it is not viewable to other lenders or requestors (the Fair Credit Reporting Act prohibits us removing the inquiry altogether and it will still be visible to customers pulling their own credit reports).

Moreover, we are in the process of determining how many customers obtained a credit product, with Wells Fargo or another company, during the time period in which their credit score may have been impacted by an unauthorized credit inquiry or existence of the trade line. While it may be difficult to calculate the precise impact for every customer, our intent is to err on the side of the customer and compensate them for impacts to their other credit accounts. This could include impacts on pricing, line or loan size, or credit decision. We have allocated significant resources to this effort and are working with the credit bureaus to develop a plan for submission to our regulators.

Going forward, Wells Fargo is voluntarily expanding its review of accounts to include 2009 and 2010. Wells Fargo also provides resources to help customers request free credit reports and is offering a no-cost mediation option to impacted customers to help identify and remediate any other forms of harm.

Ultimately, if any customer has any questions or concerns regarding his or her accounts—regardless of when those accounts were opened—he or she is invited to contact us so that Wells Fargo can address those questions or concerns.

Senior Executive Compensation

45) **Please provide any Board or Compensation Committee minutes describing (1) discussion of the pending Wells Fargo settlement and any impact it had on Ms. Tolstedt's decision to retire, (2) discussion of termination or any other penalty for Ms. Tolstedt in relation to her role in the Wells Fargo actions that resulted in the CFPB settlement; (3) the impact of Ms. Tolstedt's decision to retire on her final compensation.**

46) **Fortune magazine reported that the decision to allow Ms. Tolstedt to retire rather than terminating her resulted in her retaining an extra $45 million in compensation. Is this report accurate? If not, which portions are incorrect? How much did Ms. Tolstedt earn or retain as compensation because of her retirement that she would not have been allowed to earn or retain if she had been terminated?**

47) What are the criteria that the Board will use to determine all elements of Ms. Tolstedt's 2016 compensation?

Response to Questions 45-47: Ms. Tolstedt has left Wells Fargo. She has agreed to not exercise any outstanding stock options previously awarded by Wells Fargo until the completion of the Board of Directors' investigation and that, at the conclusion of this investigation, the Board (or the Independent Directors of the Board or the Human Resources Committee, through Board delegation) will have the authority to determine the extent to which such options will be forfeited.[39]

The Board's Independent Directors have determined that all of Ms. Tolstedt's unvested equity compensation, valued at approximately $19 million, would be forfeited, and that she would not receive a bonus for 2016 or any retirement enhancements or severance package in connection with her separation from Wells Fargo. No incentive compensation was granted to Ms. Tolstedt as a result of her separation from the Company, and none of her equity awards will be "triggered" or otherwise increased or accelerated by her separation. Ms. Tolstedt could be subject to further compensation and other actions based upon the results of the Independent Directors' investigation.[40]

Wells Fargo has multiple recoupment or clawback policies and provisions in place that are applicable to Wells Fargo's current and former executive officers, including Ms. Tolstedt.

Policy/Provision	Trigger for Clawback or Recoupment	Compensation Subject to Recovery	Impacted Population
Unearned Compensation Recoupment Policy	Misconduct by an executive that contributes to the Company having to restate all or a significant portion of its financial statements.	Any bonus or incentive compensation that was based on achievement of financial results that were restated downward.	Executive Officers
Extended Clawback Policy[41]	Incentive compensation was based on materially inaccurate financial information or other materially inaccurate performance metric criteria, whether or not the executive was responsible.	Incentive compensation that was based on materially inaccurate financial information or other materially inaccurate performance metric criteria.	Executive Officers and certain other highly compensated employees
Performance-Based Vesting Conditions	• Misconduct which has or might reasonably be	Restricted Share Rights ("RSR") awards and	Executive Officers

[39] Wells Fargo, "Independent Directors of Wells Fargo Conducting Investigation of Retail Banking Sales Practices and Related Matters (press release)" (Sept. 27, 2016) (available online at https://www.wellsfargo.com/about/press/2016/independent-directors-investigation_0927/).
[40] Wells Fargo, September 27, 2016 Form 8-K, (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516722259/d266244d8k.htm).
[41] Adopted June 15, 2009 and extended February 2010.

Policy/Provision	**Trigger for Clawback or Recoupment**	**Compensation Subject to Recovery**	**Impacted Population**
	expected to have reputational or other harm to the Company or any conduct that constitutes "cause," • Misconduct or commission of a material error that causes or might be reasonably expected to cause significant financial or reputational harm to the Company or the executive's business group, • Improper or grossly negligent failure, including in a supervisory capacity, to identify, escalate, monitor or manage, in a timely manner and as reasonably expected, risks material to the Company or the executive's business group, • An award was based on materially inaccurate performance metrics, whether or not the executive was responsible for the inaccuracy, or • The Company or the executive's business group suffers a material downturn in financial performance or suffers a material failure of risk management.	Performance Share awards granted to named executives are subject to cancellation if the Board of Directors' Human Resources Committee determines that a trigger event has occurred.	Other team members in receipt of RSRs as part of annual incentive/ bonus awards.
Clawback Provisions Included in All Equity-Based Awards	In accordance with the terms of any recoupment or clawback policy or requirement from time to time maintained by Wells Fargo or required by law, as set forth in award	All equity awards granted under the LTICP, whether vested or unvested, for which the applicable Company clawback or recoupment	All team members who receive Wells Fargo equity

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Policy/Provision	Trigger for Clawback or Recoupment	Compensation Subject to Recovery	Impacted Population
	agreements for equity-based compensation grants since 2009. The Long-Term Incentive Compensation Plan ("LTICP") also provides that awards are subject to any Company recoupment policy or any recoupment requirement imposed under applicable laws.	policy or legal requirement is triggered.	awards under the LTICP

The Board (or the Independent Directors or the Human Resources Committee, through Board delegation) will assess the relevant facts and circumstances, the award terms, and Wells Fargo's recoupment and clawback policies to determine whether to cancel or clawback any more of Ms. Tolstedt's incentive compensation.

48) You stated at the hearing that you are "not an expert in compensation" and that you do not sit on the Wells Fargo Board's compensation committee. To help us better understand your role, as Chairman of the Board, in contributing to compensation decisions, please provide a description of the process by which your board makes decisions related to compensation and supply any written policies or guidance on the role of board members and Chairman on these matters. Specifically, please comment on Wells Fargo's most recent proxy statement which states on page 51 that part of Ms. Tolstedt's incentive compensation award was determined based on your assessment of her 2015 performance.

Response: In deciding executive compensation, the Human Resources Committee of the Board of Directors (HRC) is guided by four compensation principles that have historically governed its pay decisions for named executives:

1. Pay for Performance: Link compensation to Company, business line, and individual performance so that superior performance results in higher compensation and inferior performance results in lower compensation;

2. Foster Risk Management Culture: Structure compensation to promote a culture of prudent risk management consistent with the Company's Vision and Values;

3. Attract and Retain Top Executive Talent: Offer competitive pay to attract, motivate, and retain industry executives with the skills and experience to drive superior long-term Company performance; and

4. Encourage Creation of Long-Term Stockholder Value: Use performance-based long-term stock awards with meaningful and lasting share retention requirements to encourage sustained stockholder value creation.

In 2015, the HRC maintained the overarching compensation structure for named executives that it had used in the past, including the relative balance between annual fixed compensation and annual variable "at-risk" compensation. The HRC also continued to weight long-term over annual compensation, and equity over cash compensation. Within this framework, the HRC awarded the following primary elements of compensation to the Company's named executive officers for 2015: base salary, annual incentive, and long-term equity-based incentive.

In 2015, Ms. Tolstedt's 2015 annual incentive award was determined by the HRC based on a broad set of factors, including the Company's financial performance, the Company's progress on key strategic priorities, compensation of similarly situated executives in the Labor Market Peer Group (where such information was available), success in achieving strategic objectives in the Community Banking division, Ms. Tolstedt's ability to operate as a member of a team, Ms. Tolstedt's success against her objectives for 2015, which included the financial performance of her respective business line and a risk and other qualitative assessment of how those results were achieved, as well as the recommendations of Mr. Stumpf based on his assessment of her 2015 performance.[42]

The HRC awarded Ms. Tolstedt long-term incentive compensation in the form of performance shares granted in February 2015 and RSRs granted in July 2015. In granting the 2015 Performance Shares and establishing their terms, the HRC considered the appropriateness of this award structure in the context of multiple factors including applicable regulatory guidance, the quality of the Company's performance from a risk management perspective, and the need for continued leadership over the three-year performance period. The HRC determined the dollar value of the Performance Share grants, taking into account individual experience and responsibilities, to provide an opportunity to realize variable compensation commensurate with performance and with the intention that total compensation be competitive with total compensation for comparable positions and performance at peers. The HRC granted the July 2015 RSRs following a mid-year evaluation of the senior executives' compensation and contributions to the Company's strong performance as part of an overall, balanced mix of competitive pay and to provide an incentive for those executives to continue their strong and effective leadership, consistent with the Company's compensation principles to pay for performance, to attract, retain, and motivate top executive talent, and to encourage the creation of long-term stockholder value.[43]

[42] Wells Fargo, 2016 Proxy Statement, at 38-39, 52 (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516506771/d897049ddef14a.htm).
[43] Wells Fargo, 2016 Proxy Statement, at 53-54 (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516506771/d897049ddef14a.htm).

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49) A recent CNNMoney report indicated that you received millions of dollars in compensation for increasing the number of "primary consumer, small business, and banking checking consumers" and for "reinforcing a culture of risk management and accountability at the company."[44] Please provide details on all bonuses or incentive pay that you have received, based on performance related to "cross-selling," increasing the number of consumers or consumer accounts. For each year, provide the total value of all such incentives received, and the criteria that qualified you for such incentives.

Response: As part of their investigation, the Independent Directors and the Human Resources Committee will review the extent to which Mr. Stumpf's compensation was based on performance related to cross-selling or upon metrics that included unauthorized accounts.

50) Please describe your full compensation package and benefits plan, including base salary, incentive compensation, and any retirement benefits such as a 10b5-1 plan, including the dollar values of such packages and benefits.

Response: In 2015, Mr. Stumpf received the following compensation:[45]

Salary ($)	Stock Awards ($)	Non-Equity Incentive Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
2,800,000	12,500,054[46] (dollar value on date of grant of 2015 Performance Shares at "target"—actual will be determined in the first quarter of 2018	4,000,000 (833,333 of which was paid in Restricted Share Rights that vest over three years)[47]	N/A	18,550	19,318,604

[44] http://money.cnn.com/2016/09/22/investing/wells-fargo-ceo-john-stumpf-200-million/index.html?iid=hp-stack-dom.
[45] Wells Fargo, 2016 Proxy Statement, at 57 (available online https://www.sec.gov/Archives/edgar/data/72971/000119312516506771/d897049ddef14a.htm).
[46] Mr. Stumpf agreed to forfeit this award. *See* Wells Fargo, "Independent Directors of Wells Fargo Conducting Investigation of Retail Banking Sales Practices and Related Matters (press release)" (Sept. 27, 2016) (available online at https://www.wellsfargo.com/about/press/2016/independent-directors-investigation_0927/
[47] Mr. Stumpf agreed to forfeit this award. *See Id.*

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Salary ($)	Stock Awards ($)	Non-Equity Incentive Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
	and may range from zero to 150% of the target shares, depending on Company performance)				

Mr. Stumpf participated in, and other Wells Fargo executives participate in the same benefit programs generally available to all team members, including health, disability, and other benefit programs, which include the Company 401(k) Plan (with a company match and potential discretionary profit sharing contribution) and, for team members hired prior to July 1, 2009, the Company's qualified Cash Balance Plan (frozen in July 2009). The Company matched up to 6% of eligible participants' certified compensation during 2015 and, in January 2016, the Human Resources Committee of the Board of Directors authorized a discretionary profit sharing contribution of 1% of each eligible participant's certified compensation under the Company 401(k) Plan based on the Company's 2015 performance.

Certain executives, together with team members whose covered compensation exceeds IRC limits for qualified plans, also participated in nonqualified Supplemental 401(k) and Supplemental Cash Balance Plans prior to those plans being frozen in July 2009. Following the freezing of the plans, the Company no longer makes additional contributions for participants in these plans, although additional investment income continues to accrue to participants' individual accounts at the rates provided for in the plans. Certain executives and certain other highly compensated team members also can participate in our Deferred Compensation Plan. Effective January 1, 2011, the Company amended this plan to provide for supplemental Company matching contributions for any compensation deferred into the Deferred Compensation Plan by a plan participant, including Mr. Stumpf, that otherwise would have been eligible (up to certain IRS limits) for a matching contribution under the Company's 401(k) Plan.[48]

The HRC has intentionally limited perquisites to executive officers. In 2015, for security or business purposes, the Company provided a car and driver to Mr. Stumpf and from time to time to certain other executives, primarily for business travel and occasionally for

[48] Wells Fargo, 2016 Proxy Statement, at v, 55-56 (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516506771/d897049ddef14a.htm).

commuting. In addition, the HRC may from time to time approve security measures if determined to be in the business interests of our Company for the safety and security of our executives and other team members. In 2012, the HRC approved residential security measures for certain executives and, in 2015, the Company paid for the cost of regular maintenance for the previously installed home security systems for certain of our executives. From time to time the Company may pay the cost for a named executive's spouse to attend a Wells Fargo business-related event where spousal attendance is expected. All perquisites for Mr. Stumpf during 2015 did not exceed $10,000.[49]

The Company does not provide our executives with 10b5-1 plans, and none of our executive officers participate in a 10b5-1 plan related to Wells Fargo common stock.

51) **As was requested of you at the hearing, please provide information on all senior executives at Wells Fargo who suffered any financial consequence as a result of the practices at issue here.**

Response: The Independent Directors of the Board of Directors of Wells Fargo announced on September 27, 2016 that they have launched an independent investigation into the Company's retail banking sales practices and related matters. A Special Committee of Independent Directors is leading the investigation, working with the Board's Human Resources Committee and independent counsel.

The Independent Directors have taken a number of initial steps they believe are appropriate to promote accountability at the Company. They have agreed with Mr. Stumpf that he will forfeit all of his outstanding unvested equity awards, valued at approximately $41 million. In addition, he will not receive a bonus for 2016.

Ms. Tolstedt has left Wells Fargo. She has agreed to not exercise any outstanding stock options previously awarded by Wells Fargo until the completion of the Board of Directors' investigation and that, at the conclusion of this investigation, the Board (or the Independent Directors of the Board or the Human Resources Committee, through Board delegation) will have the authority to determine the extent to which such options will be forfeited.

On September 27, 2016, the Board announced that the Independent Directors had determined that Ms. Tolstedt would forfeit all of her unvested equity awards, valued at approximately $19 million, and that she will not receive a bonus for 2016 and will not receive any retirement enhancements or severance package in connection with her separation from Wells Fargo. No incentive compensation was granted as a result of

[49] Wells Fargo, 2016 Proxy Statement, at v, 55-56, 59 (available online at https://www.sec.gov/Archives/edgar/data/72971/000119312516506771/d897049ddef14a.htm).

Ms. Tolstedt's separation, and none of her equity awards will be "triggered" or otherwise increased or accelerated by her separation.[50]

These initial actions will not preclude additional steps being taken with respect to Mr. Stumpf, Ms. Tolstedt or other employees as a consequence of the information developed in the investigation.

Forced Arbitration and Secret Settlements

52) **Please provide a copy of the current basic customer agreement and any other customer agreements that have been in place since 2007 for Wells Fargo customers that open credit cards or bank accounts.**

53) **Between 2007 and September 2016, how many customer complaints related to the allegations in the CFPB settlement were settled via the arbitration process? (i.e., how many total cases were heard?) In how many cases did the arbitrator rule for the customer and in how many did the arbitrator rule for Wells Fargo?**

54) **In cases where the arbitrator ruled for the customer, what remediation was made to customers? What was the average settlement amount?**

55) **In cases where customers took cases to arbitration, did secrecy clauses prevent them from making any information about their grievances public?**

56) **Did Wells Fargo disclose to investors or the public any cases where arbitrators ruled in favor of customers in these cases? How and when did the company do so?**

57) **Between 2007 and 2016, did Wells Fargo settle any cases related to the allegations in this settlement outside the arbitration system? If so, how many cases were settled in this fashion? Please explain.**

58) **As was requested at the hearing, will Wells Fargo commit to permitting customers bringing disputes related to these actions to bring their claims in court, rather than forcing them into arbitration?**

Response to Questions 52-58: Wells Fargo believes that the use of arbitration is a fair and efficient process that serves the needs of both parties. Nevertheless, Wells Fargo is offering a no-cost mediation program to customers, in addition to arbitration. We believe these options provide a fair and efficient means of remediating any harm.

[50] Wells Fargo, "Independent Directors of Wells Fargo Conducting Investigation of Retail Banking Sales Practices and Related Matters (press release)" (Sept. 27, 2016) (available online at https://www.wellsfargo.com/about/press/2016/independent-directors-investigation_0927/).