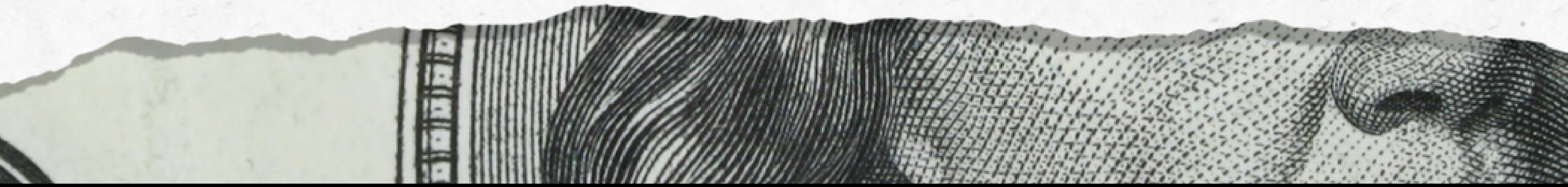
Americans for Financial Reform Education Fund

The Misdeeds and Missteps of a Megabank

Wells Fargo: We Go Far Beyond The Law



Over the last decade, the San Francisco-based megabank Wells Fargo has dragged its own name through the mud as it got caught engaged in various scams, ripoffs, and abuses of its own customers.

Its recent history has been a litany of lawsuits, government enforcement actions, damaging revelations, and customers angry at how they've been treated.

Throughout it all – and the scandals referenced below represent only what is public – Wells Fargo executives have failed to clean up their act.

They have, in the view of some lawmakers, lied to Congress, dodged complaints from their own shareholders, refused to take responsibility for misdeeds, and had new scandals exposed – all the while insisting that things were improving.

In fact, on May 15, Wells Fargo **settled a class-action lawsuit** for $1 billion over this duplicity.

Rohit Chopra, the director of the Consumer Financial Protection Bureau, has shown signs of being fed up, and said after one recent settlement with regulators that Wells Fargo needs to face tougher measures. The Office of the Comptroller of the Currency (OCC) has said there are banks that are "too big to manage." The OCC didn't name names, but the problem screams Wells Fargo. As **AFR has argued**, it's time for regulators to act: divestitures, limitations and breakups should be on the table.

In December 2022, the bank made national headlines by being on the receiving end of a **landmark $3.7 billion penalty** from a major government watchdog, the Consumer Financial Protection Bureau, for numerous abuses of its own customers over the years.

The official paper trail leads us back to 2016, though the story reaches even further back than that thanks to some **intrepid journalism** that exposed troubles as far back as 2007.

In September 2016, regulators revealed **the scope of Wells Fargo's misdoings** in the now famous "fake accounts" scandal, and extracted $185 million from the bank. Impossible sales quotas and a sweep-it-under-the-rug attitude from executives hit millions of customers. The bank had been opening millions of fake accounts under consumers' names, accounts they had not asked for, and in many cases actually caused them harm.

Previously a subject mainly for financial journalists – and the bank's unfortunate customers – the Wells Fargo fake accounts scandal made the megabank the perfect punchline. Its name buzzed from the mics of **late-night talk show hosts**. Wells even made a surprise appearance on Saturday Night Live – with Lin Manuel-Miranda playing a salesman with the famous "Wells Fargo Wagon," opening **new bank accounts for everyone** from children and dogs to mailboxes.

How much worse could it get? Let us count the ways.

Wells Fargo scammed members of the military out of their cars. Only a few months later, in July 2017, it surfaced that over ten years, Wells Fargo secretly saddled hundreds of thousands of auto loans with unsolicited insurance. When unwitting customers, especially including active-duty military members, did not pay up, they **had their cars repossessed**.

Wells Fargo stole peoples' homes.
In August 2018, the bank announced that it had **wrongfully foreclosed** on 400 people's homes because the bank refused them mortgage modifications to which they were rightly entitled. Three months later, the number ran up to 545.

Wells Fargo engaged in forgery and fraud.

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In February 2019, a **followup** on a May 2018 story about internal data fraud found that the proportion of fraud was much worse than originally reported.

In 2018, the **Wall Street Journal** found that the bank violated regulatory protocol with non-consensual additions to their corporate clients' accounts.

But the 2019 report uncovered evidence of signature forgery, and revealed that the problem had begun a year earlier than previously stated.

Wells Fargo stands accused of union-busting. In November 2022, a month before the CFPB hit them with the agency's largest penalty, the Communication Workers of America, a major labor union, **implicated Wells Fargo** in anti-labor activity.

As workers attempted to organize amid their scandal-ridden employers, managers reportedly met them with retaliation and coercion in an attempt to prevent their effort. In the first half of 2023, they **fretted** over what they called a "resurgence in union organizing."

This document summarizes Wells Fargo's scandals in greater detail below.

AFR EF Americans for Financial Reform Education Fund

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Wells Fargo: We Go Far Beyond The Law

Ponzi Scheme Lawsuit Pt. 2

When the scandal broke: May 2023

What we know: Wells Fargo was hit with a **lawsuit** alleging it aided in the facilitation of another multimillion-dollar Ponzi scheme, this time perpetrated by a Las Vegas attorney who defrauded victims of nearly $500 million.

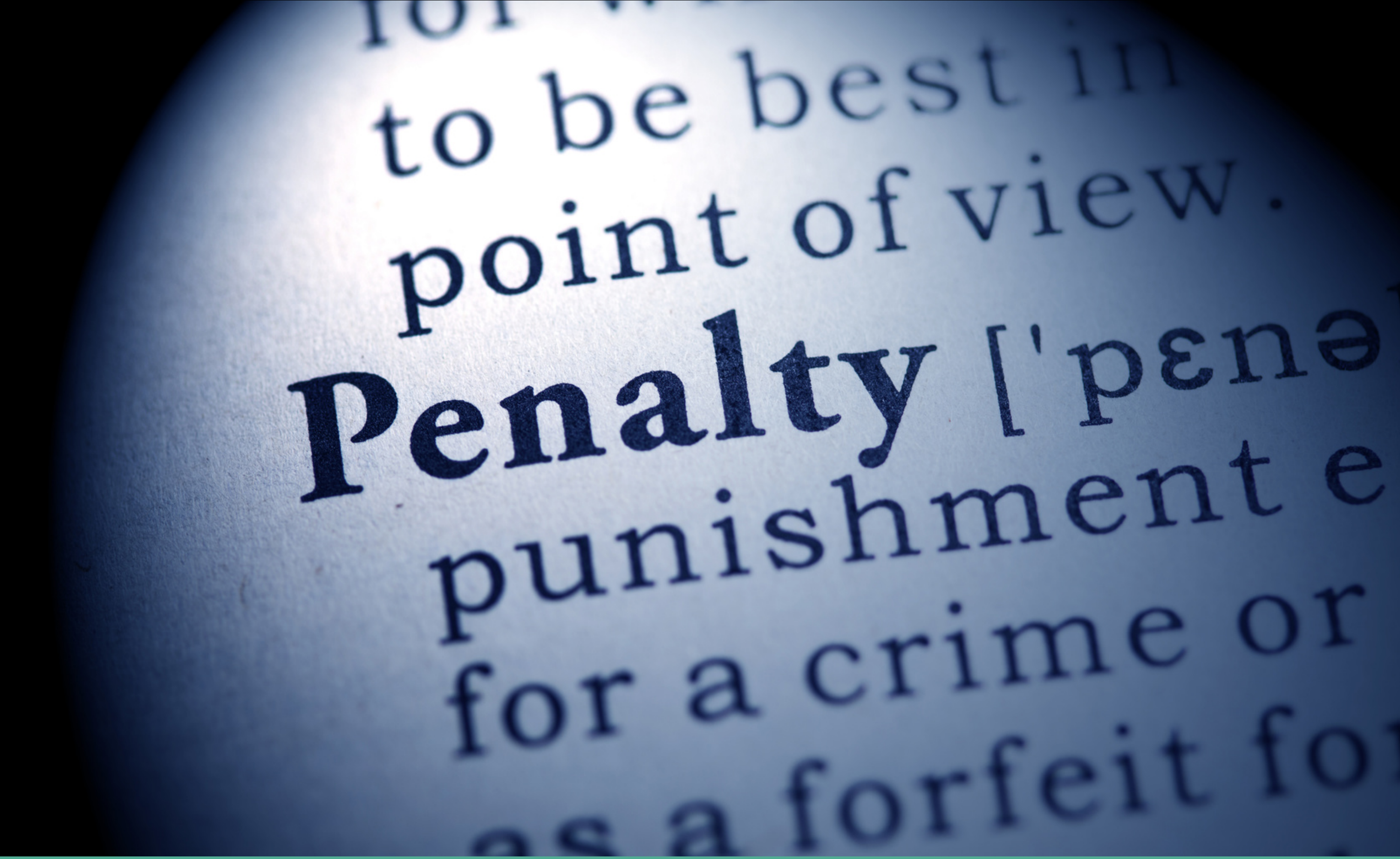
(For information on the first, see entry for August 2021.)

Regulator Fines

When the scandal broke: March 2023

What we know: The Federal Reserve **announced** a $67.8 million fine (totalling $97.8 jointly with the Treasury Department's Office of Foreign Assets Control) levied against Wells Fargo for their improper oversight of sanctions compliance risks at one of its subsidiary banks.

Wells allowed a foreign bank to process over half a billion in prohibited transactions over the five-year period between 2010 and 2015 using one of its platforms.



Major National Penalty

When the scandal broke: December 2022

What we know: In December 2022, the Consumer Finance Protection Bureau (CFPB) hit Wells Fargo with a landmark **$3.7 billion penalty**, the largest in the federal agency's history, comprising $2 billion in redress for 16 million affected customer accounts and a $1.7 billion fine for the agency's **victims relief fund**. This penalty comes after several years of harms and illegal activity committed by the bank across a wide range of their consumer line of products.

The CFPB's findings concluded that Wells Fargo: systemically failed borrowers and unlawfully repossessed their vehicles; over seven years, inappropriately denied mortgage modifications, which in some cases led to wrongful foreclosures; charged illicit, surprise overdraft fees despite forewarning from the CFPB and Fed against the practice; and unlawfully froze over 1 million customer accounts which were incorrectly flagged by a faulty, automated filter.

Wrongful Discharge Of A Whistleblower

When the scandal broke: November 2022

What we know: In November 2022, the National Law Review **reported** that the Occupational Safety and Health Administration (OSHA) ordered Wells Fargo to pay a $22 million penalty to a whistleblower against whom the bank unlawfully retaliated.

A manager at Wells Fargo's commercial banking unit flagged concerns about price fixing, interest rate collusion and the falsification of customer information. When they were fired in 2019, it was initially without reason. The bank had later claimed an internal reorganization. Wells said it would **appeal the decision.**

Labor Practices

When the scandal broke: November 2022

What we know: In November 2022, Bloomberg Law **reported** that the Communications Workers of America (CWA) filed charges against Wells Fargo. The charges, levied by two separate CWA parties in **Salt Lake City, UT**, and **Beaverton, OR**, to the National Labor Relations Board (NLRB), include allegations of coercion and interrogation orchestrated against workers seeking to unionize within the Wells Fargo ranks.

Workers announced the organizing drive the previous fall and have since faced managerial retaliation. In an organizing update issued by **the CWA**: In one case, a Utah call-center employee was disciplined for distributing related flyers in the break room. In another, following complaints about pay, one worker received a new assignment for $5 less per hour than the listed wage.

CBS News' **Moneywatch** indicates that "the financial sector is one of the least-unionized industries in the U.S.," with a Wells Fargo union effort potentially comprising as many as 150,000 workers. Organizers are targeting tellers, underwriters, call center workers, and other specialists.

As of this writing, the cases remain open on the NLRB's **website** pending the results of an investigation.

In April 2023, internal memos **surfaced** indicating that bank leaders were monitoring and feared a "resurgence" of union organizing.

In May 2023, the NLRB noted a bilateral settlement agreement in the Salt Lake City case's docket.

Zelle Fraud

When the scandal broke: September 2022

What we know: In October 2022, Sen. Elizabeth Warren **released** a report implicating large banks, including Wells Fargo, in allowing rampant fraud and theft over the online payment processing service Zelle.

Wells Fargo **failed to make public** information regarding Zelle fraud despite CEO Charles Scharf promising to do so "immediately" at a hearing in September.

Wells claims that "Zelle is fast, safe, and convenient," but data from four other banks **suggested** that scam and fraud claims could have totaled more than $255 million in 2022.

Refinancing Discrimination Suit

When the scandal broke: July 2022

What we know: In July 2022, a federal judge **refused to throw out** Braxton v. Wells Fargo, one of five similar lawsuits alleging that Wells Fargo discriminated against Black borrowers seeking refinances. The Braxton case targeted the bank's algorithms, claiming that Black consumers were obstructed or offered higher rates.

An adjacent case accused Wells Fargo of denying the plaintiff a "prime interest rate" on a mortgage despite high credit due to a "unique scoring model."

Fake Job Interviews

When the scandal broke: May 2022

What we know: In May 2022, The New York Times **reported** on Wells Fargo's practice of holding fake job interviews with nonmale or nonwhite applicants for positions that had already been filled. Employees were directed by their own managers or human resources managers to interview disadvantaged persons to fulfill informal internal directives, following a 2020 formal policy requiring half of interviewees for open positions >$100,000 in salary to be what they called "diverse" candidates.

When one employee complained to higher-ups, he was fired and alleged the bank retaliated against him.

The following month, Wells announced the **suspension of their hiring policy** that led managers to conduct the sham interviews. In a letter, CEO Charles Scharf stated that his bank had reason to believe that the policy was effective, but that they would "review our guidelines and processes and [make] improvements."

Two months later, in August, the practice returned with "features added to prevent abuse," the New York Times reported. Managers would receive more training and exemptions to the policy would be easier to obtain. Additionally, instead of salary, job level would be used as a criterion.

Overcharging Foreign-Exchange Clients

When the scandal broke: September 2021

What we know: In September 2021, the Department of Justice **announced** that Wells Fargo would pay $72.6 million to settle a civil fraud lawsuit implicating the bank in defrauding 771 customers on foreign-exchange transactions.

According to **Banking Dive**, sales staff would pull off what they referred to as a “big figure trick,” in which they would swap digits in the exchange rate to boost the transaction price.

Another trick involved the abuse of range-of-day pricing to select rates that were highly favorable to the bank but poor for the customer.

Ponzi Scheme Lawsuit

When the scandal broke: August 2021

What we know: In August 2021, investors **filed suit** against Wells Fargo for facilitating what was alleged to be a $200 million Ponzi scheme operated through MJ Capital Funding LLC, a cash advance lender.

Less than two years later, in March 2023, Wells Fargo **agreed to pay** $26.6 million to end the suit representing as many as 13,000 members.

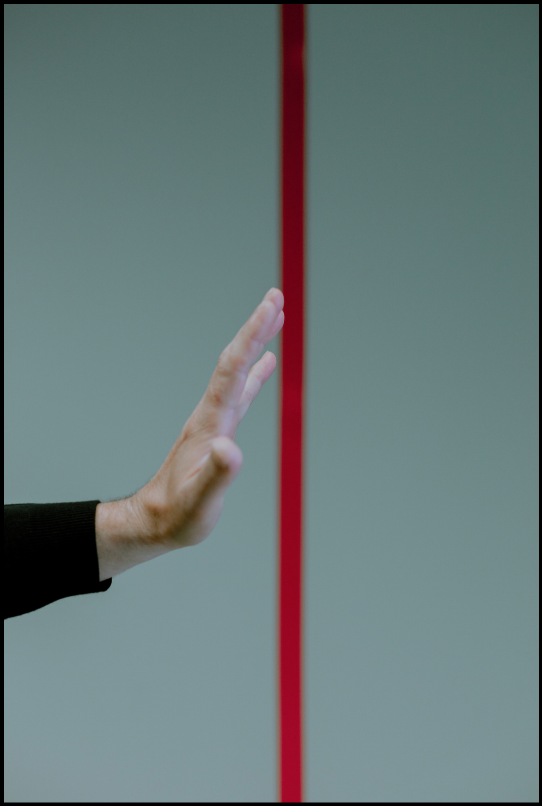
Educational Redlining

When the scandal broke: February 2020

What we know: A **report** from the Student Borrower and Protection Center contends that Wells Fargo and Upstart may be engaging in educational redlining by increasing the cost of loans for underprivileged groups.

Per the **Washington Post**: Using case studies of students with identical credit profiles and the same loan at similar banks, the study found that a community college borrower would pay $1,134.31 more on a $10,000 loan than a student pursuing a bachelor's degree at a four-year institution.

Despite Wells offering shorter repayment terms for a community college loan, borrowers could still expect to pay more than their four-year college peers due to higher interest rates.



Not Fixing Credit Report After Identity Theft

When the scandal broke: September 2019

What we know: The Oregonian **reports** on a consumer, Matthew Sponer, who fell victim to identity theft in July 2016. After the perpetrator was apprehended, Wells Fargo refused to eliminate the $29,000 debt for a car loan that appeared on his credit report despite repeated requests by Sponer and his attorney.

In September 2019, a federal jury found that Wells Fargo had negligently and deliberately violated the Fair Credit Reporting Act and awarded Sponer $101,000 in noneconomic damages, though opted against punitive damages.

Issuing Fees After Accounts Were Closed

When the scandal broke: August 2019

What we know: The New York Times **reported** on the case of Xavier Einaudi and other customers facing similar issues. Einaudi was informed that the bank would close 13 of the checking accounts provided for his company for a "confidential" reason. Rather than wait for checks containing the remaining balances, the account-holder decided to withdraw via a local bank.

After the stated closing date, June 27, some accounts remained open and funds from the voided accounts were used to pay for his insurance, internet advertising and project management software. Each time a payment was made, the bank would assess a $35 overdraft fee. By July, he had racked up nearly $1,500 in debt.

Accounts at Wells Fargo can reportedly remain open if it contains a balance, even if it's negative. Often, nonpayment of overdraft fees are reported to national databases like Early Warning Services, which may prevent them from opening an account elsewhere.

When the scandal broke: May 2019

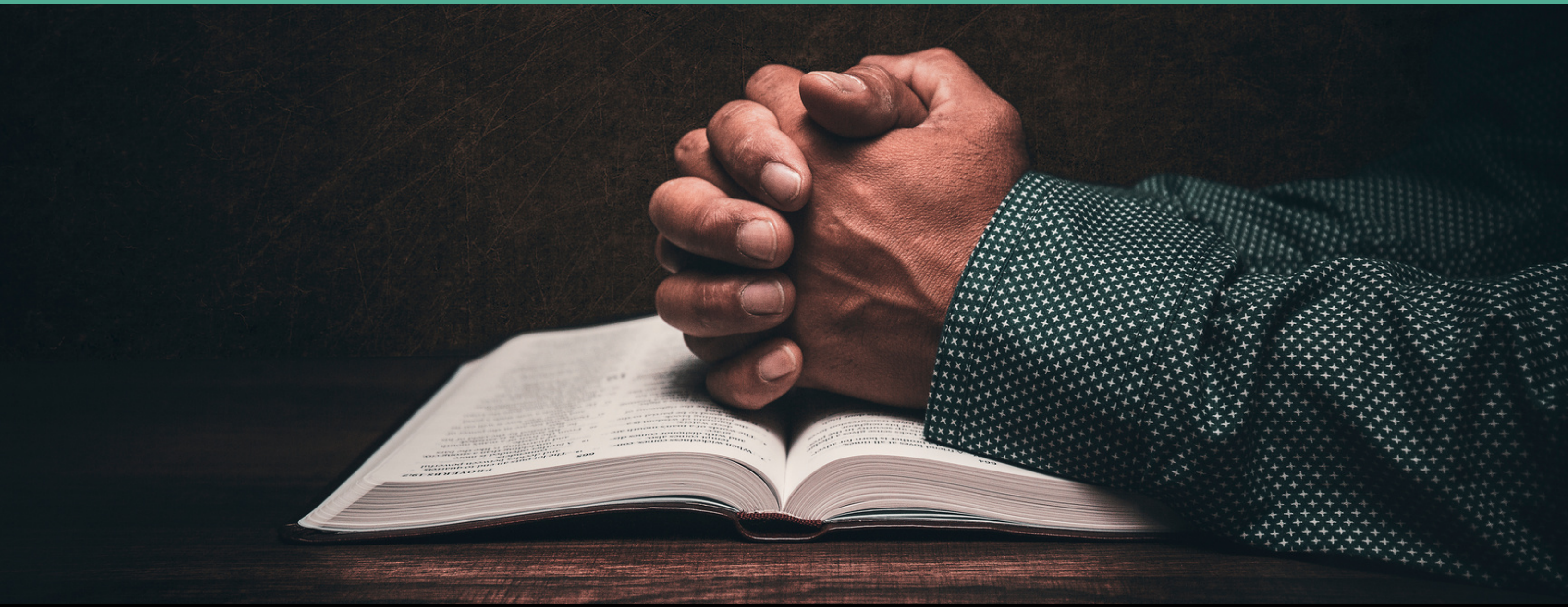
Falsely Accusing A Pastor Of Fraud

What we know: In May 2019, Huffington post **reported** on a New Jersey pastor who was **falsely accused** of check-cashing fraud at the local Wells Fargo branch where he'd banked for almost 30 years, due to sloppiness in the bank's surveillance procedures.

Though the pastor, Jeff Edwards, did not fit the description of the actual fraud suspect, he was accused, interrogated, and nearly prosecuted simply for visiting the bank and depositing checks on the same day as the true culprit. The case dragged on for several months before being officially dropped.

In August 2019, American Banker **followed up** on the story with reports that Wells Fargo may be pushing him toward arbitration. Edwards did eventually receive an apology, but not an explanation for what occurred.

(For more on Wells Fargo's reliance on mandatory arbitration, see the September 2016 entry on bogus accounts and the August 2010 entry on overdraft overcharges.)



Ceo Tim Sloan's Abrupt Resignation

When the scandal broke: March 2019

What we know: After years of attempted corporate damage control before legislators, regulators and the public, former CEO Tim Sloan **suddenly tendered his resignation**. Sloan originally took over for his predecessor John Stumpf, who was forced to resign shortly after news about their bogus accounts scandal broke. In his new shoes, Sloan was tasked with trying to stem the reputation loss from their array of scandals. Sloan's resignation was largely unexpected and came on the heels of **a 5% pay bump**.

After a brief tenure by interim CEO C. Allen Parker, Sloan was replaced by now-CEO Charles Scharf.

Inadequate Disclosure Of High Cost Funds

When the scandal broke: March 2019

What we know: The day before then-CEO Tim Sloan testified to Congress that Wells Fargo had cleaned up its act, the bank **agreed to pay $17.4 million** to clients it had pushed into high-cost mutual funds, without adequately disclosing that cheaper alternatives were available.

Wells was one of 79 firms to agree to this voluntary compensation, but paid far-and-away the highest bill.

The Securities and Exchanges Commission wrote that Wells "violated ... the Advisers Act, which makes it unlawful for any investment adviser, directly or indirectly, to 'engage in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client."

For its part, the bank has not admitted to wrongdoing.

Data Fraud For Corporate Clients

When the scandal broke: February 2019 & May 2018

What we know: In May 2018, the **Wall Street Journal** reported that a Wells Fargo division added Social Security numbers, birthdates, and addresses to their business clients' accounts without those clients' consent.

This behavior began after an earlier OCC sanction on Wells for keeping sparse records on its business clients. At the time, the Journal reported that this misbehavior — concentrated among the business clients of the "Wholesale Banking" division, which include over 100,000 small businesses — was ongoing since at least 2017.

However, **The Capitol Forum** later revealed the full scope of the problem in Feb. 2019. Not only had Wells added information without client consent, it also copy-pasted client signatures onto completely new documents. The practice also started a whole year earlier than was previously reported, and was repeated at multiple offices across the country.

Over 400 lawyers in India and the United States were, at that time, still trying to determine just how many documents in Wells' system are tainted by the forgeries. Moreover, the bank was on track to file several hundred Suspicious Activity Reports, a signal to authorities of possible money laundering, as a result of the scandal.

At the time the forgeries began, Wells' Wholesale Banking division was run by Tim Sloan. Sloan, who later stepped into the CEO position after John Stumpf.

Major Fintech Outage

When the scandal broke: February 2019

What we know: Users of Wells Fargo's online and mobile banking apps suffered sudden, massive outages on Thursday, Feb. 7. Wells attributed the nationwide glitch to smoke at a data center in Shoreview, Minnesota, and promised that any fees or errors incurred as a result of the problem would be reversed.

By noon on Feb. 8, though, social media users continued to lodge complaints that their paychecks had not been processed and their fees had not been reversed. Wells insists that the outage "was not due to any cybersecurity event."

Banned From Insurance Market In California

When the scandal broke: January 2019

What we know: As part of a settlement for the fake account scandal, the California Department of Insurance prohibited Wells Fargo from selling or brokering personal insurance in the state's borders.

Wells also agreed not to re-apply for the license to sell personal insurance for at least two years.

Workplace Discrimination And Sexual Harassment

When the scandal broke: January 2019

What we know: A **new report** from the Corporate Research Project of Good Jobs First shows for the first time which large corporations have paid the most in damages and settlements in cases involving workplace discrimination and sexual harassment. Major banks rank high on the list.

At the time of its publication in 2019, Bank of America (including its subsidiary Merrill Lynch) had paid a total of $210 million since 2000, more than any other big company. Morgan Stanley ranked fourth at $150 million and Wells Fargo ranked ninth at $68 million.

National Settlement

When the scandal broke: December 2018

What we know: Wells Fargo **settled** a suite of cases involving various consumer products with attorneys general in all 50 states and the District of Columbia in a single $575 million payout. The settlement preemptively closes cases that the AGs might have brought about Wells' fake accounts, forcing auto collateral insurance on customers, failing to refund auto loan customers, and charging incorrect fees on mortgage interest rate locks.

In exchange, alongside the $575 million, Wells Fargo must set up designated teams to help customers affected by any of the issues the agreement covers. The bank also had to create a **website** with transparent information about all of the bad practices covered in the agreement, and include information to aid affected customers.

Shifting Jobs Overseas

When the scandal broke: December 2018

What we know: Wells Fargo laid off hundreds of employees in 2018, **without disclosing** that many of their jobs were being shipped overseas. The Department of Labor investigated 636 Wells layoffs and found that a "significant" number of those jobs were shipped overseas including many of the jobs of 460 call center workers in Pennsylvania.

Wells had told these workers that their layoffs were due to low call center demand, but DoL found the bank shifted the jobs to an unnamed foreign country "which contributed importantly to worker group separations."

Later, in March 2019, then-CEO Tim Sloan appeared before the U.S. House Financial Services Committee facing criticism for the bank's mishandling of its previous scandals.

There, Sloan was **grilled by now former Rep. Cindy Axne**. Axne had been contacted by one of her constituents, a laid-off, Des Moines-area Wells Fargo employee who was told on numerous occasions that her job was being outsourced. Sloan denied the claim that the bank was sending these jobs overseas.

Overcharging College Students

When the scandal broke: December 2018

What we know: A **report** from the Consumer Financial Protection Bureau found that many banks routinely charged college students large fees for basic services, after those banks partnered up with the colleges for marketing purposes. The worst offender was Wells Fargo.

Student account-holders were forced to **pay more than three times** what they would for a bank account at an unaffiliated university — an average of $47 per active account in a 12-month period. Wells paid the colleges Under Acting Director Mick Mulvaney, the CFPB initially **buried this report**; it was only made public thanks to Freedom of Information Act requests.

Cutting Customers From Compensation

When the scandal broke: November 2018

What we know: After regulators forced Wells Fargo to compensate 600,000 drivers who were pushed into unneeded auto insurance, the bank is now fighting to leave some of the drivers without restitution. The insurance program in question ran from 2002 to 2016, but Wells only wants to pay back drivers who were affected from 2005 onward.

A lawyer for the bank said that the information for the first three years of the program is kept in a separate database, but didn't explain why Wells couldn't just open that database. An attorney for the drivers told **Reuters** that "There is no credible reason why you don't go back to the inception of the program." In June 2019, the bank settled the class-action claims with a **$386 million payout**.

Untrustworthy Public Statements

When the scandal broke: November 2018

What we know: Wells Fargo tried to **dismiss a shareholder lawsuit** by claiming that its CEO's public statements about greater accountability and transparency within the company were all "puffery" — in other words, obviously exaggerated claims that investors ought to know not to take seriously.

In February 2023, the lawsuit came to a head when it agreed to shell out **$300 million** to settle the suit. Even then, Wells Fargo refused to admit wrongdoing.

Insurance Overcharges

When the scandal broke: November 2023

What we know: Wells Fargo executives **were informed** that their auto insurance program might have been overcharging its clients in 2012, according to a class-action lawsuit. They did nothing about it for four years, until the program ended in 2016.

The program was shuttered thanks to an internal review that found 600,000 customers had been forced into buying "Collateral Protection Insurance" when they never needed it.

The executives who were informed about these overcharges in 2012 included then-General Counsel James Strother and chief auditor David Julian.

Wrongful Foreclosures

When the scandal broke: August 2018

What we know: Wells Fargo says it has set aside $8 million to compensate hundreds of homeowners for unjustified foreclosures between April 2010 and October 2015. During that time, thousands of homeowners were seeking changes to the terms of their mortgages so they could stay in their homes with the help of a government-backed program, but were grappling with a bank that had a history of trying to rush foreclosures. .

According to the company, 625 customers submitted proper requests for mortgage modifications, only to be rejected because of a Wells Fargo software problem. Roughly 400 of those families were foreclosed on. In November 2018, Wells Fargo said the problem affected more people than initially thought. Their updated numbers indicate that 870 homeowners were affected and 545 families were foreclosed upon.

Ripoff Add-On Products

When the scandal broke: July 2018

What we know: Wells said it would refund **tens of millions of dollars** to **hundreds of thousands of customers** for “add-on” products pushed on them by telemarketers.

The products include pet insurance, legal services, home warranties and other forms of insurance.

Misrepresenting The Quality Of Its Mortgage-Backed Securities

When the scandal broke: July 2018

What we know: Wells Fargo agreed to pay a **$2.09 billion federal** penalty for misrepresenting the value of residential mortgage-backed securities – a major driver of the 2008 financial crisis – packaged and sold by the bank between 2005 and 2007.

The value of the underlying loans was undermined by "misstated income information" and other inaccuracies, according to the Justice Department.

"Investors, including federally insured financial institutions, suffered billions of dollars in losses from investing in residential mortgage-backed securities containing loans originated by Wells Fargo."

Auto Insurance Ripoff – Part 3

When the scandal broke: April 2018

What we know: The Office of Comptroller of the Currency (OCC) and the Consumer Financial Protection Bureau hit Wells with a **combined $1 billion** in penalties for allegedly forcing unwanted insurance on auto-loan borrowers and imposing inappropriate charges on home buyers.

As a result of the bank's actions, the OCC issued an order limiting Wells' authority to approve severance payments for its top people and asserting the authority to override appointments of senior executive officers and board members.

Six months later, the bank had yet to convince the OCC that it had properly reimbursed the affected customers, according to **Bloomberg**.

Sales Misconduct In The Bank's Wealth Management Division

When the scandal broke: March 2018

What we know: Under pressure from federal investigators, the bank **acknowledges** that some of its investment advisers, facing aggressive sales goals, improperly pushed wealthy clients into high-fee products, and sometimes added or altered account information without customers' knowledge. Sparked by the testimony of employee whistleblowers, the company says it will refund an estimated $114 million in "incorrect fees" collected from customers with trust, estate and custodial accounts, according to **CNN**. The bank has also set aside $171 million to cover overcharges to its foreign-exchange clients, as well as an additional $285 million to refund foreign-exchange and wealth-management clients.

Lying To Congress

When the scandal broke: August 2017

What we know: Wells Fargo executives, including former CEO John Stumpf, appear to have withheld information related to auto-insurance fraud during congressional hearings held in September 2016.

According to the bank's own timeline, its internal review unearthed the auto-insurance errors in July 2016; the bank then retained the consulting firm Oliver Wyman to assess the problem, and it decided to change its practices at around the time Stump was answering Congress's questions about the fake-accounts scandal.

But the bank kept its auto-insurance woes secret until July 2017, when The New York Times obtained a copy of the Oliver Wyman report and published a story about it.

Meanwhile, as a witness before the House and Senate banking committees, Stumpf made no mention of any problems related to auto insurance, even when he was asked directly about fraudulent activity in other areas. The bank once again failed to disclose these problems in written responses to questions from members of Congress.

Thirty-three groups, including Americans for Financial Reform and Public Citizen, asked Congress to hold further hearings on this issue as well as newly revealed consumer abuses. To knowingly withhold relevant information from a congressional inquiry is a criminal offense, punishable by up to five years in prison.

Making Small Businesses Pay Hidden Credit-Card Fees

When the scandal broke: August 2017

What we know: A Wells Fargo joint venture **has been accused** of overcharging small businesses for processing their credit and debit card transactions. A class-action lawsuit claims that after signing three-year contracts with a $500 early-termination penalty, merchants got sandbagged with improperly disclosed fees.

Some of those fees were falsely labeled as "interchange charges," making it sound as if they had been imposed by credit card companies when, in fact, a chunk of the money went to the Wells Fargo partnership. Hundreds of thousands of businesses across the country may have been affected, according to the lawsuit.

The bank denied these claims, asserting that its "negotiated pricing terms are fair and were administered appropriately." But a former employee **told CNN** that he and his sales team were directed to target the least sophisticated and most vulnerable retailers. They were told, he says, "to go out and club the baby seals – mom-pop-shops that had no legal support."

In 2021, Wells Fargo ended the suit with an upwards of **$40 million settlement** for eligible small businesses in the affected class.

Deceptive Mortgage Modifications

When the scandal broke: June 2017

What we know: Wells Fargo **made unauthorized changes** in the terms of mortgages held by homeowners who had filed for bankruptcy. Taking advantage of a government program to help troubled borrowers, Wells shifted people into modified mortgages that featured lower monthly payments. However, as explained in the fine print of paperwork that people were unlikely to read, the modified mortgages kept them on the hook for additional years or decades, significantly increasing their interest obligations and the bank's potential profits. Along the way, Wells pocketed incentive payments, at taxpayer expense, of up to $1,600 per loan.

Lawsuits charge the company with failing to inform bankruptcy courts of these changes as required by law. Although the company disputes the point, Wells has been sharply criticized by judges in North Carolina and Pennsylvania. One judge described the bank's methods as "beyond the pale."
In separate cases involving tens of thousands of additional homeowners in bankruptcy, Wells Fargo has been accused of improperly changing the amounts of mortgage payments to cover adjustments in real estate taxes or insurance costs.

In November 2015, the bank entered into a **settlement** with the Justice Department, agreeing to deliver $81.6 million in financial relief to some 68,000 affected borrowers.

Steering Homeowners Of Color Into Higher-Cost Mortgages

When the scandal broke: May 2017

Although Wells Fargo describes the Philadelphia charges as “unsubstantiated,” the cities of Baltimore, Miami, Oakland and Sacramento have made similar claims. According to **Sacramento’s lawsuit**, filed in February 2018, Wells Fargo engaged in a "long-standing pattern and practice" of placing underserved borrowers in unaffordable loans.

African-American borrowers were 2.8 times as likely as comparable white borrowers to receive a high-cost or high-risk loan, while Latino borrowers were 1.8 times as likely, the city asserted.

What we know: During the subprime-mortgage boom years, many banks and brokers targeted homeowners of color for needlessly expensive and dangerous loans. Wells Fargo has been accused of continuing to do so after the crisis and across the country.

According to a **2017 lawsuit brought by the City of Philadelphia**, 23 percent of Wells’ loans to residents of color in Philadelphia between 2004 and 2016 were high-cost and high-risk, while just 7.6 percent of its loans to white homeowners fell into that category.

Ex-employees said they had been “incentivized” to confuse borrowers with short-term offers (such as lender credits to reduce their closing costs) that saddled them with higher interest rates over the long term.

The damage, as Sacramento, Philadelphia and other jurisdictions **pointed out** in their complaints, was not limited to individual borrowers and their families. Neighbors, communities, and whole cities also suffered from lending practices that set off a spiral of foreclosures, neglect, abandonment, and diminished property values and municipal tax revenues. The company settled a similar **Baltimore** case.

In December 2019, at least two years after the original lawsuit, Wells Fargo and the City of Philadelphia reached a “**Collaboration Agreement,**” in which the bank would contribute $10 million toward affordable housing and housing preservation grants. $8.5 million was intended to provide downpayment and closing cost assistance for low- to mid-income homeowners-to-be, with another $1 million divided among up to three local nonprofits. The half-million remainder would be put toward Philadelphia land care.

Miami’s case **made it to the Supreme Court** in the 2016 term. The suit was heard in November 2016, consolidated with a similar case involving Bank of America. In May 2017, a 5-3 decision with an opinion issued by Justice Breyer vacated and remanded the case to the Eleventh Circuit, affirming that the Fair Housing Act allows the City of Miami to bring suit against Wells Fargo. According to **SCOTUSblog**, it represented only a partial victory for the city, as the case was thrown back to the lower court to apply a stricter judgment as to whether “there is enough of a connection between the banks’ lending practices and the city’s economic injuries to hold the banks liable.”

Sacramento’s case, however, was dismissed in **February 2022**, five years after it was initially filed. A **similar case** brought by the City of Oakland was dismissed in the Ninth Circuit Court of Appeals, weakening Sacramento’s case when the court ruled that Oakland failed to prove that it was directly harmed financially.

Auto Insurance Ripoff – Part 2

When the scandal broke: August 2017

What we know: This problem involves another form of insurance, Guaranteed Auto Protection or GAP, which protects lenders and borrowers in cases of theft or when the value of the car is no longer sufficient to cover the remaining loan balance. Wells Fargo and its dealer-partners **aggressively marketed GAP insurance** to borrowers, but often failed to provide mandated refunds to those who paid off their loans early.

Wells Fargo says it is still trying to assess the number of people affected. The total, according to the **The New York Times**, is likely to be in the "tens of thousands."

In June 2021, Wells Fargo **agreed to issue refunds** for consumers affected by the GAP fee scandal. An expert for the plaintiffs, in *Herrera v Wells Fargo*, estimated the payout to be at least $417 million across four years. Previously, the bank already paid $33 million worth of refunds to members of a subclass.

In addition to the monetary penalty, the suit set in motion policy changes that would affect future GAP customers. If the customer paid off their loan early, they would automatically be reimbursed for the remainder of the loan period.

Auto Insurance Ripoff – Part 1

When the scandal broke: July 2017

What we know: Between 2006 and mid-2016, hundreds of thousands of people who took out auto loans from Wells Fargo were **charged for unnecessary or needlessly expensive collision damage insurance**, often without their knowledge. Some were active-duty service members.

The insurance was more expensive than policies borrowers could have found independently. Because the charges were typically folded into loan payments made through automatic debiting, many people ended up paying twice over – for insurance they secured on their own and for the coverage imposed on them by Wells Fargo. These extra charges led to higher rates of delinquency, default, and repossession.

The bank **agreed to return** some $80 million to an estimated 570,000 affected customers, including 20,000 whose vehicles were repossessed. But some victims are far from satisfied with that arrangement. An Indiana man, Paul Hancock, says he was charged $598 for insurance and hit with a late fee for a missed payment – even after repeatedly telling the bank he already had his own coverage.

Hancock is the lead plaintiff in a **class-action** lawsuit seeking damages far beyond what Wells has offered. "Refunds," his lawyer says, "don't address the fraud or inflated premiums, the delinquency charges, and the late fees." Wells Fargo originally blamed the problem on a third-party insurance vendor. In March 2018, however, it came out that the bank had collected a commission for every one of the insurance policies it forced on more than half a million drivers. Federal regulators are preparing to impose additional penalties on Wells Fargo over these commissions, **according to Reuters.**

In June, after the case was consolidated with two others which similarly claimed RICO violations committed by Wells Fargo and the National General Insurance Company, and after a U.S. District Judge scaled back the plaintiffs' racketeering claims, the bank **agreed to pay** a $142 million settlement to customers upon whom unwanted accounts were thrust.

Overcharging Homeowners For Third-Party Appraisals

When the scandal broke: September 2016

What we know: When a mortgage falls into default, the borrower can be charged for a fresh appraisal.

According to a racketeering lawsuit that became public in September 2016, however, Wells Fargo illegally added mark-ups of 100 percent and more to the fees charged by its third-party appraisers. Hundreds of thousands of financially troubled homeowners were driven even further into default by a practice that many overlooked because of cryptic language (such as “other charges”) used by Wells Fargo to describe what it was doing. The bank agreed to pay **$50 million to settle this case**.

Bogus Accounts

When the scandal broke: September 2016

What we know: Wells Fargo's frontline workers faced **continual pressure** to meet overly ambitious or impossible sales quotas, and some responded by signing people up without their knowledge for credit cards, online bill pay, overdraft protection, and other fee-generating services.

As of August 2017, the company **puts the total number** of fake accounts at 3.5 million — fully 2 million more than its original September 2016 estimate of 2.1 million — and the cost to its customers at **$5 million**, which Wells has said it will refund. In addition to the dollar damages, these practices injured people's credit scores and their ability to secure loans, rent apartments, or land jobs.

Workers who resisted or tried to report such problems were **ignored, punished, or fired**. At least as far back as 2013, customers were trying to bring lawsuits over the fake accounts.

Because of fine-print clauses buried in the contracts governing their legitimate accounts, however, Wells Fargo was able to **force complaints** into a secret, one-on-one arbitration process, allowing the company's practices to continue and go undetected for years.

Even now, Wells Fargo **insists** that defrauded customers should be barred from having their day in court. CEO Charles Scharf **testified** in 2021 before the Senate to changes to the bank's arbitration protocol, namely removing confidentiality restrictions. But as recently as December 2022, Wells faced **legal action** for allegedly "misusing arbitration to avoid responsibility."

In 2020, the Office of the Comptroller of the Currency **banned** former CEO John Stumpf from the banking industry and issued a $17.5 million fine. Five other former officials, including the former head of the consumer bank, **faced civil charges**. The company's former chief administrative officer and top risk officer settled comparable charges.

In May 2023, Wells Fargo agreed to a **$1 billion payout** to settle a shareholder lawsuit claiming the bank misrepresented its progress in cleaning up the scandal. The plaintiffs, including pension funds in Mississippi, Rhode Island and Louisiana, alleged the bank defrauded investors by suggesting it had done more to satisfy regulators' orders than it actually had.

Illegal Repossession Of Servicemembers' Cars

When the scandal broke: September 2016

What we know: Wells Fargo agreed to pay the **Department of Justice** and **Office of the Comptroller of the Currency** a combined $24.1 million in refunds and penalties for seizing hundreds of cars from active-duty servicemembers without the court order required by federal law.

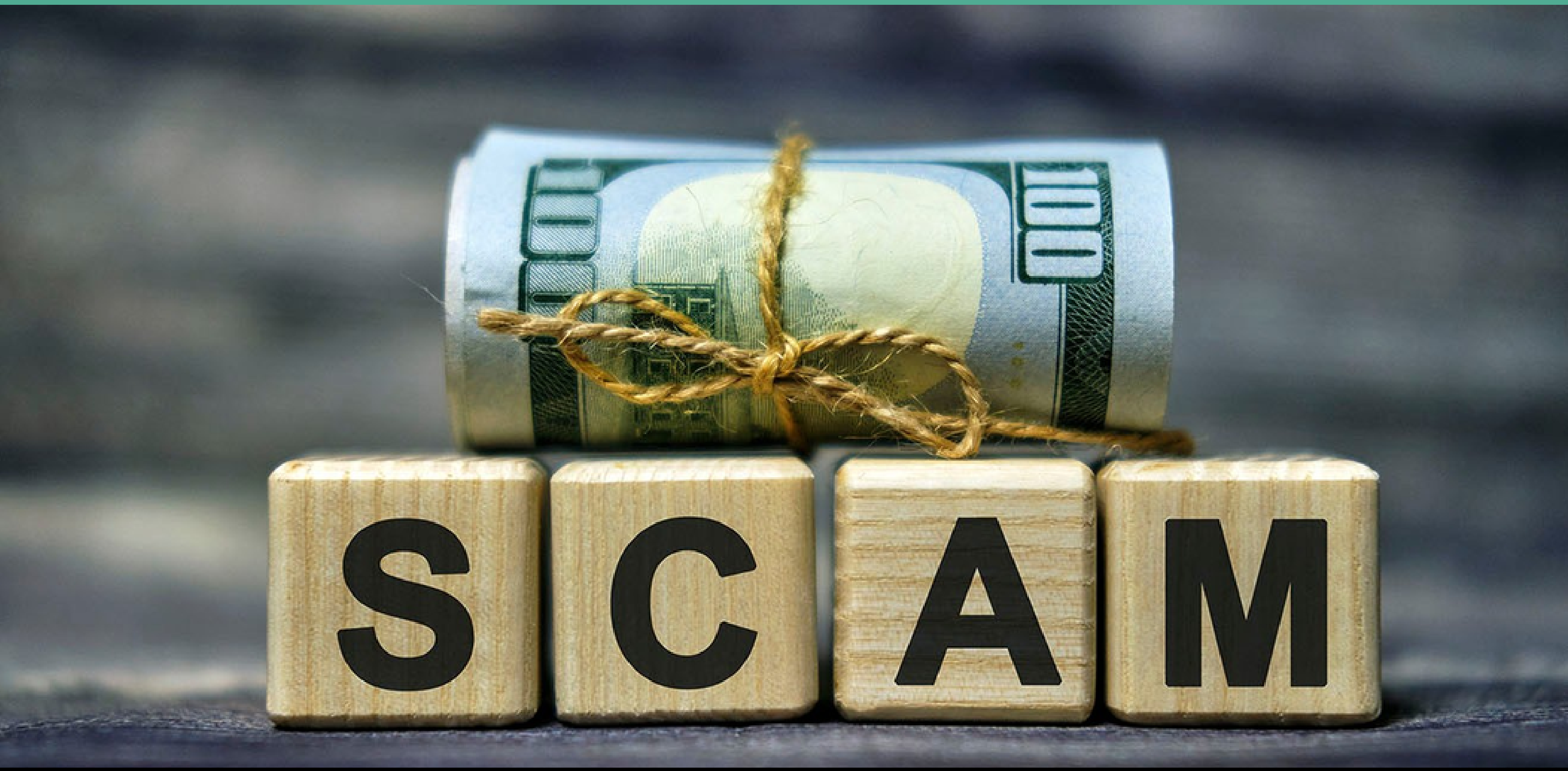
Later, the DoJ assessed an **additional $5.4 million** in refunds. In one case (which triggered a Justice Department investigation), Wells repossessed a National Guardsman's used car while he was preparing to deploy to Afghanistan.

The company then tried to make the guardsman pay more than $10,000 to cover the difference between his loan balance and the price his car had been resold for.

Fraudulent Fees On Student Loans

When the scandal broke: August 2016

What we know: Wells Fargo agreed to a **$4.01 million settlement** in a Consumer Financial Protection Bureau consent order accusing the company of charging illegal fees and failing to update inaccurate credit report information in connection with loan payments made between 2010 and 2013. Under the law, Wells was supposed to help students avoid unnecessary fees; but when payments fell short of the full amount due on multiple loans, the bank apportioned them in a way that *maximized* fees, according to the lawsuit. By not disclosing that fact, Wells left borrowers "unable to effectively manage their student loan accounts and minimize costs and fees," the Bureau said. Wells was also charged with **illegally adding late fees** to the accounts of students whose initial payments arrived on the final day of a six-month grace period.



Veterans' Mortgage Scam

When the scandal broke: October 2011

What we know: A whistleblower lawsuit filed by two Georgia mortgage brokers accused Wells Fargo of defrauding veterans and taxpayers out of hundreds of millions of dollars. The problem involved government-guaranteed home refinancing loans.

Wells violated federal rules by making veterans pay lawyers' fees and closing costs, and disguised those forbidden charges in order to evade detection by the Department of Veterans Affairs. In 2011, Wells reached a $10 million settlement in a related class-action lawsuit on behalf of more than 60,000 veterans. In August 2017, the company agreed to pay an additional $108 million to the federal government.

Overdraft Overcharges

When the scandal broke: August 2010

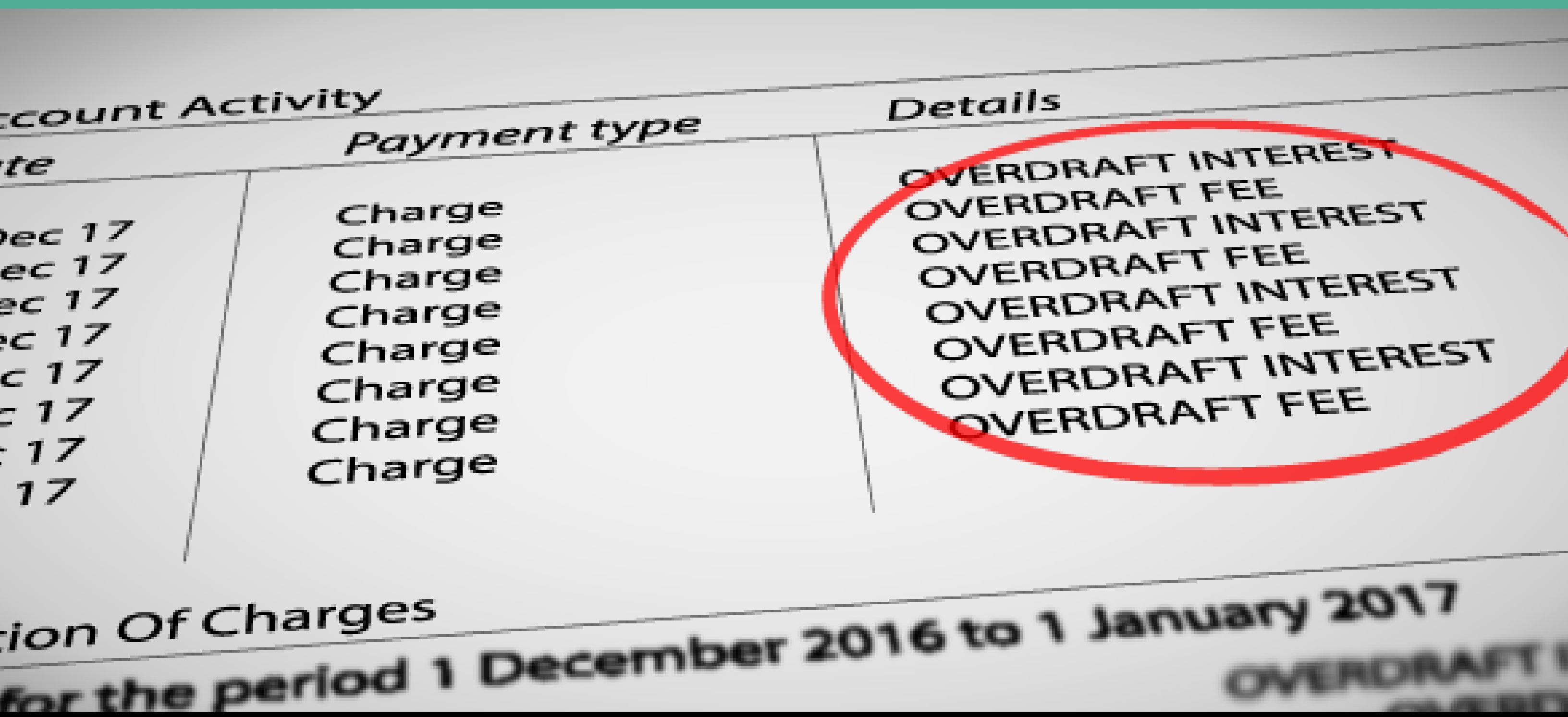
What we know: Wells Fargo is one of a number of banks that routinely made customers pay extra overdraft fees by tinkering with the order of debit charges. Instead of processing a day's transactions as they came in, the bank would make the biggest payments first, maximizing its own revenues by maximizing the cost to its customers.

Wells announced that it was abandoning this practice in 2014. But while other banks, including Bank of America, JPMorgan Chase, and Capital One, have agreed to compensate customers for damages, Wells Fargo has so far refused to do that.

Even after losing a case in California and being ordered to pay $203 million in relief, the company continued to defend its past practices and to assert the right to use forced-arbitration clauses to block consumers from taking the company to court over the issue.

Eventually, the case made it to the Supreme Court, which shot down its appeals and upheld the earlier verdict. A federal appellate court in Atlanta weighed Wells Fargo's appeal of a lower court's ruling against its efforts to force these claims into arbitration. In 2018, the 11th Circuit vacated the lower court's order, indicating that Wells retained the ability to compel arbitration, and remanded it for additional proceedings.

When the plaintiffs petitioned SCOTUS again in 2019, the Court refused to hear the case.



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