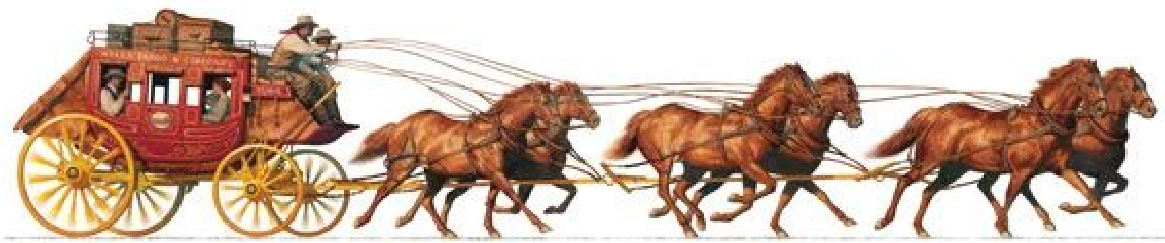
SCANDAL TRACKER

Wells Fargo: We Go Far Beyond the Law



In September 2016, Wells Fargo admitted to opening millions of unauthorized accounts and signed a settlement requiring payment of $185 million in penalties. That news, remarkable as it was, turned out to be very far from the full story of the bank's misdeeds. Both before and since, Wells Fargo has been hit by a succession of scandals growing out of its aggressive efforts to extract as much revenue as possible from every customer by fair means or foul.

Here are the major forms of systematic wrongdoing in which Wells Fargo has been implicated:

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. The company puts the total number of fake accounts at 3.5 million — fully 2 million more than its original September 2016 estimate of 1.5 million — and the cost to its customers at $6 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. After leaving the company, some found it hard to get hired by other banks because Wells Fargo had characterized them as unreliable or had failed to provide favorable references.

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 such complaints into a secret, one-on-one arbitration process, which allowed 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.

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 of the victims were active-duty service members.

The insurance was more expensive than policies borrowers could have found independently; and 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.

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 New York Times, is likely to be in the “tens of thousands.”

ILLEGAL REPOSSESSION OF SERVICE MEMBERS' CARS

When the scandal broke: September 2016

What we know: Wells Fargo has agreed to pay $24.1 million in refunds and penalties for seizing hundreds of cars from active-duty servicemembers without the court order required by federal law. 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.

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 fees that were not properly disclosed. Some of those fees, they say, 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 has 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 most unsophisticated and vulnerable retailers. They were told, he says, "to go out and club the baby seals – mom-pop-shops that had no legal support."

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 but, as explained in the fine print of paperwork that people were unlikely to read, 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 MINORITY HOMEOWNERS INTO HIGHER-COST MORTGAGES

When the scandal broke: May 2017

What we know: During the subprime-mortgage boom years, many banks and brokers targeted minority homeowners for needlessly expensive and dangerous loans. Wells Fargo has been accused of continuing to do that after the crisis and across the country. According to a 2017 lawsuit brought by the City of Philadelphia, 23 percent of Wells' loans to minority residents of Philadelphia between 2004 and 2016 were high-cost, high-risk, while just 7.6 percent of its loans to white homeowners fell into that category.

Although Wells Fargo describes the Philadelphia charges as "unsubstantiated," the cities of Baltimore, Miami, Oakland and Sacramento have made similar claims, and the company has settled the Baltimore and Miami cases. 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 with superior credit scores were 2.8 times 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. 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,

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 continues 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. A federal appellate court in Atlanta is currently weighing Wells Fargo's appeal of a lower court's ruling against its efforts to force these claims into arbitration.

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 of 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.

CHARGING MORTGAGE APPLICANTS FOR THE BANK'S DELAYS

When the scandal broke: January 2017

What we know: This one involves fees for borrowers who are late submitting paperwork on locked-rate mortgages. According to at least half a dozen ex-employees, Wells Fargo branches in the Los Angeles area blamed borrowers for delays caused by the bank's own errors or understaffing. That practice has also been the subject of a borrower class-action lawsuit and an investigation by the Consumer Financial Protection Bureau. "We are talking about millions of dollars, in just the Los Angeles area alone, which were wrongly paid by borrowers/customers instead of Wells Fargo," a former worker charged in a letter to the Senate banking committee.

FRAUDULENT FEES ON STUDENT LOANS

When the scandal broke: August 2016

What we know: Wells Fargo agreed to a $4.1 million settlement of a Consumer Bureau lawsuit 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.

"SALES MISCONDUCT" IN THE BANK'S WEALTH MANAGEMENT DIVISION

When the scandal broke: March 2018

What we know: Under federal government pressure, the bank is investigating charges that some of its investment advisers may have improperly pushed clients to sign up for other Wells Fargo products and services. Sparked by the testimony of employee whistleblowers, the company is trying to find out "whether there have been inappropriate referrals or recommendations, including with respect to rollovers for 401(k) plan participants, certain alternative investments, or referrals of brokerage customers to the company's investment and fiduciary services business."

OVERCHARGING HOMEOWNERS FOR THIRD-PARTY APPRAISALS

When the scandal broke: September 2016

When a mortgage falls into default, the borrower can be charged for a fresh appraisal. But, according to a racketeering lawsuit that became public in September 2016, 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 the cryptic language (such as "other charges") Wells Fargo used to explain what it was doing. The bank agreed to pay $50 million to settle this case.

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, have 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.