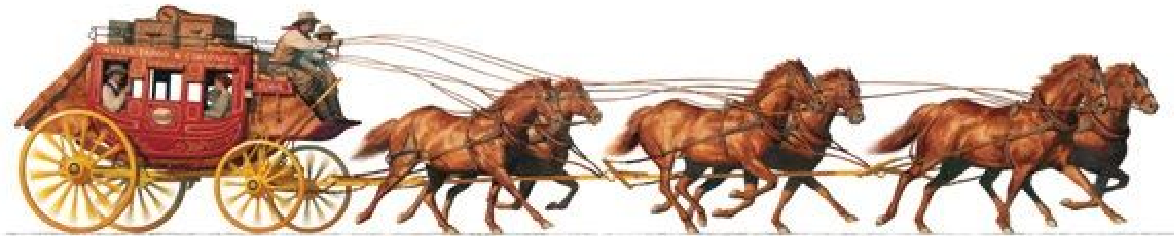
Americans for Financial Reform Education Fund

SCANDAL TRACKER

Wells Fargo: We Go Far Beyond the Law



For almost two years now, the San Francisco-based megabank Wells Fargo has faced an avalanche of lawsuits, bad press, and angry consumers thanks to its many scandals. But with so many to keep track of, it's easy to lose track of how it all first began: fake accounts.

In September 2016, federal regulators revealed that employees faced crushing pressure to meet impossible sales quotas, and so they took to making up bogus business. Wells charged its customers for 3.5 million credit card, insurance, and checking accounts that they never signed up for, destroying credit scores and costing people jobs and homes.

The revelation tarnished the once-storied Wells Fargo brand, making it a symbol of shady business and the butt of jokes in late-night television. "Hamilton" star Lin-Manuel Miranda played a Wells Fargo salesman on Saturday Night Live, signing children, dogs, and mailboxes up for bank accounts.

The same month that the fake accounts came out, Wells faced a racketeering lawsuit for doubling the appraisal prices of homes in foreclosure, thus extracting more cash from already troubled homeowners. They eventually settled the case for $50 million.Then in January, Los Angeles mortgagees alleged the bank was billing them for its own errors.

In July 2017, we learned that Wells had secretly added insurance to hundreds of thousands of auto loans. Some of those loans belonged to active-duty service members, who had their cars repossessed. Eventually the Office of the Comptroller of Currency hit the bank with $1 billion worth of fines. Months later, the OCC still wasn't sure if Wells had paid them back.

A May 2017 lawsuit alleged that Wells systematically guided African-American and Latino homebuyers into costlier mortgages. In June, The New York Times revealed how Wells shifted

bankrupt homeowners into new mortgages with the terms of the loan extended by years or decades.

The new year brought new scandals. In July 2018, the bank paid out $2.09 billion for misrepresenting the quality of its mortgage-backed securities before the financial crash. In August, Wells revealed that 400 people lost their homes because the bank didn't give them mortgage modifications to which they were entitled. Three months later, it admitted to another 145 wrongfully foreclosed-upon families.

Wells recently attempted to get a lawsuit dismissed by claiming that its public statements about rebuilding its trust with customers was mere marketing "puffery," not to be taken seriously by investors. Judging from its track record, Wells Fargo's customers shouldn't take these statements too seriously either.

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 unpaid. 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."

UNTRUSTWORTHY PUBLIC STATEMENTS

When the scandal broke: November 2018

What we know: Wells Fargo is trying 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. Moreover, in statements to the press, Wells has argued that even though their public statements about accountability are exaggerated and unserious boasts, the public still ought to take them completely literally.

INSURANCE OVERCHARGES

When the scandal broke: November 2018

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 absolutely 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.

PERSONAL DATA FRAUD

When the scandal broke: September 2018

What we know: Wells Fargo employees added personal information to their customers accounts, like Social Security numbers and birth dates, without gaining those customers' consent. The Justice Department is investigating this scandal as a fraud case, and are trying to find out if the changes were a result of management pressure.

WRONGFUL FORECLOSURES

When the scandal broke: August 2018

What we know: Wells Fargo says it has set aside $8 billion to compensate hundreds of homeowners for unjustified foreclosures between April 2010 and October 2015. According to the company, 625 customers submitted proper requests for mortgage modifications, only to be rejected because of a computer glitch. 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 525 families were foreclosed upon.

RIPOFF ADD-ON PRODUCTS

When the scandal broke: July 2018

What we know: Wells says it is in the process of refunding **tens of millions of dollars to h**undreds of thousands of customers for confusing "add-on" products pushed on them by telemarketers. The products include pet insurance, legal services, home warranties and other forms of insurance. The Consumer Financial Protection Bureau is reportedly investigating the sales practices that led to these overcharges.

MISREPRESENTING THE QUALITY OF ITS MORTGAGE-BACKED SECURITIES

When the scandal broke: July 2018

What we know: Wells Fargo has agreed to pay a $2.09 billion federal fine for misrepresenting the value of residential mortgage-backed securities 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 fines 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's 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. The bank has also set aside $171 million to cover overcharges to its foreign-exchange clients, according to the Wall Street Journal.

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.

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 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,

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.”

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; 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.

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.

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. 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 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.

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.

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.

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.

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.