



JOHN CHIANG
TREASURER
STATE OF CALIFORNIA

October 16, 2017

Wells Fargo & Company
P.O. Box 63750
San Francisco, CA 94163

To Wells Fargo & Company Board of Directors and CEO Tim Sloan:

I regret to inform you that the sanctions first imposed on Wells Fargo by my office in September of 2016 will be extended for at least an additional year, or until such time as the conditions detailed in this letter are fully satisfied.

Wells Fargo shares a long, intertwined history with California that extends back to the Gold Rush era. Today, both are powerhouses. Wells Fargo has evolved to become the nation's second largest bank by total assets. California is set to become the world's fifth largest economy.

What we each do, therefore, matters and effects the public interest.

Revelations in 2016 that Wells Fargo had fleeced its own customers by opening millions of bogus accounts raised concerns about the bank's culture, leadership, and loyalties. It was as if the wheels had suddenly fallen off the bank's trademark stagecoach and it raised an existential question for the 165-year old bank: *Could Wells Fargo identify and eradicate the root causes of this widespread and recalcitrant culture of customer abuse and restore public trust?*

The sanctions I imposed one year ago aimed to spur the leadership of Wells Fargo to answer that question. By suspending the bank from participation in its most highly profitable business relationships with my office and the State of California I sought real accountability and lasting reforms that would be in keeping with the bank's lofty promise "to be on the side of its customers."

Has that happened?

During the course of my review leading to today's decision, I was pleased to note Wells Fargo has been responsive to several important areas of concern raised by my office, including:

- The chief executive and board chair are no longer combined into one position.

- Three board members at the helm of Wells Fargo during the period of the bogus account scam and other abuses have departed, or will do so soon.
- 1,780 wrongly fired employees have been reinstated.
- The bank claims it has paid or is scheduled to pay more than \$7 million to aggrieved customers and has also agreed to a more than \$142 million class-action settlement.
- Key executives have been terminated and there have been claw-backs of executive compensation across the company.
- Incentives for cross-selling having been eliminated.

Such mitigating and corrective actions did not go unnoticed and received due consideration during my review. But, I also weighed these positive steps against a balance of aggravating factors. The negative considerations fell into three categories:

An Infestation of Problems

In 2016, when federal and local regulatory agencies flipped the light switch to expose the millions of unauthorized deposit, credit card, debit card, and online banking accounts, few would have suspected that this one cockroach portended a much more aggressive and maleficent infestation. Yet, over the past 12 months the following have come scurrying out of dark corners within Wells Fargo:

- The number of phony accounts has ballooned from an initial 2 million to now 3.5 million.
- This past July, news broke that as many as 800,000 consumers were forced by the bank to buy “lender-based” car insurance they did not need, tipping a quarter of a million Wells Fargo customers into delinquency and triggering 25,000 vehicle repossessions.
- In August, a new and different auto insurance fraud scandal broke in which the bank is being accused of failing to make refunds to consumers who paid off their loans early.
- Also in August, Wells Fargo agreed to pay \$108 million to settle a lawsuit claiming it overcharged military veterans under a federal mortgage refinancing program.
- Recently, a federal judge in San Francisco refused to throw out a lawsuit accusing Wells Fargo of systematically denying loans to immigrants who came to the United States as children and who have been allowed to stay here.

The bad news has come with such regularity, I fear more Americans will become de-sensitized to the bank’s pervasive exploitation of the public’s trust.

As the state’s banker, overseeing nearly \$2 trillion in annual banking transactions, managing a \$75 billion investment pool, and being the nation’s largest issuer of

municipal debt, it concerns me when systemic fraud and abusive banking practices are broadly viewed as the new normal.

Transparency and Accountability Remains Lacking

Wells Fargo has been far too opaque and evasive in responding to inquiries of customers, congressional and state lawmakers, and this office. During my eight years as State Controller – a period of time in which my office rooted out \$9.5 billion of fraud and fiscal hijinks – I witnessed in spades how the absence of transparency serves as a breeding ground for abuse and corruption.

While I was heartened by your public promise to “win back” California’s business and that of other states and municipalities that have severed ties with the bank, your reluctance to hang a lantern over past and present mistakes undercuts claims of repentance and meaningful reform.

Let me highlight three examples. Wells Fargo has failed to:

- Provide my office with evidence that it is complying with the terms and conditions of consent orders and settlements with the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the Los Angeles City Attorney.

If you recall, I explicitly requested such evidence on a quarterly basis so that I could monitor the bank’s efforts to provide full reparations to victims, as well as ensure promised reforms were actually being delivered.

To date, the only quarterly report received arrived only days before the year-long suspension was up and failed to provide the requested information.

- Deliver information I requested regarding the number of California consumers actually harmed, the concentration of those Californians by branch location, zip code, or city, and the status of your efforts to resolve their grievances and make them whole.
- Permit victims to have their day in court, where an independent judge or jury could view evidence and hear testimony. Instead, when victims of the bank’s fraudulent accounts scheme turned to the justice system to hold Wells Fargo accountable for damaged consumer credit and improperly assessed fees, the bank re-route them to forced arbitration, a secretive process that tilts in favor of corporations. The bank argues that arbitration clauses included in the contracts customers signed to open legitimate accounts also cover disputes related to the false one set up without their knowledge or consent.

Note that by silencing victims and allowing the bank’s abusive practices to fly below the public’s radar, this opaque process fostered a culture of exploitation and enable it to metastasize.

Missing Leadership

In large part, the wheels fell off the bank's trademark stagecoach because its board of directors abandoned or dodged its fiduciary duty to protect the company's reputation, the value of its franchise, its obligation to shareholders, and – most importantly – the personal savings Californians entrusted to it.

In April of 2017, I called for the dismissal of seven board members, including its two longest serving members and all five comprising the board's Corporate Responsibility Committee, which is ultimately responsible for the bank's culture and behavior.

Each of them were missing in action as the parade of scandals took form on their watch. By virtue of their watchdog positions or their tenure, these members – John D. Baker, Lloyd H. Dean, Enrique Hernandez, Cynthia Milligan, Federico Pena, Stephen W. Sanger and Susan G. Swenson – either knew what was going on, or should have known.

Absent their neglect or – worse yet – willful encouragement, the systemic corruption and venal abuse of customers that has now become a part of Wells Fargo's brand would not have occurred.

Each bears responsibility. To date, four remain.

On balance, the sum of the aggravating factors far outweigh those in mitigation. The bunker mentality in defending negligent leaders, the opaque manner with which the bank continues to do business, and the frequency of new disclosures of wanton greed and lack of institutional control have made this decision so clear that there really was no choice.

Over the last year, Wells Fargo has made modest progress, but has ultimately fallen far short of re-tooling its approach to customer care and restoring public trust.

It is no wonder some are calling for its break-up. Others are demanding that its national charter be revoked. And still others are demanding that its leadership structure be completely dismantled and replaced. As you know, I, too, have questioned whether Mr. Sloan's three-decade tenure within Wells Fargo would allow him to be the change-agent leader Wells Fargo so desperately needs.

I remain patient awaiting Wells Fargo rehabilitation of a culture that has prioritized quotas and profiteering over customer service and basic decency. I am hopeful that Mr. Sloan will not suffer from the same lack of vision suffered by his predecessor in seeing how to restore the integrity of the bank.

But patience and hopefulness must have limits. In the coming months, I will be looking to Wells Fargo to:

- Give me, on a quarterly basis, written evidence that the bank is in full compliance with the terms and conditions of the consent orders it has entered with the Consumer Financial Protection Bureau, the Los Angeles City Attorney, and the office of the Comptroller of the Currency. To the extent that Wells Fargo is out of compliance, it shall provide sufficient details regarding the root causes and how it intends to recover.
- Provide granular information about the number of California consumers harmed, the concentration of those customers by branch location, zip code, or city, along with the status of your efforts to resolve their grievances and make them whole.
- Remove board members Dean, Baker, Hernandez and Peña from the bank's board of directors.
- Commission and fund a study by a respected consumer advocacy group to gather data and report on how banking institutions can better serve Californians, especially the unbanked and those communities that would greatly benefit from increased financial fluency.

Finally, I will call upon the Office of the Comptroller of the Currency, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the Federal Reserve, and the Consumer Financial Protection Bureau to examine Wells Fargo's other lines of banking business, in particular the wholesale bank which includes divisions which deal directly with my office and other public agencies.

The absence of transparency at Wells Fargo in combination with leaders who "see, hear, and speak no evil" now raises serious questions about whether the cockroaches have infiltrated those parts of Wells Fargo which are responsible for helping taxpayer-funded public agencies meet their investment and borrowing needs. I will expect Wells Fargo's full cooperation and support.

The question I posed to you, a year ago, is an even more important one today: *How can I continue to entrust the public's money to an organization that continues to hold such low regard for the legions of Californians who have placed their financial well-being in Wells Fargo's care?*

Your response to this question and level of commitment to delivering the requested outcomes above will inform my office's next steps.

Sincerely,



JOHN CHIANG
California State Treasurer

THIS PAGE INTENTIONALLY LEFT BLANK