

**Testimony of Richard Cordray**  
**Director, Consumer Financial Protection Bureau**  
**Before the Senate Committee on Banking, Housing, and Urban Affairs**  
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Chairman Shelby, Ranking Member Brown, and members of the Committee, thank you for the opportunity to speak with you today. In these brief remarks, I will discuss: (1) what our investigation found about the sales practices at Wells Fargo; (2) what we are seeking to achieve by our Order; and (3) some initial thoughts about what further steps need to be taken to improve the culture and practices of the banking industry.

On September 8, 2016, the Consumer Bureau, together with our partners at the Los Angeles City Attorney's office and the Office of the Comptroller of the Currency, took an enforcement action against Wells Fargo Bank. Our investigations found that, in order to meet sales goals and collect financial bonuses for themselves, employees of the bank created unauthorized deposit and credit card accounts, enrolled consumers in online banking services, and ordered debit cards for consumers, all without their consent or even their knowledge. Some of these practices involved fake email accounts and phony PIN numbers.

The fraudulent conduct occurred on a massive scale. As detailed in our Order, Wells Fargo opened 1,534,280 deposit accounts that may not have been authorized, including transferring funds from some customer accounts without their knowledge or consent. Wells Fargo also initiated applications for 565,443 credit card accounts that may not have been authorized, by using consumers' information without their knowledge or consent. These activities caused some consumers to incur fees. Even apart from that, they represent a staggering breach of trust and conduct that should never occur at *any* bank. Wells Fargo has demonstrated

the epic scope of its failures by terminating at least 5,300 people thus far, including branch managers and managers of managers.

The gravity and breadth of the fraud that occurred at Wells Fargo cannot be pushed aside as the stray misconduct of just a few bad apples. As one former federal prosecutor has aptly noted, the stunning nature and scale of these practices reflects instead the consequences of a diseased orchard. As our Order describes, Wells Fargo built and refined an incentive-compensation program and implemented sales goals to boost the cross-selling of products, but did so in a way that made it possible for its employees to pursue unfair and abusive sales practices. It appears that the bank did not monitor the program carefully, allowing thousands of employees to game the system and inflate their sales figures to meet their sales targets and claim higher bonuses. Rather than put its customers first, Wells Fargo built and sustained a program where the bank and many of its employees served themselves instead, violating the basic ethics of a banking institution, including the key norm of trust.

Our Order accomplishes several things. First, the kind of detail that we always make it a point to provide in our enforcement orders exposes Wells Fargo's illegal misconduct, including its scale, for all to see for themselves. It has spawned vigorous public scrutiny over the past two weeks that no doubt will continue.

Second, the Order helps answer one question that many of you have asked me from time to time: what does the term "abusive" mean in our governing statute? Although we have been careful in analyzing all the ramifications of that new term, we did not hesitate for one minute to apply it emphatically to what we found here. In this matter, Wells Fargo engaged in abusive conduct toward its customers and consumers. We have said so, and executives, shareholders,

and investors throughout the financial system will now have to consider what that means in their efforts to address their own cultures and practices going forward.

Third, we have ensured that all consumers who suffered financial harm as a result of these practices will be fully compensated for that harm. Wells Fargo is required to set aside \$5 million to cover all of that, and if it turns out to exceed \$5 million, the bank will cover that as well.

Fourth, we levied upon Wells Fargo a fine of \$100 million, the largest fine by far that the Consumer Bureau has imposed on any financial company to date. Some have said it should have been higher, others have said it should have been lower. All told, the bank will pay \$185 million in fines for the illegal actions of these employees. That is a dramatic amount as compared to the actual financial harm to consumers, but it is justified here by the outrageous and abusive nature of these fraudulent practices on such an enormous scale. As for whether we have done enough here, it is notable that the Order is generating considerable consequences, including market effects, shareholder activity, further potential lawsuits, and follow-up investigations by other public officials that may be either civil or criminal in nature.

Fifth, the Order requires independent consultants to be installed at Wells Fargo to complete all further work on this matter, to ensure that all consumers are fully compensated, and to ensure that changes in the bank's sales practices are fully implemented to ensure that these types of misconduct do not recur. Both the top executives at Wells Fargo and its Board of Directors will be directly engaged in this work. If the independent consultants identify any further issues or concerns, we will address those as well.

Let me conclude with some more general concerns. As one of the biggest and best known banks in the United States, Wells Fargo is in a position to lead by example in terms of how every bank should treat its customers. In the wake of this Order, it now must do so. Much bank growth these days occurs by cross-selling customers on more products and services. This approach should lead banks to focus on strong customer service that produces high levels of customer satisfaction, which in turn should generate repeat business from existing customers and positive word of mouth to others.

As we have seen here, however, unchecked incentives and an unrealistic and uncaring culture of high-pressure sales targets can lead to serious consumer harm. Incentive compensation structures are common in businesses and they can motivate positive behavior. Yet companies need to pay close attention to their compliance monitoring systems in order to prevent violations of the law and abusive practices.

This action should serve notice to the entire industry. If sales targets and incentive compensation schemes are implemented in ways that threaten harm to consumers and lead to violations of the law, then banks and other financial companies will be held accountable. We have seen the risk that such programs pose to consumers across the entire financial sector – in debt collection, mortgage origination, credit card add-on products, overdraft products, and now in this action. Any such initiatives should be carefully monitored as a basic element in a company's compliance program.

Thank you again to our partners here at this table who worked with us on this important enforcement action. And thank you for this opportunity to testify. I will be happy to answer your questions.