Statement of Tim Sloan, Wells Fargo & Co.

Before the U.S. Senate Committee on Banking, Housing and Urban Affairs

Wells Fargo: One Year Later

October 3, 2017

Chairman Crapo, Ranking Member Brown, and members of the Committee, thank you for your invitation to today's hearing, "Wells Fargo: One Year Later." I appreciate the opportunity to discuss the progress Wells Fargo has made.

The past year has been a time of great disappointment and transition at Wells Fargo because we recognized too late the full scope and seriousness of the problems in our Community Bank. When my predecessor testified here last year, we had not fully grappled with the damage the sales practices scandal had done to our customers, our team members, and their trust in the bank. We came to Congress without a good plan and all of you were right to criticize us. But I heard you—and I heard our customers and our team members—loud and clear. You expect us to do better, and so do we.

So let me be very clear about this: I am deeply sorry for letting down our customers and team members. I apologize for the damage done to all the people who work and bank at this important American institution. When the challenges at Wells Fargo demanded decisive action, the bank's leaders acted too slowly and too incrementally. That was unacceptable.

I also want to be clear about another thing: Wells Fargo is a better bank today than it was a year ago. And next year, Wells Fargo will be a better bank than it is today. That is because we have spent the past year determined to earn back the public's trust. Since I became CEO eleven months ago, my team and I have been focused on the three tasks you have invited me to discuss today.

First, in response to the sales practices problems announced in 2016, we are transforming our Community Bank. Our retail bank has strong new leadership, more effective organization, and incentives that reward our team members for doing what is right for the customer. This is a fundamentally different organization from the one that existed in 2016.

Second, we are looking beyond our Community Bank to review our operations across the entire company, including in our indirect auto lending business. That review is still in progress, but it has already identified several ways in which we can improve. I am committed to confronting these problems head-on, and fixing them.

Third, we are working diligently to make things right for every customer who was harmed by any of our practices and, to that end, we will compensate every customer who suffered because Wells Fargo made mistakes. I am pleased to report that these remediation efforts are well underway.

Transforming Our Community Bank

No part of our company better reflects the difference between Wells Fargo in 2016 and Wells Fargo in 2017 than our Community Bank. We have dramatically overhauled its leadership, its organization, and its incentives. At every level of the bank, our efforts focus squarely on the needs of our customers, not on achieving product sales goals.

I appointed a new leader, Mary Mack, to transform the Community Bank. Mary has worked tirelessly to improve our approach to meeting customer and team-member needs.

Together, we have eliminated product sales goals for retail bankers. Those goals contributed to a high-pressure sales environment that failed our customers. In some cases, these goals even resulted in customers receiving products they never requested or realized they had.

The old sales goals and pressure failed our team members, too. Our new compensation and performance plan rewards retail team members for excellent customer service and team performance, not for selling products. The new goals place a priority on risk management and compliance, demonstrating to team members that they all have a role to play in ensuring that Wells Fargo is serving customers with integrity. This begins with revamped hiring and training programs, as well as increased base pay for entry-level team members.

In addition, we have made dramatic changes in the way our team members interact with our customers by adopting a new customer-service approach across our Community Bank. We have simplified complicated processes, replaced required questions with relevant tips, and enabled bankers and tellers to better meet their customers' needs by offering them the right products, services, or referral. Managers have also been empowered to immediately resolve some customer issues, like fees, at the branch rather than through a call center. These changes have led to a more personalized experience for our customers and more fulfilling jobs for our team members.

We are equally committed to the former Wells Fargo team members who were affected by the Community Bank's old ways of doing things. I am proud to report that since last September we have hired back more than 1,780 team members who left the bank during those years.

I have also now made clear that, when team members have concerns, I want to know. I have traveled the country, visiting more than 100 offices, to meet personally with thousands of team members. Our senior leadership team has done the same. We have also improved our ethics protections to ensure that every team member feels empowered to speak up without any fear of retaliation when he or she sees a problem.

Accountability

I know that responsibility for Wells Fargo's shortcomings reaches well beyond our bank branches. That is why our review and our changes have not stopped there. We started by holding executives accountable. Over the past year, Wells Fargo eliminated a record $180 million in senior-executive compensation:

- No member of the Operating Committee who served before September 8, 2016, including me, received a bonus for 2016.
- Every member of the Operating Committee who served before September 8, 2016, had his or her long-term incentive awards for past performance reduced by up to 50%.
- Neither former CEO John Stumpf nor former head of the Community Bank, Carrie Tolstedt, received a bonus for 2016.

- Mr. Stumpf forfeited $69 million in compensation and equity.
- Ms. Tolstedt forfeited $67 million in compensation and equity.
- And, finally, we terminated four senior leaders of the Community Bank, which cost them their 2016 bonuses, their unvested equity awards, and their vested outstanding stock options.

Looking forward, we have made oversight and compliance much more effective than a year ago. These are fundamental changes to the way the company runs. We have reviewed and adjusted the roles of tens of thousands of our team members. We have moved away from a de-centralized "Run It Like You Own It" structure, where business leaders had the discretion to run their operations independently. Now we follow a more centralized model in which risk, compliance, and human resources leaders have far greater visibility into, and accountability for, issues across the individual business lines. In addition, I established a Conduct Management Office with company-wide responsibility for investigations and complaints. This new team assesses complaints across the company, reports every month to our executive team—including me—and helps leaders "connect the dots" in ways we never could before. Now when a problem emerges, we can identify it quickly, escalate it promptly, and address it fully.

These changes are consistent with, and designed to address, the findings of our Board's independent investigation into the root causes of our retail sales practices issues. That investigation found, and I agree, that our previous structure contributed to a failure to see the threat that high-pressure sales goals posed to our Community Bank and our customers. This structure also contributed to our slow and insufficient response to that threat. My job as CEO is to ensure that never happens again.

One important way I have exercised that responsibility is by calling for a comprehensive review of sales practices and other customer-facing operations across the bank. We decided to go beyond the requirements of our regulators and conduct a company-wide review, leaving no stone unturned.

That review has consumed a big portion of the past year and continues today. This has been, and continues to be, a massive undertaking. It has involved our own team members, as well as regulators, independent directors, lawyers, and independent consultants. The mandate is to identify any failures or practices that could harm our customers.

We expected to find more shortcomings through this effort, and we did. You have undoubtedly heard about some of these problems in the news. Last fall, we reviewed 93 million accounts opened between 2011 and 2015. That review raised concerns regarding whether approximately 2 million accounts had been properly opened. We told you and others that we would look at even more accounts, and we did. We searched across 2009, 2010, and 2016—nearly doubling the time frame to eight years. We also looked at other types of accounts or services, such as online bill pay, that may have been initiated improperly.

In August, we announced the result of this broader look at 165 million accounts opened between 2009 and 2016. Our estimate of potentially unauthorized accounts grew by about 1.5

million. This is a substantial number, but it is important to note that these are not “new” instances of possible misconduct *since* last fall; they are newly revealed instances of possible misconduct based upon our own expanded investigation of the years before 2017. Of the total of 3.5 million accounts, approximately 190,000 incurred fees and charges. Wells Fargo will provide a total of $2.8 million in additional refunds and credits on top of the $3.3 million previously refunded as a result of the original account review. Our commitment is to refund all fees and all charges imposed with respect to any accounts and services that proved to be unauthorized.

During the past year, we also confronted problems in our auto-loan business. We explained in August that some of our auto loans involved insurance that had been placed by a vendor when the customer was already insured. This issue is quite different from the previous sales-practices issues in our Community Bank, because this insurance was not a product that Wells Fargo team members were given an incentive to sell. Also, this is an issue we found and addressed ourselves. The improper insurance charges occurred because of flaws in our process for verifying the customer’s insurance status and disclosing the premiums added. It was a significant mistake that harmed a lot of people, and we are making it right. Last month, we began issuing checks to affected auto-loan customers, all of whom we expect to reimburse by the middle of 2018.

Making Things Right with Our Customers

The entire Wells Fargo team, all 270,000 of us, is committed to making things right for customers the bank let down. This is a big job, and we will get it right.

To ensure our changes to the Community Bank are working for our customers, we dramatically enhanced our monitoring and compliance. As an example, we are closely monitoring the opening of new accounts. Every new account now generates an email within an hour, or a letter within a day, to confirm the account holder’s authorization. In our branches, we are on pace to conduct 16,000 visits by “mystery shoppers” this year, so that these anonymous reviewers can test and examine the practices and service that our customers experience. These visits will help ensure we are proactively identifying any improper sales practices and delivering customer service that is consistent with our mission.

We also are reaching out to customers all across America to determine if they were affected by the bank’s practices and, if so, how we can fix it. During the fourth quarter of 2016, we contacted more than 43 million individual and small business customers. We are issuing refunds to every affected customer who has responded or has been identified by our third-party review. Wells Fargo has already paid millions in refunds and credits to Community Bank customers we spoke with between September 2016 and July 2017. In addition, customers harmed by our discontinued sales practices will receive a total of $142 million in compensation (after deducting plaintiffs’ attorneys’ fees and administration costs) under our class-action settlement. This will compensate customers for claims dating back to 2002, including claims by customers for increased borrowing costs resulting from credit-score impact.

Beyond these formal reimbursement mechanisms, I want to be clear that Wells Fargo is committed to addressing *every* concern *any* customer may have about an unwanted product or service—no matter where or when it may have occurred.

* * *

The past year has been humbling and challenging. We are resolving past problems even as we make changes to ensure nothing like this happens again at Wells Fargo. We are doing this by strengthening our culture, holding leaders accountable, and improving our business practices and risk management. I want to thank all our team members for their hard work in this transformation.

Together, we will do whatever is necessary to put our customers first. I see the improvement every day, and so do the team members I visit in our bank branches. I think our customers have noticed the improvement, too. I pledge to you that we will not stop until we restore our reputation and our customers' trust, and make Wells Fargo the finest and most ethical company it can be.

Thank you again for the opportunity to address this Committee. I look forward to your questions.