**Wells Fargo in Ethical Crisis: Timeline of Events
Background**

Wells Fargo Bank, once deemed America’s most valuable financial institution, has undergone significant controversy due to the promotion of a culture supporting unethical sales practices resulting in millions of fake accounts being created for customers without their knowledge or approval. The scandal broke as Wells Fargo account holders complained of fees on accounts they did not know existed. The pressure came from top management for employees to “cross-sell” products by trying to get existing customers to sign up for other financial products (online banking, additional accounts, credit cards, etc.). This sales program coupled with a decentralized structure including senior executives who fail to address ethical misconduct brought the scandal to a crisis point in mid-2016.

Wells Fargo’s core values include “people as a competitive advantage, ethics, what’s right for customers, diversity & inclusion, and leadership.”

**2010 to 2017**:

**September 8, 2016**: The Consumer Financial Protection Bureau fines Wells Fargo $185 million for creating unauthorized accounts for consumers over five years totaling roughly two million accounts. The fine is the highest the agency has issued against an organization since it was created in 2011.

A $185 million fine for a company that makes over $20 billion in a year may seem insignificant. However, the share price dropped from $50 per share before the scandal was uncovered to $44 per share after the unethical sales practices became public knowledge. This drop reduced $30 billion of market cap from Wells Fargo stock and the rebound has been slow mainly driven by higher interest rates. The bank has also lost the title of most valuable bank and last year ranked 100th on a list of 100 financial institutions for ethical practices. (Exhibit A)

Wells Fargo reports it has fired 5,300 low-level employees (roughly 1% of the workforce; however, no senior executives were fired) over a five year period for unethical behavior. The bank publicly states:

“We regret and take responsibility for any instances where customers may have received a product that they did not request.”

**September 13, 2016**: Wells Fargo reports it is ending the employee sales goal program by the end of the year as it resulted in widespread unethical behavior from employees.

“I am accountable,” says CEO John Stumpf, though publicly dismisses calls for his resignation. “I best thing I could do right now is lead this company, and lead this company forward.”

**September 14 & 16, 2016**: FBI and federal prosecutors in New York and California followed by the House of Representatives Financial Services Committee begin investigations of business practices and regulators involved in the scandal. It is made public that Carrie Tolstedt, head of the community banking division where the unethical behavior took place stepped down in July. Three Utah residents file the first class-action lawsuit brought by customers against Wells Fargo.

**September 20, 2016**: During Stumpf’s testimony to the Senate Banking Committee, Sen. Elizabeth Warren (D-Massachusetts) criticizes him harshly including saying he needs to resign and should face criminal charges.

**September 21, 2016**: Reports from ex-employees surface revealing Wells Fargo fired whistleblowers further reinforcing that the bank put sales first and deemphasized ethical behavior.

**September 22, 2016**: U.S. Department of Labor begins an investigation into whether Wells Fargo violated the Fair Labor Standards Act. Stumpf resigns from the Federal Advisory Council that advises the Federal Reserve on banking and economic matters.

**September 23, 2016**: Six senators criticize Wells Fargo for wording in basic agreements customers sign when they open accounts that serves to help keep fraud hidden from judicial, media, and public awareness.

**September 27, 2016**: As the board continues to investigate the scandal, Stumpf loses $41 million in unvested equity and a year-end bonus, a small figure compared to the overall gains he accumulated as CEO. Stumpf loses public confidence and Wells Fargo loses billions in market value. The company announces it will move the termination of the problematic sales program to October 1, 2016.

**September 29, 2016**: The House Financial Services Committee harshly criticizes Stumpf about hiding important information on the scandal from the board. Stumpf explains more should have been done sooner. Committee chairman, Jeb Hensarling, R-Texas, states:

“Fraud is fraud. Theft is theft. And what happened at Wells Fargo over the course of many years cannot be described any other way.”

**October 1, 2016**: Wells Fargo stock hits 31 month low and drops significantly compared to other banks. (Exhibits A & B)

**October 5, 2016**: A letter to the Justice Department from 14 senators urges investigation of Wells Fargo senior executives to reinforce to the public that high level executives should not be allowed to escape justice (prosecution or jail time) in favor of shareholders paying fines.

**October 12, 2016**: After significant pressure, Stumpf retires from the CEO and chairman roles. COO, Tim Sloan, assumes the CEO position.

Sloan is quoted as saying his first priority is “to restore trust in Wells Fargo.”

**October 14, 2016**: The information surfaces that Stumpf sold $61 million in Wells Fargo stock within a month before the investigation.

**October 19, 2016**: Criminal investigation starts involving Wells Fargo employees committing false impersonation and identity theft relating to the fake accounts.

**October 24, 2016**: Wells Fargo begins ad campaign to repair trust in its brand.

**November 29, 2016**: CEO John Stumpf leaves the company under the demands of regulators and shareholders due to the fake account scandal.

**January 26, 2017**: Fallout from the fake account scandal shows a 40% drop in new checking accounts, a 50% drop in new credit cards, and an overall 14% drop in profits over the past year for Wells Fargo. Ahead is the plan for 450 branch closings by 2019. (Exhibit C)

**April 10, 2017**: Sales Practices Investigation Report is released finding unethical business practices with unauthorized accounts stemming back to 2002. The report traces three main factors leading to the scandal including unrealistic sales goals, decentralized corporate structure preventing oversight, and an organizational culture perpetuated by senior executives who fail to address critical issues. (Exhibit D)

An additional $75 million in compensation will be clawed back from Carrie Tolstedt, the leader of the division creating the fake accounts, and former CEO, John Stumpf. The actions against the executives involved now totals nearly $200 million.

The steps the board has taken to address the findings of the report include (in addition to those already listed): separating the CEO and chairman roles, appointing new board members, centralizing risk and human resources management systems, and initiating a new Community Bank compensation program with retail product sales goals removed.

**April 21, 2017**: Wells Fargo announces its class action settlement will amount to $142 million including customers impacted as far back as May 2002. Minus administration and legal fees, the funds will reimburse customers impacted by the opening of fake accounts.

Sharp reductions in retail banking continue over subsequent quarters.

**June 14, 2017**: Wells Fargo is accused and has class action lawsuit filed over making unapproved changes to borrower mortgages resulting in borrowers paying more interest over longer terms.

**July 21, 2017**: Wells Fargo, as part of subpoena for a defamation lawsuit, accidentally released to the plaintiff’s lawyers a significant amount of personal data (including social security numbers and tens of billions of dollars in investment portfolio data) from tens of thousands of the wealthiest bank clients.

**July 26, 2017**: Wells Fargo acknowledges more than 800,000 Wells Fargo auto loan customers were charged for car insurance they did not need through the collateral protection insurance program resulting in over 25,000 auto repossessions and damage to customers’ credit scores including 274,000 customers pushed into delinquency.

**July 31, 2017**: Wells Fargo shares fall 2.6% after the auto loan scandal is disclosed. Year to date, Wells Fargo stock has declined 3.3% versus the S&P 500’s 10.4 % return. The issue with the auto loans was discovered in July of 2016, but not shared with investors and the public until July 26, 2017.

**July 31, 2017**: Damages from the auto loan scandal could cost Wells Fargo an estimated $80M and have a longer term impact on the market. Despite all the scandals, there has not been a change to the Wells Fargo board of directions resulting in the frustration expressed by some shareholders.

"It is very surprising that Wells Fargo has not changed the opaqueness in its disclosure and only disclosed this late on Thursday night when it realized a news story was about to break," JPMorgan analyst Vivek Juneja wrote Monday. "This raises the question about what other changes Wells Fargo needs in its culture. There has been no change to the Board despite all the scandals, which has been frustrating some shareholders."

**August 1, 2017**: Wells Fargo loses tens of millions of dollars after cities and states stop doing business with them due to the fake accounts scandal followed by more scandals including the company changing terms of mortgages for homeowners without notification, charging mortgage applicants for the company’s own delays in application processing including falsifying records, and misappropriating money from mortgage bond investors to pay legal fees for lawsuits involving those investors.

**August 7, 2017**: Wells Fargo is accused of making unauthorized changes to customer mortgages including extending the mortgages by decades resulting in increased interest fees.

**August 11, 2017**: Wells Fargo’s merchant services division is charged with overcharging and overbilling small mom-and-pop businesses who have little legal support.

**August 31, 2017**: Wells Fargo reveals that fraudulent accounts may number 1.4 million more than earlier reported.

**October 3, 2017**: Wells Fargo CEO, Tim Sloan, answers questions from senators about his 30 years of experience at the bank and his ability to reform a culture he aggressively sought to perpetuate.

“At best, you were incompetent, and at worst, you were complicit. Either way, you should be fired,” said Sen. Elizabeth Warren (D-Mass).

Sloan countered by saying the bank was doing more right than wrong in its business. Wells Fargo has already paid $185 million in fines and has a preliminary class-action lawsuit settlement for over $100 million.

Sen. Brian Schatz (D-Hawaii) suggested the bank should be shut down entirely. Sloan indicated the bank has over 270,000 employees and has customers in one in three households in the U.S.

**November 28, 2017:** In the Wells Fargo foreign exchange group, currency brokers were found through an internal review to be overcharging customers with “time fluctuations” in the rates and inflated transaction fees (as much as 6 to 20 times higher than the industry standard) that would lead to larger bonuses for the brokers. Only 35 of around 300 fee agreements agreed by the foreign-exchange operation had been charged accurately. Bonuses are given to brokers based exclusively on how much revenue they bring in which incentivizes overcharging customers.

**December 8, 2017**: President Trump issues a statement on Wells Fargo saying,

“Fines and penalties against Wells Fargo Bank for their bad acts against their customers and others will not be dropped as has incorrectly been reported, but will be pursued and if anything, substantially increased.”

**January 6, 2018**: In mid-2017, banking regulators downgraded Wells Fargo’s CAMELS score used to measure a firm’s health and strength including factors such as capital, management, and liquidity. The downgraded score reflects concerns about the management of the company and the company’s ability to manage risk.

**February 6, 2018**: After the Federal Reserve moved to limit the ability of Wells Fargo to expand its business (due to ongoing concerns about the bank’s sales practices), stock dropped 9.2% and removed $29 billion in value. As a result, Wells Fargo will have a harder time maintaining market share and will have to be more competitive on price.

**March 17,2018**: The wealth management division of Wells Fargo is now under investigation for a variety of improper practices. This is in addition to the ongoing investigation and issues around unethical business practices in multiple areas and problems with company culture.

**May 5, 2018**: Wells Fargo agrees to pay a $480M penalty in the securities fraud class action lawsuit filed by shareholders. The bank denies the allegations and states the bank made the agreement to avoid the cost and disruption of further litigation. CEO Timothy Sloan said the agreement shows progress in the company intention to rebuild trust.

Here are the additional fines and penalties to date:

* $1 billion penalty assessed by the Consumer Finance Protection Bureau and the banks’ federal regulator, the Office of the Comptroller of the Currency (April 2018).
* $142 million settlement relating to consumer accounts (July 2017)
* $185 million settlement relating to regulatory complaints about fraudulent accounts (September 2017)
* $80 million settlement relating to the overbilling to auto-loan customers (July 2017)
* $2.8 million additional refunds and credits relating to the fraudulent accounts
* $3.3 million compensation to customers affected by the fraudulent account scandal (a number that has tripled since October 2016)
* Additional restrictions are expected to lower 2018 bank profit by $300 to $400 million (Wells Fargo had $22.2 billion in profit in fiscal 2017).

**October 15, 2018**: Looking ahead to next year, Wells Fargo is expected to lose 12% of its customers who move their money elsewhere. This could lead to a decrease in deposits of 75 billion and loss of 2.1 billion in sales.

**November 15, 2018**: Hope Hardison, chief administrative officer for Wells Fargo, has been removed due to pressure from regulators over “egregious” oversights. A 2017 report indicates Hardison was supplied with a detailed table spelling out many violations in sales integrity including the “number of allegations, cases worked, employees cleared, confirmed fraud or policy violations and related terminations and resignations.” However, despite being in charge of bank culture, reputation, HR, and serving on the bank’s operations committee, Hardison indicated she did not remember the report or grasp the significance of the violations. This move reinforces the need for change at the top leadership levels to improve the systemic culture problems with the bank.

**March 9, 2019**: While Wells Fargo claims to have accomplished a lot to improve its culture including taking away sales incentives that drive unethical behavior, employees question the truth of Wells Fargo’s commitment to an ethical business culture. Workers say they still feel pressure to get extra money from customers including bending or breaking rules put in place to strengthen the ethical culture. The sense among many employees is that the changes are superficial and focused to improve public image rather than to promote deep culture change.

**March 29, 2019**: CEO Tim Sloan, a 30 year veteran of Wells Fargo, stepped down claiming he was becoming a distraction to the process of solving Wells Fargo’s cultural problems. Wells Fargo general counsel, Allen Parker, stepped in as interim CEO. Sloan had been under tremendous pressure from Congressional lawmakers, regulators, and investors to resign. Many including employees and customers felt the bank could not be fixed by an insider who was an important figure in the bank’s transgressions.

**April 23, 2019:** At Wells Fargo’s annual meeting, investor activists called interim CEO Allen Parker and other executives “frauds” and “criminals.” The bank still faces a crippling asset cap imposed by regulators as well as more than a dozen ongoing investigations. Chair of the board, Betsy Duke indicated the search for a permanent new CEO is still underway.

**October 21, 2019**: After rotating through four CEOs in three years, an outsider Charles Scharf, former CEO of Bank of New York Mellon and Visa, is named CEO of Wells Fargo. Addressing how to continue to repair the bank and the brand, in the Q3 2019 earnings call, Scharf outlined several technology investments expected to set a path to future profitability. The bank is investing more in start-ups, developing a presence in the blockchain world with Wells Fargo Digital Cash, and improving infrastructure for mobile banking. However, the bank still faces regulatory pressure and ongoing culture issues especially in its financial management group.

**December 9, 2019:** Wells Fargo brings in another outsider, Scott Powell, former CEO of Santander Holdings, as Chief Operating Officer to continue to work to repair the cultural, management, and infrastructure challenges at the bank. Speaking to the need for culture change, Powell says “operational excellence” will become the bank’s new culture. New leadership in other executive roles is also intended to be a part of this fresh direction ahead.

**January 14, 2020:** After the first three months as CEO of Wells Fargo, Charles Scharf said he “didn’t have all the answers” during the Q4 2019 earnings call where he discussed the 50 percent fall in profit in Q4 compared to the final quarter of the previous year. Revenue fell 5 percent in Q4 and a total of 1.5 percent for 2019. Wells Fargo stock has fallen 4 percent since the announcement to $50 per share. In comparison, JPMorgan Chase had a Q4 net income gain of 21 percent and Citigroup saw revenue increase 7 percent and profits increase 15 percent.

**June 13, 2020:** 2020 has been a year of Wells Fargo appealing to regulators with assertions it has fixed all the issues that brought about the fake accounts scandal. Wells Fargo has brought in new leadership, changed its corporate structure, has increased and improved internal controls, and won a temporary waiver of the federally mandated $2 trillion asset cap in order to grant loans to businesses due to the coronavirus crisis. However, the company’s share price has still plummeted by 54% in 2020 in a much greater slide than competitor banks (JPMorgan Chase and Bank of America) down by only 30% due to the coronavirus crisis impacting the first half of 2020.

**July 22, 2020:** Culture problems still plague Wells Fargo as amid the Covid-19 crisis Wells Fargo has been discovered to have forced mortgage borrowers in at least 14 states into forebearance without their knowledge or approval. The devastating result is on time home mortgage payments are not being credited to the borrower’s account and reduced credit scores are preventing borrowers from taking the opportunity to refinance during this time of historically low rates.

**November 12, 2020:** Former Wells Fargo CEO, John Stumpf, will pay $2.5M to address civil claims due to the part he played in the fake account scandal. Earlier, the SEC had charged Stumpf and another former Wells Fargo executive, Carrie Tolsted, with the intent to mislead investors over bank core business.

**March 13, 2023**: Carrie Tolstedt, former head of community banking for Wells Fargo, may face jail time and over $15 million in fines in relation to the bank’s sandal with false accounts. Tolstedt agreed to plead guilty to obstructing regulators’ investigation relating to company sales procedures. A press release from the U.S. District Attorney’s Office, Central District of California indicates prosecutors claim Tolstedt was aware of misconduct, but put aside the problem to keep sales goals strong. The practice of opening fake accounts goes back as far as 2002 and the company continues to repair the damage.

**March 30, 2023**: Wells Fargo has agreed to pay a total of $97.8 million in fines for inadequate oversight of its compliance risks, which enabled the apparent violation of U.S. sanctions against Iran, Syria and Sudan. According to the regulators, Wells Fargo failed to adequately monitor its compliance with the various sanctions programs, which enabled it to process payments related to sanctioned countries or persons. The fines will be paid by Wells Fargo to the Federal Reserve and Office of Foreign Assets Control. The bank has since taken steps to enhance its compliance program, including the implementation of new policies, procedures and controls.

**September 6, 2023**: Carrie Tolsteadt, former Wells Fargo executive should serve time in prison due to the Wells Fargo accounts scandal starting seven years ago according to the US Attorney’s Office in Los Angeles as the case continued to be prosecuted. Tolstedt “attempted to conceal from regulators one of the biggest banking scandals in modern history,” according to prosecutors. “Corporate wrongdoers must be sent a clear message that maintaining a lucrative position through criminal behavior is not worth the risk.” According to the plea deal she signed, she could face as much as 16 months in prison.

*(This timeline has been and will continue to be updated as new information is available.)*

**Discussion Questions:**

1. Based on the facts presented in the timeline, assess Wells Fargo’s current culture. Be sure to identify values and underlying assumptions.
2. Based on the Wells Fargo case, why is ethical action critical to good business?
3. Discuss how a dysfunctional culture gets perpetuated in an organization.
4. Create a plan to reshape Wells Fargo’s culture to be ethical and high performing.

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**Exhibits:**

**Exhibit A:**

**Wells Fargo Stock Price Hits 31 Month Low October 1, 2016 Due to Fake Accounts Scandal**

Source: Wells Fargo & Co (NYSE: WFC)

**Exhibit B: Wells Fargo Stock Drops Significantly Compared to Other Banks October 2016**

Source: <https://www.forbes.com/sites/steveschaefer/2016/10/05/one-chart-that-shows-how-wells-fargos-fake-account-scandal-is-hurting-shareholders/#F046fb16f7e6>

**Exhibit C:**

**Wells Fargo Fake Accounts Scandal Leads to Significant Decrease in Customer Engagement November 2015 to November 2016**

|  |  |  |  |
| --- | --- | --- | --- |
| **Metric** | **November 2015** | **November 2016** | **% Drop** |
|  |  |  |  |
| New Customer Checking Accounts | 500,000 | 300,000 | -40% |
| Customer Credit Card Applications | 400,000 | 200,000 | -50% |
| Interactions with Branch Bankers | 3.2 million | 2.8 million | -14% |
| Customer Loyalty Score | 61.4% | 53.6% | -13% |

Source: Wells Fargo

**Exhibit D:**

**Wells Fargo Aggressive Sales Culture Drives Unethical Behavior: Selected Sales Model Deficiencies**

|  |  |
| --- | --- |
| **Sales Model Deficiencies** | **Results** |
|  |  |
| Reduced Concern for Employee Retention | From January 2011 to December 2015 on a 12-month rolling average turnover reached at least 30% in every period and as high as 41% for the 12-month period ending in October 2012. |
| Sales-Based Compensation Plans | Compensation plans for branch bankers were structured such that bankers had to meet certain threshold requirements to be eligible for incentive compensation including products sold per day, daily profit, packages sold per quarter, quarterly partner referrals and/or number of loans made per quarter.The goals graduated for each performance tier, and as the goals went up, the payout rose. For example, a banker who achieved 9 qualifying daily sales could receive a $250 quarterly payout, 11 daily sales brought twice that amount, and 13 brought an $800 quarterly payout. |
| Sales Goals Connected to Performance | Bankers, branch managers, and district managers who did not meet sales goals were at risk for poor performance reviews with sales goals weighted between 20 and 25% of total incentive compensation requirements. Poor performance in many instances led to shaming or worse as many employees believed that their future at Wells Fargo depended on how many products they sold.  |

Source: Independent Directors of the Board of Wells Fargo & Company Sales Practices Investigation Report April 10, 2017