MarketWatch

# 10 shocking passages from the Wells Fargo report on aggressive sales practices

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'This is not systemic,' former CEO said in email

*Getty Images*

*Then–Wells Fargo Chairman and CEO John Stumpf testifies in September 2016 before the House Financial Services Committee.*

As Wells Fargo released a 113-page report Monday on a board committee's inquiry into the company's sales practices, the bank announced it has clawed back an additional $75 million in compensation from two top executives .

Wells Fargo WFC, -0.27% clawed back an additional $28 million from the pay of former CEO John Stumpf and another $47 million's worth of stock options from Carrie Tolstedt, who headed what was called the community bank. With the additional so-called clawbacks, it's taken back nearly $183 million from Stumpf, Tolstedt and other executives. Wells Fargo has been fined $185 million by regulators and been the subject of two congressional inquiries over practices including the unauthorized opening of millions of customer accounts.

Here are selected passages from the report, which the current CEO, Tim Sloan, said he accepted as part of a "journey to rebuild trust."

• Tolstedt and certain employees in her inner circle were insular and defensive and did not like to be challenged or hear negative information. Even senior leaders within the community-bank unit were frequently afraid of or discouraged from airing contrary views. Tolstedt effectively challenged and resisted scrutiny both from within and outside the unit. She and her group risk officer not only failed to escalate issues outside the community bank but also worked to impede such escalation, including by keeping from the board information regarding the number of employees terminated for sales-practice violations.

• Until as late as 2015, even as sales practices were labeled a “high risk” in materials provided to the board of directors’ risk committee, there was a general perception within Wells Fargo’s control functions that sales abuses were a problem of relatively modest significance, the equivalent of a tolerable number of minor infractions or victimless crimes. This underreaction to sales-practice issues resulted in part from the incorrect belief, extending well into 2015, that improper practices did not cause any “customer harm,” a term that itself was narrowly construed to mean only financial harm such as fees and penalties. This flawed perspective made it easy to undervalue the risk to Wells Fargo’s brand and reputation arising from the misuse of customer information and the breaches of trust occasioned by improper sales practices.

> ‘I really feel for Carrie and her team. We do such a good job in this area.’
>
> *Ex-CEO John Stumpf, in 2015, commenting on whether the bank had forced products on customers*

• “Jump into January,” a program created in 2003, aimed to motivate employees to “start the New Year strong by achieving and exceeding January goals.” The community bank imposed higher daily sales targets on bankers in the month of January and emphasized and rewarded higher levels of sales activity. While many witnesses suggested that the initial impetus for the campaign was appropriate, witnesses almost universally agreed that the campaign was distorted over time and became a breeding ground for bad behavior that helped cement the sales culture’s negative characteristics. Witnesses recalled that bankers were encouraged to make prospect lists comprising the names of friends and family members who were potential Jump into January sales targets and often would “sandbag” (temporarily withhold) December account openings until January in order to meet sales targets and incentives. The pressure associated with the campaign manifested itself in a higher incidence of low-quality accounts, as confirmed by the “Rolling Funding Rate,” a quality metric used by the community-bank unit to track the rate at which its customers “fund” (place more than a *de minimis* amount into) new checking or savings accounts.

• Shelley Freeman, regional president in Los Angeles and later lead regional president in Florida, was particularly aggressive in her Jump into January campaigns. Witnesses described the practice of “running the gauntlet,” in which district managers, dressed up in themed costumes, formed two lines. Each then ran between those lined toward a whiteboard on which he or she would report the number of sales achieved. Witnesses also stated that Freeman suggested to subordinates that they encourage customers to sign up for products regardless of need.

> A branch manager had a teenage daughter with 24 accounts, an adult daughter with 18 accounts, a husband with 21 accounts, a brother with 14 accounts and a father with four accounts.

*Finding on abuse of the bank's 'friends and family' accounts*

• "Friends and family" accounts were also frequently referenced in the reviewed investigation records; employees often described opening accounts for family and friends in order to meet sales goals. For example, a branch manager had a teenage daughter with 24 accounts, an adult daughter with 18 accounts, a husband with 21 accounts, a brother with 14 accounts and a father with four accounts.

• In some reviewed records, employees entered fake customer phone numbers or substituted their own email addresses for those of customers to prevent Wells Fargo from contacting customers who might provide a less-than-perfect customer survey score. In one case, a branch manager falsified customer phone numbers and instructed her employees to do the same, leading to the deletion of at least 192 customer phone numbers, to circumvent customer polling.

• Regional leadership was unsuccessful in having concerns about secondary checking accounts addressed even as late as 2015. In that year, one regional leader wrote an email relating to removing secondary accounts from incentive compensation plans, saying he and other regional leaders should "fight the good fight every year — especially since I think one day we will be asked why it was part of the goal process to begin with."

• Group Risk Officer Claudia Russ Anderson minimized and obscured issues in reporting on the community bank, including sales practices. From late 2011, Russ Anderson challenged language in the corporate security portions of the reports to the bank's Audit & Examination Committee. In one email exchange in 2012, Michael Bacon, the head of corporate security and responsible for internal investigations, stated that Russ Anderson "often challenge[d] the Audit and CS A&E reporting verbiage," but that at that point he had "gotten good with the credible challenge" in response. Bacon noted that "our data continues to highlight a concerning trend in the area of Sales Integrity — from the increase in EthicsLine reports, to the increase in executive complaint letters," and "increases in confirmed fraud, thus, we need to continue to escalate this issue with senior leadership." Russ Anderson told him that his reporting made the problem sound "so much worse than it is."

• Ironically, in a 2004 email to Stumpf, Tolstedt acknowledged the importance of setting compensation plans such that they create incentives for appropriate behavior. Specifically, she noted: "I think you have to balance cross sell with the right incentive plan and other measures so that you ensure you have quality cross sell. Many banks ... build products that encourage the wrong sales behavior. They encourage their sales force to sell a second account free, multiple savings accounts free, etc. Then if you incent a team of bankers on top of that around sales per day alone you are asking for trouble." Tolstedt acknowledged the need to balance cross-selling, household penetration and household profitability measures, and to have a balanced incentive plan based on units and profit. "If you look at one metric alone and don't build an integrated model, you are asking for low value, unfunded bad cross sell that will not add up to revenue growth or retention."

• Even in 2015 and 2016, Stumpf did not appreciate the scope and severity of the problem. He continued to publicly support the appropriateness of Wells Fargo's sales goals and to highlight that the vast majority of Wells Fargo employees "got it right." An example is an email Stumpf wrote to Sloan on May 17, 2015, after the filing of the Los Angeles city attorney's lawsuit: "I have worked over the weekend with Carrie on the LA issue — I really feel for Carrie and her team. We do such a good job in this area. I will fight this one to the finish. Do you know only around 1% of our people lose their jobs [for] gaming the system, and about 2/3 of those are for gaming the monitoring of the system, i.e. changing phone numbers, etc. Nothing could be further from the truth on forcing products on customers. In any case, right will win and we are right. Did some do things wrong — you bet and that is called life. This is not systemic."

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