Consumer Loans and Accounts

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By Hannah Lang – The Charlotte Observer (via TNS).

Wells Fargo is facing $3.7 billion in fines and restitution after reaching a settlement with federal regulators Tuesday to resolve multiple issues related to auto lending, mortgages and consumer deposit accounts.

The Consumer Financial Protection Bureau ordered the bank to pay a $1.7 billion fine, and refund more than $2 billion to customers for "widespread mismanagement" of those kinds of accounts.

Wells Fargo is entering a new consent order with the agency that will require the bank to pay the fine, pay back customers and stop charging surprise overdraft fees, among other things.

“The bank’s illegal conduct led to billions of dollars in financial harm to its

In addition to the new order, the CFPB is terminating a 2016 consent order that dealt with student loan servicing at Wells Fargo and “providing clarity and a path forward” to terminate a 2018 consent order also related to home and auto lending, according to the bank.

“We have made significant progress over the last three years and are a different company today,” Wells Fargo CEO Charlie Scharf said in a statement. “We remain committed to doing the right thing for our customers and working closely with our regulators and others to deal appropriately with any issue that arises.”

Wells Fargo is based in San Francisco but has its largest employee base in Charlotte, with about 27,000 workers here.

Related to the regulatory actions, Wells Fargo said it expects an operating loss expense of approximately $3.5 billion for the fourth quarter. That number includes the cost of the fine, customer remediation and other litigation costs.

The new enforcement actions

According to the CPFB, the new consent order requires Wells Fargo to:

- Provide more than $2 billion in redress for customers. That includes refunds for “wrongful fees,” as well as compensation for things like frozen bank accounts, illegally repossessed cars and improperly foreclosed homes. The restitution includes $1.3 billion for affected car loan accounts, $205 million for surprise overdraft fees and $200 million for affected mortgages. Some remediation already has been provided to customers, the CFPB said.
- Stop charging surprise overdraft fees. Wells Fargo can’t charge overdraft fees on accounts when the customer had available funds at the time of a transaction, but then had a negative balance once the transaction settled.

- Pay back auto borrowers for certain add-on fees. The bank has to refund customers

- From at least 2011 through 2022, Wells Fargo incorrectly applied borrowers' payments on auto loans. The bank also improperly charged fees and interest and wrongfully repossessed vehicles.
- For a period of at least seven years ending in 2018, the bank improperly denied thousands of mortgage modifications, which occasionally led to wrongful foreclosures.
- Wells Fargo charged surprise overdraft fees on debit card transactions and ATM withdrawals. Customers were charged even though they had enough funds in their account to cover a transaction at the time the bank authorized it. Wells Fargo implemented a process to stop charging those kinds of fees on debit card transactions in early 2022.
- Additionally, a faulty automated fraud filter froze more than one 1 million customer accounts, the CFPB reported, even though the bank could have taken other cautionary steps that didn't harm consumers. That practice lasted from 2011 through October 2016. On average, affected customers were locked out of their accounts for two weeks.

Reaction to the bank's settlement

Sen. Elizabeth Warren, a Democrat from Massachusetts who helped create the CFPB and is a long-time critic of the bank's actions, called the fine "much-needed accountability after Wells Fargo repeatedly abused consumers."

Sen. Sherrod Brown, D-Ohio, who chairs the Senate Committee on Banking, Housing and Urban Affairs, said the CPFB's actions were not a surprise. "Wells Fargo's continued inability to manage the basic requirements of serving its customers means that consumers, investors and employees continue to pay the price," he said in a statement.

Mike Calhoun, president of the Durham-based nonprofit Center for Responsible

It's much larger than previous penalties.

Wells Fargo was charged a combined $1 billion from the bureau and the Office of the Comptroller of the Currency in 2018 for improper mortgage and auto-lending practices that harmed consumers. The bank is still working to resolve that consent order with the CFPB, it said Tuesday.

Earlier this year, Wells Fargo warned investors that more regulator-related losses may be ahead. In an October earnings filing, the bank noted that it had "not yet satisfied certain aspects of the (2018) consent order and, as a result... regulators may impose additional penalties or take other enforcement actions."

Wells Fargo reported a $2 billion loss last quarter that it said was related to "litigation, customer remediation and regulatory matters". At the time, CEO Charlie Scharf told investors that loss wouldn't be the end of it.

Wells Fargo's other regulatory problems

Wells Fargo has been the subject of regulatory sanctions since its 2016 fake accounts scandal, when it was discovered the bank opened millions of accounts for customers without their permission.

The bank was fined $250 million by the Office of the Comptroller last fall for failing to properly compensate consumers harmed by the banks improper home and auto lending practices.

In 2022, the bank has been subject to other kinds of scrutiny as well, particularly related to issues of diversity and racial equity.

In March, a Bloomberg investigation found that the bank approved fewer than half of Black homeowners' mortgage refinancing applications in 2020, compared with 72% of white applicants. That led to a class-action lawsuit against the bank.

And 11 senators called for a review of the bank's mortgage refinancing processes.

In September, the bank announced that it would commission a third-party racial equity audit to focus on "elements of Wells Fargo's efforts to serve diverse communities and promote a diverse workforce."

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Payroll

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