Wells Fargo bank fined for account and credit card fraud

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Wells Fargo, the world's most valuable retail bank, has agreed to pay $185 million in fines after the exposure of schemes that defrauded customers in line with a business model, organised from the highest levels of the company, to boost its profits and growth.

According to the US Consumer Financial Protection Bureau (CFPB), the bank opened 1.5 million deposit accounts and more than half a million credit card accounts without customers' authorisation. Bank employees moved funds from customers' accounts into newly-created accounts without their knowledge or consent.

The CFPB said this practice was "widespread" and resulted in customers being charged for insufficient funds or overdraft fees because required amounts were not in their accounts. The bank also created more than 565,000 credit card accounts, of which some 14,000 incurred more than $400,000 in fees and interest charges.

The bank is attempting to lay the blame on "rogue employees" and revealed that since 2011 it had sacked 5,300 staff. But the fraud operation resulted from a strategy imposed from the top.

Moreover, it beggars belief that a company supposedly operating with tight internal controls and regulations did not know about the creation of more than two million fake accounts.

Under chief executive John Stumpf, the bank's business model was to sell additional products to customers who held a current account with it. This was a core element of the strategy that helped increase the bank's market capitalisation to $250 billion. Its biggest shareholder is Berkshire Hathaway, the investment firm run by Warren Buffett.

In a statement on the fraud, the Los Angeles City Attorney's Office said the unauthorised accounts were funded with money from customers' existing accounts to "satisfy goals and earn financial rewards under the banks' incentive-compensation program."

There was direct pressure on employees to engage in the practice. According to a statement by Kahlid Taha, a former employee: "When I worked at Wells Fargo, I faced the threat of being fired if I didn't meet their unreasonable sales quota every day."

Under the $185 million settlement, in which Wells Fargo has neither admitted nor denied the allegations against it, the bank will pay $100 million to the CFPB, $35 million to the Office of the Comptroller of the Currency and $50 million to the Los Angeles City Attorney.

There are two crucial aspects to the agreement and the fine. First, as David Vladeck, a Georgetown University law professor and former director of the Federal Trade Commission's Bureau of Consumer Protection, told CNN: "It sounds like a big number, but for a bank the size of Wells Fargo, it isn't really."

Second, the fine is written off the profit and loss account of the bank. There is no penalty imposed on the senior executives and top management, whose business strategies and demands on employees created the conditions for the fraud to take place.

In a memo to employees issued on Thursday, the bank said: "At Wells Fargo, when we make mistakes, we are open about it, we take responsibility for it."

However, the exposure of the fraud did not come from Wells Fargo but from actions initiated by the Los Angeles City Attorney over unauthorised accounts in May 2015.

As for being "open," in recent regulatory filings the bank did not disclose that it was under investigation.

"Each quarter we consider all available relevant and appropriate facts and circumstances in determining

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whether a litigation matter is material and disclosed in our public filings,” Wells Fargo spokeswoman Mary Eshet said in an email. “Based upon that review, we determined that the matter was not material.”

Upon release of the fraud charges, leading Democrat Senator Elizabeth Warren, who has sought to elevate herself into national prominence with denunciations of the big banks, and had a major hand in creating the CFPB, stepped forward to cover up the implications of the fraud.

Thanks to the CFPB, she said, customers were getting their money and the “bank is paying a record-breaking fine that will cause the next bank to think again before engaging in this kind of misconduct. The consumer agency continues to deliver for working families.”

In fact, the very opposite conclusion must be drawn. The 2011 Senate report into the circumstances of the 2008 meltdown disclosed the criminal activities of major banks. But in view of the fact that no one was tried, let alone jailed, and any fines that were imposed came out of corporate cash flows, such activity has continued.

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