

# United States Senate

WASHINGTON, DC 20510

August 2, 2017

Timothy J. Sloan  
Chief Executive Officer and President  
Wells Fargo & Company  
420 Montgomery Street  
San Francisco, CA 94104

Stephen W. Sanger  
Chairman, Board of Directors  
Wells Fargo & Company  
420 Montgomery Street  
San Francisco, CA 94104

Dear Mr. Sloan and Mr. Sanger:

We were extremely concerned to learn last week of the latest in a seemingly endless chronicle of Wells Fargo's fraudulent practices and widespread misconduct. As reported in the *New York Times*, the bank charged more than 800,000 people for auto insurance they did not need.<sup>1</sup> As a direct result of this reckless practice, from January 2012 through July 2016, 274,000 Wells Fargo customers were forced into auto loan delinquencies and some 25,000 wrongfully lost their cars.<sup>2</sup> Eerily familiar to the fake account scandal revealed in September 2016, affected customers suffered overdraft fees assessed for charges they never authorized in addition to late fees, repossession costs, and damage to their credit reports. Furthermore, we are especially alarmed that the victims of the bank's practices once again include active duty servicemembers.

According to the *New York Times*' review of a report prepared by consulting firm Oliver Wyman, Wells Fargo contracted with National General Insurance to underwrite auto insurance policies from 2006 through 2016, and the bank made this force-placed insurance mandatory for its auto loan customers.<sup>3</sup> While the system was designed to check customers' pre-existing auto insurance information, the report indicates the bank automatically enrolled customers in duplicative insurance plans, which were often more expensive than plans available for independent purchase. Compounding the injury, Wells Fargo habitually failed to notify those customers accordingly, a practice for which the bank reaped significant profits. Until 2013, Wells Fargo padded its margins by taking a kickback from National General Insurance on the policies forced on the bank's customers.<sup>4</sup>

Much like the fraudulent account scandal, Wells Fargo orchestrated its predatory auto insurance scheme in a manner designed not to arouse suspicion. For many of the customers, insurance premium payments were deducted directly from their accounts with the bank, and as a result, many customers were never aware of the existence of the policies. In addition, because Wells Fargo's auto financing payment schedule prioritized interest payments on the auto loan and interest assessed on the insurance plans before any reduction of outstanding principal or

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<sup>1</sup> Gretchen Morgenson, *Wells Fargo Forced Unwanted Auto Insurance on Borrowers*, N.Y. Times (July 27, 2017), at [https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html?\\_r=0](https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html?_r=0).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

payment of insurance premium, the bank was able to maximize the overall interest paid by borrowers. The practices uncovered by this report raise myriad questions about Wells Fargo's business practices, risk management structure, and willingness to hold responsible parties accountable.

According to news reports quoting Franklin R. Codel, the head of consumer lending at Wells Fargo, the bank identified the auto insurance problem more than a year ago, in July 2016.<sup>5</sup> While Mr. Codel extolled the strengths of the bank's auto lending program during Wells Fargo's Investor Day on May 11, 2017<sup>6</sup>, he never once mentioned the mounting problems with the auto insurance program.<sup>7</sup> In defense of the bank's decision to withhold this information from investors, Mr. Codel told *Bloomberg* that disclosing the problem would complicate the process of remediating customers.<sup>8</sup> We question the judgment of the bank's senior executives and board of directors in concealing this information from investors and the public. Moreover, at a time when Wells Fargo should be focused exclusively on providing customer restitution, resolving underlying deficiencies, and ensuring accountability, the bank is instead publicly equivocating about the number of customers harmed.<sup>9</sup>

Indeed, we have significant questions about the development of this product line, the bank's business relationship with National General Insurance, the scope of customers impacted by the bank's practices, the oversight of the product line, and the bank's internal controls. Over the course of the last year, we have learned of various troubling bank practices encouraged by an unrelenting sales culture that turned customers into victims. We know the bank's internal review system was allowed to operate with serious flaws for years, and today, it is abundantly clear that system remains flawed and lacks appropriate controls to prevent future harm to the bank's customers.

In light of these concerns, we ask that you please provide responses to the following questions.

- (1) When did Wells Fargo first initiate its Collateral Protection Insurance (CPI) program? Which division of the bank was responsible for administering and overseeing the CPI program?

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<sup>5</sup> Laura J. Keller, *Wells Fargo Does it Again, This Time With Unwanted Auto Insurance*, *Bloomberg* (July 28, 2017), at <https://www.bloomberg.com/news/articles/2017-07-28/wells-fargo-does-it-again-this-time-with-unwanted-car-policies>.

<sup>6</sup> Franklin Codel, Wells Fargo & Company, Consumer Lending Presentation (May 11, 2017), at <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/consumer-lending-presentation.pdf>.

<sup>7</sup> Laura J. Keller, *Wells Fargo Does it Again, This Time With Unwanted Auto Insurance*, *Bloomberg* (July 28, 2017), at <https://www.bloomberg.com/news/articles/2017-07-28/wells-fargo-does-it-again-this-time-with-unwanted-car-policies>.

<sup>8</sup> *Id.*

<sup>9</sup> Gretchen Morgenson, *Wells Fargo Forced Unwanted Auto Insurance on Borrowers*, *N.Y. Times* (July 27, 2017), at [https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html?\\_r=0](https://www.nytimes.com/2017/07/27/business/wells-fargo-unwanted-auto-insurance.html?_r=0); Press Release, Wells Fargo & Company, Wells Fargo Announces Plan To Remediate Customers For Auto Insurance Coverage (July 27, 2017), at <https://newsroom.wf.com/press-release/consumer-lending/wells-fargo-announces-plan-remediate-customers-auto-insurance>.


- (2) During the period in which the program was in effect, was it the bank's policy to inform customers that their information would be sent to National General Insurance to make a determination of whether the customer was covered under an existing policy? If not insured, was it the bank's policy to inform customers that if they were not insured under another policy, the bank would purchase one on their behalf? If so, was it the bank's policy to inform customers of the terms, prices, and coverage of National General Insurance's policies?
- (3) If National General Insurance was responsible for determining whether Wells Fargo's auto loan customers were insured under an existing policy, how often, if ever, did Wells Fargo verify those coverage determinations?
- (4) Did Wells Fargo provide customers the opportunity during the auto loan application process to purchase auto insurance independent of the bank, prior to forwarding their information to National General Insurance?
- (5) When Wells Fargo purchased National General Insurance policies on behalf of customers, was it the bank's practice to notify the customer of the policy?
- (6) Were auto loan customers required to specifically authorize deductions of insurance policy payments from their Wells Fargo accounts?
- (7) Please describe the commission structure on policies Wells Fargo purchased from National General Insurance. What percentage of the commission did Wells Fargo receive on such sales?
- (8) The Oliver Wyman report covers January 2012 through July 2016. Why is the report limited to this time period?
- (9) Will Wells Fargo commit to a review of all auto insurance policies purchased on behalf of customers from 2006 to 2016?
- (10) Please provide detailed information on the scope of the customers impacted, including the number of customers harmed in each state, the number of military service members harmed, the number of auto loan delinquencies, and the number of customers whose automobiles were subject to one or more repossessions.
- (11) Which senior executives authorized the CPI program? How and when did senior executives at Wells Fargo become aware of the problem?
- (12) When did the bank provide to the board of directors any information, complaints, or noteworthy risk reports regarding issues with the CPI program? Please share any such materials.
- (13) The September 2016 orders between the OCC and CFPB and Wells Fargo required the bank to hire an independent consultant to conduct reviews and draft findings and recommendations. Have either of the independent consultants hired to assess the bank's sales practices looked into the CPI program? If so, please provide a timeline of when they began looking into the CPI program. If not, does the board of directors intend to conduct a separate review of the CPI program?

Given that former CEO John Stumpf's response to a question submitted for the record for the September 16, 2016 hearing that the fraudulent practices and accounts were "limited to certain team members in the Community Banking Division," and that the Independent Directors of the Board of Wells Fargo's "Sales Practices Investigation Report" published on April 10, 2017 was limited to practices within the Community Banking Division, we are incredibly

troubled by these new reports of fraudulent practices in the Commercial Lending Division. We ask that you respond to our questions by August 18, 2017.

Sincerely,

  
Robert Menendez

  
Sherrod Brown

  
Elizabeth Warren

  
Brian Schatz

  
Chris Van Hollen

  
Catherine Cortez Masto

  
Jack Reed

cc:

- John D. Baker
- John S. Chen
- Lloyd H. Dean
- Elizabeth A. Duke
- Enrique Hernandez, Jr.
- Donald M. James
- Cynthia H. Milligan
- Karen B. Peetz
- Federico F. Pena
- James H. Quigley
- Ronald L. Sargent
- Susan G. Swenson
- Suzanne M. Vautrinot