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HOLDING WELLS FARGO ACCOUNTABLE: EXAMINING THE ROLE OF THE BOARD OF DIRECTORS IN THE BANK'S EGREGIOUS PATTERN OF CONSUMER ABUSES

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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HOLDING WELLS FARGO ACCOUNTABLE: EXAMINING THE ROLE OF THE BOARD OF DIRECTORS IN THE BANK'S EGREGIOUS PATTERN OF CONSUMER ABUSES

Wednesday, March 11, 2020

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:08 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Velazquez, Sherman, Meeks, Scott, Green, Cleaver, Perlmutter, Himes, Foster, Beatty, Vargas, Gottheimer, Gonzalez of Texas, Lawson, Tlaib, Porter, Axne, Casten, Wexton, Adams, Dean, Garcia of Illinois, Phillips; McHenry, Wagner, Lucas, Luetkemeyer, Huizenga, Stivers, Barr, Tipton, Williams, Hill, Emmer, Zeldin, Loudermilk, Davidson, Budd, Kustoff, Gonzalez of Ohio, Steil, Gooden, Riggleman, Timmons, and Taylor.

Chairwoman WATERS. The Financial Services Committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Holding Wells Fargo Accountable: Examining the Role of the Board of Directors in the Bank's Egregious Pattern of Consumer Abuses."

I now recognize myself for 4 minutes to give an opening statement.

Today, we will receive testimony from Ms. Elizabeth Duke and Mr. James Quigley, whom, until earlier this week, served as the Chair of the board of directors of Wells Fargo & Company, and Wells Fargo Bank, respectively. Both have resigned after I called for their resignations following the release of a scathing Committee Majority staff's report on Wells Fargo's compliance failures, and their individual failures as board members.

But their resignations do not absolve them of their failures. Directors at Wells Fargo and institutions across this country must understand that they are the last line of defense when it comes to protecting their company's shareholders, employees, and customers. And while Ms. Duke and Mr. Quigley said they resigned to "avoid distraction," let me be clear. This is not a distraction. We are examining misconduct and dereliction of duty.

Over the past decade, Wells Fargo's board, management, and regulators have all failed to fix the company's internal control

weaknesses that caused enormous harm for millions of consumers throughout the country. The Majority staff's report examines Wells Fargo's compliance with five consent orders that required the company's board and management to clean up the systemic weakness that has led to widespread consumer abuses and compliance breakdowns. As board members, Ms. Duke and Mr. Quigley were responsible for ensuring that Wells Fargo's CEO and other management executed an effective program to manage those risks.

However, the Majority staff report found that Wells Fargo's board failed to ensure management could competently address the risk management of deficiencies; allowed management to repeatedly submit materially deficient plans to address consumer abuses; prioritized financial considerations over fixing consumer abuses; and did not hold senior management accountable for repeated failures.

The Majority staff's report also revealed attitudes and failures on the part of Ms. Duke and Mr. Quigley that are dismaying. When the Consumer Financial Protection Bureau (CFPB) included Ms. Duke's letters requesting actions from the bank, she responded by asking, "Why are you sending it to me, the board, rather than the department manager?" This was surprising to CFPB officials, and gives the appearance of a see-no-evil mentality from Ms. Duke and an unwillingness to exercise the oversight required of her as a member of the board.

Mr. Quigley also did not appear to understand the gravity of his board responsibilities. When the Office of The Comptroller of the Currency (OCC) wanted to schedule a meeting with the bank's directors to discuss, "progress and accountability," Mr. Quigley told other bank officials that he was, "currently scheduled to be away on vacation in some islands on those dates," and commented that, "the sense of urgency is surprising."

These statements were made after several public enforcement actions against Wells Fargo for massive consumer abuse scandals. While Ms. Duke and Mr. Quigley have resigned, they must be held accountable for the dereliction of their duties.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes.

Mr. MCHENRY. Thank you, Madam Chairwoman. Thank you for holding this hearing, and I want to thank our witnesses for voluntarily complying with the request of the committee to appear.

Today's hearing and the legislative proposals attached to it would make Rahm Emanuel proud. He once said, "You never want a serious crisis to go to waste." Well, make no mistake, Wells Fargo has been in crisis mode for awhile now. We will hear more about the makings of that crisis today from our witnesses. They had a front-row seat. They are a part of the problem in many respects.

In that spirit, the Democrats followed Rahm Emanuel's advice and rolled out policy proposals that would do everything from expand the scope of CFPB's authority to automatically downsizing certain banks, and from those proposals, it has a complete lack of connection with evidence before us in the example of Wells Fargo.

We found with Wells Fargo that the problem wasn't that the CFPB lacked certain authority; the problem was that the CFPB ignored a series of red flags at Wells Fargo. That was under Richard

Cordray's leadership as Director of the CFPB. We found the problem wasn't that Wells Fargo is too-big-to-manage. The problem was that it was deeply mismanaged.

My colleagues on the other side of the aisle also have some ideas about the standards to which we should hold board members. How about we start with the proper legal framework and the standards that shareholders and the courts use? So, let's start there. Let's walk through those.

Under the law, members of a corporate board of directors owe three fiduciary duties: the duty of care; the duty of loyalty; and the duty of good faith. Those concepts aren't very complicated. Directors must be diligent, they must subordinate their personal interests beneath the interests of the company, and they have to act in the best interest of the shareholders. Those standards make sense because, at the end of the day, directors represent the interests of the shareholders.

Shareholders expect the board to do three basic things: first, hold management accountable; second, push back when management provides incomplete or overly optimistic information; and third, make sure the company has the right leaders in place. It looks like, based on what we heard yesterday from Mr. Scharf, the board might have finally got that last one right, the question of leadership.

But we have a lot of questions today about everything leading up to the board's decision to elect Mr. Scharf. We need to hear why the board chose a company insider to lead Wells Fargo back in 2016. We need to hear why the board failed to recognize that management wasn't fixing the company's problems. And we need to hear why the board stood behind that management team for so long, until the Trump Administration's regulators forced a change.

I think there is a lot that we can learn to ensure that new decision-makers deliver on the much-needed changes to this institution. I look forward to your answers today about this history, and thank you, Madam Chairwoman, for hosting this hearing. I look forward to the questions.

Chairwoman WATERS. Thank you very much. I now recognize the gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, for one minute.

Mr. GREEN. Thank you, Madam Chairwoman. Madam Chairwoman, the evidence speaks for itself. I have an article styled, "35 bankers were sent to prison for financial crisis crimes." Bankers can go to jail. They can be held accountable. This is from CNN Business on April 28, 2016.

Many of these crimes involved relatively small amounts of money at smaller banks. Smaller banks pay a price. Big banks pay off the government—$3 billion in fines paid by Wells Fargo, a bank that has demonstrated that it will commit fraud—NBC News article, February 21, 2020.

I also have an article that is styled, "Violation Tracker Parent Company Summary." This is from Good Jobs. And the total amount of penalties that Wells Fargo has paid since 2000 amounts to $17,296,835,949. The evidence speaks for itself. Wells Fargo has been running a criminal enterprise.

Chairwoman WATERS. I now recognize the subcommittee's ranking member, Mr. Barr, for one minute.

Mr. BARR. Thank you, Chairwoman Waters and Ranking Member McHenry. Ms. Duke, Mr. Quigley, you will testify to the committee today in your capacity as former board members of Wells Fargo.

Let me be clear about two things. First, it is clear that the board made some mistakes. We heard yesterday how important new leadership is to the company, and I think the board will also benefit from fresh perspectives.

Second, decisions about whether certain directors should continue to serve are for shareholders to make. Congress should not substitute its judgment for theirs. The chairwoman's call for the witnesses to resign was inappropriate, and I am sorry you are here under these circumstances.

The Republican staff report highlights a series of missteps by Wells Fargo's board since 2016, and I will address those in my questioning shortly.

But right now, I wish to emphasize what the ranking member said yesterday: There are pressing issues affecting our economy that this committee should focus on. Instead, we are spending time, energy, and resources speaking to two former board members of a company whose CEO testified yesterday.

I yield back.

Chairwoman WATERS. I want to welcome today's witnesses. Until earlier this week, Elizabeth Duke was the Chair of the board of directors of Wells Fargo & Company. Prior to joining Wells Fargo's board, Ms. Duke served in a number of positions, including as a member of the Board of Governors of the Federal Reserve System.

Also, earlier this week, Mr. James Quigley served as both a director of Wells Fargo & Company and as the independent chairman of Wells Fargo Bank. Concurrently with his service as a director of Wells Fargo, and chair of Wells Fargo Bank, Mr. Quigley served, and continues to serve as the chairman of the board of Hess Corporation, and director of the board of Merrimack Pharmaceuticals.

While Ms. Duke and Mr. Quigley no longer serve on Wells Fargo's board, it is my expectation that they will be forthcoming in their testimony and responses to Members' questions today. Without objection, all of the witnesses' written statements will be made a part of the record.

Before we begin, I would like to swear in the witnesses. Ms. Duke and Mr. Quigley, please stand and raise your right hand.

[Witnesses sworn.]

Let the record show that the witnesses answered in the affirmative. You may sit now.

Each of you will have 5 minutes to summarize your testimony. When you have one minute remaining, a yellow light will appear. At that time, I would ask you to wrap up your testimony so that we can be respectful of the committee members' time.

Ms. Duke, you are now recognized for 5 minutes to present your oral testimony.

TESTIMONY OF ELIZABETH A. DUKE, CHAIR, WELLS FARGO & COMPANY

Ms. DUKE. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for inviting us to testify at today's hearing.

With heightened volatility in financial markets, a strong Wells Fargo is needed now more than ever. Transformational changes are getting traction inside the company with strong new leadership and management. I believe that today, the company has the right team and path forward to be fully deserving of the trust customers place in us every day.

Over the past several days, however, it became clear to my colleague, Jim Quigley, and me that the recent attention on our leadership of the board could hinder the ability of the company and its new CEO to turn the page and focus on the future, and this company must move forward. For this reason, last Sunday we informed our board colleagues of our decision to resign, effective immediately. We are confident that the board has all the necessary experience and skill sets to smoothly manage the leadership transition.

When I look at Wells Fargo today, I see a community bank that, under Mary Mack, focuses on customers rather than sales. I see a fully transformed board with structural changes that improve the board's governance and effectiveness. I see an executive management team that balances a new approach with institutional knowledge. I see a risk management team and a risk platform that is under construction from the ground up. And I see a CEO with the ability to execute on the significant remaining work necessary to meet the company's regulatory commitments.

Ever since the board learned the truth about what was going on inside Wells Fargo, it has been continuously and deeply engaged in understanding the problems and their solutions and insisting on action. I served on the board committee that investigated sales practices. Not only was I appalled by the harm to customers but I was sickened to hear how our employees were treated by their managers. I started as a teller and a new accounts representative, and I identified with those employees.

Our investigation of sales practices was thorough and unfettered. Our attorneys conducted 100 interviews, reviewed interview notes from over 1,000 more, and collected 35 million documents from over 300 custodians. We instructed them to brief regulators, government agencies, and the staff of this committee to assist in your own investigations.

The appendix in my written testimony provides a comparison of our findings and those of the OCC, the SEC, and the DOJ.

The work to truly and sustainably address the root causes of the problems we discovered in the company has taken time to implement, more time than anyone anticipated, and more time than any of us, especially the board of directors, would have liked. I get the frustration of this committee and our regulators. It comes through loud and clear in your reports.

But I can assure you that nobody is more frustrated than we are that the bank has not yet satisfied the requirements of the consent orders we have entered into. As members of the committee overseeing consent order work, Jim and I reviewed progress reports

and grilled staff and management about every detail on a monthly basis, and we are confident the board will continue to hold management accountable until the job is finished.

Throughout our tenure on the board, however, we remain mindful that the board cannot supplant management in the administration of the enterprise. Consistent with widely accepted principles of corporate governance, the board's primary responsibilities are to oversee the company's management and business strategies, to select a well-qualified CEO, to monitor and evaluate the CEO's performance, and importantly, not to micromanage the company's business, including in its day-to-day execution of the consent order requirements.

Recognizing the critical importance of the responsibility to select a well-qualified CEO, I appointed Jim to lead the CEO search that resulted in the hiring of Charlie Scharf. You heard from Charlie yesterday about his plans and timetables going forward. We know that our former colleagues on the board are determined to provide him the space and support to complete the work.

We are no longer able to speak on behalf of Wells Fargo, or address questions about the company going forward. We are also constrained by the scope of regulators' waivers of their confidential supervisory privilege. But within those limitations, we are here to answer your questions to the best of our ability.

Thank you.

[The prepared statement of Ms. Duke can be found on page 48 of the appendix.]

Chairwoman WATERS. Thank you. Mr. Quigley, you are now recognized for 5 minutes.

TESTIMONY OF JAMES H. QUIGLEY, INDEPENDENT CHAIRMAN, WELLS FARGO BANK, N.A.

Mr. QUIGLEY. Chairwoman Waters, Ranking Member McHenry, and members of the committee, I am here to share my perspectives as a former member of the board of Wells Fargo on the bank's commitment to its customers to restore its brand and to realize its aspirational vision and purpose.

As the committee is aware, I decided to resign from the board to permit the bank to turn the page and move forward with a focus on its future. I brought to my role as a Wells Fargo board member a deep conviction in the values of trust and confidence. I learned those from my parents, a forest ranger and a schoolteacher, and I took them with me to Deloitte where I rose to become the CEO.

Restoring customer trust and confidence in Wells Fargo was our most important priority, after we learned of the egregious sales practices. In her written testimony, Ms. Duke has detailed many of the transformational changes that the board has overseen in our efforts to do everything possible to ensure that similar problems never happen again. And while there is more to be done, undeniably, I believe Wells Fargo is making progress.

I would like to highlight two changes that are particularly important to me. First, the board oversaw a huge investment to strengthen the compliance function of Wells Fargo. One of my roles at Deloitte was leading the manufacturing group, so I understand the importance of zero defects. I know why it is critical to do it right

the first time, and I carried that thinking with me to my governance and oversight role at Wells Fargo. I wanted zero customer harm. And if it ever occurred, I wanted it detected through the bank's control and monitoring processes and remediated as quickly as humanly possible.

As you heard from Mr. Scharf yesterday, the bank's compliance teams have added more than 3,300 employees since the end of 2017, more than doubling the size of that function in less than 3 years.

Second, the board encouraged and supported the changes in senior management of the bank, bringing new capability and stimulating cultural change. Since 2006, Wells Fargo has hired a new chief operating officer, chief risk officer, general counsel, chief auditor, chief compliance officer, head of HR, and head of technology. I personally devoted much of 2019 to leading the search for a new CEO, and I am confident that we selected the best candidate to lead the bank. Because I believe deeply in the critical role of culture in an organization like Wells Fargo, I was especially supportive of the culture Mr. Scharf is working to establish, one with clear priorities, best-in-class standards of operational excellence and integrity, a unified bank with clear line of sight across the business, accountability of management, and most important of all, a renewed commitment to completing the work of doing right by our customers and satisfying our regulators.

The cultural and structural changes that are necessary to address the bank's challenges are far-reaching. We believe that getting those things right, and in a way that would provide lasting change, ultimately serves customers and employees better than doing them quickly. I believe the changes we oversaw will make Wells Fargo stronger, more reliable, and more deserving of customer trust. And while there is still more to do, I am confident the company is moving in the right direction.

Because I am no longer a member of the company's board, I cannot speak for the board today. I have my personal reflections, including the importance of distinct and separate roles for management and the board. The board must oversee the company's management and business strategies, but it cannot replace or do the job of management. And that principle was critical to me during my tenure at Wells Fargo.

In my testimony today, I must also respect the limits on my ability to disclose confidential bank supervisory information. The regulators have not provided full CSI waivers, and I need to be particularly careful to stay within the limits of the waivers we have received.

Within those constraints, I look forward to answering the committee's questions.

[The prepared statement of Mr. Quigley can be found on page 70 of the appendix.]

Chairwoman WATERS. Thank you very much, and I appreciate your presence here today. I now recognize myself for 5 minutes for questions.

Let me start by asking Ms. Duke, how many years have you served Wells Fargo on the board?

Ms. DUKE. Five years.

Chairwoman WATERS. Five years. Mr. Quigley, how many years?

Mr. QUIGLEY. Six years.

Chairwoman WATERS. Six years. Are you compensated for serving on the board?

Ms. DUKE. Yes, we are.

Chairwoman WATERS. How much is your compensation?

Ms. DUKE. My compensation in the last year was somewhere around $630,000.

Chairwoman WATERS. Six hundred and how much?

Ms. DUKE. —thirty thousand.

Chairwoman WATERS. Thirty thousand. Mr. Quigley, how much was your compensation?

Mr. QUIGLEY. $417,000 last year.

Chairwoman WATERS. Thank you very much. I want to get into the Majority staff's report. Ms. Duke, how did you prepare for today's hearing? Did you read the Majority staff's report?

Ms. DUKE. I did.

Chairwoman WATERS. Mr. Quigley, how did you prepare for today's hearing? Did you read the Majority staff's report?

Mr. QUIGLEY. Yes.

Chairwoman WATERS. Ms. Duke and Mr. Quigley, you stated that you resigned from the board, "out of continued loyalty to Wells Fargo and ongoing commitment to serve our customers and employees," and to, "avoid distraction that could impede the bank's future progress."

Ms. Duke, Mr. Quigley, notably absent from your resignation announcement is any acknowledgement of responsibility for the multitude of board failures documented in the Majority staff report. Do you disagree that as Board Chairs, you were responsible for the board's approval of poor quality consent order submissions and failure to hold ineffective leaders, like former CEO Tim Sloan, accountable?

Ms. Duke?

Ms. DUKE. Thank you, Madam Chairwoman. I believe wholeheartedly that we both spent the time, used our judgment, did the inquiries, and did our job as thoroughly and as completely as we possibly could, and made decisions in accordance with our best judgment about what was the best course of action for the company. Our role in reviewing the consent order submissions was in reviewing them from a very high level. Any of the deficiencies that were in the details of those submissions are the responsibility of management.

Chairwoman WATERS. Thank you. Are you aware that Wells Fargo has paid out $17 billion since 2008, I believe, on settlements because of fraud, wrongdoing, and other kinds of problems at the bank? Are you aware of that?

Ms. DUKE. I would take that to be true. I don't know the total dollar amount.

Chairwoman WATERS. Mr. Quigley, how were you made aware of each of these problems that ended up in the hands of our regulators where Wells Fargo had to pay out these settlements? How did they come before the board? Did you know about each of them?

Mr. QUIGLEY. I was aware and I was informed as a result of being the chairman of the audit committee and the judgments that

are required in preparing timely, reliable financial information, and the need to be able to estimate when an obligation is probable and measurable and needed to be recognized in those financial statements.

I was also a member of the risk committee and a member of the regulatory compliance and oversight committee, and management was transparent with us as those items were maturing and moving forward.

Chairwoman WATERS. Weren't you shocked when time and time again, you were confronted with these scandals that were being presented to the board, and they continued right up through today?

Mr. QUIGLEY. The sales practice abuses were very troubling to me, and shocked perhaps is not an overstatement of how I felt when I was made aware that, in fact, those practices were something far more than had earlier been provided to us.

Chairwoman WATERS. Doesn't the Majority staff report demonstrate your dereliction of duty as board chairs to ensure that the company submitted comprehensive plans and met all of the requirements of the orders? Do you take responsibility for that?

Mr. QUIGLEY. I absolutely agree with what Ranking Member McHenry pointed out on what is the duty of care and what is the business judgment rule, and how can a board member be properly informed on matters that are clearly management responsibility. I emphasized, in my opening statement, that I believe effective governance requires clear separation between management and the board, and any time those lines get blurred, I believe the enterprise becomes less safe and less sound—

Chairwoman WATERS. So are you saying to me—

Mr. QUIGLEY. —and less accountable—

Chairwoman WATERS. —that you do not consider it a dereliction of your duty to Wells Fargo's shareholders and its customers in dealing with these consent orders? You are trying to talk now about making sure that there are clear lines between the board and management, and to separate yourself from some of the management responsibilities. Don't you think it was a dereliction of duties not to be on top of all of this?

Mr. QUIGLEY. I know what I have done as a board member of Wells Fargo, and I am comfortable with that work and the way that I performed that role. I did my very best. I could do nothing more, and the company deserved nothing less.

Chairwoman WATERS. Thank you. My time is up, and the gentleman from North Carolina, Ranking Member McHenry, is recognized for 5 minutes.

Mr. MCHENRY. So, Mr. Quigley, you are in charge of the audit committee. There was never any question about the quality of the financial information provided? There are severe negative consequences for management decisions made and board decisions as it relates to management. So, let's get to this question of fiduciary duty.

Ms. Duke, you were Chair of the Board, so I want to start with you. Mr. Quigley says the terminology I used on fiduciary duty for board members is approximately right. Do you agree?

Ms. DUKE. I do.

Mr. MCHENRY. Okay. So, that responsibility to ensure that the company is managed appropriately is a key component of that.

Ms. DUKE. That is correct.

Mr. MCHENRY. Okay. So the board's responsibilities under the consent orders that Chairwoman Waters mentioned—what was the board's responsibility under the consent orders?

Ms. DUKE. The board's responsibility under the consent orders was to review and make sure that the submissions were submitted and to review quarterly progress reports for submission to the regulators for the OCC and for the Federal Reserve. For the CFPB, the frequency was a little bit different, but it was the same responsibility.

Mr. MCHENRY. What does it mean when a regulator rejects a submission made by the bank for material deficiencies?

Ms. DUKE. It means that the bank has to correct those deficiencies, has to address those issues.

Mr. MCHENRY. Both the CFPB, in December 2019, and the OCC, in July of 2019, referred to deficiencies. It was based on the quality of the submissions. So, did the CFPB ever reject the bank's submissions?

Ms. DUKE. I don't remember receiving—

Mr. MCHENRY. The answer is yes, they rejected—there has never been a submission to the CFPB that was fully accepted.

Ms. DUKE. We have never received a non-objection from the CFPB on the consent orders that were submitted.

Mr. MCHENRY. Non-objection?

Ms. DUKE. That is the regulatory term.

Mr. MCHENRY. Sure. There were deficiencies in the quality of submissions. Is that correct? Material deficiencies is the term. The answer is, yes.

Ms. DUKE. Yes.

Mr. MCHENRY. Okay. Did the OCC ever reject the bank's submissions? Again, the answer is yes. Herein, lies the problem. When the board and the Board Chair cannot answer this question, under the consent orders with the Federal Government, that the board had a requirement to review these plans, I am asking you a very basic question. My hope was that I could get to my point here, and you won't even answer yes when it was clear that the board decision here, that there were material deficiencies from every one of your regulators in the submissions you had.

So, let me move on. The Federal Reserve also rejected your submissions. I am not going to ask for a response. The answer is, yes. We will move on. And since you are a former Governor of the Federal Reserve, I think that is a particular concern.

So what efforts did the board make to remedy the deficient submissions?

Ms. DUKE. We reviewed the submission. We discussed with the regulators what the deficiencies were. We had the management begin to work on resubmissions. We reviewed those resubmissions. The resubmission to the Federal Reserve was submitted. It came back with portions of the consent order being put into three buckets: generally acceptable; partially acceptable; and not acceptable.

With respect to paragraph 2, the paragraph that covers the board's effectiveness, all of them were generally acceptable with the

exception of three, which were partially acceptable. On paragraph 3, there were several that were partially acceptable, I believe one was generally acceptable, and two or three primarily around compliance and operational risk management were not acceptable and are currently under resubmission. The paragraph 2 resubmission was resubmitted, I believe, in early February.

Mr. MCHENRY. Okay. So was there ever a sense of a question about the urgency of management to respond to the regulatory orders?

Ms. DUKE. There was never any question about the importance of the work in the company.

Mr. MCHENRY. Was there a concern by the board about the speed with which management was responding to these orders?

Ms. DUKE. There was a great deal of concern by the board about the speed with which not only the orders were being responded to, but also the work to improve the risk management of the company and the quality of that work.

Mr. MCHENRY. How do incomplete and late submissions reflect on the safety and soundness of your institution, of your former institution?

Ms. DUKE. They don't reflect well.

Mr. MCHENRY. Okay. Wells entered into a $480 million settlement with shareholders in 2018, is that correct?

Ms. DUKE. That is correct.

Mr. MCHENRY. Can you help us understand the basis for that settlement?

Okay. Then, let me help you with that. The bank and the executives made misrepresentations and omissions about the bank's business model and sales practice.

I have a lot of other questions here that I won't able to get to. I have deep concerns about just the responsiveness of the board. It is clear from the documents that the Majority and the Minority have the same findings of facts. There were severe deficiencies in management practices that were unique to Wells Fargo, and unique failures of this board of directors. That is why we are having this hearing, even though you have both resigned.

So with that, thank you, Madam Chairwoman, for hosting this hearing, and I look forward to the questions.

Chairwoman WATERS. Thank you very much. The gentlewoman from New York, Ms. Velazquez, is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman, and Mr. Ranking Member. Ms. Duke and Mr. Quigley, yesterday I questioned Mr. Scharf about the Federal Reserve's 2018 consent order, and listening to your answers to the ranking member, I can't help but question the fact that you reviewed those plans that were materially deficient, but you concluded that they were acceptable, and then you sent them. Was this on purpose?

Ms. DUKE. Excuse me? I'm sorry?

Ms. VELAZQUEZ. The fact that you sent acceptable but deficient materials, that plan that you sent to the Fed, did you do that on purpose?

Ms. DUKE. No, ma'am.

Ms. VELAZQUEZ. No. Paragraph 2 of the consent decree requires Wells Fargo to submit a plan that enhances the board's effective-

ness in carrying out its oversight and governance of the bank. Ms. Duke, until Sunday night you were both—you and Mr. Quigley—long-time board members of the bank. Don't you think submitting inadequate plans to the Fed shows the board's focus on profit, not on addressing the core operational risk management problems at the bank?

Ms. DUKE. I think the board and the company have been focused very intensively on the operational risk management of the bank. The requirements of the board—

Ms. VELAZQUEZ. Then, explain how the Fed meeting minutes state that the Fed staff concluded you were primarily concerned with lifting the asset cap, even though you were unable to evaluate the degree of actual progress made by the bank on risk identification? Do you understand why this calls into question your commitment to the consent decrees requirement?

Ms. DUKE. My focus was on getting the work done to meet the requirements for operational risk management.

Ms. VELAZQUEZ. After the Federal Reserve rejected Wells Fargo's April 2018 submission, Ted Craver, a director at Wells Fargo, sent you an email and questioned whether the plan, "missed the mark because Wells Fargo perhaps rushed the job in its zeal to clear this hurdle—meaning the asset cap—quickly?"

Given the comments in Mr. Craver's email, can you understand why regulators, legislators, and even consumers do not view the board's effort to comply with the consent decree to be genuine? Do you understand that?

Ms. DUKE. I do.

Ms. VELAZQUEZ. And Mr. Quigley?

Mr. QUIGLEY. I also find that disappointing.

Ms. VELAZQUEZ. Disappointing. And what actions have you taken to make sure that—

Mr. QUIGLEY. Paragraph 2 of the Fed consent order required significant changes in board effectiveness, and committee structures have been—

Ms. VELAZQUEZ. Let me ask you, sir, what specific actions can you point to that you have taken to show that you are, in fact, committed?

Mr. QUIGLEY. We rewrote the charter for the audit committee, and we transferred the risk management oversight that was causing some confusion between the risk committee and the audit committee, and we moved those paragraphs to the audit committee charter.

Ms. VELAZQUEZ. And are the regulators satisfied?

Mr. QUIGLEY. With respect to paragraph 2, which was related to board effectiveness, the Federal Reserve has said that we have been responsive there and we changed the committee structure—

Ms. VELAZQUEZ. Thank you. Ms. Duke and Mr. Quigley, I think it is clear to me, to staff at the Federal Reserve, and even to other executives within Wells Fargo that the priority of the two of you and the overall focus of the board was on lifting the asset cap and exiting the consent decree, and not on actually fixing the risk management problems at the bank or holding senior management accountable. That is why you are here, and I will dare to say that

probably you will have to come back if you do not change the culture in the institution.

I yield back.

Chairwoman WATERS. The gentlewoman from Missouri, Mrs. Wagner, is recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman. Ms. Duke and Mr. Quigley, thank you for coming before the committee today to testify. Yesterday, we heard from Wells Fargo's new CEO, Mr. Scharf, about what steps he has taken in his first approximately 6 months to address the bank's deficiencies. While I remain cautiously optimistic that Mr. Scharf is the right person to move this business in the right direction, my questions today will be regarding your actions, and in some cases, lack thereof, to address the myriad of deep-seated issues within Wells Fargo.

The committee's reports found that Wells Fargo routinely requests extensions to deadlines for submitting remediation and reform plans. Regulators typically grant those requests, but the bank's plans remain insufficient, even with the extra time.

Ms. Duke or Mr. Quigley, do you see any differences between Mr. Sloan's and Mr. Scharf's handling of the consent orders? Meaning, I guess, is there a greater sense of urgency now with respect to regulatory compliance?

Ms. DUKE. First of all, I would like to say that the missed deadlines that the regulators talk about are completely unacceptable and I don't view those as acceptable. On the resubmissions and feedback on them, I guess because these are big, important pieces of work, I think about them similar to the first capital exercises that the Fed ran with Comprehensive Capital Analysis and Review (CCAR), as well as the submission of plans under the living will provisions, and those plans have gone through several iterations. There have been a number of banks, including Wells Fargo, whose original plans were not acceptable and they have had to improve them.

Mrs. WAGNER. Ms. Duke, was the board aware of the number of extensions that the bank requested in order to submit plans under the consent orders?

Ms. DUKE. The board was aware of any change in the plans for the consent orders themselves. I believe some of the comments about extensions had to do not just with the consent orders but with other work that was due to the agencies.

Mrs. WAGNER. Did that raise any kind of concerns for the board?

Ms. DUKE. It did. We spend, in our board meetings—they are now consumed with regulatory issues. So, we are now reporting not only to the board but to a number of committees as to the status of not just the consent orders, but matters requiring attention (MRAs), that are also the subject of regulatory—

Mrs. WAGNER. So, that was a red flag that the consent order program was not working?

Ms. DUKE. Let me give you this as an example. When Charlie came to the bank, and we were reviewing the agenda for the first board meeting he was going to attend—and we had long conversations with him about what we were doing—I said, "Charlie, I apologize. There are no agenda items about the business. They are all

about the regulatory situation." And he said, "I understand. That is where we are."

Mrs. WAGNER. What about the fact that plans were repeatedly rejected? Knowing that, why didn't the board take more aggressive actions with respect to holding management accountable for the deficiencies of the consent order compliance program?

Ms. DUKE. There are a number of places where the people who were working on those submissions were changed. Someone else was working on them, in particular the ones that had to do with risk management. So, we got a new chief risk officer, we got a new chief compliance officer, we have been through four chief operational risk officers. We were changing out the people, looking for the people who could actually get the plans written in a complete fashion.

Mrs. WAGNER. Ms. Duke, the documents show you preferred the regulators to provide feedback directly to the heads of business lines. Help us understand why you did not want to hear from the regulators directly?

Ms. DUKE. I would very much like to address that piece of the report. I have been in a regulated industry for all of my career. I have been in a regulatory agency. I have enormous respect for supervisors, examiners, and the work that they do. And I have been in constant contact with the regulators at the OCC and at the Federal Reserve. The individual there, we did meet with him on numerous occasions. I found him difficult, I found him not knowledgeable about what was going on in Wells Fargo, and I found that he sent—he did send us letters on details that really belonged somewhere else. But I should never have said, "Why are you sending this to me?" I know better than to do that, and I apologize.

Mrs. WAGNER. Thank you for that admission. I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you. The gentleman from California, Mr. Sherman, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is now recognized for 5 minutes.

Mr. SHERMAN. The nation was shocked by the behavior of Wells Fargo. But what was equally shocking is that Wells Fargo seems uninterested in atoning for what it did. Was there any discussion at the board, Ms. Duke, of being on the right side of history and instructing your lobbyists to lobby in favor of the Overdraft Protection Act so that you could do something good for the consumers of the country, having ripped them off by the tens of millions? Yes or no, was there a discussion of supporting that Act?

Ms. DUKE. In the board meeting, we discussed overdraft programs, but we have not—

Mr. SHERMAN. But you did not discuss what your lobbyists do in Washington, which affects not just your customers, which might include 1 in 10, or 1 in 20 Americans. You didn't even discuss the idea of being on the right side of history for all of the consumers. Did you discuss whether you should assert the rights under the arbitration provision so that the arbitration provision kept somebody out of court for the phony account, when they only signed it for the real account? Was that discussed in the board?

Ms. DUKE. We did not, or—

Mr. SHERMAN. Well, it sounds like the board is terribly disinterested in atoning for the harm done to consumers, in general, in the country, or the particular consumers who were consumers of the bank.

But let's shift from the outrages of the past to the crisis of the present. The stress test is designed to deal with what happens when you have a catastrophic event in the economy, because we know that every year there is a chance that such an event might occur. But once one event occurs, that does not diminish the likelihood of a second event occurring.

So, we have had one, called the coronavirus. You could almost call it two, the decline in oil prices, which has shook up a bit of the economy. That means we could very well have a third that is no more likely, or less likely that something else that you did the stress test for would occur.

Every dollar of dividends you pay or stock buybacks that you do makes the bank less able to deal with these catastrophes. You testified that America needs a strong Wells Fargo in today's economy. You put together, at the board level, back in July, a stock buyback and dividend program. Did that program anticipate what you would do if the country had one, call it one-and-a-half catastrophes that could affect the bank and the economy, and could very well have another one?

Ms. DUKE. I believe the design of those stress tests actually does that. Within the stress test, there are not only changes in the economy and economic variables, but also plugged into it are assumptions about different risk events.

Mr. SHERMAN. You were still on the board when the coronavirus hit. You were there a couple of days ago. You believe a strong Wells Fargo is needed for our economy, that you have a national duty to provide a strong Wells Fargo. After the coronavirus broke, did you have discussions of ending or scaling back your stock buyback program?

Ms. DUKE. I have not attended a board meeting since then, but I spent a lot of—

Mr. SHERMAN. Well, I would assume this being a national—

Ms. DUKE. I did speak with Charlie about the actions the company was taking internally.

Mr. SHERMAN. How about the stock buyback program? Weakening the bank, endangering the nation, because you are too-big-to-fail, in order to enrich the management by keeping the stock price up. No discussions of that since this epidemic arose?

Ms. DUKE. The design of the stress test on capital is to include the effects of unforeseen events.

Mr. SHERMAN. But once you have one unforeseen event, then it is much more likely that you will end up with several—well, you plan for one or two or three. Once you have one, then the likelihood of four increases, because you already have one.

Ms. DUKE. Right.

Mr. SHERMAN. And you are saying this coronavirus—you never thought about doing anything to diminish the payments to shareholders?

Ms. DUKE. I joined the Federal Reserve in August 2008. I am very much aware of the risk to banking. I know absolutely what

it looks like when a run on a bank starts. I know once it starts, how difficult it is to—

Mr. SHERMAN. So, we are just—

Ms. DUKE. I know how important capital is to the—

Mr. SHERMAN. So, you know all these things—

Ms. DUKE. I know how important liquidity is.

Mr. SHERMAN. When we have a change in circumstance, you would think we would have a change in policy, unless only the interests of management matter to the directors.

I yield back.

Chairwoman WATERS. The gentleman's time has expired. The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman. Ms. Duke and Mr. Quigley, I admit I am somewhat amused by my Democratic colleague's demand that you change the culture at Wells Fargo, otherwise you will have to come back to this committee. I am amused, because you both have resigned from the board as of last Sunday, and you are no longer in a position to make any changes at the bank. I think it is clear that the Majority wants only to embarrass you and to continue their persistent defamatory, anti-bank rhetoric.

But since you are here, let's look to the past. Let's look to your service on the board in the past, which I think you can testify about.

The Republican report provides evidence that you and your fellow board members understood the regulators' frustration with Mr. Sloan, yet he remained in place. And let me just read to you specifically from that report. The reports says, "The evidence shows that Mr. Sloan and his team provided incomplete and exceedingly optimistic information to Congress, the public, and the board of directors. Wells Fargo was no closer to complying with the regulators' consent orders when Tim Sloan resigned in March 2019, than when his team took over in 2016."

What troubles me the most is that the report finds that between 2016 and 2019, the company routinely submitted incomplete plans to the regulators and missed deadlines. The submissions were frequently late or incomplete, or both.

So my question is, why did Mr. Sloan remain as CEO for so long during that course of an incomplete compliance program?

Mr. QUIGLEY. I would just want to emphasize that our assessment of Mr. Sloan and his performance collected many, many data points from lots of places, and it wasn't reliant solely on representations that he might make. I acknowledge that he led as a glass-half-full type of leader, and he had a sense of optimism. I also had regular, and many times during the past year, daily communications with our regulators, and so I understood what their thinking was, and that helped me in my oversight of Tim and his performance as our CEO, and the HRC committee, because they were concerned about wanting to drive accountability deeper into the culture, revised our performance management system so that in order to qualify for a bonus, you had to have made significant progress on regulatory matters.

Mr. BARR. Ms. Duke? Well, let me move on. Let me ask you this. The Republican report also shows very clearly that the regulators

under the Obama Administration were asleep at the switch. Federal regulators identified issues related to Wells Fargo's sales practices as early as 2009. Unfortunately, it took an L.A. Times article to bring it to their attention years later, and even then, under Director Cordray and other regulators, they dragged their feet.

In contrast, regulators under the Trump Administration have taken decisive action to correct the mistakes at the bank, including implementing an unprecedented asset cap and calling for sweeping changes to the bank's risk management.

Ms. Duke, do you believe that the actions by the Trump Administration financial regulators, including the imposition of the asset cap, were appropriate and fair, given the gravity of the abuses and the need to send a message to management?

Ms. DUKE. I don't disagree with any of the actions of our regulators.

Mr. BARR. I was encouraged yesterday to hear Mr. Scharf speak about the urgency and the focus on the consent orders and dealing with the consent orders. He testified yesterday that resolving the regulatory matters was his top priority. Do you feel that was the case under Mr. Sloan?

Ms. DUKE. I feel like resolving the issues that led to the consent orders, so resolving the weaknesses in operational and compliance risk management, were the priority across the company. But I do applaud and appreciate Mr. Scharf's emphasis on getting this work done. It is one of the reasons that we were so happy to hire him.

Make no mistake, his job is not going to be easy, and I think he needs the full support of the board and needs to be able to put his full attention on doing that.

Mr. BARR. Well, my time is expiring, but I was impressed by Mr. Scharf's testimony as well. And more than just his testimony, but also the fact that he is making these changes and bringing in outside leadership. There have been dramatic changes that have taken place there, and I wish him well.

I yield back.

Chairwoman WATERS. The gentleman from New York, Mr. Meeks, who is also the Chair of our Subcommittee on Consumer Protection and Financial Institutions, is recognized for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman.

Let me ask both of you, Ms. Duke and Mr. Quigley, you have accountability, right? As Board Chair or on the board, there is accountability that you have?

Mr. QUIGLEY. Yes.

Ms. DUKE. Yes.

Mr. MEEKS. CEOs have accountability, correct?

Mr. QUIGLEY. Yes.

Mr. MEEKS. Okay. Mr. McHenry said that the responsibility is care, loyalty, and good faith. So the first question I would have is, is there any loyalty to your customers as board members? Was there loyalty there or just to the stockholders or the shareholders and those individuals who were employed by the company? Does any loyalty go to the customers?

Mr. QUIGLEY. Use of the terms, "duty of care," "duty of loyalty," and "business judgment rule," all of that is grounded in Delaware

law and relates to the Companies Act and the relationship between the board and the shareholders who elect us to represent them.

Mr. MEEKS. But I am asking you as a member of the board—

Mr. QUIGLEY. I absolutely have a sense of loyalty and a sensitivity related to all stakeholders that an enterprise—

Mr. MEEKS. Okay. So, here is my question. Up until when you first were at the company, you were on the board. So I want to talk about those things that took place while you were on the board just to make sure. You were on the board, if I am not mistaken, in September of 2016. Is that correct?

Mr. QUIGLEY. That is correct.

Mr. MEEKS. Okay. So you were there when there was the fake account scandal. You were on the board, again, in 2016 when it came out that there was improper repossessing of servicemember's cars. You were on the board in December 2016 when Wells Fargo failed its living will test. You were on the board and supposed to have some accountability in March 2017 when there were more fake accounts. You were on the board again when Wells Fargo flunked the community lending test. You were on the board in April 2017 when the whistleblower won a $5.4 million decision and got his job back.

You were on the board in August 2017 for the lawsuit for overcharging small business retailers. You were on the board in February 2018 when the Federal Reserve restricted your size. You were on the board in February 2018 also when Sacramento sued Wells Fargo over discrimination against Black and Latino borrowers. You were on the board in March 2018 when the wealth management investigation emerged. You were on the board in April 2018 when there was a $1 billion settlement for mortgage locks and auto loan issues. You were on the board in May 2018, with altering business information without client knowledge. You were on the board in May 2018, with $480 million to settle a securities fraud lawsuit. You were on the board in June 2018, with the SEC fine for leading investors astray. You were on the board in July 2018, with refunds over ads like pet insurance and legal insurance. You were on the board in July 2018, with private bank wealth management issues.

I could keep going on, but I am running out of time. I will probably run out of time before I talk about all of the things that took place at Wells Fargo when you were on the board and Chair of the Board and supposed to have some accountability. And doing all of this, my question then would be, in December 2015, when the Fed came back, were there changes made to the composition of the Wells Fargo board in response to the Fed's concerns back then? You do not have to answer that, because I know. No, there was none, except for one board member who retired. The company nominated its entire 2015 board for reelection in 2016 when all this was going on. Did Wells Fargo change its CEO? Did the board change? I will answer for you: No. The chairman and CEO, John Stumpf, retired a year later in October 2016 in the wake of the sales fraud scandal, and only after he had offered unsatisfactory testimony before us. That might be why you resigned before you came to us.

How about the chief risk officer? Did Wells Fargo find a new chief risk officer in response to the Fed's concerns about a weak risk culture at the company? I will answer for you again: No. Wells Fargo's then-chief risk officer Mike Loughlin continued to serve in that role through his retirement in mid-2018, and claimed that the Corps should not donate to charity unless regulators acted more favorably towards Wells Fargo.

In fact, in response to the Fed's concerns going back to 2015, Wells Fargo's culture was the source of its risk management problems, and Wells Fargo made no changes. You made no changes.

Chairwoman WATERS. The gentleman from Missouri, Mr. Luetkemeyer, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

I want to follow up a little bit on Congressman Barr's comments with regards to the Republican report and the information in there, and go back to where I think some of the problems started here from the fact of not being able to recognize it. It really concerns me from the standpoint that, you go back already to 2009 when it shows that the regulators indicated there was a problem with some of your employee sales tactics, and then in 2013 the Los Angeles Times ran a story leading to ethical breaches at Wells Fargo, and then in 2014, in December, they broke the story that eventually broke everything out.

I think, Mr. Quigley, you were on the board for most of that period of time, and I think, Ms. Duke, you came on very shortly thereafter or right around that period of time, so what was your reaction to the news story at that point?

Mr. QUIGLEY. We were appalled by the claims in that story.

Mr. LUETKEMEYER. And what action did you take to find out other information or stop the practice?

Mr. QUIGLEY. The Risk Committee asked the leader of the community bank to come to the committee and explain what had been asserted.

Mr. LUETKEMEYER. Mr. Stumpf was in here during that period of time, and I asked him point-blank, because he was firing about 1,000 people a year over a 5-year period and kept it up. I kept asking him, "Why have you not changed the culture in your bank? Because you keep firing people." He said, "Well, now we are fixing it." I replied, "No, you are not fixing it, if you keep firing 1,000 people every year. That is not fixing it. You should have fixed it so you do not have to fire everybody, so everybody is doing the right thing."

Did that not send up some red flags for you when he kept firing people and nothing changed?

Mr. QUIGLEY. The board was not aware of the pace of those terminations that you are referencing until the testimony that Mr. Stumpf gave in September of 2016, and we read the materials that he was going to be providing to this committee. That was the first time that the magnitude of those sales practice violations became known to the board, and the board then acted decisively. And that is when we commenced the special investigation to do the root cause analysis, and the incentive compensation plan in the community bank was then terminated, as was the leader of that bank.

Mr. LUETKEMEYER. Well, that is fine, but then according to our report here, it says the chief risk officer who joined Wells Fargo in 2018 showed that the company lacked the capacity to detect and fix problems compared to its competitors, which means you have a different business model, a different management style, which is fine as long as it works, but apparently it was not working.

So was the board concerned—and according to our report here, it indicates that their concerns were dismissed by that individual. They were not believed. You believed your executive officer, Mr. Sloan, over the Risk Management Committee's report, apparently. Did that not strike you as kind of concerning, that the Risk Committee said, "We need to be changing our management style," and yet, there was a conflict there? Did you take sides? Apparently, you did on this.

Mr. QUIGLEY. I'm sorry, but I sort of lost track—

Mr. LUETKEMEYER. Okay. My question is—

Mr. QUIGLEY. —of you moving forward, but the federated model—

Mr. LUETKEMEYER. You have a different management style than most banks your size, and there was concern about that style with regards to the risk officer that you hired in 2018, who apparently resigned in 2019. Did that not concern you at the time that there was a pointing out of this problem, and yet the executive officer seemed to say, we are okay, our management style is fine? So apparently, you took sides in this situation and chose your executive officer over your risk management team who said, "We need to change the way we are going and what we are doing and how we are doing business here." Can you give me a rationale on why you did that?

Mr. QUIGLEY. There is no question that we had to build an independent risk management structure as we were transitioning from and trying to make part of our—what the old Wells Fargo was, that federated model. When the risk management sat inside that line of business, we did not have independent, effective risk management, and we did not have the right issues being escalated, and so I am pleased with the progress that was being made to build out that independent risk management group, and as the chairman of the Compliance Subcommittee of the Risk Committee, I worked very closely with our chief compliance officer and the significant, dramatic addition of resources and new capability that was coming to the bank to build that independent risk management function.

Mr. LUETKEMEYER. That answer leaves me wanting more, but my time has expired. Thank you. I will yield back.

Chairwoman WATERS. Thank you.

The gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Thank you, Madam Chairwoman.

This has been an interesting and yet very disturbing hearing, and let me tell you why. Something is rotten in the cotton here. You all are not coming with the truth.

Yesterday, we spoke with your chief executive officer. He had an excuse. He has only been around for 4 weeks. You brought him in. But you two have been on this board throughout the entire germi-

nation of this shameful attack on the trust and confidence of the American people in your bank.

Now, first of all, while you were on the board, you allowed the bank's management to repeatedly submit material that was deficient in response to the consent order from our regulators. You did that. You did not hold your management accountable. If I was sitting on the board of directors and I was making $400,000, or $600,000, I would be much more plain, for what? You mean the Federal Reserve is coming in and laying the blame—they did—directly at the feet of the board, saying you are not holding management responsible. Who came up with this idea to make up accounts, make them up, false accounts? Not just for one or two people, but for millions. And you all sat on that board, and you said nothing, you did nothing?

We have to find the answer from you today. Why did you allow this rabid conflict with the American people's trust in our banking system to permeate while you were sitting there all those years? Whose idea was it to place this on the backs of your employees to make up these accounts? Somebody had to do it. Your chief executive from yesterday cannot be held responsible for that, but you two can. Who came up with the idea to do this? Tell us right now. Tell us. Somebody had to. You were sitting on the board when they were coming up with this. And you all did not hold your management responsible? What a sorry excuse for a board, that you said nothing about this. That is what is amazing about this appearance. Why? Who made that decision to say, "Let it go on?" And why did you do it and say nothing? Answer that for me.

Why didn't you hold your management responsible? And why did you allow them to give these unacceptable reports to our banking regulators? Why? Whose idea was it? Come on, tell us. Come closer. Tell us. Who made that decision to make up these accounts falsely? Who? Tell us.

Therein, lies the problem, and I hope and I pray that the people of this country see your stone silence when you will not even answer this question, when you will not even respond to the regulators. This is an unpardonable sin that Wells Fargo has committed upon the American people.

Chairwoman WATERS. Thank you.

The gentleman from Colorado, Mr. Tipton, is recognized for 5 minutes.

Mr. TIPTON. Thank you, Madam Chairwoman, and I appreciate both of you coming here as private citizens, now voluntarily coming in to address this committee.

I have a number of critiques, and I believe you probably understand that many are valid. But I think a lot of our job needs to be looking forward as well in terms of as a legislative body, what rules and regulations ought to be applied? Were regulators asleep at the switch in terms of actually enforcing with Wells Fargo, and some of the board compliance as well?

One of the issues that we have had a lot of conversation on in our committee is in regards to the Community Reinvestment Act (CRA). In March of 2017, Wells Fargo received a rating of, "needs to improve." And a press release that came out of the bank dated in March 2017 stated that the performance aspects of the CRA

exam included lending tests, the investment test, and the service test. Wells Fargo earned an "outstanding" or "highly satisfactory" rating. Ultimately, the "needs to improve" CRA rating came, according to the OCC, from the non-CRA performance factors.

Ms. Duke, you were privy to the circumstances of this rating downgrade in your capacity on the board. Is that accurate?

Ms. DUKE. Yes, sir, it is. Under those tests, the company received higher scores, but as a result of the issues, not only sales practices but with some other issues, the OCC elected to double-downgrade the—

Mr. TIPTON. Okay. What was your reaction to that rating downgrade?

Ms. DUKE. I understood the reason for it. We did appeal that rating, and the reason for that is this: I think the CRA is a really, really important law and a really important part of our banking system. When I was a regulator, I actually did hearings around the country about changes to the CRA. And I think it is important that the CRA be used for the purposes for which it was intended. And while I recognize and do not condone at all the behavior that led to the double-downgrade, I question the use of that as a tool to deal with the other problems of the company.

Mr. TIPTON. As a former regulator, you have had a lot of different capacity. Do you think it is important, with CRA ratings as an example, that they are less subjective and more objective in terms of some of the performance?

Ms. DUKE. I no longer make the rules on CRA, so I think my opinion is not—

Mr. TIPTON. Well, as a former regulator, I was just curious.

Ms. DUKE. I think CRA is really important, and we need to find ways to measure it, but we also need to find ways to measure and know what the needs of communities are and individual communities, be they urban or rural. And I think the banks have a really important responsibility to meet those needs, especially in low- to moderate-income areas.

Mr. TIPTON. Wells is a big bank. I have a lot of small community banks that are within my district as well. In general, what options are available to a bank that fundamentally disagrees with a decision that is handed down from a regulator?

Ms. DUKE. There is an appeal process, but at least in our case, that appeal was denied. And I would say that the issues at small banks—because I was a community banker for almost all of my career—is it is much harder in a community bank to be able to find the investments that do meet the requirements of the CRA and to have as complete a picture. So I think, paying attention to the resources and the ability of the different institutions, I have seen cases where community banks got together, pooled their funds, and did really good things in their community together rather than individually.

Mr. TIPTON. You have dealt with small banks and big banks. You peel back to the very regulators that make a determination, with no real chance to be able to turn it over. It occurs to me that there ought to be some independent measures to be able to have some of that actually addressed.

You both have been hit a lot here today in terms of board performance. You probably have reflected back just a little bit in terms of how the boards ought to be able to react to management decisions and hiring. Do you have some thoughts that maybe when we are looking at legislation, now reflecting back, where things could be done better?

Mr. QUIGLEY. I think there is no question about the fundamental approach to corporate governance and having the opportunity to be able to play that hand and do what you need to do in the best interest of your shareholders. Now in the world, as we think much more broadly than just shareholders, as Charlie pointed out yesterday, thinking about all of those stakeholders, we absolutely were appalled by the sales practices abuses. And as soon as we were aware, we took immediate action.

Chairwoman WATERS. The witnesses have requested a brief break, so the committee will stand in recess for 5 minutes. Thank you.

[brief recess]

Chairwoman WATERS. The committee will come to order.

The gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, is recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman.

Madam Chairwoman, as a practitioner, I once represented a recipient of welfare who was charged with a crime because she made more money at a job and received some benefits from the Federal Government. She had to be prosecuted. A crime was alleged.

If this bank was much smaller, had maybe ten employees who were engaging in this type of activity—opening up fraudulent accounts, creating fraudulent credit cards—someone would be prosecuted. A small bank would have had prosecutions take place within the ranks of the person within the bank. Evidence shows that small banks have had persons prosecuted.

But Wells Fargo created 1.5 million fraudulent accounts. Wells Fargo had over 500,000 credit cards created fraudulently. Is it the case that if you become so big and you create such a grand scheme, that you are beyond the law? The law ought to apply to Wells Fargo just as it applied to that welfare recipient, just as it would apply to any small bank in this country. Wells Fargo cannot be too-big-to-prosecute. It cannot be too-big-to-jail. Wells Fargo has to be held accountable. We cannot allow $17,296,835,949 in penalties to become simply the cost of doing business.

While these criminal activities were taking place, you were making billions. And you sat on the board, and you knew what was happening, and this morning you as much as acknowledged fraud when Chairwoman Waters asked about the accounts. Did anybody ever think to say, somebody ought to go to jail, somebody has to be prosecuted, this is a crime? There were 1.5 million fraudulent accounts. It is unbelievable. It is unimaginable. Yet, no one has been prosecuted.

Maybe, I am mistaken. If someone at Wells Fargo has been prosecuted for these egregious offenses, would you kindly extend a hand into the air, either of the two of you or both?

Let the record reflect that no hand has been extended into the air. I shall have a photograph of this in my office, and it will have under it: "Ask me about this picture." And it will show you with no hand raised, and I will explain this to people. You cannot escape the long arm of the law. It applies to all.

If you believe that this board could have done more to bring to justice those who perpetrated these criminal activities, raise your hand, please.

Let the record reflect that the board members have concluded that the board could not have done more, because no hand was raised. I shall have a photograph of this in my office, along with other photographs, I might add, that I have collected from persons who have been similarly situated.

We are now at a point in our history where we have to rethink the Wells Fargo paradigm. I concur with those who are saying we have to rethink whether or not Wells Fargo is not only too-big-to-fail, but we corrected that, but also too-big-to-exist. Maybe, you are too-big-to-manage. Maybe, the solution is going to have to be something that emanates here because you are not being prosecuted. At some point, the long arm of the law has to reach Wells Fargo.

I yield back the balance of my time.

Chairwoman WATERS. The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairwoman. Thank you both for coming here today. Yesterday, we heard from the new CEO, Charles Scharf, who said that Wells Fargo still has a lot of work to do before the structural problems that allowed these scandals to go unnoticed for so long are fixed.

The previous CEO, Tim Sloan, seemed to only care about getting the asset cap lifted by the Fed to expand businesses without fixing the underlying problems that caused customers to be harmed in the first place.

As board members, I am disappointed that you were not more active in your positions to get Wells Fargo back to the strong presence that they have historically been in this country. Reports uncovered that the board was well aware of the regulators' concerns over Mr. Sloan's poor performance and misleading public comments about the company's progress, and yet he was still able to keep his position as CEO.

As a small business owner myself for 50 years—I am a car dealer in Texas—I know how important the attitude at the top levels of leadership is to my employees. The CEO sets the tone, and if they are not taking the past problems seriously, then it is hard to get other employees to change their behavior as well.

Ms. Duke, quickly, why did you stick with Tim Sloan for so long?

Ms. DUKE. I am going to answer your question, but if I could just respond?

Mr. WILLIAMS. No, ma'am. I have the time here. Please answer my question.

Ms. DUKE. Okay. We made Tim Sloan the CEO when we replaced John Stumpf. Tim Sloan immediately stopped the sales practices and incentives, and replaced most of the management in the community banks. He took action quickly. We had problems that needed to be addressed immediately. The time it takes to find

someone, an external search, and as a number of you noticed, the question of whether or not anyone with the ability to fit into this role, would be willing to come into that role, a question of—

Mr. WILLIAMS. I understand. The committee reports uncovered that there were a lot of third-party consultants brought in to work with regulators once the scandal broke. It makes sense to bring outside experts in, in order to make the necessary short-term adjustments to protect consumers.

However, it also does not seem like there was a large push internally to hire individuals to deal with the non-financial risk in the long term.

So, Mr. Quigley, did you have any concerns that Wells Fargo could not do this work internally? Or why wasn't it a priority even after the regulators voiced their concerns?

Mr. QUIGLEY. I definitely had concerns, and I was unhappy with the pace that was occurring. With respect to the use of third parties, as the former CEO of a large professional services firm, I know that sometimes when you want to accelerate progress, you will look to a third party to try to accelerate the activity that needs to be done. But we needed to build capability, and we needed to recruit capability, and we needed to build capacity into that independent risk management group. And one thing that I know is true is that to find the most able resource takes much more time than finding the most available resource.

I am not happy with the time that has been required, but I am pleased that progress is now being made, and I agree with the points that Mr. Scharf made yesterday with respect to the real urgent nature of the action that needs to be taken and his absolute focus on regulatory.

Mr. WILLIAMS. Good. As we mentioned earlier, the regulators took the highly unusual step of making a public statement that Tim Sloan was being overly optimistic in his comments about the progress of Wells Fargo in becoming compliant with various consent orders. So, Mr. Quigley, in your testimony, you state that once the board was made aware that they were not receiving quality information, decisive actions were taken to fix the issue.

So my question is, quickly, what structural changes were made internally to ensure that the board will receive complete and accurate information moving forward?

Mr. QUIGLEY. We have a very active communication between committee Chairs and their liaison officer who is bringing information. We review those agendas and challenge the quality of the data that is coming our direction.

I was pleased with the elimination of the federated model. I was pleased with the need to strengthen the independent risk management group, and with that came higher-quality information to the board to enable stronger and more effective oversight.

Mr. WILLIAMS. Okay. In closing, let me just say this: I hope that this institution eliminates the, "I do not know" attitude. We have heard that from so many people; "I do not know." It is unbelievable. I have 200 employees, and I think I know. And that, "I do not know" attitude has really run rampant, and I hope that your leadership level will stop that. And I still cannot believe how much money they pay as a board of directors.

Chairwoman WATERS. Me either, Mr. Williams.

The gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on National Security, International Development and Monetary Policy, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Let me, first of all, express some appreciation and some surprise. You were not subpoenaed, you came here of your own volition, so thank you for coming. Some of us were doubting seriously whether or not you would come, so I appreciate you coming.

Let me try to get some information from you. I am gravely concerned about the report we received, the Committee report we received. Are either of you aware of an informal, unofficial secret back channel to the CFPB, to the regulators at the CFPB?

Mr. QUIGLEY. I am not aware of that, and I do not believe it occurred. I do not know what was referenced—I did read the Committee report, and I was the one who had quarterly meetings with Mr. Blankenstein. And when I would meet with him, there were always members of the CFPB there with him, and I was always accompanied by people from Wells Fargo.

Mr. CLEAVER. Thank you. So, you are saying that people got something wrong or made it up or—

Mr. QUIGLEY. I understood your question was, was I aware of any back channel communication to the CFPB, and I am saying no, I was not.

Mr. CLEAVER. I know, but that also means they put it in the report, so somebody did something incorrectly or falsely, maybe even with intentionality. But you just really got my attention when you said you met with Mr. Blankenstein. Did you detect any kind of racial attitudes when you were meeting with him?

Mr. QUIGLEY. I did not. He came to our board of directors and spoke on behalf of the CFPB, and following his report to the board, I then reached out to try to meet with him if he had time when I was in Washington. And again, in those meetings, I was always accompanied by someone from Wells Fargo, and he was always accompanied by others from the CFPB. I never had a one-on-one with him.

Mr. CLEAVER. Well, I am only interested in that because of the fact that we know he used an "N" word, because it was in his text message—his email. You are not aware of that?

Mr. QUIGLEY. I read what was in the report, but I had never seen that before.

Mr. CLEAVER. It is right there now.

Mr. QUIGLEY. Oh, this was the note that Alan sent to me just summarizing the discussion that he had had with Mr. Blankenstein, and then at the time that he was departing. And I did not follow up. I did not ever have any further communication with him.

Mr. CLEAVER. But when you saw that, were you alarmed?

Mr. QUIGLEY. Well—

Mr. CLEAVER. If you have to think about it, you were not. There has been an allegation about the back channel, which you say was not there. And so, I will change that. It is so offensive to me as a human being to be referred to with the nastiest name that somebody could call somebody of my color.

So, let us move on. Who appoints the Compensation Committee? I mean, you guys are gone. I am trying to find out, get information on who appoints the Compensation Committee?

Ms. DUKE. All of the committees are appointed by the Governance and Nominating Committee.

Mr. CLEAVER. Is that like the desirable committee on the bank board?

Ms. DUKE. I do not think it is necessarily the desirable committee. We look for people on that committee who have had responsibility in their careers for human resources. We also look to make sure that that committee is diverse because they deal with so many issues related to our management and employees.

Mr. CLEAVER. A lot of people want to be on the Appropriations Committee here in Congress. Mr. Quigley, do you—

Mr. QUIGLEY. I'm sorry. I did not understand the question.

Mr. CLEAVER. The same question, the Compensation Committee, are people like pushing and shoving to get on it?

Mr. QUIGLEY. There was a time—and as an auditor, I am a little sensitive to this, but there was a time when everybody wanted to avoid the Audit Committee because they felt that was just simply a place not to be. But I believe the aggressive approach—

Chairwoman WATERS. Finish your statement.

Mr. QUIGLEY. The aggressive approach with respect to the Human Resources Committee and the Compensation Committee, that has become a difficult seat on any board, and I do not see people elbowing and fighting and trying to have that privilege. That is a very heavy lift.

Mr. CLEAVER. Thank you. Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. I thank the chairwoman.

Ms. Duke, Mr. Quigley, in your view, now that you are no longer with the board, do you believe that some of the criminal actions taken by employees at Wells Fargo should be prosecuted by Federal officials? Or do you believe that the fines that have already been implemented provide enough redress for consumers?

Ms. DUKE. I appreciate the ability to answer that. I wanted to respond to it twice before. When we did our investigation of what happened in sales practices, we delivered all of the evidence that we found to the SEC and the DOJ, both civil and criminal, and—

Mr. DAVIDSON. The plea agreements highlighted that you paid fines, settlements as a corporation, and you acknowledged that crimes were committed.

Ms. DUKE. That is correct. We do not have the ability to prosecute, but what we did do with the individuals that we found to be culpable was to claw back, forfeit, not pay compensation, to terminate for cause, and we fined individuals through those mechanisms $180 million or so, and, in particular, with Carrie Tolstedt and John Stumpf, we took significant amounts of monies, 60-some million dollars each, I think.

Mr. DAVIDSON. Should the Federal Government prosecute them for committing Federal crimes?

Ms. DUKE. That is a decision for the prosecutors, but there is—we have in no way impeded their ability to do so.

Mr. DAVIDSON. Mr. Quigley?

Mr. QUIGLEY. We have provided all of the information that we learned through the investigation to those bodies—

Mr. DAVIDSON. I understand. Should they be prosecuted? They committed crimes. Should they be prosecuted?

Mr. QUIGLEY. I am not in a position—

Mr. DAVIDSON. You do not have an opinion on the matter? You vote, "present?"

Ms. DUKE. I would say, yes.

Mr. DAVIDSON. On the buttons you get, "yes," "no," or "present." So, you both say, "present?" It is not an essay. "Yes," "no," or "present," should they be prosecuted? You acknowledged that someone—

Ms. DUKE. I think, yes.

Mr. DAVIDSON. It was not the ATMs. It was not the conference rooms that committed crimes. Someone who worked for Wells Fargo committed crimes.

Mr. QUIGLEY. Your point is acknowledged.

Mr. DAVIDSON. Should they be prosecuted?

Mr. QUIGLEY. Your point is acknowledged.

Mr. DAVIDSON. "Present." Pathetic. I do not know what else to say. I am glad you are not on the board there, frankly. Presumably, by getting hired for such a board, you had an exceptional amount of experience and you were well-qualified or considered so by someone who offered you the position and a generous compensation package for being board members.

How was the culture at Wells Fargo different than the presumably positive cultures that you were part of before? Or is this really just endemic in all of the places? Should we look at every one in this industry the same way that the world is looking at Wells Fargo?

Mr. QUIGLEY. At Wells Fargo, we have said very statedly and very clearly that a culture change is needed. I am pleased with the progress that is being made. These are early days for Charlie, but his commitment to change culture, as I stated in my opening statement—I am pleased that that is one of his top priorities.

Mr. DAVIDSON. Well, better late than never, right? I do think that Mr. Scharf has a lot of potential. I like his resume and background and, frankly, it is not my job to hire the board members or the CEOs of any corporation now that I no longer own shares or control shares of a privately held company like I once did. But I do know that culture matters, so unless he is empowered to change a ship of 270,000 employees, that culture is not going to change overnight.

Now, as the Federal Government, having seen very little action by the Executive Branch, with a duty to take action where Federal crimes have been committed, I think it is right that the Legislative Branch is calling attention to that, not just with the failures with this particular bank, but with the failures within the Department of Justice to prosecute people. Yes, there is prosecutorial discretion, but the idea is that everyday Americans feel like there is one standard for them and a different standard for the well-connected,

well-to-do people who operate companies like Wells Fargo or, frankly, work at the FBI, the Director of National Intelligence, the CIA, or any other part of the Executive Branch. And we cannot have people going around saying, "Lock her up," "Lock him up," all day because the Department of Justice continually fails to apply one standard of law and have Lady Justice blindfolded. There has to be accountability and, frankly, when crimes are committed, particularly in cases like this, six-plus billion dollars in fines and an acknowledgment that the crimes were committed, someone should go to jail. We need our Department of Justice to provide that accountability, and we need board members who are going to do their duty.

So, I look forward to the progress made under new CEO Scharf, and I hope that we never need to see Wells Fargo here again except to commend them for the positive change in culture that has been accomplished. And I yield back.

Chairwoman WATERS. The gentleman from Colorado, Mr. Perlmutter, is recognized for 5 minutes.

Mr. PERLMUTTER. Well, I guess I am going to sound like a board apologist compared to everybody else here, because I look at the role of the board a little differently than the others. But I am a customer of the bank and have been a customer of the bank for 40 years, and I am a customer who went from two accounts to eight accounts, had a line of credit that I got when I just got out of law school, cut in half but given a credit card for twice that amount with a big line of credit attached. Things I never asked for just sort of appeared. So, I know the abuses that occurred.

My problem here is there has been a lot of time that has passed, obviously. The report details all of that. The board, in some instances, appears to have taken really some serious action with Mr. Stumpf, and with Mr. Sloan, trying to deal with the consent decrees, but time just kept passing.

So my questions to you two, and you can answer them as you choose—I think there are sort of three choices for me sitting up here. Either you were derelict in your duties and did not address these consent orders, or the culture of the bank needs to be changed pretty dramatically in terms of its personnel and operations, or the thing is just too big, and for any board or anybody, any manager, to get their arms around it cannot be done.

So, Ms. Duke, if you could respond to my concerns?

Ms. DUKE. What we have found is that some of the issues are directly attributable to individuals, but a number of the issues are attributable to the structure of the way the company is managed, the decentralized structure, and that has required that we centralize and also standardize and simplify the way all of our employees do their work. We need to be much clearer about that. What that looks like is, for example, if you take 83 different human resource departments and put them together, you do not get one fully functioning human resource department. It takes quite a bit of time to build the capabilities of a central human resources department to work with 265,000 employees.

Mr. PERLMUTTER. That leads me to some other questions for you, but, Mr. Quigley, your response?

Mr. QUIGLEY. If I could just comment on the multiple choice that you offered, I would choose culture change, and that is what you heard from our CEO yesterday. He is driving to build a culture of operational excellence and integrity as a number-one priority. I am pleased that that is what he said to the entire team on day one, and he has not varied from that message. He continues with execution, execution, execution, and we need to get to that point.

Mr. PERLMUTTER. Well, let me challenge you both on that, then, because—I do not know how many customers—70 million customers, me being one of them, 275,000 employees, 83 personnel departments, at least 5 years from the first consent order to try to remodel or revamp the culture, and yet that has not taken place, it is still ongoing, and with a lot of things unanswered. It is getting to me that this thing is just too big. And that is not the answer I was thinking I would get to, but that is where it is going. Ms. Duke?

Ms. DUKE. I do not think the problems are a function of size. I think they are a function of the way the company is organized and the way it has been organized historically.

Mr. PERLMUTTER. But now, we have gone 5 years. How long is it going to take to restructure or reorganize? I was a bankruptcy lawyer for a long time, and did a lot of reorganizations. How long do you think it is going to take to reorganize this company, now that you can look in the rearview mirror.

Mr. QUIGLEY. We have a new CEO that you heard from yesterday, and you saw that he is moving with a sense of urgency. He has a new Operating Committee. He is rebuilding the culture. This is his number-one priority, and he filled the seat of chief operating officer who has made regulatory progress. That individual's number one priority—

Mr. PERLMUTTER. So you do not think that the last two CEOs were capable of doing that? You are saying this is different?

Mr. QUIGLEY. I believe having a CEO from the outside is absolutely different. There was a question earlier about, what are the differences between Mr. Sloan and Mr. Scharf, and there is no question that this is different under Charlie. I have been on the board for 6 years, and I am now working with my fourth CEO. The board was not derelict in its duties, but very much actively at the table and trying to drive change in a way that could be sustainable and to make sure that customer harm never occurs. That is absolutely what I wanted and what the ambition was.

Mr. PERLMUTTER. Thank you. I yield back.

Mr. GREEN. Madam Chairwoman, I ask unanimous consent to insert the following items into the record: "Thirty-five bankers were sent to prison for financial crisis," CNN business article; "Wells Fargo to pay $3 billion over fake account scandal," NBC News article; and a Good Jobs article that tracks the amount of penalties that Wells Fargo has paid since 2000.

Chairwoman WATERS. Without objection, it is so ordered.

The gentleman from Tennessee, Mr. Kustoff, is recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman, and thank you, Ms. Duke and Mr. Quigley, for appearing today.

Ms. Duke, in your remarks I heard you talk about how you came up through the ranks as a teller to customer service representative. I did the same job back when I was younger. My question is, in my district, Wells Fargo does have a retail presence. If you were on the front lines today as a customer service representative, and you had one of your Main Street customers come into the bank, an hourly employee, a small-business person, what have you, why would you tell them that they need to continue banking with Wells Fargo after the years of misdeeds?

Ms. DUKE. Thank you for that question, and I would like to talk a little bit about the front-line employees at Wells Fargo, because the front-line employees at Wells Fargo were not the reason for the sales practices issues. It was the way they were managed, and there are hundreds of thousands of those employees who come to work every day who have served their customers for 40 years. Many of you have been their customers for 40 years, and the bond between those employees and their customers and the service that they are committed to and the importance of the bank to those customers has been something that to me, with all of the ugliness that I have seen, is the reason I joined the board of Wells Fargo. And I have employees who work there. Their jobs have been much, much harder during the time that we have created damage to their reputations and to their company's reputation, yet they continue to love this company and want to do everything they possibly can to make this company succeed. And their customers are pulling for them as well.

Mr. KUSTOFF. Well, let me reclaim my time, and ask it a different way. Wells Fargo has put those front-line employees in the position of having to defend actions that you have just stated they are not responsible for. What do those front-line employees tell their Main Street customers about why they should continue banking at Wells Fargo?

Ms. DUKE. They tell them about the service that they offer. They pay attention to the customers' needs. They look at the customers' needs. They look at the products that we have that meet those customers' needs. We are still the largest small-business lender in the country. We are the largest lender in low- to moderate-income areas. We are the largest mortgage lender. We are the largest agricultural lender. Wells Fargo is still really important in communities and to our customers, and they talk about how important they are there.

Mr. KUSTOFF. Mr. Quigley, would you agree that the Wells Fargo brand and reputation is damaged?

Mr. QUIGLEY. Unarguable.

Mr. KUSTOFF. Do you believe it is irreparably damaged?

Mr. QUIGLEY. I believe it can be recovered, and the plans that Charlie reported yesterday, looking again at the future of Wells Fargo, were optimistic. We need and want a strong Wells Fargo.

Mr. KUSTOFF. Yesterday, and some today, we have talked about sales incentives that were provided to employees back under Mr. Sloan and what they are today. How do you compare those sales incentives for those employees today versus those under Mr. Sloan?

Mr. QUIGLEY. The sales incentives were terminated as soon as the board was informed, and we understood it was part of the root

cause of how this abusive behavior occurred. I am delighted that is a part of the past, and the new structure focuses on customer experience and how the individual who comes into the branch that you are asking about, what is their experience? And how do they benefit from being there?

Mr. KUSTOFF. The two of you are no longer on the board, but I am going to ask you to speak for those members who are currently on the board. I will start with you first, Ms. Duke. Do you believe that all current members of the board have the right attitude for a new culture at Wells Fargo?

Ms. DUKE. I absolutely do. Many of them were recruited knowing what happened at Wells Fargo and being committed to making the changes necessary so that it would not happen again.

Mr. KUSTOFF. And, Mr. Quigley?

Mr. QUIGLEY. The same. I am confident in my former colleagues and their commitment to do what is right.

Mr. KUSTOFF. Thank you, and I yield back the remainder of my time.

Chairwoman WATERS. Thank you. The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is recognized for 5 minutes.

Mrs. BEATTY. Thank you, Madam Chairwoman, and I thank the witnesses. I have been sitting here for this whole hearing, trying to digest the questions and your responses, and quite frankly, I am trying to figure out what you thought your roles were as trustees and what you got paid for, with so many of these widespread consumer abuses, the regulatory findings, and certainly the lack of effective corporate governance.

Let me start with you, Ms. Duke. You took great pains in writing about your background in your testimony, more than I have ever seen in any other testimony. You reminded us that you started out as a part-time teller at a drive-through bank. You transitioned as a new account clerk. You took great pains to tell us that you were the second-lowest paid employee, and how you sat across from customers and how you put them first, how you worked your way up, how you became the first woman to Chair the American Bankers Association, the Board of Governance, and how much you understood and knew about regulatory practices, that you were just stellar in this.

Yet, you act like you are one of us. In your testimony, you also then say you were as appalled as the Members of Congress with all of these findings, and you didn't know how it happened. Well, that is appalling to me.

And then I noticed that you then are the one who also agreed to Mr. Sloan's payment. The board decided that Mr. Sloan was worth more than $18 million in compensation, including a $2 million bonus.

Despite all of this, Ms. Duke, you also drafted a proxy statement that you released to the investors, stating, "The board decided to award Tim a cash bonus for 2018 as recognition for his substantial progress in changing the culture and business practices of Wells Fargo, and building out a strong management team to focus on the remaining work to strengthen the compliance and operational risk."

Now with everything you knew, being paid, being responsible, and having this background, and then we hear what they did, the abuses to consumers, tell me why you drafted this statement, and did you really believe this, or did someone make you do this, or were you paid extra to do this?

Ms. DUKE. Congresswoman, I joined the board of Wells Fargo because of the company I thought that it was.

Mrs. BEATTY. No, no, no. That is not my question. Tell me why you wrote this statement about him, after all these things, and you were there, that happened before, when you wrote this statement in 2018.

Ms. DUKE. We did not find out that Mr. Sloan had any responsibility in sales practices. He became the CEO in 2016. We paid him no bonus for 2016—

Mrs. BEATTY. No. I am talking about your statement in 2018. A lot happened, as we heard Congressman Meeks read off all of the things that happened on your watch, and Mr. Quigley's. And you can jump in, Mr. Quigley, if you want to respond, since you were also there, and certainly read and witnessed when she wrote this to the shareholders. Did you have any response? Did you feel this was misleading the shareholders at Wells Fargo?

Mr. QUIGLEY. There is no question that I read the proxy, and there is also no question that—

Mrs. BEATTY. Do you agree with it? Yes or no?

Mr. QUIGLEY. Yes.

Mrs. BEATTY. Because it is my time, and I have a question for you.

Mr. QUIGLEY. Yes.

Mrs. BEATTY. So you all think, despite now saying it is appalling, all that you have heard that has happened, even in 2018—you know what? This makes me feel that you are as irresponsible as he was in all of the things, and it is criminal that you are even sitting here.

Mr. Quigley, let me follow up on Congressman Cleaver's line of questioning regarding a back-channel relationship between Wells Fargo and the CFPB, specifically a political appointee of the Trump Administration—you remember the question. Mr. Quigley, you stated to Mr. Cleaver that you did not believe a back channel exists. Yet in Appendix 3, which is already in the record, of the Majority staff report, there is an email from acting CEO Allen Parker to you regarding this political appointment. Are you aware of that?

Mr. QUIGLEY. I did see the email in the report, yes.

Mrs. BEATTY. And you still have the same response that you had after it, in quotes, says "political?"

Mr. QUIGLEY. I interpreted that, "political," as simply he was an appointee into the CFPB.

Mrs. BEATTY. I'm sorry. My time is up, and I yield back.

Chairwoman WATERS. The gentleman from Texas, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF TEXAS. Thank you, Madam Chairwoman, and I want to begin by thanking Anne Cruz, a dear constituent of mine, who is watching from back home.

I will begin by saying, former Chairwoman Duke, today you have the auspicious honor of being the first board member, I believe, to

testify in front of Congress since Enron. You allege in your testimony that you, and indeed the rest of the board, learned from public statements that over 20 times the number of employees were terminated than originally disclosed to you by management, yet no one in management was fired for this.

At this point, you and the board retained independent counsel to conduct a full and unfettered investigation into the scope and causes of misconduct. Allegedly, this is when the board acted to thoroughly repair the damage done—again, your words, not mine. Since then, Wells Fargo engaged in charging improper interest on your customers' accounts, sold unnecessary auto insurance, foreclosed on customers' homes after wrongful denial of loan modification agreements, and essentially threw people out on the street. And finally, purposefully reduced the customer investment returns on the sales of Wells Fargo Advisors' products by actively trading securities you had disclosed as long-term holds.

All of this conduct is admitted in one consent order or another. There are many active and open orders. That is quite a lot to digest. I want to ask you, why shouldn't we simply remove the bank charter, break up the company, and let the banks out there that can run clean operations have your customers, or Wells Fargo's customers? How many years until you can properly serve your customers? You don't have to answer that. I know you already have, in one way or another.

If any attorney steals their clients' funds—and I know this because I am a lawyer and practiced law for 20 years—and mixes their funds with clients or deceives them as to the nature and scope of representation of them, and consequences are disbarment and potential jail time, why would a bank's charter be any different? You can answer that.

Ms. DUKE. There were employees who committed criminal acts. You asked, was anybody fired? People were fired for the acts that they committed, and the information about them has been turned—

Mr. GONZALEZ OF TEXAS. Was this management that was fired?

Ms. DUKE. Yes. Yes. In the case of sales practices—

Mr. GONZALEZ OF TEXAS. Senior management?

Ms. DUKE. Senior management. The senior executive responsible for the community bank was terminated for cause.

Mr. GONZALEZ OF TEXAS. Well, it is clear that this—

Ms. DUKE. The management of the auto division, I believe, was terminated. And in individual cases where there was misconduct, those employees were terminated and the appropriate suspicious activity reports filed, I believe.

Mr. GONZALEZ OF TEXAS. Okay. Well, it is clear that you do not serve your clients' best interests, and I think you have admitted that already. If it were up to me, and I believe many members of this committee, on both sides of the aisle, a few of you would be in jail today. And certainly, if you were the president of the American Bar Association instead of the American Bankers Association, you would be disbarred today.

I clearly hope that the Department of Justice continues to investigate these bad actions by bankers and board members across the country, and hopefully stops the malfeasance in this country. The American people are looking forward to this. And I yield back.

Chairwoman WATERS. The gentleman from Florida, Mr. Lawson, is recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman, and witnesses, welcome to the committee.

I was going to say that I won't ask the same questions that some of the other Members asked, simply due to the fact that they center around the same area. But one of the things that I want to know, and get you, Ms. Duke, to respond to is, it says that—in a 2017 independent investigation, a report was released into Wells Fargo's fraudulent account scandal. The board was supposed to accomplish three goals, and these are the ones that I want you to respond to, and you have said some things about them. But one was to get to the root cause of the company's sales scandal and identify solutions so it would never happen again, and restore trust in the bank.

In response, Wells Fargo's board, from what I can gather, blamed it on ex-employees. But don't you think the board, yourself included, failed in oversight duty? By serving on the board, on those three issues that came up, how were those three issues handled?

Ms. DUKE. The root cause was found to be that the sales goals were inappropriately set, that they were too high, and that the sales management was aggressively pursued.

Mr. LAWSON. And to restore the confidence, what was discussed in the board—

Ms. DUKE. The sales goals were eliminated, the employees were terminated, and the new incentive plan was designed to reward customer service and to be more team goals than individual goals. What we found is that while there was some of the behavior to get the incentive, it was more to avoid criticism by the managers.

Mr. LAWSON. Okay. The reason why I was concerned about sales goals is, I have been involved in sales for maybe 40 years, and I know that what happened is management does set these sales goals, for agents and so forth, for goals for you to try to reach. But I didn't know until today that banks would have such sales goals that would trickle down to all of the branches, so that they would go out and they were trying to attract more business.

What I can't understand is how, even though you said these employees were terminated, how could managers who have been in the organization for a long time not want to monitor all of these branches of the sales goals when they knew—they had to know that something was going wrong.

Even though you say that they were eliminated, I am sure Wells Fargo still has sales goals they have to meet. How is that handled now through the board when they establish goals that they want to meet, to be the third-largest bank? And I understand Mr. Quigley was saying about being a bank that provides resources to small businesses, to minority firms, and so forth. How do you all handle that now, in order to make sure that you do the things that are good in the marketplace, but not allow things to happen, such as 70,000 borrowers who bought car insurance that they didn't need, and about 20,000 of them may have had their vehicle repossessed as a result? How do you handle that now?

Ms. DUKE. Again, with the collateral protection insurance, once we found that issue, we quit requiring the force-placed insurance, so that requirement is no longer in place.

Mr. LAWSON. Mr. Quigley, did you want to respond to that?

Mr. QUIGLEY. The effort was made to one customer at a time, identify harm, and then be able to remediate it. And Charlie Scharf gave an update yesterday on the progress with respect to remediation and the aggressive approach that he intends to take to accelerate the timing that is required to get that done, and get that done right.

Mr. LAWSON. And a question that I might not be able to get answered, do you think Wells Fargo is too large?

Mr. QUIGLEY. I do not think Wells Fargo is too large. Wells Fargo needs to change its culture, and that is underway under the new CEO that we have recruited.

Mr. LAWSON. Okay. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from Michigan, Ms. Tlaib, is recognized for 5 minutes.

Ms. TLAIB. Thank you, Madam Chairwoman. Thank you so much for your leadership in creating this report. Have you all seen this?

Ms. DUKE. Yes, we have.

Mr. QUIGLEY. Yes.

Ms. TLAIB. I know maybe you don't have it in front of you, but page 13 lists, kind of in a snapshot of some of the abuses, which you call culture, but I call criminal schemes. You all made money off of the backs of poor people, off of working people. Fake accounts. Millions of people. We are not talking about a short period of time of one mistake. We are talking about from 2011 to 2016, literally enrolling millions of customers in banking products and accounts without their knowledge or consent. You are talking about 27,000 people impacted by unnecessary auto insurance. I actually would differ with my chairwoman on one thing, which is that I wouldn't call it unnecessary. I would call everything fraudulent, criminal. Unnecessary—the fact that you enrolled—bank customers literally had their vehicles repossessed following default arising from these added insurance costs, that they didn't need, and they didn't want.

Corporate greed is a disease in our country. It is so bad that it infiltrates, and I don't like it when corporate America calls it a cultural issue. It is a crime to defraud Americans. Let's be very clear about that. And I don't want you to see my passion as, oh—this is not—it is the fact that I have the third-poorest congressional district in the country. Literally, our communities are front-line communities that get targeted by this, not the higher-income folks, but the folks who have two or three jobs, the folks who are trying to survive right now, who are in survivor mode, are being targeted.

Ms. Duke, you were on the board since 2015. Mr. Quigley, you were on the board since 2013. Correct? On page 13, it talks about servicemember abuse. Between 2006 and 2016, Wells Fargo Bank charged servicemembers higher interest rates than allowed under the Federal law. You would consider that a crime, correct, Ms. Duke?

Ms. DUKE. I would.

Ms. TLAIB. How about you, Mr. Quigley?

Mr. QUIGLEY. I would, and I would also say that for the servicemember remediation that was undertaken, Betsy took the lead and was very assertive in moving that forward and I would be proud of her.

Ms. TLAIB. Well, in the meantime, people got their cars repossessed. I don't know what is going on with their credit reports, and that is something I am working with the chairwoman on, but trying to get people's credit reports to get cleaned up from this. And that is impacting people's employment, access to housing, all of these opportunities they need to thrive.

From 2013 to 2017, you were both on the board. We are not talking about one year, or 6 months of bad behavior, and criminal scheming of working-class folks. We are talking about over a decade for many of these criminal schemes and these corrupt kind of behaviors. And having your Chair come before this committee yesterday and not be able to really truly answer some of the questions for various details was troubling to me.

I need to know, from both of you—it was courageous of you to come before this committee, but this needs to be read by every single board of directors. Every single one of them needs to read this, because I don't think they realize this is not only about numbers, but behind every single report in here is actually a story of a human being who was impacted by these criminal schemes.

I want to talk about something that—I have a CEO pay tax, and I really, really want to emphasize to you all to try to incorporate an incentive here. If you have your CEO getting paid 200 times more than your own employees, and they have to get on public subsidy, don't you think that is unfair? Do you think that right now, having your bank tellers and the folks who work in your institution getting paid 200 times less than the CEO is problematic?

Ms. DUKE. I have been a bank teller, and I have been paid at the lowest rates, and I know how difficult it is to survive on that. I think we need to address both the way we compensate them but also career pathing, because I was able to learn and take advantage of industry education and opportunities—

Ms. TLAIB. And, Ms. Duke, at the same time, right now, they are actually in line to get public subsidies, food assistance, things that we, the public, have to pay for because you are allowing corporate greed to continue to fester within your company.

Mr. Quigley, do you agree that we should be paying your workers a living wage, that they shouldn't be paid close to 300 times less than what your CEO is getting paid?

Mr. QUIGLEY. Charlie responded to that yesterday with respect to what he is doing on the minimum wage, and I have nothing to add.

Ms. TLAIB. He works for you, right? Charlie works for you?

Mr. QUIGLEY. I am a former member of the board. I recruited him, and I am pleased that I was able to get him to say yes.

Ms. TLAIB. Are you pleased with the fact that you left people—thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you. The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Madam Chairwoman. Ms. Duke, can you explain what the normal duties and responsibilities were for you and other board members?

Ms. DUKE. Yes. We received materials in connection with meetings. We scheduled meetings. We had meetings of the board, meetings of the committees.

Mr. TIMMONS. How often did you meet? How often were your meetings?

Ms. DUKE. How many meetings did you take out of your calendar last week?

Mr. QUIGLEY. When I resigned, I removed 85 meetings from my calendar in the next 12 months, meetings or calls.

Mr. TIMMONS. So, time commitment per week, per month, what would you guess? What is a good estimate?

Mr. QUIGLEY. There were big blocks of time last year when I was working fundamentally full-time, because I was working to recruit a new CEO, and many of your colleagues asked Charlie Scharf yesterday, "Why would you accept such a difficult job?" How would you like to be the guy who was recruiting him, to get him to say, yes?

Mr. TIMMONS. Sure.

Mr. QUIGLEY. It was time-intensive. I haven't kept track of it on a per-hour basis—

Mr. TIMMONS. Over the course of your—

Mr. QUIGLEY. —but I was absolutely, many times, working fundamentally full-time.

Mr. TIMMONS. —tenure on the board, on average, 20 to 30 hours a week? 15 hours a week?

Mr. QUIGLEY. Probably in the 20- to 30-hour range.

Mr. TIMMONS. Is that the same for you, Ms. Duke?

Ms. DUKE. Since I became chairman, I have been available to the company full-time. I don't make other commitments.

Mr. TIMMONS. That was my next question. What other jobs or positions do you hold outside of the board, or did you hold outside of the board?

Mr. QUIGLEY. I am the chairman of the board of Hess Corporation. It is the only other public company where I am on the board.

Mr. TIMMONS. Did you have any outside, other—

Ms. DUKE. I do not.

Mr. TIMMONS. Okay. I appreciate that.

I am slightly confused and don't really understand why we are holding this hearing today. The chairwoman called for both of you to resign, and you did. There is nothing either of you can do at this point to help right the ship that is Wells Fargo. So with all this going on in the world today, and in the financial system, why are we publicly, to some degree, humiliating two former board members of Wells Fargo right now? I don't know that this is the best use of our time. I appreciate you all sitting through it and showing up. I am not sure I would have.

But I am not excusing the performance. Obviously, it is abundantly clear from the Majority and the Minority reports that a lot went wrong and several missteps were made, which, partnered with the dereliction of Obama Administration regulators led to a disastrous result for your bank and its customers. But I still don't understand what dragging you two in here today is accomplishing. I think it is good that you resigned. I think it was the right decision, given the circumstances. It is very unfortunate. And I am encouraged by your new CEO. His testimony yesterday was productive, I think.

I hope that Wells Fargo can get back on the right track, and I know this committee will continue to keep a close watch, along with the regulators, to help regain the trust of the customers of this committee and of the American public.

Thank you for coming here, and with that, I yield back.

Chairwoman WATERS. Thank you. The gentleman from Illinois, Mr. Garcia, is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Madam Chairwoman, and Chairman Green, for convening this hearing, and to the two witnesses, thank you as well.

Regulators have been working on Wells Fargo since 2016 to bring the bank into compliance when the bank's current troubles first came to light. The written testimony that each of you submitted to the committee claims that since that time, the board of directors has focused on changing the culture at Wells Fargo, but there is an important change I think you left out.

This week, the Roosevelt Institute published that from 2016 to 2019, Wells Fargo more than doubled the money it put towards dividends and stock buybacks, from $12.5 billion to $30.2 billion. Ms. Duke and Mr. Quigley, did you vote in favor of these dividends and buybacks?

Ms. DUKE. We voted in favor of the capital plan that included those, yes.

Mr. GARCIA OF ILLINOIS. It included those? That is a yes, from both of you?

Mr. QUIGLEY. Same.

Mr. GARCIA OF ILLINOIS. Ms. Duke and Mr. Quigley, yes or no, did you and the rest of the board decide to direct more resources toward share buybacks and dividends to boost the company's share price? Yes or no?

Mr. QUIGLEY. The capital plan is very clear, and all of the elements in it.

Mr. GARCIA OF ILLINOIS. That is a yes?

Mr. QUIGLEY. Yes, we did approve the capital plan.

Mr. GARCIA OF ILLINOIS. Both of you?

Ms. DUKE. Yes.

Mr. GARCIA OF ILLINOIS. Which included that. Thank you. So, you decided to use more money to pay off shareholders. The Majority staff report found that, "Wells Fargo's board and management prioritized financial and other considerations above fixing the issues identified by regulators." To me, the fact that Wells Fargo doubled the money it spent paying off shareholders during this time is a clear example of that.

Ms. Duke and Mr. Quigley, yes or no, do you agree that Wells Fargo could have used those billions to invest in its workforce, which may have, in turn, fixed its internal culture? Yes or no?

Ms. DUKE. I would say that we have approved considerable expenses in order to fix the issues that we need to fix at Wells Fargo, and we have not—

Mr. GARCIA OF ILLINOIS. Could it have gone further?

Ms. DUKE. —limited those budgets.

Mr. GARCIA OF ILLINOIS. Mr. Quigley?

Mr. QUIGLEY. The number-one priority is absolutely remediating those issues, and that was made clear by Mr. Scharf yesterday.

Mr. GARCIA OF ILLINOIS. But doing something differently could have advanced the cleaning up of the culture.

Last year, I introduced the Reward Work Act, H.R. 3355, a bill that bans share buybacks and allows company employees to directly elect one-third of their corporate board. I think it is fair to expect companies to invest in their people and in growth rather than simply lining shareholders' pockets.

In 2013, we first learned, from the Los Angeles Times, about Wells Fargo's fake accounts and the pressure tactics that drove employees to open them. The Committee for Better Banks, a group of bank workers organizing for better conditions, helped bring these practices to light, and Wells Fargo responded by firing thousands of front-line employees.

Ms. Duke, and Mr. Quigley, was firing front-line employees the correct response to credible reports of management issues at the bank?

Ms. DUKE. There was further action that needed to be taken by the managers at the banks. However, whenever an employee is found to have engaged in a dishonest act against a customer, we have no choice but to terminate them.

Mr. GARCIA OF ILLINOIS. Mr. Quigley?

Mr. QUIGLEY. The same.

Mr. GARCIA OF ILLINOIS. The culture of a company and accountability in a company always starts at the top. Yes or no, would you agree?

Mr. QUIGLEY. Yes.

Ms. DUKE. Yes.

Mr. GARCIA OF ILLINOIS. As board members, you both bear responsibility for what went on at Wells Fargo when you were at the top. Your testimony expresses regret about what happened to the bank's workers, but here we are—bank workers alerted the public to your bank's practices and they got fired. You both resigned before testifying today, perhaps to absolve yourselves of what happened on your watch.

Do you think it might be a better idea to let employees elect corporate board members for themselves?

Mr. QUIGLEY. I'm sorry. I didn't understand your question.

Mr. GARCIA OF ILLINOIS. Do you think it might be a better idea to let employees elect corporate board members for themselves, to be represented?

Mr. QUIGLEY. I believe in the corporate governance model that shareholders elect the directors.

Ms. DUKE. I agree with Mr. Quigley.

Mr. GARCIA OF ILLINOIS. Okay. So, it is clear you are consistent in that.

Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. The gentleman from Texas, Mr. Taylor, is recognized for 5 minutes.

Mr. TAYLOR. Thank you, Madam Chairwoman. I appreciate you both being here. I served as a bank board member for 12 years at a community bank back in Texas, and I will say that where you are today is somewhere where I think not a single member of a bank board would ever want to be.

And I was wondering if you could—actually, let me back up for one second and just say that I find some of the actions that were taking place at Wells Fargo to be criminal in nature. I certainly agree with you, Madam Chairwoman, and some of my colleagues, that they were criminal in nature. I am surprised that no one has been prosecuted. And I certainly would agree with bringing in either the U.S. attorney or the district attorney for the jurisdictions that comport with us, to ask why has no one been prosecuted? Because I think there is an example to be made here. This is unacceptable behavior, and it is criminal.

And I think there is agreement in this room that it was criminal and therefore there should be some discussion with the people who prosecute. What the heck? It is not up to these guys. They are not on the bench. We are not on the bench. But I think it is worth asking that question.

Circling back to being on a bank board, do you have any lessons learned that you would tell—there are 5,500 banks in the United States. There are 50,000 to 100,000 people who serve on bank boards across this country, for banks large and small. And I hope you don't stop here. I know this is an unpleasant thing, but I think you have something to teach other bank board members about how to run a bank.

You have been through one of the most difficult problems that a bank has been through in the last decade. What do you have to teach, or what would you say to other bank board members, or prospective bank board members about when you get in this situation, which is thrust on you. It is nothing you designed, but something that was thrust upon you—what lessons have you learned?

Mr. Quigley?

Mr. QUIGLEY. There is no question that the communications with regulators, who have a significant presence inside these enterprises, need to be robust and timely, and you have to be aggressive in terms of your follow-up. And when it comes to determining that there is a need for change to occur in a culture, you have to be assertive to make sure that, in fact, that change occurs. And that might mean that you have to make substantial changes in the leadership team, including at the top. I acknowledge that in my 6 years at the bank, I have worked for 4 CEOs.

Mr. TAYLOR. And actually, just to quickly go into that, because that actually was something I wanted to ask about, is your relationship with the regulators. In my 12 years on a bank board, other than the bank examination reports that the bank would yield every 18 months, that was the only interaction I ever had with a regulator. I never got a call or an email from a bank regulator.

Your earlier testimony that you were talking almost daily to regulators honestly was a surprise to me. Was that typical prior to the problems at Wells Fargo? What was your interaction? What led to, "almost daily interaction with regulators?"

Mr. QUIGLEY. During that period of time, I was chairing the CEO search committee, and so I was interacting with them on a regular basis because of the requirement for me to be able to obtain a supervisory non-objection for the individual whom I was recommending.

But prior to the sales practices issue being made public, and for the board to be informed and aware, I think a quarterly kind of touch would have been much more expected. But with the issues that we were dealing with, and the aggressive approach to remediation, that interaction with the regulators then simply became much more frequent and of much greater substance.

Mr. TAYLOR. What was the standard practice—and I guess this would be for all banks of your size—for regulator-board interaction? Because again, my experience was 18 months, have a meeting, and then that is it. But yours clearly was very different.

Ms. DUKE. If I could, most of my career was as a community banker, and so my board did not interact with the regulators. In the community bank, they didn't even come in for the annual review of the annual activities. When there was a close-out conference with the regulators, I think my audit committee would come in and meet with the examiners, but they didn't meet with the board.

When I joined the board at Wells Fargo for the first few years, maybe 3 years, the regulators would come in and present annually their reports of their examinations, but that was really the extent of the contact.

The other piece, though, was that each of the consent orders that we signed had a requirement for an oversight committee of the board. Soon after I got there, they asked me to serve on that committee, and then later to Chair it, and that did involve the reporting that was on the consent orders. And so, I had regular contact with the examiners then about those consent orders and the progress on the work under the consent orders.

Mr. TAYLOR. Thank you. I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from New York, Mrs. Maloney, is now recognized for 5 minutes.

Mrs. MALONEY. I thank the Chair for yielding.

Mr. Quigley, I want to ask you about an email exchange you had with the former CEO of Wells Fargo, Allen Parker. That is in Appendix 3 of our Majority staff report. You and Mr. Parker were discussing a series of conversations that he had with a political appointee at the CFPB, Eric Blankenstein, about resolving the bank's regulatory issues with the CFPB.

Let me read what Mr. Parker wrote to you on May 17, 2019. He said, "Eric also assured me that there would continue to be political oversight of the engagement with us."

Mr. Quigley, are you familiar with this email? Yes or no?

Mr. QUIGLEY. Yes.

Mrs. MALONEY. Okay. What did you think Mr. Parker meant by political oversight of the relationship with Wells Fargo? Did you understand that he meant Mr. Blankenstein was promising a softball approach to Wells Fargo?

Mr. QUIGLEY. I did not interpret it that way, nor do I think that is, in fact, what occurred.

Mrs. MALONEY. Then, what do you think occurred? Do you think it is appropriate for a political appointee at the CFPB to promise a bank softer treatment than the career staff is recommending? Do you understand that provides an appearance of possible corruption?

Mr. QUIGLEY. Let me just provide a little bit of context in terms of my meetings with Mr. Blankenstein. He came to the board in July of, I believe it was 2018. No, no. It might have been 2017. I am not sure which year. But he spoke on behalf of the CFPB at the board meeting in July, and I started trying to have a quarterly meeting with him when I was in Washington. At each of those meetings, I was accompanied by someone from Wells Fargo, and he was accompanied by others from the CFPB.

Mrs. MALONEY. Well, let me ask you a different question. Do you think it is appropriate for a political appointee, a political appointee at the CFPB to come to a meeting with a bank and promise a bank softer treatment than the career staff is recommending?

Mr. QUIGLEY. No, I don't think that is appropriate, and I am not even sure that it occurred.

Mrs. MALONEY. Well, what do you think he meant when he said that he would continue, "political oversight of the engagement?"

Mr. QUIGLEY. I think he was talking about his departure from the CFPB and that his successor, who was going to be a political appointee, might have continued touch with the bank.

Mrs. MALONEY. Well, it doesn't read that way to me. And I have no further questions.

Chairwoman WATERS. Ms. Porter, we will again give you an opportunity to question the witnesses. I started into the close, but we will rescind that and we will go forward.

Ms. PORTER. Thank you very much, Madam Chairwoman and Mr. Ranking Member. I really appreciate the accommodation.

I wanted to ask Ms. Duke and Mr. Quigley about your board compensation. Ms. Duke, how much did you make last year on the board?

Ms. DUKE. $630,000.

Ms. PORTER. And Mr. Quigley?

Mr. QUIGLEY. $417,000.

Ms. PORTER. Okay. About how many times last year did the board convene in person, did you convene a full board meeting in person?

Mr. QUIGLEY. Full board in person, I am guessing, but perhaps 12. I had probably 90 meetings in relation to my committee meetings and my calls—

Ms. PORTER. The full board met only 12 times.

Mr. QUIGLEY. A big chunk of last year, I was working full-time.

Ms. PORTER. Well, what about the other company you served on the board of? Were you not working full-time for them?

Mr. QUIGLEY. Not full-time, no.

Ms. PORTER. So if you were working full-time for Wells Fargo on the board—

Mr. QUIGLEY. Portions of that time, while I was doing the CEO search, it required my involvement every single day. That was the point I was trying to make.

Ms. PORTER. Got it. My question is about your thoughts as long-term board members of Wells Fargo, about the remaining board, because the folks who are sitting on the board today—and I have their bios here—these are folks who oversaw data breaches: Staples; a health marketing scandal at Kellogg; a massive data breach

of $110 million at Target; the auditor for AIG—these are not exactly Eagle Scouts.

I would like to have you go on record with what your opinion is about the capacity of the current board in light of the number of them who have come from scandal-ridden or consumer harm situations, to steer Wells Fargo in the right direction going forward?

Mr. QUIGLEY. I have confidence in the capability and the integrity of the members of the board with whom I once served.

Ms. PORTER. Ms. Duke?

Ms. DUKE. I do, and I think the expertise of those directors is excellent. As we have repopulated our board, reconstituted our board, we have added a number of new directors. When I joined the board, I was the only director on the board who had banking experience. There are now, even without me, I believe four directors who have banking experience.

Ms. PORTER. Is the board actively seeking additional—seeking replacements for you two, and in the past in changing board members? Is Wells Fargo seeking people who have presided over major corporate or consumer scandals to populate its board, or is that just a coincidence? Is that a qualification these days, to be on the Wells Fargo board?

Ms. DUKE. That is not what we are actively seeking. However, I would say that particularly in the case of Celeste Clark, who is an executive at Kellogg, her experience in dealing with and remediating that crisis, that health crisis, and also as a public policy—she was their public policy officer, I believe, for a time, and her experience in that situation has been invaluable to our board.

Ms. PORTER. Do you think that the compensation of board members is in line with the number of hours that they work?

Ms. DUKE. It is in line with the level of responsibility that they take in and with the compensation for other directors of other similar institutions.

Ms. PORTER. Well, let's talk about that responsibility. What are the consequences or personal responsibility that you or Mr. Quigley have suffered as a result of presiding over the board during these scandals?

Ms. DUKE. We are subject to liability for our actions as a director.

Ms. PORTER. Does Wells Fargo have directors' and officers' liability insurance—

Ms. DUKE. They do.

Ms. PORTER. —that would cover those claims?

Ms. DUKE. They have directors and officers liability insurance that covers those.

Ms. PORTER. So for the rounding, between the two of you, half a million dollars a year. What are the responsibilities for which you deserve such tremendous compensation? What are the consequences? What are the risks that you are personally exposed to as a result of serving on the board?

Mr. QUIGLEY. The board's role is to oversee the company's management and business strategies, to evaluate the performance of its CEO, to monitor the performance of that CEO, and to work through the succession plan and selection of the CEO. That was

the point I was trying to make earlier, where I was spending full time.

Ms. PORTER. Thank you.

Chairwoman WATERS. I would like to thank the witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 12:51 p.m., the hearing was adjourned.]

A P P E N D I X

March 11, 2020

HEARING BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES

March 11, 2020

Testimony of Elizabeth Duke

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee, thank you for inviting us to testify at today's hearing. As the markets face increasing volatility, a strong Wells Fargo is needed now more than ever. Transformational changes are taking hold at the Bank, with strong new leadership in management. I believe that, today, Wells Fargo has the right team and is on the right track toward a bright future as an institution that is deserving of the trust customers place in Wells Fargo every day.

Over the past several days, however, it became clear to my colleague Jim Quigley and me that our continued leadership at the Bank was drawing more attention to the problems of the past rather than to the Company's success in the future. For this reason, and out of continued loyalty to Wells Fargo, its customers and employees, we recommended to our colleagues on the Board last week that we step down from our leadership roles, effective immediately, and they have accepted our resignations. We believe that changes in these roles will facilitate the new CEO's ability to turn the page and focus on the Bank's future progress.

We welcome any opportunity to discuss Wells Fargo's commitment to charting a different and better course. But we are no longer able to speak on behalf of Wells Fargo or to address the Committee's interest in issues facing the company going forward. We are also constrained by the scope of regulators' waivers of their confidential supervisory privilege. Within those limitations, we will be as helpful to the Committee as we can be.

Wells Fargo's new CEO Charlie Scharf is in the best position to provide a comprehensive update on the transformational change that has taken place at the company, and the significant improvements that remain to be executed, so that Wells Fargo fulfills its core mission of helping customers and the communities it serves.

Like the Members of this Committee, the Board was appalled by the egregious customer abuses that occurred in the Community Bank and the flaws in the business model that led to them. Once the Board was informed of the truth of these totally unacceptable problems, we took immediate and decisive action. It began by commissioning an independent review to investigate the root causes of the issues. Based on that work, the Board oversaw profound changes at every level of the company. There is a new management team in place, with valuable perspective from peer institutions, and there is new expertise with a diversity of experience on the Board. We also oversaw the complete restructuring of the Bank's internal operating model, making it simpler and more centralized, and the building of a new risk management platform from the ground up.

Wells Fargo still has significant work to do. The breadth of the cultural and systemic transformation has taken time to implement— more time than anyone anticipated, and more time than any of us, especially on the Board of Directors, would have liked. We have shared the Committee's, our regulators', and the Board's frustration that the Bank has not yet satisfied all

aspects of the consent orders that the company has entered into. We are confident that the Board of Directors will continue to hold management accountable until the job is finished.

Throughout our tenure on the Board, however, we were continually mindful that the Board cannot supplant management in the administration of the enterprise. Consistent with widely accepted principles of corporate governance, the Board's primary responsibilities are to oversee the company's management and business strategies, to select a well-qualified CEO, to monitor and evaluate the CEO's performance, and importantly, not to micromanage the company's business. Both Jim and I were instrumental in leading the search for and recently hiring a new CEO, Charlie Scharf, and we have confidence in his ability to be an effective agent of change at the Bank. We know our former colleagues on the Board are determined to provide him the space and support to carry forward the critical improvements that are underway.

In this statement, I briefly describe my background and why the work we did to make good on our commitments to our customers, and to our hundreds of thousands of employees, is so important to me. I then summarize the Board's actions in response to the past issues in the Community Bank and our work to fundamentally change the organization, both in terms of holding management accountable and building a new structure to make sure the institution is worthy of the trust our customers place in us every day. As Board members, we shared our regulators' high expectations for meaningful change, and we are confident Wells Fargo today is on course to get there.

I. Background and Experience

I started my banking career as part-time drive-through teller. When I needed a full-time job, I transitioned to a start-up bank as a new account clerk—the second-lowest paid employee. Over time, I began to take on management roles, and when the CEO of that bank died, I took on his role. I built my career on that foundation as a community banker, including lending to individuals and small businesses, one loan at a time.

I worked my way up by getting to know my customers, sitting across the table from them and learning about their businesses and their needs, about their families and their aspirations. By helping them meet their goals, I found my own.

I became the first woman to chair the American Bankers Association. In 2008, I became a member of the Board of Governors of the Federal Reserve System, and worked to keep access to lending available during the depths of the financial crisis. Before I resigned from Wells Fargo, I was the only woman serving as Chair or CEO of a major American financial institution—and I hope many more will follow.

Working as a community banker during the economic downturn of the early 1990s gave me a vivid understanding of the impact that access to financial services can have on people's lives. I drew heavily on those lessons when the 2008 crisis hit. I chaired the Federal Reserve Board's Committee on Consumer and Community Affairs, and I also served on the Supervisory and Regulatory Affairs Committee.

In those roles, I shaped the implementation of new regulations for consumer protections and on safety and soundness when a number of institutions failed. I was also actively involved

in the Federal Reserve's oversight of mortgage-lending activities and its attempts to restore the flow of credit to individuals and small business. When I toured the country to meet directly with organizations that invest in low- to moderate-income areas, I was deeply impressed with Wells Fargo and its significant role serving main street customers with mortgage loans, auto loans, and small business loans.

That was the primary reason I accepted the invitation to join Wells Fargo's Board in 2015. I am a community banker, and Wells Fargo struck me as a bank that reflected my values. During my tenure on the Board, I found that Wells Fargo is strong financially and effectively serves the needs of many customers and communities, but it is also a bank with operational and cultural weaknesses that have hurt customers. I have not shied away from challenges in my career, and my service on the Board of Wells Fargo was no exception.

II. Wells Fargo's Steps Toward a Fundamental Transformation

The past few years have been very difficult ones for the Bank, its customers, its employees, its management, and the Board. I want to be crystal clear in saying this: Wells Fargo let customers and employees down, and I believe every single Board member is committed to making sure that does not happen again. Unfortunately, the Board was misled on the sales practices issues initially, and we focused immediately on determining how that happened and making sure it never does again.[1] Based on the Board's meetings and discussions with management, the Board believed at the time that the problems were serious but isolated, involving a discrete group of employees in the Community Bank.

The Board learned later—from public settlements with the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, and the Los Angeles City Attorney—that the true number of Wells Fargo employees terminated for sales practice violations was over twenty times higher than we had been led to believe. The Board, in the fall of 2016, retained independent counsel to conduct a full and unfettered investigation into the scope and causes of the misconduct. We made the report of that investigation public, and instructed Board counsel to assist Congress, the DOJ, and SEC in their investigations. Since that time, the Board has acted decisively to repair the damage done, to rebuild our Bank, and to regain our customers' trust.

Doing this the right way takes a great deal of work and perseverance, and as much as all of us wish it were already complete, it also takes a great deal of time. Yet we were determined not only to fix the problems of the past, but to do the painstaking work of transforming Wells Fargo's leadership culture so that management is able to rebuild operations from the ground up. Regulators, employees, and customers deserve more than a short-term solution to these significant structural and regulatory issues. The highest priority is to make the hard changes that

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[1] Appendix A to this testimony summarizes the independent assessments of the Department of Justice ("DOJ"), the Securities and Exchange Commission ("SEC"), Office of the Comptroller of the Currency ("OCC"), and the Independent Board Investigational Report about management's failure to escalate the sales practices misconduct to the Board and the Board's responses once it became known.

will be sustainable for Wells Fargo far into the future, because customers expect and deserve for Wells Fargo to be there with them.

A. The Board Has Overseen Transformational Change to Remake Wells Fargo

Since 2016, the Board oversaw significant changes across the institution in terms of how the Bank is organized, simplifying and centralizing structures, and building systems to measure and sustain accountability across the enterprise.

Today, I want to touch on a few areas that were our top priorities. Wells Fargo is not where it needs to be yet. But more than at any point since the sales practices issues came to light, I am confident Wells Fargo has the right team in place and that they are moving in the right direction to satisfy regulatory obligations.

The transformation we oversaw took two forms: changes to the Board itself, and enhanced oversight of management's work to improve key aspects of the Bank's day-to-day operations and the remediation of customer harm.

1. *Enhanced Board Governance and Composition*

We started with ourselves. We made profound changes to the structure of the Board, how it receives information from management, and the way it carries out its oversight role. Recognizing that our Board needed new areas of experience and fresh perspective, we also added strong new Board members. We are confident that the transition to new Board leadership will be seamless.

Changes to Board Governance. When I became Chair in 2018, I incorporated many lessons I learned from the Board's sales practices investigation report. I also discussed Board governance with investors representing over half of the outstanding shares, spearheaded the formation of a Stakeholder Council that included national leaders on corporate responsibility, studied the Notice of Public Rulemaking issued by the Federal Reserve outlining expectations for Board Governance of Financial Institutions, and engaged an independent third party to facilitate our Board self-evaluation. Consistent with the Federal Reserve's proposed guidance, we focused our efforts on setting clear and consistent direction for management, actively managing information flow and Board discussions, supporting the independence and stature of independent risk management and internal audit, and holding senior management accountable.

Board Composition. The Board recruited me in 2015 to meet the Federal Reserve's Enhanced Prudential Standards for large U.S. bank holding companies, which requires at least one member of the Risk Committee to have experience identifying, assessing, and managing risk exposures of large financial firms. Even after my resignation, there are four independent directors with banking experience and one former senior executive of MetLife, an insurance company that was designated as a Systemically Important Financial Institution. Three of those five directors meet the Federal Reserve definition of a risk expert.

As the first woman to chair the American Bankers Association and the first woman to chair the board of a major financial institution, I am acutely aware of the historic lack of diversity in this industry. The Wells Fargo Board has a long tradition of board diversity. When

Suzanne Vautrinot and I joined the Board in 2015, seven of the fifteen independent directors were women. Although eleven of the last thirteen independent directors to leave the Board were diverse, today there are still three women and three racially diverse directors. To make sure we retained our focus on diversity, I insisted on diversity in the Governance Committee, which recruits new directors, and the Human Resources Committee, which is responsible for human capital decisions and culture. The CEO Search Committee chaired by Jim Quigley was diverse by gender, ethnicity, and time on the Board.

Board Organization. We reviewed and changed the membership and charters of our Board committees. In particular, we eliminated the overlap between the Audit and Risk Committees, focusing the responsibilities of the Audit Committee to those more traditionally associated with audit and focusing the Risk Committee on oversight of risk management. To focus specifically on compliance and technology risk management, we created sub-committees of the Risk Committee in those areas. We assigned responsibility for oversight of conduct and culture to the Human Resource Committee. The Corporate Responsibility Committee's charter was refocused on the Board's oversight of environmental, social and governance matters.

Board Information. We revamped reporting to the Board to prioritize delivery of the information the Board needs to execute effective oversight. Improvement of Board reporting is still a work in progress. In addition to reports from management and regulators, our directors receive daily reports of media stories that mention Wells Fargo. Directors routinely question management about any issue that surfaces in the press or from other external sources.

2. *Regulatory Engagement*

Throughout our tenure on the Board of Directors, we shared our regulators' high expectations for change at Wells Fargo. Under normal circumstances, the Board's direct contact with the Bank's regulators is limited to a single annual meeting between the regulators and the full Board, and periodic meetings between select directors and the senior examiner. In recognition of the unusual circumstances facing Wells Fargo, however, our direct Board communication with regulators was more frequent, frank and continuous. Over the past few years, there were times that each of us spoke to regulators every single day. Since we no longer speak on behalf of Wells Fargo, it would be inappropriate for us to address or characterize current and ongoing regulatory engagement and so we defer to the comments yesterday of Wells Fargo CEO Charles Scharf. I can say, however, that when I was Chair of the Wells Fargo Board, my expectations for the risk management standards of the company were just as high as my expectations for all systematically important financial institutions when I was a member of the Board of Governors of the Federal Reserve System.

It is worth highlighting briefly here the changes the Board has overseen in the way management moves toward meeting Wells Fargo's goals.

Strengthened Management Structures for Operational and Compliance Risk. The past few years have required the Board to take an unusually hands-on role in restructuring Wells Fargo. Under the Board's leadership, the Bank has centralized previously federated internal structures in order to ensure operational risk problems are more easily surfaced, tracked, and resolved.

Holding Management Accountable. The Board has fundamentally changed its approach to compensation for senior leaders by linking pay more closely to non-financial risks. In 2018, the Board's Human Resources Committee introduced an enhanced performance objective framework that focuses on pre-established financial, strategic, and risk management objectives. This allows that Committee to assess performance against set objectives, to reward senior leaders when expectations are met or exceeded, and to hold them accountable for both what they achieve and how they achieve it. And in 2019, the Board introduced a regulatory performance condition that gives the Human Resources Committee discretion to forfeit all or a portion of an unpaid award based on the executive's role and responsibility for the Bank's progress in resolving outstanding regulatory matters.

Even before these new frameworks were put into place, the Board used risk forfeiture conditions in its compensation structure to hold executives accountable for failures in sales practices. In recognition of their collective failure to identify and escalate this conduct, the Board withheld 2016 cash bonus payments from eight members of Wells Fargo's Operating Committee in 2017, and imposed forfeitures, clawbacks, and compensation adjustments totaling more than $180 million from responsible senior management. These included approximately $69 million from former CEO John Stumpf and approximately $67 million from the former head of the community bank.

Transforming Our Culture. Our investigation into the problems that led to sales practices and other customer abuses made clear to us that the Bank's culture needed fundamental change. First and foremost, under the Board's leadership, the Bank quickly ended the sales goals for Wells Fargo products that fostered a toxic environment at the Community Bank. Compensation incentives at the Community Bank are now designed to reward our employees and their immediate supervisors for fulfilling Wells Fargo's core mission: meeting our customers' needs. Additionally, entry-level bankers' compensation is now based on team performance, rather than individual performance, to promote a cooperative and open culture.

Management Changes. Bringing in external candidates for key leadership roles has been important in the overall transformation. The Board's objective in supporting these hires was to eliminate stale or ineffective strategies and to get fresh insights into what other banks in the industry are doing right. The Bank has hired a number of experienced, top-tier executives in the areas where Wells Fargo needs them the most, including hiring the former Chief Risk Officer of Consumer and Community Banking at JP Morgan Chase, Amanda Norton, to lead that function, and hiring Sarah Dahlgren, a twenty-five year veteran of the Federal Reserve Board, as Head of Regulatory Relations. In addition, the Bank has added a new Chief Compliance Officer, Mike Roemer, who came to us from the same position at Barclays; a new Head of Technology, Saul Van Beurden, who was previously Chief Information Officer of consumer and community banking for Chase; a new Chief Auditor, Julie Scammahorn, who was Chief Auditor at Citibank, N.A; and a new Chief Human Resources Officer, David Galloreese, who was former Chief HR officer at Sam's Club and Head of Talent at Walmart.

B. The Board Selected Mr. Scharf to Act as a Change Agent

Of course, our most significant recent management hire is a new Chief Executive Officer, Charlie Scharf. At my request, Mr. Quigley led an extensive six-month search, and after

interviewing a number of excellent candidates, we determined that Mr. Scharf was best positioned to lead Wells Fargo and to continue its transformation. Our selection was guided by the professional and personal qualities that we believe make Mr. Scharf an ideal change agent for the Bank.

Mr. Scharf is a proven leader with more than 24 years of executive experience in the banking and payments industries. He has served as chairman and CEO of BNY Mellon and as director and CEO of Visa, and at both companies, he has been widely recognized as a transformative leader. In hiring him, we valued Charlie's strong track record in revitalizing and streamlining corporate structures and hiring diverse teams, and we expect him to play a similar role at Wells Fargo.

We have been pleased to see that Mr. Scharf has seized this new challenge with both hands. He has continued the work to attract top-quality leaders to support him, including a new Chief Operating Officer, Scott Powell, who will centralize the reporting line for operational matters. Mr. Powell was previously the Chief Executive Officer of Santander US and headed consumer banking and consumer-related risk functions at JP Morgan. The company will draw on all of the new officers' decades of external leadership experience to ensure that Wells Fargo not only keeps pace but leads with new standards at the top of the industry.

We know that Mr. Scharf fully recognizes both the scale and degree of work that needs to be done, and that he has the full set of skills to execute. We greatly appreciate his candor in assessing the Bank's weaknesses and the dedication he has already shown to its transformation. The Board, we are certain, will continue to exercise close oversight to ensure he builds effectively on the progress the Bank has made so far— and in particular that he leads the Bank's regulatory progress with an appropriate sense of urgency. Based on his first months at the Bank, we are confident that he will meet the high expectations of customers, regulators and the Board.

III. Wells Fargo's Employees

We understand that Wells Fargo's employees were also negatively impacted by the past cultural and compliance problems—both by the toxic workplace issues that we have learned about and by the negative reputational effects on Wells Fargo as a whole. We want to take this opportunity to thank the company's employees for their continued dedication and service in a challenging time of change. Wells Fargo's failures belong to its leadership, but the Bank's successes belong to our workforce.

Jim and I firmly believe that Wells Fargo's people are its primary competitive advantage in the industry. The team mirrors the makeup of America: 44% of the U.S. workforce is ethnically or racially diverse, and 57% are women. Wells Fargo currently has more than 8,400 self-identified veteran team members. We believe that this range of backgrounds will help the institution continue to innovate and make smarter decisions at all levels of the business, and that the institution will provide better and more empathetic service to our customers as a result.

IV. Conclusion

Wells Fargo's vision statement, which Mr. Quigley and I carried with us every day we served on the Board, is "to satisfy our customers' financial needs and help them succeed

financially." We are proud of the work we did to help Wells Fargo carry out that mission, and we both believe that the fundamental transformation we helped to oversee is taking hold. We have the deepest respect for our former colleagues who will carry on that work from here, and we look forward to watching them continue to make Wells Fargo an institution deserving of the trust of customers, employees, and the public.

Appendix A

INDEPENDENT ASSESSMENTS

The following quotations reflect independent external assessments of management's failure to escalate the sales practices misconduct to the Board of Directors, the Board's response to the company's sales practices misconduct once they became aware of it, and the role of the Board in cooperating with authorities, conducting an independent investigation, and overseeing remediation of consumer harm.

I. Independent Assessments of Management's Failure to Escalate the Sales Practices Misconduct and Misleading the Board

A. February 21, 2020 DOJ Deferred Prosecution Agreement

Exhibit A: Statement of Facts

28. On numerous occasions, Community Bank senior leadership, including Executive A, also made statements and gave assurances to the Company's management and Board of Directors that minimized the scope of the sales practices problem and led key gatekeepers to believe the root cause of the issue was individual misconduct rather than the sales model itself. Until approximately 2015, Community Bank senior leadership viewed negative sales quality and integrity as a necessary byproduct of the increased sales and as merely the cost of doing business. They nonetheless failed to advise key gatekeepers of the significant risks that the non-needs-based selling posed to the Company.

B. February 21, 2020 SEC Order

34. On numerous occasions, Community Bank senior leadership also made statements and gave assurances to the Company's management and Board of Directors that minimized the scope of the sales practices problem and led key gatekeepers to believe the root cause of the issue was individual misconduct rather than the sales model itself. Until

approximately 2015, Community Bank senior leadership viewed negative sales quality and integrity as a necessary byproduct of the increased sales and as merely the cost of doing business. They nonetheless failed to advise key gatekeepers of the significant risks that the non-needs-based selling posed to the Company.

C. January 23, 2020 OCC Consent Order

(8) From at least 2013, Respondent's efforts were inadequate in advising the CEO and the Board of Directors that the Community Bank's business model posed significant risks and incentivized illegal activity, that the relevant controls were deficient, and that the Community Bank was not resolving the problem

D. January 23, 2020 OCC Notice of Charges

(120) Even after the Community Bank's sales practices misconduct problem became a national news story in October and December 2013, Respondents in the Community Bank, the Law Department, and Audit failed to take actions consistent with their respective responsibilities to identify, correct, and/or escalate the sales practices misconduct problem.

(122) None of the Respondents ever escalated the 14-year sales practices misconduct problem to the Board or the OCC.

(124) Even after Respondents Tolstedt and Russ Anderson were directed to inform the Board and the OCC about the sales practices misconduct problem, they provided false, misleading, and incomplete reporting on the root cause, duration, and scope of the problem, and the adequacy of the controls.

(126) Respondent Tolstedt and her leadership team, including Respondent Russ Anderson, with assistance from the Law Department, prepared written materials for a meeting of the Risk

Committee of the Board covering sales practices on May 19, 2015 ("May 19, 2015 Memo"). The May 19, 2015 Memo was false, misleading, and incomplete.

a. For example, the May 19, 2015 Memo falsely ascribed the root cause of the sales practices misconduct problem to "intentional team member misconduct based on the fact that only a small percentage of Retail Banking team members engaged in the outlier behavior." The materials did not reveal that "outlier behavior" referred to only the most egregious misconduct detected by applying the highly restrictive 99.99 and 99.95% thresholds to only a limited set of misconduct.

b. As another example, the May 19, 2015 Memo falsely stated that the Bank's controls were effective.

(128) In May 2015, when Respondent Tolstedt provided to the CEO for his review a draft memorandum for the Risk Committee of the Board, the CEO advised that the committee was interested in information on the number of products sold without customer consent and termination figures. Nonetheless, despite the CEO's instructions, the final memorandum provided to the Risk Committee of the Board and to the OCC omitted such key information that would have aided in the Board's and the OCC's understanding of the magnitude of the sales practices misconduct problem.

(129) The former CEO provided the following testimony before the OCC:

Q: Okay. Sitting here today, sir, do you agree that this [May 19, 2015] memo misleads the Board, whether intentionally or not, it misleads the Board about the scope of the problem, the root cause of the problem, and the adequacy of the bank's controls.

A: I would agree with that.

. . .

Q: Sir, we were discussing the May memo to the Board. Would you agree that, if that – since that May memo was also presented to the OCC, then that May memo was also misleading to the OCC on the root cause, the extent of the problem, . . . and the adequacy of the bank's controls?

A: I would agree with that.

(220) When forced to present on sales practices to the Board, Respondent Tolstedt provided false, misleading, and incomplete information about all aspects of the sales practices misconduct problem.

(221) Respondent Tolstedt first presented to the Board on sales practices on or around April 28, 2015, and only after being so directed.

a. During the April 2015 presentation, Respondent Tolstedt failed to inform the Risk Committee of the Board about critical aspects of the sales practices misconduct problem.

b. For example, Respondent Tolstedt failed to inform the Risk Committee that the sales practices misconduct problem was widespread, and failed to inform the Committee of its root cause, duration, and scope.

(230) Respondent Tolstedt never informed the Board about the inadequate controls to prevent and detect sales practices misconduct.

(234) Respondent Tolstedt ultimately did present at the Board meeting held on or around October 26-27, 2015. At this meeting, she failed again to inform the Board about critical aspects of the sales practices misconduct problem. She failed to inform the Board that the

sales practices misconduct problem was widespread, and failed to inform the Board of its root cause, duration, and scope.

(236) Despite knowledge to the contrary, at no point in any of her presentations to the Board did Respondent Tolstedt attribute the sales practices misconduct problem to the Community Bank's business model.

(237) Despite knowledge to the contrary, at no point in any of her presentations to the Board did Respondent Tolstedt attribute the sales practices misconduct problem to the unreasonable pressure, unreasonable sales goals, employees' fear of termination for not meeting the unreasonable sales goals, and the inadequate controls for preventing and detecting the misconduct.

(303) Not only did Respondent Strother fail to properly escalate the sales practices misconduct problem to the Board or the CEO, he provided the Board with false, misleading, and incomplete information about sales practices misconduct even after the May 2015 Los Angeles City Attorney's lawsuit. Respondent Strother provided that same information to the OCC. Respondent Strother never corrected the false, misleading, and incomplete information provided to the Board and the OCC about sales practices misconduct.

(355) The Law Department that Respondent Strother supervised knew about the root cause and scope of sales practices misconduct during the entire time the problem existed, which coincided with his tenure as General Counsel. Respondent Strother himself recognized the "systemic nature of sales practice[s] misconduct [by] Fall 2013." Nevertheless, he failed to escalate the sales practices misconduct problem to the Board and the CEO. Regardless of the amount of information supplied to him about the sales practices misconduct problem, at no point during his tenure as General Counsel did Respondent

Strother advise the Board and the CEO that the Community Bank's business model motivated employees to break the law, that the business model needed to be changed, and that the Bank's controls were inadequate and not reasonably designed to prevent and detect serious legal violations associated with sales practices misconduct.

(359) Shortly after the Los Angeles City Attorney lawsuit, Respondent Strother submitted the May 19, 2015 Memo to the Risk Committee of the Board, which contained false, misleading, and incomplete information about critical aspects of sales practices misconduct in the Community Bank, including the scope, extent, duration, and root cause of the problem, and the adequacy of controls used to prevent and detect illegal activity.

(412) Respondent Julian failed to identify and escalate the sales practices misconduct problem to the Audit and Examination Committee, the full Board, or any of the committees on which he served. Respondent Julian's reports to the Audit and Examination Committee never identified the systemic sales practices misconduct problem at the Community Bank.

(424) These failures allowed the problem to persist for years and prevented the Board from being accurately informed on the topic.

E. April 20, 2017 Report of Independent Directors of the Board of Wells Fargo & Company on Sales Practices ("Independent Board Investigational Report")

Executive Summary (pages 8-9):

Wells Fargo's decentralized organizational structure and the deference paid to the lines of business contributed to the persistence of this environment. Tolstedt and certain of 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 were frequently afraid of or discouraged from airing contrary views. Tolstedt effectively challenged and resisted scrutiny both from within and

outside the Community Bank. 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. Although they likely did so to give themselves freedom to address these issues on their own terms, rather than to encourage improper behavior, the dire consequences and cost to Wells Fargo are the same.

Corporate Control Organizations (page 14):

Finally, until as late as 2015, even as sales practices were labeled a "high risk" in materials provided to the Risk Committee of the Board, there was a general perception within Wells Fargo's control functions that sales practice 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"; and "customer harm" 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.

The Board of Directors (pages 15-16):

While management appropriately identified sales practice issues to the Board and Risk Committee by way of the written noteworthy risk reports, the written and oral presentations made to the Risk Committee in May 2015 and to the full Board in October 2015 were inadequate. Board members believe that they were misinformed by the presentation made to the Risk Committee in May 2015 — which disclosed that 230 employees had been terminated in the

Community Bank but did not provide aggregate Community Bank-wide termination figures that the Risk Committee had expressly requested and which were far higher. A subsequent report to the entire Board by Tolstedt in October 2015 was widely viewed by directors as having minimized and understated problems at the Community Bank.

In May 2016, the Board's Audit & Examination ("A&E") Committee received a written presentation providing accurate termination figures for sales practice violations in the Community Bank for 2014 and 2015: 1,327 in 2014, declining by 30% to 960 in 2015. In July, the A&E Committee received termination figures for the first five months of 2016: 483 in the Community Bank. Tolstedt left the Community Bank effective July 31, 2016.

On September 8, 2016, through settlements with the Consumer Financial Protection Bureau (the "CFPB"), the Office of the Comptroller of the Currency ("OCC") and the Los Angeles City Attorney, the Board learned for the first time that approximately 5,300 Wells Fargo employees had been terminated for sales practice violations between January 1, 2011, and March 7, 2016. Discontinuation of sales goals and commencement of this investigation followed shortly thereafter.

From Publication of Los Angeles Times Articles in October and December 2013 to Filing of Los Angeles City Attorney Lawsuit in May 2015 (pages 76-77):

From the publication in the Los Angeles Times of articles about the Los Angeles/Orange County investigation in October and December of 2013 until the filing of the Los Angeles City Attorney lawsuit in May 2015, Law Department attorneys provided legal advice in connection with two sales integrity projects. While sales practices were conveyed to the Risk Committee and the Board in 2014 as a "noteworthy risk," the information, discussion and advice that accompanied that risk did not highlight or identify the potential consequences of the misconduct

that were distinctly legal in nature — e.g., a cascade of civil litigation, regulatory action from a host of federal and state agencies and the resulting serious harm to Wells Fargo's reputation.

In September 2013, SSCOT and Internal Investigations launched an investigation into the Los Angeles/Orange County regional bank as a result of sales quality reports that identified unusual funding and phone number change activity. At the time, simulated funding was considered to be a new and different form of gaming behavior.

Although some line-level employment lawyers provided advice and guidance in the course of the investigation, its significance was not escalated, and senior employment attorneys only learned details of the investigation after the media began to inquire about the terminations. At that point, in early October 2013, the then-head of the Enterprise Services Division and the head of the Employment Law Section became concerned at this lack of escalation by the linelevel attorneys.

At the end of October, the Head of Enterprise Services briefed General Counsel James Strother and later CRO Loughlin about the investigation. The Law Department did not further escalate the existence or details of the investigation to the Board or any Board Committees at that time.

The Board of Directors (pages 97-110):

Prior to 2014, sales practice or sales integrity issues were not flagged as noteworthy risks either to the Board of Directors as a whole or to any Board committee. The principal report on noteworthy risks provided to the Board of Directors, starting at least with the first quarter of 2010, was prepared by the Enterprise Risk Management Committee, which included the most senior executives in the Risk, Compliance, Legal and Finance organizations. The ERMC prepared quarterly written reports to the Board of Directors that identified the Top Enterprise

Risks facing Wells Fargo, typically flagging 20-40 such risks. Prior to 2014, sales practice issues were not among the identified risks.

. . .

Throughout 2014, the quarterly "Noteworthy Risk Issues" submitted to the Risk Committee, two of which were also provided to the Board, continued to rank sales practices as a High and increasing risk, although it was not included in the Executive Summary covering the most important enterprise risks. The Board and Risk Committee thereafter received assurances from the Corporate Risk group, the Community Bank and Human Resources that sales practice issues were the subject of heightened attention, that the control environment was operating effectively and that the situation was improving.

II. Independent Assessments of the Board's Role in Responding to and Remediating Sales Practices and Related Issues

A. February 21, 2020 DOJ Deferred Prosecution Agreement

Deferred Prosecution Agreement

2.c. Wells Fargo's cooperation, through its Board and company counsel, with the USAOs' investigation of the facts, which has substantially assisted the government's efforts and has included:

i. The Board's commissioning of a detailed and transparent independent internal investigation, with the assistance of outside counsel, which culminated in a detailed written, public report of its findings;

ii. The Board's extensive actions in connection with the collection, analysis, and organization of vast amounts of relevant data and evidence;

iii. The Board's synthesis and presentation of relevant facts at regular intervals during its investigation, including making additional factual presentations to the USAOs;

iv. Identifying and organizing voluminous evidence and information for the USAOs on certain topics;

v. Making Wells Fargo witnesses available for interviews on a variety of subjects;

vi. Allowing the USAOs access to certain of its consultants and certain material prepared by those consultants;

vii. Assisting the USAOs in complex data analytics projects; and

viii. Assisting in obtaining waivers from various other federal agencies to share Confidential Bank Supervisory Information.

2.g. Wells Fargo's undertaking of remedial measures, which have included:

i. The significant reconstitution of Wells Fargo's Board of Directors, with eight of its thirteen independent directors having been newly appointed since 2016 (when the conduct under investigation ended);

ii. Significant management turnover since 2016, including a new Chief Executive Officer, Head of Community Bank, Chief Operating Officer, Chief Auditor, General Counsel, and Chief Risk Officer;

iii. The enhancement of its compliance program, internal controls, and corporate risk function; and

iv. Significant work to identify and compensate Wells Fargo customers who may have been victims of identity theft or subject to improper or fraudulently imposed fees.

B. February 21, 2020 SEC Order

51. In determining to accept Wells Fargo's Offer, the Commission considered that Wells Fargo since 2016, has undertaken remedial measures to address the sales practices misconduct, including: terminating certain employees for their roles relating to the misconduct; replacing the majority of the Operating Committee – Wells Fargo's senior-most management committee; reconstituting its Board of Directors such that a majority of the independent directors are new; and reorganizing itself to centralize control functions.

C. April 20, 2017 Independent Board Investigational Report

Overview of the Report (page 0):

The Board has taken numerous actions and supported management steps to address these issues. Wells Fargo has replaced and reorganized the leadership of the Community Bank. It has also eliminated sales goals and reformed incentive compensation. Centralization of control functions is being accelerated. The Board has separated the role of the Chairman and the CEO, strengthened the charters of Board Committees and established regular reporting to the Board by the new Office of Ethics, Oversight and Integrity. As a result of the investigation, the Board has terminated for cause five senior executives of the Community Bank and has imposed forfeitures, clawbacks and compensation adjustments on senior leaders totaling more than $180 million.

Executive Summary (pages 8-9):

As this investigation confirmed, the only way definitively to address the broken sales model and the root cause of sales practice abuses was to emphasize other metrics for performance and to abandon exerting pressure through sales goals and sales-driven incentive programs. With the concurrence of the Board, Wells Fargo announced on September 13, 2016, that the Community Bank would eliminate product sales goals in the retail bank. To address

misaligned compensation incentives, in January 2017 Wells Fargo put in place a new incentive program that focused on customer service rather than selling products.

Also, growing out of this investigation, on February 21, 2017, the Board announced the termination for cause of four officers within the Community Bank: its Group Risk Officer, its Head of Strategic Planning and Finance, who was primarily responsible for overseeing the sales goals and incentive system, and two senior regional banking leaders who had headed Los Angeles and Arizona and who encouraged and deployed especially improper and excessive sales practices. In doing so, the Board accorded credit to and treated differently other senior Community Bank leaders who made reasonable, good faith efforts to challenge and escalate concerns over sales goals and conduct.

Previously, on September 25, 2016, the Board caused to be forfeited $19 million of Carrie Tolstedt's unvested equity awards and determined that she should not receive a bonus or severance. On April 7, 2017, following consideration by the Human Resources Committee and by the Independent Directors, it was determined that the finding made by the Board on September 25, 2016, that cause existed for terminating Tolstedt's employment was appropriate, with resulting forfeiture of her outstanding stock options awards with a current intrinsic value of approximately $47.3 million.

The Board of Directors (pages 14-18):

Finally, without waiting for completion of this investigation, the Board made several changes to its own corporate governance. In early 2017, Wells Fargo combined Global Ethics and Integrity, Internal Investigations and sales practices and complaint oversight into a new Office of Ethics, Oversight, and Integrity, and the Risk Committee's responsibilities have been expanded to include oversight of that office. In addition, the Office of Ethics, Oversight, and

Integrity will report on its activities to the full Board at least twice a year. The Human Resources Committee's charter was modified to expand oversight of the incentive compensation risk management program, with support from Corporate HR, and to increase its oversight of terminations, culture and EthicsLine implementation. The Corporate Responsibility Committee's charter was also amended to require that the committee receive enhanced reporting from management on customer complaints and allegations from other sources, such as the EthicsLine, relating to customers. And the A&E Committee's oversight responsibilities for legal and regulatory compliance were broadened to include the company's compliance culture. These steps should help to clarify Board oversight of conduct risk, provide for greater centralization of review and oversight and augment reporting to the Board of the type of issues that contributed to the breakdown in Wells Fargo's sales culture.

HEARING BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES

March 11, 2020

Testimony of James Quigley

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee. I am here to share my perspectives as a former Member of the Board of Wells Fargo on the Bank's commitment to its customers and to restore its brand and realize its aspirational vision and purpose. As the Committee is aware, I decided to resign from the Board to permit the Bank to turn the page and move forward with a focus on its future.

I brought to my role as a Wells Fargo Board member a deep conviction in the values of trust and confidence. I learned those values from my parents, a forest ranger and a school teacher, and I took them with me to Deloitte, where I rose to become the CEO.

Restoring public and customer trust and confidence in Wells Fargo were our most important priorities after we learned of the egregious sales practices. In her written testimony, Ms. Duke has detailed many of the transformational changes that the Board has overseen in our efforts to do everything possible to ensure that similar problems never happen again. While there is more to be done, undeniably, I believe Wells Fargo is making progress.

I would like to highlight two changes that are particularly important to me. *First*, the Board oversaw a huge investment to strengthen the compliance function of Wells Fargo. One of my roles at Deloitte was leading the Manufacturing Group, so I understand the importance of "Zero Defects"; I know why it's critical to do it "Right the First Time." I carried that thinking with me to my governance and oversight role at Wells Fargo. I wanted zero customer harm. If it

ever occurred, I wanted it detected through the Bank's control and monitoring processes, and remediated as quickly as humanly possible.

As Mr. Scharf has testified, the Bank's compliance teams have added more than 3,300 employees since the end of 2017, more than doubling the size of that function in less than three years.

Second, the Board encouraged and supported the changes in the senior management of the Bank, bringing new capability and stimulating cultural change. Since 2016, Wells Fargo has hired a new Chief Operating Officer, Chief Risk Officer, General Counsel, Chief Auditor, Chief Compliance Officer, Head of Human Resources, and Head of Technology. I personally devoted much of 2019 to leading the search for a new CEO, and I am confident that we selected the best candidate to lead the Bank. Because I believe deeply in the critical role of culture in an organization like Wells Fargo, I was especially supportive of the culture Mr. Scharf is working to establish—one with clear priorities, best-in-class standards for operational excellence and integrity, a unified Bank with clear line of sight across the business, accountability of management, and—most important of all—a renewed commitment to completing the work of doing right by our customers and satisfying our regulators.

The cultural and structural changes that are necessary to address the Bank's challenges are far-reaching. We believed that getting those things right, and in a way that will result in lasting change, ultimately serves customers and employees better than doing them quickly. I believe the changes we oversaw will make Wells Fargo stronger, more reliable, and more deserving of customer trust. And, while there is still more to do, I am confident that the company is moving in the right direction. Because I am no longer a member of the company's Board, I cannot speak for the Board today. I have my personal reflections, including the

importance of distinct and separate roles for management and the Board. Blurring those lines does not make the institution more safe or more sound. The Board must oversee the Company's management and business strategies, but it cannot replace or do the job of management, and that principle was critical to me during my tenure at Wells Fargo.

In my testimony today, I must also respect the limits on my ability to disclose confidential bank supervisory information. The regulators have not provided full CSI waivers, and I need to be particularly careful to stay within their limits.

Within those constraints, I look forward to answering the Committee's questions.

