

**STATEMENT OF
CHARLES W. SCHARF
CHIEF EXECUTIVE OFFICER & PRESIDENT
WELLS FARGO & COMPANY**

BEFORE THE UNITED STATES HOUSE COMMITTEE ON FINANCIAL SERVICES

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I. Introduction

Chairwoman Waters, Ranking Member McHenry, members of the Committee: Good morning. Thank you for the opportunity to be here today. I am Charlie Scharf, and I have the privilege of serving as Chief Executive Officer (CEO) and President of Wells Fargo. I joined the company just over four months ago after serving as CEO of BNY Mellon and Visa. I welcome the chance to discuss next steps for Wells Fargo.

The members of this Committee are familiar with Wells Fargo's history. Our past failures were recently detailed in our settlements with the Department of Justice and the Securities and Exchange Commission as well as the administrative actions taken against former employees by the Office of the Comptroller of the Currency (OCC). These matters describe deeply disturbing conduct that is utterly unacceptable and has no place in our company. In addition, the recently released reports from this Committee reinforce what I have said since I arrived: We have not yet done what is necessary to address our shortcomings.

Simply said, we had a flawed business model in how the company was managed. Our structure was problematic, and the company's leadership failed its stakeholders. Our culture was broken, and we did not have the appropriate controls in place across the company.

Today, I'd like to talk about our plan to chart a better course. I took this job because I believe that our country and communities benefit from a strong Wells Fargo. I am confident we can do what is needed to move this company in a significantly improved direction.

While it will take time, the transformation has begun. And, though I recognize the path forward will be difficult, I am optimistic about our future.

Here are some important steps we have taken so far.

II. Transforming Our Approach

First, I provided an honest assessment—both internally and externally—of our significant shortcomings and our failure to effectively address them. We have not met our expectations or the expectations of others.

Second, I made clear—also internally and externally—that we must prioritize the work outlined by our regulators above all else. Completing that work is essential to ensuring that the company is run with the highest standards of operational excellence and integrity.

Third, I am making substantial changes to our leadership. I have already brought in three new leaders and expect to add two more soon from outside the company to join our Operating Committee. Almost 75 percent of that group will be new to the company since the beginning of 2018. Hiring experienced people that have proven track records with the issues we face is necessary to bring about the change required.

Fourth, we reorganized the structure of our businesses to ensure we have clear responsibility and accountability across the company. We created a new role, a Chief Operating Officer (COO), who will ensure that high-quality, consistent execution and operational excellence become part of our culture—especially regarding our regulatory work.

Additionally, we announced a flatter organizational structure with more direct business representation on our Operating Committee. This will give me a clearer line of sight and more direct involvement across the company. These organizational changes will provide greater transparency into how our businesses are working, what kinds of risks they are taking on, how they are treating customers, and whether they are operating at the highest standards.

Fifth, we are introducing a new set of processes to thoroughly review progress against our regulatory work. For example, we have taken steps to bring clarity to our underlying issues and gain a better understanding of how those map onto our outstanding enforcement actions. We also introduced detailed monthly business reviews, which include a review of the critical issues in each of our businesses, not just financial performance.

Sixth, we altered our evaluation and compensation practices. We have significantly greater accountability and will continue to make tough decisions around our leaders.

Seventh, we are redefining our culture—especially regarding how we work together. We will have a strong centralized control infrastructure. We will ensure we have the right people in the right roles. We will move with a sense of urgency. We will hold each other accountable for our commitments. And we will judge ourselves based upon outcomes, not words.

III. Meeting the Expectations of Our Regulators

The steps outlined above will enable us to more effectively meet the expectations of our regulators, who rightfully expect us to remediate all regulatory and control issues in the company and to do so expeditiously. To date, we have not yet met their expectations or our own. That will change.

It is important that we are honest with ourselves about the scope of our challenges. We have a number of regulatory issues that require our urgent attention, and we will put all available resources toward ensuring that we operate with the strongest possible operational, risk, and control infrastructure. We are fully committed to completing all of our work, but this will take time.

Our goals are not different from those of our regulators. We are responsible for our actions, and it is our job to run the company so that we fulfill their expectations and those of the public.

To that end, we are making significant investments in our risk, compliance, legal, remediation, and complaint response teams. For example, our compliance teams have added more than 3,300 employees since the end of 2017.

Additionally, we recognize the compliance challenges that were posed by Wells Fargo's historical decentralized, federated model. We have centralized our approach to consent order compliance under the COO. We also formed our Strategic Execution and Operations Office, which provides centralized oversight and facilitates a coordinated response to our compliance issues.

IV. The Committee's Investigation

This Committee's investigation has primarily focused on five of Wells Fargo's open consent orders, all of which are incredibly important priorities for me and for the company. We are working diligently to achieve full compliance with these orders, and we are making progress. But historically our progress has been slower than it should be. I have reviewed the reports issued by the Majority and Minority of the Committee and agree that what is described is beyond disappointing and not the company we need to be. We simply have to do better, and we will.

A. Sales Practices Consent Orders

In September 2016, Wells Fargo entered into consent orders with the Consumer Financial Protection Bureau (CFPB) and OCC regarding improper sales practices, which primarily involved unauthorized products in our Community Bank.

Wells Fargo has paid more than \$46 million in remediation for direct and indirect harms associated with improper sales practices, and our remediation efforts are ongoing. Additionally, the company entered into a \$142 million class-action settlement related to improper sales practices, and payments in connection with the settlement are planned for this year.

Wells Fargo has also made changes geared toward ensuring that these types of practices do not recur. We eliminated the product sales goals that caused these problems. The most important

thing we can do as a business is to do what is right for our customers. To help ensure we always do that, the satisfaction of our customers is an important part of how we reward our employees.

B. Compliance Risk Management, Collateral Protection Insurance, and Mortgage-Rate Lock Extension Fee Consent Orders

In April 2018, Wells Fargo entered into two consent orders with the CFPB and OCC regarding compliance risk management, collateral protection insurance (CPI), and mortgage rate-lock extension fee issues. As part of these orders, the OCC identified deficiencies in the company's enterprise-wide compliance risk management program. In addition, the OCC and CFPB stated that Wells Fargo caused the improper placement and/or maintenance of CPI policies on automobile loan accounts and charged premiums, interest, and other fees on borrowers' accounts, where the borrowers had demonstrated adequate insurance under the terms of their automobile loan. The OCC and CFPB further found that Wells Fargo charged certain customers mortgage interest rate-lock extension fees, when, under the company's rate-lock extension policies, such costs should have been borne by the company.

With respect to CPI, Wells Fargo is paying more than half a billion dollars to harmed customers, and remediation efforts are ongoing. We also no longer place CPI and have not since September 2016.

Likewise, Wells Fargo has made progress toward remediating customers impacted by improperly charged mortgage rate-lock extension fees. The company has paid more than \$101 million in remediation as of January 2020. We offered refunds to all customers who paid a rate-lock extension fee for extensions requested between September 2013 and February 2017, no questions asked and no documentation required, whether the fee was appropriately assessed or not. We also revised our rate-lock extension fee policy and established a centralized group to review all rate-lock extension requests. This helps ensure the policy is interpreted consistently and enhances our ability to monitor the effectiveness of the process.

C. Board Effectiveness and Risk Management Consent Order

In February 2018, Wells Fargo entered into a consent order with the Board of Governors of the Federal Reserve System. The order requires Wells Fargo to further enhance the Board of Directors' effectiveness in carrying out its oversight and governance of the company and to further improve its company-wide compliance and operational risk management program. The order also places restrictions on Wells Fargo's asset growth. We are working hard to address the Federal Reserve's concerns. The decision to lift the asset cap is one our regulators will make when they feel it is appropriate. We are focused on getting the work done right.

V. More to Be Done

I recognize that we must act with great urgency with respect to our consent order compliance. Though many have asked for precise timelines around resolution of these matters, I cannot provide that today. What I can say is that we are going to do the work that is required.

As we do, I have no preconceived notions about what size our company should be, though I firmly believe we must be able to manage all of it. In recent years, there have been areas in which we have simplified our business model and exited certain businesses that are not core to our corporate priorities. I can tell you that I am taking a fresh look at how we operate and what additional changes we need to make.

Ultimately, our regulators and other stakeholders will decide when our work is done to their satisfaction. As I have said before, my experience is that our regulators are clear and direct, tough but fair. The work is on us at this point. Our future success depends on us getting it done right.

Relatedly, we must make sure that we have appropriately remedied any harms we may have caused. In my brief time at Wells Fargo, I have been impressed with the dedication of the many employees I have spoken with about our remediation efforts. They understand, as I do, that we have to focus on our customers and our regulatory compliance work, and they have done a lot of good work in this regard already. That said, I understand that we are not yet where we need to be, but I assure you that we will complete all remediation of customers we have harmed.

VI. Our Core Principles

The work ahead will be grounded in a clear set of principles. I communicated these to every Wells Fargo colleague on my first day on the job, and I would like to share some of them with you today.

One, everything starts and ends with our customers. Delivering for them in the right way must ground the work of every person who works at Wells Fargo. We must put our customers first in our decision-making in all we do.

Two, enhancing our risk, control, and compliance infrastructure will ensure we are delivering for customers in the right way.

Three, we have to execute, and we have to do so urgently.

These core principles will shape the investments and changes we make in the future. This will have a negative financial impact, and that is okay. We are going to get things right.

To my colleagues at Wells Fargo, you deserve more from the company's leadership. I know the failings that occurred in the past have made your jobs difficult, and I am committed to doing better as we seek to ensure that such things never again occur at our company.

VII. Looking Ahead

To the Committee, I want to give you my personal assurance that we will do the work necessary to put Wells Fargo on sound footing with our customers, employees, regulators, shareholders, and the communities we serve. What we have done to date is not enough, and we will continue to drive progress.

A. Putting Our Customers and Employees First

Our progress includes continued investment in our customers and our products. Last week, we announced plans to introduce two new bank accounts, which will offer convenient, secure banking services and customer support while eliminating or limiting overdraft fees. The first new account will be a checkless account, which will limit spending to the amount available in the account and customers will not incur overdrafts or insufficient funds fees. The new checkless account's features will help meet the needs of consumers who are new to banking, such as young people opening a first account or those seeking an account that will help them manage spending. When it is available, Wells Fargo plans to proactively reach out to existing customers—including those who have experienced overdrafts—and educate them about the new product and its features.

In addition, Wells Fargo will introduce an account that includes checks and will cap overdraft or insufficient funds fees at one per month. This account is designed for those who want controls to limit certain fees, as well as the protection an occasional overdraft provides.

We also announced plans last week to expand our credit offerings to provide Deferred Action for Childhood Arrivals (DACA) recipients access to products that include education loans, personal lines and loans, credit cards, auto loans, and small business credit. In addition, Wells Fargo will make mortgage and home equity loans to eligible DACA customers except where prohibited by specific investors.

We plan to roll-out the new product offerings in phases starting in the first half of 2020 and continuing into first quarter of 2021. This expanded credit access was informed by ongoing engagement with the Mexican American Legal Defense and Education Fund, which provided valuable insight into the needs of these young individuals.

For our employees, who are our greatest asset, we recently announced plans to raise minimum hourly pay levels in a majority of our U.S. markets. Minimum pay will be tiered based on various factors, including the cost of living in different markets, with the minimum hourly pay ranging from \$15 to \$20 based on employee location.

Companies have an obligation to help communities and employees reach their potential. An important part of this is ensuring that we are doing our part to pay employees at a rate which recognizes the difference in cost of living across the country. Our employees are our most valuable resource, and these pay increases are just one way we are investing in our people and ensuring that Wells Fargo continues to be a great place to work.

We are also making other investments to enrich compensation programs and enhance benefits offerings for employees. For example, this year, the company made changes to make healthcare more affordable for all U.S.-based employees at the lower part of the pay range, lowering or keeping premiums flat for about 70% of employees. Additionally, Wells Fargo pays on average 84% of total annual healthcare premiums for its U.S.-based employees who earn less than \$40,000 annually, which equates to approximately \$5,700 and \$16,600 for individuals and families, respectively.

In addition, we recently announced that the company will no longer require arbitration for employees in connection with any future sexual harassment claims. We have a zero tolerance policy for sexual harassment, and we have taken many steps to maintain a workplace environment that promotes and protects the safety and well-being of our employees. All employees should come to work knowing they are safe, respected, and supported.

B. Investing in Our Communities

As we have with our customers and employees, we also must continue to invest in the areas in which we are located, including low- and middle-income communities. We are the number one investor in affordable, multifamily housing in the United States, and we have committed \$1 billion through 2025 to help address the U.S. housing affordability crisis. Through our diverse lending commitments, we have helped 435,000 minority households purchase a home since 2016. We have committed approximately \$500 million to assist average- and lower-income homebuyers with down payment assistance and counseling through LIFT programs since 2012, creating more than 23,000 homeowners. And we recently gave \$11.5 million to Habitat for Humanity to help families stay in their homes and neighborhoods and to champion advocacy work that helps people meet basic shelter needs, among other initiatives.

In 2019, the Wells Fargo Foundation also launched a new philanthropic strategy anchored around unlocking economic opportunity for people and communities by addressing housing affordability, small business growth, and financial health. The Wells Fargo Foundation invested \$455 million in grants in the last year, funding national organizations to deliver programs at scale and nonprofits that specifically address the needs of local markets.

Wells Fargo also made more than 2,800 grants to nonprofits in response to the housing affordability crisis and unique local challenges in communities across the United States. From Los Angeles to Atlanta, Wells Fargo supported organizations that are developing new, affordable rental homes, expanding homeownership opportunities for ethnically diverse households, creating long-term affordability by investing in community land trusts, and stopping the devastating flow of families into homelessness.

Last year, philanthropic capital for Community Development Financial Institutions supported more than 107,000 loans. Through Wells Fargo's Diverse Community Capital program, small businesses owned by people of color, immigrants, women, veterans, and the LGBTQ community, among others, empowered diverse entrepreneurs to create or sustain more than 79,000 jobs and to rebuild small businesses in places like Puerto Rico, California, Florida, and North Carolina after natural disasters and wildfires.

Additionally, we recognize that there are still far too many barriers on the path to economic opportunity, particularly for communities of color, low- and moderate-income communities, and other vulnerable populations. To help reverse this trend, we have committed more than \$40 million over the next three years to partner with a number of leading nonprofits to develop solutions that will create pathways for low- and moderate-income people and communities of color to build financial resiliency and wealth. Through these collaborations, our aim is to address systemic barriers to financial health and economic mobility while developing new financially inclusive products and services that enable all people to fully participate in the economy.

Finally, just a couple of days ago, the Wells Fargo Foundation announced up to \$6.25 million in donations to support domestic and global response to the coronavirus (COVID-19) and to aid public health relief efforts. This philanthropic funding includes \$1 million for the National Centers for Disease Control and Prevention's Emergency Relief Fund and \$250,000 to the International Medical Corps for their work in more than 30 countries. The company will also donate up to \$5 million at the local level to help address community-specific needs in the coming months.

We understand the seriousness of concerns felt by customers and employees about the coronavirus. Our first priority remains keeping Wells Fargo employees and customers safe and well-informed, while continuing to meet the needs of our customers.

We will continue all of this important work as we seek to move Wells Fargo forward.

VIII. Conclusion

Wells Fargo is a great institution with many opportunities ahead. I know that we can and will do what it takes to create the right environment inside the company that will allow us to provide leadership in the marketplace for years to come. Thank you, again, for the opportunity to testify. I look forward to answering your questions.