CALIFORNIA STATE TREASURER JOHN CHIANG

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Treasurer John Chiang Sanctions Wells Fargo Bank for Defrauding California Customers

Calls for Overhaul of Banking Industry

SACRAMENTO – Wells Fargo's admission that thousands of its bank employees opened over two million fraudulent consumer accounts is a legal and ethical outrage that cannot go unpunished, State Treasurer John Chiang said today.

"Wells Fargo's fleecing of its customers by opening fraudulent accounts for the purpose of extracting millions in illegal fees demonstrates, at best, a reckless lack of institutional control and, at worst, a culture which actively promotes wanton greed," said Chiang.

As the state's banker, the Treasurer oversees nearly $2 trillion in annual banking transactions, manages a $75 billion investment pool, and is the nation's largest issuer of municipal debt. His office historically relies on financial institutions, such as Wells Fargo, to serve as partners to meet the state's investment and borrowing needs.

The Treasurer announced in a letter to Wells Fargo Chairman John G. Stumpf and board members that he has ordered the suspension of Wells Fargo's participation in its most highly profitable business relationships with the State of California.

Those sanctions include:

- Suspension of investments by the Treasurer's Office in all Wells Fargo securities.
- Suspension of the use of Wells Fargo as a broker-dealer for purchasing of investments by his office.
- Suspension of Wells Fargo as a managing underwriter on negotiated sales of California state bonds where the Treasurer appoints the underwriter.

"I have a duty as a leader in the financial marketplace to take action aimed at helping you understand that integrity and trust matter," Chiang wrote in his letter to Wells Fargo. "How can I continue to entrust the public's money to an organization which has shown such little regard for the legions of Californians who have placed their financial well-being in its care?"

These sanctions take effect immediately and will remain in place for the next twelve months. Wells Fargo is expected to comply with all of the terms of the consent orders it has entered with the Consumer Financial Protection Bureau, the Los Angeles City Attorney, and the Office of the Comptroller of the Currency. These consent orders include full reparations to the victims of its malfeasance, as well as making changes in its policies and procedures to ensure that such practices do not recur.

The letter warns the bank that if it fails to demonstrate compliance with the Consent Orders or evidence surfaces that Wells Fargo has engaged in the same behavior it will face tougher sanctions up to and including complete and permanent severance of all ties between the Treasurer's Office and Wells Fargo.

In the meantime, Chiang said he will work with board colleagues at the California Public Employees' Retirement System and the California State Teachers' Retirement System to pursue governance reforms ensuring this type of behavior and systemic corruption does not reoccur. Combined, the two pension systems have more than $2.3 billion invested in Wells Fargo fixed income securities and equity.

Specifically, Treasurer Chiang will seek the following:

- Separation of the chief executive and chair positions.
- Appointment of a consumer ombudsman or confirmation that such a position exists, with detailed information on the position's authority and role within the organization.
- Development of an anonymous ethics reporting process and whistleblower protection program.
- A review of Wells Fargo's compensation practices.
- "Clawbacks" of ill-gotten compensation for executives most directly linked to Wells Fargo's deceptive and predatory sales practices.

Disciplinary action against Wells Fargo is not the first time the Treasurer has taken on a Wall Street bank. In May of last year, he banned the U.S. subsidiary of HSBC from participating in California's $6.5 billion deposit program after receiving reports of money laundering and tax evasion.

Unfortunately, the occurrences of such fraudulent banking business practices have become far too common. The problems at Wells Fargo and HSBC are not isolated cases but are indicative of a growing breakdown of integrity in the culture of our financial institutions.

As a result, the Treasurer is forming a task force comprised of distinguished academics, financial regulators, and consumer advocates. They will be charged with crafting actionable recommendations to federal and state policymakers about how to reform the banking industry. These reforms will center on eliminating deceptive marketing, racially discriminatory lending practices, unnecessary fees, illegal kickbacks, and other abusive practices.

"Just as Lehman Brothers and Bear Stearns learned the hard way that no bank is truly too big to fail, those banks which survived the Great Recession must now learn that they are not so powerful as to be untouchable," said Chiang.

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