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THE WALL STREET JOURNAL.

Technology
Wells Fargo Claws Back $15 Million From Sloan

By Ben Eisen
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Timothy Sloan, the Wells Fargo & Co. chief executive who left last year after failing to turn around the lender, lost $15 million in compensation after he exited.

The company's board decided to claw back that money, which had been granted to him in early 2019, according to a regulatory filing released late Monday. The disclosure also said he left with no severance. In making its decision, the board took into account the timing of his resignation, the company's performance and the status of its outstanding regulatory matters, according to the filing.

Mr. Sloan, a Wells Fargo veteran, took the top job in 2016 as the bank was reeling from its fake-account scandal, in which it was revealed to have created perhaps millions of unauthorized accounts.

He was perpetually in the crosshairs of regulators who believed he moved slowly to right the ship, The Wall Street Journal has reported.

He resigned shortly after testifying before the House Financial Services Committee last year.

Democrats in that group released a report this month in which they said Mr. Sloan gave inaccurate and misleading testimony to the board. Republicans released their own report criticizing his leadership and characterizations to Congress.

Mr. Sloan told Congress when he testified last year that he was moving diligently to address the problems that caused the scandal.

Mr. Sloan received $1.6 million in compensation last year.

He was replaced by Charles Scharf, who took over in October. Mr. Scharf's annual pay was $23 million in 2019, the bank said in the filing.

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THE WALL STREET JOURNAL.

Wells Fargo Settles U.S. Probes --- Bank will pay $3 billion to resolve government investigations into its fake-account scandal

By Ben Eisen
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Wells Fargo & Co. will pay $3 billion to settle investigations by the Justice Department and the Securities and Exchange Commission into its long-running fake accounts scandal, closing the door on a major portion of the legal problems that for years have beset one of the country's largest banks.

The deal resolves civil and criminal investigations. It includes a so-called deferred prosecution agreement, in which the Justice Department reserves the right to pursue criminal charges. The bank has to satisfy the government's requirements, including its continued cooperation with further investigations, over the next three years.

Friday's settlement is a victory for Charles Scharf, an outsider who took over as chief executive in October and was tasked with fixing the crisis that has claimed two CEOs.

"The conduct at the core of today's settlements -- and the past culture that gave rise to it -- are reprehensible and wholly inconsistent with the values on which Wells Fargo was built," Mr. Scharf said in a statement. "We are committing all necessary resources to ensure that nothing like this happens again, while also driving Wells Fargo forward."

The bank, though, still faces major regulatory problems. It is under sanction by the Federal Reserve, which has taken the unusual step of capping the bank's growth. Settling with the Justice Department and SEC could allow the bank to focus on persuading the Fed to lift the cap.

As part of the settlement, Wells Fargo admitted that it "unlawfully misused customers' sensitive personal information" and harmed some customers' credit ratings, collecting millions of dollars in fees and interest in the process.

The scandal severely damaged the bank's reputation with customers and regulators alike, providing a case study of sorts on how success in banking depends on customers trusting a firm enough to leave their money there. It also has unsettled customers who have long thought of retail **banking as a service** that takes deposits and makes loans, not a sales-driven industry hawking as many products as possible.

Regulators first fined Wells Fargo over the sales practices in 2016, alleging that executives created a pressure-cooker environment in branches where low-level employees were so beset by high sales goals that they opened up fake and unauthorized bank accounts.

Afterward, regulators and lawmakers were outraged not just by the allegations but by what they perceived as the bank's slow response to them. What's more, with the bank under increasing scrutiny, additional legal and regulatory problems sprang up across other business units, including wealth management and foreign-exchange trading. What was once a fast-growing lender whose profits towered above those of rivals became a firm with declining revenue that is leaning heavily on cost cuts.

The SEC portion of the settlement accused the bank of misleading shareholders. According to the charges, Wells Fargo touted to investors its ability to sell additional products to current customers, a practice known as cross-selling, even though numbers were inflated because of the fake accounts.

Aside from Friday's settlement, regulators and prosecutors could still take action against former executives, according to people familiar with the situation. Last month, the Office of the Comptroller of the Currency charged eight former executives over the fake-account scandal.

Wells Fargo for years enjoyed a reputation as a folksy industry darling that catered to Main Street customers. But that reputation was left in tatters after the sales scandal became public.

"Wells Fargo traded its hard-earned reputation for short-term profits, and harmed untold numbers of customers along the way," Nick Hanna, U.S. Attorney in Los Angeles, said Friday.

Prosecutors said the practices date to 1998, when Wells Fargo began to rely more heavily on sales growth. It pressured employees to cross sell additional products to current customers.

The heightened pressure pushed many employees to open checking and savings accounts without customer knowledge and make up identification numbers to activate unauthorized debit cards.

Employees, afraid they would be fired otherwise, sometimes forged customer signatures to open accounts or altered customers' contact information to prevent them from learning about unauthorized accounts, the government said.

Regulators and prosecutors said top managers knew of these issues years ago. In 2004, an internal investigator called it a "growing plague." In 2005, a corporate investigations manager described the problem as "spiraling out of control." Employees continued to raise concerns internally, the government said. It also said certain executives "impeded" the OCC from scrutinizing the sales practices.

After the scandal erupted in 2016, top executives faced heavy criticism for holding lower-level employees responsible. Wells Fargo fired thousands of branch employees, but regulators, lawmakers and even the bank's own board questioned whether junior staffers were to blame.

A board investigation found that the bank's decentralized structure allowed top executives to avoid addressing these issues as they got bigger.

Without referring to her by name, the Justice Department heavily criticized Carrie Tolstedt, the former head of the consumer bank. By 2012, regional executives "were regularly raising objections" to Ms. Tolstedt about "unlawful and unethical sales practices."

Ms. Tolstedt is one of the former executives the OCC charged last month. Her lawyer said Friday she "acted appropriately and in good faith at all times, and the effort to scapegoat her is both unfair and unfounded."

Rachel Louise Ensign, Aruna Viswanatha and Dave Michaels contributed to this article.

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THE WALL STREET JOURNAL.

Wells Fargo Struggles With Aging Systems

By Rachel Louise Ensign
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At 5 a.m. one day last February, construction work tripped a sophisticated fire-extinguisher system in a Minnesota data center used by Wells Fargo & Co., knocking out power to servers housed in the building.

Customers soon noticed: The bank's online and mobile banking systems were out for hours.

The outage brought into public view the **technology** failures that have been occurring behind the scenes at Wells Fargo for years. Antiquated systems have made it difficult for the bank to meet the demands of regulators, who are closely scrutinizing the firm after its 2016 fake-account scandal, according to more than a dozen current and former employees.

The firm has struggled with tasks like monitoring employee pay and building a new platform for financial advisers, hampering key businesses.

"We need to be a **technology** company," Chief Executive Charles Scharf said in his first meeting with employees after taking the job in October. Saul Van Beurden, his head of **technology** and another relatively new arrival, said in an interview that his top priorities include fixing issues raised by regulators, attracting talent and making sure key systems don't go offline again.

Banking was once a business of ornate branches and large vaults, but the sector now runs on digital systems designed to move money around, keep cybercriminals out and knit the disparate parts of sprawling institutions together. Big banks spend billions on these tools, employ tens of thousands of people to keep them running smoothly and use flashy mobile apps to compete for customers.

Wells Fargo says it was the first U.S. lender to provide online banking in the 1990s, a point of corporate pride. But it fell behind in recent years, current and former employees say.

A spokesman said the bank has made a number of improvements to its **technology** offerings, including card-free ATMs, contactless debit cards and online mortgage applications.

In late 2015, the year before the fake-account scandal erupted, the bank announced the departure of its chief information officer, who reported to the CEO. The bank didn't replace the tech chief and distributed his direct reports to other executives, including an administrative head later placed on leave after regulators reprimanded her for oversight failures.

The reporting structure at times could be disorganized. Regulators, for instance, expect banks to keep meticulous records of each stage of internal **technology** projects. In the unit overseeing initiatives like Apple Pay, required documents were often missing and the processes for creating them and checking they were in place were largely manual, said Mark McAllister, a project manager in the unit from 2014 to 2019.

Mr. McAllister said he was fired after raising concerns about the lapses. The bank spokesman said Mr. McAllister wasn't retaliated against, but declined to elaborate further.

By June 2018, regulators had identified problems across Wells Fargo's tech operations, including software vulnerabilities, **cybersecurity** concerns and risk-management inconsistencies, The Wall Street Journal previously reported.

Last year, the Office of the Comptroller of the Currency told Wells Fargo to improve its human-resources functions, including **technology** systems. The agency in particular criticized the division's manual processes for overseeing pay and performance for its 260,000 employees, according to a person familiar with the matter.

Legions of tech workers at the bank are toiling to satisfy problems regulators have cited. Some relate to mundane topics like improving systems that control employee building access, according to another person familiar with the matter.

Other problems have affected customers, like the online-and-mobile banking outage in early 2019. Wells Fargo said construction work in a room of important servers tripped the fire system, releasing extinguishing chemicals into the air, according to public records from the local fire department. That triggered a shutdown of power to servers, the bank said.

Issues at a single data center aren't supposed to knock out key bank systems, which are meant to be routed to backups if they fail. Bank employees believe backup systems weren't adequately tested to make sure they would come online quickly if the suburban Minneapolis data center had a problem, according to people familiar with the matter.

Mr. Van Beurden said fixing the list of items cited by regulators is his "first priority."

He said he has also made changes to prevent another outage, like removing that particular type of fire-extinguisher system from data centers. When "the app is down, the bank is down for our customers," he said.

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