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Agencies Temper Cost-Cut Efforts At Wells Fargo

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Plenty of companies are cutting costs to weather the pandemic recession. Few are trying to do so while also spending billions of dollars to satisfy their regulators.

These are the tasks facing Wells Fargo & Co. Chief Executive Charles Scharf, who is attempting to slash at least $8 billion from the San Francisco bank's annual budget. The bank's expenses last year were $57.63 billion.

Wells Fargo is simultaneously shelling out money to remake the vast risk-and-control systems that regulators have said were inadequate to catch the fake-account scandal that got it in hot water more than four years ago. Wells is still subject to 10 regulatory penalties known as consent orders. The harshest, from the Federal Reserve, has capped the bank's growth for three years.

How Wells Fargo fixes its back-end systems -- and whether that clashes with other priorities -- might hold clues for competitors as well. Wells came into the pandemic in worse financial shape than most large banks, but others must also modernize their controls while managing through the recession. Citigroup Inc. was hit with a $400 million fine over its own controls last year. The bank has been hiring key staff and making significant investments. JPMorgan Chase & Co. paid $250 million last year as a result of deficiencies in its internal controls, which it has remedied.

Mr. Scharf also must chart a different path than his predecessors at Wells. They, too, tried to cut costs and re-envision the bank while under regulatory restraints. Years later, those tasks remain largely unresolved.

Mr. Scharf has said the bank will refocus on the U.S. market and double down on its consumer and commercial businesses. Cost cuts will come from most corners of the bank, including closing branches, automating loan underwriting, consolidating offices and cutting staff.

But regulators loom large in the decision-making. Last fall, Amanda Norton, Wells Fargo's risk chief, was planning to cut staff in her group alongside the bank's other divisions. But during conversations with the bank's regulators last fall, overseers questioned whether she could do so while still meeting regulatory commitments, according to people familiar with the exchange. The questions prompted Ms. Norton and Mr. Scharf to reverse course and put the group's layoffs on ice, the people said.

Wells Fargo executives say the top priority is to fix the bank's relationship with its regulators. "That takes precedence over everything," said Mike Santomassimo, chief financial officer, on a Jan. 15 call with reporters. "We are going to continue to spend whatever it takes to make sure that we do that in the right way."

Mr. Scharf has said Wells Fargo runs less efficiently than peers and hopes to book $3.7 billion of savings in 2021. But after investments in risk and controls, and other areas, just $1.5 billion of it will flow to the bottom line this year, the bank said in January.

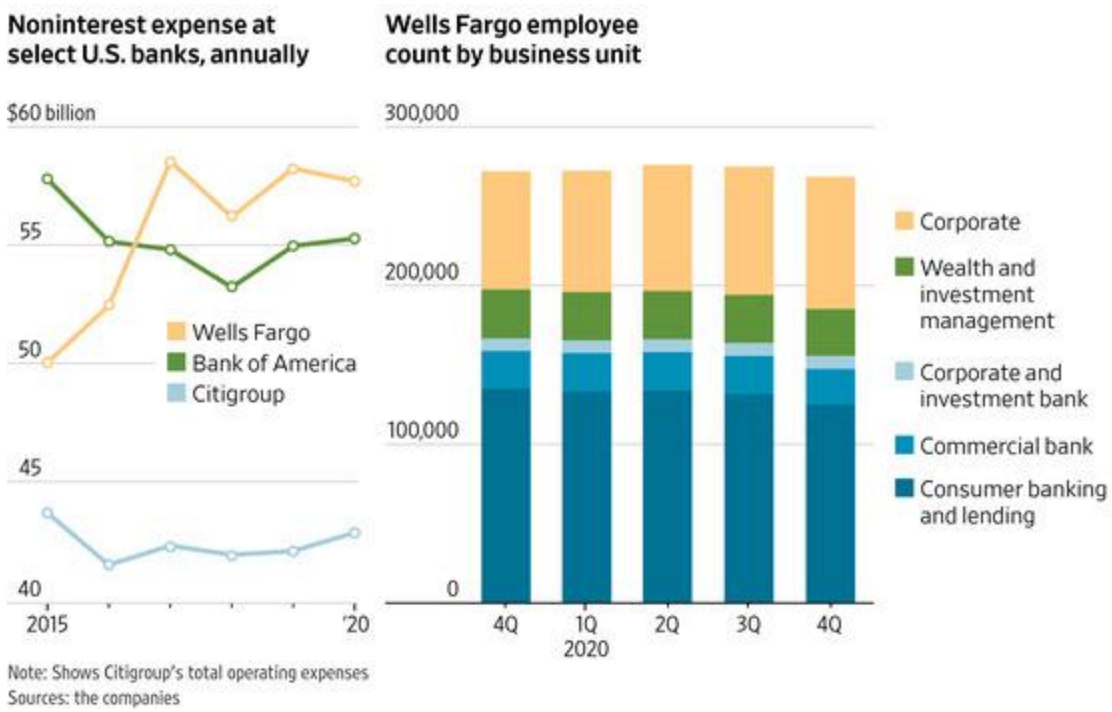
A group formed last year is reviewing cost-cutting efforts to make sure they don't impede regulatory commitments, The Wall Street Journal reported last year. The committee, which is led by Ms. Norton, is reviewing documentation for decisions like layoffs and pressure-testing them, a person familiar with the matter said. It has ultimate veto power over cost-cutting initiatives, which were previously left to individual business heads.

Another new group reviews new products and policy decisions with a focus on how they affect customers.

"The risk, control and regulatory work continues to be our top priority, and we are investing in those areas," said Chief Operating Officer Scott Powell. "We have safeguards in place to ensure that nothing, including any actions we take to improve our efficiency, interferes with those efforts."

Since he became CEO in October 2019, Mr. Scharf has replaced most of his top deputies. The bank has hired key leaders in risk, including a new chief compliance officer and chief risk officers for each of its business units. The goal is to give responsibility for risk to each business line while maintaining central oversight. A new chief control executive shares responsibility with each business for overseeing the safeguards meant to prevent disasters.

There have been signs of progress on the regulatory front. In January, the Office of the Comptroller of the Currency lifted a consent order involving failures of the bank's **anti**-**money**-**laundering** controls. The order was from 2015, before the fake-account scandal came to light.



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