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OCC fines Wells Fargo $250M for continued risk management failings



By Jaclyn Jaeger | Fri, Sep 10, 2021 11:38 AM

Wells Fargo Bank has been ordered to pay $250 million related to deficiencies in its home lending loss mitigation program in addition to violations of a 2018 consent order, the Office of the Comptroller of the Currency (OCC) announced Thursday.

The OCC **fined the bank $500 million** in April 2018 for failing to implement and maintain a satisfactory compliance risk management program. A consent order agreed to at the time ordered Wells Fargo to make a series of improvements to its enterprise-wide compliance risk management program that the OCC today feels have not been met.

"This is unacceptable," said Acting Comptroller of the Currency Michael Hsu in a **press release**. "In addition to the $250 million civil money penalty (to be paid to the U.S. Treasury) that we are assessing against Wells Fargo, today's action puts limits on the bank's future activities until existing problems in mortgage servicing are adequately addressed."

Deficiencies previously communicated to Wells Fargo and cited by the OCC as part of a new **cease-and-desist order** include the following:

- Failure to "fully implement and maintain adequate loss mitigation practices and related independent risk management practices commensurate with the bank's size, complexity, and risk profile";
- Errors caused by loss mitigation decisioning tools and operational deficiencies that negatively affected borrowers;
- Inadequate controls and insufficient oversight of loss mitigation that "caused the bank's failure to timely detect, prevent, and quantify inaccurate loan modification decisions and impaired the bank's ability to fully and timely remediate harmed customers"; and

- Internal audit coverage of loss mitigation activities that is "deficient" and "failed to include all aspects of previously identified loan modification decision issues."

While Wells Fargo has taken steps to comply with the 2018 consent order, it "failed to fully and timely implement effective and sustainable corrective actions," the OCC stated.

Actions required: Under the OCC's new cease-and-desist order, Wells Fargo must take "broad and comprehensive corrective actions to improve the execution, risk management, and oversight of the bank's loss mitigation program." This includes the following three core elements:

- **Establishing a compliance committee** of at least three members, "of which a majority shall be directors who are not employees or officers of the Bank or any of its subsidiaries or affiliates," according to the OCC. The committee will be responsible for approving the bank's action plan; monitoring and overseeing compliance with the provisions of the consent order; and submitting a written progress report to the board.
- **Establishing a loss mitigation independent risk management program** "designed to ensure that the bank has effective and independent monitoring and testing of its loss mitigation program." This includes, but is not limited to, an effective risk framework that establishes responsibility and accountability for respective frontline units; maintenance of appropriate staffing levels and sufficiently trained staff to fulfill their roles in the program; and appropriate risk-based independent testing of loss mitigation and loan modification decisioning accuracy and validation practices.
- **Adopting an internal audit program** that "adequately assesses controls and operations with respect to the bank's loss mitigation activities."

While the order remains in effect, Wells Fargo is further restricted from acquiring certain third-party residential mortgage servicing and must ensure borrowers are not transferred out of the bank's loan servicing portfolio until remediation is provided, "except as required by an investor pursuant to a contractual right," the OCC stated.

Wells Fargo's response: The bank neither admitted nor denied the OCC's findings.

"Building an appropriate risk and control infrastructure has been and remains Wells Fargo's top priority," said CEO Charlie Scharf in a **statement**. Scharf added the OCC's actions "point to work we must continue to do to address significant, longstanding deficiencies."

"We are managing multiple issues concurrently, and progress will come alongside setbacks," he continued. "That said, we believe we're making significant progress, the work required is clear, and I remain confident in our ability to complete it."

Wells Fargo additionally announced that, effective Wednesday, the Consumer Financial Protection Bureau's (CFPB) **consent order issued in September 2016** regarding the bank's retail sales practices had expired.

"The expiration of the CFPB's 2016 consent order is representative of progress we are making," Scharf said. "We have done substantial work designed to ensure that the conduct at the core of the consent order—which was reprehensible and wholly inconsistent with the values on which this company was built—will not recur."