

ORAL STATEMENT  
of  
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COMPTROLLER OF THE CURRENCY  
Before the  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE  
September 20, 2016

Chairman Shelby, Ranking Member Brown, and members of the Committee, thank you for holding this hearing related to the unsafe and unsound sales practices at Wells Fargo.

Let me begin by stating clearly that the sales practices at Wells Fargo involving employees opening unwanted accounts and making unauthorized transfers of customer funds, even temporarily, are outrageous. These practices, driven by misplaced incentives, and enabled by weak risk management and controls, undermine the fundamental trust that goes to the heart of the bank/customer relationship. They are unacceptable and have no place in the federal banking system.

The OCC's September 8th enforcement action, builds on examination work that identified weaknesses in compliance risk management and consumer protection, and subsequently focused on sales practices beginning in January 2014. The action requires Wells Fargo to pay a \$35 million penalty to the U.S. Treasury, orders the bank to reimburse affected customers, and directs comprehensive corrective action to prevent such practices in the future.

OCC examiners are closely monitoring the bank's corrective action and its reimbursement of harmed customers.

Our work on this matter continues. I have ordered agency staff to review individual misconduct and culpability in this case. I also have directed our examiners to review the sales practices of all the large and midsize banks we supervise and assess the sufficiency of controls with respect to sales practices. As we continue to review this matter, more facts may come to light. My written testimony provides further details about the OCC's supervision of Wells Fargo leading to our enforcement action.

The actions the OCC took, together with the Consumer Financial Protection Bureau, and the L.A. City Attorney rightfully hold the Bank accountable and require necessary corrective action. However, I believe the OCC can and must do better. To that end, I have asked my Senior Deputy Comptroller for Enterprise Governance to conduct a post mortem to identify potential gaps in our supervision. I will address any identified gaps.

Enforcement actions such as these require thousands of hours of examination and investigation work. I want to express my appreciation for the OCC staff who worked tirelessly on this issue, as well as our colleagues at the CFPB and in the L.A. City Attorney's office. The coordination in this case allowed us to take collective action that addressed the safety and soundness *and* the consumer protection aspects of the Bank's deficiencies. Together, the orders demonstrate that such practices will not be tolerated.

Since I became Comptroller, I have worked to strengthen our supervisory effectiveness, including through the 2014 adoption and implementation of heightened risk governance standards for the largest institutions. These enforceable guidelines emphasize the importance of

three lines of defense in the detection and mitigation of risk—front line business units, independent risk management, and internal audit—as well as the vital role of the board in providing a credible challenge to management actions. Had these structural elements been functioning properly, they would have prevented the type of abuses we have witnessed at Wells Fargo. The continued application of OCC’s heightened standards for large banks will help ensure that they have the governance and controls necessary to prevent these sorts of practices in the future.

The practices at the Bank also demonstrate the importance of aligning incentives with appropriate behavior, which highlights the need to finalize the interagency incentive compensation rule sooner rather than later. As proposed, the rule would provide clear direction regarding the application of sound incentive compensation programs, including clawbacks, forfeiture, and other mechanisms to hold senior executives and other employees with significant responsibilities accountable. For those reasons, I support prompt completion of the final rule.

Again thank you for holding this important hearing today, and I look forward to answering your questions.