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Wells Fargo Case Unlikely to Prompt Republican Embrace of CFPB

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The Republican-controlled Senate Banking Committee wasted no time in scheduling a hearing on the Consumer Financial Protection Bureau's enforcement action targeting Wells Fargo's aggressive sales tactics. Just don't expect a change of heart from those members who have long been critical of the agency.

Congressional Democrats have cited the action against Wells Fargo, which was fined a total of \$185 million for covertly opening accounts without customers' knowledge or consent, as evidence of the CFPB's value and why its independence shouldn't be scaled back.

Republicans, however, said they first want to hear from Wells Fargo Chief Executive Officer John Stumpf and CFPB Director Richard Cordray whether the CFPB uncovered wrongdoing or merely acted on information the bank disclosed itself.

'Not Our Favorite.'

"The CFPB, naturally, is not our favorite agency," Sen. Mike Rounds (R-S.D.), a committee member, told Bloomberg BNA. "We recognize that there is very little oversight, and we'd like to know whether they were involved in an investigation that uncovered something or if they're simply receiving a penalty or assessing a penalty from something that was self-disclosed."

Reporting by the Los Angeles Times on Wells Fargo account practices prompted an investigation by the Los Angeles city attorney and then two federal regulators—the CFPB and the Office of the Comptroller of the Currency. In assessing a record \$100 million fine, the CFPB said bank employees, spurred by sales targets and compensation incentives, boosted sales figures by covertly opening accounts and funding them by transferring funds from consumers' authorized accounts often racking up fees or other charges.

The committee began looking into the Wells Fargo case after the CFPB announced the penalties. The chairman, Sen. Richard Shelby (R-Ala.), thought it was important to have a hearing, which

panel Democrats requested, before lawmakers leave town until after Election Day, according to a Republican committee aide.

The Full Story

“He wants to know the full story from Wells Fargo, and also to hear the full extent of involvement of regulators— what they did do and what they didn’t do,” the aide said. In addition to Stumpf and Cordray, Comptroller of the Currency Thomas Curry and James Clark, chief deputy in the office of the Los Angeles city attorney, will also testify at the Sept. 20 hearing.

Sen. Elizabeth Warren (D-Mass.) has indicated she plans to press Stumpf about whether corporate executives knew about the practices. “Make no mistake—this business with Wells Fargo isn't over,” Warren said in an e-mail to supporters. “How could the bank create more than 2 million fake accounts without senior executives knowing?”

The willingness of Senate Banking Republicans to hold the hearing stands in contrast to the silence on the matter among Republicans on the House Financial Services Committee.

House Bill and Hearing

At a House Finance Committee hearing Sept. 13 to consider the Financial CHOICE Act, which would overhaul the 2010 Dodd-Frank Act and scale back the CFPB's authority, five Democrats but no Republicans mentioned the Wells Fargo case. At the hearing, Rep. Randy Neugebauer (R-Texas) said he remains “concerned that many bureau actions demonstrate regulatory paternalism that assumes that the American consumer doesn't know how to make choices for themselves.”

The CFPB has come under fire ever since its establishment under the Dodd-Frank Act from congressional Republicans, who have pushed for remaking the agency's governance, from a single-director model to a five-person commission, as well as for bringing the bureau under congressional appropriations.

“It wasn't that Republicans were not supportive of consumer protection,” said Sen. Bob Corker (R-Tenn.), who sits on the committee. “It was the setting up of a balance where you had a board, not just one person, a way of the rulemaking process being somewhat more democratic. I think to say Republicans are opposed to consumer protection would be an overstatement. I think it was the set up of it.”

He said Republicans feel that in some cases the CFPB has overstepped its bounds, but added, “That's not to say everything they've done has been bad.”

Corker said he was somewhat surprised a Senate Banking hearing was scheduled, given that the committee hasn't held many for some time, but added he looks forward to it.

Timeline In Case

How the CFPB will be viewed by policymakers as a result of the Wells Fargo crackdown depends on the timeline in the case.

“We want to hear all the facts first. And then we can make an intelligent decision about whether it impacts our interests in seeing changes made at the CFPB,” Rounds said. “And along with that

since in this particular case Wells has clearly indicated they've had an issue that they've had resolved, we're going to want to hear what Wells says they've done to resolve it. And I think other financial institutions can learn from that as well.”

Isaac Boltansky, an analyst at Compass Point Research & Trading, told Bloomberg BNA the legislation was a reason the Wells Fargo issue snowballed so quickly on Capitol Hill, leading Democrats to point at the enforcement action “as a perfect example of the bureau’s importance.”

Furthermore, he said, “we are two months away from an election that has been defined by populist rage and this issue fits squarely into that issue profile.”

Mark Calabria, director of financial regulation studies at the Cato Institute and a former Shelby aide, said facts in the matter are still being collected but that he doesn't think the Wells Fargo case changes anyone's mind about the CFPB.

“It didn't seem to impact votes on the Choice Act, for instance,” Calabria told Bloomberg BNA. “Partly, it's not clear CFPB got involved until long after the problem was discovered. Certainly, LA city appears to have been more involved than CFPB in any actual work. But again we don't know, and I suspect one purpose of Shelby's hearing is to find out ‘who knew what and when.’”