social sciences

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Wells Fargo Fake Account Scandal

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Abstract

Wells Fargo Bank, based in San Francisco and one of the largest banks in the United States, if not the world, has been the subject of a long-standing fraud investigation. Subsequent investigations by the Los Angeles City Attorney, the Consumer Financial Protection Bureau, and the Office of the Comptroller of the Currency established a bank-wide pattern of cross-selling bank products to unassuming customers. This included opening unauthorized credit cards, unauthorized bank accounts, forging signatures, illegally transferring a client's funds and extending mortgage loans without permission. Previously, the bank was sanctioned for its involvement in the notorious sub-prime loan scandal which led to the global recession of 2008–2010. Up to 1.5 million deposit accounts and half a million credit card accounts may have been involved. The bank subsequently paid millions of dollars in settlement fees and forced private litigants into arbitration rather than court. This case study follows a series of bank and corporate frauds where we highlight structural holes and contradictions in the capital markets. We further invoke William Chambliss on structural contradictions in the capital markets as a means of explaining corporate, white-collar crime.

Keywords: bank fraud; white-collar crime; political economy; critical theory

1. Wells Fargo Overview

At the time of the scandal, Wells Fargo & Company was a diversified financial services company founded in 1852 by Henry Wells and William Fargo (History of Wells Fargo 2017). As of April 2017, Wells Fargo held a total of $1.9 trillion in assets, did business in over 42 countries, and employed around 263,000 team members[1]. Wells Fargo currently services 70 million customers worldwide, has a market value of stock that is near $118 billion, and ranked third in assets among U.S. banking institutions. Daunting as these statistics may be, they do not represent the peak of this bank's financial dominance in the United States. In 2013, Wells Fargo was the largest bank in the United States and second largest in the world behind the Industrial and Commercial Bank of China (McFarlane 2017).

To understand how Wells Fargo came to dominate the banking world, one must look into its most successful area of business, community banking (McFarlane 2017). Community Banking is the branch of Wells Fargo focused on retail banking for individuals and communities around the United States (Mack 2017). A report filed in May 2017 by Wells Fargo Senior Executive Mary Mack noted that Wells Fargo has the number one retail branch network in the United States, representing one in three consumer households and one in 10 small businesses (Mack 2017).

Academic Editors: James O. Finckenauer, Michael O. Maume and Matthew Greife

Received: 1 April 2026
Revised: 10 October 2026
Accepted: 19 October 2026
Published: 30 October 2026

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2. Fake Account Scandal Overview

The reputation of the community bank services at Wells Fargo was forever tarnished on 21 December 2013, when an article in the Los Angeles Times brought the fake account scandal to light. The information presented in this article was the result of several interviews with former employees, all claiming that the sales quotas at Wells Fargo resulted in overbearing pressure on workers (Reckard 2013). Cross-selling is usually an innocent business strategy, but employees in this case say the bank took it too far. They report that relentless pressure to sell resulted in employees opening unneeded accounts, ordering unwanted credit cards, forging signatures, and begging family members to open numerous unnecessary accounts (Reckard 2013).

Shortly after its publication, Los Angeles City Attorney Michael N. Feuer began an investigation of his own (M. N. Feuer 2017). This investigation resulted in the City Attorney's office filing a complaint to the Superior Court of the State of California on May 5, 2015, alleging that fraudulent acts were taking place at Wells Fargo. This complaint suggested that Wells Fargo "… victimized their customers by using pernicious and often illegal sales tactics to maintain elevated levels of sales of their banking and financial products" (The People of the State of California v. Wells Fargo & Company et al. 2015, p. 1). This complaint outlines the main gaming tactics that Wells Fargo employees would use to reach their sales goals. The three main tactics outlined include:

(a) Bundling: In which employees would tell customers that the account or product they seek can only be obtained with the purchase of additional accounts or products, when in fact it could be purchased on its own.
(b) Pinning: In which a banker obtains a debit card number, and personally sets the PIN (Personal Identification Number) without customer authorization to allow that employee to enroll the customer in online banking, and thus receive a solution.
(c) Sandbagging: In which a banker delays opening new accounts or processing a sale, unknown to the customer, until a time that is most beneficial for the employee such as a new sales-reporting period (Ibid., p. 3).

Some employees were terminated for engaging in gaming, while others were rewarded and promoted for it, thus perpetuating the underlying issue. This was the first official public filing which brought details of the scandal into official proceedings.

These allegations would be later confirmed in early September 2016, when a settlement was reached between Wells Fargo, the LA City Attorney's Office, the Consumer Financial Protection Bureau (CFPB), and the Office of the Comptroller of the Currency (OCC). Each settlement came as a result of the three agencies working in concert with one another (Corday 2016; Curry 2016; M. N. Feuer 2017). Each settlement was finalized without litigation nor adjudication of any issue of law or fact, and Wells Fargo did not officially admit nor deny any of the findings (CFPB Consent Order 2016; OCC 2016; The People of the State of California v. Wells Fargo & Company et al. 2015). Altogether, Wells Fargo would face a total of $185 million in civil penalties to the various agencies.

As noted later on in this article, we invoke William Chambliss' *structural contradictions theory* as a means of explaining this substantive example of corporate white-collar crime. In effect, we locate causation in both the capital markets and how Wells Fargo bank responded to those contradictions in that market.

3. Main Findings of Settlements

The OCC's settlement specifically noted that Wells Fargo had deficiencies and unsafe or unsound practices in the bank's risk management and oversight, which allowed for unsound sales practices to take place (OCC 2016). Wells Fargo also lacked a comprehensive customer complaint process and did not monitor the sales practices of employees,

thus preventing the bank's ability to adequately understand the sales practice issue when it could have (OCC 2016).

The CFPB settlement states that the bank sought to distinguish itself as a marketplace leader in cross-selling. To achieve this, sale goals and incentives were put in place, providing motivation for those working in local branches to increase the number of banking products and services sold (CFPB Consent Order 2016). An unintended result of these programs was that thousands of Wells Fargo employees engaged in improper sales practices to satisfy those goals and obtain the financial incentive rewards. Specific employee actions mentioned in this document include:

(1) Employees engaged in 'simulated funding' to qualify for incentive rewards. This involved opening new accounts without the consumer's knowledge and transferring funds from the consumer's legitimate account to the unauthorized account temporarily;
(2) Employees submitted applications for and obtained credit cards for consumers without their knowledge or consent;
(3) Employees used email addresses not belonging to consumers to enroll consumers in online banking without their knowledge or consent;
(4) Employees requested debit cards and created Personal Identification Numbers (PINs) to activate them without the consumer's knowledge or consent (CFPB Consent Order 2016).

After the L.A. Attorney's complaint, Wells Fargo performed an analysis to assess the scope of the improper sales practices between May 2011 and July 2015. This analysis was used in each settlement mentioned above. It was determined that Wells Fargo employees opened 1,534,280 deposit accounts that may not have been authorized and may have been funded through simulated funding. Of these accounts, 85,000 of them incurred fees that totalled roughly $2 million (CFPB Consent Order 2016). Employees submitted applications for 565,443 credit-card accounts that may not have been authorized by using consumers' personal information without awareness. Roughly 14,000 of these accounts incurred fees totalling $403,145 (CFPB Consent Order 2016).

The settlements required Wells Fargo to perform certain duties and make changes that will prevent this sort of improper sales practices from happening again. The bank was also required to pay a $50 million civil monetary penalty for the LA City Attorney's settlement, $35 million civil monetary penalty for the OCC's settlement, and $100 million civil monetary penalty as part of the CFPB's Settlement (CFPB Consent Order 2016; OCC 2016; The People of the State of California v. Wells Fargo & Company et al. 2015; Jabbari and Kaylee Heffelfinger 2015). As part of the CFPB settlement, Wells Fargo is required to set aside $5 million for monetary relief for those customers financially injured through fees or other monetary losses. Additionally, Wells Fargo agreed to select an independent consultant to conduct an independent review of the sales practices within the Community Bank Regional Bank Branch Network (CFPB Consent Order 2016). It is important to note that the settlements reached by the LA Attorney's Office and the CFPB were the largest penalties handed out by each respective organization (Senate Hearing 2016, pp. 52–56).

4. Congressional and Senate Committee Meetings

Shortly after announcing the settlements, Wells Fargo & Company, along with each of the regulators, was called upon to appear before a United States Senate Committee, and a Congressional Committee. This hearing took place on 20 September 2016 with the United States Senate committee on Banking, Housing and Urban Affairs. At this hearing, John Stumpf, the CEO of Wells Fargo at the time, appeared for questioning, along with a

representative from each of the LA Attorney's Office, the OCC and the CFPB (Senate Hearing 2016).

In questioning Stumpf, multiple senators mentioned Wells Fargo's emphasis on cross-selling, and how it had been a key aspect of the bank's business model (Senate Hearing 2016). On this topic Senator Elizabeth Warren submitted 12 transcripts of investment calls from each quarter of 2012–2014, in which Stumpf emphasizes the ever-improving cross-sell numbers within the community bank division. Senator Warren also submitted reports from top analysts during those years, all of which suggest investors purchased Wells Fargo stock and specifically cited their cross-sell numbers as evidence (Senate Hearing 2016, p. 28). Senator Warren stated that during those years, Mr. Stumpf held an average of 6.75 million shares of Wells Fargo stock, the price of which went up by about $30 a share; this works out to roughly $200 million in gains for him personally (Senate Hearing 2016, pp. 28–29). To solidify her point, Senator Warren stated,

> "You know, here is what really gets me about this, Mr. Stumpf: if one of your tellers took a handful of $20 bills out of the cash drawer, they would probably be looking at criminal charges for theft. They could end up in prison. But you squeezed your employees to the breaking point so they would cheat customers and you could drive up the value of your stock and put hundreds of millions of dollars in your own pocket. And when it all blew up, you kept your job, you kept your multi-million-dollar bonuses, and you went on television to blame thousands of $12-an-hour employees who were just trying to meet sales quotas that made you rich" (Senate Hearing 2016, p. 29).

In addition, these hearings brought up how unauthorized accounts could affect credit scores of victimized customers. Credit cards being opened in customers' accounts without customer knowledge could result in having a negative impact on that customer's credit score (Senate Hearing 2016, pp. 22–24). This includes not only fines and fees associated with having their information sent to credit bureaus, but also the increased cost that an individual may face in other financial decisions (Ibid.).

During the period in which the scandal had taken place, Carrie Tolstedt was the Head of Community Banking at Wells Fargo (Senate Hearing 2016, p. 8). In this position, Ms. Tolstedt was not involved in the direct actions of employees in individual branches, but was responsible for putting in place the policies which they must follow; including the sales goals and incentive programs (*Sales Practices Investigation Report* 2017).

Despite her responsibility and the severity of the scandal, Ms. Tolstedt's retirement package could have been worth up to $150 million (Senate Hearing 2016, p. 3). The rationale provided by the board of directors at Wells Fargo for the size of Carrie Tolstedt's award at retirement was for her "… success in furthering the company's objective of cross-selling products and reinforcing a strong risk culture" (Senate Hearing 2016, p. 8). This package would come on top of the compensation she earned while working at the bank. From 2011 to 2015 Carrie Tolstedt personally was compensated, as reported in accordance with the SEC rules, $44,919,330 (An Examination of Wells Fargo's Sales Practices and Management and Board Oversight 2016).

On 27 September 2016, Wells Fargo made an announcement to the public that it had retained law firm Shearman & Sterling LLP as their independent consultants to perform a review of the company's retail banking sales practices, as necessitated by the CFPB settlement (Sard et al. 2016). This news release further announced that John Stumpf would forfeit his equity awards valued at approximately $41 million, forgo his salary during the investigation, and would not receive a bonus for 2016. It was further announced that Carrie Tolstedt had left the company as of this date rather than at year's end as planned, that she will forfeit some of her equity awards valued at approximately $19 million, she will

not receive a bonus for 2016, nor be paid severance or receive any "retirement enhancements" (Sard et al. 2016).

5. Sales Practices Investigation Report by Wells Fargo

On 10 April 2017, the report from the independent investigation mandated by the settlement between Wells Fargo and the CFPB was released. This investigation was headed by four members of the Wells Fargo board who retained law firm Shearman & Sterling LLP to assist with the investigation (*Sales Practices Investigation Report* 2017).

This independent report determined the 'root cause' of the fake account scandal to be a distortion of the Community Bank's sales culture and performance management system. This, along with aggressive sales management, increased pressure on employees and thus led to the unethical behavior and poor sales practices (*Sales Practices Investigation Report* 2017, p. 2). This report was also highly critical of the 'decentralized corporate structure' of Wells Fargo, saying it provided too much autonomy for bank leadership who resisted, and even impeded, outside scrutiny and oversight. When forced to report on the sales practice issues, witnesses say leadership minimized its scope instead of providing an accurate portrayal (*Sales Practices Investigation Report* 2017, p. 2).

The sales model of the Community Bank was largely based on volume, and relied heavily on year-over-year growth of sales (*Sales Practices Investigation Report* 2017). Carrie Tolstedt and Matthew Raphaelson, the Community Bank's head of Strategic Planning and Finance, were ultimately in charge of sales goals and, in many instances, knew the goals were unobtainable. Many of the plans instituted were referred to as 50/50 plans, meaning there was an expectation that only half of the regions would be able to meet them (*Sales Practices Investigation Report* 2017). Despite knowing that goals would be unobtainable for half of the staff, these sales goals were the main measure for employee performance. Moreover, individual performance was ranked against one another, and any chance of promotion or incentive compensation was based on the plans (*Sales Practices Investigation Report* 2017). This resulted in intense pressure on individual employees, and an antagonistic environment for all those in the retail branches (*Sales Practices Investigation Report* 2017).

Within the regional bank, 'Motivator reports' would be sent out to branches and employees. These reports include monthly, quarterly, and year-to-date sales goals, and highlighted rankings down to the retail bank district level (*Sales Practices Investigation Report* 2017, p. 20). These reports increased pressure on managers, and witnesses say that mindset supported the overly competitive work environment (Ibid.).

Finally, regional bank-wide sales campaigns were associated with increased misconduct over time. For example, a campaign called 'Jump into January' resulted in that month being a popular time for 'sandbagging' account openings (*Sales Practices Investigation Report* 2017, p. 21). These campaigns were originally meant to boost sales at the start of the year by increasing daily sales targets on bankers and rewarding higher sales activities.

The sort of misconduct considered in this analysis can be understood within four broad categories. First, misconduct relating to consumer consent, with employees opening unauthorized accounts for existing customers without consent or awareness (*Sales Practices Investigation Report* 2017). Also, the falsification of bank records, which is described in this report as "… generally falsifying customer identification or contact information or forging customer signatures" (*Sales Practices Investigation Report* 2017, p. 36). Employees further participated in funding manipulation, which involves funding an account held by a customer with either the employee's own money, or with money from another account held by that customer. Finally, employees created accounts in the names of customers which were completely unnecessary. Many Wells Fargo employees would open accounts without any concern for the financial needs of the customer, often not notifying the customer of the account's creation.

Contrary to leadership's belief, the sales misconduct was not 'slippage' but was instead systemic in nature. When reviewing how the misconduct spread, this investigation found that inappropriate sales coaching techniques spread between branches as certain employees relocated. Many employees of Wells Fargo would relocate during their career. During such relocation, employees would take gaming tactics which they already knew and disseminate them among the new branch at which they are now working. Within each branch, individuals would learn to "… manipulate customer information from former or fellow managers, resulting in a high number of violations in particular branches" (*Sales Practices Investigation Report* 2017, p. 39). This sort of inter-branch cooperation and training in sales misconduct is unmistakable evidence that these acts were systemic rather than the result of a couple of black sheep.

6. The Regulatory, and Possibly Criminal Response

When considering the omnipotence of financial institutions like Wells Fargo, it becomes obvious that financial regulators play a key role in the current economic system.

In the Wells Fargo account scandal, the relevant regulatory agencies include: the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the Securities Exchange Commission (SEC) and the Federal Reserve Bank.

7. The Office of the Comptroller of the Currency

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises all national banks and federal savings associations. The goal of the OCC is to provide proactive and risk-based supervision, to act as a sought-after source of knowledge and expertise, and to promote a banking system that benefits consumers, communities, business, and the U.S. economy (About the OCC 2017). The OCC is the primary regulator of Wells Fargo; and from January 2012 through July 2016 this agency conducted multiple supervisory activities at the bank (Curry 2016; Senate Hearing 2016).

Thomas J. Curry was the Comptroller of the Currency during the scandal, and his written testimony to the Senate Committee on Banking, Housing and Urban Affairs outlines the OCC's pre-emptive supervisory activities at the bank. In March 2012, the OCC received complaints about the improper sales practices at Wells Fargo from both consumers and employees. The OCC had already begun an examination activity in 2011, which was looking into Wells Fargo's consumer compliance and risk management (Curry 2016). In February 2013, the OCC issued a supervisory letter requiring Wells Fargo to develop a comprehensive operational risk and compliance program.

The agency's review and response to matters above continued into 2015 (Curry 2016). Come March 2015, the OCC completed its multi-year assessment of the Bank's compliance management system, applying the heightened standards for large banks which went into action on November 2014.

A June 2015 supervisory letter was later sent to then Chairman and CEO John Stumpf, which identified issues with enterprise-wide risk management and oversight of sales practices with five more MRAs (Curry 2016). A July 2016 Report of Examination sent directly to the board determined that the bank's sales practices were unethical; the bank's actions caused harm to customers; and the bank's management did not respond promptly to address the issue (Curry 2016). Finally, a supervisory letter was sent to the bank's chairman on 18 July 2016, which stated that the bank engaged in unsafe or unsound business practices (Curry 2016, p. 8). Shortly after, an enforcement action would come against Wells Fargo on 8 September 2016 by the OCC in coordination with the CFPB and the L.A. City Attorney's Office.

8. LA City Attorney's Office

Though not a federal regulatory agency like the OCC or the CFPB, the Los Angeles City Attorney's Office was one of the first organizations to respond to the actions of Wells Fargo.

Mike Feuer was then the L.A. City Attorney, and he cites learning about the actions of Wells Fargo from an article published in the *Los Angeles Times* by Scott Reckard in 2013. After reading that article, Mr. Feuer instructed his staff to begin investigating the case, allowing them to later bring an action against Wells Fargo under Californian laws protecting consumers from unfair business practices (M. N. Feuer 2017). The current law in California does not provide his office with pre-litigation subpoena power. Thus, as Mr. Feuer puts it, his office began the investigation through "good old-fashioned detective work" by conducting numerous interviews, reviewing public records, and utilizing the consumer compliance database of the CFPB and the Federal Trade Commission (M. Feuer 2017).

After a 16-month investigation, the LA City Attorney's Office filed a civil enforcement action against Wells Fargo on May 4, 2015 (M. N. Feuer 2017). The action sought relief for customers harmed by the actions found in the investigation, and the suit aimed to end the illegal practices Wells Fargo had utilized. After filing the suit, the office reported receiving communications from over 1000 current and former customers, and employees of Wells Fargo telling of their experience with the actions outlined in the lawsuit (M. N. Feuer 2017).

In early September 2016, the LA City Attorney's Office reached a settlement with Wells Fargo in coordination with the OCC and the CFPB, imposing a $50 million penalty against the bank (M. N. Feuer 2017). Furthermore, this suit established a complaint and mediation system for those harmed by the scandal and required Wells Fargo to continue restitution for affected customers. As part of the settlement, Wells Fargo must also alert all California customers with checking or savings accounts, credit cards, or unsecured lines of credit, that they should review their accounts and services to ensure that bank services are appropriate. Finally, Wells Fargo must provide the LA City Attorney's office with an audit report assessing compliance with the agreement every six months for the next 2 years.

9. The Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (CFPB) is a federal government agency whose mandate is to protect consumers from unfair, deceptive, or abusive practices (The Bureau 2017). Created after the 2008 financial crisis, the CFPB works to protect consumers within the financial markets and larger U.S. economy.

The CFPB had first heard of the issues dealt with in the Wells Fargo case in mid-2013 through whistleblower tips. The CFPB had already been investigating issues involving financial incentive programs when the *Los Angeles Times* article in 2013 was published (Senate Hearing 2016, pp. 58–60). While the investigation was ongoing, the CFPB had merged their investigation with that of the LA Attorney's Office and the OCC, and from that merger they were able to learn from each other's investigation which would help to bring forward the concluding settlement.

10. Prior Investigations

This scandal is not the first time that Wells Fargo's incentive compensation and sales quota programs had been under regulatory investigation. On 20 June 2011, the Federal Reserve issued a cease and desist order and assessed a civil monetary penalty of $85 million against Wells Fargo (Federal Reserve 2011). These penalties followed findings that employees falsified customer income information provided for loans to move potential prime borrowers into the more expensive sub-prime loans. Additionally, the order alleged

that sales personnel falsified borrowers' incomes to make it seem like they qualified for loans which they would not have qualified for otherwise. The order stated that both actions were motivated by the incentive compensation and sales quota programs, along with an inadequate risk management system (Ibid.).

Wells Fargo's filing to the Securities Exchange Commission from the first quarter of 2017 noted that the U.S. Securities Exchange Commission, the U.S. Department of Justice, and several state attorneys general and prosecutors' offices have taken formal or informal inquiry into the scandal (Wells Fargo & Company 2017). It further stated that federal, state, and local government agencies have investigated the issues, but only those above are specifically named. Additionally, Wells Fargo currently faced eleven (11) separate class-action lawsuits from consumers (Mitchell et al. 2016), shareholders pursuing a consolidated securities fraud class-action case, and Shareholders bringing derivative lawsuits claiming violation of fiduciary agreements (Wells Fargo & Company 2017). Moreover, the bank reported a range of employment litigation, multiple single-plaintiff *Sarbanes-Oxley Act* complaints, and state law whistleblower actions with the Department of Labour or other state courts (Wells Fargo & Company 2017).

11. Wells Fargo Shareholders

When news of Wells Fargo's fake account scandal was released to the public, the bank's market share value was gravely impacted. During the scandal, shareholders heard nothing of the unethical actions nor fake accounts that were taking place at the bank, and due to this lapse in transparency, shareholders decided to sue. In 2017, Wells Fargo shareholders pursued a consolidated, securities fraud class-action alleging misstatements and omissions in the company's disclosure of the sales practices (Wells Fargo & Company 2017). In addition to that suit, shareholders have brought numerous derivative lawsuits asserting a breach of fiduciary claims against former directors and officers for their failure to detect and prevent the issues. These lawsuits were consolidated into three separate class-actions, two of which are in the Northern District of California and California state court, with the third in Delaware state court (Wells Fargo & Company 2017).

To illustrate just one of these class-action lawsuits which shareholders have brought against Wells Fargo, the complaint filed by Gary Hefler may be examined. On 26 September 2016, a securities class-action lawsuit was brought against Wells Fargo on behalf of people who purchased Wells Fargo common stock between 26 February 2014 and 15 September 2016.[2]

This complaint is critical of Wells Fargo's business strategy during the class period which emphasized cross-selling as both a key business strategy, and an essential performance metric for business and growth prospects. Plaintiffs accused Wells Fargo of concealing that a material part of the source of the record cross-selling numbers at Wells Fargo was based on fraudulent activity, and that the company misrepresented that information when reporting to shareholders (Hefler et al. 2016). The plaintiffs allege that Wells Fargo management knew, and deliberately did not disclose, that the bank's cross-selling strategy was designed to fulfill sales quotas to increase profitability. This was contrary to what Wells Fargo reported to shareholders, which was that the cross-selling strategy was designed primarily to benefit customers.

This complaint stated that John Stumpf, Carrie Tolstedt and John Shrewsberry knew of the scandal, and during the class period did not disclose the scandal to shareholders, yet continued to earn a collective compensation for that time of $61.9 million (Hefler et al. 2016). Moreover, the plaintiffs alleged that John Stumpf and Carrie Tolstedt together sold a total of 31.2 million shares of Wells Fargo stock at inflated prices as high as $58.52 a share. The plaintiffs were critical of how that inflated price may have been an intended result of the emphasis on cross-selling, though the true nature of cross-selling would not be

revealed to shareholders until after news of the settlement with regulatory authorities (Hefler et al. 2016). The failure to report the sales practice issues to shareholders resulted in economic damage to the shareholders. On 8 September 2016, when news of the scandal broke, Wells Fargo stock was at $49.90 per share; and on 16 September 2016, just eight days later, the stock closed at $45.43 a share which is a 9% decline (Hefler et al. 2016).

12. New Scandals at Wells Fargo

Since the fake account scandal, Wells Fargo has been named in at least three different scandals, all of which involved unethical business practices at the bank. First, an article released in *The New York Times* on 14 June 2017 outlined a new class-action lawsuit filed against Wells Fargo. This suit alleged that officials in the company's mortgage business were putting through unauthorized changes to home loans held by customers (Morgenson 2017b). The complaint alleged that, as part of a trial loan modification process, the bank would extend the terms of borrowers' loans by decades without their knowledge. It further suggested that this sort of unrequested mortgage extension had been happening since at least 2015, and was specifically used for customers in bankruptcy (Morgenson 2017b).

Wells Fargo supposedly would make changes to borrowers' loans through a routine form that would typically record new real estate taxes or homeowners' insurance cost that are folded into monthly mortgage payments. Due to the normalcy of this form, bankruptcy court workers would simply put changes into effect without question (Morgenson 2017b). The difference with these extensions from the norm was that these did not get approved by the borrowers, their lawyers, or the court. Doing so put borrowers at risk, as their standing with the bankruptcy court could be impacted greatly (Morgenson 2017b).

An interesting parallel is found between the case above, and a similar situation Wells Fargo found itself on 5 November 2015, when the bank announced a settlement with the U.S. Department of Justice's Trustee Program (U.S. Trustee Program Reaches $81.6 Million Settlement with Wells Fargo Bank N.A. to Protect Homeowners in Bankruptcy 2015). This settlement announced that Wells Fargo failed to notify more than 100,000 debtors of changes in their payments, and failed to perform more than 18,000 escrow analyses[3] in cases involving nearly 68,000 homeowners in bankruptcy between 1 December 2011 and 13 March 2015 (U.S. Trustee Program Reaches $81.6 Million Settlement with Wells Fargo Bank N.A. to Protect Homeowners in Bankruptcy 2015). In this case Wells Fargo agreed to pay a total of $81.6 million to homeowners who were in bankruptcy between 1 December 2011 and 31 March 2015. Also, Wells Fargo changed internal operations[4] and submitted to oversight by an independent compliance reviewer as a result of this settlement (U.S. Trustee Program Reaches $81.6 Million Settlement with Wells Fargo Bank N.A. to Protect Homeowners in Bankruptcy 2015).

On 27 July 2017, a Wells Fargo news release announced a plan to remediate auto loan customers that may have been harmed through issues with their Collateral Protection Insurance (CPI) policies provided by the bank (Pulley 2017). The auto loan contracts from Wells Fargo's Dealer Services required customers to maintain comprehensive collision and physical damage insurance on behalf of the lender throughout the term of the loan. Thus, if Wells Fargo had no evidence of external insurance either from the customer or the insurance company, the bank would purchase CPI from a vender on the customer's behalf, the costs of which would be added to their monthly payments (Pulley 2017). Unfortunately, due to certain external vendor processes and inadequate internal controls, many customers had been charged premiums for CPI even if they had their own insurance. Also, in some cases those premiums contributed to a default leading to the vehicle's repossession (Pulley 2017).

Following customer concerns, in July 2016 Wells Fargo initiated a review of the CPI program and related third-party vendor practices (Pulley 2017). This review found that approximately 570,000 customers may have been impacted by these issues. Of these, 490,000 customers had CPI in place while having coverage of their own, 60,000 customers did not receive proper notification and disclosure as per state requirements, and 20,000 customers had costs of CPI contribute to their vehicle repossession (Pulley 2017). To remediate these harmed customers, Wells Fargo set aside a total of $80 million, $64 million of which will be cash remediation sent directly to customers, and the other $16 million is for account adjustments (Pulley 2017).

The latest regulatory inquiry involves the Bank's Guaranteed Auto Protection insurance (GAP) (Morgenson 2017a). The Federal Reserve Bank of San Francisco investigated Wells Fargo regarding its GAP as the bank failed to refund some of the GAP insurance premium (Morgenson 2017a). GAP is an optional insurance offered by Wells Fargo that is intended to protect the lender from the loss of value of the car from the moment it is driven off the lot. This insurance made up the difference for a lender if, for example, the car was stolen because normal insurance typically covers only the current market value of the car (Morgenson 2017a). When a borrower pays off the loan early, they are entitled to a refund of at least some of the GAP insurance premium because the coverage for which they paid is no longer needed (Morgenson 2017a).

A failure to refund insurance money may harm borrowers if their cars are repossessed, as it would increase the amount owed. This amount owed would also later be reported to consumer credit bureaus, which can harm consumers in numerous ways (Morgenson 2017a). All 50 states require that the amount of unused insurance in cases similar to this be credited to the borrowers' account in order to lower the amount owed, and Wells Fargo failed in this respect (Morgenson 2017a). Due to the size of Wells Fargo as an auto lender, there are potentially tens of thousands of customers that may be affected by this failure. As stated in a *New York Times* article covering the scandal, "The new problem raises questions about Wells Fargo's internal controls and its board's oversight of company operations" (Morgenson 2017a).

13. Securities and Exchange Commission

The SEC got involved in the numerous investigations launched by other agencies as early as 2016 and by 2020 issued an administrative finding that Wells Fargo had violated the *Securities and Exchange Commission Act* by "unlawful and unethical sales practices misconduct that was at odds with its investor disclosures regarding needs-based selling (SEC 2020a)." This involved the creation of a number of unused and unauthorized client accounts to the benefit of the bank. Simultaneously, it issued a $500 million dollar fine against the bank in conjunction with the U.S. Department of Justice for a total of $3 billion dollars in sanctions (SEC 2020b). It further proceeded civilly against the former Chairman John G. Stumpf and former head of Wells Fargo's Community Bank, Carrie L. Tolstedt. Stumpf settled the civil action by agreeing to reimburse the agency $2.5 million dollars and cease and desist any further activity. Tolstedt eventually agreed to pay $3 million in fines to the Securities and Exchange Commission (SEC 2023) and a disgorgement of $1,459,076 plus prejudgment interest of $447,874.

14. Sanctions Post 2020

One of the most serious sanctions against Wells Fargo was the Fed Reserve's (2018) order to restrict the bank's assets at $2 trillion dollars, which severely curtailed its loan and interest-generating accounts. "Until the firm makes sufficient improvements, it will be restricted from growing any larger than its total asset size as of the end of 2017" (Fed

Reserve 2018). "From February 2018 to December 2020, its share price dropped by two-thirds, shaving its market cap from $322 billion to $88 billion" (Tully 2025). This forced new management to allocate more resources to compliance and oversight.

Just recently in June of 2025, this restriction was lifted by the Federal Reserve (Fed Reserve 2025), and then in March of 2026, the agency announced it was terminating its enforcement action against the bank (Fed Reserve 2026).

In 2025, the Securities and Exchange Commission announced a $60 million dollar settlement between two Wells Fargo advisory firms and Merrill Lynch for failing to consider the "best interests of clients when evaluating and selecting which cash sweep program options to make available" to them. The advisory firms set up a very favorable interest account for the bank when other firms were paying much higher interest rates (SEC 2025).

Not to be left out, the Office of the Comptroller of the Currency in 2025 fined three former bank officials of Wells Fargo a total of $18.5 million (OCC 2025). This included the bank's former risk officer, auditor, and audit director.

15. Theoretical Considerations

Unlike much of the business literature on this scandal (Mullen et al. 2023; Eradiri et al. 2025; McNulty and Akhigbe 2025; Tayan 2019; Hao et al. 2025), we invoke a more macro approach to explaining this example of bank fraud. Here, we test the applicability of William Chambliss' *structural contradictions theory*.

There is an early literature on white-collar crime, ranging from the work of Bonger (1916) to Merton (1968, p. 199) as well as David M. Gordon (1971). All note the presence of structural holes in the global market system and that pressures are intense at the corporate level to accumulate capital, sometimes by any means possible. This logically produces what Sutherland (1949, 1983) labeled a "culture" of corporate deviance, and because of competition over finite resources in the marketplace, organizations like Wells Fargo bank experienced organizational "strain." As David Harvey further observes (Harvey 2016, p. 259):

> "Stock promotions, Ponzi schemes, structured asset destruction through inflation, asset stripping through mergers and acquisitions, the promotion of level of debt encumbrancy that reduce whole populations, even in the advanced capitalist countries, to debt peonage, to say nothing of corporate fraud, dispossession of assets (the raiding of pension funds and their decimation by stock and corporate collapses) by credit and stock manipulations—all of these are central features of what contemporary capitalism is about."

Harvey puts his thumb on the central question in the Wells Fargo account scandal when he writes: "…. the question of how, why, and with what effect might the bankers and financiers go beyond their rightful claims and use their position and their power over the mass of wealth under their command to appropriate as much of the value and surplus value as possible for themselves" (Harvey 2026, pp. 268–69).

This gives us the opportunity to evaluate the extent to which the Wells Fargo case study fits Chambliss' theory of *structural contradictions* in the marketplace (Glaser and Strauss 1967).

One gets some sense of Chambliss' structural contradictions theory in his very early article on vagrancy in 1964 (Chambliss 1964). Here, he argued that vagrancy statutes and their enforcement were expressions of those in power and their ability to enforce such statutes as a means of controlling the non-working, lower classes. He pursues this argument later in his commentary on CIA efforts to recruit the Hill tribes during the Vietnam War, in which their support for U.S. anti-communist efforts to limit men and arms from

China into Vietnam was purchased with a *quid pro quo*. Here, the CIA "looked the other way" in supporting Warlord opium smugglers in their efforts to market their product to the United States (Chambliss and Maloney 2020, p. 19). A similar situation occurred during the Enron scandal and their auditor, Arthur Anderson. Here, the audit firm provided consulting support to enable Enron to skirt normal accounting principles in order to inflate their assets and hide their enormous debt—which was often secreted in offshore entities. Importantly, all of these examples are grounded in the political economy of structural contradictions.

This theory shows up most explicitly in Chambliss' study of piracy. He argued that piracy was often financed by wealthy businessman and state elites in order to generate income and act as an informal/unauthorized navy for various states. He points out that Sir Francis Drake attacked ships and villages along the Spanish Main, ransacking supplies of gold and silver. He then ambushed a train carrying silver and returned to England with enough gold and silver to support the government for a period of 7 years. Of course, the Spanish complained to the Queen to no avail and Drake retired with a knighthood (Chambliss 1989, p. 186).

Hence, Chambliss and Maloney (2020, p. 17) state that "structural contradictions are a key part of the causal chain between the existence of an organization and any resultant organizational criminality or malfeasance."

In this way the development and maintenance of illegal business and of organized criminal activities fit into, reflect, complement, and mirror the political economy of our time (Chambliss 1988b, p. 8).

Much of the attraction to political economy by William Chambliss had to do with his upbringing. He was a white, working-class kid raised in a large family by a single mother. Chambliss became a gang member in high school, but was smart enough to matriculate to university where he worked his way through with odd jobs, shooting pool, and playing poker (Moyer 2001, pp. 215–28; Hayward et al. 2010). His early work as an army intelligence officer in Korea, as well as working alongside convicts outside Walla Walla Penitentiary in Washington State raised questions about state intervention (prisons) and state involvement in criminality.

This led to the development of *structural contradictions* theory as an explanation of piracy, organized crime, state and white-collar crime. Here is Chambliss in his own words (Chambliss 1988a, pp. 122–23):

> At the basis of the process are structural contradictions. These may be economic, political, social, or ideological. In capitalist economic systems, a basic economic contradiction is between the private ownership of production and the public nature of the productive process; that is the "public" (workers)…. We noted in Chapter 2 the prevalence of class, race, and labor strife over the years. In the beginning, the laws overwhelming favored the owners…. The fact that these laws reflected neither consensus nor societal needs was clearly established when workers, slaves, women, and children rebelled. They blatantly violated the law and suffered imprisonment, beatings, and even deaths at the hands of law enforcers….

This is essentially a neo-Marxist position, and there is a history in the criminological literature which dates back to Barnett (1981), Pearce (1976, 1993); Bittle et al. (2018), Friedrichs (2010), and Reiman (2007). This theoretical model perfectly fits the Wells Fargo account scandal where an effort to increase retail credit accounts by "hook or crook," led to a massive fraud—all of which took place in the banking sector in which Wells Fargo sought dominance in the capital markets. We see structural pressures caused by the nature of corporate capital (here bank profits) which result in pressure to open more and more bank, mortgage and credit card accounts in order to be able to both charge bank fees and

show a large balance sheet for Wells Fargo Bank vis-à-vis its global competitors. This conspiracy went on for almost a decade before any of the regulatory agencies addressed these acts of criminality; and then the matter was negotiated in the civil arena with the imposition of large fines and restrictions on marketing and loan requirements. No one went to jail, which is consistent with Sutherland's (1949) early observations about white-collar crime.

Our reason to examine this precedent-setting case is because it so well illustrates the intersection of corporate-state crime (Michalowski and Kramer 2006). Here, both the bank and its regulatory agencies push enforcement into the civil fraud arena. Consent agreements are negotiated with minimal financial penalties to Big Finance and Wall Street defendants. Major white-collar crime of this variety is effectively decriminalized for market elites and a structural analysis posits that the owners of capital (finance capital in this case) receive preferential treatment due to the central role of finance capital in the functioning of the private capital system.

16. Conclusions

In 2019, reporters for the *New York Times* interviewed seventeen current and former employees of Wells Fargo Bank and examined ("blog") internal documents (Flitter and Cowley 2019). The rank-and-file employees clearly do not agree there has been a change in the sales orientation of the bank. Employees are still under enormous pressure to produce sales quotas and make calls, as well as cross sell customers. To quote one worker: "There's a sense among the workers that most of the reforms the bank has made are very superficial and only being done for P.R. reasons."

The bank has paid more than $1.5 billion in penalties to federal and state authorities, and $620 million to resolve lawsuits from customers and shareholders. Most painful, the Federal Reserve punished the bank in February 2018 by prohibiting it from expanding until it cleaned up its culture and internal checks and balances—a restriction that remained in force until recently (Flitter and Cowley 2019, p. 19).

In an earlier study, we utilized neo-Marxist theory to understand how financial crimes, like those of Citibank, were facilitated by "*structural contradictions*" in the capital markets, and clearly protected by those who hold power and control the means of production (Yeager and Calathes 2015). This especially applied to the mortgage and financial frauds committed during the 2007–2010 recession, and for whom literally no one went to jail. Indeed, the State intervened to bail out banks and major corporations on the verge of bankruptcy. Marx did not address financial crimes of global capitalism, but instead focused on the workings of industrial capitalism and the development of capitalism since the late 15th century. His observations about "primitive accumulation" in the form of colonialism, dispossession of small producers from historic commons property, slavery, and mass violence are still relevant. This is due to the "siphoning of public finance by debt service, leading to a major deduction from both wage and non-wage income to the profit of financial capital" (Batou 2015). It is also consistent with David Harvey's notion of accumulation by dispossession quoted above.

This entire episode illustrated by the Wells Fargo fake account scandal raises the larger question of to what extent are these financial institutions subject to public accountability, and when is it appropriate to "nationalize" a private bank in the greater public interest after a history of fraudulent behavior? Clearly, the current laissez faire system of civil lawsuits and regulatory enforcement does not have much effect. Hence, this example of *structural contradictions theory* illustrates why bank and financial fraud will re-appear and why corporate fraud is a pervasive feature of the capital markets (Dyck et al. 2023).

Funding: This research received no external funding.

https://doi.org/10.3390/socsci15110754

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The original contributions presented in this study are included in the article. Further inquiries can be directed to the corresponding author(s).

Conflicts of Interest: The author declares no conflicts of interest. Other than university support, there were no other funders in the design or writing of this article.

Notes

1. Wells Fargo generally refers to all current employees as 'team members' (Wells Fargo Today 2020).
2. For this shareholder lawsuit, the relevant period will be referred to as the 'Class Period' (Hefler et al. 2016).
3. Escrow accounts are ways to manage the property taxes and insurance premiums on your home. Through this account, customers make one monthly payment where part will go toward mortgage to pay principle and interest, and another part goes to your escrow account for property taxes and insurance premiums. Escrow reviews are done each year to make sure you are paying enough to cover your bills (Escrow Accounts 2017).
4. In accordance with this settlement, the changes required of Wells Fargo's internal operation include improving the computer platform, improving employee training and oversight, and implementation of a quality control process to ensure accuracy and timeliness of payment change notifications and escrow statements (U.S. Trustee Program Reaches $81.6 Million Settlement with Wells Fargo Bank N.A. to Protect Homeowners in Bankruptcy 2015).

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