Supervisor Of "Massive Fraud" At Wells Fargo Leaves Bank With $125 Million Bonus

From Zerohedge, 13 September

There was a burst of righteous populist anger anger last week, when it emerged that Wells Fargo had engaged in pervasive, "massive" fraud since at least 2011, including opening credit cards secretly without a customer's consent, creating fake email accounts to sign up customers for online banking services, and forcing customers to accumulate late fees on accounts they never even knew they had. For this criminal conduct, Wells was fined $185 million (including a $100 million penalty from the CFPB, the largest penalty the agency has ever issued). In all, Wells opened 1.5 million bank accounts and "applied" for 565,000 credit cards that were not authorized by their customers.

As "punishment" Wells Fargo told CNN that it had fired 5,300 employees related to the shady behavior over the last few years. The firings represent about 1% of its workforce and took place over several years. The fired workers went to far as to create phony PIN numbers and fake email addresses to enroll customers in online banking services, the CFPB said. What was hushed away is that not a single employee will go to prison, and that ultimately it will be Wells Fargo's shareholders - such as Warren Buffett - who will end up footing the bill.

What Wells did not disclose publicly to anyone is that the head of the group responsible for Wells' biggest consumer fraud scandal in years, is quietly leaving the bank with a $125 million bonus, a bonus which as Fortune's Stephen Gandel writes today will not see even one cent clawed back as part of the dramatic revelations.

According to Gandel, Carrie Tolstedt, the Wells Fargo executive who was in charge of the unit where employees opened more than 2 million largely unauthorized customer accounts—a seemingly routine practice that employees internally referred to as "sandbagging"— is leaving the giant bank with an enormous pay day, some $124.6 million.

Tolstedt is walking away from Wells Fargo with a very full bank account, and praise: in the July announcement of her exit, which made no mention of the soon-to-be-settled case, **Wells Fargo's CEO John Stumpf said Tolstedt had been one of the bank's most important leaders and "a standard-bearer of our culture" and "a champion for our customers.**" In light of the record fine levied by the CFPB for the unit which Tolstedt headed, we wonder if Stumpf would like to retract his statement.

What is just as troubling is that despite beefed-up "clawback" provisions instituted by the bank shortly after the financial crisis, "it does not appear that Wells Fargo is requiring Tolstedt, the Wells Fargo executive who was in charge of the unit where employees opened more than 2 million largely unauthorized customer accounts—a seemingly routine practice that employees internally referred to as "sandbagging"—to give back any of her nine-figure pay."

As a reminder, on Thursday, Richard Cordray, the head of the CFPB, said, "It is quite clear that [the actions of Tolstedt's unit] are unfair and abusive practices under federal law. They are a violation of trust and an abuse of trust."

However, cited by Gandel, a spokesperson for Wells Fargo said that **the timing of Tolstedt's exit was the result of a "personal decision to retire after 27 years" with the bank.** The spokesperson declined to comment on whether the bank was considering clawing back Tolstedt's back pay.

In a statement following the settlement, Wells Fargo said, “Wells Fargo reached these agreements consistent with our commitment to customers and in the interest of putting this matter behind us. Wells Fargo is committed to putting our customers’ interests first 100% of the time, and we regret and take responsibility for any instances where customers may have received a product that they did not request.”

In other words, this has become yet another instance where bank subordinates were engaged in activity that seemingly none of their supervisors was - mysteriously - aware of, a pattern observed in virtually every major crackdown against a prominent sellside bank, from Goldman's Fab Tourre to the Libor conspiracy. While Fortune writes that it is not clear how closely Tolstedt was responsible for or even aware of the widespread abusive tactics at the bank, it is a fact that **Tolstedt ran the community banking division of the bank, which included its retail banking and credit card divisions, during the entire period in which the customer abuse was alleged, which goes back to 2011.** The CFPB said about three quarters of the unauthorized accounts opened by employees of Wells Fargo were bank deposit accounts. Another 565,000 were unauthorized credit card applications. Tolstedt took over the division in 2008, after Wells Fargo merged with Wachovia during the financial crisis.

Ironically, Tolstedt was a regular on Fortune‘s Most Powerful Women list. She was replaced on this year’s list by Mary Mack, who is taking over her job at the bank.

Tolstedt was regularly praised for her unit’s ability to get customers to open numerous accounts. For a number of years, **Wells Fargo’s proxy statement, which details executive pay, cited high “cross-selling ratios” as a reason that Tolstedt had earned her roughly $9 million in annual pay.** For instance, in Wells Fargo’s 2015 proxy statement, the company said that its compensation committee had authorized Tolstedt’s $7.3 million stock and cash bonus that year, **because “under her leadership, Community Banking achieved a number of strategic objectives, including continued strong cross-sell ratios, record deposit levels, and continued success of mobile banking initiatives.**”

However later in 2015, the L.A. City Attorney’s office sued the bank because of its sales tactics, saying that many of the abusive practices came from intense pressure on Wells Fargo’s employees to get customers to open up numerous accounts. A separate class action of former employees alleges they were fired for not meeting cross-selling goals, or going along with the aggressive sales tactics.

Meanwhile, the awards for Toldstedt continued piling in, and earlier in 2016, when Wells Fargo released its annual proxy statement, it once again said that in order to justify her multimillion dollar bonus, Tolstedt’s division had “achieved a number of strategic objectives.” But this time, for the first time in years, cross-selling wasn’t listed as one of them.

While one can speculate if Tolstedt decided to leave in advance of the CFPB crackdown on her division, one thing that is certain is how much money she is taking with her: according to Gendell, **when Tolstedt leaves Wells Fargo later this year, on top of the $1.7 million in salary she has received over the past few years, she will be walking away with $124.6 million in stock, options, and restricted Wells Fargo shares.** Some of that hasn’t vested yet. But Tolstedt gets to keep all of it because she technically retired. Had she been fired, Tolstedt would have had to forfeit at least $45 million of that exit payday, and possibly more. It is safe to assume that had she waited until after the CFPB settlement, that her parting present may have been one third smaller, and that she could have been the bank's scapegoat, fired to placate regulators.

Alas, now we will never know what "could"have happened, which means that the only recourse Wells and its shareholders have - if they feel like bothering - is to try to recoup some of her ill-gotten bonus. As Fortune concludes, "the bank's proxy statement says that the bank has “strong recoupment and clawback policies,” and that the bank will revoke bonus pay if it is found that the conduct of an executive resulted in representational harm to the bank, or that the executive was not able to “identify or manage” risks in his or her division. **But there is no sign that Wells Fargo is going to ask Tolstedt to return even a sliver of her stock jackpot.**"

As we pointed out last week, when we observed that yet again nobody is going to prison, Gandel's parting assessment is similar: "*on Wall Street, the carrots are still widely handed out. The sticks, however, remain out of sight."*

This also means that the biggest crime on Wall Street remains a more prosaic one: getting caught.