Portfolio Media. Inc. | 111 West 19th Street, 5th floor | New York, NY 10011 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Investors Suit Follows Scathing House Report On Wells Fargo

By **Dean Seal**

Law360 (July 14, 2020, 10:04 PM EDT) -- A Pennsylvania pension fund is suing Wells Fargo over stock drops that followed a scathing House Financial Services Committee Democrats staff report accusing the bank's top brass of a litany of oversight failures.

The securities suit filed in California federal court on Monday calls attention to two share price tumbles in March, one just after the House committee said **in a March 4 report** that Wells Fargo "continues to struggle to implement effective risk management and remediation programs," and the other on the day after a recently resigned director testified that the bank's board was aware of management's failure to adequately respond to regulatory consent orders related to a series of scandals that have **plagued it since 2016**.

When three consent orders — **one with the Federal Reserve** that imposed a $2 trillion asset size cap and **two more** with the Office of the Comptroller of the Currency and Consumer Financial Protection Bureau that resolved claims of harmful practices in the bank's auto lending and mortgage divisions — became public in 2018, the company's executives "downplayed their impact and asserted that the required reforms were already well underway," the complaint alleged.

"Defendants then published dozens of public statements touting the company's reform efforts within its filings with the [U.S. Securities and Exchange Commission], conferences with investors and analysts, and press releases, and specifically and repeatedly insisted that Wells Fargo was developing and implementing its reform efforts in compliance with the consent orders," the pension fund claimed. "That was false."

The House committee's majority staff report detailed findings from a year-long investigation into Wells Fargo's progress under regulatory consent orders directing the California-based banking giant to strengthen its compliance and compensate consumers.

The consent orders covered in the report are the agreements that Wells Fargo **reached in 2016** with the OCC and CFPB over claims that bank employees had created millions of unauthorized, fraudulent customer accounts in order to meet aggressive sales targets, as well as the consent order it reached with the Federal Reserve in February 2018 and two additional orders reached with the OCC and CFPB in April 2018.

The investor suit from Steamfitters Local 449 Pension & Retirement Security Funds starts its class period when the Federal Reserve consent order was announced on Feb. 2, 2018, and alleges that despite the conditions set by all three of the 2018 consent orders, Wells Fargo never disclosed to investors that its plans to enhance oversight and governance were incomplete and inadequate.

"As a result of Wells Fargo's extended noncompliance with the consent orders, the Federal Reserve and the OCC threatened to impose additional supervisory and/or enforcement actions and penalties," according to the suit. "Additionally, Wells Fargo's remedial measures and operational and compliance risk management remained inadequate to prevent future consumer abuses."

These failures were then exposed by the House committee report, which caused Wells Fargo's share price to drop more than 6%, from $41.40 on March 4 to $38.90 on March 5, the pension fund claims.

Then on March 11, two days after bank directors Elizabeth Duke and James Quigley resigned from the board, Duke and Quigley testified before the House Financial Services Committee and "endured withering criticism from a bipartisan group of lawmakers for their 'dereliction of duty' and lack of urgency regarding Wells Fargo's compliance with the consent orders," the suit stated.

Duke testified at the hearing that the board had expressed "regular concern" to management over delays in complying with the government's consent orders and that she believed former Wells Fargo employees should face criminal charges for their roles in the bank's various consumer scandals.

According to the pension fund, the House hearing caused the company's stock price to drop more than 22%, from $35.08 per share on March 11 to $27.20 per share the following day.

Counsel for the fund did not respond to a request for comment Tuesday. A representative for Wells Fargo declined to comment.

The fund is represented by Peter E. Borkon, Javier Bleichmar, Nancy A. Kulesa and Nicholas J. Dennany of Bleichmar Fonti & Auld LLP.

Counsel information for Wells Fargo is not yet available.

The case is Steamfitters Local 449 Pension & Retirement Security Funds v. Wells Fargo & Company et al., case number 3:20-cv-04674, in the U.S. District Court for the Northern District of California.

--Additional reporting by Jon Hill. Editing by Janice Carter Brown.