CFPB Fines Wells Fargo $1 Billion Over Certain Business Practices

April 20, 2018 - The Consumer Financial Protection Bureau (CFPB) has announced a $1 billion fine for Wells Fargo over certain business practices that resulted in hefty fees for some of the bank's mortgage and auto-loan customers. The fine is second largest ever levied by the agency.

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Wells Fargo Bank has had a wide variety of issues that have resulted in penalties. Perhaps the most publicized was a practice where the bank opened new accounts for existing customers without their permission. The purpose was to generate additional banking fees, which went straight to the bottom line of the bank's revenues.

This latest fine stems from business practices in the banks home and auto loans.

Wells Fargo is the nation's largest mortgage originator. Several years ago the bank put a policy in place having to do with interest rate locks on mortgage loans. A rate lock typically happens once a buyer has made an offer on a home. Once the rate-lock is in place, as long as the buyer closes on the sale within a specified time frame, the interest rate on their mortgage is guaranteed. But if the closing date gets pushed out, the buyer may be charged a fee to continue the rate lock.

Wells Fargo's written policy was that buyers would be charged a rate lock fee if the closing date was pushed out due to an issue caused by the buyer. This could be something like not returning paperwork to the bank in a timely manner, or not filling out paperwork completely. But if the closing date needed to be pushed out due to an issue caused by the bank, then there would be no additional charges to continue the rate lock. Such a policy is perfectly legal.

But the bank didn't follow its written policy. Regardless of the cause, the bank was charging borrowers to continue rate locks on mortgages. The end result was that many of the bank's customers were charged fees that violated the bank's own written policy.

The issue with auto loans had to do with insurance. When you borrow money from a bank to purchase a car, the bank requires you to have insurance on the car. If your insurance policy is cancelled for any reason, the bank has the authority to purchase a policy of its own and bill you for it. Again, perfectly legal.

What Wells Fargo was doing, was purchasing insurance policies for some clients who had their own policies. In other cases, the bank purchased policies for people who had become uninsured for a short period of time, and then refusing to drop those policies once the borrower obtained new insurance. Regardless of the circumstances, the practice the bank was using resulted in many customers being double-billed for needless insurance policies. And the fees for those policies weren't cheap. They could easily cost more than $1,000 annually.

The CFPB noted in the settlement agreement that the costs for the additional auto insurance may have directly led to unnecessary loan defaults and repossessions.

It is important to note that Wells Fargo has replaced its CEO and much of its upper management. The bank has also corrected many of the problems that resulted in these fines.

Below, you will find an interview between Bloomberg Television and Mick Mulvaney - the acting director of the CFPB - discussing the fine announced this morning.

byJim Malmberg
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