



IOWA CHAPTER

## **Protect the Iowa Treasury by Withdrawing Taxpayer Money from Financial Institutions Engaging in Fraud**

As the state's banker, the state treasurer has the responsibility to deposit the state's funds in banks. The state treasurer is responsible for determining in which financial institutions to hold the state's money, institutions to borrow from, and institutions that provide banking services. It is only reasonable and prudent that the taxpayer's money be deposited in an institution of high repute.

Banks that have engaged in such questionable behavior that they have been penalized should not be used to hold the state's financial resources.

The Iowa Chapter is proposing commonsense changes that require the state treasurer to cease working with a bank that has engaged in fraud:

1. The treasurer shall not name any institution that has engaged in fraud as depository for funds, as a custodian for funds, as a recipient of a banking services contract, or as a provider of securities or bonds.
2. Fraud includes violations of federal or state law.
3. Engaging in fraud is established when the institution pays or is held liable for any fines, penalties, or settlement of federal or state government probes of the institution's practices related to fraud.
4. The treasurer shall terminate the relationship once a contractual obligation has ended.

The reason that this law is necessary is that a significant portion of Iowa's taxpayer money is deposited with Wells Fargo Bank.<sup>1</sup> In fact, in the June, 2017, report, the State Treasurer reported that over 21 million dollars of state taxpayer money was sitting in the Wells Fargo Bank in Des Moines, Iowa, an amount that dwarfed all but one other bank.<sup>2</sup>

Wells Fargo has a checkered history that includes fraudulent activity. An alphabet soup of regulators has investigated the wrong-doing – Consumer Finance Protection Bureau, Office of the Comptroller of the Currency, City and County of Los Angeles, Department of Justice, Federal Reserve, City of Sacramento, Securities and Exchange Commission. The bank has paid

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<sup>1</sup> <https://www.iowatreasurer.gov/for-businesses/protection-of-public-deposits/>

<sup>2</sup> "Treasurer's Annual Report, State of Iowa", June 30, 2017. See [www.iowatreasurer.gov/media/cms/Treasurers\\_Annual\\_Report\\_June\\_30\\_20\\_6E6202ADB61AD.pdf](http://www.iowatreasurer.gov/media/cms/Treasurers_Annual_Report_June_30_20_6E6202ADB61AD.pdf)

billions of dollars in fines and settlement fees with the regulators. A sampling of the wrongdoing follows:<sup>3</sup>

- In August, 2018, Wells Fargo paid 2.09 billion dollars to settle a federal probe into its practices of creating faulty mortgages, packaging them as securities, and selling them to unwitting investors.<sup>4</sup>
- Additionally, in May, 2018, Wells Fargo paid 480 million dollars to settle a class-action lawsuit that claimed Wells Fargo misled investors about its fake account scandal.<sup>5</sup>
- In 2016, Wells Fargo paid 185 million dollars in restitution and fines related to Wells Fargo employees opening savings and checking accounts and creating credit card accounts that were not authorized by customers.<sup>6</sup>
- Also in 2016, the federal Department of Justice and Wells Fargo reached a settlement that resulted in Wells Fargo paying \$24 million for illegally repossessing cars belonging to military service members. Wells Fargo did not have court orders authorizing the repossession, which violates federal law.
- Then in 2017, Wells Fargo admitted to illegally repossessing more cars from service members than it reported in 2016. Consequently Wells Fargo had to pay an additional 5.4 million dollars in fines.
- In 2017 regulators forced Wells Fargo to return 3.4 million dollars to brokerage customers for a scam that involved selling securities that were likely to lose their value.

It only makes sense that any institution, such as Wells Fargo, that has engaged in fraud should not be eligible to provide banking services to the state of Iowa.

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<sup>3</sup> Ethan Wolff-Mann, “Every Wells Fargo consumer scandal since 2015: A timeline”, Yahoo! Finance, August 18, 2018. See <https://finance.yahoo.com/news/every-wells-fargo-consumer-scandal-since-2015-timeline-194946222.html>

and

Jackie Wattles, Ben Geier, Matt Egan and Danielle Wiener-Bronner, “Wells Fargo's 20-month nightmare”, CNN Business. April 24, 2018

<sup>4</sup> *Bloomberg News*, “Wells Fargo to pay \$2.09B”, *Cedar Rapids Gazette*, August 2, 2018

<sup>5</sup> Matt Egan, “Wells Fargo will pay \$480 million to settle securities fraud lawsuit”, *CNN Business*, May 4, 2018, <https://money.cnn.com/2018/05/04/news/companies/wells-fargo-securities-fraud-settlement/index.html>

<sup>6</sup> “Iowa State Treasurer won’t suspend activity with Wells Fargo”, *Cedar Rapids Gazette*, October 4, 2016