FOR IMMEDIATE RELEASE

PR17:23
May 2, 2017

Contact: Marc Lifsher
news@sto.ca.gov
916-653-2995

Treasurer Chiang, Sen. Dodd Act to Stop Banks from Using Forced Arbitration to Settle Fraud Accusations
Senate Bill 33 Created In Wake of Massive Wells Fargo Fraud Scandal

SACRAMENTO – Wells Fargo Bank and other financial institutions that defraud customers should not be allowed to secretly settle legal disputes with forced arbitration.

That is the thrust of new legislation, sponsored by state Treasurer John Chiang and consumer groups, introduced by state Sen. Bill Dodd, D-Napa.

"Instead of allowing victims to have their day in court where an independent judge or jury can arrive at a verdict following an open and fair trial, Wells Fargo is pushing customers seeking justice into forced arbitration," said Chiang. “While the bank’s latest marketing slogan is ‘On the side of customers,’ it continues to deny its victims their right to be made whole by coercing its customers into a secretive process that tilts in favor of corporations.”

Chiang, Dodd and supporters became aware of the need for Senate Bill 33 last year after a scandal enveloped San Francisco-based Wells Fargo. In agreeing to a $185 million settlement with federal banking regulators and the city of Los Angeles, Wells Fargo acknowledged that it opened more than two million checking, credit card and other illegal accounts without customer approval.

This widespread misconduct dates to at least 2002 and drained unearned fees from the accounts of clients — many of them elderly or immigrants. It also negatively affected their credit scores, making borrowing more difficult and expensive.

Wells Fargo rubbed salt in the wounds of their victims who tried to sue by forcing lawsuits to be heard through forced arbitration instead of a public courtroom. Wells Fargo argues that arbitration clauses included in the legitimate contracts customers signed to open accounts also covers disputes related to bogus ones set up without their consent.

"Wells Fargo’s customers were ripped off twice. First, the bank created two million fraudulent accounts. Then when consumers tried to sue, the bank forced them into company-dominated
arbitration hearings. SB 33 will guarantee that the victims of a bank’s identity theft will get their day in court,” said Richard Holober, Executive Director of Consumer Federation of California.

Passage of SB 33 would halt this anti-consumer practice by authorizing judges to refuse petitions for binding arbitration of disputes with financial institutions when a consumer has been the unknowing victim of fraud involving the unlawful use of their personal information.

“The idea that consumers can be blocked from our public courts when their bank commits fraud and identity theft against them is un-American,” said Senator Dodd. “Allowing victims their day in court allows them to recover and can prevent more victims by putting an end to illegal business practices. If SB 33 was already law, Wells Fargo would have been publicly held to account years ago, and the fraud could have been prevented from spreading.”

Senate Bill 33 will be heard today in the Senate Judiciary Committee. It is co-sponsored by the Consumer Attorneys of California and Consumer Federation of California.

But putting SB 33 on the law books is only part of the Treasurer’s plan to curtail unfair business practices at many of our country’s largest banks. Chiang also is convening a Banking Reform Task Force that will make recommendations to state and federal lawmakers and regulators.

“Unfortunately, what happened at Wells Fargo was not isolated, but is indicative of a growing breakdown of integrity in the culture of too many of our financial institutions,” said Chiang. “Especially at a time when the White House is rolling back consumer and investor protections, California must lead in the fight against deceptive marketing, discriminatory lending, unnecessary fees, illegal kickbacks, and other abusive banking practices.”

Today, Chiang unveiled the members of his task force, which includes academics, financial regulators, and consumer advocates who are charged with crafting actionable recommendations to federal and state policymakers about how to reform the retail banking industry.

The task force will be chaired by University of San Diego School of Law Professor Frank Partnoy.

Members of the task force include:

- Frank Partnoy (Chair), Professor of Law at University of San Diego Law School
- Anat R. Admati (Vice-Chair), Professor of Finance and Economics at the Graduate School of Business, Stanford University
- Paulina Gonzalez, Executive Director, California Reinvestment Coalition
- Scott Syphax, Founder and Board Chair, Nehemiah Corporation of America
- Christina Tetrault, Staff Attorney at Consumers Union
To learn more about the Treasurer’s Banking Reform Task Force, visit treasurer.ca.gov/brtf.

###