

Banking Fraud & Corporate Misconduct: Do Regulatory Penalties Change Bank Behavior?



Using 35,000 CFPB complaints, we examine whether major regulatory penalties change bank behavior over time.

The Problem: Banking Fraud Keeps Happening

- **2008:** Housing crisis - banks took risky bets and harmed millions of families
- **2016:** Wells Fargo - Created 2M+ fake accounts, paid a \$185M penalty
- **2024:** TD Bank - Failed to prevent \$670M in money laundering, paid a \$3.09B penalty
- **Our Question:** Do multi-billion dollar penalties actually prevent banks from repeating harmful behavior?

Our Approach:

- **Analysis:** We analyzed CFPB complaint trends across selected major banks.
- **Focus:** We compared complaint volume and complaint types to identify repeated patterns of harmful behavior.
- **Why this approach:** If penalties are effective, we would expect signs of reduced consumer harm in later complaint patterns.

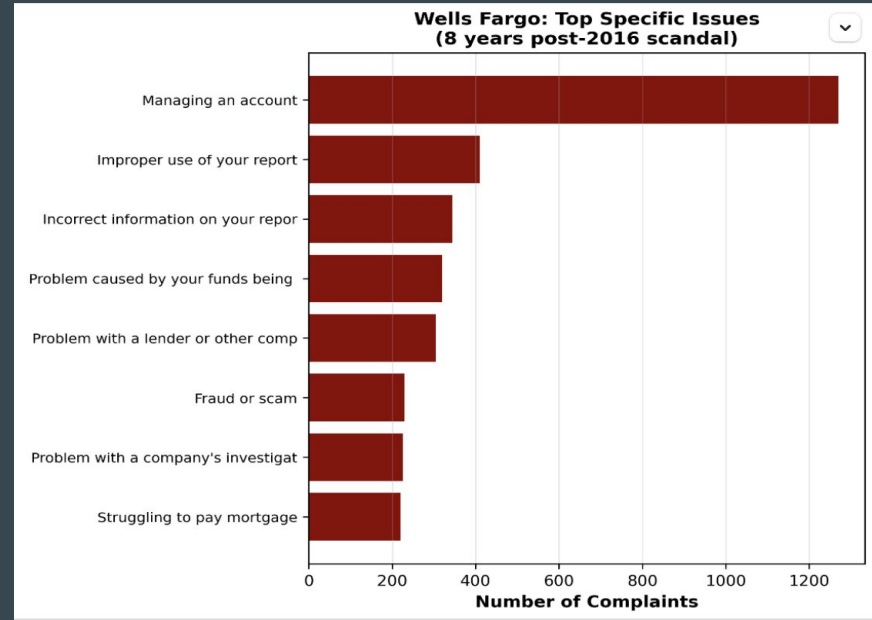
Wells Fargo Complaint Patterns Persist

2016 Scandal:

- \$185M penalty for 2M+ fake checking/savings accounts
- CEO fired, additional \$3B in penalties through 2020

2024 Data:

- 45.5% of complaints are checking-account complaints
- vs. ~34% industry average



**Highest proportion 8 years after major enforcement action

Top 3 Categories = 82% of All Complaints:

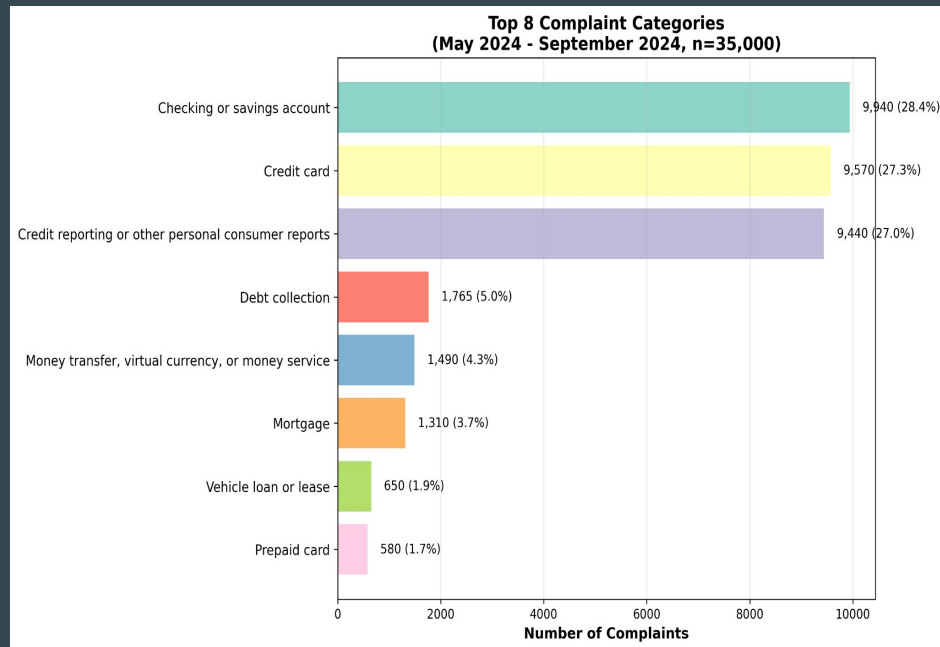
1. Checking/Savings accounts
(28.4%)

2. Credit cards (27.3%)

3. Credit reporting (27.0%)

* Same issues appear across ALL 7 banks

* Suggests systemic industry problems
not isolated incidents



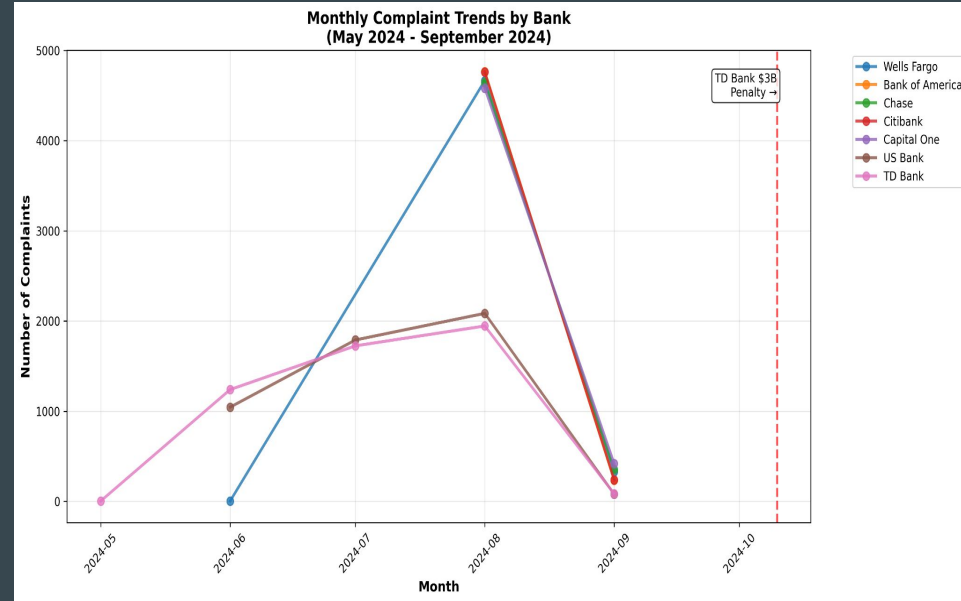
Perfect Timing: TD Bank Pre-Penalty Baseline

Our data: May - September 2024

TD Bank penalty: October 10, 2024 (\$3.09B)

* Captured complaint baseline before historic penalty

* Sets up a future before/after analysis once post-penalty data is available.



Conclusions & Future Work

Key Takeaways:

- ✓ Wells Fargo patterns persist 8 years post-penalty
- ✓ Industry-wide patterns suggest systemic issues
- ✓ Captured TD Bank pre-penalty baseline

Limitations:

- May-Sept 2024 data only
- Can't prove causation
- Cross-sectional design

Future Work:

- Extend data to 2020–2024 to study trends.
- Re-pull TD Bank 2025 for before/after
- Build predictive ML model
- Geographic analysis



Thank You