FRB Consent Order Implementation Report
12/5/11
Section 3 – Enterprise Risk Management

Consent Order Requirement – 3a
The plan shall, at a minimum, be designed to: Ensure that the fundamental elements of the risk management program and any enhancements or revisions thereto, including a comprehensive annual risk assessment, encompass residential mortgage loan servicing, Loss Mitigation, and foreclosure activities.

Status: Complete

Requirements Summary

Wells Fargo has an enterprise-wide Operational Risk program, which consists of a framework that includes roles and responsibilities, required processes including risk assessment, required tools, and governance structures. It also incorporates a number of Corporate Risk Management Programs ("CRMP") for specific types of operational risk. Initial analysis indicated that the issues identified in the OCC and Federal Reserve Consent Orders resulted from three fundamental reasons:

1) Risks that fall within the scope of an existing CRMP, but which were not adequately distinguished by the CRMP
2) Risks that were not within the scope of any Wells Fargo CRMP, which therefore had not been adequately assessed and managed, and for which inadequate information existed in order for proper oversight to be performed
3) Business risk management structures that did not permit adequate visibility into the business activities of mortgage loan servicing, loss mitigation, and foreclosure.

<u>1) Risks that fall within the scope of an existing CRMP:</u>
An initial analysis indicated CRMPs needing extension were Vendor Management, Fair and Responsible Lending, and Regulatory Compliance. The three CRMPs performed a formal gap analysis against the Consent Order. Each of the CRMPs beyond these three was directed to review the Consent Order, in order to confirm the results of the initial analysis. Documentation of the analysis is attached.

Vendor Management had already begun a thorough re-engineering of the program as a result of prior internal analysis of the program. That re-engineering was augmented by the results of the gap analysis (attached) against the consent order. The overall result is a new framework for Wells Fargo's evaluation and management of risks that attend 3rd party service providers. The results of this will be documented in Wells Fargo's response to article 2(b). In the meantime, Operational Risk has performed oversight of the business-level response to the pertinent sections of the OCC Consent Order.

Fair and Responsible Lending developed new controls and reviewed guidance for existing major compliance requirements, which have been designed, written, reviewed, and placed into production on the CRAS+ system, the basic tool for the evaluation and performance tracking of operational risks at Wells Fargo. These requirements are assigned to businesses that engage in lending, under the standard activities of "Manage collections & defaults" and "Monitor & service accounts." Two documents are attached, detailing the risk description, standard controls, and guidelines for when the activities are monitored or reviewed.

2) Risks that were not within the scope of any Wells Fargo CRMP:
A number of the issues detailed by the OCC or the Federal Reserve Consent Orders had not previously

been included in a CRMP, nor identified at the needed level of specificity in the tools.
Accordingly, the Consent Order was thoroughly analyzed, and in each instance of a risk not previously tracked, a new Major Requirement was designed, written, reviewed, and placed into production on the CRAS+ system. Each MR describes the risk, specifies standard controls, and provides guidelines for the monitoring or review of the risks. A document containing these six new MRs is attached. Because of the importance of these issues, they have been incorporated as compliance program requirements, and therefore fall under the requirements of the compliance program, including annual assessment, review and reporting requirements.

3) Business risk management structures that did not permit adequate visibility into the business activities of mortgage loan servicing, loss mitigation, and foreclosure:
The businesses had designed their risk management program at the level of their "whole business." Although each included the risks involved in mortgage servicing, loss mitigation, and foreclosure activities, this structure did not permit sufficient identification of risk, nor transparency on the condition of risk and the risk management functions. Accordingly, each business engaged in the business of consumer residential mortgages have disaggregated to treat these areas as if they are independent businesses. This change requires risk assessment, control identification, reviews and testing, and reporting at a more detailed level than previously. In practical terms, there will be two additional "businesses" rather than three: Servicing; and Loss Mitigation and Foreclosure. The use of two businesses is a result of operational practicalities. There is a work stream dealing with mortgages that are performing to expectations and a work stream for non-performing mortgages, which encompasses both loss mitigation and foreclosure. The reporting change has been implemented, and is tracked as our response to Section 2(d), Board Reporting. Sec 2(d) has a 12/31/11 response due date, to allow the completion of the first quarterly reporting cycle (reporting as of September 30, completed in the fourth quarter.)

Supporting Artifacts

Section 3a Completed Work Documents 12.06.11: Section 3a Completed Work Docu