

**APPENDIX 1**

**Bank of America Corporation**

**Plan to Strengthen Board Oversight Submission, Dated July 12, 2011  
Pursuant to  
Paragraph 2 of the Consent Order of the Board of Governors of the Federal Reserve System,  
Dated April 13, 2011.**

## Plan to Strengthen Board Oversight

### Introduction

This Plan to Strengthen Board Oversight of the Bank of America Corporation (“BAC”), is developed pursuant to the provision of Paragraph 2 of the Consent Order No. 11-029-B-HC of the Board of Governors of the Federal Board System (the “Federal Reserve”), dated April 13, 2011 (the “Order”). It describes the action steps by which the Board will strengthen its oversight of BAC’s enterprise-wide risk management (“ERM”), internal audit, and compliance programs concerning the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities conducted through Bank of America, N.A. (the “Bank”).

In developing this Plan, the Board’s goal is to build on the work of earlier remediation efforts and find opportunities to enhance further processes for effective oversight. Under remediation efforts, beginning in 2009, the Board undertook broad-reaching steps to strengthen its composition, restructure its committees, charters, and governance processes. Further, we implemented material improvements to our oversight by revamping management reporting to the Board, adopting a Global Risk Management Framework (“Risk Framework”), and strengthening our internal control functions. We believe that, as a result of enhancements over the past several years, the current Board oversight framework is effective. Nevertheless, we engaged Promontory Financial Group, LLC (“Promontory”) to conduct an independent assessment of ERM, Compliance, and Internal Audit programs concerning our residential mortgage business, as well as our oversight of those control functions. Promontory considered our oversight of ERM, Compliance, and Audit in the mortgage business to be largely sound and recommended two areas for improvement. Specifically, we face a critical need in staffing our ERM and Compliance functions and our management reports to the Board on mortgage servicing could be improved. We have included efforts to implement those recommendations in this Plan.

The Plan also addresses those elements required by the Order: (a) policies to be adopted by the Board to ensure that the ERM program provides proper risk management oversight; (b) policies and procedures to ensure proper risk management of third party suppliers engaged with residential mortgage servicing and foreclosure activities; (c) staffing of ERM, Compliance and Internal Audit resources; and (d) reports to the Board regarding the Bank’s residential mortgage servicing business and foreclosure activities.

It is our goal to implement these actions promptly and effectively in order to achieve and maintain a robust internal control system over the consolidated organization. We believe that the actions required by the Plan will contribute materially to safe, sound, and compliant operations in our residential mortgage business.

### Paragraph 2 Requirements

Within 60 days of this Order, the board of directors shall submit to the Reserve Bank a written plan to strengthen the board’s oversight of BAC’s ERM, internal audit, and compliance programs concerning the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities conducted through the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) Policies to be adopted by the board of directors that are designed to ensure that the ERM program provides proper risk management oversight with respect to the Bank’s residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, particularly with respect to compliance with the Legal Requirements, and supervisory standards and guidance of the Board of Governors as they develop;

- (b) policies and procedures to ensure that the ERM program provides proper risk management of independent contractors, consulting firms, law firms, or other third parties who are engaged to support residential mortgage loan servicing, Loss Mitigation, or foreclosure activities or operations, including their compliance with the Legal Requirements and BAC's internal policies and procedures, consistent with supervisory guidance of the Board of Governors;
- (c) steps to ensure that BAC's ERM, audit, and compliance programs have adequate levels and types of officers and staff dedicated to overseeing the Bank's residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, and that these programs have officers and staff with the requisite qualifications, skills, and ability to comply with the requirements of this Order; and
- (d) steps to improve the information and reports that will be regularly reviewed by the board of directors or authorized committee of the board of directors regarding residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, including compliance risk assessments and the status and results of measures taken, or to be taken, to remediate deficiencies in residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, and to comply with this Order.

### **Summary of Current State**

Promontory concluded that the Board's remediation efforts beginning in 2009 have formed a strong foundation for the Board to exercise its oversight responsibilities in a systematic and comprehensive manner. The adoption of the Risk Framework has sufficiently strengthened its ERM program and provided definitive guidance in identifying, measuring, mitigating, and reporting risks through the enterprise. As a result, the Plan currently does not contemplate enhancements to the Risk Framework. Nonetheless, the Board in determining to do everything in its power to ensure appropriate risk management oversight in residential mortgage servicing is committed to adopting an overarching policy providing its guidance for the engagement of risk management in mortgage serving activities. Further, the Board also is committed to ensuring that it is appropriately organized to determine if the Compliance and Risk Management functions are operating in a manner conducive to determining not only the operation but also the effectiveness of the functions in the residential mortgage servicing, loss mitigation and default servicing area.

Particular to Promontory's evaluation of the Board's oversight under the Order, Promontory identified that:

### **Enterprise Risk Management Oversight**

- BAC's programs and processes for selecting, managing, and providing risk oversight to third party vendors are undergoing material revision. The changes affecting third party service providers in the residential mortgage business include:
  - Expanding the scope of third party suppliers and processes managed within the Global Sourcing Program, promoting consistent risk-based vendor management as well as clear standards and accountabilities for all outsourced business processes – including oversight of operational, compliance, and reputational risk;
  - Expanding the responsibilities of the control environment – enhanced risk tolerances, monitoring, testing, and consequence-based control and escalation processes;
  - Addressing consumer-specific vendor issues raised in the Home Loans business (“HL”)

- Legacy Asset Servicing (“LAS”) business of the Bank and Consent Orders;
- Enhancing further procedures for vendors to adhere to the Bank’s document retention and return policies so that legally significant documents are subject to document custody and retention policies;
  - Executing new complaints processes and procedures that include training materials for suppliers, standards for suppliers on how to handle complaints, complaint escalation procedures and inspection routines to ensure compliance to new complaints procedures;
  - Implementing new business continuity standards for MERS; and
  - Enhancing materially the Attorney Network Firm Management program.
- Risk Management oversight of third party service providers is also being strengthened in HL and LAS Risk, including:
    - Implementing a new supplier management policy;
    - Building an on-site vendor inspection program; and
    - Monitoring and testing HL’s and LAS’ oversight programs to ensure that they:
      - Manage the scorecard effectively (require improvements as appropriate);
      - Execute their own on-site inspection programs;
      - Select and onboard vendors appropriately; and
      - Properly update and maintain their procedures.
  - Recognizing the risks in mortgage servicing and the need to enhance oversight and document policies and procedures in this area Compliance and Risk, in consultation with HL and LAS, identified 12 policies to develop and/or enhance to conduct, oversee, and monitor mortgage servicing, Loss Mitigation, and foreclosure operations. In March 2011, the Bank developed a single Integrated Foreclosure Policy covering all foreclosure-related activities at LAS and, in June 2011 developed 11 other HL and LAS policies to meet the requirements of the Order relating to mortgage servicing and Loss Mitigation.

### **Control Function Staffing**

- Compliance and Risk need additional focus and reporting on staff forecasting tied to strategic goals and business objectives for determining appropriate staffing resources that help them produce comprehensive staffing plans, which can keep pace with the volume of change in the industry and can be periodically shared with the appropriate oversight committee.
- The Internal Audit’s professional staff has particular strengths and acumen. Generally, the Internal Audit staff has a reasonable level of education and industry experience to perform their duties in mortgage loan servicing, Loss Mitigation, and foreclosure activities. It is sufficiently

staffed and has capability to access additional resources when necessary. HL and LAS Audit has 104 professional staff. The core HL and LAS team averages 13 years in the banking industry, 9 years in auditing, 6 years at BAC, and 2.5 years in BAC audit. Of the 104 staff, 46 self-report having one or more professional certifications. Additionally, 20 of the 104 staff are dedicated to audit high risk activities of default servicing, loan modification, loss mitigation, and real estate owned ("REO") management. HL and LAS Audit has increased resources considerably since 2007, [REDACTED]

- The Internal Audit function has effective and strong oversight by the Audit Committee. [REDACTED]
- In contrast to Internal Audit's staffing, despite material recent additions to ERM staff, current risk conditions in HL and LAS are straining existing resources. HL and LAS Risk has a current total of 165 professionals with a target population of 236 persons by year-end 2011 (increasing by more than 30 percent). [REDACTED] The team has expertise in change management, regulatory supervision and various types of risks including market, credit and operational risk in mortgage servicing.
- The HL and LAS Compliance staff will also need to be enhanced. It currently has 214 full-time equivalents with a goal to increase its staffing to 308 persons by year-end 2011 (increasing by more than 40 percent). [REDACTED] Its recent expansion of staff has been extensive onboarding persons from seven different financial institutions and ranges of backgrounds including regulatory relations, six sigma, and project and issues management.

## Board Reporting

- Overall, reports which the Board currently receives appeared thorough, comprehensive and clear. Information appeared appropriately summarized for effective decision-making. Promontory found that there were some differences in the reports that made some reports more informative than others. For example, current and emerging risks were not always fully addressed in the reports reviewed. Not all the reports reviewed addressed the analysis done to identify root cause of issues identified or the underlying actions steps being taken to address the root cause.
- Reporting of risk levels against Board-risk appetite does not highlight sufficiently remediation efforts to either bring risk levels within established limits or realign risk appetite to accommodate heightened risk environments. The compliance risk level has [REDACTED] its established risk appetite for extended periods of time. Risk reduction options selected by management need to align better compliance activities with Board guidance and direction.
- As remediation efforts continue to make significant changes in the mortgage servicing business, it may be necessary for more targeted reporting on status, progress, and emerging issues to be reported to the Board.

We are confident that action steps we have recommended in the Plan to Strengthen Board Oversight (attached as **Appendix 1.1**) will address noted deficiencies and substantially enhance oversight of the control functions in the mortgage business. We recognize the significant effort, time, and resources necessary to implement the Plan and to verify its consistency and rigor once implemented. As a result, we plan on commissioning an independent validation and report on the progress of the Plan at the critical junctures in this effort. Moreover, due to the sheer breath of developments that are underway across ERM, Compliance, and Internal Audit and the potential for a lack of cohesive execution, we will perform a review to identify duplications [REDACTED] and ensure successful achievement of the Board's objective to develop a strong and cohesive internal control framework.