

APPENDIX 4

Bank of America Corporation

**Plan to Enhance Internal Audit Program Submission, Dated July 12, 2011
Pursuant to
Paragraph 5 of the Consent Order of the Board of Governors of the Federal Reserve System,
Dated April 13, 2011.**

Plan to Enhance Internal Audit Program

Introduction

This Plan to Enhance Internal Audit Program of the Bank of America Corporation (“BAC”), is developed pursuant to Paragraph 5 of the Consent Order No. 11-029-B-HC of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), dated April 13, 2011 (the “Order”). It describes the action steps and timeline by which BAC will enhance its internal audit program with respect to oversight of residential mortgage loan servicing, Loss Mitigation, foreclosure activities, and operations conducted through Bank of America, N.A. (the “Bank”).

The Order provided that the plan be based on an evaluation of the effectiveness of BAC’s current internal audit program. We engaged Promontory Financial Group (“Promontory”) to assist us in conducting and providing an independent evaluation of the Global Internal Audit Program and the internal audit program of our residential mortgage loan servicing, Loss Mitigation and foreclosure activities and operations as conducted through Home Loans (“HL”) and Legacy Asset Servicing (“LAS”).

In the months preceding the Order and Promontory’s evaluation, HL and LAS Internal Audit performed a self analysis of its program and commissioned an evaluation of its practices by another audit function within BAC. Those analyses, in turn prompted a number of enhancements to the audit program as it affects residential mortgage servicing activities within HL and LAS. Further, Promontory’s evaluation found sound audit planning, management, reporting, issue tracking and follow-up processes in place. They stated that the overall audit program, as recently enhanced by Internal Audit management, appears sound and appropriate for HL and LAS activities. Accordingly, the Internal Audit Plan provides incremental improvements to maintain the caliber of the current program.

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 to safe, sound and compliant operations in our residential mortgage business.

Paragraph 5 Requirements

Within 60 days of this Order, BAC shall submit to the Reserve Bank an acceptable written plan to enhance the internal audit program with respect to residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations. The plan shall be based on an evaluation of the effectiveness of BAC’s current internal audit program in the areas of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, and shall include recommendations to strengthen the internal audit program in these areas. The plan shall, at a minimum, be designed to:

- (a) Ensure that the internal audit program encompasses residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;
- (b) Periodically review compliance with the effectiveness of the ECP and ERM with respect to residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, and compliance with the Legal Requirements and supervisory guidance of the Board of Governors;
- (c) Ensure that adequate qualified staffing of the audit function is provided for residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;

- (d) Ensure timely resolution of audit findings and follow-up reviews to ensure completion and effectiveness of corrective measures;
- (e) Ensure that comprehensive documentation, tracking, and reporting of the status and resolution of audit findings are submitted to the audit committee; and
- (f) Establish escalation procedures for resolving any differences of opinion between audit staff and management concerning audit exceptions and recommendations, with any disputes to be resolved by the BAC's Enterprise Risk Committee.

Summary of Current State

Promontory's evaluation concluded that the current Internal Audit program in residential mortgage is sound overall. Specifically, they found:

- HL and LAS Internal Audit's universe includes sustainable processes for identifying coverage for audit review including HL and LAS businesses and activities. It operates on a three-year audit cycle, reflected in an annual audit plan which is updated quarterly. Internal Audit planning employs a Risk and Frequency Model, which includes a methodology for assessing inherent risks, control environments, and residual risks. The resulting assessments drive resource management and audit scopes and frequency.
- BAC has an extensive issues escalation process for reporting significant audit issues and past due corrective actions to senior management and the Audit Committee. Reports are prepared by the General Auditor for the entire corporation with breakdowns by business segments. Reports go to the Audit Committee quarterly and senior management monthly.
- HL and LAS Audit has an effective process for tracking and follow-up on audit and regulatory issues.
 - Issues are logged on the [REDACTED] system, maintained by Internal Audit, and given a severity rating.
 - Issues are tracked until corrective measures have been implemented and Audit testing validates that the corrective measures are appropriate and sustainable.
 - MRAs are tracked on [REDACTED] and, following validation of correctives measures, are tested monthly by Audit until the MRA is lifted by the supervisor.
- BAC has placed a heavy reliance on self-identified audit issues. Managers are expected to self-identify 50 percent of the issues that are placed on the [REDACTED] and their performance against this expectation is measured. Timely resolution of Audit issues are a part of the performance review process and Audit provides input on the business managers' control performance.
- Audit Committee reporting is generally easy to comprehend the purpose, scope, and issues in reports. The reports are well written, precise, and clear.
- Recently, Internal Audit redesigned its practice of reviewing Risk Management and Compliance functions. The new arrangement will allow Internal Audit to focus on Risk Management, Compliance, compliance with requirements of regulatory and legal requirements, consent orders,

outstanding issue and MRA resolution-validation and testing in residential mortgage servicing. The plan, which is currently being enhanced to address requirements of the Orders, will identify any gaps between the current plan and requirements imposed by regulators and include them in the audit coverage.

- Internal Audit's professional staff has particular strengths and acumen. Generally, Internal Audit's staff has a reasonable level of education and industry experience to perform their duties in mortgage loan servicing, Loss Mitigation, and foreclosure activities.

Accordingly, Promontory made incremental suggestions for improvement as reflected in the Plan to Enhance Internal Audit Program (attached as **Appendix 4.1**) including, among others, recommendations to:

- Develop the standards against which the Risk and Compliance programs will be evaluated and the procedures and testing that will form the basis for conclusions;
- Consider augmenting the risk measuring methodology to incorporate the duration associated with identified risks; and,
- Conduct an independent validation of Internal Audit's completion of corrective actions in response to OCC-identified deficiencies.

We are confident that these action steps will enhance substantially the internal audit function within the mortgage business. We recognize the significant effort, time, and resources necessary to implement our 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.