



## Item 5 – Compliance Summary of Response

The Federal Reserve has requested that the Bank develop and implement a plan to enhance its enterprise-wide compliance program (“ECP”) with respect to residential mortgage loan servicing, loss mitigation, and foreclosure activities and operations.

Compliance performed an evaluation of the effectiveness of the Home Lending Compliance Program to identify weaknesses and to develop an action plan to address areas for improvement. Evaluation, conclusions, and recommended enhancements are below:

### Results from Evaluation

- The Program and resources did not keep pace with the rapid escalation in Loss Mitigation and foreclosure activities, as well as the growth of the employee base and the rising compliance risk profile of the areas identified in the Order.
- The Program did not react quickly enough to challenges in the business environment, including differing systems and products across the three heritage servicing platforms, manual processes, changing requirements, and an influx of new employees requiring training.
- Our evaluation identified the need for a full inventory of laws and requirements and a regular impact assessment across the breadth of activities and end-to-end business processes in Home Lending.
- Compliance issues and test findings were tracked within the function but were not always adequately escalated to ensure that the required corrective action was taken. During the 4<sup>th</sup> Q 2010, Compliance started reporting issues requiring attention [REDACTED] [REDACTED] to assist in escalation of issues to line and senior management. These issues and our progress in remediating them are reviewed during regular line of business control and risk committee meetings.

### Compliance Staffing

- Home Lending Compliance has been actively adding resources and upgrading talent and, in mid-2010, a dedicated position of Head of Compliance for Home Lending, reporting to a newly-created Head of Compliance for Retail Financial Services, was established and the role filled.
- In 2011, we increased staffing from 30 to 50 Compliance professionals, bringing the number of dedicated Compliance Testing staff to 21. With the additional resources, we will have aligned senior compliance managers and appropriate staff to mortgage loan servicing, loss mitigation and foreclosure activities and operations. We are in the process of recruiting an additional 21 Compliance professionals for the Home Lending Compliance team.
- Staffing levels will continue to be assessed in light of the changes in business operations and changing regulatory requirements. Revised 2011 testing plans are currently under development.



## Federal Reserve Bank of New York Consent Order – JPMorgan Chase Response

### Compliance Remediation Plan

- Home Lending Compliance is in the process of performing a gap analysis between the existing Home Lending Compliance Testing plan for 2011 and the compliance testing we believe necessary to ensure compliance with the FRB and OCC Orders. The resulting revised testing plan will conform to JPMC's Minimum Testing Standards for Compliance Testing.
- The gap analysis will be reviewed with Corporate Compliance, Legal, Home Lending Management and Audit who will make recommendations for changes to the 2011 Compliance Testing plan, as appropriate.
- The law firm of Morgan Lewis & Bockius, LLP was retained to expand, where necessary, the inventory of applicable laws and regulations against which Compliance would determine the nature and extent of testing and oversight. That expanded inventory was provided in May 2011. Based on this expanded inventory, we will be reviewing existing policies and procedures to ensure requirements are captured in a policy and detailed in a procedure as appropriate.
- Compliance will partner with the business to ensure that adequate training around legal requirements is factored into employee training programs.