



## Item 7 – Enterprise Risk Management Plan Summary of Response

The Federal Reserve has requested that the Bank develop and implement a plan to enhance the enterprise risk management program (ERM) with respect to residential mortgage loan servicing, loss mitigation, and foreclosure activities and operations.

Risk management performed an assessment of the effectiveness of the Home Lending risk management program to develop an enhanced approach and oversight plan. Evaluation conclusions and recommended enhancements include:

### Evaluation Conclusions

- Deterioration of the housing market resulting in existing workout and loss mitigation programs that were no longer sufficient and increasing customers requiring solutions
- Acquisition of two significant mortgage loan and servicing portfolios: Bear Stearns (EMC Mortgage Company) and Washington Mutual.
- Rapid implementation of Government and Firm solutions to the crisis without the Firm providing effective supporting policies, training, and technology; accompanied by continuous changes to requirements
- Complex loan product and modification offerings and significant increases in delinquent borrowers resulted in a material increase in the number of borrowers requiring personal assistance.
- While the structure and components of a comprehensive risk management framework exist, there are opportunities to enhance the effectiveness of the program.
- Core Risk Management staff did not scale consistent with the business' need for additional independent oversight.

### Risk Management Remediation Plan

Perform a comprehensive risk assessment of Home Lending as required in Article X and implement a process for conducting annually.

- Reassess charters of Home Lending Risk Committees within 90 days to ensure they have the right membership and mandate.
- Implement enhancements to the Third-Party Oversight Policy and processes.
- Develop and implement plans for enhanced management information systems
- Develop plans to strengthen the Control Self Assessment testing program, aligned with the new operating models resulting from the consent orders, including reporting and escalation of issues, with complete implementation by December 2012.



### **ERM Compliance with Supervisory Guidance**

- Evaluate risk staff needed to support the Home Lending business in order to provide independent oversight and timely identification on risks.
- Reinforce risk management's role in governance and oversight, specifically across the areas included in the Consent Order.
- Develop and implement within 90 days a disciplined change management process with a revised new business initiative approval policies and procedures.
- Implement plans to strengthen policies and procedures and related governance processes.
- The Action Plan oversight process will be expanded to include senior management review of action plans related to high risk Internal Audit findings and high risk items identified through Compliance, ORM, IT Risk or investor reviews.

### **Risk Limits and Monitoring**

- A firmwide "Risk Appetite" Policy was adopted in December 2010 and outlines the framework for establishing the Firm's appetite for risk.
- While the Firm does not establish limits for reputation, regulatory, and control environment risk the Firm clearly has little or no tolerance for the qualitative factors that relate to these risks.