



**FOIA CONFIDENTIAL TREATMENT REQUESTED  
SUBMITTED SUBJECT TO 12 U.S.C. § 1828(x)**

January 6, 2012

Jerrold L. Newlon  
Assistant Vice President  
Federal Reserve Bank of Cleveland  
P.O. Box 6387  
East 6<sup>th</sup> & Superior  
Cleveland, OH 44101-1387

Re: Response to Consent Order Docket #11-026-B-HC

Dear Mr. Newlon:

The attached final copies of the Summary Overview and attachments including the Action Plan, are submitted by the PNC Financial Services Group, Inc. ("PNC") to the Board of Governors of the Federal Reserve System ("Federal Reserve") in response to the communication we received from Chester Kantosky on January 5, 2012.

This letter also responds to your request dated January 5, 2012 that PNC identify those portions of the revised plan that was submitted on December 20, 2011, pursuant to paragraph 3 of the Consent Order that PNC believes should be kept confidential by the Federal Reserve. The plan submitted on December 20, 2011 fully included our requests for confidential treatment for the revised Enterprise-Wide Risk Management Plan, including those portions of the letter, Summary Overview, Action Plan, and Compliance Committee Charters to be redacted. We do not have any further requests for redactions to those previously submitted on December 20, 2011.

If you have any questions or concerns, please contact me by telephone at [REDACTED] or by email at [REDACTED]

Sincerely,  
[REDACTED]

Cc:  
[REDACTED]

PNC Financial Services Group, Inc.

**The PNC Financial Services Group**

One PNC Plaza 249 Fifth Avenue Pittsburgh Pennsylvania 15222-2707



## SUMMARY OVERVIEW

### INTRODUCTION

PNC Financial Services Group, Inc. (“PNC”) is fully committed to and will demonstrate and execute oversight to effectively implement the action plan (“Action Plan”) to meet the requirements set forth by the Board of Governors of the Federal Reserve System (“Federal Reserve”) in Federal Reserve Consent Order Docket #11-026-B-HC (“Federal Reserve Consent Order” or “Order”), as well as the Office of the Comptroller of the Currency (“OCC”) Consent Order (“OCC Consent Order”) [REDACTED].

PNC is also deeply committed to achieving the highest standards of service and professionalism while maintaining compliance with applicable laws and regulations. PNC understands the challenges associated with providing residential mortgage loan borrowers with service that is transparent, accurate, clear and expedient, while also keeping current with the evolving set of investor, regulatory and legal requirements. To achieve these objectives, we seek to provide a distinctive borrower experience and to maintain highly effective oversight and risk management.

This Summary Overview provides a description of PNC’s borrower experience philosophy and approach to oversight and risk management so that the attached Action Plan may be understood in context. For each of the Sections 1-7 of the Order, it describes PNC’s understanding of the intent of each specific Section and outlines PNC’s approach towards achieving this intent.

Specifically, this Summary Overview describes:

- I. The overall approach taken to addressing the Order
- II. Background information on the PNC Mortgage business
- III. Highlights of PNC’s borrower experience philosophy
- IV. A summary of PNC’s approach to oversight and risk management, and recent actions taken
- V. A Section-by-Section summary of actions in response to the Order



## I. OVERALL APPROACH TO ADDRESSING THE ORDER

The PNC Board of Directors on March 30, 2011 approved and established a Compliance Committee responsible for overseeing and monitoring compliance with the Order. At the direction of the Compliance Committee, PNC established a program office whose members include senior management and subject matter experts drawn from the Residential Mortgage Loan Servicing business and corporate functions (Risk Management, Compliance and Internal Audit). [REDACTED] provides executive oversight to the program office activities, in coordination with the Compliance Committee. [REDACTED] [REDACTED] serves as the project leader of this program office.

The first responsibility of the program office was the development of the Action Plan required by Sections 2 and 6 of the Order and included with this response in Appendix B. The Action Plan provides a detailed view of tasks required to achieve the requirements of the Order.

Consistent with discussions with our regulators, the scope of this document includes PNC's mortgage division ("PNC Mortgage") a unit of PNC Bank, N.A. ("PNC Bank"), and the actions outlined refer specifically to first lien Residential Mortgage Loan Servicing, including loan modification, loss mitigation and foreclosure as managed by PNC Mortgage, collectively referred to as "Residential Mortgage Loan Servicing" throughout this document. Loss mitigation is defined consistent with the Order to include activities related to special forbearances, repayment plans, modifications, short refinances, short sales, cash-for-keys, and deeds-in-lieu of foreclosure (collectively "Loss Mitigation"). Additionally, the scope does not include loans that are serviced by others on PNC's behalf.

[REDACTED]

[REDACTED] the program office conducted an assessment of our Residential Mortgage Loan Servicing business relative to the requirements of the Order. The Action Plan is a result of a "bottoms-up" process where leaders and experts from the Residential Mortgage Loan Servicing business and corporate functions identified activities to align operations to PNC's vision under the Order. These business and functional leaders are also responsible for sustainability upon implementation. The Action Plan was reviewed at multiple levels of the PNC organization, including business and functional leadership, the program office, the Compliance Committee of the Board of Directors, and the full



Board of Directors. When appropriate, the program office has engaged the services of third-party consultants, including McKinsey & Co. and Promontory Financial Group, LLC.

The program office has aligned with PNC's Internal Audit function ("Internal Audit") to institute a process whereby Internal Audit reviews each task within the Action Plan as it is completed. Moreover, as an additional check, PricewaterhouseCoopers LLP is being retained to perform a review of the completion of tasks performed by Internal Audit.

## II. BACKGROUND INFORMATION ON PNC MORTGAGE

The bulk of PNC's mortgage servicing activities are in PNC Mortgage. To understand our approach to addressing the requirements set forth by the Order, it is important to recognize the challenges PNC faced when it acquired this mortgage business as part of its 2008 acquisition of National City Bank, as well as the work PNC has completed to date to remediate borrower experience issues in the legacy National City mortgage business.

At the time of the acquisition, National City Bank was an extremely troubled institution, due primarily to its exposure to billions of dollars of high-risk residential mortgages and home equity loans. During the market turmoil of September 2008, after the collapse of Lehman Brothers and the failure of Washington Mutual, National City's [REDACTED], and its stock price fell 95% from its 52-week high. Commentators speculated that National City would be the next large bank to fail.

PNC offered to acquire National City on October 23, 2008, thereby averting another potential high-profile bank failure and further shock to the nation's financial system. Both PNC and National City shareholders voted in favor of the merger, the Federal Reserve approved the transaction, and it closed on December 31, 2008.

Although PNC Mortgage is a relatively small portion of PNC's overall business, upon completion of the acquisition, PNC began a rigorous campaign to rebuild and transform this business.

One of PNC Mortgage's most immediate priorities was implementation of measures [REDACTED] PNC Mortgage segregated responsibilities for mortgage sales and operations, and also developed and implemented a comprehensive transformation plan for mortgage production that, among other things, resulted in changes to the compensation plans and job descriptions of employees working in these areas to support fairness and goal alignment. PNC also eliminated two layers of sales management, centralized operations from 92 to 2 locations, and completed the selection and implementation of a new technology platform that has been used to strengthen compliance with regulations and company policies and to enhance borrower service. These changes resulted in a



significant reduction to the loan origination defects that may result in repurchase risk (Tier 1). [REDACTED] PNC Mortgage also changed pricing policies to remove local market discretionary authority. In addition, PNC Mortgage developed and implemented new training programs, focusing on sales management and compliance, and introduced a self-validation process to provide ongoing monitoring of the business for compliance with regulations and company policies and standards.

PNC has also undertaken a number of transformative activities in the Residential Mortgage Loan Servicing business, including implementing a number of proprietary loan modification programs, increasing Loss Mitigation staff by 261% in 2009 and 2010, and implementing weekly interdepartmental meetings so personnel could keep abreast of the rapidly changing regulatory landscape with respect to Loss Mitigation and foreclosure activities. PNC also responded promptly to the industry-wide concerns over foreclosure documentation. Consistent with its overall philosophy of risk management, PNC implemented a moratorium in all 50 States and the District of Columbia until it completed a review of its foreclosure documentation procedures. PNC's ongoing goal has been to bring this Residential Mortgage Loan Servicing business in line with PNC's overall philosophy of distinctive borrower experience and effective risk management.

### III. PNC'S BORROWER EXPERIENCE PHILOSOPHY

PNC's borrower experience philosophy hinges on providing borrowers with a service model focused on **ease** (e.g., clarity), **confidence** (e.g., accuracy, expediency), and **achievement** (e.g., resolution orientation). We seek to achieve this philosophy through a four-part operational management approach: (1) distinctive processes with continual improvement, (2) focused talent management, (3) effective systems management, and (4) practical performance management capabilities. The Action Plan attempts to ensure that this philosophy is reflected in our Residential Mortgage Loan Servicing activities.

**1. Distinctive processes with continual improvement:** The challenges confronting servicers today are radically different from those that existed prior to the financial and housing crisis. Specifically, the predominant activity of default servicing prior to 2007 was collections as rapid property value appreciation often enabled refinance as a viable strategy to mitigate delinquencies without incurring loss or foreclosures.

There has been a significant increase in the volume and importance of residential mortgage loan servicing activities such as modifications, short sales, and foreclosures. These activities are now critical activities that require their own distinct operational capabilities. PNC recognized early on that building these capabilities was not evolutionary, but instead revolutionary.



For example, as part of a transformation program after its acquisition of National City bank, PNC launched a program to provide borrowers who were highly likely to require some form of Loss Mitigation (e.g., modification, short sale, deed in lieu) with a customer representative. This customer representative was trained to pre-qualify a borrower for a modification program.

**2. Focused talent management:** Loss Mitigation is a significantly more complex role than collections. It requires a deeper understanding of the terms and considerations of a mortgage note and a degree of financial analysis that is not typically required in collections. Given what is at stake for our borrowers, it also requires a unique combination of directness, delicacy, and resolution orientation. With these challenges in mind, PNC has worked to develop a distinctive process for managing talent and has invested to enhance the talent pool. PNC recognizes that it needs to train existing personnel and recruit talent at every level to manage this new world of residential mortgage loan servicing.

To address talent management and development needs, PNC has already built several capabilities and taken the following actions:

- Focused management on Residential Mortgage Loan Servicing by assigning experienced senior leadership to it. In early 2011, Residential Mortgage Loan Servicing was given a new senior leader, [REDACTED], to strengthen the overall leadership and integration with PNC.
- Changed the profile of servicing and default management positions and hired people to fill these new positions. National City Mortgage historically focused on collector skills such as outbound calling skills and extroversion. PNC now looks for analytical capabilities and deeper mortgage experience in new hires.
- Opened a second servicing facility in 2010 in Jacksonville, Florida. This second service center enhances PNC's Residential Mortgage Loan Servicing capabilities by providing access to a large labor market with a greater concentration of residential mortgage loan servicing experience, and further improves PNC Mortgage's business continuity capabilities.
- Since August 2007, hired an additional 489 front-line employees in Residential Mortgage Loan Servicing in response to the onset of the financial crisis.
- Enhanced our dedicated training function, "PNC University," to deliver a wide variety of training programs to both the Residential Mortgage Loan Servicing business and corporate functions (e.g., new hire training, default management training). Upon hire, Loss Mitigation employees attend three weeks of up-front training including both classroom and monitored on-the-job components. This training covers a variety of topics, ranging from effective borrower treatment to using our systems to achieve resolution. To support our borrower-centric culture, PNC trains its employees to realize that not every borrower is the same and



that assessing a borrower's specific situation is important to treating him or her correctly. Training programs also emphasize skills in listening and inquiring.

- Set up dedicated teams to handle change management for policies and procedures and confirm the most recent versions are available in the production environment.

**3. Effective systems management:** Given the complexity of today's residential mortgage loan servicing environment, PNC has invested considerably in its systems to seek to ensure that our employees have the requisite information necessary to make decisions.

A number of targeted systems and technology changes were made to create a Loss Mitigation capability better able to handle the needs of today's delinquent borrowers. Specifically:

- Created Loss Mitigation and cash flow tools to enable customer representatives to pre-qualify borrowers.
- Enhanced document imaging capabilities to capture in-process Loss Mitigation documents. With the integration of the image platform to the mortgage system of record, our employees have access to borrower documents regardless of the channel through which or the form in which the borrower has provided the documents.
- Distributed talking points to employees to provide a consistent borrower experience and meet regulatory and legal requirements.
- Automated a number of work-steps through scripts and macros within our servicing systems and platform.
- Unified complaint logging system across Residential Mortgage Loan Servicing.
- Provided local attorneys (handling the mortgage foreclosure process) with an internet tool to support workflow oversight and to enable the attorneys to send and receive communications and documentation to PNC in a secure environment.

**4. Practical performance management capabilities:** Performance management is an important part of effective Residential Mortgage Loan Servicing. Good performance management requires a clear view of the metrics of servicing and a closed loop to provide employees with feedback on their performance. PNC strives to achieve this result through a metrics-based management approach, as well as a process to make course corrections in a timely manner.

To enhance the borrower experience, PNC has developed metrics and workforce analytics capabilities for monitoring cycle times and workloads in certain parts of the servicing area such as loss mitigation. For example, PNC managers monitor daily exception reports and a set of metrics at the team, borrower, and call center levels to assign work.



Moreover, PNC does not limit its management approach to simply reviewing aggregated performance data. PNC's systems enable reviews of specific borrower accounts. Monthly charge-off reviews, for example, provide management with insights on how to improve processes. Also, as problems and challenges arise, managers are able to review specific borrower accounts to help drive resolution. In select cases, specific accounts are escalated to senior managers to assess and make changes to programs or procedures as appropriate. As discussed later in this Summary Overview, PNC sees further opportunities to extend these changes more broadly across the Residential Mortgage Loan Servicing business.

#### **IV. PNC'S APPROACH TO OVERSIGHT AND RISK MANAGEMENT**

PNC's approach to risk management and oversight can be best understood by reviewing the elements of its Enterprise Risk Management program ("ERM program") and the multi-layered approach to providing oversight, as well as the recent changes to PNC Mortgage's oversight and risk management. The Action Plan attempts to ensure that PNC's approach to oversight and management of risk is implemented in its Residential Mortgage Loan Servicing activities.

##### **The Enterprise Risk Management program**

PNC's risk philosophy is to manage to an overall moderate level of risk. This "moderate risk profile" is central to how PNC balances its obligations to its stakeholders. It provides PNC with a culture and language to make value-optimizing decisions. PNC dynamically sets strategies and makes distinct risk taking decisions based on the impact to our aggregate risk profile. The Board of Directors reviews and approves the risk appetite for PNC.

PNC's holistic ERM program provides a framework for oversight of this moderate risk profile. The ERM program is comprehensive, covering financial and non-financial risk (e.g., operational, compliance, credit, market, legal, reputation) across the organization.

This ERM program is comprised of the following main elements:

- **Risk philosophy and guiding principles** that are the primary drivers for executing the risk philosophy statement
- **Risk appetite and tolerances** established via policies are the primary measures used to monitor adherence to our risk philosophy statement
- **Risk culture** that sets the tone for risk management across the organization
- **Risk management strategy** that defines the specific capabilities required to successfully implement and manage the risk framework. Fundamental components of our risk



management strategy are governance structure; processes to identify, assess, and quantify risks; controls to improve performance; and activities to mitigate, monitor, and report risks. There are four key roles to provide oversight to this strategy, which are further explained in the next section.

## **Risk management strategy**

Risk management is integrated into the culture of PNC, and includes leadership and commitment from the Board of Directors through to individual employees. Implementation of this strategy centers on four key roles: (1) Businesses, (2) Risk Management, (3) Compliance, and (4) Internal Audit.

**1. Businesses:** Business managers are accountable for providing effective oversight and risk management for their specific business. Business managers have the responsibility to build a risk aware culture within their business, and identify, measure, and monitor risks. This includes the proper implementation, testing, validation, and documentation of their internal control processes specific to the measurement, management, and reporting of their risks. Within the Residential Mortgage Loan Servicing business, managers are expected to monitor key performance metrics and critical risks to seek to ensure effective servicing and compliance with legal requirements.

**2. Risk Management:** PNC's Risk Management function ("Risk Management") provides independent oversight by proactively assessing risk, and by measuring and monitoring business and enterprise level risks. This includes developing risk policies, risk performance metrics and evaluations, as well as establishing and maintaining risk limits, risk estimation methodologies/models and corporate risk information systems and standards. Additionally, Risk Management monitors and challenges firm-wide and business risk profiles and risk management capabilities. Risk Management is independent of PNC businesses and is responsible for reporting on risks to the Board.

**3. Compliance:** As part of PNC's ERM program, PNC's Compliance function ("Compliance") is responsible for translating legal and regulatory requirements into enterprise policies. Compliance is independent of PNC businesses and applies an enterprise approach to compliance risk management to seek to assure that compliance risks are appropriately measured, monitored and controlled, including risks that transcend business lines, legal entities and/or jurisdictions. Compliance works closely with the businesses and operational areas to assess compliance risks in current business operations as well as emerging risks from regulatory changes, new products or business development activities. Compliance maintains a risk-based monitoring and testing program to assess business controls in place to manage compliance risks. Significant compliance risks are reported to business level committees as well as escalated through the PNC risk governance structure.

**4. Internal Audit:** The mission of Internal Audit is to provide assurance to the Audit Committee of the Board of Directors and senior management as to the adequacy and effectiveness of PNC's



risk management, control, and governance processes. Internal Audit assists management by providing independent and objective assurance and advisory services designed to add value and improve the organization's operations. To provide for the independence of Internal Audit, its personnel report to the General Auditor, who reports functionally to the Audit Committee and administratively to the Chief Executive Officer. Internal Audit personnel conduct their activities with professional integrity and objectivity and render unbiased and impartial conclusions.

### **Recent changes implemented to PNC Mortgage's oversight and risk management**

With this overarching risk management philosophy, PNC has implemented a number of changes to further strengthen the management of risk in PNC Mortgage over the past three years:

- Strengthened management at PNC Mortgage by changing its organizational structure and recruiting new managerial talent, in effect replacing most of National City Mortgage executive management.
- Re-chartered the Mortgage Banking Risk Management Committee, expanding its purview to encompass all risk areas and to focus on proactive risk management initiatives.
- Added Risk Management and Internal Audit staff assigned to PNC Mortgage.
- Developed and implemented operating plans, and key drivers to measure performance
- Revised lending and compliance policies, forecasting processes, and quarterly business reviews.
- Selected and implemented a new technology platform to strengthen compliance with regulations and company polices and to enhance borrower service.
- Retained an independent consultant to conduct a review for PNC Mortgage [REDACTED] [REDACTED] PNC is leveraging the findings of that review to further strengthen the organizational structure, qualifications and managerial resources and staffing within Residential Mortgage Loan Servicing.

## **V. SUMMARY OF ACTIONS IN RESPONSE TO THE ORDER AND ACTION PLAN OVERVIEW**

Consistent with PNC's commitment to improving operations, and acknowledging the requirements set forth in the Federal Reserve Consent Order, the OCC Consent Order [REDACTED] [REDACTED] PNC has undertaken a holistic review of its Residential Mortgage Loan Servicing business and has outlined steps in the Action Plan to enhance its operations, as



appropriate, in areas identified as needing improvement, as well as in those areas that the Federal Reserve has found satisfactory.

The following sections summarize PNC’s understanding of the intent of each specific Section, and outline PNC’s approach towards achieving this intent.

PNC is fully committed to the Action Plan and will implement it to meet the requirements set forth by the Federal Reserve Consent Order, the OCC Consent Order [REDACTED]

The Appendices includes the Action Plan and other supporting documentation relevant to each Section.

<b>Appendix</b>	<b>Section</b>	<b>Documents included</b>
A	Section 1 Source of Strength	PNC Compliance Committee Charter
B	Section 2 Board Oversight	PNC Action Plan



## **SECTION 1: SOURCE OF STRENGTH**

### **Our understanding of the intent of this Section**

PNC's Board of Directors will continue to serve as a source of strength to PNC by seeking to ensure that PNC complies with the Federal Reserve Consent Order and the OCC Consent Order regarding PNC's Residential Mortgage Loan Servicing activities.

### **PNC's approach to achieving this intent**

PNC's Board of Directors is committed to taking the appropriate steps to fully utilize financial and managerial resources to facilitate compliance with this Order and the OCC Consent Order.

To ensure that financial and managerial resources are adequately and appropriately deployed, the Board of Directors has and will continue to take multiple steps including, but not limited to, reviewing and approving PNC's annual budget and financial planning process, financial and managerial resource allocation, and providing oversight to business execution.

Additionally, several committees of the Board provide focused support and expertise to PNC. The Audit Committee provides support by monitoring compliance with the company's Code of Business Conduct and Ethics and evaluating and monitoring the performance of Internal Audit and independent auditors, with respect to the parent company and its bank and non-bank subsidiaries.

In addition to the normal structures put in place per request of the Board, and in accordance with Article V, §1.5 of the Corporation's By-Laws, Article III, §5 of PNC's By-Laws, and applicable Pennsylvania laws and regulations, a Joint Risk Committee ("JRC") of the Boards of Directors of The PNC Financial Services Group, Inc. and PNC Bank, National Association was established in 2005. The JRC's purpose is to provide oversight of PNC's enterprise risk structure and the processes established to identify, measure, monitor, and manage PNC's credit risk, market risk, liquidity risk, and operating risk (including operational, compliance, and fiduciary risk). The JRC participates in the following activities to provide this oversight:

- Reviewing and approving the charters of the management-level Executive Committee and Enterprise Risk Management Committee and reviewing periodic reports on these Committees' execution of their charter responsibilities
- Approving such actions, policies, or procedures as may be required by law or regulation and that are within the scope of its Charter



- Reviewing actions taken with respect to any matters related to the JRC's purpose and requiring Board or management attention, as contained in any regulatory agency examination report, audit report, or self-assessment
- Reviewing and approving designated enterprise policies that reflect PNC's risk management philosophy, principles, and limits
- Reviewing management's assessment of the enterprise risk profile and alignment with PNC's strategic plan
- Considering the impact of risk taking incentives on PNC's enterprise risk profile
- Reviewing the annual Community Reinvestment Act (CRA) business plan and the annual Fair Lending Monitoring Program and management's assessment of the effectiveness of PNC's programs with respect to applicable CRA and fair lending laws and regulations
- Periodically reviewing management's strategies and policies for managing risks and reviewing and recommending for review by the applicable Board of Directors capital management activities

As previously discussed, the PNC Board approved and established a Compliance Committee on March 30, 2011. The Compliance Committee comprises three (3) independent directors: Mr. Richard Berndt (Chair), Mrs. Jane Pepper, and Gen. George H. Walls Jr. This Compliance Committee will meet at least monthly and provide written progress reports to the full Board of Directors on a quarterly basis.

At the direction of this Compliance Committee, PNC has established the program office with responsibility for leading and implementing the requirements of the Federal Reserve Consent Order and the OCC Consent Order. The Compliance Committee also has access to independent consultants including Promontory, McKinsey & Co. and bank counsel. Moreover, PNC has established a series of regular oversight meetings:

- Weekly program office meetings to drive Action Plan development and implementation;
- Regular executive management meetings to review progress; and
- Monthly Compliance Committee meetings.

*See Action Plan Section 1 – Tasks 1, 2, 3, 4, 9.*



## **SECTION 2: BOARD OVERSIGHT**

### **Our understanding of the intent of this Section**

PNC understands the importance of Board oversight of PNC's Risk Management, Compliance, and Internal Audit programs concerning the Residential Mortgage Loan Servicing business.

The Board is committed to PNC's having policies and procedures in place designed to ensure adherence to legal requirements and regulatory guidance, and to appropriately manage risk. This includes, but is not limited to, proper risk management of third parties, providing assurance to adequate levels and types of oversight staff with the requisite qualifications, skills, and ability to comply with requirements, and steps to improve information and reports that will regularly be reviewed by the Board of Directors or authorized committees of the Board.

### **PNC's approach to achieving this intent**

The Action Plan includes tasks to strengthen Board oversight of PNC's Risk Management, Compliance, and Internal Audit programs relating to Residential Mortgage Loan Servicing.

#### 1. Assuring the ERM program provides effective risk management oversight

PNC has an Enterprise Risk Policy that defines its philosophy on managing risk. The Board's roles and responsibilities as they pertain to the Enterprise Risk Policy are described within both the JRC charter and the Enterprise Risk Policy. These responsibilities include but are not limited to:

- Reviewing and approving the risk appetite for PNC
- Establishing appropriate governance structures for risk management
- Understanding the most significant risks, and responding to those risks as required
- Pledging Board commitment to risk management

In addition to the responsibilities detailed in the Enterprise Risk Policy itself, in order for the ERM program to provide proper risk management oversight with respect to the Residential Mortgage Loan Servicing business, particularly with respect to compliance with legal requirements and regulatory guidance, the Board plans to adopt a policy that sets forth the risk management program for PNC Mortgage.

*See Action Plan Section 1 – Task 5.*



## 2. Assuring that the ERM program provides proper risk management of third parties

As is customary in residential mortgage loan servicing, PNC makes use of third parties in its default management processes. This enables PNC to bring specific expertise to bear when required (e.g., lawyers, real estate agents, appraisal firms), and also assists PNC in managing volume and scale, while seeking to achieve accuracy, completeness, and legal compliance.

PNC understands the importance of working to ensure proper risk management of third parties including, but not limited to, independent contractors, consulting firms, and law firms engaged to support Residential Mortgage Loan Servicing. To help ensure proper risk management of third parties, PNC has an established Enterprise Vendor Management (“EVM”) program designed to address the key elements from OCC Bulletin 2001-47 regarding risk management principles pertaining to third-party relationships and is developing enhancements to the program consistent with the Action Plan. On an annual basis, a report is delivered to the JRC which describes the Enterprise Vendor Management program.

As part of the EVM program, PNC performs a risk assessment and classifies vendors into various risk categories and conducts necessary due diligence on the vendors based on these classifications. Once a potential vendor is selected, an agreement is developed and negotiated. PNC has modified its vendor agreement documents, and efforts are underway to provide consistent enforcement of the EVM program in the Residential Mortgage Loan Servicing business.

PNC also has steps designed to ensure business continuity plans are in place for its vendors. Business resiliency and disaster recovery plans are required for vendors that are classified as “critical.” To assess the viability of the plans, PNC reviews and analyzes documentation from vendors, including recovery test results, business recovery plans, pandemic recovery plans, technology recovery plans, and communication/escalation plans.

PNC has implemented a certification process for its third party law firms. In Residential Mortgage Loan Servicing, as part of this process, PNC updated its Statement of Work for attorneys to improve elements such as the description of services and expectation of attorneys. The PNC Statement of Work for law firms has also been revised to reflect onsite reviews and document retention. PNC expects all third party attorneys to sign and comply with the revised Statement of Work. PNC has updated scorecards used to review law firms involved in its foreclosure processing to capture both quantitative and qualitative metrics.

In addition to the established Enterprise Vendor Management Program, the PNC Board of Directors plans to adopt policies and procedures under the PNC Vendor Risk Management Policy Guidelines that are designed to ensure the ERM program provides proper risk management of third parties involved in Residential Mortgage Loan Servicing.

*See Action Plan Section 1 – Task 6.*

### 3. Staff types, levels and qualifications

PNC understands that the effectiveness of policies and procedures can be strengthened or diminished based on staff competency and resource levels. Internal Audit currently tracks staffing levels relative to the audit plan and reports to the Audit Committee. Plans are in place to provide similar tracking and reporting for Compliance and Risk Management to the Board. PNC has implemented a three-part approach to improving the operating model in Residential Mortgage Loan Servicing business: recruiting and hiring process, holistic training, and on-the-job coaching.

- **Recruiting and hiring:** Risk Management, Compliance, and Internal Audit leverage their hiring and recruiting processes to help ensure that the organization has the appropriate staffing levels and that each candidate has the requisite skill sets and capabilities. The PNC Risk Management recruiting function is responsible for attracting and identifying talent for positions within Risk Management, Compliance, and Internal Audit. The recruiter's success is measured by identifying top talent to support specific businesses in risk identification and mitigation. Additionally, the recruiter is responsible for pre-screening and qualifying the candidates before moving forward to the interview process with the hiring manager.
- **Training:** Risk Management employees, including those in the Operational Risk and Compliance groups, receive training on industry related regulations as indicated either by statute, PNC policy and best practices, and are encouraged to attend external conferences. Internal Audit employees complete competency assessments and skills assessments, which help to identify where individuals could benefit from additional training. In addition to the basic training, every Internal Audit employee is expected to take 40 hours of Continuous Professional education on an annual basis to enhance their capabilities and skills sets.

PNC University's Mortgage Training team supports new hires in the areas of Loss Mitigation, collections, customer service, back-end default, loan origination, loan operations, and management through a series of training courses. The curriculum of these courses covers a spectrum of topics including, but not limited to: PNC culture and values, compliance with industry regulations, corporate, business, and job-specific policies and procedures as well as applicable systems. Existing employees are supported by the Mortgage Training team in leadership development, changes in products, processes, and systems as well as annual and/or bi-annual compliance training requirements. Periodically, training materials will be used to test and re-certify our employees, as well as provide for ad-hoc needs that are determined.

- **On-the-job coaching:** Risk Management and Compliance employees are given informal coaching as well as formal reviews and development plans. Internal Audit employees work very closely with management during audit cycles and are given ongoing feedback and coaching throughout every audit assessment. This helps ensure that employees receive additional on-the-job coaching in addition to formal new hire training.



*See Action Plan Section 1 – Task 7.*

#### 4. Improving Board-level information and reports

PNC recognizes the importance of having timely and accurate reports (operational, compliance risk assessments, status of action plans, etc.) and has established regular reporting routines with established formats and fields.

On at least a quarterly basis, the JRC will receive a report on PNC Mortgage. The report details the current risk level, risk management activities and outlook. Key risk issues are described, including accountability, current mitigation activities and timeline for remediation. The JRC discussed issues related to PNC Mortgage ■ times in 2009 and 2010. Currently, Internal Audit provides reporting, including the annual audit plan, a summary of conclusions regarding the level and pace of management progress in addressing audit and control issues, and an overview of emerging internal and external risk issues and trends, to the Audit Committee. Additional future enhancements to reporting will be outlined in the Risk Management, Compliance and Internal Audit sections below.

Going forward, PNC is taking steps to further improve information and reports that will be regularly reviewed by the Board or other authorized committee of the Board regarding Residential Mortgage Loan Servicing business.

*See Action Plan Section 1 – Task 8.*



## SECTION 3: RISK MANAGEMENT

### Our understanding of the intent of this Section

PNC understands the expectation to perform an assessment of its ERM program with respect to its oversight of the Residential Mortgage Loan Servicing business, and to submit a plan to enhance the ERM program in areas that present opportunities for further improvement.

### PNC's approach to achieving this intent

PNC's ERM program is responsible for oversight of PNC's moderate risk profile. The ERM program covers all types of financial and non-financial risk (e.g., operational, compliance, credit, market, audit, legal, reputational) across the organization, including Residential Mortgage Loan Servicing business. PNC recognizes the importance of complying with legal requirements and supervisory guidance of the Board of Governors. This includes, but is not limited to "Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles," dated October 16, 2008 (SR 08-08/CA 08-11), for which Risk Management performed a provision-by-provision review [REDACTED]

With independent reporting to the Board and senior managers, Risk Management is able to provide oversight of the Residential Mortgage Loan Servicing business and support ERM program compliance with legal requirements and supervisory guidance, including this Order.

#### 1. Evaluation of effectiveness of ERM program

Based on a framework provided by McKinsey & Co., Inc., PNC conducted an assessment of the overall ERM program as it relates specifically to the Residential Mortgage Loan Servicing business. The objective of the assessment was to evaluate the program on five dimensions: (1) governance; (2) staffing; (3) risk appetite, strategy, and limits; (4) risk transparency, reports, and tools; (5) risk policies and procedures (including assessments) as they relate to Residential Mortgage Loan Servicing. Senior management within Risk Management assessed and evaluated the current state of the ERM program relative to the vision of a "strong" Risk Management function, as well as its specific application to Residential Mortgage Loan Servicing business.

*See Action Plan Section 3 – Tasks 27, 28.*

#### 2. Key findings from the evaluation

**Governance:** The ERM program has an established governance framework in place. Specific to Residential Mortgage Loan Servicing, a Mortgage Banking Risk Management Committee has been instituted and is executing its chartered responsibilities. Additionally, an oversight



reporting structure exists with an independent Risk Management Officer who is aligned to PNC Mortgage, but reports to senior risk managers in Risk Management.

**Staffing:** Within the past year, senior risk leaders have been hired to strengthen the Risk Management staff aligned to PNC Mortgage. Risk Management employees are incented based on their performance in two areas: their ability to identify risk areas pertinent to Residential Mortgage Loan Servicing, and their ability to provide assurance that PNC Mortgage is appropriately managing its risk. Compensation is not tied to the profitability of PNC Mortgage. PNC plans to further augment Risk Management staffing levels and skill set.

**Risk:** PNC's risk philosophy is to manage to an overall moderate level of risk that balances PNC's strategic goals for further growth with obligations to PNC's stakeholders. PNC dynamically sets strategies and makes distinct risk taking decisions with consideration for the impact to our aggregate risk profile. Additional steps as outlined in the Action Plan are planned to demonstrate PNC Mortgage's adherence to the enterprise risk appetite.

When PNC establishes risk tolerance limits, it considers several factors, including, but not limited to growth objectives and market conditions. [REDACTED]

**Risk transparency, reports and tools:** Beginning in Q3 2010, PNC established a quarterly Mortgage Risk Report, through which significant risk issues are aggregated into the Enterprise Risk Report. PNC has manual risk management tools currently in place to assess and manage risk within PNC Mortgage. However, management is committed to move from its current manual system, in order to more effectively manage risk. The system will allow PNC Mortgage to link, report, and aggregate risk and controls in a centralized data system. In addition, we are currently developing Key Risk Indicator metrics within PNC Mortgage and will fully implement them by end of Q2 2011.

**Risk policies and procedures (including assessments):** Currently, PNC has a comprehensive set of policies and procedures in place to help businesses (including PNC Mortgage) manage risks. These policies and procedures go through a formal approval process prior to being implemented. Also, they are reviewed and updated regularly, based on the priority of the policy or procedure, to effectively support the current risk appetite.

Regular risk assessments are conducted in two ways at PNC:

- Businesses conduct regular self assessments (leveraging the RCSA self assessment framework).
- Risk Management conducts targeted need-based assessments. Currently, independent risk assessments are performed by a variety of corporate functions, including Operational Risk, Compliance, and Legal.



Although PNC has developed a methodology for the RCSA framework, execution and implementation of the system is still in progress. Residential Mortgage Loan Servicing has already been trained on the RCSA and full adoption is underway.

Overall, the ERM program is effective in providing the structure and framework to manage risks, while specific opportunities for improvement exist within PNC Mortgage.

### 3. Plan to further strengthen ERM program

Risk Management has included various opportunities in the Action Plan to strengthen the ERM program. These enhancements extend to include Compliance and our Enterprise Compliance Program as a component of our overall ERM program. Examples of tasks in the Action Plan include the following:

- **Risk appetite:** Based on the enterprise goal of managing risk to a moderate level, and taking into account unique factors that affect PNC Mortgage, Risk Management will strive to ensure that PNC Mortgage determines its tolerance for risk, and develops business policies, procedures, testing and associated controls in accordance with PNC's overall moderate risk appetite.
- **Risk Staffing:** In addition to PNC's centralized risk management structure, risk officers are paired with the businesses to help execute and coordinate their risk management programs under the ERM program. This allows more effective dissemination of ERM program initiatives. Management is committed to enhancing risk management leadership within PNC Mortgage, including augmenting onsite leadership and centralized risk management support.
- **Assessments:** PNC's independent risk assessments and business risk control self assessments (RCSAs) have been improved, although opportunities exist to further strengthen the assessments. These enhancement actions are already underway, including the roll-out of a comprehensive operational tool, with Risk Management guiding business adherence to the methodology.
- **Monitoring:** While risks are measured and monitored, the scope, process, and structure around metrics and KRIs will be enhanced (e.g., operational risk monitoring). A comprehensive set of risk metrics and KRIs is currently being implemented.
- **Reporting:** The objective of PNC's risk reporting is comprehensive risk aggregation and transparency in communicating risks. A PNC Mortgage Risk Report is produced quarterly and is aggregated into the Enterprise Risk Report. This view supports decision making and provides escalation of material issues to PNC stakeholders including employees, management, the Board, shareholders, regulators, and the investment community. The

planned enhancement is to establish a clear methodology for selecting which issues are highlighted for senior management or the Board. The JRC receives quarterly reports on material risks and there is an escalation protocol for risk issues outside of this regular reporting process.

- **Tools:** While PNC relies on a suite of risk management tools, systems, and processes, several enhancements are ongoing to provide the business with better risk management tools. For example, the implementation of [REDACTED] an enhanced centralized risk management system, will allow for an integrated risk management approach.

- **Limits and thresholds:** [REDACTED]  
[REDACTED] Expanded risk metrics will support the measurement and monitoring of actual risk results experienced by PNC, [REDACTED]  
[REDACTED] Limits and boundaries on the acceptable level of risk to which the enterprise is inherently exposed will be established consistent with the frequency and type of metric applied and may include target operational ranges. Risk metric results will be compared to prior time periods, as well as established limits and boundaries to ensure appropriate management transparency and response actions. The established metrics will provide a measure of actual operational risk and potential impacts on compliance, legal and reputational risks.

The status of these items and other items in the Action Plan will be reported per the guidelines in the Order. Consistent with PNC’s current protocol, specific businesses will maintain and update risk management/ mitigation plans on an ongoing basis. On a quarterly basis, Risk Management will continue to provide an aggregate view of the latest risk assessment and risk mitigation plan, and businesses and corporate functions will assign specific owners and timelines for remediation of risks.

*See Action Plan Section 3 – Tasks 30 – 35, 39.*



## **SECTION 4: COMPLIANCE PROGRAM**

### **Our understanding of the intent of this Section**

PNC understands the importance of having a robust Enterprise Compliance program (“ECP”). Given its importance, PNC has conducted an assessment of the current ECP and developed plans outlining action steps that will be taken to enhance the ECP in the Residential Mortgage Loan Servicing business.

### **PNC’s approach to achieving this vision**

Compliance works with the businesses, including the Residential Mortgage Loan Servicing business, in identifying and monitoring compliance risk through the creation and execution of risk-based compliance programs. The framework used in the Compliance Program is based on the guidance of the Board of Governors titled “Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles,” dated October 16, 2008 (SR 08-08/CA 08-11). With independent reporting to the Board of Directors and senior managers, PNC’s Compliance aims to provide oversight of PNC Mortgage.

#### 1. Evaluation of effectiveness of Enterprise Compliance program

Based on a framework provided by McKinsey & Co., Inc., PNC conducted an evaluation of the effectiveness of the program as requested by the Order. In response to the Order, PNC assessed the effectiveness of PNC’s current ECP specifically in the Residential Mortgage Loan Servicing business. The objective of the assessment was to evaluate the program on four dimensions:

- Fundamental elements of ECP.
- Compliance with the legal requirements and supervisory guidance of the Board of Governors.
- Independence of Compliance staff.
- Responsibilities of Board and senior management regarding compliance risk management and oversight.

*See Action Plan Section 3 – Tasks 26, 29.*

#### 2. Key findings from the evaluation

The evaluation indicated that the Residential Mortgage Loan Servicing business has an effective ECP with a defined mandate and responsibilities for oversight of compliance risk management



activities in Compliance. Policies, procedures, and processes are in place to define, monitor and report compliance risks in the Residential Mortgage Loan Servicing business. Additionally, there is a system used to track issues noted during the monitoring of compliance risk, and there are policies and procedures to remediate identified issues.

Compliance has established effective controls for oversight within the Residential Mortgage Loan Servicing business. This includes periodic strategic planning under the leadership of the Chief Compliance Officer to address compliance risk. There are several components to PNC's ECP as follows:

- **Fundamental Elements of ECP:** PNC has policies, procedures, and processes in place to achieve an effective Compliance Program for the businesses. Compliance partners with various risk disciplines to provide holistic support to the businesses, including the Residential Mortgage Loan Servicing business, in various areas. Key procedures in place in the Residential Mortgage Loan Servicing business, include the following:
  - *Risk Assessment:* Every quarter, compliance directors conduct independent compliance risk assessments across the organization, including the Residential Mortgage Loan Servicing business, that examines (i) the inherent compliance risk associated with applicable laws and regulations, (ii) the quality of risk management in place to control and manage inherent compliance risk and (iii) the residual compliance risk remaining after the assessment of the quality of risk management. (Full assessments are performed annually; however, the reports are reviewed and updated on a quarterly basis.) More frequent ad hoc risk assessments are conducted for new business processes as necessary. The risk assessment process includes core servicing, core default, Loss Mitigation and foreclosure activities. Risk assessments are scheduled for quarterly review by business managers and Compliance, with escalation to the Operational Risk Committee as needed.
  - *Monitoring:* At least annually, compliance directors for the Residential Mortgage Loan Servicing business develop risk-based monitoring and surveillance plans, as determined by the annual compliance risk assessment and subsequent updates, which are designed to assess compliance with applicable statutes, regulations, policies and procedures, and industry best practices. Compliance also defines key risk indicators and tracks the level of compliance risk or effectiveness of key internal controls that help manage those risks.
  - *Exam/Audit Support:* Compliance provides support to business managers in connection with regulatory examinations and internal and external audit reviews, which support may include such services as advice and consultation, assistance in responding to information requests, participating in exit meetings, and, when necessary, assistance in the design and implementation of appropriate corrective action.
  - *Centralized System:* In order to assist in the development and execution of the Compliance Program, PNC has developed and implemented centralized databases to

track metrics related to programs and to monitor compliance issues identified by the Residential Mortgage Loan Servicing business. The centralization of such information enables Compliance to review how effectively controls are being applied across the businesses, and helps it monitor adoption and adherence to policies, procedures, and processes. The insights Compliance generates from this centralized system enable it to effectively oversee compliance in the Residential Mortgage Loan Servicing business.

- *Licensing, Registration and Regulatory Filings:* Compliance processes, maintains, and updates the licenses of mortgage loan originators and provides adequate due diligence into the previous conduct and regulatory background of potential hires. Also, Compliance assists in the preparation and filing of certain reports in order to fulfill regulatory disclosure obligations when certain events or changes occur to a business or its personnel.
- *Training:* Compliance directors consult with PNC University to address compliance training needs for the Residential Mortgage Loan Servicing business. In addition to training provided via PNC University, Compliance personnel identify the need for targeted training and conduct, as appropriate, ad hoc compliance training and/or distribute communications, which includes but is not limited to, meetings to discuss regulatory developments and policies, communications via email, staff meetings and discussions with business managers, intranet articles, and group presentations. For example, the training and certification protocols for attestation signers and notaries has undergone significant reviews. The work done by the different areas on the attestation and notary processes has provided assurance that this training is effective in providing attestation signers some of the core skills and tools they need to do their jobs well.
- *Customer Complaints and Regulatory Inquiries:* Compliance works with the business to establish procedures to promptly deal with customer complaints related to compliance activities and to investigate any written or oral complaint and the resolution of such. Periodically, Compliance and the businesses review trends to identify potential issues that may warrant additional training and changes in operational procedures. Also, in coordination with the Legal Department and other areas, as appropriate, Compliance assists in responding to regulatory inquiries, subpoena(s) or conducting internal investigations into possible violations of rules, regulations and firm policies.
- *Day to Day Execution:* Compliance provides proactive advisory support to the business regarding the regulatory environment in order to enhance day to day compliance activities within PNC. Such activities include, but are not limited to, participation in various risk management committees with business managers and consulting with the businesses to resolve questions or issues as they arise.

- **Compliance with the legal requirements and supervisory guidance of the Board of Governors:** Activities are taking place to help ensure that the Compliance program is updated to reflect the new legal requirements and supervisory guidance.
  - *Updates to Policies:* Compliance reviews existing business and enterprise policies and procedures to assess consistency with current statutory and regulatory requirements and provides analysis and advice to management to assist in revising, or developing new policies and procedures to effectively manage compliance risk. PNC has implemented a process to regularly assess and update the Compliance Program as part of the Risk Assessment process and procedures in Residential Mortgage Loan Servicing business. This process provides assurance that changes to the program continue to include Residential Mortgage Loan Servicing. The program is based on a quarterly compliance risk assessment.
  - *Emerging Risk/ Regulatory Landscape:* Compliance, in conjunction with Legal, identifies new or modified statutory and regulatory provisions and judicial and administrative case law. Additionally, Compliance communicates to appropriate management the compliance risks, and provides ongoing consultation and support in connection with the establishment of controls and processes by those managers.
- **Independence of compliance staff:** Compliance has been appropriately set up to be independent of PNC Mortgage for which they have compliance responsibilities. This independence provides assurance that Compliance is objective and avoids inherent conflicts of interest that may hinder the effective implementation of the compliance program.
  - *Identification of Compliance Issues:* Compliance provides independent analysis and consultation to management of the Residential Mortgage Loan Servicing business to assist in the identification and resolution of compliance issues. Moreover, Compliance directors work with the Residential Mortgage Loan Servicing business to help resolve and mitigate identified issues, and related compliance risks. Issues that are identified are tracked in the [REDACTED] with remediation plans that are updated by the responsible parties.
  - *Compliance Testing:* The Compliance Testing Team develops and executes testing plans based on the results of the risk assessment process that supplement the risk mitigation activities conducted by other Compliance personnel. Such separation of duties enhances the integrity of the compliance testing program.
  - *Staffing:* Staffing model templates have been developed based on varying business needs to estimate staffing requirements. These models are based on actual data collected for mortgage servicing operations and have been tailored to the unique needs of various departments. Specifically within PNC Mortgage, we have increased dedicated



Compliance resources from one person to five people over the past year, adding to the depth and expertise of the group.

- **Responsibilities of PNC Board of Directors and senior management regarding compliance risk management and oversight:** Compliance provides to appropriate management, risk committees (Mortgage Banking Risk Management Committee, Compliance Conflicts and Ethics Committee, and Enterprise Risk Management Committee), and the PNC Board of Directors or designated Board committees, periodic reports assessing the compliance risk component of the operational risk profile of PNC.

### 3. Plan to further strengthen Enterprise Compliance program

As part of the evaluation of the ECP in PNC's Residential Mortgage Loan Servicing business, some areas were identified for potential enhancement. In addition to the enhancements listed in the Risk Management section that will provide further enhancements to risk assessments, reporting and tools, PNC has developed Compliance specific tasks in the Action Plan to address the following areas and further enhance the ECP:

- Compliance is to work with Legal when there is an identified need for specific changes in the current controls within PNC's Residential Mortgage Loan Servicing business to further support compliance with the Legal Requirements and supervisory guidance.
- Although there is a process to update the ECP, a formal change management process will be implemented to help ensure that ongoing changes to the Legal Requirements and supervisory guidance are captured and reflected in the ECP.
- Tests will be conducted to validate key components of the new and updated controls that will be implemented to support compliance with the Legal Requirements and supervisory guidance. Remediation will be based on the results of the testing.

*See Action Plan Section 3 – Tasks 24, 25, 36, 37, 38.*



## SECTION 5: AUDIT

### **Our understanding of the intent of this Section**

PNC understands the importance of having an effective Internal Audit program for its Residential Mortgage Loan Servicing business. Given its importance, PNC has conducted an assessment of the current Internal Audit program in the Residential Mortgage Loan Servicing business and has developed plans outlining action steps that will be taken to enhance the Internal Audit program in Residential Mortgage Loan Servicing business.

### **PNC's approach to achieving this intent**

Internal Audit staff dedicated to the Residential Mortgage Loan Servicing business provide assurance to management and the Audit Committee that internal controls are adequate and working as intended. Internal Audit is an independent and objective assurance activity designed to add value and improve operations at PNC's Residential Mortgage Loan Servicing business. It helps the Residential Mortgage Loan Servicing business to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and provide recommendations to improve the effectiveness of risk management, control, and governance processes. The independence of Internal Audit is established by the organizational and reporting structure, and its objectivity is achieved by an appropriate mind-set. The audit program evaluates risk exposures relating to the governance, operations and information systems of the Residential Mortgage Loan Servicing business, in relation to effectiveness and efficiency of operations, reliability and integrity of financial and operational information, safeguarding of assets, and compliance with laws, regulations, and contracts.

Internal Audit also assesses other aspects such as ethics and values within the organization, performance management, and communication of risk and control information within the organization in order to facilitate an effective governance process.

PNC is committed to continuous improvements in its Internal Audit program and obtains periodic reviews by independent third-party experts. In line with this commitment, PNC engaged Promontory Financial Group, LLC ("Promontory") in July 2010 to conduct a review of Internal Audit at PNC

The Promontory evaluation covered the functional aspects of Internal Audit, including organizational structure, roles and responsibilities, personnel backgrounds, audit plans, risk assessments and reports. Promontory's assessment indicated that PNC had a strong Internal





- Escalation procedures for resolving differences of opinion between audit staff and management

*See Action Plan Section 2 – Task 10.*

## 2. Key findings from the evaluation

PNC has focused on improving Internal Audit for the Residential Mortgage Loan Servicing business and has made significant improvements since early 2010. For instance, a new audit strategy was developed with input from independent industry leaders. This included a comprehensive risk assessment, plan, and approach. Also, as part of the enhancement efforts, Internal Audit hired a new experienced Assistant General Auditor dedicated to PNC Mortgage. Throughout 2010 we continued to hire individuals with mortgage industry experience and now the team consists of 19 employees fully dedicated to the execution of the audit plan covering the Residential Mortgage Loan Servicing business. Additionally, as needed, third party subject matter experts are engaged to support the Internal Audit effort.

The Assistant General Auditor for the Residential Mortgage Loan Servicing business reports directly to the PNC General Auditor. The Internal Audit team for PNC Mortgage is subject to the same policies and procedures that govern all Internal Audit activities and are afforded the same training, methodology, tools, and guidance that are provided to all PNC Internal Audit staff. The same quality assurance process also covers the Internal Audit team for PNC Mortgage.

Our evaluation further highlights the following findings in specific areas as required by the Order:

- **Overall Internal Audit program:** Internal Audit maintains a high stature and visibility within PNC, which is continually confirmed by management and Board attitudes, actions and support. Internal Audit's stature has been earned through the execution of its core mission, involvement in special projects and interaction with executive and senior management. The mission of the Internal Audit department is to provide assurance to the Audit Committee of the Board of Directors and management as to the adequacy and effectiveness of PNC's risk management, control, and governance processes. Internal Audit assists management by providing independent and objective assurance and advisory services designed to add value and improve the organization's operations. The mission, authority, responsibilities and scope of the function are clearly defined in the Internal Audit Charter, which is reviewed and approved by the Audit Committee on an annual basis. To provide for the independence of Internal Audit, its personnel report to the General Auditor, who reports functionally to the Audit Committee and administratively to the Chief Executive Officer. Internal Audit personnel conduct their activities with a high level of professional integrity and objectivity and render unbiased and impartial conclusions.

Internal Audit develops a flexible annual audit plan using a risk-based methodology, including any risks or control concerns identified by the businesses, Risk Management, or Compliance. The plan is reviewed and approved by the Audit Committee. The audit activities also include evaluating and assessing key business initiatives, including business integrations, changes to strategic and tactical plans, organizational and structural changes, new or changing products or services, processes, and operations. The audit plan is adjusted on an ongoing basis to reflect new and emerging risks and periodic updates are provided to the Audit Committee to apprise them of significant changes.

- **Audit reporting and issue tracking:** Internal Audit has a comprehensive set of procedures that govern the entire audit process including audit reporting and the tracking and follow-up of issues. Specific steps in these processes include:
  - Providing a timely, written report summarizing audit issues that includes, as needed, recommendations for improving controls upon the completion of each audit.
  - Obtaining a written response from management as to the corrective action to be taken to address identified issues.
  - Performing follow-up procedures on open audit issues.
  - Issuing periodic reports to the Audit Committee and executive management summarizing significant results of audit activities, and providing conclusions regarding the level and pace of management progress in addressing audit and control issues.
  - Keeping the Audit Committee and the JRC informed of emerging internal and external risk issues and trends.
- **Adequate and qualified staffing:** PNC is committed to executing an effective and efficient Internal Audit program in accordance with professional standards. In order to accomplish this objective several procedures are in place designed to ensure that there is an adequate number of staff with the appropriate skill sets to execute the audit plan. Specifically, tools are used to perform a skills assessment and competency assessment on an annual basis. Staffing requirements are also evaluated on at least a quarterly basis. Training and development is a key element in Internal Audit's strategic plan to assure that staff obtain and maintain the necessary knowledge and skills required to effectively carry out their responsibilities. Every Internal Audit professional is required to obtain at least 40 hours of relevant continuing professional education each calendar year. Completion of these requirements is strictly monitored by the Professional Services Group within Internal Audit. Finally, a quality assurance process, directed by the Professional Services Group, is in place to confirm the ongoing quality of the audit activities.
- **Audit of ERM and ECP programs:** Internal Audit conducts an audit of the ERM and ECP programs on at least an annual basis and continuous monitoring procedures throughout the

year. The scope of Internal Audit's reviews will be expanded further to evaluate the adequacy and effectiveness of the ERM and ECP programs pertaining to the Residential Mortgage Loan Servicing business.

- **Escalation procedures for resolving differences of opinion between audit staff and management:** The Internal Audit Charter and an escalation process seek to ensure that any differences in opinion or disputes between audit staff and management are presented to the Audit Committee for appropriate resolution.

### 3. Plan to further strengthen Internal Audit program

The Internal Audit program covers various businesses and operations in PNC, including Residential Mortgage Loan Servicing. These areas are examined on at least an annual basis and are also covered under Internal Audit's continuous monitoring activities, which include tracking key risk indicators. Specific to the provisions of the Order, Internal Audit has several elements in place, and plans to expand coverage to additional areas as outlined in the Action Plan. Examples include:

- Dual tracking of borrowers undergoing foreclosure and who have also successfully completed a loss mitigation trial period (including HAMP)
- Rescinded and contested foreclosures
- Consumer privacy policies and procedures
- Evaluation of third party vendors and management's oversight of third party vendors
- Review of Quality Assurance Plan covering MERS
- Servicemembers Civil Relief Act

*See Action Plan Section 2 – Tasks 11-23.*



## **SECTIONS 6 AND 7: APPROVAL, IMPLEMENTATION, AND PROGRESS REPORTS**

### **Our understanding of the intent of this Section**

PNC recognizes the importance of timely submission of a comprehensive Action Plan describing the appropriate actions required to comply with the requirements of the Order for review, and upon determination of no supervisory objection, immediate implementation of those plans upon adoption.

PNC also acknowledges the importance of receiving written approval from the Federal Reserve of this Action Plan, and not taking any action that would be deemed a significant deviation from the requirements of the Action Plan, unless and until approved by the Federal Reserve.

PNC also understands the need for providing written progress reports to the Board and the Federal Reserve at the end of each calendar quarter, outlining the actions taken to comply with each Section of the Order, and the results and status of those actions.

### **PNC's approach to achieving these objectives**

PNC is conducting a holistic program of improvements to our Residential Mortgage Loan Servicing business consistent with our philosophies toward the borrower experience and oversight. PNC sees the requirements of the Federal Reserve Consent Order and the OCC Consent Order as consistent with this overarching objective.

Consequently, PNC has created a holistic Action Plan designed to achieve our target state, while also achieving the requirements of the Federal Reserve Consent Order and the OCC Consent Order. PNC is committed to submitting the Action Plan to the Federal Reserve and the OCC, consistent with the deadlines in the Federal Reserve Consent Order and the OCC Consent Order; adopting the Action Plan, approved by the Federal Reserve, within 10 days of approval; and implementation upon adoption. The Action Plan includes tasks to document financial and organizational resources for implementation and compliance with the Action Plan. PNC will revise the required Action Plan as necessary to incorporate new or changes to applicable Legal requirements and supervisory guidelines. Re-submission of revised plans to the Federal Reserve for approval will occur at the same time as the progress reports described in Section 7 of the Federal Reserve Consent Order.

PNC will seek to obtain prior written approval from the Federal Reserve for any amendments or revisions that result in material impact to approved plans.



The Board of Directors of PNC or an authorized committee of the Board of Directors will submit a written status report to the Federal Reserve within 30 days after the end of each calendar quarter, detailing the form and manner of all actions to achieve compliance with the provisions of the Order and results of the actions, including supporting information to validate compliance with the Order.

*See Action Plan Section 1 – Tasks 1, 2, 3, 4, 9.*

## **A. PNC Compliance Committee Charters**

THE PNC FINANCIAL SERVICES GROUP, INC.

BOARD OF DIRECTORS

SPECIAL COMPLIANCE COMMITTEE CHARTER

AS APPROVED BY THE BOARD OF DIRECTORS  
ON MAY 19, 2011

I. General

The Special Compliance Committee operates as a special committee of the Board of Directors of The PNC Financial Services Group, Inc. (“Corporation”). The Board of Directors of the Corporation (the “Board”) established this Committee in accordance with Article V, §2 of the Corporation’s Bylaws, and applicable Pennsylvania laws and regulations.

The Committee must have at least three members. The Board shall appoint a Chair and other members of this Committee. The Board may replace any member of this Committee. The Board or Committee may also appoint a Secretary, who need not be a director, and may delegate to its Chair or other persons such power and authority as the Committee deems to be appropriate, except such powers and authorities required by law to be exercised by the whole Committee or by a subcommittee of at least two members.

The Committee will meet as often as the Committee or the Committee Chair determines. The Committee may meet in executive session, from time to time, without members of management of the Corporation present.

The Committee may meet in joint session with the Special Compliance Committee of the Board of Directors of PNC Bank, National Association.

2. Committee Purpose

The Committee’s purpose is to assist the Board (or a committee of the Board) to fulfill its oversight and reporting responsibilities in connection with relevant provisions of the Consent Order (Docket No. 11-026-B-HC) entered into between the Corporation and the Board of Governors of the Federal Reserve System (the “Order”).

The Committee is to serve as the primary point of contact between the Board and the members of management responsible for implementing the provisions of the Order. As appropriate, the Committee will also review with the Board and members of management any process, timeframe, and conditions for recommending to the Board

that the Committee be disbanded and incorporating ongoing oversight and compliance activities into the governance structure of the Board and its other committees.

### 3. Committee Responsibilities

*The activities described in this section will be the common recurring activities of the Committee in carrying out its purposes, and are provided as a guide. The Committee may diverge from this guide as it considers appropriate in the circumstances.*

- A. Oversee management's compliance with the provisions of the Order and any related documentation, including the submission to the appropriate party of any plans and progress reports.
- B. Oversee management's implementation of any written plan to strengthen oversight of the Corporation's enterprise-wide risk management, internal audit, and compliance programs concerning the residential mortgage loan servicing, Loss Mitigation (as defined in the Order), and foreclosure activities conducted through PNC Mortgage, a division of PNC Bank, National Association, a wholly owned subsidiary of the Corporation, and management's implementation of any other action plan designed to facilitate compliance with the provisions of the Order or any related documentation (each, an "Action Plan"), and any amendments to, or modifications of, such Action Plan.
- C. Assess, on a periodic basis, the status of the Corporation's progress in complying with the provisions of the Order and any related documentation, and management's implementation of any Action Plan.
- D. Review the performance of senior management in compliance with the Order and any related documentation, including the implementation of any Action Plan, and assess the adequacy of the personnel designated to address compliance matters, including an evaluation of the timeliness of reporting by management, and whether material non-compliance with actions is followed up in a timely and appropriate manner.
- E. Confer with members of senior management and any attorneys, auditors, agents, and consultants, as the Committee members determine to be appropriate to fulfill the duties of the Committee.
- F. Maintain open lines of communication with the federal banking regulatory agencies and act as representatives of the Board in any such meetings with the regulatory agencies as the Committee or the agencies may deem necessary or advisable from time to time.
- G. Oversee the process for evaluating candidates to serve as an independent consultant to the Corporation and engaging one or more consultants to help

management comply with the terms of the Order or any related documentation, or with the implementation of any Action Plan.

- H. Receive regular reports from the independent consultant(s) retained pursuant to Item G. above and oversee the proper and timely satisfaction of the terms of any engagement letter or other agreement(s) with the independent consultant(s).
- I. The Committee shall also:
  - 1. Report regularly to the Board on its activities.
  - 2. Maintain minutes of its meetings and records relating to those meetings and the Committee's activities.
  - 3. Review and assess the quality and clarity of the information provided to the Committee and make recommendations to management as the Committee deems appropriate from time to time for improving such materials.
  - 4. Have authority to obtain advice and assistance from internal or external legal, accounting, economic, or other advisors, including consultants different from those engaged for the Corporation under Item G. above.
  - 5. Form and delegate authority to subcommittees of one or more Committee members, as appropriate and as permitted by law.
  - 6. Delegate authority to one or more management-level risk or other committees when appropriate.
  - 7. Review and reassess the adequacy of this Charter annually and recommend to the Board any proposed changes to this Charter.
  - 8. Conduct a periodic evaluation of the Committee's performance, if appropriate.

#### 4. Committee Reliance

In performing their responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports or statements prepared or presented by:

- A. One or more officers or employees of the Corporation, the Bank, or any subsidiary of each, whom the Committee member reasonably believes to be reliable and competent in the matters presented.
- B. Counsel, independent auditors, consulting firms, or other persons as to matters that the Committee member reasonably believes to be within the professional or expert competence of such person.

- C. Another committee of the Board as to matters within its designated authority which committee the Committee member reasonably believes to merit confidence.

PNC BANK, NATIONAL ASSOCIATION

BOARD OF DIRECTORS

SPECIAL COMPLIANCE COMMITTEE CHARTER

AS APPROVED BY THE BOARD OF DIRECTORS  
ON MAY 19, 2011

I. General

The Special Compliance Committee operates as a special committee of the Board of Directors of PNC Bank, National Association (the "Bank"). The Board of Directors of the Bank (the "Board") established this Committee in accordance with Article III, §8 of the Bank's Bylaws, and applicable Pennsylvania laws and regulations.

The Committee must have at least three members, of which at least two members may not be employees or officers of the Bank or any of its subsidiaries or affiliates. The Board shall appoint a Chair and other members of this Committee. The Board may replace any member of this Committee. In the event of a change of the membership of the Committee, the name of any new member shall be submitted to the Examiner-in-Charge for Large Bank Supervision at the Bank.

The Board or Committee may also appoint a Secretary, who need not be a director, and may delegate to its Chair or other persons such power and authority as the Committee deems to be appropriate, except such powers and authorities required by law to be exercised by the whole Committee or by a subcommittee of at least two members.

The Committee will meet as often as the Committee or the Committee Chair determines. The Committee may meet in executive session, from time to time, without members of management of the Bank present.

The Committee may meet in joint session with the Special Compliance Committee of the Board of Directors of The PNC Financial Services Group, Inc.

2. Committee Purpose

The Committee's purpose is to assist the Board (or a committee of the Board) to fulfill its oversight and reporting responsibilities and to fulfill the responsibilities of the Compliance Committee in connection with relevant provisions of the Consent Order (AA-EC-11-17) entered into between the Bank and the Office of the Comptroller of the Currency (the "Order").

The Committee is to serve as the primary point of contact between the Board and the members of management responsible for implementing the provisions of the Order. As appropriate, the Committee will also review with the Board and members of management any process, timeframe, and conditions for recommending to the Board that the Committee be disbanded and incorporating ongoing oversight and compliance activities into the governance structure of the Board and its other committees.

3. Committee Responsibilities

*The activities described in this section will be the common recurring activities of the Committee in carrying out its purposes, and are provided as a guide. The Committee may diverge from this guide as it considers appropriate in the circumstances.*

- A. Oversee management's compliance with the provisions of the Order and any related documentation, including the submission to the appropriate party of any plans and progress reports.
- B. Oversee management's implementation of any written plan containing a description of the actions that are necessary or appropriate to achieve compliance with Articles IV through XII of the Order, and management's implementation of any other action plan designed to facilitate compliance with the provisions of the Order or any related documentation (each, an "Action Plan"), and any amendments to, or modifications of, such Action Plan.
- C. Assess, on a periodic basis, the status of the Bank's progress in complying with the provisions of the Order and any related documentation, and management's implementation of any Action Plan, including, without limitation, an assessment of the Bank's achievement and maintenance of effective mortgage servicing, foreclosure, and loss mitigation activities (as defined in the Order), as well as associated risk management, compliance, quality control, audit, training, staffing, and related functions.
- D. Review the performance of senior management in compliance with the Order and any related documentation, including the implementation of any Action Plan, and assess the adequacy of the personnel designated to address compliance matters, including an evaluation of the timeliness of reporting by management, and whether material non-compliance with actions is followed up in a timely and appropriate manner.
- E. Confer with members of senior management and any attorneys, auditors, agents, and consultants, as the Committee members determine to be appropriate to fulfill the duties of the Committee.
- F. Maintain open lines of communication with the federal banking regulatory agencies and act as representatives of the Board in any such meetings with the

regulatory agencies as the Committee or the agencies may deem necessary or advisable from time to time.

- G. Oversee the process for evaluating candidates to serve as an independent consultant to the Bank and engaging one or more consultants to help management comply with the terms of the Order or any related documentation, or with the implementation of any Action Plan.
- H. Receive regular reports from the independent consultant(s) retained pursuant to Item G. above and oversee the proper and timely satisfaction of the terms of any engagement letter or other agreement(s) with the independent consultant(s).
- I. The Committee shall also:
  - 1. Report regularly to the Board on its activities.
  - 2. Maintain minutes of its meetings and records relating to those meetings and the Committee's activities.
  - 3. Review and assess the quality and clarity of the information provided to the Committee and make recommendations to management as the Committee deems appropriate from time to time for improving such materials.
  - 4. Have authority to obtain advice and assistance from internal or external legal, accounting, economic, or other advisors, including consultants different from those engaged for the Bank under Item G. above.
  - 5. Form and delegate authority to subcommittees of one or more Committee members, as appropriate and as permitted by law.
  - 6. Delegate authority to one or more management-level risk or other committees when appropriate.
  - 7. Review and reassess the adequacy of this Charter annually and recommend to the Board any proposed changes to this Charter.
  - 8. Conduct a periodic evaluation of the Committee's performance, if appropriate.

4. Committee Reliance

In performing their responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports or statements prepared or presented by:

- A. One or more officers or employees of the Corporation, the Bank, or any subsidiary of each, whom the Committee member reasonably believes to be reliable and competent in the matters presented.
- B. Counsel, independent auditors, consulting firms, or other persons as to matters that the Committee member reasonably believes to be within the professional or expert competence of such person.
- C. Another committee of the Board as to matters within its designated authority which committee the Committee member reasonably believes to merit confidence.

## **B. PNC Action Plan**



## PNC ACTION PLAN

<b>PNC Action Plan Section</b>	<b>PNC Action Plan Section Title</b>	<b>Primary OCC Consent Order Articles</b>	<b>Primary Federal Reserve Consent Order Sections</b>
1	Order Oversight	II, III, XI, XII	1, 2, 6, 7, 8
2	Audit		5
3	Risk Management and Compliance	X	3, 4
4	Business Compliance Program	IV	
5	Third Party Management	V	
6	MERS	VI	
7	Foreclosure Review	VII	
8	MIS	VIII	
9	Mortgage Servicing	IX	



## Residential Real Estate Federal Reserve Consent Order – Action Plan

Section 1: Order Oversight	
Reference	Federal Reserve Consent Order
Fed 1 Fed 6(d)	<p>1 The board of directors of PNC shall take appropriate steps to fully utilize PNC’s financial and managerial resources, pursuant to section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Consent Order issued by the OCC regarding the Bank’s residential mortgage servicing activities.</p> <p>6 (d) During the term of this Order, PNC shall revise the approved plans and as necessary to incorporate new or changes to the Legal Requirements and supervisory guidance of the Board of Governors. The revised plans shall be submitted to the Reserve Bank for approval at the same time as the progress reports described in paragraph 7 of this Order.</p>

Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
1 OO.CP.07	Prepare monthly status report and meet with the Compliance Committee to review compliance with the Consent Orders. The status report must include an identification and escalation of any issues, any required revisions to programs, policies or procedures necessary as a result of changing legal requirements or supervisory guidelines, an assessment of the appropriateness of the staffing levels for Residential Mortgage Loan Servicing activities across PNC, and an overall evaluation of PNC's effectiveness against the Action Plan tasks. This task will be complete following completion of these items for the June Compliance Committee meeting.	[REDACTED]	9/1/2011
2 OO.CP.08	Institute regular Action Plan status reporting to Board Joint Risk Committee (JRC) and Audit Committee by adding reporting and metrics to the JRC agenda and the Audit Committee agenda that demonstrates continued compliance with the Consent Orders, including an assessment of the appropriateness of the staffing levels for Residential Mortgage Loan Servicing activities across PNC. Mark this task complete following completion of these items for the August JRC and Compliance Committee meetings.	[REDACTED]	9/1/2011



## Residential Real Estate Federal Reserve Consent Order – Action Plan

Section 1: Order Oversight	
Reference	Federal Reserve Consent Order
Fed 2(a-d) Fed 7 Fed 8(a-b)	<p>2 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 PNC’s enterprise-wide risk management (“ERM”), internal audit, and compliance programs concerning the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities conducted through PNC Mortgage. The plan shall, at a minimum, address, consider, and include:</p> <p>(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 PNC Mortgage’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;</p> <p>(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 PNC’s internal policies and procedures, consistent with supervisory guidance of the Board of Governors;</p> <p>(c) steps to ensure that PNC’s ERM, audit, and compliance programs have adequate levels and types of officers and staff dedicated to overseeing PNC Mortgage’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</p> <p>(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.</p> <p>7 Within 30 days after the end of each calendar quarter following the date of this Order, the board of directors of PNC or authorized committee of the board of directors shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof. The Reserve Bank may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.</p> <p>8 All communications regarding this Order shall be sent to:</p> <p>(a) Jerrold L. Newlon            Assistant Vice President            Federal Reserve Bank of Cleveland            P.O. Box 6387            East 6<sup>th</sup> &amp; Superior            Cleveland, Ohio 44101-1387</p> <p>(b) Robert F. Hoyt            Chief Regulatory Affairs Officer            The PNC Financial Services Group, Inc.            One PNC Plaza 249 Fifth Avenue            Pittsburgh, PA 15222-2707</p>

Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
3 OO.CP.05	Develop Action Plan to address the Federal Reserve Consent Order, review Action Plan with Compliance Committee and full Board, make any necessary changes and submit Action Plan to the Federal Reserve.	[REDACTED]	Complete Pending Audit Review



## Residential Real Estate Federal Reserve Consent Order – Action Plan

Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
4 OO.CP.03	Establish calendar for written progress reports to be provided quarterly to both the OCC and Federal Reserve. Ensure distribution to the appropriate respective parties per the Orders. Include in calendar dates for the preparation of the report by management, Compliance Committee review, full Board review, time for any required changes, and submission to either the OCC or Federal Reserve. Mark task complete following completion of these items for the 2Q2011 report. Note: The 90 day written progress report and 2Q2011 report will be submitted as one report.	[REDACTED]	9/1/2011
5 OO.CP.18	Draft and recommend policy, to be adopted by the Board of Directors or a board committee with ongoing oversight by the JRC, designed to ensure that the ERM program provides proper risk management oversight with respect to Residential Mortgage Loan Servicing, particularly with respect to compliance with the Legal Requirements. Include mechanism to report on oversight to JRC.	[REDACTED]	9/30/2011
6 OO.CP.19	Expand Enterprise Vendor Management and related risk policies and procedures to provide proper risk management oversight by ERM of third parties who are engaged to support Residential Mortgage Loan Servicing activities or operations.	[REDACTED]	9/30/2011
7 OO.CP.20	Develop steps to ensure that PNC's ERM, Internal Audit, and Compliance programs have adequate levels and types of officers and staff dedicated to overseeing PNC Mortgage's Residential Mortgage Loan Servicing activities, and that these programs have officers and staff with the requisite qualifications, skills, and ability to comply. Implement reporting on staffing to the respective Board Committee (JRC or Audit Committee).	[REDACTED]	9/30/2011
8 OO.CP.21	Develop detailed steps to improve the information and reports. Determine schedule to be reviewed by the JRC regarding Residential Mortgage Loan Servicing 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 activities.	[REDACTED]	9/30/2011



## Residential Real Estate Federal Reserve Consent Order – Action Plan

Section 1: Order Oversight	
Reference	Federal Reserve Consent Order
Fed 6(a-c)	6(a) PNC shall submit written plans that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 3, 4, and 5 of this Order. (b) Within 10 days of approval by the Reserve Bank, PNC shall adopt the approved plans. Upon adoption, PNC shall implement the approved plans and thereafter fully comply with them. (c) During the term of this Order, the approved plans and program shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
9 OO.CP.06	Adopt Action Plan to address the Federal Reserve Consent Order with Compliance Committee and full Board. NOTE: Action Plan will be revised based on any required changes from the Federal Reserve. In addition, no material changes will be made in the Action Plan without the approval of the Federal Reserve. Target Date assumes one day approval by the Federal Reserve.	[REDACTED]	9/1/2011



## Residential Real Estate Federal Reserve Consent Order – Action Plan

Section 2: Audit	
Reference	Federal Reserve Consent Order
Fed 5(a-f)	<p>5 Within 60 days of this Order, PNC 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 PNC'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:</p> <p>(a) Ensure that the internal audit program encompasses residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</p> <p>(b) periodically review 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;</p> <p>(c) ensure that adequate qualified staffing of the audit function is provided for residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</p> <p>(d) ensure timely resolution of audit findings and follow-up reviews to ensure completion and effectiveness of corrective measures;</p> <p>(e) ensure that comprehensive documentation, tracking, and reporting of the status and resolution of audit findings are submitted to the audit committee; and</p> <p>(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 audit committee.</p>

Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
10 AD.CP.26	Review effectiveness of current Internal Audit program within Residential Mortgage Loan Servicing activities. Produce a summary of the current Internal Audit program strengths and opportunities.		Complete
11 AD.CP.11	Revise Internal Audit program for PNC Mortgage to include: 1) legal process review; 2) management process review; 3) governance process review; 4) thorough design effectiveness review of policies, procedures, and controls implemented or to be implemented by management; 5) thorough operating effectiveness review of policies, procedures, and controls implemented or to be implemented by management; 6) continuous monitoring which consists of selecting sample of foreclosed loans and assessing whether loan documentation adheres to State and Local foreclosure requirements.		Complete
12 AD.CP.02	Hire new Assistant General Auditor (AGA) for Mortgage. Start implementation of new Internal Audit strategy with following components 1) Inputs from two public accounting industry leaders: PriceWaterhouseCoopers (PwC) and Deloitte & Touche (D&T). 2) Top-down and bottom-up risk based approach to perform a comprehensive compliance risk assessment to re-baseline PNC Mortgage Compliance Internal Audit plan. 3) PNC Corporate audit function policies and procedures, framework, methodologies and tools to incorporate into Mortgage audit team processes Audit software and tools. 4) Relevant IIA and internal training. 5) Capacity and expertise sharing and formal/ informal communications (phone, email, meetings) between PNC Corporate audit function and Mortgage audit team. 6) Integrated audits. 7) Re-organization of PNC Mortgage Internal Audit organization and new PNC Mortgage Internal Audit team leadership. 8) For the 2010 audit year, use experienced auditors and subject matter experts from D&T to assist with execution of re-baseline compliance audit plan.		Complete
13 AD.CP.01	Develop a comprehensive PNC Mortgage default operations & foreclosure risk matrix and risk based approach to audit PNC Mortgage foreclosures operations. Develop a real-time testing program of PNC Mortgage foreclosures affidavit process. Hire PriceWaterhouseCoopers (PwC) as a subject matter expert and complete a comprehensive risk assessment of PNC Mortgage. Issue a comprehensive Internal Audit Plan using a top-down and bottom-up risk based approach. Hire Deloitte & Touche (D&T) to assist Internal Audit with the design and execution of plan covering Residential Mortgage Loan Servicing.		Complete



## Residential Real Estate Federal Reserve Consent Order – Action Plan

14 AD.CP.04	Complete a design review of PNC Mortgage new affidavit process and issue a report with key design observations. Complete a design review of PNC Mortgage new management quality control process over the new affidavit process and issue a report with key design observations.	██████████	Complete
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Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
15 AD.CP.05	Perform walkthroughs and produce a set of process flow documents highlighting key controls that will be subject to Internal Audit operating effectiveness testing. Complete a lookback review of completed foreclosure loan files and issue periodic status reports to illustrate progress toward completion of review of entire sample of 250 completed foreclosure loan files. Link results of lookback review to assessment of new PNC Mortgage Foreclosure procedure in order to determine if new procedure, as designed by management, was adequate to mitigate key issues identified during Internal Audit lookback review. Issue an Internal Audit summary document with key design observations.	██████████	Complete
16 AD.CP.07	Expand Audit program for PNC Mortgage to include: 1) Rescinded foreclosures: Test design effectiveness of policies, procedures, and controls implemented by management relative to rescinded foreclosures. Test operating effectiveness of policies, procedures, and controls implemented by management relative to rescinded foreclosures. Review adequacy of management analysis of rescinded foreclosure completed in 2010. 2) Contested foreclosures: Test design effectiveness of policies, procedures, and controls implemented by management relative to contested foreclosures. Test operating effectiveness of policies, procedures, and controls implemented by management relative to contested foreclosures. Review adequacy of management analysis of contested foreclosure disposed of 2010.	██████████	Complete
17 AD.CP.03	Recommend Internal Audit Program enhancements and schedule for enhancement implementation. Address in program 1) periodic review of ERM and Compliance Programs; 2) compliance with supervisory guidance; 3) process to ensure timely resolution of audit findings and follow-up reviews to ensure completion and effectiveness of corrective measures; 4) comprehensive documentation, tracking, and reporting of status and resolution of audit findings to audit committee; 5) escalation procedures for resolving any differences of opinion.	██████████	Complete
18 AD.CP.08	Expand Internal Audit program for PNC Mortgage foreclosure operations to include: 1) Attorney Fees and Cost: Obtain understanding by documenting process related to Attorney Fees and Cost. Test the design effectiveness of policies, procedures, and controls implemented by management relative to Attorney Fees and Cost. Test operating effectiveness of policies, procedures, and controls implemented by management relative to Attorney Fees and Cost. 2) Other Charges to Borrowers: Revise Audit program to include an Internal Audit Management Process Review. Revise audit program to include Internal Audit Governance Process Review. Revise audit program to include thorough design effectiveness review of policies, procedures, and controls implemented or to be implemented by management. Revise audit program to include a thorough operating effectiveness review of policies, procedures, and controls implemented or to be implemented by management. Revise Audit program to include selecting sample of loan files assessing documentation and appropriateness of fees and charges to borrowers.	██████████	9/1/2011
19 AD.CP.09	Expand Internal Audit program for PNC Mortgage foreclosure operations audit to include: consumer privacy policies and procedures; evaluation of third-party vendors and management's oversight of third-party vendors; and review of compliance with legal requirements and supervisory guidance.	██████████	9/15/2011
20 AD.CP.10	Complete PNC Mortgage audit to assess effectiveness of revised policies, procedures, and controls. Issue report to PNC Mortgage management and Supervisory Action Plan oversight committees. As appropriate, escalate issues to Board Audit Committee.	██████████	10/31/2011
21 AD.CP.13	Institute PNC Mortgage quarterly audit testing program to include a sample of foreclosure transactions to ensure the effectiveness of processes and controls implemented by management. Issue report to PNC Mortgage management and Supervisory Action Plan oversight committees. As appropriate, escalate issues to Board Audit Committee.	██████████	10/31/2011
22 AD.CP.06	Implement and complete audit on PNC Mortgage foreclosure operations. Issue report to PNC Mortgage management and Supervisory Action Plan oversight committees. As appropriate, escalate issues to Board Audit	██████████	10/31/2011



Residential Real Estate Federal Reserve Consent Order – Action Plan

	Committee. Include in audit: 1) Foreclosure full process design review; 2) Lookback procedures review; 3) Assessment and testing of process for handling of loans in some state of foreclosure at the time of the moratorium; 4) Review of dual tracking of borrowers undergoing foreclosure and who have also successfully completed a loss mitigation trial period (including HAMP).		
Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
23 AD.CP.12	Conduct PNC Mortgage audit on control testing, including assessing whether loan documentation adheres to State and Local foreclosure requirements. Issue report to PNC Mortgage management and Supervisory Action Plan oversight committees. As appropriate, escalate issues to Board Audit Committee.	[REDACTED]	10/31/2011



## Residential Real Estate Federal Reserve Consent Order – Action Plan

Section 3: Risk Management and Compliance	
Reference	Federal Reserve Consent Order
Fed 3(a-c) Fed 4(a-c)	<p>3 Within 60 days of this Order, PNC shall submit to the Reserve Bank an acceptable written plan to enhance its ERM program with respect to its oversight of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations. The plan shall be based on an evaluation of the effectiveness of PNC’s current ERM program in the areas of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, and recommendations to strengthen the risk management program in these areas. The plan shall, at a minimum, be designed to:</p> <ul style="list-style-type: none"> <li>(a) 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;</li> <li>(b) ensure that the risk management program complies with supervisory guidance of the Board of Governors, including, but not limited to, guidance entitled, “Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles,” dated October 16, 2008 (SR 08-08/CA 08-11); and</li> <li>(c) establish limits for compliance, legal, and reputational risks and provide for regular review of risk limits by appropriate senior management and the board of directors or authorized committee of the board of directors.</li> </ul> <p>4 Within 60 days of this Order, PNC shall submit to the Reserve Bank an acceptable written plan to enhance its enterprise-wide compliance program (“ECP”) with respect to its oversight of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations. The plan shall be based on an evaluation of the effectiveness of PNC’s current ECP in the areas of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, and recommendations to strengthen the ECP in these areas. The plan shall, at a minimum, be designed to:</p> <ul style="list-style-type: none"> <li>(a) Ensure that the fundamental elements of the ECP and any enhancements or revisions thereto, including a comprehensive annual risk assessment, encompass residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</li> <li>(b) ensure compliance with the Legal Requirements and supervisory guidance of the Board of Governors; and</li> <li>(c) ensure that policies, procedures, and processes are updated on an ongoing basis as necessary to incorporate new or changes to the Legal Requirements and supervisory guidance of the Board of Governors.</li> </ul>

Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
24 RM.CP.19	Develop targeted steps as part of a compliance testing approach for new foreclosure process to be executed on a periodic basis for measuring control effectiveness in relation to legal requirements and supervisory guidance. This will result in a documented step approach for compliance testing.	[REDACTED]	Complete Pending Audit Review
25 RM.CP.16	Implement process to perform a comprehensive annual compliance risk assessment within Residential Mortgage Loan Servicing. This will result in a procedure document that will be approved by the Compliance Conflicts & Ethics Committee.	[REDACTED]	Complete Pending Audit Review
26 RM.CP.08	Recommend Compliance Program enhancements and schedule for enhancement implementation within Residential Mortgage Loan Servicing activities. Program will address 1) fundamental elements of program, including a comprehensive annual risk assessment of Residential Mortgage Loan Servicing; 2) compliance with legal requirements and supervisory guidance; 3) ongoing updates to policies, procedures and processes to incorporate new or changes to legal requirements and supervisory guidance; 4) Compliance program staffing. The remediation plan will layout enhancement opportunities with task description, task owners, and target completion dates.	[REDACTED]	Complete Pending Audit Review
27 RM.CP.05	Review effectiveness of current ERM program within Residential Mortgage Loan Servicing activities. Produce a summary of the current ERM program strengths and opportunities.	[REDACTED]	Complete Pending Audit Review



Residential Real Estate Federal Reserve Consent Order – Action Plan

Task ID	Task Detail Definition/Deliverable(s)	Primary Task Owner	Target Date
28 RM.CP.06	Recommend ERM Program enhancements and schedule for enhancement implementation within Residential Mortgage Loan Servicing activities. Program will address 1) fundamental elements of program, including a comprehensive annual risk assessment; 2) compliance with supervisory guidance; 3) risk limits; 4) policies to be adopted by Board to ensure that ERM program provides proper risk management oversight; 5) policies and procedures to ensure that the ERM program provides proper risk management of third party service providers; 6) ERM program staffing; 7) reports regularly reviewed by the Board, including compliance risk assessments and status and results of remediation of deficiencies. The remediation plan will layout enhancement opportunities with task description, task owners, and target completion dates.	[REDACTED]	Complete Pending Audit Review
29 RM.CP.07	Review effectiveness of current Compliance Program (ECP) within Residential Mortgage Loan Servicing activities. Produce a summary of the current ECP strengths and opportunities.	[REDACTED]	Complete Pending Audit Review
30 RM.CP.09	Implement process to perform a comprehensive annual risk assessment within Residential Mortgage Loan Servicing. This will result in a procedure document that will be approved by the Operational Risk Committee (ORC).	[REDACTED]	9/1/2011
31 RM.CP.15	Establish reporting for performance metrics and risk tolerances and associated limits. Institute monthly reporting to Mortgage Banking Risk Management Committee and quarterly reporting to Retail PNC Risk Management Committee, with escalation mechanism to Corporate and Board committees based on criticality. Institute quarterly reporting to the Board Joint Risk Committee of the Mortgage Bank Risk Report to include key risk tolerances and associated limits.	[REDACTED]	9/1/2011
32 RM.CP.10	Implement process to regularly assess and update ERM Program. Ensure changes to program continue to include residential mortgage loan servicing, loss mitigation and foreclosure activities. Base program on a comprehensive annual risk assessment and ensure compliance with supervisory guidance. This will result in a procedure document that will be approved by the ERMC.	[REDACTED]	9/1/2011
33 RM.CP.11	Implement process to provide for regular review of risk limits compliance, legal, and reputational risks, by appropriate senior management and Board. This will result in a procedure document that will be approved by the ERMC.	[REDACTED]	9/1/2011
34 RM.CP.13	Enhance policies and procedures to address gaps in ERM Program within Residential Mortgage Loan Servicing activities. Define policies to be adopted by the Board. Include policies and procedures to ensure ERM Program provides proper oversight of third party service providers. This will result in a list of policies and procedures assessed and marked for Board adoption.	[REDACTED]	9/1/2011
35 RM.CP.14	Implement process to regularly assess the adequacy of levels and types of officers and staff dedicated to overseeing ERM Program for PNC's Residential Mortgage Loan Servicing activities. Consider the qualifications, skills, and ability to fulfill ERM Program. Staff assessment should be based on a comprehensive annual risk assessment and ensure compliance with supervisory guidance. This will result in a procedure document that will be approved by the ERMC.	[REDACTED]	9/1/2011
36 RM.CP.17	Implement process to regularly assess and update Compliance Program. Ensure changes to program continue to include Residential Mortgage Loan Servicing activities. Program should be based on a comprehensive annual compliance risk assessment and ensure compliance with supervisory guidance. This will result in a procedure document that will be approved by the Compliance Conflicts & Ethics Committee.	[REDACTED]	9/1/2011
37 RM.CP.18	Enhance policies and procedures to address gaps in Compliance program within Residential Mortgage Loan Servicing activities. Review and recommend policy and procedural enhancements to improve foreclosure process execution – validate critical requirements and controls are addressed, including legal requirements and supervisory guidance. This will result in a procedure document that will be approved by the Mortgage PNC Risk Committee.	[REDACTED]	9/1/2011
38 RM.CP.21	Implement process to regularly assess the adequacy of levels and types of officers and staff dedicated to overseeing Compliance Program for PNC Mortgage's residential mortgage loan servicing, loss mitigation, and foreclosure activities. Consider the qualifications, skills, and ability to fulfill Compliance Program. Base staff assessment on a comprehensive annual compliance risk assessment and ensure compliance with supervisory guidance.	[REDACTED]	9/1/2011



Residential Real Estate Federal Reserve Consent Order – Action Plan

39 RM.CP.12	Institute the newly established operational risk metrics and KRI policy guidelines which cover compliance, legal, and reputational risk impacts. Design, establish and maintain key risk indicators, risk metrics and limits, as well as supporting roles, responsibilities and governance oversight processes with the appropriate business and corporate constituents. Establish, continuously monitor, and manage the relevant performance indicators, risk tolerances and associated limits for the specific foreclosure and default management risks, including compliance, legal, and reputational risks.	[REDACTED]	9/1/2011
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