

FRB Consent Order Implementation Report

12/23/11

Section 2 – Board Oversight

Consent Order Requirement – 2a

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

Status: Planned actions complete – further actions on track for 12/31 completion

Requirements Summary

Summary: Wells Fargo’s current policies establish a comprehensive risk management structure and set of risk management activities, including reporting to the A&E Committee of the Board. [REDACTED]

[REDACTED] Wells Fargo has made changes in how it applies these requirements and activities to these businesses. The changes will require risk management activities and disciplines at a more granular level of business and risk, and thereby create an enhanced level of transparency and focus. Therefore no change to Board-level policies themselves is needed.

Current Wells Fargo Board policies - and operating policies that implement processes to fulfill those policies - require oversight with respect to compliance with all legal requirements and supervisory standards and guidance, including those of the Federal Reserve Board of Governors. These policies do not call out or specifically cite mortgage loan servicing, loss mitigation and foreclosure, or, indeed, any particular business area of Wells Fargo; rather, the policies and reporting requirements apply to **all** business areas of Wells Fargo.

Among the applicable Board policies is a corporate level risk appetite statement that was created and was initially approved by the Board Risk Committee in January 2011. Development of line of business/group risk appetite statements began in September 2011 and the final versions, including the Consumer Lending Team which is inclusive of Mortgage, is on schedule for completion December 31, 2011. We anticipate the business/group risk appetite statements will undergo iterative revisions over the coming quarters as we begin reporting the metrics. The process for reporting the emerging Risk Appetite metrics is an ongoing business process and will continue after the consent order is lifted.

Our analysis of the Consent Orders and our existing enterprise risk management and enterprise compliance programs (further detailed in paragraphs 3 and 4) determined that the tools, programmatic requirements, and processes are sufficiently robust in themselves, and create operating limits that capture risk tolerance. [REDACTED]

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[REDACTED]

To accomplish this, we are treating the mortgage servicing portions of our mortgage-related businesses as if they are specific, separate businesses. Previously, the risk management program addressed mortgage at the level of the “whole business.” [REDACTED]

[REDACTED]

Accordingly, each business engaged in consumer residential mortgages has disaggregated risk management to treat these servicing areas as if they are independent businesses. This change will result in the required activities of risk assessment, control identification, reviews and testing, and Board reporting being applied at the level of the specific business areas of Mortgage Servicing and Default Management (mortgage loss mitigation/foreclosure). Ongoing oversight of these activities is the defined responsibility of the corporate compliance function (Compliance Risk Management, or “CRM”). The reporting change has been implemented, and is tracked as our response to Section 2(d), Board Reporting.

In addition, the risks identified in the Consent Orders have been incorporated into our enterprise risk management and compliance tools as explicit requirements. [REDACTED]

[REDACTED]. For each of these instances, a new “Major Requirement” was designed, written, reviewed, and placed into production on the CRAS+ system (our risk management tool that catalogs regulatory and other requirements, assigns them to businesses, requires risk assessment at the level of the individual business, and helps manage the testing and reporting processes). The new requirements were implemented on 9/1/11. Each Major Requirement describes the risk, specifies standard controls, and provides guidelines for the monitoring or review of the risks. By incorporating these risks in our tools and systems, the standard program disciplines of assessment, testing/monitoring, reporting, risk escalation, and (if necessary) corrective action, will be applied in the normal course of operating the compliance program.

This plan was presented to the Compliance Committee, formed under the OCC’s servicing consent order, which accepted it, and will retain ongoing oversight of implementation for the duration of the consent order. When the consent orders are removed and the Compliance Committee dissolved, oversight will return to the A&E Committee (although we have already begun reporting on the split-out servicing businesses to the A&E Committee).

Although they are not Board policies, but rather corporate management policies, we note that Wells Fargo has created a new Corporate Affiant and Notary Policy effective 11/17/11, and is significantly revising the corporate Vendor Management Policy. These two corporate-level management policies apply to all Wells Fargo businesses, and address significant issues identified in the Consent Orders.

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Task Summary and Status

1. Assess current policies for oversight with respect to compliance with all legal requirements and supervisory standards and guidance, including those of the Federal Reserve Board of Governors and evaluate need for new policies. Complete 11/30/11.
2. Disaggregate the consumer residential mortgage businesses to provide visibility to the mortgage loan servicing, loss mitigation, and foreclosure activities and incorporate the risks identified in the Consent Orders into our tools as explicit requirements. Complete for 3rd quarter 2011 risk reporting. Results were reviewed 12/5/11, and at the direction of Operational Risk, revised reporting was completed by the businesses 12/13/11.
3. Add new Major Requirements to the CRAS+ system. Complete 9/1/11.
4. Consumer Lending business / group level appetite statement (following the establishment of the corporate risk appetite statement). Due 12/31/2011.