

**FRB Consent Order Implementation Report**  
**12/23/11**  
**Section 4 – Compliance Risk Management**

Consent Order Requirement – 4a

**The plan shall, at a minimum, be designed to: 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;**

Status: Complete

Requirements Summary

**Summary. Wells Fargo has a compliance risk management program, which includes, among many other features, a requirement for annual risk assessment. This program was analyzed against SR08-8 in response to this Consent Order: the program’s processes and program requirements *per se* are adequate based on this analysis, [REDACTED]**

**[REDACTED] First, not all the risks identified in the Consent Order were part of the compliance program. Wells Fargo has incorporated these risks into its formal compliance program. Second, the program formerly was applied to the real estate secured consumer lending businesses at the level of the “whole business.” [REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED] Wells Fargo will apply its compliance risk management program to the areas of mortgage servicing, and mortgage loss mitigation/foreclosure as if they were independent businesses. This will ensure that the processes and disciplines will be applied in a focused manner in these business areas, and the reporting will create transparency.**

Line of Business Compliance program

Although this document will concern itself primarily with the corporate compliance risk management program, we note that numerous and broad changes were made to the business-level compliance programs in Wells Fargo’s mortgage businesses. These resulted from thorough assessment of all program elements, including policies and procedures, roles and responsibilities, training, controls, and the scope of the program. The changes are documented in Wells Fargo’s response to the OCC Consent Order, Article IV, and were implemented 9/12/11, according to the required OCC Consent Order timeline. They include:

- revised roles and responsibilities
- significantly strengthened and broadened employee training
- changes to policies and procedures where required, in many business areas
- a strengthened formal talent management program for compliance personnel
- the expansion of the program to areas not previously covered, such as employee workload in servicing, loss mitigation, and foreclosure areas
- enhanced compliance processes, such as more detailed testing procedures.

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### Enterprise Compliance Program

#### Background:

Wells Fargo's enterprise Compliance Program provides a framework for the implementation of compliance risk management in all businesses at Wells Fargo. This framework has, among other features, requirements for risk assessment, review of controls, monitoring/testing, reporting, corrective action, training, and documentation. Each business-level program must reassess compliance risks annually. These processes appear sufficient in design, as risk-management measures, based on a detailed analysis of the program against SR08-8.

Each Wells Fargo business unit is required to create a business-level compliance program. In addition to fulfilling the numerous other requirements for risk management actions, each program must report quarterly on their business unit's state of compliance and must reassess its business unit's compliance risks annually.

The corporate compliance function ("Compliance Risk Management" or CRM) provides oversight over the business compliance programs to help ensure the Corporate Regulatory Compliance Policy requirements are being met and issues are resolved promptly. In particular, the corporate oversight function reviews to ensure all business programs include comprehensive risk assessment, ongoing monitoring and risk-based testing of major compliance requirements and accurate reporting on the state of compliance. Program oversight evaluations are conducted regularly to help ensure compliance with the corporate Regulatory Compliance Policy, and the state of the program results reported to the A & E Committee of the Board on a regular basis.

The Compliance Risk Analysis System (CRAS+) supports corporate compliance management and is a repository for recording critical compliance management information which provides an appropriate level of transparency to the oversight function.

#### Adjustments made due to Consent Orders:

With this structure in place, why were the issues identified in the Consent Order not surfaced? Our analysis determined that, in the case of the compliance program, there were two causes.

First, certain risks were not part of the formal compliance program. The compliance program had been based primarily on federal and state financial services law and regulation. For some of the compliance-related issues in the consent orders, there is no specific underlying federal or state financial services law and regulation. In the Wells Fargo structure, by policy and practice, these risks were the responsibility of management, to apply sound management principles, but had not been explicitly identified in the compliance program. The particular risks, as a result, were not subject to the standard compliance disciplines of formal risk assessment, control documentation and evaluation, ongoing testing, and reporting. This issue has been addressed by adding the consent order requirements into our compliance management tool (CRAS+) as of 9/1/11, making these requirements subject to our compliance management processes including risk assessment, control documentation and evaluation, ongoing

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testing, and reporting as well as oversight by the corporate compliance function.

The information included in CRAS+ includes not only the requirements (in this case the consent order requirements), but also the internal controls to be implemented at the business level to help ensure compliance, and the testing/monitoring procedures to be followed by the business-level compliance programs to verify that controls are effective. These requirements, standard controls and review procedures are assigned to all businesses that offer consumer real estate mortgages and perform mortgage servicing, and loss mitigation and foreclosure activities. The applicable compliance programs are responsible for documenting the specific business-level implementation of the controls for each requirement, for reviewing those controls on a regular basis (following a standard risk based cycle) and rating the effectiveness of the controls as well as whether the business is actually complying with the consent order requirements.

[REDACTED]  
[REDACTED]  
[REDACTED] for purposes of our compliance program, we are treating the two primary businesses -- Home Mortgage and Home Equity -- as if they were each three businesses splitting out Mortgage Servicing and Default Management (Loss Mitigation and Foreclosure) from the main business. This means the programmatic requirements, including reporting on the state of compliance and the state of the compliance program, as well as the escalation of any issues, will apply separately to Mortgage Servicing, Default Management, and other business activities, thereby providing the necessary transparency for the oversight function.

By incorporating the issues and requirements of the Consent Orders into the compliance program, we ensure that the issues will be subject to the disciplines and processes required by the program. By requiring our mortgage-related businesses to "break out" mortgage servicing and default management, there will be transparency required for oversight and Board reporting.

We believe this to be the best way to ensure that the issues and requirements are subject to ongoing attention, and the effort is sustainable over time.

### Task Summary and Status (all tasks are complete)

1. Evaluate current Enterprise Compliance Program and processes against this requirement. Complete 8/19/11.
2. Incorporate identified issues and requirements into the CRAS+ tool. Complete 9/1/11.

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3. Disaggregate the consumer residential mortgage businesses to provide visibility to the mortgage loan servicing, loss mitigation, and foreclosure activities for transparency required for oversight and Board reporting. Complete for 3<sup>rd</sup> quarter 2011 risk reporting. Results were reviewed 12/5/11, and ongoing process refinements are being applied for 4<sup>th</sup> quarter 2011 reporting.