

Compliance	
5	<p>Within 60 days of this Order, JPMC 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 enhanced plan shall be based on an evaluation of the effectiveness of JPMC’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.</p>
Response	<p>JPMC is committed to enhancing its current Compliance Program with respect to oversight of Home Lending activities, including residential mortgage loan servicing, Loss Mitigation and foreclosure activities in accordance with this Order. To enhance the Compliance Program, the existing compliance framework was reviewed, its effectiveness was evaluated, weaknesses were identified and an action plan was developed to address those areas requiring improvement. The framework was reviewed for alignment with Federal Reserve Supervisory Letter, “Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles”, SR8-08/CA 08-11.</p> <p>To assist in this review and evaluation, in December 2010 Home Lending senior management engaged KPMG to perform an assessment of controls and of the monitoring and testing of regulatory compliance within Home Lending. This assessment included a review of the completeness and accuracy of JPMC’s inventory of regulations, as well as the testing programs and procedures of the Home Lending Compliance management functions. The results of KPMG’s review are incorporated into the relevant conclusions of the overall evaluation below.</p> <p>Based on this review, JPMC concluded that the key elements of an effective Compliance Program were present, but the then-existing Compliance Program, and the resources devoted to compliance, had not kept pace with the rapid increase in the number of mortgage defaults, the growth of the employee base, and the rising compliance risk profile of the areas identified in the Consent Order. In addition, JPMC concluded that its Compliance Program did not react quickly enough to challenges in the business environment, including JPMC’s use of multiple systems and products across three heritage servicing platforms (i.e., Chase’s own historic platform, as well as the acquired servicing platforms of Washington Mutual and EMC Mortgage Corporation), certain manual processes used in the foreclosure process, changing legal requirements, and an influx of new employees requiring training.</p>

1. Compliance Testing Program

The Compliance Testing Program is a key mechanism used by JPMC to assess adherence to applicable laws and regulatory policies across the Home Lending business. JPMC reviewed the following key areas of its Testing Program and developed action plans to strengthen each.

- a) *Inventory* – The Testing Program is predicated on a complete and comprehensive inventory of laws and regulations. JPMC’s review identified the need for a full inventory of applicable laws and requirements and an impact assessment across Home Lending to ensure that its practices keep pace with all applicable laws and requirements.

JPMC retained the law firm Morgan, Lewis & Bockius, LLP (“Morgan Lewis”) to assist JPMC in developing a database of the requirements of relevant state and federal laws, regulatory requirements, mandatory supervisory guidance, and obligations in investor guidelines that relate to residential mortgage default servicing, loss mitigation, and foreclosure. Morgan Lewis compiled, spot-checked to validate, and supplemented requirements information that was in use at JPMC, as well as information on legal requirements that JPMC acquired from the law firms of Buckley Sandler, LLP and Hudson Cook, LLP. Morgan Lewis also developed information summarizing the requirements imposed under the United States Bankruptcy Code, the Service members Civil Relief Act (SCRA), the servicing guides of the Government Sponsored Enterprises (GSEs), the Federal Housing Administration (FHA), the Home Affordable Modification Program (HAMP), and loss share agreements with the Federal Deposit Insurance Corporation. Morgan Lewis compiled all of this information into a Legal Requirements Matrix, and provided a preliminary assessment of the applicability of each requirement to relevant business processes (e.g., collections, foreclosure, or loss mitigation).

The Legal Requirements Matrix was provided by Morgan Lewis to JPMC on May 25, 2011 and was current as of that date. The Legal Requirements Matrix represents a significant investment by JPMC.

Using the Legal Requirements Matrix, JPMC is developing a Foreclosure Attorney Compliance Checklist and a Bank Foreclosure QC Checklist. These checklists are two additional oversight tools that will enhance monitoring of Bank and foreclosure attorney compliance with legal requirements. These checklists will be maintained and updated by the business as the Legal Requirements Matrix is updated. Compliance will test these checklists for accuracy and completeness as part of each annual test plan.

	<p>The Legal and Compliance departments are developing a process for (1) ongoing updating of the Legal Requirements Matrix in response to regulatory developments and changes to state and federal laws and (2) communication of such changes to the business. The development of this update process will be complete by August 12, 2011. It is currently contemplated that the Bank’s Legal Department Regulatory Team will monitor and identify changes in legal, regulatory, and supervisory requirements, and will (a) suggest updates to the Legal Requirements Matrix, (b) communicate changes in legal requirements to the applicable lines of business, and (c) ensure that the applicable lines of business maintain updated policies, procedures, and training materials that reflect the current state of legal, regulatory, and supervisory requirements.</p> <p>Compliance is using the Legal Requirements Matrix to complete a comprehensive review of the legal requirements applicable to Servicing and Default, and to revise and enhance its testing plan for 2011 and beyond. Part of that revision effort is to ensure that any applicable requirement that is not currently included in the testing plan is added. Upon conclusion of this “gap analysis,” Compliance will conduct a resource review to ensure adequacy of resources to complete both the new 2011 Compliance test plan and the 2012 Compliance test plan. The revised test plan will be implemented on August 15, 2011.</p> <p>The Legal Requirements Matrix will be updated quarterly. Each quarterly update will address changes in requirements identified by the Legal Department Regulatory Team as described in the foregoing paragraph, as well as independent research on legal, regulatory, and supervisory requirements changes conducted or compiled specifically for the update. JPMC currently plans to retain Morgan Lewis to conduct the first quarterly update, to be completed by October 31, 2011.</p> <p>b) <i>Risk Assessment</i> – Compliance Risk Assessment is discussed in more detail in Item 5(a) below.</p> <p>c) <i>Testing Plan Changes</i> – A step-by-step procedure has been developed for moving, cancelling and updating test plans. The procedure specifies when the [REDACTED] System [REDACTED] must be updated, as well as when and how to notify the Home Lending Compliance management team of proposed and actual test plan modifications. The Compliance Director, who coordinates Home Lending Compliance testing, will maintain a Master Test Plan spreadsheet (MTPS) to manage, track, monitor and report against test plans. In this way, a clear picture of the Home Lending Compliance test plan will be available to management at all times.</p>
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Reporting of testing completion to and approval of plan changes by, JPMC Corporate Compliance is required, and will be communicated to senior management in Home Lending and in risk and governance forums.

Changes to compliance testing plans must be approved by the Head of Compliance of Home Lending, and will be permitted based on review and analysis of the following criteria: Internal Audit performing test, included in another test, duplication of another test, process change not going into effect as planned, systems change not going in as planned, etc.

Compliance Test completion rates are not a performance criteria for Home Lending business management.

JPMC is aware that in previous years, staffing was not adequate to effectively complete planned testing. This is being addressed and is discussed in more detail below.

- d) *Oversight* – JPMC Corporate Compliance will enhance its oversight of the effectiveness of Home Lending’s Compliance Testing program. A new monthly report, which is sent to and will be discussed with the Global Head of Compliance, details the completion status of the Compliance test plan and results of reports issued that month, as well as a detailed listing of the findings from each report.

2. Resources

Prior to September 2010, there was no formal process to evaluate staffing needs in Home Lending Compliance. It was determined that a complete staffing analysis was required to ensure that Compliance has the proper structure, roles and personnel to adequately support all Compliance responsibilities and activities.

Compliance prepared a Staffing Request Matrix that detailed the proposed position, location, hiring manager, position level and rationale for additional staff. This matrix was provided to Home Lending, Retail Financial Services, and Legal and Compliance management for approval.

The Staffing Request Matrix revealed the need for additional staffing and, as a result, Home Lending Compliance has been actively adding resources and upgrading talent throughout the department. In mid-2010, a dedicated position of Head of Compliance for Home Lending was created and filled. The Head of Compliance for Home Lending will report to the General Counsel of Home Lending.

In addition, a staffing assessment performed in the 4th quarter of 2010 indicated that an increase in staffing from 30 to 50 compliance professions was warranted. 15 staff members were hired, some of whom were placed in the dedicated Compliance Testing group. This brought the Compliance Testing staff to 21. A further staffing review conducted in March of 2011 identified that an additional 21 Compliance professionals were required across multiple compliance functions. Five of these positions have been filled to date.

Additional resources may be required as a result of an ongoing assessment of staffing levels in light of the changes in business operations, the revised testing plans currently under development, and the changing regulatory environment.

In addition to ensuring that JPMC has the appropriate number of people to effectively manage all Compliance responsibilities and activities, JPMC is taking steps to ensure that its Compliance personnel have appropriate experience and qualifications. JPMC is evaluating criteria and establishing formal minimum standards for Home Lending Compliance professionals. As part of its analysis of the Compliance team supporting the Consent Order deliverables, JPMC completed a skills assessment detailing the number of years of expertise that each member of the Home Lending Compliance team has in Compliance, mortgage banking, risk management, audit, technology and MIS to ensure that it has professionals with the appropriate skill sets. The skills assessment demonstrated that the appropriate skill sets are evident on the team.

Management is committed to adding the necessary additional resources to ensure an effective Compliance Program. On a quarterly basis for the next 18 months and then semi-annually thereafter, JPMC will perform a staffing analysis to ensure the requisite staffing numbers and skills using the methodology detailed above. Compliance staffing data are included in the submission for the weekly Home Lending Metrics Meeting and in the monthly Compliance report distributed to Home Lending Senior Management and the JPMC Global Head of Compliance.

3. Communication of and Follow Up on Compliance Issues

Although Compliance issues and test findings were tracked historically, they were not always adequately escalated to ensure that any required corrective action was taken. During the 4th quarter of 2010, Compliance started reporting issues requiring attention [REDACTED], to [REDACTED], to assist in escalation of issues to line and senior management. JPMC reviews these issues, and tracks our progress in remediating them, during line of business control and risk committee meetings.

As referred to in our response to Item 2, during the multi-hour weekly Home Lending Metrics Meeting, business leaders report to the group on a set of defined metrics against their performance, including customer satisfaction, employee turnover, market share, critical errors, control breaks, and many others. Compliance and Internal Audit now report metrics weekly for inclusion in this review.

Testing results with an unacceptable error percentage are coded as red, require a [REDACTED] action plan entry, and are reported in the Compliance Dashboard as part of the monthly Compliance report. The Compliance report will also be presented at the monthly Home Lending Risk Management Committee or the appropriate subcommittee as well as at the monthly meeting with the Global Head of Compliance.

Issues are escalated in testing reports, the monthly Compliance report, the Risk Committee, and in the weekly Home Lending Metrics Meeting, and are raised to management’s attention as issues arise.

The line of business, Risk Management, Compliance, and in some cases Internal Audit are involved in determining when an issue is closed. For issues noted by a regulatory authority, Compliance will perform independent testing to ensure that all aspects of the issues noted have been satisfactorily resolved. The documented evidence for the line of business and operating risk is uploaded to [REDACTED] and Compliance records are maintained in [REDACTED]

[REDACTED] [REDACTED] For all Matters Requiring Attention and Matters Requiring Immediate Attention, Internal Audit performs an additional evaluation to ensure that the item has been satisfactorily resolved.

4. Board Oversight

Compliance will escalate Matters Requiring Attention, Matters Requiring Immediate Attention, Compliance Testing, risk assessment results, and open compliance-related audit items to an appropriate committee or subcommittee of the JPMC Board.

A Joint Subcommittee of the Audit and Risk Policy Committees of the JPMC Board was appointed in early June and members meet twice monthly to oversee JPMC’s progress on enhancing Compliance, Audit and Risk Management programs.

Board-level and senior management reports for Home Lending are being reviewed and will be updated to include business and risk information and metrics where appropriate.

5. Home Lending Governance Forums

As previously discussed, the weekly Home Lending Metrics Meeting, led by Head of Home Lending [REDACTED], has been established as a key governance forum. During the multi-hour session, business leaders report to the group on a set of defined metrics against their performance, including customer satisfaction, employee turnover, market share, critical errors, control breaks, and many others. Compliance and Internal Audit now report metrics weekly for inclusion in this review.

The management team also reviews customer complaint backlog and inventory and discusses ways to analyze and fix the root causes.

The Head of Home Lending Compliance is a standing member of the Home Lending Risk Management Committee (HLRMC). A monthly status report detailing Compliance test results, Audit and Examiner

Reports, as well as the significant issues and action plans, will be discussed and included in the materials presented at the HLRMC. Home Lending Compliance will continue to participate in line of business reviews that focus on compliance with laws and regulations.

Home Lending Compliance will also be a key stakeholder in the New Business Initiative Approval (NBIA) process. Compliance will be required to review and sign off on every NBIA.

Compliance is also an integral team member of Home Lending's Third-Party Oversight (TPO) review process. Compliance has been providing guidance on the program criteria and will be participating in on site reviews of vendors that are rated high risk by Compliance.

JPMC has identified the population of vendors that have an impact on Home Lending's compliance with regulatory requirements, and is performing an assessment of which TPO vendor onsite reviews Compliance will participate in for high risk vendors. Compliance will contribute questions to the TPO team to be addressed on medium and low risk reviews. The law firms utilized by Home Lending will be covered separately and, in addition, will be reviewed by the Home Lending Attorney Review team.

As part of its assessment, Compliance has identified the following gaps in the TPO program:

- Incomplete governance model. The current program is missing a performance-based model. Relationships are managed in a piecemeal fashion, leading to inconsistency both within and across lines of business.
- No formal TPO Program structure. There is no measurement,

	<p>monitoring or reporting on the effectiveness of the overall TPO Program, and no formal structure for communications, issue escalation or decision-making.</p> <ul style="list-style-type: none"> Disparate non-integrated systems. There are multiple data sets about the same third-parties captured in various systems (e.g., Risk, Sourcing, and AP) but not integrated. There is no complete vendor master list and no enterprise portfolio view of relationships. <p>Based on this gap analysis and as summarized in the Article V milestones submitted in response to the OCC Consent Order, the Bank has drafted an enhanced Firm-Wide Third-Party Provider Policy. The Bank will develop and implement the following enhanced governance controls for managing mortgage servicing functions performed by third-parties as part of the enhanced risk management framework:</p> <ul style="list-style-type: none"> Processes to perform appropriate due diligence on potential and current third party provider qualifications, including expertise, capacity, reputation, complaints, information security, business continuity and financial viability, adequacy of staffing levels, training, work quality and workload balance. Policies and procedures to ensure that work outsourced to third parties is adequately documented, and that, taking a risk-based approach, third party policies and procedures are assessed by JPMC personnel. Processes to ensure periodic reviews of third party work for timeliness, competence, completeness, compliance with applicable legal and regulatory requirements, and supervisory guidance, and to ensure safety and soundness of practices. <p>Home Lending uses a framework to analyze all Third-Party Providers and assign tiers to prioritize those with the highest risk and business impact, including law firms providing foreclosure, bankruptcy and eviction services to the Bank. Based upon this analysis, Home Lending has identified a pilot population of seven Third-Party Providers to assess based upon the refined Business Criticality Classifications. The Bank is utilizing this pilot population to test the enhanced firm-wide TPO framework and tools.</p> <p>In summary, the Home Lending Compliance program has been modified to address the following issues that have been identified:</p> <ul style="list-style-type: none"> The Compliance Program has been expanded across mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations to include training and testing related to applicable laws and regulations. A comprehensive inventory of legal requirements, and a robust system for monitoring changes in those requirements, has been developed. The process of reporting to management, Home Lending Compliance, and the Home Lending General Counsel has
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	<p>been enhanced to communicate the status of the testing program and transparency on plan changes throughout the year.</p> <ul style="list-style-type: none"> • Additional experienced resources with backgrounds in audit, risk, compliance, mortgage servicing and default and/or technology have been added to the Home Lending Compliance team to advise the business on regulatory requirements and to perform testing. The size of the team has increased significantly since mid-2010 and will increase further as 2011/2012 testing programs are revised. • Findings from Compliance Testing are now tracked in [REDACTED] the Bank’s Risk Management System, in order to ensure visibility to management of the impacted areas. Reporting of compliance findings has been enhanced and will be communicated in key risk and governance forums for Home Lending. • Compliance now participates in the governance meetings within Home Lending. Issues deemed to be significant will be escalated to the Home Lending Risk Management Committee’s Operational Risk Subcommittee to raise management awareness. Significant issues could include new regulations impacting mortgage, regulatory examinations, compliance issues that have been identified and large remediation efforts. <p>Further changes to the Compliance team and plan will be considered as the business model evolves.</p>
<p>5. (a)</p>	<p>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;</p>
<p>Response</p>	<p>Management is committed to ensuring that the Compliance Program and any enhancements are comprehensive. This includes the following fundamental elements of the program, each of which is described in greater detail further below:</p> <ul style="list-style-type: none"> • Maintaining an inventory of regulations, rule/law changes and regulator guidance; • Performing an annual compliance risk assessment of the Servicing and Default functions; and • Rating the compliance risk on a recurring basis. <p>Inventory of Regulations, Rule/Law Changes and Regulator Guidance</p>

As set forth in detail in Item 5 above, above, the Compliance Testing program is predicated on a complete and comprehensive inventory of laws and regulations.

JPMC has developed the comprehensive Legal Requirements Matrix (described in detail in Item 5, above) and Home Lending Compliance is conducting an analysis to confirm that its Testing Program is consistent with applicable requirements, and that any gaps are filled. As set forth in more detail above, changes in legal requirements will be tracked and communicated to the business, and the Legal Requirements Matrix will be updated:

- The Legal Requirements Matrix was submitted to JPMC and is now being reviewed in order to create a revised and enhanced compliance testing plan for 2011 and beyond. The revised test plan will be implemented on August 15, 2011.
- The Legal and Compliance Department is responsible for identifying regulatory proposals, rule or law changes and regulator guidance that may have an impact on the Bank's compliance responsibilities. Regulatory changes are tracked by the affected Compliance teams.
- Compliance will develop a process by August 12, 2011 to update the Legal Requirements Matrix in response to regulatory developments and changes to state and federal laws, and to communicate these changes to the business to develop an impact analysis and an action plan. The Bank's Legal department will communicate these changes to the appropriate departments, which will monitor for implementation.
- Compliance, working with Legal, will ensure that it advises the business as to how applicable regulatory/legal requirements affect their businesses, both in the implementation of new requirements and in the application of existing requirements to particular activities, transactions, products, practices or controls.
- JPMC will cause a quarterly update of the Legal Requirements Matrix. The first of those updates will be complete by October 31, 2011.

Compliance Risk Assessment

Corporate policy dictates that the Compliance Risk Assessment be performed every 12 months. For Home Lending, the high risk areas and requirements will be reviewed semi-annually.

- Compliance works with the business and Legal to identify applicable laws and regulations impacting the business and the compliance risks inherent in the application of such laws and regulations to the business, to assess and document controls in place to mitigate such risks, and to advise on the residual risks the business faces. The business is responsible for the risk of non-compliance and must ensure effective risk mitigation. Compliance risk assessments are completed as a joint

	<p>exercise by the lines of business and Compliance. Compliance utilizes the results of these assessments to target compliance testing efforts following a risk-based approach.</p> <ul style="list-style-type: none"> • Home Lending’s Compliance team utilizes a system to track compliance assessments and compliance testing, and this system serves as a repository to identify and categorize risks and controls, report results, and highlight the existence of compliance risk or areas with inadequate controls. Minimum standards exist which govern the use of these compliance risk assessment tools requiring, among other things, that testing be completed within a 24-month cycle. • Compliance is currently evaluating whether a 24-month testing cycle is appropriate and is in the process of evaluating the appropriate frequency for high, medium and low rated risks. The minimum standards are currently being amended. (See excerpt of proposed changes in the appendix at the end of this matrix). • On a semi-annual basis, the Global Head of Compliance requires that the Senior Compliance managers complete an assessment of the effectiveness of the Global Compliance function, which reflects the state of the compliance activities. The assessment reflects the current state of compliance health within the business, including identified weaknesses. This recent assessment highlighted several areas where enhancements were needed, namely the need for additional compliance resources and more comprehensive testing. <p>Issues and limitations related to both testing and resources were identified and reported at year end 2010 as part of the Self-Assessment of Effectiveness of the Compliance Function.</p> <p>The assessment indicated that an increase in staffing from 30 to 50 compliance professions was warranted. 15 staff members were hired, some of whom were placed in the dedicated Compliance Testing group. This brought the Compliance Testing staff to 21. A further staffing review conducted in March of 2011 identified that an additional 21 Compliance professionals were required across multiple compliance functions. Five of these positions have been filled to date.</p> <p>Additional resources may be required as a result of an ongoing assessment of staffing levels in light of the changes in business operations, the revised testing plans currently under development, and the changing regulatory environment.</p> <p>Compliance Risk Rating</p>
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	<p>For Home Lending, the risk rating process lagged behind the changes in the mortgage business and the changes in the regulatory environment. The risk rating process will be performed at least semi-annually, and more frequently for defined areas that pose a higher risk to Home Lending.</p> <ul style="list-style-type: none"> • The Compliance risk rating process establishes a standard framework and terminology for evaluating compliance risk across the Bank and facilitates creation of global compliance risk ratings that provide a comprehensive and global assessment of compliance risk and is implemented at a line of business level. • The Compliance risk ratings are assigned by the Home Compliance team based on the Home Lending compliance risk assessment, knowledge of the operations and strategic plans, monitoring/Quality Assurance metrics, testing results, performance against training requirements and results of internal audits and regulatory examinations. • The Compliance risk ratings include determination of Compliance ratings for Home Lending for inherent risk, strength of the mitigation factors/controls, residual risk and the projected direction of risk over the upcoming twelve months. • The evaluation of the risk includes a review of customer complaints, and that input is factored into the compliance program and the annual testing plan. • A rating of “high” for inherent risk indicates that the risk of violations or noncompliance exposes JPMC to significant impairment of its reputation, value, earnings or business. A rating of “high” for residual risk indicates that the residual risk exposes JPMC to significant impairment of its reputation, value, earnings or business opportunity. <p>The latest compliance risk assessment was performed as of March 31, 2011 and was rated Weak.</p> <ul style="list-style-type: none"> • Upon completion of the entire process, Corporate Compliance will review the Risk Ratings and supporting narrative for each line of business and will prepare a Global Executive Summary that includes: (1) summary narrative of findings, highlighting key areas of high risk and areas with a strong or weak set of controls; (2) Global Ratings spreadsheet with line of business and regional data summarizing all Compliance Risk Ratings; and (3) individual line of business Executive Summaries. The Global Compliance Risk Ratings and Executive Summaries will be shared with the Global Head of Compliance, the General Counsel and the Risk Policy Committee.
<p>5. (b)</p>	<p>Ensure compliance with the Legal Requirements and supervisory</p>

	<p>guidance of the Board of Governors; and</p>
<p>Response</p>	<p>Management is committed to compliance with legal and supervisory requirements and intends to ensure compliance by training employees on the requirements, maintaining sufficient testing of the regulatory controls to assess the effectiveness of the controls, and assessing staffing and resources focused on compliance.</p> <p>Compliance Training</p> <p>As described in other sections of JPMC’s response, employees of Home Lending will be receiving increased training on legal requirements and regulatory guidance.</p> <ul style="list-style-type: none"> • On an annual and ongoing basis, the Compliance team works with the business to assess the need for training around regulatory requirements as well as reviewing training content. Compliance partners with the business to ensure that adequate training around legal requirements is factored into employee training programs. As necessary, the Compliance team revises the content, in partnership with Legal, and sometimes facilitates the training sessions. Additional compliance training is added to the schedule throughout the year as required. To assist Training with their annual budgeting process, Compliance has a process to review and opine in the fourth quarter on mandatory compliance training for the upcoming year. • The process for determining compliance training needs varies. The determinations are made in conjunction with the line of business, Compliance and Legal. Determinations for training requirements on new regulations and/or regulatory changes (e.g., Dodd Frank, RESPA changes) are guided by Compliance/Legal leads on the project teams. In some cases, training needs are determined by an issue (e.g., affidavit execution; SCRA). In general, Compliance, Training and the business create learning paths for core roles (e.g., sales, credit, and operations) that include the compliance requirements for that role. Training is mandatory and is assigned to learners in their assigned learning on Training Central; the Bank’s online training application. • Guidelines for Refresher Training Sessions are determined by Legal/Compliance when courses are created. Not all courses have an annual assessment. For those courses that have recertification requirements, those intervals are determined by Compliance and/or Legal project representatives. • Compliance training completion is tracked in Training Central for each employee. In many cases, achieving a passing score on a course assessment (e.g., Privacy Awareness) is required to achieve course completion status. In other cases, completing the review of the course content will satisfy completion. While employee scores are not always provided to management, completion reports for assigned compliance

courses are provided. In cases like SCRA or Foreclosure Affidavit training, achieving a passing score is required and pass/fail information is provided to management.

Compliance Testing

The Compliance Testing program is a key mechanism to assess the effectiveness of the adherence to regulatory policies across the Home Lending business. The testing program is being enhanced, with greater focus on state laws, agency requirements and supervisory guidance. Reporting to management continues to be strengthened.

- Home Lending Legal and Compliance are in the process of analyzing the Legal Requirements Matrix described in Items 5 and 5(a) above, and performing a gap analysis between the existing Home Lending Compliance Testing Plan for 2011 and the compliance testing we believe necessary to ensure compliance with the Consent Orders. The resulting revised testing plan will conform to JPMC’s Minimum Testing Standards for compliance testing. The revised policy now has a checklist to ensure the minimum standards have been followed. The gap analysis will be completed on July 31, 2011.
- The gap analysis and any incremental compliance testing resource requirements will be reviewed with Corporate Compliance, Legal, Home Lending Management and Audit before any changes are finalized for the 2011 Compliance Testing Plan. Recommendations for changes to the 2011 Compliance Testing Plan will be completed by August 12, 2011. Once approval is obtained, any changes to the Testing Plan will be implemented. Compliance has already begun adding tests to the 3rd quarter test schedule for Executive Complaints as well as for Sworn Statements.
- Compliance has primary responsibility for conducting compliance testing, supplemented by additional testing that may be done by other control groups such as Internal Audit. Each Compliance team develops an annual testing plan prioritized by risk. Compliance executes against this plan, adjusting it if necessary throughout the year to address changing priorities, taking into consideration new regulations, the results of regulatory examinations, the findings of internal audits and the ongoing review of customer feedback and complaints. Any changes to approved testing plans must be approved by the Head of Home Lending Compliance and reported to Corporate Compliance to ensure appropriate testing coverage. This will also be presented at the Home Lending Risk Management Committee.
- The types of Compliance tests performed include procedural reviews, sample testing, reviews of management information systems (MIS) used by the business to assess data reliability, verification of testing performed by quality assurance, as well the development of full population testing. Testing results also serve to validate whether

training has been effective or if changes to compliance risk assessments are warranted.

- Compliance findings are recorded in [REDACTED] the Corporate Compliance tool, as well as within [REDACTED] the JPMC's Risk Management System. Root cause analysis and action plans are documented and included in each system. When a test result identifies a potential systemic issue, the Head of Compliance of Home Lending, in conjunction with Legal, opines on remediation. Starting in the 4th quarter 2010, Compliance is involved in all remediations with a regulatory component to ensure that the full population affected is identified and properly remediated.

Corporate Compliance has enhanced its oversight of the effectiveness of Home Lending's Compliance Testing programs. A new monthly report, which is sent to and will be discussed with the Global Head of Compliance, details the completion status of the Compliance test plan, results of reports issued that month, as well as a detailed listing of the findings from each report. Results of compliance testing will continue to be reported to Home Lending Management, Corporate Compliance, Risk Management and Internal Audit. The status of the Compliance test plan will be presented to the Home Lending Risk Management Committee quarterly. Additions to the Compliance test plans will be discussed with Home Lending Senior Management and Internal Audit.

Organization and Staffing

Home Lending's Compliance team is aligned with each area of Home Lending (i.e., Production, Servicing, Default, Marketing, Technology, and Exam Management) and these areas are staffed with qualified compliance officers who have experience in one or more of the following areas: mortgage banking regulatory compliance, audit, risk management, technology and project management. Compliance will assist business management by:

- Providing guidance to Home Lending on regulatory issues including new regulations and updates to existing regulations, and assisting the business in assessing the impact of these developments;
- Assisting in the development of appropriate procedures to ensure compliance with applicable laws, regulations and compliance policies;
- Conducting and/or assisting the business with training to ensure that employees are familiar with all existing and new applicable laws, regulations, policies and procedures;
- Conducting appropriate ongoing monitoring and compliance testing to evaluate the effectiveness of the compliance procedures within the Home Lending business;

- Providing reports to Home Lending management and to Compliance management regarding compliance deficiencies or violations of laws or rules, and aiding the business in developing appropriate action plans;
- Overseeing the completion of compliance risk assessments, risk ratings and evaluation of compliance metrics on a regular basis; and
- Interfacing with regulators concerning examinations and regulatory compliance matters and facilitating the conduct of their supervisory activities.

Management has made a significant effort to ensure that compliance risk is identified, measured, monitored and controlled through a risk-based compliance monitoring and testing approach in order to ensure compliance with all commitments made regarding the enterprise-wide compliance program.

Control functions (e.g., Internal Audit, Risk) conduct regular and ongoing monitoring and testing of Home Lending’s functions to help ensure that the control environment continues to operate effectively. Monitoring is designed and implemented in a way that identifies and corrects compliance issues in a timely manner. Procedures are in place to ensure that the findings of all compliance reviews are promptly evaluated and investigated, decisions are made about the appropriate response, and actions are taken to correct or otherwise resolve compliance issues promptly.

Management recognized that Compliance needed additional staffing and Home Lending Compliance has been actively adding resources and upgrading talent throughout the Department. In mid-2010, a dedicated position of Head of Compliance for Home Lending was created, reporting to JPMC’s Head of Compliance for Retail Financial Services, and the role was filled. In addition, a staffing assessment performed in the 4th quarter of 2010 indicated that an increase in staffing from 30 to 50 compliance professions was warranted. 15 staff members were hired, some of whom were placed in the dedicated Compliance Testing group. This brought the Compliance Testing staff to 21. A further staffing review conducted in March of 2011 identified an additional 21 Compliance professionals were required across multiple compliance functions. Five of these positions have been filled to date.

Results of an ongoing assessment of staffing levels in light of the changes in business operations, the revised testing plans currently under development, and the changing regulatory environment may require additional resources. With the additional resources, we will have better aligned senior compliance managers and appropriate staff to mortgage loan servicing, Loss Mitigation and foreclosure activities and operations.

	<p>Resource Review Process</p> <p>As part of the staffing exercise, each functional area of Compliance prepared a roadmap detailing the functions (e.g., Production, Servicing, State, Default, and Technology) and processes that need to be covered by Compliance. A staffing request matrix was then prepared which detailed the proposed position, location, hiring manager, position level and rationale for additional staffing. The matrix was provided to Home Lending, Retail Financial Services and Legal and Compliance management for approval.</p>
<p>5. (c)</p>	<p>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.</p>
<p>Response</p>	<p>Legal and Compliance are working with the business to strengthen the processes to ensure that policies, procedures and processes are updated on an ongoing basis to ensure that they reflect the required legal requirements and supervisory guidance. In order to support this effort, Legal and Compliance resources are aligned to specific areas of loan servicing, Loss Mitigation and foreclosure activities. As changes occur to the legal requirements, these will be communicated formally to the business and the business will confirm that the requisite changes have been made to the relevant policies, procedures, and processes. In addition, the control functions, including Risk Management, Compliance and Audit, will also review and test the procedures during their reviews to ensure that the new or changed requirements have been incorporated and that the processes are effective.</p> <p>Legal and Compliance have responsibility to monitor federal, state and local laws and regulations. Change control processes are designed to ensure that when requirements change, an inventory of affected policies and procedures can be identified and appropriate governance followed until the Bank is in compliance with the changed regulations.</p> <p>JPMC’s standard framework for policies and procedures development will be implemented. Policies and procedures will be identified as high priority for alignment with Consent Order requirements.</p> <p>As explained above, one of JPMC’s initiatives was to update the inventory of laws and regulations applicable to the Home Lending business through the creation of the Legal Requirements Matrix. The list of laws and regulations is being mapped to existing policies and procedures to identify prioritize and remediate any additional gaps. This work is expansive and will continue throughout 2011.</p>



Federal Reserve Consent Order – JPMorgan Chase Response

	<p>JPMC is developing a centralized approach for developing and updating policies and procedures and by limiting access it will ensure appropriate review and approval before distribution.</p> <p>Supervisory guidance is included in the Legal Requirements Matrix and will be tracked as detailed in Item 5(a). JPMC will follow its existing process for updating policies and procedures in response to changes in federal and state law identified by Legal.</p> <p>Business management, Legal and Compliance all review and sign off on policies and procedures. All policies and procedures being changed as a result of the Consent Order will be reviewed and approved by the accountable senior business owner (e.g., Foreclosure Executive).</p> <p>Home Lending, in response to the OCC Consent Order Article IV, is working to implement, by September 30, 2011, plans to strengthen the process for developing and implementing policies and procedures, and to ensure that current policies and procedures are accurate, complete and appropriately documented.</p>
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