	Risk Management
7.	**Within 60 days of this Order, JPMC 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 enhanced plan shall be based on an evaluation of the effectiveness of JPMC'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:**
Response	JPMC is committed to enhancing its current Risk Management program with respect to its oversight of Home Lending activities including residential mortgage loan servicing, loss mitigation, and foreclosure activities and operations in accordance with this Order. To enhance the Risk Management program, JPMC reviewed the existing framework, evaluated its effectiveness, identified weaknesses and developed an action plan to address the areas for improvement. Relevant conclusions from the assessment include: • The deterioration of the housing market resulted in existing workout and loss mitigation programs that were no longer sufficient and the industry, including Home Lending, struggled to develop effective solutions. • The acquisition of two significant mortgage loan and servicing portfolios from Bear Stearns (EMC Mortgage Corporation) and Washington Mutual created increased complexity of process and technology for Home Lending. Integrating these portfolios, operations, and the different servicing platforms and tools at the same time that Home Lending's infrastructure was under stress added to the existing challenges. These challenges include the following: • The government became involved in providing solutions to the growing housing market crisis. For example, the Home Affordable Modification Program (HAMP) and foreclosure alternatives contributed to significant operational complexity without the lead time necessary for Home Lending to properly identify and plan for an orderly implementation. Home Lending, and its industry counterparts, attempted to quickly address associated policies, procedures, technologies/systems, staffing, and controls. This resulted in poorly documented or incomplete policies and procedures; inadequate training; insufficient testing, monitoring and reporting; and quality control problems. • The increased complexity of loan product offerings and modification waterfall processes, coupled with the significant increases in delinquent customers requesting assistance, resulted in a material increase in the volume of transactions and customer interactions needing operational support across Home Lending. As a result, new servicing guidelines required that each loan

case be managed on an individual basis, which entailed increased consumer interactions and process activities the Home Lending operation did not anticipate. The increase in default servicing staff from [redacted] strained Home Lending's ability to effectively integrate the personnel.

- Finally, despite the significant growth in the size and complexity of the servicing business, the Home Lending core Risk Management did not scale with the business' need for independent oversight. As a result, although the control functions were able to identify many of the inherent risks in the business, the issues arising from the expanded scale and scope of mortgage servicing operations were not sufficiently aggregated, escalated, and resolved.

We recognize the significant steps to be taken to address the requirements of the Federal Reserve and OCC Consent Orders issued on April 13, 2011. In order to ensure that the inherent risks in the business and the issues arising from the expanded scale and scope of mortgage servicing operations will be sufficiently aggregated, escalated and resolved going forward, a comprehensive risk assessment is being conducted and remediation plans will be developed. First, the risk assessment catalogs all known control issues, including Matters Requiring Attention (MRAs), Audit findings, and business self-identified issues. Second, control issues were aggregated from the operating risk findings of the numerous work streams set up to address issues identified in the OCC Consent Order. Third, to ensure all inherent risks were captured, a group of qualified individuals conducted site visits, interviewed key business functional stakeholders, assessed Management Information Systems (MIS), and assembled a list of risks not previously identified.

The Home Lending business has hired a Chief Control Officer who will be responsible for Quality Assurance, issue resolution, and escalation within the business. The Chief Control Officer will also be a member of the Home Lending Risk Management Committee.

Home Lending ERM Risk Assessment Evaluation
In accordance with the Federal Reserve Consent Order, JPMC has completed an evaluation of the effectiveness of its current risk management program in the areas of residential mortgage loan servicing, loss mitigation, and foreclosure activities and operations. JPMC has developed a plan to enhance the program.

The evaluation process:

- Reviewed all aspects of the current Risk Management program and referenced supervisory guidance (including SR8-08/CA08-11, "Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles," and SR 95-51, "Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies") and consulted with industry experts to determine if the current structure is aligned with supervisory best practices.

- Considered elements of the Risk Management program including governance, policies and procedures, risk identification and assessment, organization, MIS, training, testing and monitoring, and issue escalation.

- Interviewed key operational and risk personnel and reviewed issues identified in recent regulatory, audit, and operational risk reviews to determine the root cause of these issues and the causal gaps in the effectiveness of the current Risk Management structures.

The enhanced Risk Management program is designed to effectively identify and manage enterprise risk with a focus on (1) addressing identified issues, (2) performing a comprehensive annual risk assessment, and (3) establishing guidelines for compliance, legal, and reputational risks and providing for regular review of related risks by appropriate senior management and the Board of Directors.

Evaluation of Program Effectiveness
The evaluation of Risk Management was conducted based on the four key components of JPMC's Risk Management framework that mapped to key functional components:

Risk Management Framework	Key Functional Program Elements
Identification	Risk Assessments, Issue Escalation
Measurement	Analysis
Control with Tolerances	Governance, Policies and Procedures, Organization and Training
Monitoring and Transparency	MIS, Reports, Testing, Monitoring

Risk Assessments
Home Lending maintains a broad Control Self-Assessment (CSA) process, a key element of the risk assessment framework. CSAs are executed by operational process control owners and administered by the line of business Controller function. While CSA testing was conducted on a timely basis, there was limited independent review of the process and results. JPMC found that controls designed to identify and mitigate process-related risks and the related testing were not sufficient. In addition, JPMC identified two gaps in the Risk Management program with respect to risk assessments:

- There needed to be a stronger risk assessment process as an inherent control in order to identify and appropriately develop process risk mitigants for material processing changes and/or the initiation of new business initiatives (e.g., HAMP), implementation issues (e.g., a lack of trained processing agents), as well as ongoing operational issues (e.g., increased defects, processing delays). In some cases, risk assessments were performed, but failed to adequately identify systemic issues on an end-to-end basis.

- Gaps existed in the effectiveness of the operational risk control framework in terms of resource levels and structure. Home Lending began to address these gaps in mid-2010, when it expanded its Operational Risk Management ("ORM") staff, and began a program to conduct a series of comprehensive independent risk assessments for a number of functional areas within the

	business. While progress has been made, questions continue regarding resource levels, enforcement authority, and, in some cases, a lack of actual or perceived authority to require independent risk assessments or enforce mitigation plans and controls. The risk management program evaluation was conducted as a survey/review of governance and documentation at various levels of the organization, operational risk process evaluations, and interviews with senior line of business risk and operations management. Documentation reviewed as part of the evaluation is available for review. The Risk Management program assessment identified areas for improvement and they are being addressed through the remediation plans incorporated into the Consent Order risk response. Project milestones have been identified and provided to the Federal Reserve. **Issue Escalation** While the line of business (LOB) and overall Bank risk management frameworks lay out clear lines of communication from line operating functions through various Risk Committees to the Board of Directors, a number of systemic risks were not effectively raised to appropriate levels of Home Lending management. Clear escalation paths were not appropriately utilized or sufficiently effective. The rapid on-boarding of many new hires and a large number of field promotions to accommodate the increases in workload further exacerbated escalation challenges. The conditions for escalation and the appropriate level for the escalation need to be enhanced. To address escalation issues, late in 3rd quarter 2010, the Home Lending business formed the Operational Risk Subcommittee of the Home Lending Risk Management Committee. This committee has a written charter and meets to discuss Operational Risk issues, action plans, and tracking. The minutes from the Home Lending Risk Management Committee have been included in documentation of the Retail Financial Systems (RFS) Risk Committee that meets monthly. Issues were escalated through the RFS Risk Committee to the Risk Working Group and to the Bank's Board-level Director's Risk Policy Committee. Enhancements are also being made to the Compliance Management program and related reporting to ensure timely escalation of issues. Additional staff is being added in both the Compliance and Internal Audit control functions. In addition, the Home Lending business has hired a Chief Control Officer who will be responsible for Quality Assurance, issue resolution, and escalation. The Control Officer will be a member of the Risk Committee. In addition, senior management has been strengthened and communications improved. Risk Committee and subcommittee composition is being reviewed to ensure an independent view of business activities. **Testing and Monitoring** Independent testing and monitoring resources have been stretched, and the design and execution of testing across functions needed to be strengthened. In addition, process improvements and enhanced technology will facilitate testing and monitoring effectiveness. The Home Lending business has made investments in the level of quality assurance and quality control resources. There is now enhanced testing of key high-risk default servicing functions to ensure process integrity.

	Mortgage Servicing Operations Risk Assessment Process In accordance with the April 13, 2011 OCC Consent Order, the Bank is conducting a comprehensive assessment of risks in mortgage servicing. The assessment is addressing operational, compliance-based, transactional, legal, reputational, and financial risk. It emphasizes ten key functional areas: Loss Mitigation, Foreclosure, Real Estate Owned, Property Preservation, Bankruptcy, Collections, Assumptions, Payments, Fees, and Loan Integrity Operations. The Risk Assessment contains five distinct phases: Approach, Data Gathering, Data Compilation and Gap Analysis, Findings Review, and Documentation. The risk assessment and plan will be completed in August 2011. **Analysis, MIS and Reports** Home Lending servicing has developed substantial reporting capabilities around operational and servicing metrics. However, the organization continues to experience data integrity and accuracy issues stemming from gaps identified in the servicing systems' lack of field level controls and the lack of interfaces between systems used for processing critical transactions and for record changes. Known gaps exist in some operational metrics due to servicing system data capture deficiencies. While reporting capabilities capture significant amounts of data, the aggregation of data into actionable elements, using agreed-upon key risk and performance indicators for making decisions, is less well-developed. The Home Lending business has substantial MIS covering credit metrics for originations (by product, channel, credit score, loan-to-value, geography, etc.) and portfolio performance (delinquency, loss, etc.). Also, substantial loan production (sales) metrics are available. The new Head of Home Lending receives a weekly report that is reviewed every Tuesday at the Home Lending Metrics Meeting with Home Lending managers and key support and control groups, which brings together additional key operating metrics into one management forum. To obtain a more holistic view of the risks inherent in the business, metrics regarding Performing and Default Servicing, Capital Markets, and Risk Management have been added to complement credit, production, and portfolio metrics. There is new consolidated MIS for default underwriting, loss mitigation results, third-party monitoring, REO, technology, payment processing, and current business issues. Management will examine whether the IT plans are sufficient, in terms of projects and timing, to meet the needs of the Servicing business, with an expected timeframe of August to September 2011. Metrics development is an evolving process and additional metrics will be added to the MIS reporting as deemed necessary. **Governance** Home Lending's overall risk management framework lays out a comprehensive and appropriate governance framework and includes all relevant control functions in overseeing enterprise risks. The Home Lending framework is consistent with Corporate Risk Management, Federal Reserve and OCC risk management, and Compliance guidelines. The current Federal Reserve and OCC guidance has been reviewed to ensure that the governance framework is consistent. While the risk management governance framework is clear, there have been gaps in the execution and effectiveness of governance processes. Specific issues include:

- Risk Committees did not consistently provide an effective governance forum for discussion and escalation of operational risks and weaknesses in the control environment.

- Risk Management did not provide sufficient oversight of default management functions.

- There were lapses in Operational and IT Risk governance and oversight of controls in an environment where line organizations were operating in a stressed mode of operation for a sustained period.

Additional Oversight
To improve oversight, Home Lending has added a Chief Control Officer position in the business, and established an Operational Risk Subcommittee that reports to the Home Lending Risk Management Committee with expanded content to include broader control issues (Compliance, adverse audit findings). In addition, resources have been added in control functions that support Home Lending (Compliance and Audit).

Risk Management has increased its engagement in a number of default related functions, most notably in loss mitigation underwriting (including training) and the expansion of the scope of the Home Lending Risk Committee to encompass default management strategy oversight.

Policies and Procedures
Control gaps were found with respect to policies and procedures within the mortgage servicing business. The process for writing, obtaining approval, and documenting policies is not yet standardized. As a result, there are several policy and procedure inventories, but no centralized system of record for maintaining them. In addition, policies and procedures have, in some cases, been comingled in single documents, blurring the distinction between approved policies and the procedures produced to support them. This complicates the process of testing for policy compliance. The lack of a systemic, end-to-end perspective on several mission critical processes also resulted in segmented, inconsistent, and sometimes overlapping policies and procedures. The lack of clarity for approval and authority to modify and enforce policies and procedures contributed to a lack of controls in instances of data security, data integrity and third-party oversight.

The OCC Consent Order requires appropriate written policies and procedures to conduct, oversee, and monitor mortgage servicing, Loss Mitigation, and foreclosure operations to be implemented by September 12, 2011.

A review and evaluation of governance, processes, and controls for developing and delivering policies and procedures to conduct, oversee, and monitor mortgage servicing, Loss Mitigation, and foreclosure operations is underway. The Bank is focused on the following activities:

- Establishing a standard framework for developing policies and procedures.

- Ensuring that the framework includes appropriate levels of review and approval including independent risk and compliance.

- Conducting an inventory of all current policies and procedures, identifying policies and procedures requiring revisions, and new ones to be added.

- Creating an end-to-end process that starts with a comprehensive list of applicable laws, regulations, and investor requirements and maps those requirements to internal policies and procedures to ensure required compliance.

- Reviewing current repositories of policies and procedures to determine the best long-term solution to house all policies and procedures in a single controlled manner for ease of tracking, maintenance, access, and distribution.

Findings
The Bank identified gaps in the areas of governance, change control, and compliance review. Specifically, policies and procedures have not been developed or maintained according to a standard, uniform process and approach, and independent compliance and risk reviews have not been performed consistently. Also, policies and procedures are currently housed across multiple document repositories.

Remediation
To address the gaps identified in the policies and procedures:

- A standard template, intake, and development process for change control has been created. The new process defines the steps the Bank will take to review policies and procedures. The steps are designed for the appropriate governance, review, and approval to ensure a sustainable process. In addition, new or changed policies and, where appropriate, procedures will be reviewed by independent control functions including Compliance and Risk. These steps are designed with the appropriate governance, review, and approval in mind to ensure a sustainable process.

- The Bank has developed a centralized inventory of over 2,000 existing Home Lending policies and procedures. The inventory is organized to identify those policies and procedures requiring immediate review to determine whether changes are necessary, with priority given to those for loss mitigation and foreclosure operations. In order to continue the centralization of procedures, the Bank has developed a short-term workflow tool and defined the requirements for a long-term procedures repository.

- The Bank is focused on reviewing and re-engineering processes highlighted in the OCC Consent Order (e.g., modifications, foreclosures). As the Bank re-defines how the business will operate, procedure writers are mapping current inventory and creating new content for areas of focus in the Order. Each team has a dedicated group of control, risk, and compliance specialists as part of the review and approval process prior to publication.

- The Bank recognizes the need to ensure laws, regulations, and obligations are identified and adequately reflected in policies and further detailed in procedures. The Bank has developed a comprehensive Legal Requirements Matrix (described in detail in Item 5), and the list of regulations is being mapped to existing policies and procedures to identify, prioritize, and remediate any additional gaps.

- The Bank is evaluating automated tools for storing laws, regulations, and obligations that will link those legal requirements to the policies and procedures.

Organization
The organizations tasked with ensuring a safe and sound control and governance framework in the mortgage business, Risk Management (including Operational and IT Risk), Compliance, and Internal Audit, did not increase capabilities and capacity quickly enough to keep pace with the growth in size, scope, and complexity of the mortgage servicing operations. This resulted in a reduced ability for independent oversight to timely identify insufficient business controls and to test, monitor, identify and mitigate risks as the business attempted to adjust to material changes in the environment, as well as servicing changes imposed upon it by external entities (e.g., regulators, investors).

As outlined in the Compliance and Audit Responses under this Consent Order (Items 5 and 6), significant additions to staff are in progress to support expanded testing and reporting requirements. The Risk remediation plan also documents an assessment of Risk Management resource requirements, which is in progress and is expected to be completed by August 31, 2011. The Risk Management organization's independent role was reinforced and is responsible to ensure that a comprehensive Enterprise Risk Management framework exists. The Risk oversight function was expanded with a new Chief Risk Officer. In addition, Risk Management was reorganized and staff assessed with a focus on effective oversight of default servicing activities.

Training
Mortgage Servicing struggled to absorb rapid staffing growth and, in many cases, hired representatives with little or no home lending industry experience. This was compounded by the need to respond to continuous demands to alter modification programs and processes. The Home Lending organization had difficulty providing adequate time and breadth of job skill training and job aids, as well as performing ongoing monitoring. As a result, training was unable to keep pace and this contributed to high operational error rates.

A comprehensive review of the Bank's Training Program, including all activities related to handling mortgage delinquencies, loss mitigation, and loan modifications is underway. The Bank is assessing the current training programs and expanding them as necessary to ensure that all staff are fully equipped to perform their roles with proficiency. Below is a discussion of the current training programs and how the Bank is working to remediate the identified gaps.

Findings
In reviewing the Bank's Training Program, the Bank identified opportunities for improvements. Specifically, in the past, managers may have elected to waive such training for employees who enter the Bank with prior experience. In addition, the shared responsibility of training between the centralized training team and job coaches has not been standardized and in some cases may not be complementary enough to ensure staff proficiency. Finally, changes in requirements and programs have not been integrated effectively.

Remediation
To improve and strengthen the training program, the focus is on the following activities:

- Implementing centralized oversight of all training that establishes a consistent learning framework for all core roles and provides for greater control in the quality and consistency of employee learning.
- The centralized training team will manage the design and development of all training materials and content, obtain appropriate legal and compliance approvals, and maintain central training material archives.
- Learner records and transcripts will be housed in a single repository, [redacted] enabling accurate MIS on learner participation rates and assessment results.
- The Bank is in the process of reviewing all coursework to ensure that content is current and will be expanded to include formalized, ongoing learning and continual assessment.
- A process has been established to ensure that appropriate learning paths are created for new roles.
- Training for managers is being expanded beyond current core competency training to functionally specific manager courses and learning paths.
- To achieve a consistent approach in change readiness training, a dedicated change training function will be established within the Home Lending training organization. The team will be responsible for successful change integration. Resources skilled in performance analysis and instructional design are dedicated to each project team and working side-by-side with process engineers, policy and procedure writers, and change management.
- The training organization will partner with business owners to establish appropriate validation, testing, or certification criteria. Learning paths will incorporate appropriate testing and/or validation methods to confirm transfer of knowledge and application of skill.

Employee participation in assigned learning will be tracked and reported to line management with the expectation that managers will appropriately manage gaps. New hires will be assigned appropriate learning paths at the time of hire and attendance will be tracked via the Bank's central learning management system ([redacted]). Training records will include attendance and course assignments. Incumbent employees will be re-assigned to appropriate learning paths based on role, current performance, and prior training completion as supported by learner transcripts in [redacted]

Default Underwriting Training
A summary specific to default underwriting training provides an example of how the strengthened training program is being implemented. The following training has been implemented and provided to default underwriting staff. A pre-training skill set assessment was conducted in April to establish a baseline. The average score was 81.69%. Training materials were developed to address known issues from QA results, weakness identified in the baseline assessment and the new requirements of Treasury Supplement Directive SD 11-01. Approximately 2,900 underwriting staff have participated in an average of 8 hours of training. The average post-training skill set assessment score has improved 10.48% to 92.17%. Training will be continuous. Baseline training will continue until all underwriters demonstrate required proficiency and QA scores evidence the ability to execute properly. Monthly policy and hot topics training will be implemented to keep skill sets current.

The completion of training programs by staff is monitored and assessed by training staff that are separate from the business and independent from the Default Operation. The training staff has a tool to electronically monitor participation and scoring. It provides reporting after each assessment

Training staff, Default Underwriting management, Policy staff and QA staff collaborate on the content of training materials. Content was designed to address known drivers of defects with significant focus on revisions to SD 11-01 requirements and clarifications of existing policy. Examples include the following: training on an income variability test to cause certain transactions to be escalated to a senior underwriter; use of the income calculator; use of P & L statements; clarification of acceptable forms of documentation; clarifications to proper treatment of multiple forms of income such as passive, pension, teacher, military, boarder, non-borrower, and rental income; and clarifications to fraud detection requirements.

Conclusion
While Home Lending has the structure and components of a comprehensive risk management framework, there are opportunities to enhance all functional risk management program elements within Home Lending.

7. (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**;
Response	**<u>Risk Management Remediation Plan</u>** Based on the assessment of the effectiveness of JPMC's risk management program in the areas of residential mortgage loan servicing, loss mitigation, and foreclosure activities and operations, JPMC will implement the following remediation plan: **Governance** <u>Home Lending Risk Management Committee</u> The Home Lending Risk Management Committee (HLRMC) has been meeting monthly and provides a forum for management review and discussion of existing or emerging risks. The RFS Chief Risk Officer and the Home Lending Risk Officer will co-chair the Home Lending Risk Management Committee. Membership will include the Home Lending senior risk officers, key Home Lending leadership, the Home Lending Chief Control Officer, and representatives from Audit, Compliance, and Legal, and other members named at the discretion of the co-chairs. The HLRMC is responsible for ensuring that the appropriate risk management framework and governance processes exist for managing risks within the Home Lending business. Oversight of the risk framework includes exception limits and reports, approval authorities, resolution of audit and regulatory issues, profitability, collection strategies, operational risk, approval processes, and models and performance metrics. The HLRMC is accountable for risk identification, monitoring, and timely resolution of issues. As part of its charter, the HLRMC is responsible for the following: • Reviewing and approving credit, portfolio, operational, collateral, fraud, default, and servicing risk-related policies. • Reviewing and authorizing incremental credit, portfolio, operational, collateral, default, and servicing risk related to new product or new business development initiatives and launches. • Establishing risk tolerance levels by product and LOB, including target market definition, risk acceptance level, policy exception processing and reporting, regulatory and compliance, and portfolio limits such as concentration, product mix or exception limitations. • Overseeing the resolution of internal, external and regulatory audit issues including current audit/regulatory results. • Reviewing operational Control Self-Assessment (CSA) monitoring and testing results and key risk indicators, risk acceptances, and operational loss events and trends.

	• Assessing and approving all acquisitions, sales or significant business relationships with strategic implications for the Bank and advising the RFS Risk Committee. • Approving risk and performance reporting standards. • Reviewing and evaluating loss estimates and loan loss reserve adequacy. • Delegating authority to various subcommittees, as needed. Risk Governance Subcommittees of the HLRMC Within the Home Lending business governance structure, several Risk Governance Subcommittees of the HLRMC address risk issues for specific functional areas. In the last 12 months, Home Lending established several additional risk subcommittees under the HLRMC for Operational Risk, Servicing and Default, and Incentive Compensation. Each of the Home Lending subcommittees is led by a chairperson assigned by the HLRMC and comprises senior to mid-level risk subject matter experts who are responsible for developing and executing risk policy and risk management in their respective areas of control. All Home Lending Risk Management subcommittees are accountable to the HLRMC and are responsible for appropriate escalation of issues. Each subcommittee chairperson is responsible for determining appropriate subcommittee membership and conducting subcommittee meetings with defined agendas to appropriately address risks within the scope of the subcommittee. The chairperson is also responsible to ensure that the subcommittee effectively identifies monitors, resolves, or escalates risk issues. Within the next 90 days, Risk Management will review the charter and membership of these subcommittees to ensure that they have the appropriate management attention and focus, and that key operational risks in Home Lending will be identified, communicated, and responded to on a timely basis. Subcommittee recommendations and the resultant business actions will be reviewed and reported to the Home Lending Risk Committee monthly. **Third-Party Oversight** Home Lending 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: • Processes to perform appropriate due diligence on potential and current Third-Party Provider qualifications, expertise, capacity, reputation, complaints, information security, business continuity and financial viability, and to ensure 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 will be assessed by Bank 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.

	The Bank is applying significant resources to enhancing management and oversight of Third-Party Providers, including development of a comprehensive plan to review all outsource vendors. While a full review is appropriate, given the scope of review required and the number of vendors involved, the Bank believes that the sequencing of review and development of additional controls and remediation will need to be risk-based to ensure thoroughness of the process. Management's institution of governance and other enhancements to the Third-Party Oversight (TPO) program includes assessing Business Criticality Classification Tiering, which drives frequency of independent reviews. Additionally, management is in the process of reviewing all contracts to ensure audit rights are included. Internal Audit will perform an audit of the TPO oversight function. Additionally, TPO will be considered in the scope of each audit and may potentially include on site walkthroughs. Under Article V of the OCC Consent Order, the Bank is currently engaged in enhancing the TPO Program and has drafted a Firm-wide Third-Party Provider Policy, both of which are now reflected in the draft of the enhanced Home Lending Policy. The OCC Consent Order Response provides a detailed description of the Action Plan to enhance the TPO program, which includes the elements highlighted above related to risk management. **Systems, MIS and Data Integrity** Extensive systems development efforts are underway to combine servicing platforms and to enhance field level data security, which will improve controls, efficiency, and the inherent usefulness of Management Information Systems (MIS). Management will examine whether IT plans are sufficient, in terms of projects and timing, to meet the needs of the Servicing business. Home Lending will develop and implement an acceptable plan for operation of its MIS for foreclosure and Loss Mitigation or loan modification activities to ensure the timely delivery of complete and accurate information to permit effective decision-making. The Bank has made a significant investment in IT staff and resources over the past six months and has formed a team to develop and manage the plan to address the requirements of OCC Consent Article VIII and for Third-Party Management. The key areas include changes or upgrades to monitor compliance with all applicable legal requirements and supervisory guidance, and the requirements of the OCC Consent Order; to ensure accuracy of records for all serviced mortgages; and to ensure that Loss Mitigation, loan foreclosure, and modification staffs have sufficient and timely access to information provided by the borrower regarding loan foreclosure and modification activities. **Control Self Assessments** By August 2011, Home Lending will develop plans to strengthen the CSA program and complete implementation by December 2011. As part of the review and development of a plan to enhance the program, we will evaluate the frequency and drivers of reviews, including changes in the operating environment, externalities, and changes in volumes. In addition, Operational Risk Management, Risk, and Compliance will partner to make sure that independent reviews of key CSA's are

	performed on an annual basis to ensure that the process is functioning as intended and that key risks are properly identified, evaluated, and escalated (e.g., adequate testing is performed in a manner commensurate with the level of risk associated with the control, and accurate conclusions are made). CSA controls are considered in the scope determination of audits, including consideration of open issues, in-progress action plans, and risk acceptances. Utilizing a standardized testing program, Internal Audit specifically assesses the effectiveness of the CSA focusing on appropriate business ownership (assessors and approvers), composition, and control ratings. Each audit report requires a summary conclusion of the CSA. Additionally, consistent with Internal Audit's reporting policy, significant issues with the CSA process would likely be captured as "Key Findings" in the audit report. Key findings related to the CSA are evaluated with other identified issues to determine the overall rating.
7. (b)	**Ensure that the risk management program complies with supervisory guidance of the Board of Governors, including, but not limited to, the 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**
Response	**Risk Organization** JPMC will ensure that the risk management program has adequate staffing levels, independence, requisite authority, and status to provide necessary governance to JPMC's mortgage servicing activities and operations. Home Lending management will reinforce Risk Management's role in the governance and oversight of mortgage lending and servicing, including but not limited to policy and procedure governance, default strategy review and compliance with risk policies, and adequate assessment and testing for compliance with JPMC's risk policies. Solid line reporting within JPMC's Risk organization (e.g., committees and risk management departments) will be re-emphasized to promote independence and objectivity. Within the next 90 days, Home Lending will also develop staffing plans to ensure an appropriate, well-governed control environment. JPMC reviewed all aspects of the current Risk Management program and referenced supervisory guidance (including SR8-08/CA08-11 and SR95-51) and industry expert opinion to determine if the current structure is aligned with supervisory best practices. A comprehensive review of the Risk Management organization was completed in September 2011. A memorandum was distributed to all Risk Management staff across the Consumer businesses. The memorandum reinforces the independent role of Risk Management, the primary responsibilities of Risk Management, and the commitment that risk Management is held accountable for providing a robust risk and control environment that reflects the learning from the recent Consent Order Actions in Mortgage Banking. A new Mortgage Banking Chief Risk Officer, [redacted], joined Chase in October 2011 reporting to Sam Ramsey, Consumer Banking Chief Risk Officer. The Mortgage Banking Risk Management organization has been reorganized and the staff size has been increased. Final headcount will be reviewed by the new Mortgage Banking Chief Risk Officer.

In addition, JPMC's Risk organization will develop a plan to enhance the flow of necessary and meaningful management information to appropriate levels and units within the organization. This will include reports that focus on existing and emerging risks, impacts, and recommendations to address those risks as warranted.

JPMC changed its structural reporting lines for risk management functions in March 2010. In the past, JPMC used a "dual reporting" structure for risk functions, in which these functions had a solid line reporting to the firm's Chief Risk Officer and a dotted line into the CEOs of the lines of business. JPMC decided in consultation with its regulators to modify the reporting structure in order to continue to reinforce the independence of the Risk Management function. As a result, each of the LOB Risk Management functions now report directly to the Chief Risk Officer. This change does not affect the participation of senior risk personnel in LOB Operating or Management Committees, or any of the other important governance and leadership roles within each line of business. Risk continues to maintain the same close working relationships with each LOB as in the past, and the LOBs are expected to continue their past practices and procedures with regard to controlling risk for the firm.

Operational (including IT) and Legal risks (which includes Reputational risk) are the primary focus of management in Home Lending. The business has established a program structure to ensure the development of a comprehensive action plan, which will identify and close gaps in systems, processes, controls, and governance procedures all supported by appropriate resources. Board oversight has been enhanced and senior management in the business has been strengthened. Policies and procedures are being cataloged, reviewed and re-written as appropriate along with the governance structure around change control. Improved measurement and monitoring of default management key risk indicators, improved issue recognition and escalation through improved MIS, and functional and cross-functional work streams to improve work flows will all assist in significantly reducing weaknesses in risk management. Staff is being added to the Compliance and Audit control functions and the composition of the Home Lending Risk Management Committee and subcommittees is being reviewed. Additionally, both control and customer focus is being enhanced through the introduction of individuals assigned as the single point of contact (SPOC) for customer assistance.

Change Management

Within 90 days, Home Lending will develop and implement a disciplined and more robust change management process along with updated new business initiative approval (NBIA) policies and procedures to be deployed when assessing material business changes. Risk Management will work with the business to develop a comprehensive change management process that will:

- Assess and rate risks related to material change (including systems, staffing capacity and training needs).
- Provide for timely post implementation review and issue resolution.
- Engage appropriate control functions.

	• Develop appropriately scaled change management plans based on risk ratings with adequate design, testing and implementation plans to address identified risks.
	
	• Document and approve standards.
	
	• Ensure that tracking and reporting is functional and measures key risk and performance metrics against objectives/expectations from day one.
	
	• Coordinate across impacted functions.
	
	• Communicate to senior management and appropriate Risk Committees.
	
	While progress has been made, there are still gaps in assessment and rating of risks related to material change (including systems, staffing capacity, and training needs), engagement of appropriate control functions, documented approval standards, appropriately scaled change management plans based on risk ratings with adequate design, testing and implementation plans to address identified risks, communication to senior management and appropriate Risk committees, and post implementation reviews where appropriate. It is also unclear whether the organization has adequate people resources dedicated to change management as operations managers frequently appear to be tasked with both production and project management responsibilities.
	
	The lack of a well-defined risk assessment and change management process as a core control has resulted in incomplete identification and development of process risk mitigants for material processing changes and/or the initiation of new business initiatives (e.g., HAMP), implementation issues (e.g., a lack of trained processing agents), as well as ongoing operational issues (e.g., increased defects and processing delays).
	
	A new consumer wide policy has been reviewed at a recent RFS Risk Committee meeting and will be up for adoption next month. The new policy will:
	
	• Establish a new RFS NBI Committee (RFS Risk subcommittee)
	
	• Define NBIs consistent with Firm Policy and OCC guidance as “Introduction of a new or changed product, service or activity involving materially new or different risks to RFS”
	
	• Establish a Risk Ranking Framework (H/M/L) based on:
	    o Complexity (e.g., Operations, Technology, people, third parties)
	    o Financial Impact (e.g., risk exposures, portfolio size, investment)
	    o Legal/Reputation Risk (e.g., regulation, TCF, privacy)
	
	• Define Roles and Responsibilities:
	    o LOB CRO will recommend risk rankings
	    o Any approver can escalate to a higher ranking

	o Any high risk category makes the initiative "High" • Define minimum approval authorities for RFS and LOBs: o All High Risk need RFS level additional approvals from RFS NBI Committee o Medium Risk will be approved by LOB committees and functional heads o Low Risk can be delegated within the LOB • Define key approvers (functional heads) • Provide guidance for Conditional Approvals, which will be discouraged • Define the Post Implementation Review process (6 – 12 months, or sooner) • Standardize documentation leveraging IB tracking system • Suggest templates for Initiatives and PIRs • RFS LOBs must adopt this policy or customize for their own specific needs, as long as they meet RFS standards for: o Risk Ranking o Post Implementation o Minimum approval authorities o Documentation **Policies and Procedures** Home Lending will implement 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. A review and evaluation of governance, processes, and controls for developing and delivering policies and procedures to conduct, oversee, and monitor mortgage servicing, Loss Mitigation, and foreclosure operations is underway. The process is expected to be completed by August 31, 2011. As set forth in Item 7, above, the Bank identified gaps in the areas of governance, change control and compliance review. Specifically, policies and procedures have not been developed or maintained according to a standard, uniform process and approach, and independent compliance and risk reviews have not been performed consistently. Also, policies and procedures are currently housed across multiple document repositories. **Remediation** The following is a summary of actions JPMC has taken to address the gaps identified. Additional detailed information concerning these remediation actions is set forth above in Item 7. • A standard template, intake, and development process for change control has been created. This process addresses the steps to be taken for review of policies and procedures.

- The Bank has developed a centralized inventory of over 2,000 existing Home Lending policies and procedures, and in order to continue the centralization of procedures, the Bank has developed a short-term workflow tool and defined the requirements for a long-term procedures repository.

- The Bank is focused on reviewing and re-engineering processes highlighted in the OCC Consent Order (e.g., modifications, foreclosures).

- The Bank recognizes the need to ensure laws, regulations, and obligations are identified and adequately reflected in policies and further detailed in procedures. The Bank has developed a comprehensive Legal Requirements Matrix (described in detail in Item 5), and the list of regulations is being mapped to existing policies and procedures to identify, prioritize, and remediate any additional gaps.

- The Bank is evaluating automated tools for storing laws, regulations, and obligations that will link those legal requirements to the policies and procedures.

Corrective action plan oversight
Current Bank practices require that all regulatory Matters Requiring Attention (MRAs) must have action plans with owners and targeted delivery dates. These action plans are entered into the appropriate control self-assessment in [redacted] JPMC's corporate risk tool, for tracking and reporting purposes. A new policy has recently been developed and implemented concerning the closure of action plans for MRAs to ensure that senior management reviews and approves all MRA-related action plans before they can be closed. Within the next 90 days, this senior management oversight process will be expanded to include action plans related to high risk Internal Audit findings and high risk items identified through Compliance, ORM, IT Risk, and investor reviews.

While the specific review requirements are currently under development, the intent is to ensure that senior control function managers (e.g., Risk Management, Compliance) are engaged in the review of remediation plans and adequacy of implementation of those plans in resolving issues that present significant operational, regulatory, compliance, or reputational risk to the business.

Audit's corrective action plan oversight activities include validation of MRA/MRIA remediation plan closure, and follow-up on key issues identified in audit reports rated less than satisfactory. Senior management receives a memorandum outlining key issues identified in the validation work including any applicable new action items, owners, and target dates. These results will also be reported in the Audit Executive Management Report. Management reporting is in place to monitor compliance with this validation standard. Results of the MRA/MRIA validations are summarized for the Audit Committee.

7. (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.**
Response	**Risk Management Governance and Risk Appetite** A Firm-wide "Risk Appetite" Policy was adopted in December 2010. The policy outlines the framework for establishing the firm's overall appetite for risk. The framework integrates return targets, risk controls and capital management and encompasses a range of qualitative factors. The qualitative factors for which the firm has little or no tolerance include: • Actions that damage the Firm's reputation • Lack of compliance with regulatory mandates • Weak control environment As per the Federal Reserve SR08-08/CA 08-11, Compliance risk does not lend itself to similar processes for establishing and allocating overall risk tolerance, in part because organizations must comply with applicable rules and standards. As a result, the firm does not establish limits for these risks. The Head of Compliance for Home Lending is a member of the Home Lending Risk Management Committee and Operational Risk Committee and will provide reports on compliance activity to the appropriate risk committee or subcommittee. Compliance will escalate MRAs, Compliance Testing and risk assessment results, and open audit items to an appropriate committee or subcommittee of the Board. JPMC Corporate Compliance will enhance its oversight of the effectiveness of Home Lending's Compliance Testing program. The Risk Policy Committee is responsible for approving the overall framework, risk appetite, and stated loss tolerances. The Risk Policy Committee is responsible for oversight of the CEO's and senior management's responsibilities to assess and manage the corporation's credit risk, market risk, interest rate risk, investment risk, liquidity risk, and reputational risk. In performing this oversight, the Risk Policy Committee shall: • review with management guidelines and policies to govern the process for assessing and managing such risks • review benchmarks for and major financial risk exposures from such risks • receive and review reports from management of the steps it has taken to monitor and control such exposures • review management's performance against these policies and benchmarks • receive and review reports on selected risk topics as management deems appropriate from time to time

	• review the corporation's capital allocation • review reports of significant issues prepared by internal risk oversight functional groups. The Chief Executive Officer (CEO) is responsible for setting the overall risk appetite of the firm and reviewing it with the Operating Committee. LOB CEOs are responsible for setting the risk appetite for their LOBs. The Framework includes a quarterly process linked to the capital adequacy and liquidity processes for monitoring JPMC's risk appetite and loss tolerances. Key policy changes are shared with the Risk Policy Committee. Changes have been made to establish the appropriate governance, review and approval of written policies to conduct, oversee, and monitor mortgage servicing, Loss Mitigation, and foreclosure operations. These changes include requiring Risk Management's review and approval of revised policies and new policies. As part of the enhanced policy review process, Risk Management will ensure alignment to Global Primary Risk Policies. The most relevant Global Primary Risk Policies for the Home Lending business are the Consumer Risk Management, Operational Risk Management, and the Reputational and Fiduciary Risk Management Policies. Risk Management will address operational risk and reputational risk in resolving issues identified in the Federal Reserve and OCC Consent Orders and based on the results of the comprehensive risk assessment. Market, liquidity and capital risk policies will be reviewed based on business priorities.