

# FRB Consent Order Implementation Report

12/31/11

## Section 2 – Board Oversight

### Consent Order Requirement – 2c

**The plan shall, at a minimum, address, consider and include: steps to ensure that WFC's ERM, audit, and compliance programs have adequate levels and types of officers and staff dedicated to overseeing the Bank's residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, and that these programs have officers and staff with the requisite qualifications, skills, and ability to comply with the requirements of this Order;**

Status: Planned actions complete - further actions underway

### Requirements Summary

**Summary: Wells Fargo's plan was to perform a staffing analysis for the ERM, audit, and compliance programs, and communicate the results to the Compliance Committee of the Board, by November 25th. These actions have been completed. The analysis has in turn generated further actions, some taken, and some yet to be taken. Board supervision is currently the responsibility of the Compliance Committee, and will be the responsibility of the A & E Committee on an ongoing basis. The structure and processes for the ongoing oversight are in place and operating.**

This document primarily will focus on Wells Fargo's actions with regard to staffing of corporate-level ERM and compliance programs. However, first we summarize the actions taken by Audit Services, and actions at the embedded business level.

#### Wells Fargo Audit Services

Wells Fargo's Audit Services activities with regard to staffing are detailed in Consent Order paragraph 5. However, at a summary level, Audit Services performed an evaluation of their audit coverage of the mortgage business, and mortgage servicing in particular, which included an analysis of staffing. This staffing analysis included review and confirmation of several actions to enhance resources assigned to real estate lending: staffing for mortgage auditing was increased by approximately two times; new positions were created at the senior audit manager level; the lead audit director for the mortgage business will become a direct report of the Chief Auditor, beginning January 1, 2012. Audit will conduct bi-annual staffing reviews of mortgage audit team. These steps were communicated to the Compliance Committee of the Board. On an ongoing basis, the Audit Services quarterly report to the Audit & Examination (A&E) Committee of the Board has long included a section of staffing, which will continue, affording Board oversight.

#### Line of business Operational Risk and Compliance

Risk management and compliance programs and personnel within the lines of business were evaluated under the OCC's Consent Order for mortgage servicing: this is detailed in Wells Fargo's response to the OCC. [REDACTED] This work is overseen at the Board level by the Compliance Committee of the Board. Overall, Wells Fargo did a major restructuring of the consumer

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lending businesses, resulting in a new business group, with a new senior executive and other management changes. The risk and compliance functions within this new Consumer Lending Group also were significantly changed, both in organizational structure as well as new leadership. Ongoing, within the businesses, personnel are evaluated using Wells Fargo's robust performance management process, which includes a personal performance plan, annual evaluation and the formulation of training and development plans.

In addition, there is corporate oversight. Wells Fargo's Operational Risk group oversees the work under the OCC Consent Order, and will continue to oversee these business-level programs in the future, and report to the Compliance and A & E Committees of the Board as part of its regular duties. On an ongoing basis, the Chief Operational Risk Officer (CORO) has input and oversight for the performance review and any significant job actions for the lead risk manager for Consumer Lending. The CORO also reviews operational risk management budgets for all business units, and any change in operational risk management budget exceeding 10% (+/-) year over year requires a written rationale and approval by the CORO. The staffing and structure for the compliance program at the line of business level is evaluated twice annually by the corporate compliance function, and those results reported to the A&E Committee of the Board. In addition, there is an annual talent review for operational risk, led by the CORO, that reaches into the senior levels of LOB risk personnel, which includes both compliance and vendor management personnel.

#### Corporate Enterprise Risk Management and Compliance

Prior to the Consent Order, Wells Fargo had already begun a re-examination of its Vendor Management Program generally, and of certain aspects of its Compliance and Fair and Responsible Lending Programs (all three Programs are part of the Operational Risk group) because of the changing environment, including heightened attention on the management of third-party service providers. The staffing and skills review undertaken in response to the Consent Order provided additional information and supported the need to enhance leadership and resources.

In response to the Consent Order, corporate Operational Risk and Compliance partnered with Corporate Risk Human Resources to design and conduct management reviews and to prepare compliance committee reporting that evaluated the adequacy of enterprise risk & compliance management staff to comply with consent order requirements.

Based on our analysis of the Consent Order, Wells Fargo determined that the programs within the risk management function that were affected by the Consent Order were: Compliance, Fair and Responsible Lending (both of which report to the Chief Compliance Officer within Operational Risk), and Vendor Management. A staffing and skills review of these three programs was conducted.

The review, led by Corporate Risk Human Resources, began with a review of the applicable job position descriptions, to ensure the requirements for the positions included qualifications necessary to meet the requirements of the consent order, as well as described the duties adequately. In Wells Fargo practice, during search and hiring, the corporate job descriptions are supplemented by position-specific

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descriptions that add topical knowledge and experience requirements for the position being hired. It was determined that this practice was adequate, and that the existing corporate job descriptions did not require emendation.

Next, Human Resources compiled information about the identified positions and team members filling them, including experience, performance evaluation information, and available resumes. This HR-led review was conducted with first line and senior managers, and included: competencies, mortgage servicing experience and related certifications, job structures, activities, and amount of time allocated to oversight of the mortgage servicing, loss mitigation, and foreclosure businesses. The review to this point was completed on September 29, 2011.

The information was then presented to the CORO on October 7, 2011, who then worked with HR to perform a final review and form conclusions and recommendations. These were discussed in detail with the Chief Risk Officer of Wells Fargo, and with the Board Compliance Committee in executive session, on November 16, 2011.

### Further actions based on the analysis

Based on this work, changes will be made to the programs. The CORO has verbally communicated the results to the Federal Reserve’s resident supervisory staff, and will prepare a summary memo by 12/31/11.

### Vendor Management

[REDACTED]

[REDACTED] The program, as detailed in our response to Consent Order paragraph 2b, will be re-engineered to include a more centralized model, a closer relationship with Wells Fargo’s Supply Chain Management department, and the creation of a central unit to manage certain aspects of third party oversight and risk management. This work has begun, and important aspects are targeted for completion in the first quarter of 2012, including the development of a new corporate Vendor Management Policy by January 31, 2012, and planning for the piloting of certain operational aspect of the new structure. [REDACTED]

[REDACTED]

Program changes are anticipated to affect line of business vendor risk team staffing models. The corporate program will include a process to assess periodically whether adequate and knowledgeable resources are dedicated to business-level oversight of vendor.

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### Compliance and Fair & Responsible Lending

Both the corporate Compliance Risk Management and the Fair & Responsible Lending programs report to the Chief Compliance Officer. [REDACTED]

To help manage changes in overall regulatory environment, Wells Fargo has created additional program capacity by evolving its Dodd-Frank office into a permanent Regulatory Change Management Office. This will provide enhanced ability to manage and monitor changes to policies, procedures, and processes brought about by new or changes requirements or supervisory guidance (see Consent Order paragraph 4c). This Office has a manager, 7 program/project managers, and access to a pool of project managers. Although the nominal effective date for the office is 1/1/2012, personnel in this Office are currently performing project and program management roles for our Dodd-Frank effort overall, individual Dodd-Frank initiatives such as the Volcker rule, and the consent orders.

### Ongoing monitoring of corporate operational risk staffing & skill adequacy

The corporate personnel in the Vendor Management, Compliance, and Fair and Responsible Lending programs, as well as the personnel in the Regulatory Change Management Office, are subject to Wells Fargo's personnel evaluation processes, including personal performance plan, annual evaluation and the formulation of training and development plans, as well as the annual operational risk talent review previously referenced, which is led by the CORO.

For the duration of the Consent Order, progress will be overseen by the Compliance Committee of the Board, with summary reporting to the A&E Committee. Thereafter, Board oversight responsibility will be with the A&E Committee. The CORO, to whom the central program offices report, reports quarterly to the A&E Committee of the Board.

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

1. Partner with Corporate Risk Human Resources to design management reviews. Completed August, 2011.
2. Determine the programs and positions within the risk management function that are affected by the Consent Order. Completed August, 2011.
3. Review of the applicable job position descriptions to ensure the requirements for the positions included qualifications necessary to meet the requirements of the consent order, as well as described the duties adequately. Completed 9/29/11.
4. Evaluate the adequacy of the Wells Fargo hiring practice to supplement the corporate job descriptions by position-specific descriptions that add topical knowledge and experience

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requirements for the position being hired. Completed 9/29/11.

5. Compile information about the relevant positions and the team members filling them, including: experience, performance evaluation information, professional work experience and certifications, time allocated to mortgage servicing, and default management oversight, and structure of the positions overall. Completed 9/29/11.
6. Conduct reviews with first line and senior managers. Completed 9/29/11.
7. Provide documentation of review results to the Chief Operational Risk Officer for her further analysis, conclusions, and recommendations. Completed 10/7/11.
8. Discuss the conclusions and recommendations with the Chief Risk Officer. Completed 11/15/11.
9. Discuss the results in an Executive Session of the Board Compliance Committee. Completed 11/16/11.

### Further Task Summary and Status

1. The Chief Operational Risk Officer will provide a summary memo of the results of the ERM and Compliance staff review to the Federal Reserve's resident supervisory staff. Due 12/31/11
2. Completion of enhanced Vendor Risk Management Policy. Due: 1/31/12
3. Fill senior manager position over Vendor Risk Management. Due: 2/28/12
4. Further staffing analysis for Vendor Management central program office: Due: 6/30/12
5. Hire new Chief Compliance Officer. Due: tbd
6. Further staffing analysis for compliance oversight: 120 days following hire of new Chief Compliance Officer.