

**Mortgage Enhancements
HSBC North America Holdings, Inc.
HSBC Finance Corporation
Action Plan Response to FRB Consent Order
MIS**

Final Pending Approval from the Compliance Committee

September 30, 2011

Section 8: Management Information System

Article 10

FRB Order Reference:	<i>Article 10</i>	Corresponding OCC Article:	<i>VIII.1</i>
<p><i>Within 60 days of this Order, HBIO shall submit to the Reserve Bank an acceptable plan and timeline for the review and remediation, as necessary, of the Mortgage Servicing Companies' management information systems ("MIS") for their residential mortgage loan servicing, Loss Mitigation, and foreclosure activities to ensure the timely delivery of complete and accurate information to permit effective decision-making. The plan shall, at a minimum, provide for:</i></p>			
<p>Action Plan</p> <p>HBIO and HBUS have created more than 35 key reports and continue to enhance executive reporting to include MIS for Loss Mitigation, foreclosure, MERS, Residential Mortgage Servicing, and bankruptcy to improve visibility into processing, monitor compliance with applicable Legal Requirements and supervisory guidance (including requirements of the Order), and to ensure ongoing accuracy of records for all serviced mortgages. HBIO and HBUS are also enhancing testing to ensure the integrity and accuracy of MIS reporting to fully comply with the Order. HBIO and HBUS have designed a plan for enhancing MIS for Residential Mortgage Servicing, Loss Mitigation, loan modification, foreclosure, and MERS activities. The plan is intended to ensure timely delivery of complete and accurate information to permit effective decision-making. Further details regarding the MIS plan are outlined in the Action Plans for Article 10, sections (a) through (e).</p> <p>As of September 12, 2011, HBIO and HBUS have completed key deliverables outlined in the Action Plans for Article 10, sections (a) through (e). Supplemental reporting is targeted for completion by November 30, 2011, to be updated as design sessions are completed.</p> <p>A comparison of existing reporting to the requirements of the Order was performed to identify where existing MIS processes satisfy the requirements of the Order and identify areas where enhancement is necessary. While the analysis is described further in Articles 10(a)-(e), the results of this analysis include, without limitation, the following (please see the next page):</p>			

Existing Processes	Required Enhancements
<ul style="list-style-type: none"> • High-level reporting on performance tracking, volume, analytics and financials • Daily agent productivity, inventory and exception-based reporting • Monthly Board of Directors reporting package which includes eight new key Compliance reports detailed in Article 10(a) and key mortgage loan servicing operational metrics • Developed over 35 key MIS reports providing greater visibility into Foreclosure Affidavit Processing, MERS, Single Point of Contact (SPOC), Legal Entity Validation and Third Party Management 	<ul style="list-style-type: none"> • Enhancing business reporting to provide greater visibility into Foreclosure, MERS activities, Fees, Bankruptcy and Quality Control Reviews
<p>Documents to be submitted with the Action Plan</p>	
<ul style="list-style-type: none"> • Also refer to Action Plans for Article 10, sections (a) through (e) 	
<ul style="list-style-type: none"> • [REDACTED] Regional Head of Retail Collections 	

Article 10(a)

FRB Order Reference:	<i>Article 10(a)</i>	Corresponding OCC Article:	<i>VIII.1.a</i>
<i>A description of the various MIS used or to be used by the Mortgage Servicing Companies;</i>			
Action Plan			
<p>A series of design sessions were conducted with representatives from Residential Mortgage Servicing management, Compliance and MIS to compare existing reports to the requirements of the Order and to identify gaps in current reporting. As a result of those design sessions, HBIO and HBUS have identified the need for and developed over 35 key reports and continue to enhance executive reporting to include the relevant MIS components for Residential Mortgage Servicing, Loss Mitigation, loan modification, foreclosure, or MERS activities to meet the Order requirements.</p>			
<u>Existing Processes / Programs:</u>			
<p>HBIO utilizes the existing Foreclosure Flash Report and both HBIO and HBUS utilize the Loan Modification Flash Report and the Mortgage Corporation Governance Review Deck (See Mortgage Corporation Governance Review North America Risk report example in its entirety to illustrate the aforementioned reports) to provide senior management with metrics for mortgage activities. These reports are the primary supporting documents for compilation of the monthly Board Reporting package, further described in the Enhancements section below.</p>			
<p>The Foreclosure Flash Report highlights performance tracking, analytics, and financials, including but not limited to the volume of foreclosure referrals, foreclosure inventory, foreclosure timelines, the affidavit pipeline, rescinded sales, foreclosure outflow, short sale and deed-in-lieu volume, third-party sales, severity rates, SCRA account volumes, and the impact of corporate advances (see CONSUMER AND MORTGAGE LENDING AND MORTGAGE CORPORATION - FORECLOSURE FLASH JUNE 2011).</p>			
<p>The Loan Modification Flash Report provides a summary of modification volume, analytics, and financials, including modification and re-aged volumes, modification inventory, application turnaround time for HBIO's CML Foreclosure Avoidance Program ("FAP"), CML FAP application volume and approval and activation rates, modification recidivism, and modification payment relief rates (see CONSUMER AND MORTGAGE LENDING MODIFICATION AND RE-AGE FLASH REPORT MAY 2011).</p>			
<p>The Mortgage Corporation Governance Review Deck (HBUS metrics only) covers delinquency performance, financials, productivity measures (dialer penetration and abandon percentage) as well as a summary of loan modifications (see Mortgage Corporation Governance Review North America Risk in its entirety). The report also</p>			

covers other metrics such as short sales, recidivism and REO.

In addition, HBIO and HBUS plan to maintain their existing daily operational reports for Loss Mitigation, loan modification, foreclosure, and MERS processing activities. These reports include but are not limited to:

- Agent Productivity Report – Tracks daily and month-to-date agent-level performance by key metrics defined by the business.
- Inventory Report – Includes reporting on the pipeline of loans throughout the foreclosure, Loss Mitigation, MERS and loan modification processes.
- Exception Based Reports – A control report to ensure proper adherence to internal policy and procedures and regulatory requirements
- Mortgage Corporation Governance Review North America Risk – summarizes key operating results highlighting performance, productivity, loss mitigation, foreclosure, and REO on a monthly basis
- REO Dashboard and Pipeline Reports – (Foreclosure) provides state-by-state statistics for CML foreclosure inventory
- REO Inflow and Outflow Inventory – (REO) provides month-over-month view of new REO and REO disposition by dollars and count
- Sales Analysis – (REO) details month-over-month statistics on CML and Mortgage Corp REO disposition
- Approved Inventory Reports – (Loss Mitigation) monitors accounts in the modification trial period for qualifying payments
- Monthly Mod CIT TAT Report – (Loss Mitigation) summarizes turnaround time, or TAT, from modification trial completion to activation
- County Compliance Risk Outstanding Report - 10 day – (Servicing, Lien Release) identifies paid in full loans for which lien release is pending with the county
- Daily Escrow Team CIT Tracking Report – (Servicing) tracks outstanding Customer Inquiry Tracking tasks assigned to the escrow team
- Care Services Performance Summary – (Customer Service) summarizes key performance and efficiency metrics related to customer service

As noted above, a series of design sessions were conducted with representatives from Residential Mortgage Servicing management, Compliance and MIS to compare existing reports to the requirements of the Order and to identify gaps in current reporting. As a result, the following key MIS reports were recently developed as of September 2011 (please see attached OCC_FRB Key Reports - 09_12_11):

SPOC Reporting (8 daily reports to support the SPOC specialist team within Loss Mitigation):

- SPOC STIP INVENTORY REPORT ■ ACCTS AS OF 26SEP11 - identify accounts within the Stipulation Process, for follow-up purposes.
- MTD HMC SPOC INVENTORY BY ISSUE REPORT – provides the total number of open/closed tasks processed during the month.
- MTD HMC SPOC INVENTORY BY DAY REPORT – provides the average

number of issues presented and managed by the SPOC Mortgage Servicing Specialist daily.

- MTD HMC SPOC TURN AROUND TIME REPORT – details the time it takes to work each task managed by the SPOC Mortgage Servicing Specialist.
- MTD HMC SPOC VOLUME REPORT BY CONTACT - REASON - RESOLUTION CODE REPORT – provides the number of contacts made within the SPOC process to manage volumes and capacity.
- SPOC STIP INVENTORY REPORT [REDACTED] ACCTS AS OF 25SEP11 – identifies accounts within the Stipulation Process, for follow-up purposes.
- [REDACTED] ELM SPOC WAS - IS REPORT; [REDACTED] PROACTIVE SPOC WAS - IS REPORT; [REDACTED] ELM SPOC WAS - IS REPORT; [REDACTED] PROACTIVE SPOC WAS - IS REPORT – provide visibility to accounts that flow out of the SPOC process.
- HMS SPOC MISSING LIQ ASSIGNMENT REPORT; [REDACTED] SPOC MISSING LIQ ASSIGNMENT REPORT; CLMS SPOC MISSING LIQ ASSIGNMENT REPORT - identify accounts that are in a Loss Mitigation and/or Foreclosure status that were not assigned to a designated SPOC Mortgage Servicing Specialist.

Foreclosure Reporting (12 daily reports to support the Foreclosure team):

- Affidavit Fee Exceptions - provides completed affidavits with advances that should be classified as non-recoverable.
- [REDACTED] AFFIDAVIT PENDING - 26SEP11– manages document pipeline to ensure accounts are moving through the established document execution process.
- AFF RECEIVED OR EXECUTED - IS34718 – an exception report that identifies non foreclosure accounts with an affidavit draft request or executed docs to ensure proper execution of the account (i.e. proceed with foreclosure or decline affidavit request).
- EXECUTED AFFIDAVIT REPORT (EAR) – reconciles completed affidavits in the tracking database to the system of record.
- ACTIVE FCL RECON BTW INTERNAL SYS AND [REDACTED] MANUAL REVIEW REQUIRED; ACTIVE FCL RECON BTW INTERNAL SYS AND [REDACTED] ACTIVE FCL IN INTERNAL SYS - NOT ACTIVE FCL IN [REDACTED] ACTIVE FCL RECON BTW INTERNAL SYS AND [REDACTED] ACTIVE FCL IN INTERNAL SYS - NOT ACTIVE FCL IN INTERNAL SYS - reconcile active foreclosure accounts on the system of record to [REDACTED]
- AFFIDAVIT IN PROCESS REPORT– details accounts requiring legal guidance or review prior to drafting or executing documents such as affidavits, certifications, declarations, etc.
- PEAR RECONCILIATION REPORT- reconciles pending execution of affidavits on the system of record to [REDACTED]
- QC ACCEPTED REVIEW REPORT– monitors accounts flowing through the pipeline as the process was designed; details documents are reviewed

within established timelines; identifies accounts pending document drafts, which have not been sent over for quality review; and details all documents that have been reviewed and notated by quality review

- FEES WAIVED BY FCL REP WITHOUT AFFIDAVIT RECEIVED - captures accounts where the employee has waived a fee outside of the procedural guidelines.

Legal Entity Validation Reporting (4 daily reports to support the Records Management team):

- █████ Assignment Confirmation Tracking – details assignments that have been sent to Records but not confirmed in █████ █████ is an application used to track and prepare mortgage releases and assignments.
- █████ Assignment Recording Cost Report– provides a monthly summary of recording fees disbursed on assignments for expense purposes.
- █████ Assignments Pipeline – identifies assignments that have not been sent to the County or State
- █████ Assignments Completion Report – identifies completed assignments in █████

Third Party Management Reporting (2 daily reports to support the Vendor Management teams):

- CLMS DISBURSEMENTS-GLOBAL-ATTORNEY EXPENSE CODES - 25SEP11; CLMS DISBURSEMENTS-DRM- ATTORNEY EXPENSE CODES - 25SEP11- reviews the reasonability, recoverability and frequency of the attorney's fees and costs.
- █████ REO INVOICES ENTERED - 25SEP11- reviews the reasonability, recoverability and frequency of the attorney's fees and costs.

Critical Operational Reporting (1 weekly report to support the Senior Management team):

- Affidavit Execution Summary – monitors executed affidavit volume.

As of September 12, 2011, HBIO and HBUS have completed a monthly Board Reporting package for the HNAH Board of Directors, the HNAH Risk Committee, and the Executive Compliance Steering Committee of HBIO and HBUS to highlight HBIO and HBUS foreclosure enhancement program status, compliance risk assessment results and key operational metrics related to residential mortgage loan servicing, Loss Mitigation, loan modification, foreclosure, and MERS activities. The Board Reporting package was first presented on July 25, 2011, to the committees. The Board Reporting package will continue to evolve as metrics are developed and enhanced.

In addition to the reports mentioned above, 10 key monthly MIS reports were also recently developed to support the Compliance metrics included in the Board Reporting package (please see attached █████ & Board Deck Reporting, Foreclosure

and Account Servicing Review):

- SCRA Accounts Report (3) – identifies active SCRA accounts with an interest rate greater than six percent, active accounts in foreclosure or REO status and active accounts with inaccurate credit bureau reporting.
- Rescinded Foreclosure Sales Report – identifies rescinded foreclosure sales as a percent of total foreclosure sales, by controllable, non-controllable, and HBIO or HBUS decision
- Lost Note Affidavits – provides the number of lost note affidavits versus the total number of note validations completed.
- Usury – analyzes the interest paid over the life of the loan to ensure the interest amount was not excessive in regards to the state maximum.
- ARM Change Notice –ensures proper notification to borrower upon ARM rate adjustment.
- Adverse Action – identifies accounts that have not been decisioned within 30 days or adverse action letter not sent within 30 days of application.
- Denial Letters – verifies that HSBC sends a letter to the customer within 5 days of denial.
- Escrow Analysis – identifies accounts where escrow analysis has not been completed on an annual basis.

In addition to the aforementioned reports, MERS Reporting is also utilized (9 reports) – reconciles active and inactive loans between the MERS system and HSBC's servicing system. HSBC platforms included are [REDACTED] and [REDACTED] covering active and inactive accounts in June and July, 2011. These platforms are used to compare MERS accounts on the HSBC system to the MERS system of record. The following reports, which reconcile active and inactive loans between the MERS system and HSBC's servicing system, are attached:

- MERS OB_HMS Compare Active
- MERS OB_HMS Compare Inactive
- MERS OB_CLMS Compare Active
- MERS OB_CLMS Compare Inactive

Enhancement to Processes / Programs:

HBIO and HBUS will expand the Board Reporting package as new MIS reports are developed. Additional supplemental reporting will be in place by November 30, 2011. The following eight monthly Compliance-related reports are under development for the HNAH Board of Directors at this time:

- Redemption Period Reporting – used to ensure adherence to redemption period prior to transferring property into REO.
- Evictions – will identify accounts that fall outside the state time requirements for evictions.
- BPO Fees – will identify accounts where a 2nd BPO was ordered within 90 days.
- Demand Letters – will be used to ensure accounts in foreclosure received

breach letter within state and federal guidelines.

- State Specific Letters – will be used to ensure accounts in foreclosure received breach letter within state guidelines.
- Lender Placed Insurance (LPI) – will be used to verify customer receives notification prior to placing insurance.
- Late Fees – will be used to identify accounts in foreclosure to ensure fees assessed comply with state and federal guidelines.
- Modifications with no decision in 30 days – will be used to ensure all applications for modifications receive notification of the decision within 30 days.

Additionally, the appropriate Mortgage Operations and MIS senior management have reviewed the planned and any future MIS enhancements to ensure that they have been created to meet the requirements of the Order.

Documents to be submitted with the Action Plan

- CONSUMER AND MORTGAGE LENDING AND MORTGAGE CORPORATION - FORECLOSURE FLASH JUNE 2011
- CONSUMER AND MORTGAGE LENDING MODIFICATION AND RE-AGE FLASH REPORT MAY 2011
- Mortgage Corporation Governance Review North America Risk
- FORECLOSURE AND REO PERFORMANCE DASHBOARD Default MIS
- REO Inflow Outflow Inventory
- Foreclosure and Account Servicing Review (see updated version below)
- POMONA REO SALES ANALYSIS May 2011 NorthAmericaRisk – MIS Default Reporting
- HSBC MORTGAGE SERVICES CLMS APPROVED INVENTORY REPORT
- HSBC MORTGAGE SERVICES HMS APPROVED INVENTORY REPORT
- HSBC MORTGAGE SERVICES CLMS AND MOD PROCESSING TIME LINES MONTHLY DASHBOARD
- County Compliance Risk Outstanding Report – 10 Days or Less Remaining HSBC CONSUMER LENDING
- HSBC CONSUMER AND MORTGAGE LENDING INSURANCE AND ESCROW CIT PRODUCTIVITY-MTD
- Summary of CML and MC Care Services Performance in June 2011
- Board Report - Detailed Metrics List

Additional documents completed for re-submission of Action Plan

- ACTIVE FCL RECON BTW INTERNAL SYS AND [REDACTED] ACTIVE FCL IN INTERNAL SYS - NOT ACTIVE FCL IN INTERNAL SYS
- ACTIVE FCL RECON BTW INTERNAL SYS AND [REDACTED] ACTIVE FCL IN INTERNAL SYS - NOT ACTIVE FCL IN [REDACTED]
- ACTIVE FCL RECON BTW INTERNAL SYS AND [REDACTED] MANUAL REVIEW REQUIRED
- AFF RECEIVED OR EXECUTED - IS34718

- Affidavit Execution Summary
- Affidavit Fee Exceptions
- AFFIDAVIT IN PROCESS REPORT
- [REDACTED] ELM SPOC WAS - IS REPORT
- [REDACTED] PROACTIVE SPOC WAS - IS REPORT
- [REDACTED] REO INVOICES ENTERED - 25SEP11
- [REDACTED] SPOC MISSING LIQ ASSIGNMENT REPORT
- CLMS DISBURSEMENTS-DRM- ATTORNEY EXPENSE CODES - 25SEP11
- CLMS DISBURSEMENTS-GLOBAL-ATTORNEY EXPENSE CODES - 25SEP11
- CLMS SPOC MISSING LIQ ASSIGNMENT REPORT
- [REDACTED] & Board Deck Reporting
- EXECUTED AFFIDAVIT REPORT (EAR)
- FEES WAIVED BY FCL REP WITHOUT AFFIDAVIT RECEIVED
- Foreclosure and Account Servicing Review
- HMS SPOC MISSING LIQ ASSIGNMENT REPORT
- HSBC Consumer and Mortgage Lending Regulations and Risk Statement Gap Analysis Results
- MERS OB_CLMS Compare Active
- MERS OB_CLMS Compare Inactive
- MERS OB_HMS Compare Active
- MERS OB_HMS Compare Inactive
- [REDACTED] AFFIDAVIT PENDING - 26SEP11
- [REDACTED] ELM SPOC WAS - IS REPORT
- [REDACTED] PROACTIVE SPOC WAS - IS REPORT
- MTD HMC SPOC INVENTORY BY DAY
- MTD HMC SPOC INVENTORY BY ISSUE REPORT
- MTD HMC SPOC TURN AROUND TIME REPORT
- MTD HMC SPOC VOLUME REPORT BY CONTACT - REASON - RESOLUTION CODE REPORT
- OCC_FRB Key Reports - 09_12_11
- PEAR RECONCILIATION REPORT
- QC ACCEPTED REVIEW REPORT
- [REDACTED] Assignment Confirmation Tracking
- [REDACTED] Assignment Recording Cost Report
- [REDACTED] Assignments Completion Report
- [REDACTED] Assignments Pipeline
- SPOC STIP INVENTORY REPORT [REDACTED] ACCTS AS OF 26SEP11
- SPOC STIP INVENTORY REPORT [REDACTED] ACCTS AS OF 25SEP11

Key HSBC Contacts for the Action Plan

- [REDACTED] Regional Head of Retail Collections
- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED] SVP Default Services

- [REDACTED] SVP Default Services, Mortgage Servicing
- [REDACTED] SVP Servicing Administration, HSBC Consumer and Mortgage Lending
- [REDACTED], SVP General Compliance

Articles 10(b), 10(c), 10(d), 10(d).i

FRB Order Reference:	<i>Article 10(b)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>a timetable for completion of the review;</i>			
FRB Order Reference:	<i>Article 10(c)</i>	Corresponding OCC Article:	<i>VIII.1.b.i</i>
<i>a timetable for the remediation of any identified deficiencies;</i>			
FRB Order Reference:	<i>Article 10(d)</i>	Corresponding OCC Article:	<i>VIII.1.b.i</i>
<i>new systems or enhancements to the MIS to:</i>			
FRB Order Reference:	<i>Article 10(d).i</i>	Corresponding OCC Article:	<i>VIII.1.b.i</i>
<i>monitor compliance with the Legal Requirements, supervisory guidance of the Board of Governors, and the requirements of this Order;</i>			
Action Plan			
<p>HBIO and HBUS have processes in place to evaluate the MIS changes, upgrades, and associated timetables necessary to monitor compliance with all applicable Legal Requirements, supervisory guidance of the Board of Governors, and the requirements of this Order.</p> <p><u>Existing Processes / Programs:</u></p> <p>The [REDACTED] ([REDACTED] tool is currently utilized to store and track applicable Legal Requirements and supervisory guidance. [REDACTED] is a database implemented in 2005 to better organize Legal Requirements and the existing risk statements and controls to ensure compliance with the noted requirements. [REDACTED] is used to maintain record and store all Compliance detail level risks and regulations identified by business management in conjunction with the Compliance Officers. As of June 30, 2011, a [REDACTED] gap analysis was completed to ensure that risk statements for all Legal Requirements that impact foreclosure, Loss Mitigation, and mortgage servicing are documented within [REDACTED]. The objective of the gap analysis was two-fold: (1) to identify missing risk statements and (2) to identify control gaps for all applicable risk statements. The final gap analysis report was published on August, 26, 2011. All gaps related to Default have been identified and updated into the [REDACTED] system. MIS report requirements were defined leveraging the [REDACTED] gap analysis and conducting discussions with business owners. As of September 12, 2011, HBIO and HBUS have developed four reports to support the additional risk statements documented in [REDACTED].</p> <p>[REDACTED] Reports (4 daily reports to support the Servicing and Foreclosure teams):</p> <ul style="list-style-type: none"> • PIF Report (Escrow) - identifies loans that have paid in full and require a short 			

year escrow statement.

- Interest on Escrow (IOE) Report - monitors our compliance with state requirements for interest on escrow and confirms that interest is credited to the escrow balance.
- Enhanced Usury Report – analyzes the interest paid over the life of the loan to ensure the interest amount was not excessive in regards to the state maximum
- Short Sale/Deed in Lieu new BK filings Report (CML) – identifies loans with a new bankruptcy filing within active Short Sale and Deed in Lieu populations.

Furthermore, business owners across the four major functional areas – Residential Mortgage Servicing, Loss Mitigation, foreclosure and bankruptcy – initiated a review to determine whether sufficient MIS reports exist (reports identified are listed within article 10(a)) to monitor compliance with the Legal Requirements and supervisory guidance (including the requirements of this Order). Residential Mortgage Servicing business owners completed the review for Loss Mitigation and foreclosure in June 2011. The review for bankruptcy was completed by September 12, 2011. As an output of the review completed for Loss Mitigation, foreclosure and bankruptcy, the following MIS milestones have been completed:

- Identify applicable Legal Requirements in [REDACTED] – Complete
 - Review, reconciliation, and approval of reporting enhancements were completed as of September 12, 2011.
- Perform reporting gap analysis – Complete
 - Based upon business review, twenty (20) of the initial twenty-five (25) reporting needs are required to monitor compliance with the Legal Requirements and supervisory guidance (please see attached HSBC Consumer and Mortgage Lending Regulations and Risk Statement Gap Analysis Results).
- 98% of reporting requirements have been identified as of September 12, 2011. Two of the three [REDACTED] reports are pending requirements as part of the Disbursements workstream.
- Over 35 key reports were developed as of September 12, 2011. Article 10(a) above, outlines the enhanced reports.

Enhancement to Processes / Programs:

HBIO and HBUS continue to enhance MIS reporting to monitor compliance with the applicable Legal Requirements, supervisory guidance and the requirements of the Order. As described above, HBIO and HBUS use an existing internal source – [REDACTED] – to identify the applicable Legal Requirements and supervisory guidance (including the requirements of the Order) across functional areas. As a result of the [REDACTED] gap analysis that was conducted, three (3) [REDACTED] and eight (8) Compliance related reports are under development and are expected to be completed by November 30, 2011.

[REDACTED] Reports (3 daily reports to support the Foreclosure, Bankruptcy, and

Operational Risk teams):

- Short Sale/Deed in Lieu new BK filings Report (HBUS) – identifies loans with a new bankruptcy filing within active Short Sale and Deed in Lieu populations.
- BK Fees post filing - identifies all loans with fees charged post proof of claim (POC) filing, and whether the fees are listed as Recoverable vs. Non-recoverable
- Total Fees – ensures fees are assessed to the borrower within state and federal guidelines.

Compliance Reports (8 monthly reports to support the Board reporting package as well as the Foreclosure, Loss Mitigation and Operational Risk teams):

- Redemption Period Reporting - used to ensure adherence to redemption period prior to transferring property into REO
- Evictions - will identify accounts that fall outside the state time requirements for evictions
- BPO Fees - identifies accounts that have ordered a 2nd BPO within 90 days.
- Demand Letters - will be used to ensure accounts in foreclosure received breach letter within state and federal guidelines
- State Specific Letters - will be used to ensure accounts in foreclosure received breach letter within state guidelines
- Lender Placed Insurance (LPI) - will be used to verify customer receives notification prior to placing insurance.
- Late Fees - will be used to identify accounts in foreclosure to ensure fees assessed comply with state and federal guidelines.
- Modifications with no decision in 30 days - will be used to ensure all applications for modifications receive notification of the decision within 30 days.

Using results from the bankruptcy review, five reports required enhancement or creation. These reports will be developed by no later than December 31, 2011.

Bankruptcy Reports (Reports 1-4 are daily and report 5 will be monthly to support the Bankruptcy Operations team):

- Filing Identification (HSBC [REDACTED] platform) – identifies new bankruptcy filings segmented by systemic versus manual.
- MFR (Motion For Relief) Reporting (HSBC [REDACTED] platform) – identification of motion for relief
- Agreed Order (HSBC [REDACTED] platform) – identification of agreed order
- Discharge/Dismissal (HSBC [REDACTED] platform) – identification of discharge/dissmissals
- Automated Key Metrics (CML and HBUS) - Performance & Risk Indicators (Bankruptcy Status Report) – executive summary report highlighting key bankruptcy metrics (i.e. inventory, productivity, and exception)

The following MIS milestones and timelines have been defined for implementing

reporting enhancements and development:

- Supplemental report development – September 13, 2011 through October 28, 2011
- Supplemental report testing and implementation – September 13, 2011 through November 30, 2011

Documents to be submitted with the Action Plan

- Testing and Risk Assessment Compliance Unit (TRAC) Procedures Manual
- HSBC – North America Compliance Risk Mitigation Program

Key HSBC Contacts for the Action Plan

- [REDACTED] Regional Head of Retail Collections
- [REDACTED], SVP General Compliance
- [REDACTED] SVP Default Services
- [REDACTED] SVP Default Services, Mortgage Servicing
- [REDACTED] SVP Servicing Administration, HSBC Consumer and Mortgage Lending
- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO

Article 10(d).ii

FRB Order Reference:	<i>Article 10(b)</i>	Corresponding OCC Article:	N/A
<i>a timetable for completion of the review;</i>			
FRB Order Reference:	<i>Article 10(c)</i>	Corresponding OCC Article:	<i>VIII.1.b.i</i>
<i>a timetable for the remediation of any identified deficiencies;</i>			
FRB Order Reference:	<i>Article 10(d)</i>	Corresponding OCC Article:	<i>VIII.1.b.i</i>
<i>new systems or enhancements to the MIS to:</i>			
FRB Order Reference:	<i>Article 10(d).ii</i>	Corresponding OCC Article:	<i>VIII.1.b.ii</i>
<i>ensure the ongoing accuracy of records for all serviced mortgages, including, but not limited to, records necessary to establish ownership and the right to foreclose by the appropriate party for all serviced mortgages, outstanding balances, and fees assessed to the borrower;</i>			
Action Plan			
<p>As described below, HBIO and HBUS have enhanced their reporting, within an established timetable (set forth below), to ensure the ongoing accuracy of records for all serviced mortgages, including, but not limited to, records necessary to establish ownership and the right to foreclose by the appropriate party for all serviced mortgages, outstanding balances and fees assessed to the borrower to meet the requirements of the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>HBIO and HBUS have existing MIS reports (see Action Plan for Article 10(a), above) related to Residential Mortgage Servicing activities.</p>			
<p>Business owners across the key functional areas – Residential Mortgage Servicing, Loss Mitigation, foreclosure, and bankruptcy – have worked with the MIS team to perform a review of the Order to identify additional reports that would be useful in ensuring the ongoing accuracy of records (reports identified are listed within article 10(a)) to monitor compliance with the Legal Requirements and supervisory guidance (including the requirements of this Order). As of September 12, 2011, Residential Mortgage Servicing business owners completed the review for Loss Mitigation, foreclosure and bankruptcy. As an output of the review completed for Loss Mitigation, foreclosure and bankruptcy, the following MIS milestones have been completed:</p>			
<ul style="list-style-type: none"> • Identify applicable Legal Requirements in [REDACTED] – Complete <ul style="list-style-type: none"> ○ Review, reconciliation, and approval of reporting enhancements were 			

completed as of September 12, 2011.

- Perform reporting gap analysis – Complete
 - Based upon business review, twenty (20) of the initial twenty-five (25) reporting needs are required to monitor compliance with the Legal Requirements and supervisory guidance.
- 98% of reporting requirements have been identified as of September 12, 2011. Two of the three [REDACTED] reports are pending requirements as part of the Disbursements workstream.
- As noted above, over 35 key reports were developed as of September 12, 2011

Enhancement to Processes / Programs:

HBIO and HBUS continue to enhance MIS reporting to monitor compliance with the applicable Legal Requirements, supervisory guidance and the requirements of the Order. Three (3) [REDACTED] and eight (8) Compliance related reports are expected to be completed by November 30, 2011.

[REDACTED] Reports (3 daily reports to support the Foreclosure, Bankruptcy, and Operational Risk teams):

- Short Sale/Deed in Lieu new BK filings Report (HBUS) – identifies loans with a new bankruptcy filing within active Short Sale and Deed in Lieu populations.
- BK Fees post filing - identifies all loans with fees charged post proof of claim (POC) filing, and whether the fees are listed as Recoverable vs. Non-recoverable
- Total Fees – ensures fees are assessed to the borrower within state and federal guidelines.

Compliance Reports (8 monthly reports to support the Board reporting package as well as the Foreclosure, Loss Mitigation and Operational Risk teams):

- Redemption Period Reporting - used to ensure adherence to redemption period prior to transferring property into REO
- Evictions - will identify accounts that fall outside the state time requirements for evictions
- BPO Fees - identifies accounts that have ordered a 2nd BPO within 90 days.
- Demand Letters - will be used to ensure accounts in foreclosure received breach letter within state and federal guidelines
- State Specific Letters - will be used to ensure accounts in foreclosure received breach letter within state guidelines
- Lender Placed Insurance (LPI) - will be used to verify customer receives notification prior to placing insurance.
- Late Fees - will be used to identify accounts in foreclosure to ensure fees assessed comply with state and federal guidelines.
- Modifications with no decision in 30 days - will be used to ensure all applications for modifications receive notification of the decision within 30 days.

The following MIS milestones and timelines have been defined for implementing reporting enhancements and development:

- Supplemental report development – September 13, 2011 through October 28, 2011
- Supplemental report testing and implementation – September 13, 2011 through November 30, 2011

As described above, as a result of the MIS gap analysis, HBIO and HBUS continue to develop additional MIS reports (as needed) to provide metrics regarding the ongoing accuracy of records for all serviced mortgages, including records necessary to establish ownership and the right to foreclose, outstanding balances, and fees assessed to the borrower, in accordance with the MIS requirements of the Order.

Documents to be submitted with the Action Plan

Not Applicable

Key HSBC Contacts for the Action Plan

- [REDACTED] Regional Head of Retail Collections

Article 10(d).iii

FRB Order Reference:	<i>Article 10(d).iii</i>	Corresponding OCC Article:	<i>VIII.1.b.iii</i>
<i>ensure that the Loss Mitigation and foreclosure staffs have sufficient and timely access to information provided by the borrower regarding Loss Mitigation and foreclosure activities; and</i>			
Action Plan			
<p>HBIO and HBUS have and will continue to have a process in place that allows multiple functional areas timely access to documentation and information for Loss Mitigation and foreclosure activities. HBIO and HBUS systems and processes allow multiple functional areas to access documentation and information for Loss Mitigation and foreclosure activities, thereby enabling departments to communicate borrower-related actions and identify the need for additional borrower information, as well as make and communicate decisions on loan modifications, postponement or hold of foreclosure activities.</p> <p>A key component of this information management process is the use of imaging software. Multiple groups can view imaged documentation, which is maintained on an imaging repository for the life of the loan.</p> <p>As further detailed in the Action Plan to Article 5, all customer contact is documented on the system of record which is designed to allow Loss Mitigation and foreclosure staff sufficient and timely access to the current status and comments regarding a borrower's account (See page 3 of Account Level Documentation Policy ALL, which states, "Any customer contact or account activity, depending on the materiality of the conversation, must be documented at the account level on the appropriate servicing system"). The requirement to document customer account activity on the system of record provides Loss Mitigation and foreclosure staff with sufficient and timely access to current status and comments regarding a borrower's account.</p>			
Documents to be submitted with the Action Plan			
<ul style="list-style-type: none">• Account Level Documentation Policy ALL			
Key HSBC Contacts for the Action Plan			
<ul style="list-style-type: none">• Action Plan for Article 5, Section (e)			

Article 10(d).iv

FRB Order Reference:	<i>Article 10(d).iv</i>	Corresponding OCC Article:	<i>N/A</i>
<i>ensure that the single point of contact has sufficient and timely access to information provided by the borrower regarding Loss Mitigation and foreclosure activities; and</i>			
Action Plan HBIO and HBUS have and will continue to have a process in place that allows multiple functional areas timely access to documentation and information for Loss Mitigation and foreclosure activities. HBIO and HBUS systems and processes allow multiple functional areas, including the single point of contact, to access documentation and information for Loss Mitigation and foreclosure activities, thereby enabling departments to communicate borrower-related actions and identify the need for additional borrower information, as well as make and communicate decisions on loan modifications, postponement or hold of foreclosure activities. Pursuant to the Account Level Documentation Policy, attached, all customer contact must be documented on the system of record which will ensure that any authorized employee, including SPOC agents, is able to view the current status and comments regarding a customer's account (See page 3 within the Account Level Documentation Policy ALL, which states, "Any customer contact or account activity, depending on the materiality of the conversation, must be documented at the account level on the appropriate servicing system"). As further detailed in the Action Plan to Article 5, SPOC agents will have access to relevant borrower information via existing systems and processes, including information for Loss Mitigation and foreclosure activities.			
Documents to be submitted with the Action Plan <ul style="list-style-type: none">• Account Level Documentation Policy ALL			
Key HSBC Contacts for the Action Plan <ul style="list-style-type: none">• Action Plan for Article 5, Section (e)			

Article 10(e)

FRB Order Reference:	<i>Article 10(b)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>a timetable for completion of the review;</i>			
FRB Order Reference:	<i>Article 10(c)</i>	Corresponding OCC Article:	<i>VIII.1.b.i</i>
<i>a timetable for the remediation of any identified deficiencies;</i>			
FRB Order Reference:	<i>Article 10(d)</i>	Corresponding OCC Article:	<i>VIII.1.b.i</i>
<i>new systems or enhancements to the MIS to:</i>			
FRB Order Reference:	<i>Article 10(e)</i>	Corresponding OCC Article:	<i>VIII.1.c</i>
<i>testing the integrity and accuracy of the new or enhanced MIS to ensure that reports generated by the system provide necessary information for adequate monitoring and quality controls.</i>			
Action Plan			
<p>As described below, HBIO and HBUS have existing processes and procedures to test the integrity and accuracy of new or enhanced MIS, but will enhance control procedures to fully meet the requirements of the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>HBIO and HBUS have internal control procedures for on-going testing of the integrity and accuracy of the enhanced MIS to verify that reports generated by the system provide necessary information for adequate monitoring and quality controls. The current control environment for reporting includes an initial validation intended to ensure that reporting requests from the business are defined accurately. Other controls include tests for validation against similar existing reports and loan-level audits. Once MIS completes a quality control review of the reports, the reports are provided to the business for user acceptance testing and management sign-off. Reports will not go into production if business owner approval is not received through a sign-off. Any remediation efforts to resolve issues will go through normal MIS processes. The MIS quality control review is a first line of defense. The quality review is conducted by MIS personnel and results are reviewed by internal MIS management. For additional detail, see the aforementioned procedures and processes documented on page 11, Section 5.0 of the North America Risk – Servicing MIS Procedures Manual.</p>			
<p>HBIO and HBUS utilize the TRAC function to complete independent testing and compliance reviews. As a normal part of their review, TRAC reviews MIS reporting to ensure it adequately covers the risks (See Testing and Risk Assessment Compliance</p>			

Unit (TRAC) Procedures Manual which details the TRAC unit, responsibilities and provides an explanation of compliance review procedures. Additionally, see page 31 of the HSBC – North America Compliance Risk Management Program Manual, specifically section “3.5.4 HSBC - North America Testing and Risk Assessment (“TRAC”) Unit” where TRAC-specific roles and responsibilities are depicted).

In addition, the MIS team has instituted a process in November, 2010 whereby a report is generated that identifies reports that are approaching their 12-month recertification deadline. The MIS management team receives and reviews an automated monthly report that identifies any current reports that require recertification. Recertification is defined as report criteria that has not been reviewed or updated in the last twelve months. Upon review of the recertification report, MIS submits a request to the business owner. The business owner is required to review the existing criteria and certify the report output is accurate. The certification is stored within a workflow tool with User Acceptance Testing approval.

Enhancement to Processes / Programs:

Group Audit North America will incorporate MIS and Management Reporting into the scope of the 2011 Default Services Audit to perform detailed testing and validation of reports. Although MIS is already included in existing audits, it will be expanded to include reports monitoring short sales and deed in lieu settlement activity, compliance with regulatory requirements and accuracy of records, among others. (See Internal Audit action plans, Articles 16 and 17 for further details on HSBC audit program).

As outlined above and detailed on page 11 of the North America Risk - Servicing MIS Procedures Manual Section 5.0 Reporting Audit Procedures, the MIS group within HBIO and HBUS currently completes a quality review on new or enhanced MIS reports to test the integrity and accuracy of the reports to ensure they provide necessary information for adequate monitoring and quality controls. Additionally, the business must also perform user acceptance testing to provide management sign-off on the integrity and accuracy of the developed report. To further ensure integrity and accuracy of new or enhanced reports in accordance with the requirements of the Order, Group Audit North America will also incorporate detail testing and validation of the reports into its 2011 Default Services Audit. (See Internal Audit action plans, Articles 16 and 17 for further details on HSBC audit program)

Documents to be submitted with the Action Plan

- North America Risk - Servicing MIS Procedures Manual
- HSBC – North America Compliance Risk Management Program Manual
- Testing and Risk Assessment Compliance Unit (TRAC) Procedures Manual

Key HSBC Contacts for the Action Plan

- [REDACTED], Regional Head of Retail Collections