Mortgage Enhancements
HSBC North America Holdings, Inc.
HSBC Finance Corporation
Action Plan Response to FRB Consent Order
Article 2 Board Oversight

Final Pending Approval from the Compliance Committee

December 2, 2011

Section 2: Board Oversight

Article 2

FRB Order Reference:	*Article 2*	Corresponding OCC Article:	*XI.4*

Within 60 days of this Order, the boards of directors of HNAH and HBIO shall submit to the Reserve Bank an acceptable written plan to strengthen the boards' oversight of the Mortgage Servicing Companies, including the boards' oversight of risk management, internal audit, and compliance programs concerning residential mortgage loan servicing, Loss Mitigation, and foreclosure activities conducted by the Mortgage Servicing Companies. The plan shall also describe the actions that the boards of directors will take to improve the Mortgage Servicing Companies' residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, and a timeline for actions to be taken. The plan shall, at a minimum, address, consider, and include:

Action Plan

HNAH has instituted the HNAH's Board of Directors' Plan to Improve its Oversight of HNAH's Compliance Risk Management Program. On June 8, 2011, the Board of Directors of HNAH adopted a resolution to enhance the Board oversight of HNAH's Compliance Risk Management Program with regard to the Order.

As further detailed herein, the Board oversight plan describes the actions that the Boards of Directors of HNAH, HBIO and the Bank have taken and will take including actions to enhance Board oversight over ERM and Compliance programs as they relate to residential mortgage loan servicing, Loss Mitigation and foreclosure activities, as well as to improve the activities of the Mortgage Servicing Companies and the Bank activities to improve the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations of the Mortgage Servicing Companies and the Bank, and a timeline for the actions to be taken. Pursuant to the oversight plan, each Board has expanded the responsibilities of its respective Compliance Committee to oversee the remediation programs required by the Order, to provide on-going oversight for HNAH, HBIO, and the Bank, and to provide regular reporting to the full Board. The plan further provides that the enhanced Board oversight will reinforce that HNAH and its subsidiaries operate in compliance with both the letter and spirit of applicable federal and state laws, rules, regulations and guidance. In adopting resolutions on May 25, 2011, directing management to take all action necessary to establish and maintain strong governance and procedural controls over residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and to utilize the full financial and managerial resources of HNAH, HBIO, and the Bank to comply with the Order, the Boards have demonstrated their commitment to executing their oversight responsibilities.

Further details regarding Board oversight are outlined in the Action Plans for Article 2, sections (a) through (l).

An analysis by Residential Mortgage Servicing Management has been completed to identify existing processes that address requirements of the Order and areas requiring further enhancement. The scope of this analysis included a review of all existing measures of Board Oversight, including those processes set forth below, against the requirements of the Order. The analysis process and the results thereof are further described in the Action Plan for each section of Article 2 herein. The existing processes reviewed and required enhancements identified include, without limitation, the following:

Existing Processes	Required Enhancements
• Formal Enterprise Risk Management Program which provides proper risk management of independent contractors, consulting firms, law firms, or other third parties who are engaged to support residential mortgage loan servicing, Loss Mitigation, or foreclosure activities or operations. (See Article 2(b)) • Formal Enterprise Compliance Program, which establishes a consistent risk-based approach and oversight framework to manage compliance risk and to ensure compliance with the laws and regulations governing the activities of HBIO and HBUS. For further information, see the HSBC- North America Compliance Risk Management Program Manual. • New Risk and Control Assessment ("RCA") to replace the existing Operational Risk Self Assessment ("RSA"), to identify, assess, and monitor the key internal controls that mitigate the risks. (See Articles 2(a) and 2(k)) • Monthly Board of Directors Report package, which includes compliance risk assessment results and key	• Enhancing the Group ORIC framework, including the new RCA methodology and new internal control Target Operating Model ("TOM"). (See Article 2(a)) • Improving the quarterly progress reports to the Compliance Committees of the Boards, including metrics and on-going status of third-party risk management and a summary of key risk indicators. (See Article 2(b)) • Using the Testing and Risk Assessment Compliance ("TRAC") team and [redacted] ("[redacted]") to inventory applicable Legal Requirements, supervisory guidance and the requirements of this Order across functional areas, which will be used to determine the MIS requirements and define compliance metrics for inclusion within the Compliance Risk Assessment Dashboard. (See Article 2(d) and 2(l)) • Revising budget forecasts for procedures and policies to put in place to comply with the Orders. (See Article 2(f))

mortgage loan servicing operational metrics, as well as the development of the Compliance Risk Assessment Dashboard. (See Articles 2(d) and 2(l)) • Board resolution supporting funding and managerial resources for residential mortgage loan servicing, Loss Mitigation, and loan modification, detailed in the Approval of Board Commitment of Financial and Managerial Resources No_NA11-11, CF11-29, US11-39 documents. (See Articles 2(e) and 2(f)) • Process to evaluate resource capacity planning and management of workloads. (See Articles 2(e), 2(g), 2(h), and 2(j)). • Compliance Committee Structures for HNAH, HBIO, and HBUS, described in the Committee Charters and associated resolutions. (See Article 2(k)) • Enhance the Compliance Committee Charters to include oversight for the requirements of the Order. (See Article 2(k))	• Assessing the results of a Workload Review to determine staffing needs to support the Single Point of Contact initiative ("SPOC"). (See Article 2(h) and 2(j)) • Developing and building of Key Risk Indicators ("KRIs"). (See Article 2(k))

Documents to be submitted with the Action Plan

- Approval of Board Commitment of Financial and Managerial Resources No_NA11-11, CF11-29, US11-39
- HNAH'S BOARD OF DIRECTORS' PLAN TO IMPROVE ITS OVERSIGHT OF HNAH'S RESIDENTIAL MORTGAGE SERVICING COMPANIES
- HNAH'S BOARD OF DIRECTORS' PLAN TO IMPROVE ITS OVERSIGHT OF HNAH'S RESIDENTIAL MORTGAGE SERVICING COMPANIES_TRACKED CHANGES
- HNAH Compliance Committee Approval of Board Oversight Plan Resolution No_ NA11-19
- HBIO Compliance Committee Approval of Board Oversight Plan Resolution No_ CF11-30
- HBUS Compliance Committee Approval of Board Oversight Plan Resolution No_

US11-40 • HNAH Board Approval of Board Oversight Plan Resolution No_ NA11-19 • HBIO Board Approval of Board Oversight Plan Resolution No_ CF11-30 • HBUS Board Approval of Board Oversight Plan Resolution No_ US11-40 • HSBC NORTH AMERICA HOLDINGS INC. – Compliance Committee Report • HSBC FINANCE CORPORATION – Compliance Committee Report • HSBC USA INC. HSBC BANK USA, N.A. – Compliance Committee Report • HSBC USA INC. HSBC BANK USA, N.A. – CHARTER OF THE COMPLIANCE COMMITTEE • HSBC FINANCE CORPORATION – CHARTER OF THE COMPLIANCE COMMITTEE • HSBC NORTH AMERICA HOLDINGS INC. – CHARTER OF THE COMPLIANCE COMMITTEE
Key HSBC Contacts for the Action Plan • [redacted] CIO & Head of Relationship Management HBIO

Article 2(a)

FRB Order Reference:	*Article 2(a)*	**Corresponding OCC Article:**	*N/A*
Policies to be adopted by the board of directors of HNAH that are designed to ensure that HNAH's enterprise-wide risk management ("ERM") program provides proper risk management with respect to the Bank's and the Mortgage Servicing Companies' residential mortgage loan servicing, Loss Mitigation, and foreclosure activities particularly with respect to compliance with the Legal Requirements, and supervisory standards and guidance of the Board of Governors as they develop;			

Action Plan

As discussed below, the existing risk management framework ensures that HNAH's enterprise-wide risk management program provides proper risk management with respect to the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities of the Bank and the Mortgage Servicing Companies, particularly with respect to compliance with the Legal Requirements and supervisory standards and guidance of the Board of Governors as they develop. However, HNAH is enhancing its operational risk assessment framework, in part to ensure full compliance with the Order. These enhancements, as further described below, include a new Risk and Control Assessment methodology and Internal Control Target Operating Model ("TOM"). Residential Mortgage Servicing Management believes that the existing risk management framework, together with the enhancements thereto, will ensure HNAH's ERM program provides proper risk management with respect to the residential mortgage loan servicing, Loss Mitigation and foreclosure activities of the Bank and the Mortgage Servicing Companies in compliance with the requirements of the Order.

The HNAH Risk Management Framework was most recently reviewed and approved by the HNAH Board Audit Committee in December 2010. The HNAH Risk Management Program was enhanced throughout 2010 to meet the requirements of the Federal Reserve Board Memorandum of Understanding ("MOU") issued in 2009. A comprehensive risk management plan was developed per the MOU requirements, and all elements of the risk management plan have been implemented as of February 2011. The Risk function continues to mature processes put in place during 2010 to evidence and support sustainability. We take a continuous improvement approach to risk management and, accordingly, establish annual objectives centered on strengthening our risk management framework, as described in the HSBC North America (HNAH) Risk Management Framework in its entirety.

Based on the aforementioned changes to the Risk Management framework, no changes to the Enterprise Risk Management ("ERM") policies were made as a result of the Consent Order. Specific enhancements resulting from the Order were instituted at the Business-level (see Articles 15 for additional detail related to the business-level changes resulting from the Order and the business level adoption of the ERM policy). The information noted below provides a top-down overview of the Risk Management

Structure beginning with the Board of Directors. Additionally, please see Articles 14 and 15 for greater detail on the specific Risk Management functions noted below.

Existing Processes / Programs:

1. Corporate Governance Structure and Reporting

Board of Directors – Board Structure The business is managed under the direction of the Board of Directors, whose principal responsibility is to enhance the long-term value of HSBC. The affairs of HSBC are governed by the Board of Directors, in conformity with the Corporate Governance Standards, in the following ways:

- providing input and endorsing business strategy formulated by management and HSBC;
- providing input and approving the annual operating, funding and capital plans prepared by management;
- monitoring the implementation of strategy by management and HSBC North America Holdings Inc. ("HNAH")'s performance relative to approved operating, funding and capital plans;
- reviewing and advising as to the adequacy of the succession plans for the Chief Executive Officer and senior executive management;
- reviewing and providing input to HSBC concerning evaluation of the Chief Executive Officer's performance;
- reviewing and approving the Corporate Governance Standards and monitoring compliance with the standards;
- assessing and monitoring the major risks facing HNAH consistent with the Board of Director's responsibilities to HSBC; and
- monitoring the risk management structure designed by management to ensure compliance with HSBC policies, ethical standards and business strategies.

1.1. Board of Directors – Committees and Charters The Board of Directors of HNAH has standing committees which include: the Audit Committee, Risk Committee, and the Compliance Committee. The charters of the Audit Committee, the Risk Committee, the Compliance Committee, as well as our Corporate Governance Standards, of HNAH's subsidiaries, HSBC Finance Corporation and HSBC USA Inc. are available on HSBC's website at www.us.hsbc.com. Information from the committees noted below is communicated back to the respective sub-committees and the businesses, via formal minutes and action items maintained by the board committees.

1.1.1. *Audit Committee* The Audit Committee, which was separated from the Risk Committee into its own committee following the Board meeting held in May 2011 is responsible, on behalf of the Board of Directors, for oversight and advice to the Board of Directors with respect to:

- the integrity of HNAH's financial reporting processes and systems of internal controls over financial reporting;
- compliance with legal and regulatory requirements that may have a material

impact on our financial statements;
- the qualifications, independence, performance and remuneration of the independent auditors;

1.1.2. *Risk Committee* The Risk Committee, which was separated from the Audit Committee into its own committee following the Board meeting held in May 2011, is responsible, on behalf of the Board of Directors, for oversight and advice to the Board of Directors with respect to:
- HNAH's risk appetite, tolerance and strategy;
- our systems of management, internal control and compliance to identify, measure, aggregate, control and report risk;
- management of capital levels and regulatory ratios, related targets, limits and thresholds and the composition of our capital;
- alignment of strategy with our risk appetite, as defined by the Board of Directors;
- maintenance and development of a supportive risk management culture that is appropriately embedded through procedures, training and leadership actions so that all employees are alert to the wider impact on the whole organization of their actions and decisions.

Additionally, as set forth in the Risk Committee charter, the Risk Committee has the responsibility, power, direction and authority to:
- receive regular reports from the Chief Risk Officer that enable the Audit and Risk Committee to assess the risks involved in the business and how risks are monitored and controlled by management;
- review and discuss with the Chief Risk Officer the adequacy and effectiveness of our risk management framework and related reporting;
- advise the Board of Directors on all high-level risks;
- approve with HSBC the appointment and replacement of the Chief Risk Officer (who also serves as the North America Regional Chief Risk Officer for HSBC);
- review and approve the annual key objectives and performance review of the Chief Risk Officer;
- seek appropriate assurance as to the Chief Risk Officer's authority, access, independence and reporting lines;
- review the effectiveness of our internal control and risk management framework in relation to our core strategic objectives;
- consider the risks associated with proposed strategic acquisitions or dispositions;
- meet periodically with representatives of HNAH's Asset Liability Management Committee ("ALCO") to discuss major financial risk exposures and the steps management has taken to monitor and control such exposures;
- review with senior management guidelines and policies to govern the process for assessing and managing various risk topics, including regulatory compliance risk, litigation risk and reputation risk.

At each quarterly Risk Committee meeting, the Chief Risk Officer makes a presentation to the committee describing key risks for HNAH, including operational and internal controls, market, credit, information security, capital management, liquidity and litigation. In addition the head of each Risk functional area is available to provide the Risk Committee a review of particular potential risks to HNAH and management's plan for mitigating these risks.

HNAH maintains a Risk Management Committee that provides strategic and tactical direction to risk management functions throughout HNAH, focusing on: credit, funding and liquidity, capital, market, operational, security, fraud, reputational and compliance risks. The Risk Management Committee is comprised of the function heads of each of these areas, as well as other control functions within the organization. The Chief Executive Officer is the Chair of this committee. On an annual basis, the Board reviews the Risk Management Committee's charter and framework. ALCO and the Operational Risk & Internal Control Committee (the "ORIC Committee"), report to the HNAH Risk Management Committee and, together, define the risk appetite, policies and limits; monitor excessive exposures, trends and effectiveness of risk management; and promulgate suitable risk management culture, focused within the parameters of their specific areas of risk.

ALCO provides oversight and strategic guidance concerning the composition of the balance sheet and pricing as it affects net interest income. It establishes limits of acceptable risk and oversees maintenance and improvement of the management tools and framework used to identify report, assess and mitigate market, interest rate and liquidity risks.

The ORIC Committee is responsible for oversight of the identification, assessment, monitoring, appetite for, and proactive management and control of, operational risk for HNAH, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The ORIC Committee is designed to ensure that senior management fully considers and effectively manages our operational risk in a cost-effective manner so as to reduce the level of operational risk losses and to protect

1.1.3. *Compliance Committee* The Compliance Committee was established in October 2009 to monitor and oversee corrective actions in response to the Memorandum of Understanding entered into with the Federal Reserve Bank of Chicago ("FRB") in October 2009. The responsibilities of the committee were expanded in August 2010 to monitor and oversee corrective actions in HNAH's compliance and anti-money laundering functions. The responsibilities and authority of the committee were again expanded following the issuance of the consent cease and desist order with the FRB to include oversight of management with respect to the responsibilities and deliverables of the Board of Directors as specified in the order. In December 2010, the Board of Directors approved revisions to the

Audit and Risk Committee charter to enhance oversight of the Compliance function and, in February 2011, delegated oversight of all compliance-related matters to the Compliance Committee. Pursuant to this delegated oversight, the Compliance Committee has the additional responsibilities, powers, direction and authorities to:

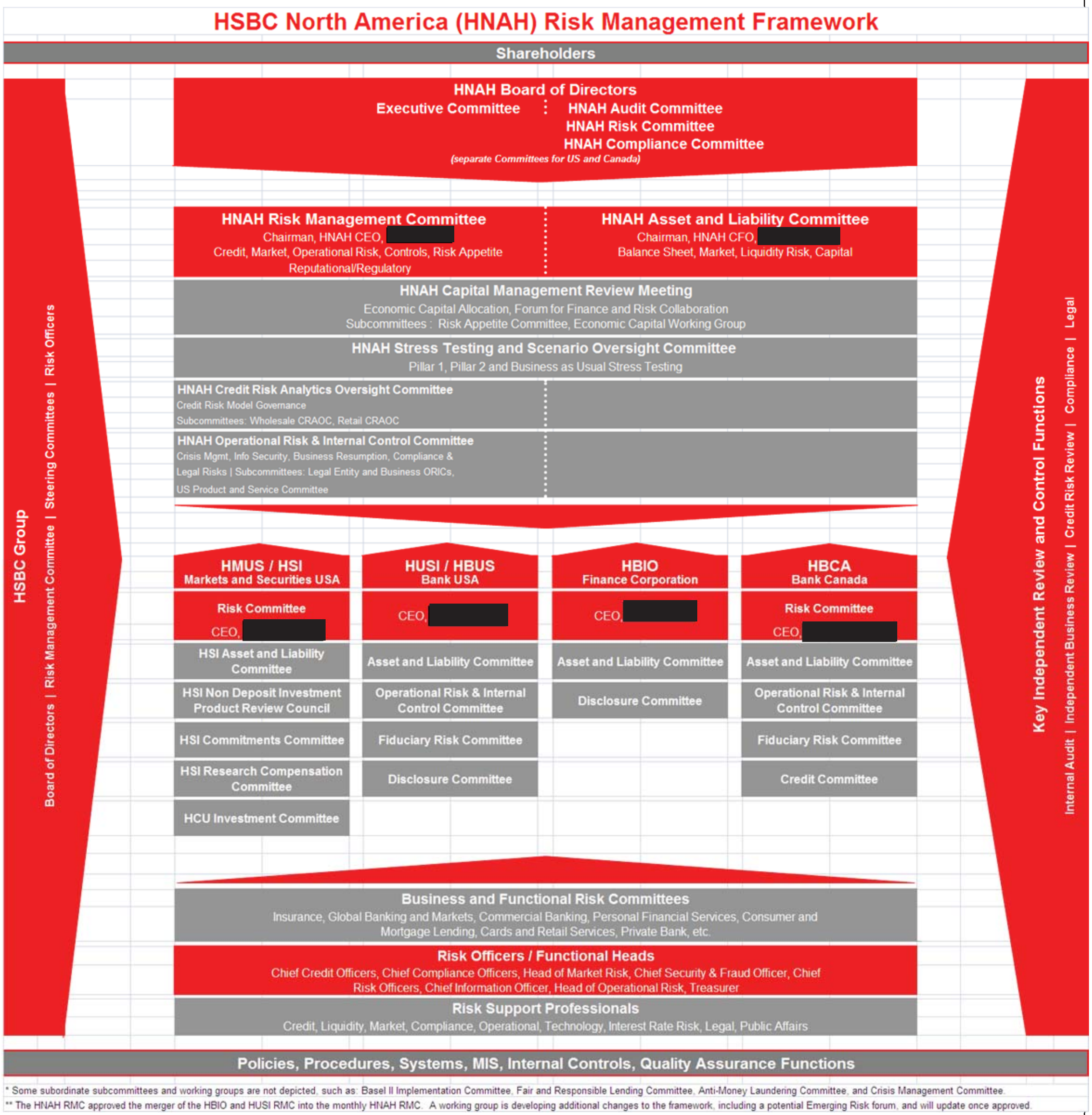
- receive regular reports from the Chief Compliance Officer that enable the Committee to assess major compliance exposures and the steps management has taken to monitor and control such exposures, including the manner in which the regulatory and legal requirements of pertinent jurisdictions are evaluated and addressed;
- approve the appointment and replacement of the Chief Compliance Officer and other statutory compliance officers (e.g., BSA Officer, Bank Security Officer) and review and approve the annual key objectives and performance review of the Chief Compliance Officer;
- review the budget, plan, changes in plan, activities, organization and qualifications of the Compliance Department as necessary or advisable in the Committee's judgment;
- review and monitor the effectiveness of the Compliance Department and the Compliance Program, including testing and monitoring functions, and obtain assurances that the Compliance Department, including testing and monitoring functions, is appropriately resourced, has appropriate standing within the organization and is free from management or other restrictions;
- seek such assurance as it may deem appropriate that the Chief Compliance Officer participates in the risk management and oversight process at the highest level on an enterprise-wide basis; has total independence from individual business units; reports to the Compliance Committee and has internal functional reporting lines to the HSBC Head of Group Compliance; and has direct access to the Chairman of the Compliance Committee, as needed.

2. <u>Risk Management Framework</u>

The Risk Management Framework is an integral component of HNAH's operating environment. The HNAH Risk Management Framework provides for oversight of risk by the HNAH Board through the HNAH Risk Management Committee, which is a regional level risk committee that provides a forum for risk managers, functional heads, and business unit heads to establish risk appetite, assess risk, establish risk management policies and standards, discuss emerging risk issues and agree upon appropriate actions, as necessary. The Mortgage Servicing Companies and the Bank are covered by the HNAH Risk Management Framework, which incorporates all risk categories, including operational, compliance and legal risks, and ensures that the fundamental elements of the risk management program and any enhancements or revisions thereto, including a comprehensive annual risk assessment which encompasses residential mortgage loan servicing, Loss Mitigation, and foreclosure activities are included. Risk Management facilitated by the businesses line's self assessment, Enterprise Compliance's annual risk assessment, Service Delivery

Control Adherence's ("SDCA") annual testing of controls and internal audit's ongoing testing of controls and performance.

The HNAH Risk Management Committee Framework is structured in the following manner to provide a reporting structure from the business up through the Board of Directors:



The operating principles of the HNAH Risk Management Framework are as follows (and are fully identified in greater detail in section 3.3.4, pages 22 – 23, of the attached HSBC – North America Compliance Risk Management Program Manual:

- Ensure all risks are appropriately identified, measured, managed, controlled and reported;

- Develop, communicate & implement appropriate risk-related policies, procedures, & processes in collaboration with business units, functional areas and Group;
- Provide an independent review and assessment of risks by regularly reviewing risk levels and risk management practices and raising concerns to senior executive management and the Board as necessary.;
- Provide regular and ad hoc reports to senior executive management, the Board, and Group on existing and emerging risks, with recommendations to avoid, eliminate, or mitigate risks outside of the established risk appetite;
- Ensure compliance with all relevant laws, regulations, and regulatory requirements, including Basel II;
- Assess overall capital needs and enhance capital allocation
- Set risk appetite in line with capital availability and overall business strategy;
- Establish and promote a risk management culture that appropriately balances risks and rewards;
- Assist the Board and senior executive management in establishing risk tolerances, limits, and performance measurements across HNAH;
- Share and leverage best practices across Group;
- Continually assess and monitor the risks HNAH faces, and regularly reappraise its risk appetite and align its risk profile accordingly; and,
- Formulate an internal view of capital requirements relative to risk.

The Risk Management Framework brings together risk functions across North America to ensure a consistent policy, process, and practice is applied across legal entities. An overarching HNAH Risk Limits Framework, see page 12 of the attached HSBC North America Risk Management Framework, which is employed by the North America Risk organization in conjunction with internal business partners from Finance, Legal and Compliance, and the business lines, provides for the identification, communication, limitation, and management of all risks across HNAH, both for discontinued and ongoing business lines.

2.1. Enhanced Internal Control Target Operating Model (Enterprise-wide)

In addition, the enhanced Group ORIC framework incorporates a new Internal Control TOM. A North America impact analysis and implementation plan was completed in 1Q2011, and approved by the HNAH ORIC Committee on April 6, 2011. Periodic updates have been provided to the HNAH Board Risk Committee on RCA and TOM implementation progress as part of the standard quarterly Operational Risk report to the Board Risk Committee. The new framework is centered around the Business Risk Control Management ("BRCM") Team (which has review responsibilities which includes residential mortgage servicing, Loss Mitigation and foreclosure activities) that promotes and executes on business unit ownership of monitoring of key controls. The BRCM activities are subject to independent oversight by ORIC and other "2nd line of defense" teams. (See attachment HNAH Operational Risk Internal Control Target Operating Model, which in its entirety outlines the TOM, and is summarized below.)

Pursuant to the Internal Control TOM principles:

- Management of internal controls is centered around Business / Function ownership of risk and control management and activities to support effective control environment;
- Independent teams outside of the business identify risks, formulate policies, procedures, and key controls, and monitor risks and controls in respective areas; independent view of BRCM";
- An Operational Risk Management Framework ("ORMF") is established that provides governance, standards, and tools to ensure risks and controls are embedded, sustainable and value adding; and,
- Internal Audit provides management with an independent and objective review of business activities, risk management and support functions.

For more information on the HSBC ORIC framework, refer to Section 2.2 "Operational Risk Application & Management" on pages 10 and 11 of the attached HSBC – North America Operational Risk and Internal Control Policy Risk Management and also see the summary below. The following categories of risk are included under the definition of Operational Risk and are subject to the HSBC's ORIC management framework:

- Compliance
- Fiduciary
- Legal
- Information
- Accounting
- Tax
- External Fraud
- Internal Fraud
- People
- Political
- Physical
- Business Continuity
- Systems
- Operations
- Project

As noted in the HSBC – North America Operational Risk and Internal Control Policy Risk Management policy, the management of Operational Risk comprises the identification, assessment, monitoring and control of operational risk so as to maintain losses within acceptable levels and to protect the Group from foreseeable future losses. Management in all businesses and support functions operating in North America, including Global Businesses, is responsible for designing controls to mitigate operational risk and for monitoring and evidencing the effectiveness of controls in operation. Acceptable levels of internal control are to be determined by reference to the scale and nature of each business operation, but must remain compliant with the minimum standards set out in Group Standards Manual and Group Functional Instruction Manuals; ensuring appropriate levels of economic and regulatory capital in accordance with internal and external requirements.

Additionally, as set forth in the HSBC – North America Operational Risk and Internal Control Policy Risk Management policy, management throughout North America follows the HSBC ORIC framework, which is comprised of the responsibilities set forth below. The application of this framework in North America is further described in various sections (noted below) of the HSBC – North America Operational Risk and Internal Control Policy Risk Management

- Assignment of responsibility for the management of operational risk and the maintenance of an appropriate internal control environment, under the oversight of a formal governance structure. Refer to Section 3 of the Policy (see the HSBC – North America Operational Risk and Internal Control Policy Risk Management, pages 14 through 24,) for details on North America's governance structure and organizational roles and responsibilities.
- Quarterly Top Risk and Control reporting at a Regional / Country level. In accordance with page 1 of the FIM B.1.3 "Operational Risk Reporting", the Regional / Country ORIC Team reports quarterly on the North America operational risk profile, involving the relevant business and control function experts. The report is approved by the HNAH ORIC Committee; feedback from the committee's review is monitored by the Regional / Country ORIC Team. Country versions are reviewed by the HUSI and HBCA ORIC Committees. Refer to the FIM for Operational Risk profile reporting requirements.
- Identification, assessment, and reporting of operational risks by business and functional managers using the Group's standard Operational Risk and Control Assessment ("RCA") process. (Refer to Section 4 of the HSBC – North America Operational Risk and Internal Control Policy Risk Management, pages 25 through 35, for details on North America's application of the RCA methodology)
- Operational risk loss incident identification and reporting and aggregate loss reporting. (Refer to Section 5 of the HSBC – North America Operational Risk and Internal Control Policy Risk Management, pages 36 through 42, for details of North America's loss identification and reporting processes.)
- Provide assurance that key controls are designated and operating effectively through monitoring of activities. (Refer to Section 4.7 of the HSBC – North America Operational Risk and Internal Control Policy Risk Management, pages 31 through 35, for details of the Internal Control Monitoring program that North America is implementing to support the Group framework. The roles and responsibilities of business management, risk oversight functions, and ORIC teams are described in Section 3, pages 14 through 24, of the HSBC – North America Operational Risk and Internal Control Policy Risk Management).

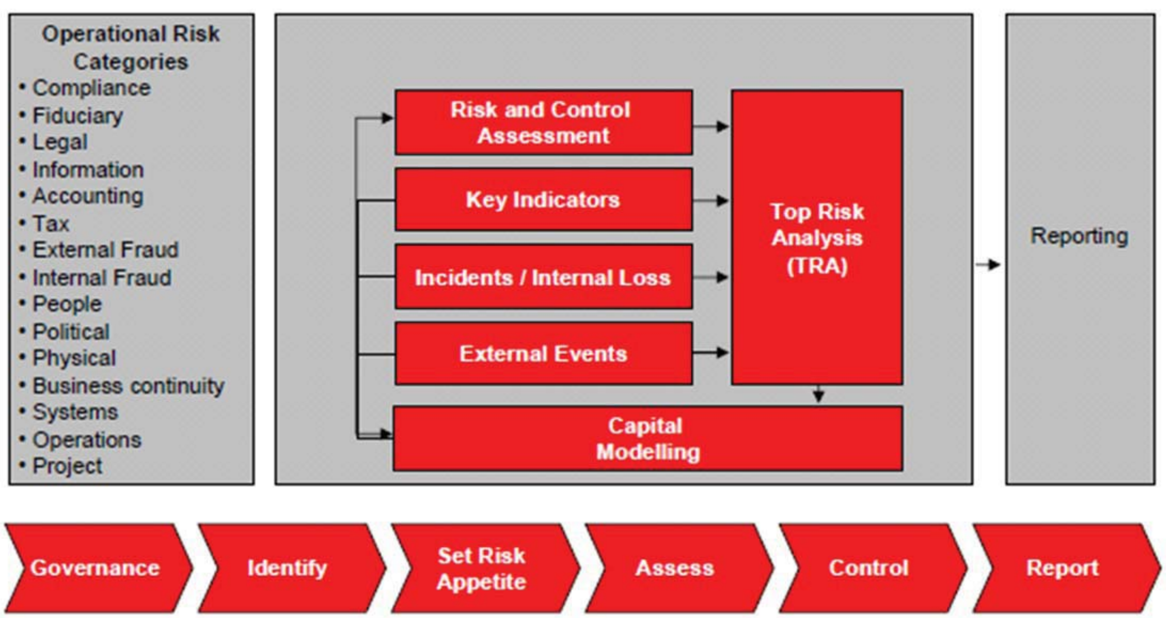
In addition to components of the HSBC ORIC framework described above, North America considers the following components as critical to the management of operational risk and internal control and to the monitoring of North America's operational risk appetite.

- Key Indicators – The ongoing monitoring of key indicators of high-level risks to ensure risk is appropriately controlled within established limits in accordance with the Order which requires processes to document, measure, assess, and report key risk indicators. (Refer to Section 4.4 of the HSBC – North America Operational Risk and Internal Control Policy Risk Management, pages 29 and 30, for details.)

- Capital Modeling – Development of Advanced Measurement Approach (AMA) compliant quantification methodology and ongoing calculation of Regulatory and Economic Capital for Operational Risk. (Refer to Section 6 of the HSBC – North America Operational Risk and Internal Control Policy Risk Management, pages 48 and 49 for details.)
- Many of the components of the Operational Risk and Internal Control Framework described above are shown in the diagram below.

On a monthly basis the EVP HBIO, President and Chief Servicing Officer reports on the key risk indicators to the Compliance Committee of the Board. See the attached Foreclosure and Account Servicing Review presentation for an example of the report, see pages 8 through 21.

Operational Risk and Internal Control Framework



As of January 2011, HSBC – North America began implementation of the new Group Risk and Control Assessment ("RCA") methodology. This is a new methodology adopted by HSBC Group Operational Risk to replace the existing methodology, RSA or Risk Self -Assessment. The RCA is a component in the Enhanced Operational Risk Framework implemented throughout HSBC. The RCA methodology builds on the RSA and is designed to provide businesses with a forward-looking view of operational risk and to help them proactively determine whether their key operational risks are controlled within acceptable levels. The RCA methodology enables the assessment of both the typical and extreme exposure to operational risks and considers the direct financial costs and the indirect financial impacts to the business including customer service, reputational, and regulatory impacts.

Typical exposure to operational risk events (e.g. credit card fraud) is the total loss that is expected to occur in the next 12 months given the effectiveness of the control environment.

The extreme events (e.g. rogue trading) take into account the inherent nature of risks within the business and control environment, but assume that one or more controls fail to operate as expected.

Specific aims of the RCA methodology are to:
- Identify and assess material operational risks;
- Identify and assess the effectiveness of key controls that mitigate these risks;
- Focus management attention where controls are assessed as either "Needs Improvement" or "Ineffective", and
- Identify what monitoring of key controls is being undertaken in order to identify necessary management actions.

The following activities must be undertaken as part of the RCA methodology:
- Scoping – Determine where an RCA should be undertaken (i.e. which entities or what level within a country or business)
- Risk and Control Identification – Document the details of material risks and associated key controls
- Risk and Control Assessment – Record the effectiveness of the key controls and the residual risk exposure based on control assessments
- Control Monitoring – Identify the appropriate level of control monitoring required and provide input into the internal control monitoring activity
- Issues and Actions – Implementation of action plans to address control deficiencies and/ or specific people, process, or technology improvements
- Governance and Reporting – Review and sign off the completed RCAs.

In support of the ORIC structure noted above, HNAH's line of business staff has responsibilities regarding risk assessment and management as follows:

3. *Business Management Operational Risk (Business-line)*

Operational Risk Management activities include but are not limited to:
- Serving as single point of contact coordinating with the second and third lines of defense – Tracking and monitoring of control weaknesses and audit findings
- Working directly with business to strengthen control gaps and assesses the adequacy and sustainability of remediation efforts
- Conducting self assessments on key controls to determine effectiveness and monitors KRI's
- Facilitating quarterly and annual workshops for RCA and [redacted]
- Facilitating annual certifications and reviews Group Policies to determine compliance with GSM and FIM
- Report and maintain tracking and trending of operational losses

Business Management has responsibilities directly related to Residential Mortgage Servicing, while adhering to the enterprise-wide oversight. Business management has

the following accountabilities:
- Identifying and assessing operational risks and controls
- Identifying and reporting incidents
- Implementing and operating internal controls and without reliance on ORIC or other "second line of defense" control functions
- Monitoring the ongoing effectiveness of key controls to gain assurance that they are operating in line with risk appetite and any regulatory and FIM requirements.
- Establishment of Business Risk Control Management ("BRCM") capability to help undertake the appropriate level of key control monitoring.

<u>3.1. ORIC Governance Structure</u>

The elements of Group's ORIC Governance and organization structure are described in the attached HSBC Group Operations FIM Section B.1.2 "Governance and Organization of Operational Risk and Internal Control". The structure is organized to provide clear reporting lines up to the Board as detailed on pages 14 – 16 of the attached HSBC – North America Operational Risk and Internal Control Policy Risk Management Policy.

3.1.1. Board Oversight
The HNAH/HUSI/HBIO Board Risk Committee oversees the US Operational Risk Management program and annually approves Advanced Measurement Approach (AMA). Operational risk updates are provided to the HNAH/HUSI/HBIO Board Risk Committee on a quarterly basis as part of the Risk Dashboard. Updates may include current and emerging issues, risk integration and governance activities, operational risk loss analytics, and the operational risk appetite dashboard.

HSBC North America Risk Management Committee
The HSBC North America Risk Management Committee (HNAH RMC) provides strategic direction to various risk management functions, including operational risk, across the region. The HSBC North America RMC reviews reports and /or meeting minutes from subcommittees, including the North America ORIC Committee. Responsibilities are specifically defined in the HNAH RMC Charter. The HUSI RMC and the HBIO RMC were recently combined with the HNAH RMC; concurrent meetings are conducted.

Additionally, at the business level, significant issues identified through BRCM monitoring / oversight must be reported to business management and the relevant ORIC Committee.

HSBC – North America Operational Risk and Internal Control Committee
The HSBC – North America Operational Risk and Internal Control (HNAH ORIC) Committee provides central governance and strategic oversight of the operational risk management framework, including identification, assessment, monitoring, and appetite for operational risk. The HNAH ORIC Committee is an authorized subcommittee of the HNAH Risk Management Committee and is the senior most risk committee responsible

for the oversight and management of operational risk and internal control within the North America Region.

The HNAH ORIC Committee oversees internal controls over HNAH's top operational risks and creates a regional risk and control culture by embedding operational risk and internal control management into businesses and functions and by promoting appropriate training.

The HNAH ORIC Committee is responsible for all businesses and operations in the U.S. and Canada. Country and Global Business ORIC Committees have been established as subcommittees. The Regional / Country ORIC Team coordinates the coverage of the various ORIC Committees and minimizes overlap as appropriate

3.2. BRCM and Coordinators

Operational Risk Oversight Functions have the following accountabilities within their functional area of expertise:

- Defining key operational risks and establishing minimum control standards and appropriate indicators / metrics
- Undertaking oversight to verify the appropriateness of business (and functional|) management control monitoring activity. Where oversight is conducted by these teams, ORIC may leverage this work in carrying out its oversight responsibilities to avoid duplication so long as it is satisfied that appropriately rigorous and sound standards have been followed.
- Reviewing and reporting their indicators / metrics and taking action as necessary where any business appears to be operating, or to be at risk of operating, outside the established risk appetite.
- Gaining assurance that the minimum standards in their respective FIMs are being met through oversight activity

Additional information related to roles and responsibilities between business management and the BRCM is provided below:

Overview: Business Management and BRCM Responsibilities

Business Management Responsibilities	BRCM Responsibilities (Business Management Responsibilities if no BRCM established)
▪ Day to day operation of processes and embedded primary controls within processes. ▪ Secondary controls operated by supervisors, managers. ▪ Own and execute RCA process, which defines key risks and controls. ▪ Write and maintain local procedures to supplement FIM and BIM standards.	▪ Challenge the RCA output, including the assessment of key controls. ▪ Establish metrics/tolerance and control testing program around key controls. ▪ Execute control monitoring and testing program (independent control testing). ▪ Report control monitoring and performance data to local management and committees, when needed. ▪ Oversight of remediation of issues arising from control monitoring and testing. ▪ Oversight and challenge of procedures produced by primary operations.

Where BRCM undertakes control monitoring, a detailed monitoring plan that describes the key control monitoring activities that will be completed over the next year is established on at least an annual basis. The monitoring plan is based on consideration of the RCA results as the basis of the annual monitoring plan, and may also consider the following:

- New control standards issued
- Relevant local regulatory requirements
- Control issues identified in quarterly Operational Risk reporting
- Monitoring standards outlined in the FIMs
- Internal and external incident data
- Outputs of recent internal control monitoring
- Output of Group internal audit report, external auditors report and other functional reports
- Significant changes in business structure, personnel, external environment, products and systems
- Emerging risk issues / themes
- Controls where independent testing is mandated for SOX purposes
- The work plans of other areas (e.g. functions) carrying out control monitoring, to maximize efficiency and avoid overlap.

The monitoring plan must be approved following an appropriate governance process (e.g. Business Head or appropriate business committee) on an annual basis. Significant amendments to the scope of the plan must be agreed using the same governance process. The “appropriate governance process” will be further defined during the implementation of internal control monitoring. Review of plans and their approval and implementation may be subject to review by ORIC and Group Audit as well as Business Management.

The plan will be submitted to the HNAH ORIC Committee for approval on an annual basis. Significant amendments to the scope of the work plan must be agreed by the ORIC Committee as required. ORIC must monitor progress against work plans on at least a quarterly basis, and consider work plan relevance, ad-hoc oversight based on emerging areas of risk, resource assessment (availability and capability), and any necessary escalation of delays. Progress will also be shared with the HNAH ORIC Committee and any delays in the execution of an activity should be adequately justified.

Where monitoring / oversight results indicate that controls are no longer effective and the risk is now outside of appetite, new issues and actions must be created to ensure appropriate rectification. A process will then be in place for tracking issues and actions and ensuring their appropriate and timely resolution.

3.3. Enterprise-wide Compliance

In addition, the HNAH Compliance organizational structure, as outlined below, detailed in the "HSBC – North America Compliance Risk Management Program Manual", and illustrated in the "HNAH Corporate Compliance Organizational Structure" section, see pages 26 and 65 of the Compliance Risk Management Program Manual, is designed to ensure that Compliance staff have the requisite authority and status to carry out their responsibilities:

- The Regional Compliance Officer ("RCO") reports to the HNAH Compliance Committee, the HSBC – North America Chief Risk Officer, the HNAH Chief Executive Officer ("CEO") and the Group General Manager and CEO of HSBC Bank, N.A.
- The RCO also has an internal functional reporting line to the Head of Compliance within the Group Management Office ("GMO") which provides oversight of the HNAH Compliance Risk Management Program.
- The RCO is a member of the Group Compliance Executive Committee ("Group Compliance EXCO").

The RCO has direct access to the Chairmen of the Audit and Risk Committee and the HNAH Compliance Committee. The HNAH Compliance Committee has been delegated compliance related oversight responsibilities by the Board of Directors. On a quarterly basis, the RCO will report on the status of compliance risk and the compliance risk management framework to the HNAH Compliance Committee.

The RCO is a member of the HNAH Executive Compliance Committee ("EXCO"), the HNAH Risk Management Committee ("RMC") and the HNAH Operational Risk and Control ("ORIC") Group and participates in those scheduled committee meetings. Meetings occur on a monthly basis. In addition, HNAH has formed a Compliance and Risk Forum ("CaR Forum") which is a chartered committee to facilitate the integration of Compliance and Risk Management programs, and to help ensure the proper identification, assessment, monitoring and reporting of risk in line with HNAH's risk appetite. The formation of the CaR Forum was approved by the RCO and Regional Chief Risk Officer. The first meeting was held on September 17, 2010. The forum meets on a monthly basis.

The Compliance governance model is designed to ensure that the functional teams and responsible areas reporting into the RCO work effectively and efficiently together to manage the Compliance Risk Management Program. Specifically, the governance model is designed to ensure that:

- Regulatory, Group, and other stakeholder requirements applicable to Compliance are identified and addressed;
- Enterprise-wide initiatives are coordinated;
- Communications across functional areas are timely and effective;
- Issues are escalated in a timely manner;
- Information is effectively and appropriately shared; and,
- Compliance risks are effectively assessed and emerging trends are identified which may impact more than one business, legal entity or geography.

3.4. Internal Audit

Group Audit North America has systems in place to track and monitor the status of the audit findings and recommendations. These systems facilitate follow-up reviews and are designed to track timely completion and effectiveness of the corrective measures. For example, the Audit Issues Module includes the following:

- Detailed information about findings, including target date for resolution, next action date for review by Group Audit North America, management response and action plan, and commentary supporting actions to date;
- Tracking capabilities designed to ensure the information is accurate and up-to-date, and that timely, corrective action of audit findings have been certified by management;
- Tracking capabilities designed to ensure that all outstanding issues have been remediated; and
- Email notifications to the responsible individuals when items are due, designed to ensure timely follow-up on outstanding audit finding.

The Audit Issues Module is utilized to generate exception reports that list issues that have not been remediated. Group Audit North America submits these reports monthly to Executive Management as well as quarterly to the internal Operational Risk and Control Committees and the Audit Committee of the HNAH Board. (See Audit Update – HNAH Operational Risk and Internal Control Committee (ORIC) in its entirety. The Audit Update – HNAH Operational Risk and Internal Control Committee (ORIC) summarizes the audit issues, activities, reports, and risks of HNAH). Please see the following documents for examples of the reports noted above:

- HBIO High Risk Outstanding Issues (PPT) - this document covers the high risk issues of HBIO by business line and by resolution date
- HBIO High Risk Outstanding Issues - 30JUN11 (XLS) - this document gives audit issue information based on status, pending validation, target date and changes, and monitoring authority
- HBIO Repeat Issues - this document provides information on repeat and partial repeat issues of HBIO
- HBIO Repeat Issues 2Q11 - this document provides information on the number of repeat issues for 2Q11 and 1Q11 for HBIO
- HNAH All Medium 30JUN11 - this document provides information on the type of audit issues encountered, target date, and monitoring authorities.

- HNAH High Risk Issues 30JUN11 (XLS) - this document gives audit issue information based on status, pending validation, target date and changes, and monitoring authority
- HNAH High Risk Outstanding Issues (PPT) - this document highlights the number of high risk outstanding issues by business line and resolution date.
- HNAH-wide including HTSU Repeat Issues - this document provides repeat and partial repeat issue information for both high and medium risk outstanding findings
- HNAH Repeat Issues 2Q11 - this document provides information on the number of repeat issues for 2Q11 and 1Q11 for HNAH

The existing risk management framework and enhancements made as part of the 2009 FRB MOU, and the recent ORIC framework enhancements, are designed to assist HNAH's Enterprise Risk Management ("ERM") program provides proper risk management for the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities of the Bank and the Mortgage Servicing Companies, particularly with respect to compliance with the Legal Requirements, and supervisory standards and guidance of the Board of Governors as they develop in accordance with the requirements of the Order.

The response to Sections 7(b) and 8(d), part of the Compliance section, contain additional Action Plans to ensure HNAH enterprise-wide risk management programs comply with Legal requirements and supervisory standards and guidance of the FRB as they develop.

Documents to be submitted with the Action Plan

- FIM B.1.4 Risk and Control Assessment
- FIM Appendix D.1.3 Risk and Control Assessment Guidance
- D.1.4 Risk categorisation
- HNAH Operational Risk Internal Control Target Operating Model
- HSBC North America (HNAH) Risk Management Framework
- FRB MOU Progress Letter April 28, 2011

Additional documents completed for re-submission of Action Plan

- HSBC – North America Compliance Risk Management Program Manual
- HNAH 2011 Risk Appetite Statement
- HNAH Operational Risk Internal Control Target Operating Model
- HSBC – North America Operational Risk and Internal Control Policy Risk Management
- B.1.3 "Operational Risk Reporting"
- B.1.2 "Governance and Organization of Operational Risk and Internal Control"
- Audit Update – HNAH Operational Risk and Internal Control Committee (ORIC)
- HBIO High Risk Outstanding Issues (PPT)
- HBIO High Risk Outstanding Issues - 30JUN11 (XLS)
- HBIO Repeat Issues

• HBIO Repeat Issues 2Q11 • HNAH All Medium 30JUN11 • HNAH High Risk Issues 30JUN11 (XLS) • HNAH High Risk Outstanding Issues (PPT) • HNAH-wide including HTSU Repeat Issues • HBIO Executive Compliance Steering Committee • Foreclosure and Account Servicing Review
Key HSBC Contacts for the Action Plan • [redacted], [redacted] • [redacted] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO • [redacted] [redacted]

Article 2(b)

FRB Order Reference:	*Article 2(b)*	**Corresponding OCC Article:**	*N/A*

policies and procedures adopted by HNAH to ensure that the ERM program provides proper risk management of independent contractors, consulting firms, law firms, or other third parties who are engaged to support residential mortgage loan servicing, Loss Mitigation, or foreclosure activities or operations, including their compliance with the Legal Requirements and HNAH's and HBIO's internal policies and procedures, consistent with supervisory guidance of the Board of Governors;

Action Plan

HNAH has existing policies and procedures in place to ensure Enterprise Risk Management ("ERM") programs provide proper risk management of independent contractors, consulting firms, law firms, or other third parties who are engaged to support residential mortgage loan servicing, Loss Mitigation, or foreclosure activities or operations, including their compliance with the Legal Requirements and the internal policies and procedures of HNAH and HBIO, consistent with supervisory guidance of the Board of Governor. The Residential Mortgage Servicing, Vendor Risk Management, and Enterprise Risk Management teams, as well as the Compliance team reviewed the Vendor Risk Management Policies and Vendor Risk Management Procedures (adopted in March 2011 and April 2011, respectively), which have been recently enhanced, and determined such policies and procedures, as described below and in the attachments hereto, ensure that the ERM program provides proper risk management with respect to third parties engaged to support residential mortgage loan servicing, Loss Mitigation, and foreclosure activities or operations in accordance with the requirements of the Order and are not in need of modification at this time. This is described in further detail in the attached HSBC - North America Vendor Risk Management (VRM) Policy and HSBC - North America Vendor Risk Management (VRM) Procedures.

Existing Processes / Programs:

In order to demonstrate the Board's oversight of vendor management, the Information Security Risk, Privacy and Vendor Risk Management Executive Steering Committee, which meets on a monthly basis, was established as a subcommittee of the HNAH ORIC Committee. The Information Security Risk, Privacy and Vendor Risk Management Executive Steering Committee provides strategic and tactical direction to key Risk Assessment and Vendor Risk Management initiatives and efforts. The Executive Steering Committee serves as the governance and decision making authority on the integration of the ISR Risk Assessment and Vendor Risk Management Programs across North America. Key responsibilities, detailed in the Information Security & Risk (ISR) – Risk Assessment - Vendor Risk Management Executive Steering Committee Charter are as follows:

- Drive alignment of vision and resource prioritization with respect to engaging

third-party vendors in cross-functional areas;
- Assess and hold management accountable for execution against Action Plans;
- Review and provide feedback on third-party risk assessment reporting at the North America level; and,
- Provide Executive Management and the Board reasonable assurance that by applying disciplined policies and practices to its programs and projects, HSBC is effectively controlling third-party provider risk.

Program updates and items worthy of escalation, as determined by the Information Security Risk, Privacy and Vendor Risk Management Executive Steering Committee, are provided to the HNAH ORIC Committee.

As described in the attached HSBC - North America Vendor Risk Management (VRM) Policy, adopted in March of 2011, the relationship manager (“RM”) is responsible for overall vendor risk management and governance for their respective business, including independent contractors, consulting firms, law firms, and other third parties engaged to support residential mortgage loan servicing, Loss Mitigation, foreclosure activities or operations. Vendor risks are assessed using the RCA framework. The Vendor Risk Management Policy will be part of a comprehensive list of approved HSBC- North America Level policies submitted to the North America Executive Management for annual review and approval, and the Board of Directors as necessary.

Additionally, the attached HSBC - North America Vendor Risk Management (VRM) Procedures, adopted in April 2011 describes the policies further, including:
- Governing third-party relationships in a consistent manner across HNAH and its subsidiaries in the U.S.;
- Providing reasonable assurance that vendor activity is conducted within the agreed upon terms and contract;
- Establishing guidelines to properly and effectively identify, assess, monitor, manage, and control risk associated with third-party relationships; and,

Finally, the attached FIM B2.15 Vendor Risk Management, specifically sections 3.2 to 3.7 on pages 3 to 7 provides that the business units have responsibility for:
- Conducting vendor due diligence as part of the overall risk assessment process;
- Selecting a financially viable vendor with appropriate capability, skills and experience;
- Establishing an on-going review process to confirm that vendors perform in accordance with the terms of contract; and
- Engaging subject matter experts to support the due diligence process and on-going monitoring.

<u>Vendor Risk Management Overview</u>

HSBC North America Vendor Risk Management (“VRM”) has in place a risk-based framework and program to effectively identify, assess, monitor and manage risks associated with Third-Party Provider relationships (the "VRM Program") as set forth in the HSBC North America Vendor Risk Management Policy and Procedures ("VRM Policy and Procedures"). The VRM Program provides centralized governance and requirements for North America businesses and departments. The VRM Program also establishes accountability and corporate oversight and defines the roles and responsibilities of the various departments and functions including VRM, Residential Mortgage Servicing, Operational Risk Management, Information Security Risk ("ISR"), Compliance, and Legal so that Third-Party Providers within the scope of the existing VRM Policy and Procedures are assessed in a consistent risk-based framework. Law Firms as well as other Third-Party Providers are managed and monitored pursuant to the VRM Program (see Section 2 of the VRM Policy). The VRM Program has been designed in accordance with OCC Bulletin 2001-4, as documented in additional detail in the attached HSBC - North America Vendor Risk Management (VRM) Policy.

The HBIO and HBUS residential mortgage loan servicing, Loss Mitigation, bankruptcy, foreclosure, and property management functions (collectively "Residential Mortgage Servicing" or "Mortgage Servicing") follow the VRM Policy and Procedures and the VRM Program to manage Third-Party Providers, including Law Firms. Additional procedures and oversight have been implemented as described below to ensure Third-Party Providers are managed and monitored in accordance with the VRM Program.

Third-Party Operational Risk Management Group ("TPORMG")

To ensure consistent adherence to the VRM Policy and Procedures and provide additional oversight of Residential Mortgage Servicing Third-Party Providers, including Law Firms, the existing Mortgage Servicing Operational Risk Management team expanded its structure to include a centralized, dedicated team – the Third Party Operational Risk Management Group ("TPORMG"). The TPORMG serves as the primary point of contact and relationship manager for Residential Mortgage Servicing Third-Party Providers, including Law Firms. TPORMG coordinates with other groups/functions, including the business, VRM, Information Security Risk, Compliance, and HSBC Legal, throughout the Third-Party Provider life cycle from, due diligence and Third-Party selection, risk assessment, negotiations, contracting, ongoing monitoring, issue management and escalation, quality assurance, remediation and termination (see Sections 1.1 and 1.2 on page 4 of the attached Mortgage Servicing Third Party Operational Risk Management Procedures).

In order to staff the TPORMG department with appropriate expertise and authority, HBIO and HBUS leveraged existing qualified personnel within HSBC to fill the leadership roles within TPORMG. Requirements for these roles include extensive Mortgage Servicing experience and a background in Risk Management. The leadership personnel consist of a Senior Vice President with responsibility for Operational Risk Management, who serves as the Chief Information Risk Officer (CIRO) for Mortgage Servicing having twenty-two years of experience and a concentration in mortgage operational risk and audit. Reporting to the Senior Vice President, are two Vice Presidents with an average tenure of twenty-five years of experience with a concentration in operational risk and mortgage servicing. One Vice President was previously employed by [redacted] and managed its foreclosure and bankruptcy attorney network. The other Vice President has an extensive background in mortgage lending, servicing, risk, and compliance.

As of September 12, 2011, TPORMG has developed and implemented the Mortgage Servicing Third Party Operational Risk Management Procedures (the "TPORMG Third Party Procedures") which supplement the VRM Policy and Procedures. These Procedures define the TPORMG scope, organizational structure, associated roles and responsibilities, and overall methodology and approach for TPORMG reviews of Residential Mortgage Servicing Third-Party Providers, including Law Firms.

The TPORMG will ensure that Residential Mortgage Servicing departments comply with the VRM Policy and Procedures. Key responsibilities of TPORMG are as follows:

- Initiate, renew, or terminate Third-Party Providers and coordinate the on-going reviews, monitoring and assessments of Third-Party Providers;
- Develop and monitor Third-Party Provider performance against defined service levels, performance levels, and contract terms; and coordinate distribution of MSAs, including the Law Firm MSAs to be executed by approved existing and future Law Firms (see attached MASTER SERVICES AGREEMENT (LEGAL SERVICES));
- Schedule reviews of Third-Party Providers, including Law Firms;
- Develop and use the TPORMG Database to monitor, manage, and age Third-Party Provider reviews and remediation efforts and SLAs and performance against SLAs, to include Information Security Risk, Legal, and Operations' review findings, and for reporting to various departments and to the TPORMG Governance Committee;
- Reporting and trending of customer complaints specific to Third-Party Providers; and,
- As part of the Legacy Relationship Management ("LRM") Program, performing an in-depth review of Residential Mortgage Servicing legacy Third-Party Provider relationships within the scope of the VRM Policy to ensure compliance with the VRM Policy and Procedures

Residential Mortgage Servicing Third-Party Provider Governance Committee

To ensure appropriate oversight of Third Party Providers at a senior management level, HBIO and HBUS established the Residential Mortgage Servicing Operations Third-Party Provider Governance Committee ("Third Party Governance Committee") to oversee the Mortgage Servicing Third-Party Provider management process, which includes the review of Law Firms. The Third Party Governance Committee meets monthly with the first meeting occurring on October 31, 2011 – please see page 2 of the attached Third Party Governance Committee Meeting document for the agenda items discussed and the attached Servicing Operations Third Party Governance

Meeting document for minutes of the meeting. The responsibilities of the Committee include:

- Review and assessment of performance reporting and results of Third-Party Provider reviews;
- Decisions regarding retention, discipline, remediation and termination of Third-Party Providers;
- Evaluation and addressing of emerging trends, risks and strategies;
- Evaluation of significant adverse litigation;
- Determining whether or not to continue doing business with Third Parties; and,
- Escalation of material issues or concerns, as appropriate, to senior management.

The Third Party Governance Committee includes participants from the business and various functions, including TPORMG, Compliance, Risk and HSBC Legal.

Due Diligence

In order to perform appropriate due diligence, the VRM Program and section 1.2 on pages 4 and 5 of the TPORMG Procedures provide guidance for examining financial information, information security measures, business continuity, reputation, and other applicable reviews of potential and existing Residential Mortgage Servicing Third-Party Providers, including the Mortgage Electronic Registration System ("MERS"), [redacted] National Bankruptcy Services ("NBS"), and Law Firms. The TPORMG Third Party Provider Procedures also identify the need for a legal review for Third-Party Providers of legal services in section 2.4 on pages 12 and 13.

Additionally, the HSBC Mortgage Servicing Legal Department Law Firm Management Procedures ("Law Firm Procedures") outline the legal review process for Third-Party Providers of legal services (see the Legal review process in Section 5 of the Law Firm Procedures, pages 5 to 8). These reviews are managed by HSBC Legal in order to provide requisite expertise for the review. More specifically, the risk-based methodology for identifying the scope and frequency of Law Firm reviews is outlined in Section 5.3 of the Law Firm Procedures, on pages 6 and 7:

HSBC Legal uses a Risk-Based Approach to determine the scope and frequency of Firm reviews and Firm file reviews. The Risk-Based Approach includes the assessment of the overall control rating from prior reviews as well as the Firm state complexity, Firm reputational risk and issues, Firm file volume and Firm size. The Legal Review Scorecard captures the results of prior Firm File Reviews and Firm Reviews and calculates an overall control rating for the Firm (i.e. Highly Effective, Effective, Moderately Effective, Limited, Ineffective). The overall control rating from prior reviews is the primary factor that determines the frequency and scope of subsequent reviews. Generally, Legal conducts reviews for Firms with a Highly Effective, Effective or Moderately Effective control rating annually to every 18 months. Firms with a Limited or Ineffective control rating are typically reviewed semi-annually to annually.

Legal may adjust the frequency of a Firm File Review and Firm Review (to a maximum frequency of 18 months), the type of review, or the number or type of files to be reviewed on a Firm by Firm basis based on an evaluation of the following criteria:

- Firm State Complexity - The complexity of state specific legal or jurisdictional requirements and the presence of unique state specific practices.
- Firm Reputational Risk and Issues – The Firm's exposure to reputational risks and contested issues raised by opposing parties.
- Firm File volume – The number of active HNAH foreclosure, bankruptcy and eviction Files handled by the Firm in a specific state as well as the total number of files handled by the Firm.
- Firm size – The total number of Firm employees as well as the ratio of attorneys to staff.

In addition to the scheduled Firm File Reviews and Firm Reviews outlined above, Legal may perform ad-hoc targeted reviews on a case by case basis to assess any concerns or deficiencies noted in Firm Reviews.

While HBIO and HBUS are committed to complying with the VRM Program, there are anticipated circumstances where HBIO and HBUS may be required to use a Third-Party Provider prior to completing the VRM on-boarding process, such as where Fannie Mae or Freddie Mac mandates immediate use of a new Law Firm that is not currently an approved HSBC Third-Party Provider. In such instances, HBIO and HBUS follow the Fannie Mae or Freddie Mac mandate and also initiate the VRM due diligence process and a Legal Review of the Law Firm in parallel.

Management personnel of Residential Mortgage Servicing, HSBC Legal, Compliance and Vendor Risk Management have reviewed existing policies and procedures for HBIO and HBUS to provide appropriate due diligence on potential and current Third-Party Providers to ensure the existing processes, policies and procedures are accurate and in accordance with Third-Party Provider review requirements of the Order. These policies, procedures and processes are subject to on-going review to determine whether revisions or enhancements are appropriate or necessary in light of changes to Legal Requirements or supervisory guidance.

Vetting and Master Services Agreement

All material Third-Party Providers must be vetted through the VRM Program. A Third-Party Provider is deemed "material" if it meets any one of the following specified criteria in the VRM Policy and Procedures: expenditure levels, receipt of restricted or highly restricted information and access to HSBC systems, providing customer facing services, having physical access to HSBC locations, or use of HSBC brand signifiers. HBUS and HBIO enter into agreements with all material Third-Party Providers, including active Law Firms.

Standard Master Services Agreements ("MSAs") have been in place and available for Third Party Providers (excluding Law Firms which are discussed below) engaged by

HSBC North America businesses. The MSAs include service level agreements ("SLAs") developed by VRM and the business as appropriate for the services provided by the Third Party Provider. Representatives from the businesses and the Third-Party Provider negotiate the terms, conditions and applicable service levels to be included in these agreements. For additional information, please see Section 6.1 of the VRM Policy and Section 5 of the TPORMG Procedures.

In order to enhance oversight and control over Law Firms, the standard Master Services Agreement (Legal Services) ("Law Firm MSA") was developed in collaboration with HSBC Legal, TPORMG, Information Security Risk ("ISR"), Business Continuity Program Management ("BCPM"), as well as the impacted business areas. SLAs are contained within Law Firm MSA, Attachment F, titled Law Firm Work Standards.

HBIO and HBUS directly engage the active foreclosure Law Firms that use the [redacted] legal desktop network; HBIO and HBUS do not subcontract these Law Firms through [redacted] The Law Firm MSA has been sent for execution to active foreclosure Law Firms that provide legal services to HBIO and HBUS Residential Mortgage Servicing. Approximately 60 percent of the active foreclosure Firms have returned to us the executed Law Firm MSA.

Additionally, each active foreclosure Law Firm is reviewed and monitored directly by HSBC and HBIO Legal, Information Security Risk, VRM, TPORMG and other appropriate functions. HSBC does not rely on [redacted] o perform Law Firm monitoring on its behalf. Further, the Law Firm MSA provides that on occasion, where the foreclosure Law Firm needs to retain a local attorney for a court appearance for example, the foreclosure Law Firm needs to obtain HSBC's prior approval. In these instances and pursuant to the Law Firm MSA, the foreclosure Firm is responsible for the actions of the retained Firm and is required to confirm that the retained Firm will act in accordance with the provisions of the Law Firm MSA (see Section 25 of the Law Firm MSA).

The standard agreements for Third-Party Providers, including the standard Law Firm MSA, also provide terms allowing HBIO and HBUS businesses to perform adequate oversight of Provider performance, review Provider adherence to established service levels, and escalate non-compliance with contract provisions to appropriate HBIO or HBUS management (see Law Firm MSA, Sections 3 (Law Firm Work Standards), Section 23 (Access & Audit Procedures), Section 24 (Consequences of Failure to Meet Performance and Other Standards) and the Escalation Protocol Matrix attached as Exhibit C). The agreements also include provisions that require the Provider to perform the services in compliance with applicable Legal Requirements and HBIO and HBUS policies and procedures (see Section 4.6 of the Law Firm MSA).

As described in more detail in the Action Plan response to Article 6(a), in addition to the VRM Policy and Procedures, HBIO and HBUS have implemented processes pursuant to Section 6 of the TPORMG Procedure and Section 5.4 of the Legal Law

Firm Procedure regarding Law Firms reviews. These Procedures also require the negotiation and execution of the Law Firm MSA, (see Section 5 of the TPORMG Procedure and Section 4 of the Legal Law Firm Procedures. In addition to the standard Law Firm MSA mentioned above sent to active foreclosure Law firms, a Law Firm MSA will be sent for execution to existing active bankruptcy, eviction and DIL Law Firms following satisfactory Firm reviews. It is anticipated that all MSAs will be distributed by the end of fourth quarter 2011.

Service level agreements ("SLAs") for Law Firms are contained in the Law Firm MSA Attachment F, titled Law Firm Work Standards, to ensure compliance with applicable laws, HSBC Best Practices and HSBC procedures. These SLAs were developed in collaboration with Legal, Information Security Risk ("ISR"), Business Continuity Program Management, as well as the impacted areas of the business: foreclosure, bankruptcy, and evictions. Contract Owners ("CO") within TPORMG are responsible for ongoing monitoring of performance of Third-Party Providers against SLAs and other contract terms, including the Legal Requirements, supervisory guidance and HBIO's policies and procedures. These COs also receive feedback regarding Third-Party Provider performance from various sources including, but not limited to, the business, ISR, Customer Service, and Legal with respect to Law Firm legal reviews (described in Article 6 (a), (e) (g) and (j). In addition, TPORMG reviews Scorecard results and Third Party Provider review findings, as appropriate, with the Third Party Governance Committee on a monthly basis, as well as having daily interactions as appropriate with the business areas. TPORMG is subject to review by HNAH VRM and Group Audit North America.

Upon completion of a Law Firm legal review, a Remediation Letter identifying concerns or deficiencies is sent to the Law Firm, with designated timeframes to respond, and the Law Firm responses are tracked to confirm response. All of these documents are stored in, and tracked through, the TPORMG [redacted] Database. Continued non-compliance or performance failures may result in reduction of new referrals, removal of existing files, exercise of indemnification rights, or termination of the Third-Party Provider. The complete termination procedure outlining the transfer of files process is in the attached Law Firm Termination Procedures ALL. The supplementary documents regarding the Law Firm legal review and remediation process include SAMPLE REMEDIATION LETTER – Follow Up on recent HSBC Audit – Non-Judicial Foreclosure, SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit (Firm with multiple state offices), and SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit.

<u>Ongoing Reviews</u>
The existing VRM Policy and Procedures require businesses, which own the contracts with the Third-Party Providers (which includes active Law Firms), to perform reviews to monitor adherence to the contract terms and service level agreements ("SLAs") in the contracts. The Law Firm Management Procedures and the TPORMG Third Party Management Procedures require periodic reviews of Third-Party Providers including Law Firm reviews.

HBIO and HBUS also established the Mortgage Servicing Operations Third-Party Provider Governance Committee ("Third Party Governance Committee") to oversee the Mortgage Servicing Third-Party Provider management process, which includes the review of Law Firms. The Third Party Governance Committee will meet monthly. The responsibilities of the Committee include:

- Reviewing and assessing performance reporting and results of the Third-Party Provider reviews;
- Determining retention, discipline, remediation and termination of Third-Party Providers;
- Evaluating and addressing emerging trends and risks and strategies;
- Determining whether or not to continue doing business with each Law Firm; and,
- Escalating issues identified, as appropriate, to senior management.

Additionally, processes are in place to ensure that applicable legal, regulatory and investor changes are identified and appropriate changes made to relevant documents, procedures and practices. Changes to Legal Requirements and supervisory guidance are monitored by the Regulatory Monitoring and Assessment group ("RMA") and appropriate changes to documents, procedures and practices are implemented by the businesses with assistance from the Law Change Working Group ("LCWG"). Changes to GSE and investor guidelines are monitored and implemented in coordination with the Investor Change Working Group ("ICWG") for HBIO and HBUS (see the attached RMA, LCWG, and ICWG procedures that provide further detail regarding the processes to monitor and implement as appropriate legal changes, supervisory guidance and investor requirements, and see HSBC North America New Laws and Regulations Procedure – US and Law Implementation Procedure ALL).

As stated above and as provided in the Law Firm Procedures, the TPORMG Procedures, and VRM Policies and Procedures, all active Law Firms receiving new referrals are reviewed in accordance with the VRM Program, and Legal along with TPORMG coordinates and manages a legal review of the Law Firms. The reviews are conducted to ensure that foreclosures occur in a safe and sound manner with timeliness, competence, completeness, compliance with applicable Legal Requirements, and the contractual obligations of HSBC to the GSEs and investors. The requirements for engagement of a vendor under the VRM Program have been initiated for all active foreclosure, bankruptcy∗ and eviction Law Firms. To date, the following has occurred with respect to Law Firm reviews:

- Active foreclosure Law Firms are being monitored consistent with the VRM Program;
- For all active foreclosure, bankruptcy∗ and eviction Law Firms, a [redacted] (" [redacted] that initiates the VRM process for the engagement of a Third-Party Provider has been completed;
- A Business Analysis Report ("BA") and Financial Analysis Report ("FA") has been completed for active foreclosure Law Firms and a Contract Owner and Third Party Risk Officer ("TPRO") has been assigned;

- Third-Party Security Reviews ("TPSR") by the HNAH Information Security Risk ("ISR") group are nearing completion for active foreclosure Law Firms. A TPSR rating provided by ISR is included in the Overall Service Risk Assessment ("OSRA") rating for each Law Firm;
- An NDA has been signed by the active foreclosure Law Firms;
- Best Practices have been distributed to active foreclosure, bankruptcy* and eviction Law Firms. All foreclosure Firms (but for one with which we are still working through remediation) have acknowledged their commitment to comply with the Best Practices;
- HSBC Legal has coordinated with the assistance of outside counsel initial reviews of active foreclosure Law Firms to assess adherence and compliance with applicable Legal Requirements, and review of the Firm processes and practices for document preparation and review, execution and notarization, staffing, training, capacity and competency;
- Remediation letters have been sent to active foreclosure Law Firms regarding deficiencies or concerns and remediation expectations, including time lines for completion. Responses are being tracked and monitored in the TPORMG [redacted] Database (see SAMPLE REMEDIATION LETTER – Follow Up on recent HSBC Audit – Non-Judicial Foreclosure, SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit (Firm with multiple state offices), and SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit);
- Review of significant and material findings from the Law Firm reviews are discussed at the Legal Review Meetings (described in the Action Plan response to Article 6(a)) and will be discussed at the Third-Party Governance Committee meetings (see the attached Mortgage Servicing Operations Third Party Provider Governance Charter)). [redacted] and,
- Law Firm termination procedures have been developed (see the attached Law Firm Termination Procedures ALL document).

The standard Law Firm MSA (see the MASTER SERVICES AGREEMENT (LEGAL SERVICES)), includes provisions regarding timeliness, competence, and compliance with all applicable Legal Requirements to ensure that foreclosures are conducted in a safe and sound manner.

Reviews of remaining active bankruptcy* and eviction Firms will be completed, and if the reviews are satisfactory, the Law Firm MSAs will be sent for execution to these Firms, by year-end 2011. Firms with unsatisfactory reviews will be evaluated for termination or other remediation. On an on-going basis, active Law Firms will be assessed in a consistent manner with the VRM OSRA risk rating (the "VRM Scorecard"). The OSRA risk rating is comprised of a series of risk statements used to facilitate a risk assessment of key Vendor risks using the Operational Risk Self

*Except for bankruptcy Law Firms in the BVW network as BVW and its network of bankruptcy attorneys are under review.

Assessment ("RSA") Methodology to arrive at a consolidated rating. Additionally, HSBC Legal will manage the legal reviews to assess legal risks associated with Law Firms and will capture results of those reviews in the Legal Review Scorecard (see the attached Legal Review Scorecard). The Legal Review Scorecard assesses legal risk. The nature and frequency of the on-going reviews will depend, in part, on the OSRA ratings, as well as the Legal Review Scorecard results and other factors described in the Action Plan response to Article 6(a) (see the OSRA process in Section 3.5 of the VRM Policy).

<u>Certification</u>
The existing HNAH VRM Policy and Procedures (see Section 4 on page 16) as well as the TPORMG Procedures (see Section 6 on page 18) and the Law Firm Procedures (see Section 5 on pages 5 to 9 and section 6 on page 10) provide the review and assessment process to evaluate new Law Firms and for the on-going monitoring of existing active Law Firms. While the assessment and review processes described in the VRM Policy and Procedures, TPORMG Procedures and Law Firm Procedures, are not specifically defined as a certification process, they serve the same purpose by providing guidelines to determine whether Law Firms are qualified to serve and whether HBIO and HBUS should engage or continue doing business with the Law Firm.

These Procedures identify the type of reviews to be performed by the business, Information Security Risk, VRM, TPORMG, Legal and others to assess the financial, reputational, information security, legal and other capabilities or risks of the Law Firms.

As stated, in the Action Plan response to Article 6(a), the requirements for engagement of a Third Party under the VRM Program have been initiated for active foreclosure, bankruptcy* and eviction Law Firms that provide legal services to HBIO and HBUS Residential Mortgage Servicing. In addition to the various financial, information security, reputation and other reviews performed by VRM, Information Security Risk, TPORMG, the business, and others, HSBC Legal manages with the assistance of outside counsel, the legal review of Law Firms to assess Firm compliance with applicable laws, rules, regulations and judicial requirements as well as Firm qualifications to provide the legal services. These legal assessments are managed by HSBC Legal along with experienced outside counsel to provide the requisite expertise for the review and evaluation of the qualifications of the Law Firms to perform the legal services.

Law Firm reviews include:

- Assessment of Law Firm qualifications, expertise, competence, reputation, capacity, staffing, training, work quality, workload, controls, financial viability, organizational structures and affiliated or related service provider relationships;

**Except for bankruptcy Law Firms in the BVW network as BVW and its network of bankruptcy attorneys are under review.

- Assessment of compliance with applicable legal, regulatory and judicial requirements, Best Practices, compliance with HSBC Legal escalation mandates;
- Assessment of financial and information security risks;
- Review of Law Firm policies and procedures and document preparation, review, execution, and notarization practices;
- Interviews with Law Firm personnel;
- Review of material or significant adverse litigation and media coverage regarding the Law Firm; and,
- File reviews.

Legal is using a Risk-Based Approach to determine the scope and frequency of on-going Firm reviews and Firm file reviews (see section 5.3, pages 6 to 8 of the Legal Procedures and the Action Plan response to Article 6(a) and (e)). As described more fully in the Action Plan response to Article 6(e), this risk-based approach includes the assessment of the overall control rating from prior reviews taking into consideration Firm state complexity, Firm reputational risk, including adverse litigation and media coverage, Firm file volume and Firm size. Based on this approach Firm Legal Reviews can be performed every 6 to 18 months depending on the risk rating.

HSBC Legal has managed the initial legal reviews that have been completed for active foreclosure Law Firms to assess compliance with applicable Legal Requirements and Best Practices. Remediation letters identifying concerns or deficiencies have been distributed to Law Firms, and responses tracked and monitored in the TPORMG Share Point database (see Section 1.5, page 10 of TPORMG Procedure and page 16 of Law Firm Procedure). The results of the reviews are captured in the Summary of Findings Memos and Legal Review Scorecards for each Firm. On an on-going basis, Law Firm communications, Law Firm review results, Scorecard ratings and other information will be placed in the TPORMG Database described earlier in Article 6(a) (see Section 1.5, page 10 of TPORMG Procedure).

Based on the reviews and Scorecard results and Law Firm responses to Remediation Letters, evaluations and recommendations are made regarding whether to continue doing business with the Law Firm, reduce or cease new referrals, remove existing files or terminate the Law Firm. Law Firms with significant or material exceptions are discussed during the Legal Review Meetings described in the Action Plan response to Article 6(a). Such exceptions will also be reviewed with the Third-Party Governance Committee (see the Mortgage Servicing Operations Third Party Provider Governance Charter).

Additionally, HSBC Legal has engaged outside counsel to monitor and notify HBIO and HBUS of any adverse litigation and media coverage concerning Law Firms, and Legal and TPORMG receive frequent summaries, at least weekly, regarding litigation and media coverage concerning Law Firms. Law Firms are also required to provide notice to HSBC of significant or substantive adverse litigation and any bar grievances and sanctions (including reprimand, censure and disbarment) against the Law Firm or

any Firm attorney pursuant to the Escalation Protocol Matrix described in the Best Practices and Law Firm MSA (described in the Action Plan response to Article 6(a). Compliance with these provisions will be evaluated during Law Firm reviews. Additionally, such litigation and matters are discussed with the Law Firms as appropriate and their feedback is considered. Moreover, significant or substantive adverse litigation or adverse media coverage regarding Law Firms is evaluated during the Legal Review Meetings, and will also be discussed with the Third Party Governance Committee and the Compliance Committee, as appropriate. In the event HSBC personnel or any of the above Committees determine that any significant or substantive adverse litigation or media coverage may impact the ability of the Law Firm to perform in accordance with Legal Requirements or HBIO and HBUS policies and procedures, or presents reputational concerns for HBIO or HBUS, actions including reduction of new referrals, removal of existing files, exercise of indemnification rights, and/or termination of the Law Firm may occur. Business requirements have been developed to create a TPORMG Database that will further strengthen the monitoring and reporting regarding Third-Party Providers (see Third Party Operational Risk Management Database Design Requirements). Note that these requirements may be modified as business needs are refined and circumstances change. Population of the TPORMG database has begun. Testing and validation of the database, along with system and user manuals will be completed by the end of fourth quarter 2011. **<u>Enhancements to Processes / Programs:</u>** The progress reports to the Compliance Committee of the Board will be enhanced to include a summary of key risk indicators of the Mortgage Servicing Companies, the Bank, and the third-party relationships in the HNAH Vendor Risk Management Program. Improvements to the reporting process are expected to be completed by December 31, 2011, with the first report to be provided to the Compliance Committee in January 2012.
Documents to be submitted with the Action Plan • Information Security & Risk (ISR) – Risk Assessment - Vendor Risk Management - Executive Steering Committee Charter • HSBC - North America Vendor Risk Management (VRM) Policy • HSBC - North America Vendor Risk Management (VRM) PROCEDURES • FIM B.2.15 Vendor Risk Management
Additional documents completed for re-submission of Action Plan • Mortgage Servicing Third Party Operational Risk Management Procedures • SERVICES AGREEMENT (LEGAL SERVICES) • HSBC Mortgage Servicing Legal Department Law Firm Management Procedures • Law Firm Termination Procedures ALL • SAMPLE REMEDIATION LETTER - Follow Up on recent HSBC Audit - Non-Judicial Foreclosure

• SAMPLE REMEDIATION LETTER - FOLLOW-UP on recent HSBC Audit (Firm with multiple state offices) • SAMPLE REMEDIATION LETTER - FOLLOW-UP on recent HSBC Audit • HSBC North America New Laws and Regulations Procedure – US and Law Implementation Procedure ALL • Mortgage Servicing Operations Third Party Provider Governance Charter • Third Party Operational Risk Management Database Design Requirements • Third Party Governance Committee Meeting • Servicing Operations Third Party Governance Meeting
Key HSBC Contacts for the Action Plan • [redacted], SVP General Compliance • [redacted] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO • [redacted] – SVP, General Compliance

Articles 2(c) & 2(i)

FRB Order Reference:	*Article 2(c)*	**Corresponding OCC Article:**	*N/A*
steps to ensure that HNAH's ERM, audit, and compliance programs have adequate levels and types of officers and staff dedicated to overseeing the Bank's and the Mortgage Servicing Companies' 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;			
FRB Order Reference:	*Article 2(i)*	**Corresponding OCC Article:**	*N/A*
steps to ensure that the risk management, audit, and compliance programs of the Mortgage Servicing Companies have adequate levels and types of officers and staff and that they have officers and staff with the requisite qualifications, skills, and ability to comply with the requirements of this Order, and a timetable for hiring any necessary additional officers and staff;			

Action Plan

HNAH has existing processes in place to ensure Enterprise Risk Management ("ERM"), audit, and compliance of the Mortgage Servicing Companies and the Bank have adequate levels and types of officers and staff with requisite qualifications, skills, and abilities to comply with the requirements of the Order.

Existing Processes / Programs:

Staffing for the ERM, Audit, and Compliance programs dedicated to overseeing residential mortgage loan servicing, Loss Mitigation, and foreclosure activities has been addressed by Residential Mortgage Servicing, HNAH Compliance, and Group Audit North America, respectively as part of their annual staffing analyses, detailed below. Management of these departments has determined that current staffing levels are adequate and the existing officers and staff possess the requisite qualifications, skills and abilities to comply with the requirements of the Order. As such, there are no additional hiring plans currently in place, and therefore a timetable for hiring additional staff is not required. In addition, business-level workload reviews have occurred in response to the Order and are detailed in Article 2(g). The basis for these Management determinations, as well as the staffing plans for each of these groups is as follows:

Annual Operating Plan ("AOP") Process in response to FRB MOU
A formal staffing analysis of risk control functions was completed in late 2010 as part of the FRB MOU, subpart I.e. requiring "an appropriate balance of resources to ensure proper oversight of on-going business lines and the wind-down of discontinued operations." HNAH control functions, which include Finance, Compliance, Audit, Information Technology, Human Resources, and Risk Management, follow a process of reviewing resources to ensure adequacy for operating the organization. During the Resource Operating Plan ("ROP") process, each control function annually submits

operating plans inclusive of financial and Full-Time Employee (“FTE”) in alignment with the objectives of the organization. Once finalized, these plans are communicated throughout the organization and, with Resourcing Recruiting support, are deployed as appropriate. Plans include documentation of the business case, establishment of job responsibilities and establishment of reporting lines. Exhibit 10 of the October 10, 2011 management letter provides the resource adequacy analysis for the control functions. Any changes in staffing required outside of the AOP ROP process can be discussed bilaterally with the HNAH CEO or through the monthly Executive Compliance Committee (“EXCO”) process. The April 28, 2011 FRB Supervisory letter indicates that subpart I. e has been “met.” With respect to the Compliance organization, further remediation will be assessed in conjunction with the October 4, 2010 Cease and Desist Order on AML, described in the attached MOU Response Letter - October 21, 2010, FRB MOU Progress Letter April 28, 2011, and HNAH Resource Adequacy – Control Function Analysis documents.

Additional analyses specific to ERM, audit and Compliance are described below.

ERM Staffing
ERM follows a process of reviewing resources to ensure adequacy for operating the organization. During the ROP process noted above, ERM annually submits operating plans inclusive of financial and FTE alignment with the organization objectives. This is performed each December. Additionally, Based on the updates made through previously ROP processes and responses to the MOU, ERM staffing is considered adequate at this time and therefore no timeline is currently needed for staffing changes.

Compliance Staffing
Central Services, a part of HNAH Compliance, conducts at least annually staffing analyses, skills assessments, and capacity plans for the Compliance organization in North America. These analyses, assessments and plans are intended to ensure that the staff is maintained at appropriate levels and with the appropriate expertise to provide oversight, timely and responsive guidance for the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities.

The HSBC North America Audit and Risk Committees of the Board of Directors are responsible for establishing an appropriate culture of compliance and for overseeing the implementation of a comprehensive and effective Compliance Risk Management Program. The Board has delegated to the HNAH, HBUS and HBIO Audit and Risk Committees primary compliance risk management and oversight responsibilities. These oversight responsibilities include obtaining reasonable assurance that executive management is fully qualified and properly motivated to manage compliance risks, as well as approving appointments and replacements for the HNAH Regional Compliance Officer (“RCO”) and other Compliance Officers.

Additionally, the Committee is responsible for monitoring the effectiveness of the Compliance Program, including testing and monitoring functions to ensure that HNAH

Compliance has appropriate independence, authority, access, and standing within the organization and that sufficient resources are in place to effectuate the Compliance Program objectives. Further details can be found in section 3.3 on pages 17 and 18 of the HSBC – North America Compliance Risk Management Program Manual and GROUP AUDIT NORTH AMERICA AUDIT AND RISK COMMITTEE Charter.

Human Resources supports the Compliance function of maintaining adequate officers and staff and is formalized in the Compliance Program. North America Human Resources ("HR") provides Compliance functions with the ability to acquire and retain compliance resources supporting the implementation of the Compliance Program. HR duties and responsibilities in support of the human capital planning are described in sections 5.10 on pages 56 to 58 HSBC – North America Compliance Risk Management Program Manual, and include:

- Facilitating talent acquisition, management, development and succession planning;
- Guiding and supporting the Compliance Performance Management approach;
- Coordinating with HNAH Compliance management and business lines to identify and develop appropriate balanced scorecard compliance objectives;
- Maintaining oversight and support of the compliance resources acquisition process;
- Maintaining oversight of a centralized tracking and reporting system to document and monitor employee compliance training fulfillment;
- Providing business units and HNAH Compliance with periodic compliance training reports, including any training exceptions.

The Consumer Mortgage Lending ("CML") business line Compliance management has assigned the Compliance staff to functional areas based on subject matter expertise and is aligned into two areas - Servicing and Default (includes loss mitigation and foreclosure). Currently, Compliance is staffed by twelve full-time employees including the SVP dedicated to residential mortgage loan servicing and default compliance. Although Compliance staff has reduced by two since October, negotiations are underway to hire a former Compliance employee with extensive legal training for the Default area. Compliance anticipates the former employee rejoining the department in January 2012.

The current Compliance team is staffed with personnel that possess significant tenure within the Industry and within Compliance. The staff have an average of 16 years with HSBC and 10 years in Compliance. Upon the re-hiring of the former Compliance employee, Compliance will be deemed to be fully staffed. This is based upon review of current compliance related projects and initiatives, support required for compliance-related regulatory examinations and the on-going business as usual workloads of full-time compliance staff. Compliance management considers work hours, workload and work product time line commitments for assessment of staffing level. Compliance management is committed to maintaining adequate staffing levels in compliance with the requirements of this Order, as outlined in the (See attached HNAH Corporate Compliance Organizational Structure document). Compliance considers itself adequacy staffed at this time and therefore no timeline is available for additional changes.

Additionally, the attached HSBC – North America Compliance Risk Management Program Manual describes the duties and responsibilities of line of business staff and other staff regarding compliance with applicable state and federal laws and regulations (See pages 36 and 37). For example, HBIO and HBUS staff are required to:

- follow the HSBC – North America Compliance Risk Management Program Manual and the related HBIO and HBUS compliance policies and procedures;
- be knowledgeable of, and compliant with, regulatory and compliance requirements that are specifically related to their positions;
- understand and manage operational risks affecting their areas of responsibility, including by maintaining adequate internal controls;
- ask questions or express concerns if their compliance role or responsibility is not understood;
- successfully complete the annual required compliance training;
- report matters that may involve possible compliance breaches or violations to their supervisors and HNAH Compliance on a timely basis; and
- refrain from participating in any activity that may be perceived as dishonest or unethical or that violates the HNAH Statement of Business Principles and Code of Ethics.

HSBC – North America Compliance Risk Management Program Manual section 3.3, provides detail regarding the HNAH Compliance Governance Roles and Responsibilities. HSBC – North America Compliance Risk Management Program Manual section 3.5.6 (page 33) states that business line management must serve as a first line of defense and establish effective compliance programs and build compliance policies, procedures and controls into their business delivery and operations functions. Individuals within the business units who own the relationships with the Third-Party Providers are responsible for ongoing monitoring of the Third-Party Providers' performance against Service Level Agreements (SLA) and contract terms, which include compliance with Legal Requirements, supervisory guidance and HBIO's and HBUS' policies and procedures. The attached "Third Party Operational Risk Management Department Instruction Book ("DIB")" provides an overview of the roles and responsibilities of the TPORMG and business line management and provides the policies and procedures that govern management of Third Party Providers. Compliance related roles and responsibilities are also communicated to employees via the following methods:

- Employees are hired into a job that is described by a job code description. This ensures that when employees begin working, they have a broad overview of their duties & responsibilities. New job descriptions were completed and approved on October 26, 2011, and the employees have been assigned to those positions. Employees receive training (both formal Compliance courses as well as functional on-the-Job training) that helps them understand how to execute against their duties and responsibilities

- Managers hold team meetings with their employees to review duties and responsibilities
- Employees receive direct feedback from their manager on the performance through individual coaching sessions on their performance of their duties and responsibilities
- Employees receive direct feedback on their production for any quality control errors
- Employees also have access to all relevant policies and procedures for their work functions on CLIO (Consumer and Mortgage Lending Information On-line) residing on the intranet

If employees have questions about their duties and responsibilities, they are in close proximity to or can access their manager via telephone for additional clarification

Group Audit North America Staffing

The Group Audit North America team is composed of qualified individuals with experience and knowledge of Mortgage Servicing related activities. Currently staff assigned to complete the review of mortgage servicing operations includes different levels and types of officers, allowing for proper coverage of requirements included in the Order, described further in the AUN Staff Assessment and Training Program. Consistent with prior years, staffing requirements are driven by a risk-based audit approach. Based upon the assessment of audits that need to be conducted in 2011, an estimate of staffing needs was obtained taking into consideration the amount of time required to perform other audit related activities, such as continuous risk monitoring, systems reviews, audit issue follow-up and validation, participation in key initiatives and committees, and mandatory continuing education for all staff members. Personal leave time approximations, a historical factor for turnover, and other time estimates are also factored into the staffing demand forecast.

Group Audit North America completed an analysis of the review and testing in the areas of residential mortgage loan servicing, Loss Mitigation and foreclosure activities. Capacity of the audit team to conduct audits is based on an analysis of the number of hours required to complete professional audit work. This analysis considered enhancements being made to processes and controls by management, additional compliance risks identified and addressed, and the remediation efforts specifically undertaken to address the Order. The original audit plan was revised due to the addition of projects and activities needed to review all areas related to the Order. The revised 2011 Audit Plan includes a total of 520 days divided among several audit professionals) and allocated to mortgage servicing related reviews. Based on this analysis, Group Audit North America determined that the current staffing levels of qualified full-time audit employees is sufficient, as detailed in the AUN Staff Assessment and Training Program.

Group Audit North America assesses the adequacy of staff levels at least annually. The Audit Committee has responsibilities, adopted from directives of the Board of Directors, to monitor the effectiveness, resources and standing of internal audit and consider major findings of investigations and the management response. At least annually, the HNAH Senior Executive Vice President ("SEVP") will submit to

Residential Mortgage Servicing Management and the Audit Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The SEVP will communicate auditor qualifications, the impact of resource limitations and significant interim changes to Residential Mortgage Servicing Management and the Audit Committee.

Prior to developing the audit plans, the total number of available resources needs to be determined. A spreadsheet is prepared which lists out all the auditors for an audit team, their position and utilization percentage. This review, which is noted page 1 of the attached Utilization and Available Resource Procedures includes components such as:

- Utilization percentages
- Total number of days
- Turnover percentages
- Use of interns

This information is then used to calculate the total number of days per audit and used for scheduling.

As detailed on pages 1 – 4 of the attached AUN Staff Assessment and Training Program, the Internal Audit team is composed of qualified individuals with several years of experience and knowledge of Mortgage Servicing related activities. Currently, the staff assigned to complete Mortgage Servicing operations reviews includes different levels and types of officers, allowing proper coverage of the requirements included in the Consent Orders. Qualifications of a sample of auditors who work on mortgage servicing audits are presented below. It is pertinent to note that this is not a dedicated mortgage servicing team as auditors participate in other engagements throughout the year. Refer to Appendix A within the attached AUN Staff Assessment and Training Program for Mortgage Business Audit Organizational Chart.

Every auditor is required to complete at least 40 hours of training per calendar year. This can include internal and external training courses, online or computer based training, or self-study in preparation of an approved professional certification. Sixteen of the 40 hours must be dedicated to compliance education to keep staff up-to-date with current regulatory requirements. In addition, several core members of the mortgage business audit team attended a training course or conference related to the industry this year. A training strategy and plan has been established and tracked to completion. Additionally, specific training plans are noted by auditor and provided on pages 1 – 6 of the attached AUN Staff Qualification Assessment and 2011 Training Program.

It is pertinent to note that the Audit team is supported by an independent group of auditor's specializing in IT operations and MIS reporting. They assist the general audit team with independent exception monitoring utilized in the process reviews.

As part of the mandatory internal training requirements, auditors are required to complete training in areas such as fair lending, operational risk and compliance enterprise risk wide assessment process which impact and/or include residential mortgage servicing activities.

The Chief Audit Executive of HNAH has overall responsibility for managing all audits in the region. However, the Chief Audit Executive of HBIO has overall responsibility for audits of the consumer and mortgage lending business for HBIO and HSBC USA Inc. ("HUSI"). The HBIO Chief Audit Executive has over 18 years of experience in the financial services industry and an extensive internal audit background. These experiences include managing internal audits for financial institutions and acting in auditing and consulting roles with a large accounting firm.

Coverage of the mortgage business unit is also included in Group Audit North America's enterprise-wide themed reviews, such as HMDA, Fair Lending, Service Delivery Control Adherence (formerly known as NAQA), and GLBA Compliance.

The existing processes, as described above, ensure that adequate qualified staffing of the audit function is provided for residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and exhibit HNAH's commitment to ensure reviews are performed by individuals with appropriate experience and qualifications in accordance with the requirements of the Order.

In addition, in response to the Order, several core members of the mortgage business audit team are required to attend a specialized training course or conference related to the industry this year. A training strategy and plan have been established and is tracked to completion including quarterly updates to the FRB.
Specialized training includes attendance at:

- Enterprise Risk Management Conferences
- Mortgage Risk Conference
- Compliance and Ethics Academy
- Governance, Risk and Compliance Conference
- Regulatory Compliance Conference (covering foreclosure regulatory expectations)
- MERS Seminar

Refer to AUN Staff Qualification and 2011 Training Programs chart attached hereto. This chart includes a summary of mortgage business team core member's biographies, certifications, 2011 internal and external training plans, as well as status of training as of September 30, 2011.

Based on Group Audit North America's analysis of the review and testing that needs to be completed in the areas of mortgage loan servicing, Loss Mitigation and foreclosure activities in accordance with our risk-based approach, resource requirements have been reviewed and resource allocations adjusted where applicable. This analysis has considered the enhancements being made to processes and controls by Residential Mortgage Servicing management, additional compliance risks identified and addressed, and the remediation efforts specifically undertaken to address the Order, and it has been concluded that there are adequate number of full-time employees with the required skills and experience at this time. Group Audit North America assesses the adequacy of its staff levels on an ongoing basis and changes made as needed. We will consider augmenting with consultancy resources if deemed necessary at any point. Refer to AUN Staff Assessment and Training Programs document attached for detailed capacity assessment. Additionally as Group Audit considers itself adequacy staffed at this time, no timeline is available for additional changes.

Group Audit North America processes and procedures are subject to on-going review in the ordinary course of business. Revisions or enhancements will be made where determined to be necessary or appropriate.

North American HR Learning Overview
In addition to the staffing analyses noted above, training occurs to assist ERM, Compliance and Audit as needed as summarized below

The North America HR Learning team is a functional department organized within the Human Resources division responsible for formal training development. Learning is a branch of the Learning, Training, Resourcing and Organizational Development ("LTROD") group within HR. As a centralized function, Learning provides support for all business lines and functions within North America with a pool of Learning employees and contains various roles within its structure (approximately 85 employees).

HSBC conducted an evaluation of its mandatory compliance and business function courses as of July 31, 2011 (Please reference "Learning & Development Functional Training Gap Assessment" for a draft summary of the evaluation provided). This evaluation outlined enhancements necessary to adhere to compliance with applicable Legal Requirements and supervisory guidance. In accordance with this evaluation, Learning developed an execution plan for new or enhanced training programs (Refer to slides 6-7 of "CML Consent Order Response Recommendations from Learning"). The evaluation concluded that HSBC needed to develop a total of 18 courses, each of which may be composed of multiple modules.

For additional detail on the overall structure of the how training is developed as well as the evaluation noted above, please see the Action Plan response to Article 11.

Documents to be submitted with the Action Plan

- HNAH Operational Risk Internal Control Target Operating Model
- Organizational Structure - Servicing
- Organizational Structure - ORM, TPOR, BIRO, FRG
- HNAH Corporate Compliance Organizational Structure
- HSBC – North America Compliance Risk Management Program Manual

- AUN Staff Assessment and Training Program
- GROUP AUDIT NORTH AMERICA AUDIT AND RISK COMMITTEE
- B.1.2 Governance and Organization of Operational Risk and Internal Control
- B.1.6 Internal Control Monitoring and Oversight
- FRB MOU Progress Letter April 28, 2011
- HNAH Resource Adequacy – Control Function Analysis
- MOU Response Letter – October 21, 2010

Additional documents completed for re-submission of Action Plan

- HNAH Operational Risk & Internal Control
- Operational Risk Awareness WBT
- HSBC – North America Compliance Risk Management Program Manual
- Third Party Operational Risk Management Department Instruction Book ("DIB")
- Utilization and Available Resource Procedures
- AUN Staff Assessment and Training Program
- AUN Staff Qualification Assessment and 2011 Training Program
- Learning & Development Functional Training Gap Assessment
- CML Consent Order Response Recommendations from Learning

Key HSBC Contacts for the Action Plan

- [redacted] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO
- [redacted] EVP/Chief Auditor, HBIO
- [redacted], SVP General Compliance
- [redacted] SVP Default Services
- [redacted], [redacted] HNAH

Articles 2(d) & 2(l)

FRB Order Reference:	*Article 2(d)*	**Corresponding OCC Article:**	*N/A*
steps to improve the information and reports that will be regularly reviewed by the board of directors or authorized committee of the board of directors of HNAH regarding residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, including, compliance risk assessments, and the status and results of measures taken, or to be taken, to remediate deficiencies in residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, and to comply with this Order;			
FRB Order Reference:	*Article 2(l)*	**Corresponding OCC Article:**	*N/A*
steps to improve the information and reports that will be regularly reviewed by HNAH's and HBIO's boards of directors to assess the performance of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, as well as the risk management and compliance programs and associated functions including, compliance risk assessments, and the status and results of measures taken, or to be taken, to remediate mortgage servicing, Loss Mitigation, and foreclosure deficiencies, and to comply with this Order.			

Action Plan

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.

<u>Existing Processes / Programs:</u>

Foreclosure Flash Report

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.

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).

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).

Mortgage Corporation Governance Reports
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 covers other metrics such as short sales, recidivism and REO.

Daily Operational Reports
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

Newly Developed MIS Reports
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 [redacted] 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 MS ACCTS AS OF 25SEP11 – identifies accounts within the Stipulation Process, for follow-up purposes.
- MS ELM SPOC WAS - IS REPORT; MS 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):

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

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.
- [redacted] 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.

Monthly Board Reporting Package
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 [redacted] & 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:

Expanded Board Reporting Package
HBIO and HBUS will expand the Board Reporting package as new MIS reports are developed. The eight monthly Compliance-related reports listed below are under development for the HNAH Board of Directors at this time and were initially expected to be completed by 11/30/11. However, the reports are related to the restart of new foreclosure proceedings and the delay in those restarts has resulted in the following reports expected to be put into production by the end of 1Q'12:

- 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.

Additional MIS Requirements
In addition, existing internal sources including the Testing and Risk Assessment Compliance ("TRAC") team and [redacted] ("[redacted]) are being used to inventory applicable Legal Requirements, supervisory guidance and the requirements of this Order across functional areas. Based on the inventory of Legal Requirements, supervisory guidance, and requirements of this Order, Residential Mortgage Servicing Management will determine the MIS requirements and define the compliance metrics for inclusion within the Compliance Risk Assessment Dashboard, described in the attached Testing and Risk Assessment Compliance Unit (TRAC) Procedures Manual.

Monthly Compliance Committee Report
Finally, at least monthly, the EVP HBIO, President and Chief Servicing Officer a report to the Compliance Committee of the Board regarding the status of compliance and the budget related to the Consent Order requirements.

Documents to be submitted with the Action Plan

- Testing and Risk Assessment Compliance Unit (TRAC) Procedures Manual

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
- 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

Key HSBC Contacts for the Action Plan

- [redacted], Regional Head of Retail Collections
- [redacted], SVP General Compliance
- [redacted], SVP Compliance, HSBC Bank USA, NA
- [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

Article 2(e)

FRB Order Reference:	*Article 2(e)*	Corresponding OCC Article:	*N/A*

funding for personnel, systems, and other resources as are needed to carry out the Mortgage Servicing Companies' residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations in full compliance with the Legal Requirements and the requirements of this Order, taking into consideration the current and expected volume of past due loans;

Action Plan

Management has existing processes to ensure that funding for personnel, systems, and other resources as are needed to carry out the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations of the Bank and the Mortgage Servicing Companies in full compliance with the Legal Requirements and the requirements of this Order, taking into consideration the current and expected volume of past due loans to comply with the Order. Funding is separated into two different budgets: that which is allocated to Residential Mortgage Servicing personnel as well as specific funding to meet the requirements of the Order. HNAH has had allocated [redacted] and [redacted] respectively for 2011 and increased each budget to [redacted] and [redacted] respectively to address additional needs as required by the Order. Additional funds will be approved as needed.

Existing Processes / Programs:

Board Commitment to Funding

The HNAH Board of Directors has adopted a resolution that commits to provide funding for personnel, systems, and other resources, as needed, to operate risk management and compliance programs that are safe and sound and that are commensurate with the risk profile of the Bank and Mortgage Servicing Companies. The attached Approval of Board Commitment of Financial and Managerial Resources No_NA11-11, CF11-29, US11-39 provides further detail on the resolution.

Budgeting Process

HNAH control functions, which include Finance, Compliance, Audit, Information Technology, Human Resources, and Risk Management, follow a process of reviewing resources to ensure adequacy for operating the organization. During the Resource Operating Plan ("ROP") process, each control function annually submits operating plans inclusive of financial and Full-Time Employee ("FTE") in alignment with the objectives of the organization. Once finalized, these plans are communicated throughout the organization and, with Resourcing Recruiting support, are deployed as appropriate. These financial plans are revised and submitted on a quarterly basis.

Operational Plans and Funding Requirements

The Residential Mortgage Servicing, Credit Risk, Capacity Planning and Finance teams work together to create operational plans and establish funding requirements. For instance, delinquency volume expectations produced by Credit Risk will be leveraged by the Capacity Planning team and the business unit operators to determine the resources needed to balance workload demands. Finance then uses the capacity requirements to determine the appropriate operating budget.

Residential Mortgage Servicing Management, which is responsible for the functional components of their organization, determines the personnel, systems, and other resources needed to meet demand. Residential Mortgage Servicing Management works with the HNAH capacity planning team to see that the needs of the business are recognized and that the planning for any required resources can be initiated.

Management has and will continue to review and manage the workloads for residential mortgage loan servicing, Loss Mitigation, loan modification, and foreclosure personnel. Capacity modelling and planning is owned and performed by an independent party within HSBC North America's Credit Risk function. Analysis is based on Credit Risk forecasts and includes planned attrition, hiring, staffing movements, and strategy changes. The model compares expected monthly headcount against the demand (as predicted by the risk forecast) to determine the need for hiring, staffing movements, or utilization of overtime. In addition, the Workload Review, detailed in Article 2(g) is also refreshed on a monthly basis which identifies other staffing needs.

Management actively monitors and updates the planning methodology for capacity and staff workloads based on market conditions, internal data and forecasts. Throughout the year, the Credit Risk group communicates and coordinates staffing requirements by department to Finance to ensure the departments receive appropriate consideration in the budgeting process. Based on this process, analysis is performed for the short- and long-term capacity needs of each business department.

Management actively manages staffing needs. The capacity plan is a rolling plan continually re-examined to determine and identify needs. Presently, Management has identified the need for incremental residential mortgage loan servicing staff increases after the foreclosure moratorium and plans to adjust once volume expectations and productivity impacts are finalized. In addition, Management proactively increased capacity in the past as it anticipates increased volumes of Loss Mitigation and foreclosure activities. Management will continue to adjust, review, and monitor the capacity plan to drive operational efficiencies and to mitigate risk associated with volume fluctuations and changes in market conditions. For further details, see the attached Foreclosure Affidavit Capacity Discussion and CML Default Capacity Plan Overview - May 2011 documents.

Residential Mortgage Servicing management and the Bi-Weekly Retail Operations Governance ("BROG") Committee review and discuss the long-term capacity plan.

Both short- and long-term capacity planning are on-going processes that occur within the 90-day requirement.

Finally, at least monthly, the CIO & Head of Relationship Management HBIO provides the attached HBIO Executive Compliance Steering Committee report which details on pages 15 – 17 the HR capacity planning and budget related to the Consent Order requirements to ensure that executive management has visibility into each. The EVP HBIO, President and Chief Servicing Officer, at least monthly, provides an overview of the progress occurring towards the Mortgage Servicing Consent Order to the Compliance Committee of the Board, which includes an update on the budget and resources requirements. Please see attached Foreclosure Account and Servicing Review pages 1 – 7.

<u>Enhancement to Processes / Programs:</u>

Consent Order Budget

Residential Mortgage Servicing management compared this requirement of the Order to the current processes as described above, as well as the current Corporate Governance Structure and Reporting described in the Action Plan response to Article 2 (a), and have determined that these processes provide for the oversight of personnel funding and the funding for systems and other resources as are needed to carry out the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations of the Mortgage Servicing Companies and the Bank in full compliance with Legal Requirements and the requirements of the Order, taking into consideration the current and expected volumes of past due loans.

Through the review of these Orders and communication with the Executive Steering and Compliance Committees of the Board, it was determined that [redacted] was required to support the requirements of the Order. The allocation of the [redacted] is as follows:

- Program Support of the Orders - providing project management, technology, training and complaint processing requirements
- Foreclosure Lookback - hiring of an independent consultant to perform the foreclosure lookback as outlined by the Order
- Law Firm Audits - creating, managing and conducting due diligence over law firms as outlined by the Order
- Risk Assessment - hiring an independent consultant to perform the risk assessment requirements as outlined by the Order

Additionally, a funding increase to [redacted] has been requested and approved for 2012.

Residential Mortgage Services Personnel Funding

Through the analysis noted above, Residential Mortgage Servicing also increased its personnel budget to meet the additional requirements of the Order. The operating

budget has been increased from [redacted] in 2011 to [redacted] for 2012. This increase is directly related to changes in processes and staffing resulting from the requirements of the Order. Progress against the budget is communicated at least monthly to the Executive Steering and Compliance Committees (see attached HBIO Executive Steering Committee document slide 17 and Foreclosure and Account Servicing Review document slide 7).
Documents to be submitted with the Action Plan • Foreclosure Affidavit Capacity Discussion • CML Default Capacity Plan Overview - May 2011
Additional documents completed for re-submission of Action Plan • HBIO Executive Compliance Steering Committee • Foreclosure and Account Servicing Review
Key HSBC Contacts for the Action Plan • [redacted] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO • [redacted], SVP General Compliance • [redacted] SVP Default Services • [redacted], SVP Default Services, Mortgage Servicing

Article 2(f)

FRB Order Reference:	*Article 2(f)*	**Corresponding OCC Article:**	*N/A*
funding for personnel, systems, and other resources as are needed to operate risk management and compliance programs that are safe and sound and that are commensurate with the risk profile of the Mortgage Servicing Companies;			

Action Plan

HNAH has taken action to ensure financial resources to develop and implement the infrastructure for personnel support, relevant systems, and other resources needed for operating risk management and compliance programs that are safe and sound and commensurate with the risk profile of the Bank and Mortgage Servicing Companies in compliance with the requirements of the Order. HNAH has initially allocated [redacted] to address the requirements of the Order and additional funds will be approved as needed.

Existing Processes / Programs:

The HNAH Board of Directors has adopted a resolution that commits to provide funding for personnel, systems, and other resources, as needed, to operate risk management and compliance programs that are safe and sound and that are commensurate with the risk profile of the Bank and Mortgage Servicing Companies. The attached Approval of Board Commitment of Financial and Managerial Resources No_NA11-11, CF11-29, US11-39 provides further detail on the resolution.

Enhancement to Processes / Programs:

Compliance

Compliance maintains a dedicated team of Compliance professionals focused on the mortgage servicing operations who are part of a much larger and well staffed/funded Compliance function. The larger Compliance function provides additional resources and support for items such as training, risk assessment, control monitoring and testing, reporting and overall governance. Specifically, the local compliance teams annually complete a function-level exercise that captures the amount of time (man hours) dedicated to each of the job duties and roles performed by the team. The assessment captures the hours of each duty (legislative monitoring, policy development, training, reporting, advice and guidance). This assessment is used to determine the number of staff required to perform those activities. The resources requirements feed to the Annual Operating Plan ("AOP"). Those requirements and costs are reviewed with Senior Compliance management. Additionally, those resources are reported to Business management through the AOP process as well as on the Annual Compliance Plan presented to the Business Head by the Local Compliance Officer.

At a minimum, on an annual basis, the Compliance Committees will review and consider approval of the Compliance Program or when material changes occur. The Compliance Committees will review and consider approval of the Annual Compliance Operating Plan. Upon approval of the Annual Compliance Operating Plans, the Compliance Committees will receive quarterly management progress reports on the implementation of the plan. The Compliance Committees will review and approve the Annual Compliance Operating Plans and any amendments as needed." The overall Compliance budget for 2011 was [redacted] and 2012 AOP (as of last submission) is [redacted] The overall increase in Compliance spend (2010 was approximately half of 2011 spend) reflects the overall increase in staff, increases in TRAC, management, reporting, and training, necessary to improve the overall compliance program. *Risk Management* At the corporate level, Risk Management funding is handled via the AOP process noted above. The Risk Management business line also submits its budgets on an annual basis and regularly reviews and resubmits budget changes as needed. As many of the changes to the budget were implemented prior to, and not in response to, the Consent Orders (i.e., BRCM and RCA were already factored into the budget) there was not a significant dollar increase in budget. However the budget was increased from [redacted] in 2011 to [redacted] in 2012. This increase was fully supported by the Board's commitment to provide financial and managerial resources as needed to comply with the Order.
Documents to be submitted with the Action Plan • Approval of Board Commitment of Financial and Managerial Resources No_NA11-11, CF11-29, US11-39
Additional documents completed for re-submission of Action Plan • Foreclosure and Account Servicing Review
Key HSBC Contacts for the Action Plan • [redacted] CIO & Head of Relationship Management HBIO

Article 2(g)

FRB Order Reference:	*Article 2(g)*	**Corresponding OCC Article:**	*IV.1.l, IV.1.m, IV.1.n*
steps to ensure that the Mortgage Servicing Companies have adequate levels and types of officers and staff to carry out residential mortgage loan servicing, Loss Mitigation, and foreclosure activities in compliance with Legal Requirements and the requirements of this Order, and taking into account the size and complexity of the Servicing Portfolio; that they have officers and staff with the requisite qualifications, skills, and ability to comply with the requirements of this Order; and a timetable for hiring any necessary additional officers and staff.			

Action Plan

HNAH has taken steps to ensure that the Bank and Mortgage Servicing Companies have adequate levels and types of officers and staff to carry out residential mortgage loan servicing, Loss Mitigation, and foreclosure activities in compliance with Legal Requirements and the requirements of this Order. Additionally, the Bank and Mortgage Servicing Companies will ensure that they have officers and staff with the requisite qualifications, skills, and ability to comply with the requirements of this Order, as well as a timetable for hiring any necessary additional officers, which will take into account the size and complexity of the Servicing Portfolio.

Attrition is a risk because HNAH is running-off the Consumer and Mortgage Lending portfolio and market demand for talent in loan servicing is high. This risk is being monitored and the impact of significant attrition or loss of talent will be escalated as needed.

<u>Existing Processes / Programs:</u>

Workload Review

HNAH is committed to staffing and managing the workloads of residential mortgage loan servicing, Loss Mitigation, and foreclosure personnel to promote the goal of providing home preservation assistance to eligible borrowers and reducing the number of foreclosures. Management conducted a workload review in August to summarize the current staffing needs within:

- Loss Mitigation
- Single Point of Contact (“SPOC”)
- Foreclosures
- Real Estate Owned (“REO”)
- Mortgage Electronic Registration System (“MERS”)
- Business-As-Usual Customer Complaint Processing
- Operational Risk Management (“ORM”)
- Third-Party Operational Risk Management Group (“TPORMG”)
- Law Firm Review

- Foreclosure Complaint Process

This review included the current needs, the existing staff, plans to fill vacant needs, as well as assumptions and approach to the evaluation. Please see pages 7 – 22 of the attached Workload Review August 11, 2011 for additional detail on the specific needs and approaches for the areas noted above. The Workload Review is refreshed on a monthly basis and presented to the HBIO Executive Compliance Steering Committee and results are summarized in the quarterly progress update to the Compliance Committee. Management continuously opens job postings as needs are identified and makes efforts to hire as quickly as possible as appropriate candidates are identified.

Capacity Modelling and Planning

Additionally, management has, and will continue to review and manage, the workloads for residential mortgage loan servicing, Loss Mitigation, loan modification, and foreclosure personnel. Capacity modelling and planning is owned and performed by the Credit Risk function. Analysis is based on risk forecasts and includes expected attrition, hiring, staffing movements, and strategy changes. The model compares the expected monthly headcount against the demand as driven by the risk forecast to determine hiring needs, staffing movements, or utilization of overtime. The planning methodology for capacity and staff workloads is continually monitored and updated based on market conditions, internal data, and forecasts. Throughout the year, the Credit Risk function communicates and coordinates staffing requirements by department to Finance to ensure that appropriate consideration in the budgeting process is received. Based on this process, analysis is performed for the short- and long-term capacity needs for each business department.

The short-term, or tactical, rolling capacity planning process is performed one month in advance to determine strategy and capacity needs. Monthly tactical support is provided at the campaign level, allowing operations to make shorter-term adjustments to manage near-term volume fluctuations. The analysis performed allows management to shift account volume or employees to meet or maintain productivity and quality levels and to determine overtime and agency placements. Department managers conduct capacity planning meetings throughout the month. The final tactical capacity planning meeting for the upcoming month is held with business unit management and other support functions during the last week of the month.

Long-term, or strategic, rolling capacity analysis is performed and planned based on the estimated staffing requirements for operations. The need for employees is driven by forecasts (i.e., delinquency) and other internal risk data. This analysis is performed continually and assists management in developing the appropriate capacity initiatives, account migrations or strategy changes. The strategic model, described in the CML Default Capacity Plan Overview – May 2011, provides an expectation for staffing excesses or shortfalls by month, and recommendations are made to mitigate any inequities (e.g., hiring, overtime, staffing movements).

Staffing needs are managed through the review and examination of capacity plans.

Residential Mortgage Servicing Management has assessed the need for incremental staff in anticipation of initiating foreclosure re-files as well as from the additional backlog caused by the moratorium, discussed in further detail in the attached Foreclosure Affidavit Capacity Discussion document.

Management has plans to add incremental staff and will deploy experienced staff into critical areas, as it deems necessary. Management has also proactively increased capacity when necessary in accordance with increased volumes of Loss Mitigation and foreclosure activities. Procedural changes have been a significant factor in the need for increased staffing levels as, for example, more employees are required to process each foreclosure, due to the increased controls and detailed procedures that must be followed. Management will continue to adjust, review and monitor the capacity plan to drive operational efficiencies and mitigate risk associated with volume fluctuations and changes in market conditions.

Residential Mortgage Servicing management and the BROG Committee review and discuss the long-term capacity plan. Both short- and long-term capacity planning are on-going processes that occur within the 90-day requirement for review.

In addition to these processes, management has reviewed the qualifications of current management and supervisory personnel responsible for mortgage servicing and foreclosure process and operations, including collections, Loss Mitigation and loan modification, the results of which are contained in the attachments titled Review of Management and Supervisory Personnel Qualifications – 1 and Review of Management and Supervisory Personnel Qualifications – 2. Human Resources performed reviews for the unit manager level and above and based on the results, management has determined that the qualifications of current management and supervisory personnel are appropriate for the reviews completed, and will evaluate the remaining reviews upon completion. However, in order to accommodate recent procedural changes related to the horizontal reviews, staffing levels are currently being increased. For further details, please see the GLOBAL ROLE PROFILE TEMPLATE.

Identification of Training Needs

In addition to the staffing and qualification analyses noted above, training occurs as summarized below

The North America HR Learning team is a functional department organized within the Human Resources division responsible for formal training development. Learning is a branch of the Learning, Training, Resourcing and Organizational Development ("LTROD") group within HR. As a centralized function, Learning provides support for all business lines and functions within North America with a pool of Learning employees and contains various roles within its structure (approximately 85 employees).

HSBC conducted an evaluation of its mandatory compliance and business function courses as of July 31, 2011 (Please reference “Learning & Development Functional Training Gap Assessment” for a draft summary of the evaluation provided). This evaluation outlined enhancements necessary to adhere to compliance with applicable Legal Requirements and supervisory guidance. In accordance with this evaluation, Learning developed an execution plan for new or enhanced training programs (Refer to slides 6-7 of “CML Consent Order Response Recommendations from Learning”). The evaluation concluded that HSBC needed to develop a total of 18 courses, each of which may be composed of multiple modules.

For additional detail on the overall structure of the how training is identified by the business and developed as well as the evaluation noted above, please see the Action Plan response to Article 11.

Finally, additional capacity considerations were made based on the implementation of SPOC. HSBC’s Resource Analytics team, who report to the Regional Head of Retail Collections, provides long and short term planning support for CML business lines based on periodic Resource Operational Planning (“ROP”) forecasts, which are typically adjusted semi-annually. From this plan, recommendations are made to Default Services based on actual volume and performance information; along with the impact of any changes in strategy (e.g. penetration rate changes, SPOC methodology changes, etc). When improved performance, reduced volumes, or strategy changes result in systematic excess or deficiency to the long term plan, staff may be reallocated from other functions in place of external hiring and/or staff reductions. As recent regulatory changes have resulted in realignments in servicing demand, the Resource Analytics team has re-examined the overall capacity plan to identify capacity opportunities to support SPOC requirements.

As of September 12, 2011, there were approximately 236 SPOC Mortgage Servicing Specialists. Nineteen additional SPOC Mortgage Servicing Specialists were added as of September 30, 2011 resulting in approximately 255 SPOC Mortgage Servicing Specialists. HSBC sourced collectors with an average of over eight years of experience in the areas of Loss Mitigation and foreclosure to supplement the SPOC team, which is housed in a new unit. For additional information regarding the SPOC reporting line, refer to the attached HSBC Single Point of Contact (SPOC) Program Overview and Process Flow submitted with Action Plan Article 5(a) on July 20, 2011. The HSBC Single Point of Contact (SPOC) Program Overview and the Process Flow includes an Executive Summary overview of the SPOC program, Communication Strategy and Process Flow description and a SPOC Capacity Executive Update.

The volume and productivity assumptions used to formulate SPOC capacity demand are based on historical late stage account performance data. The impact associated with SPOC changes will be monitored on an ongoing basis to validate the assumptions in the current plan. The long term plan may be modified and staff reallocated if actual response or performance data is not in line with current assumptions.

Limited testing of the volume and productivity assumptions began in July, with on-going monthly reviews taking place along with the planned SPOC-related migrations. [redacted] Assumptions will continue to be validated with program roll out, and any necessary adjustments will be made to ensure adequate capacity. Based on current workloads, inbound call volume, and projected time that SPOC agents will be spending with borrowers, each SPOC will have a target of 150-200 working accounts.

Enhancement to Processes / Programs:

Based on the introduction of imminent risk of default, defined in the introduction to Article 5, as a triggering event into the SPOC program, a workload review will be conducted by HBIO to determine the appropriate capacity of SPOC agents. Adding an additional trigger for assigning a SPOC agent has created the need to revaluate the SPOC workload and perform an analysis to determine how many more accounts will be added into the population requiring a SPOC agent. HBIO will be conducting an initial workload review of the SPOC Program, based upon the new November FRB guidance, which is expected to be completed by December 23, 2011, to determine the number of FTE SPOC agents that will be needed to service borrower's in the SPOC Program.

Documents to be submitted with the Action Plan

- Foreclosure Affidavit Capacity Discussion
- CML Default Capacity Plan Overview - May 2011
- Review of Management and Supervisory Personnel Qualifications - 1
- Review of Management and Supervisory Personnel Qualifications - 2
- GLOBAL ROLE PROFILE TEMPLATE

Additional documents completed for re-submission of Action Plan

- Workload Review August 11, 2011
- HSBC Single Point of Contact (SPOC) Program Overview and Process Flow

Key HSBC Contacts for the Action Plan

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

Articles 2(h) & 2(j)

FRB Order Reference:	*Article 2(h)*	**Corresponding OCC Article:**	*IV.1.m, IV.1.n*
periodic reviews of the adequacy of the levels and types of officers and staff to carry out residential mortgage loan servicing, Loss Mitigation, and foreclosure activities in light of changes in the Servicing Portfolio or the Legal Requirements. To conduct this review, the plan shall establish metrics to measure and ensure the adequacy of staffing levels relative to existing and future Loss Mitigation and foreclosure activities, such as limits for the number of loans assigned to a Loss Mitigation employee, including the single point of contact as hereinafter defined, and deadlines to review loan modification documentation, make loan modification decisions, and provide responses to borrowers;			
FRB Order Reference:	*Article 2(j)*	**Corresponding OCC Article:**	*IV.1.n*
workload reviews of residential mortgage loan servicing, Loss Mitigation, and foreclosure personnel who are responsible for handling individual loan issues (including single point of contact personnel), including an initial review within 90 days of this Order, and then annual reviews thereafter. Such reviews, at a minimum, shall assess whether the workload levels are appropriate to ensure compliance with the requirements of paragraphs 2(g) and 5 of this Order. Promptly following completion of such reviews, the Mortgage Servicing Companies shall adjust workload levels to ensure compliance with the requirements of paragraphs 2(g) and 5 of this Order;			

Action Plan

HNAH has existing processes in place to complete work loan reviews and assess adequacy of staffing in accordance with requirements of the Order, and processes will be enhanced to include a Single Point of Contact ("SPOC") framework in the workload management and review process. As SPOC is implemented across HBIO and HBUS, Residential Mortgage Servicing management will assess the need for staffing above the initially estimated requirements to support this new process. Initial SPOC workload estimates were submitted to the FRB on August 11, 2011.

<u>Existing Processes / Programs:</u>

Residential Mortgage Servicing Management has and will continue to review and manage the workloads for residential mortgage loan servicing, Loss Mitigation, loan modification, and foreclosure personnel. As noted in Article 2(g), a Workload Review was completed in August 2011 which reviews the staffing needs of multiple businesses. This review is updated monthly. Additionally, as described in the attached CML Default Capacity Plan Overview - May 2011 document, capacity modelling and planning is owned and performed by the Credit Risk function. Analysis is based on Credit Risk forecasts and includes planned attrition, hiring, staffing movements, and strategy changes. The model compares the expected monthly headcount against the demand as driven by the risk forecast to determine the need for hiring, staffing movements, or utilization of overtime. The planning methodology for capacity and staff workloads is continually monitored and updated based on market conditions, internal data, and forecasts. Throughout the year, the Credit Risk function communicates and coordinates staffing requirements by department to Finance to ensure they receive appropriate consideration in the budgeting process. Based on this process, analysis is performed for the short- and long-term capacity needs of each department.

The short-term or tactical capacity, planning process is performed one month in advance to determine strategy and capacity needs. Monthly tactical support is provided at the campaign level, allowing operations to make shorter-term adjustments to manage near-term volume fluctuations. The analysis performed allows management to shift account volume or employees to meet or maintain productivity levels and determine overtime and agency placements. Department managers conduct capacity planning meetings throughout the month. The final tactical capacity planning meeting for the upcoming month is held with business unit management and other support functions during the last week of the month.

Long-term or strategic capacity analysis is performed and planned based on the estimated operations requirements. The need for employees is driven by forecasts (i.e., delinquency) and other internal risk data. This analysis is performed continually and assists management in developing the appropriate capacity initiatives, account migrations or strategy changes. The strategic model provides an expectation for staffing excesses or shortfalls by month, and recommendations are made to mitigate any inequities (e.g., hiring, overtime, staffing movements).

Staffing needs are managed through the review and examination of capacity plans. Management has assessed the need for incremental staff in anticipation of foreclosure re-files as well as from the additional backlog caused by the moratorium. This is discussed in further detail in the attached Foreclosure Affidavit Capacity Discussion document.

HBIO and HBUS enhanced their existing workload review, particularly with respect to supervisory and operational personnel that are involved in the foreclosure and Loss Mitigation compliance efforts. Results from a review of the current process were completed as of August 11, 2011, and are described in detail in the Workload Review August 11, 2011 document attached. Expected required workloads were compared to existing workloads, and the plan to remediate any gaps was identified. Management has plans to add incremental staff and will deploy experienced staff into critical areas, as the business deems necessary. Management has also proactively increased capacity when necessary in accordance with increased volumes of Loss Mitigation and foreclosure activities. Procedural changes have been a significant factor in the need for increased staffing levels as more employees are required to process each foreclosure. Management will continue to adjust, review and monitor the capacity plan to drive operational efficiencies and mitigate risk associated with volume fluctuations and changes in market conditions.

Residential Mortgage Servicing Management and the BROG Committee review and discuss the long-term capacity plan on a bi-weekly basis. Both short- and long-term capacity planning are on-going processes that occur within the 90-day requirement.

Management's existing short-term, long-term, and rolling capacity planning and reviews meet the work-load review and staffing requirements of this Order, including the requirement to perform a review within 90 days.

Metrics
Though staffing needs are being updated as noted above, no additional metrics have been created; the existing HR metrics are being utilized. Examples of these metrics are included as part of the monthly presentation to the HBIO Executive Committee, HR provides an update on HR metrics, demand and supply. Please see pages 15 – 16 of the attached HBIO Executive Compliance Steering Committee document for an example of the report.

Enhancement to Processes / Programs:

As SPOC is implemented across the Bank and Mortgage Servicing Companies, Residential Mortgage Servicing management continues to evaluate the additional workload requirements. Please see Article 2(g) for additional detail related to the SPOC capacity planning.

Documents to be submitted with the Action Plan
- Foreclosure Affidavit Capacity Discussion
- CML Default Capacity Plan Overview - May 2011

Additional documents completed for re-submission of Action Plan
- Workload Review August 11, 2011
- HBIO Executive Compliance Steering Committee

Key HSBC Contacts for the Action Plan
- [redacted] Regional Head of Retail Collections
- [redacted] SVP Default Services
- [redacted] SVP Default Services, Mortgage Servicing

Article 2(k)

FRB Order Reference:	*Article 2(k)*	**Corresponding OCC Article:**	*IV.1.o*
policies to ensure that the risk management, audit, and compliance programs have the requisite authorities and status within the organization to effectively operate the programs, and that there is adequate coordination with respect to these programs to ensure that any problems or deficiencies that are identified in the Mortgage Servicing Companies' residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations are comprehensively reviewed and remedied;			

Action Plan

HNAH has processes in place to ensure that risk management, compliance, and audit programs have the requisite authorities and status within the organization to effectively operate the programs, and that there is adequate coordination with respect to these programs to ensure that any problems or deficiencies that are identified in the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations of the Bank and the Mortgage Servicing Companies are comprehensively reviewed and remedied in accordance with this requirement of the Order.

The 2009 FRB MOU, Subpart I.d requires "measures to ensure that the Risk Management, Legal and Compliance, Finance, and Audit Areas communicate and coordinate on a timely basis to ensure that emerging and current risks are properly identified, communicated, and managed across business lines and legal entities." Please refer to the October 21, 2010 management response letters for actions taken to ensure proper coordination and communication. These actions have enhanced the coordination with respect to these programs to ensure that problems and deficiencies identified in the operations of the Bank and the Mortgage Servicing Companies are comprehensively reviewed and remediated. An FRB Supervisory letter dated April 28, 2011 indicates that subpart I.d has been "met". Further remediation will be assessed in conjunction with the October 4, 2010 Cease and Desist Order on AML. For further details, please see the MOU Response Letter - October 21, 2010 attached. Based on the changes made as a result of the aforementioned MOU, management deemed that no further enhancements were necessary to ensure that risk management, audit, and compliance have the requisite authority and status within the organization. Though no additional changes were made, included below is a summary for each area of how its requisite authority is derived.

<u>Existing Processes / Programs:</u>

In an effort to further enhance the degree of coordination and communication between the HNAH Risk Management and Compliance organizations, in the third quarter of 2010, management established the Compliance and Risk Management Forum (CaR Forum). Monthly meetings are held between the Chief Risk Officer, the Chief Compliance Officer, the Head of ORIC, and the Compliance Chief Operating Officer ("COO") as a forum for sharing risk issues, activities and defining an integrated approach to identifying, assessing, mitigating and reporting risks in line with the three lines of defense model. The CaR Forum has the objective of overseeing the effectiveness of the integration of the Compliance and Risk functions to ensure the proper identification, assessment, monitoring, testing and reporting of risk in line with HNAH's risk appetite. The CaR Forum is also a means for the two functions to share and discuss emerging risks, current initiatives, control best practices, and necessary management action, in a focused session outside of formal risk committee meetings.

From a Board and Residential Mortgage Servicing Management governance perspective, the HNAH Compliance Committee is responsible for overseeing HNAH's compliance risk management program for the Board. The HNAH Risk Management Committee ("RMC") is the senior-most risk governance committee with oversight of compliance risk as part of its mission to oversee risk-related functions, processes, policies, initiatives and information systems across HNAH and its subsidiaries. Additionally, HNAH ORIC has primary management oversight for HNAH's firm-wide compliance risk management program.

The Global Risk Operating Model was enhanced on June 30, 2011. The Global Risk Operating Model is a document which defines, at a high level, who is accountable for what within the Global Risk function. It sets out clear roles and responsibilities at Group, region, global business / customer group and country levels. It covers teams across the extended Risk community, including Compliance, and where appropriate it is designed to be globally consistent. Organizational enhancements include reporting line shifts to strengthen the enterprise-wide risk management framework. Chief Compliance Officers have been aligned directly to Chief Risk Officers to enhance the integration of Compliance and Risk Management to create a more cohesive risk governance structure. Please reference attached Global Risk Operating Model for additional information.

HNAH instituted the "HNAH's Board of Directors' Plan to Improve its Oversight of HNAH's Residential Mortgage Servicing Companies." On June 8, 2011, the Board of Directors adopted a resolution to enhance the Board oversight of HNAH's Compliance Risk Management Program with regard to the Order. For further details, please see Resolutions – No_NA11-19, No_CF11-30, No_US11-40 attached.

The Board oversight plan describes the actions that the Boards of Directors will take to improve the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations of the Bank and the Mortgage Servicing Companies, and a timeline for actions to be taken.

Currently, processes that are designed to ensure that the risk oversight functions have the requisite authority and status within the organization exist so that appropriate reviews of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities are conducted, and deficiencies are identified and promptly remediated. The risk functions have authority from the Board of Directors, as derived from the Board approved charters, to review activities and report findings through the Compliance or

Risk Committees of the Board. The programs addressing this item of the Order have been adopted by Residential Mortgage Servicing, Service Delivery Control Adherence, Compliance, and Group Audit North America. These four programs form three lines of defense:

- Residential Mortgage Servicing serves as the first line of defense, providing the Business Risk and Control Management ("BRCM") capability and internal control framework.
- Service Delivery Control Adherence (formerly known as NAQA) coordinates with the Residential Mortgage Servicing BRCM teams to test the controls.
- Compliance is an additional second line of defense that provides regulatory oversight to the Residential Mortgage Servicing teams to ensure that the controls put in place satisfy regulatory requirements.
- Group Audit North America serves as the third line of defense by assessing the effectiveness of Residential Mortgage Servicing controls and the functioning of the second line of defense.

Through these three lines of defense, any deficiencies in residential mortgage loan servicing, Loss Mitigation and foreclosure activities are identified and promptly remediated. The specific action plans for these lines of defense are as follows:

Residential Mortgage Servicing
Residential Mortgage Servicing activities are covered by the Business Risk and Control Management Team established by and under the direction of the SVP of Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO. Specific details surrounding the First Line of Defense are covered in Article 15.

Operational Risk management consists of the identification, assessment, monitoring and control of operational risk so as to maintain losses within acceptable levels and to protect the Group from foreseeable future losses. Management in all businesses and support functions operating in North America, including Global Businesses, are responsible for designing controls to mitigate operational risk and for monitoring and evidencing the effectiveness of those controls in operation. Acceptable levels of internal control are to be determined by reference to the scale and nature of each business operation, but must also remain compliant with the minimum standards set out in Group Standards Manual and Group Functional Instruction Manuals; ensuring appropriate levels of economic and regulatory capital in accordance with internal and external requirements. Please see Articles 14 and 15 for great detail on the Operational Risk framework.

Service Delivery Control Adherence (formerly known as NAQA) ("SDCA")
SDCA provides an independent, objective and ongoing assessment of operational adherence to policies, procedures, and Group Standards to Residential Mortgage Servicing Management. To maintain independence, SDCA is managed separately from Residential Mortgage Servicing management, reporting to a central Corporate Quality Utility. SDCA reports its findings to the appropriate business unit executive management. Consideration is given as to whether the findings reported by SDCA

should also be reported as a Top Control Issue in the quarterly ORIC report.

Group Audit North America issued a report on June 23, 2011 with findings about the need to more adequately define in the SDCA charter the accountability and authority of SDCA within the HNAH risk governance structure; the need to enhance the SDCA risk assessment methodology; and the need for SDCA management to enhance quality assurance reviews of SDCA staff work to validate the adequacy of the testing scope, execution of the planned procedures (or documenting reasons for changes thereto), and appropriateness of SDCA staff judgment applied during the reviews. SDCA management provided their response to this report on August 17, 2011, which addressed the actions to remediate the issues identified, as well as provide a timeline to remediate the issues. Group Audit North America will validate the remediation actions based on its methodology for tracking and validating issues.

Compliance

The HNAH Compliance organizational structure, as outlined below, detailed in the "HSBC – North America Compliance Risk Management Program Manual", and illustrated in the "HNAH Corporate Compliance Organizational Structure" section (see pages 26 and 65 of the Compliance Risk Management Program Manual) is designed to ensure that Compliance staff have the requisite authority and status to carry out their responsibilities:

- The Regional Compliance Officer ("RCO") reports to the HNAH Compliance Committee, the HNAH Chief Executive Officer ("CEO") and the CEO of HSBC Bank, N.A.
- The RCO also has an internal functional reporting line to the Head of Compliance within the Group Management Office ("GMO") which provides oversight of the HNAH Compliance Risk Management Program.
- The RCO is a member of the Group Compliance Executive Committee ("Group Compliance EXCO").

The Compliance governance model is designed to ensure that the functional teams and responsibility areas reporting into the RCO work effectively and efficiently together to manage the Compliance Risk Management Program. Specifically, the governance model is designed to ensure that:

- Regulatory, Group, and other stakeholder requirements applicable to Compliance are identified and addressed;
- Enterprise-wide initiatives are coordinated;
- Communications across functional areas are timely and effective;
- Issues are escalated in a timely manner;
- Information is effectively and appropriately shared; and,
- Compliance risks are effectively assessed and emerging trends are identified which may impact more than one business, legal entity or geography.

In order to monitor compliance risk and identify and remediate deficiencies, Compliance has developed Key Risk Indicators ("KRIs") that will assist Residential Mortgage Servicing in monitoring and evaluating the risks inherent in mortgage servicing business lines on a monthly basis. These KRIs include metrics to measure the mortgage servicing activities of HNAH and its subsidiaries, including Loss Mitigation, loan modification, and foreclosure activities. Examples of KRIs that have been developed are Rescinded Foreclosure Sales and SCRA reporting.

Group Audit North America

Group Audit North America is responsible for the internal audit activities for HNAH and its subsidiaries. These responsibilities include evaluating the effectiveness of risk management, control, and governance processes for residential mortgage loan servicing, Loss Mitigation, and foreclosure activities. Group Audit North America has assessed the identified risks for these functional areas and enhanced its audit programs to address the requirements of the Order.

To provide for independence of Internal Audit, personnel report to the Executive Vice President ("EVP") Internal Audit, who functionally reports to the Senior Executive Vice President ("SEVP") Internal Audit HNAH and administratively to the Chief Executive Officer – HBIO. The EVP Internal Audit has unfettered access to Senior Executive Management and meets periodically with business and corporate function heads to see that existing and emerging issues across the organization are effectively factored into the internal audit plan. The EVP Internal Audit also sits as a non-voting member on key risk management and governance committees established at HNAH. The SEVP Internal Audit (HNAH) reports to the HSBC's Group Head of Internal Audit based in London, as well as to the Chairman of the Audit Committee for HNAH/HBUS/HBIO.

In addition, the Group Audit Standards Manual ("GASM") provides a Code of Ethics for Group Audit, which addresses the concept of independence for every member of the function:

> *The duties and responsibilities of the audit function are often highly sensitive and, accordingly, require an attitude on the part of each auditor that constitutes an independence of mind and a level of personal integrity greater than that required of personnel at similar levels of authority in other areas of the Company. All members of the Audit staff have, by the nature of their role, unique professional obligations to the Company, its customers, stockholders, directors and the general public. These obligations are met through adherence to a code of professional ethics (see below), the application of which requires each auditor to conduct his or her personal and professional activities in a manner that will not leave their personal and professional integrity open to question. Group Audit work is expected to be performed with proficiency and due professional care.*

Group Audit North America's current structure creates independence from the entities, business lines and functions, and systems and processes it audits in accordance with the requirements of the Order. Copies of our Internal Audit and Audit Committee charter are attached to provide further context on independence.

In addition to the reporting lines organization structure and Group Audit North America charter, the independence of the audit function is evident through the fact that the performance evaluation and compensation decisions of the Chief Auditor for HBIO, HUSI/HNAH are also presented to the Audit Committee of the Board of Directors for its concurrence.

See the following documents, approved annually including 2011, for additional information:

- HSBC Finance Corporation (HBIO) Charter of the Audit Committee– this document outlines the duties and responsibilities of the Audit Committee appointed by the Board of Directors of HSBC Finance Corporation.
- HSBC Finance Corporation (HBIO) Internal Audit Charter - this document outlines the mission and scope, accountability, independence, responsibility, authority, and standards of practice for the HBIO Internal Audit.
- HSBC North America Holdings Inc. (HNAH) Charter of the Audit Committee - this document outlines the duties and responsibilities of the Audit Committee appointed by the Board of Directors of HSBC North America Holdings Inc.
- HSBC North America Holdings Inc. (HNAH) Internal Audit Charter - this document outlines the mission and scope, accountability, independence, responsibility, authority, and standards of practice for the HBIO Internal Audit.

Group Coordination

To assist in coordination among the three lines of defense, each quarter the HNAH Operational Risk and Control function identifies material top and emerging risks, significant control deficiencies, and KRI breaches across the HNAH organization. The report is shared with the HNAH ORIC Committee for review and approval. Group Audit North America, SDCA, Credit Review and Risk Identification (“CRRI”), Investor Exam, independent auditors (i.e., KPMG), and the SOX group conduct on-going testing and report their findings to Residential Mortgage Servicing. On a weekly basis, Residential Mortgage Servicing BRCM Team tracks and monitors the testing schedules of these groups and publishes a report called the Audit and Process Review Schedule. If any issues or risks are identified from this testing, they are documented in an Open Audit Findings Weekly Report for tracking and monitoring purposes. Both reports are distributed weekly to Residential Mortgage Servicing management.

Additionally, compliance risks and emerging trends are identified and communicated to the business unit executive management by the RCO who reports to the Compliance Committee, HNAH CRO, and Bank CEO.

The coordination of the programs which support the three lines of defense are designed and have the requisite authority and status within the organization such that appropriate reviews of the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations of the Bank and the Mortgage Servicing Companies may occur. Enhancements are being made such that deficiencies are identified and promptly remedied to meet the requirements of this Order.

Documents to be submitted with the Action Plan

- HNAH’S BOARD OF DIRECTORS’ PLAN TO IMPROVE ITS OVERSIGHT OF HNAH’S RESIDENTIAL MORTGAGE SERVICING COMPANIES
- HNAH'S BOARD OF DIRECTORS' PLAN TO IMPROVE ITS OVERSIGHT OF HNAH'S RESIDENTIAL MORTGAGE SERVICING COMPANIES_TRACKED CHANGES
- HNAH Board Approval of Board Oversight Plan Resolution No_ NA11-19
- HBIO Board Approval of Board Oversight Plan Resolution No_ CF11-30
- HBUS Board Approval of Board Oversight Plan Resolution No_ US11-40
- HSBC NORTH AMERICA HOLDINGS INC. (HNAH) INTERNAL AUDIT CHARTER
- HSBC – North America Compliance Risk Management Program Manual
- THE HSBC GROUP AUDIT STANDARDS MANUAL
- HNAH Corporate Compliance Organizational Structure
- MOU Response Letter – October 21, 2010

Additional documents completed for re-submission of Action Plan

- Global Risk Operating Model
- HSBC – North America Compliance Risk Management Program Manual
- HSBC Finance Corporation (HBIO) Charter of the Audit Committee
- HSBC Finance Corporation (HBIO) Internal Audit Charter
- HSBC North America Holdings Inc. (HNAH) Charter of the Audit Committee
- HSBC North America Holdings Inc. (HNAH) Internal Audit Charter.