

**Mortgage Enhancements  
HSBC North America Holdings, Inc.  
HSBC Finance Corporation  
Action Plan Response to FRB Consent Order  
Article 7 Enterprise Wide Compliance**

**Final Pending Approval from the Compliance Committee**

October 19, 2011

## Section 6: Compliance Program

### Article 7

FRB Order Reference:	Article 7	Corresponding OCC Article:	N/A
<p><i>Within 60 days of this Order, HNAH shall submit to the Reserve Bank an acceptable written plan to enhance its enterprise-wide compliance program (“ECP”) with respect to its oversight of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations. The plan shall be based on an evaluation of the effectiveness of HNAH’s current ECP in the areas of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, and recommendations to strengthen the ECP in these areas. The plan shall, at a minimum, be designed to:</i></p>			
<p><b>Action Plan</b></p> <p>HNAH has an Enterprise Compliance Program (“ECP” or “Program”) for oversight of residential mortgage loan servicing and foreclosure activities and operations, as well as Loss Mitigation, which has been enhanced as set forth herein in compliance with the requirements of the Order. Further details regarding the Compliance Risk Management Program, are outlined in the Action Plans for Article 7, sections (a) through (c). ECP is a comprehensive compliance risk management program that has been approved by the HNAH Board of Directors. The Program is structured to proactively identify as well as quickly react to emerging issues and to assess, control, measure, monitor and report compliance risks across HNAH.</p> <p>The scope of the Program includes compliance with state and federal laws and regulations, supervisory guidance, and self-regulatory standards or codes of conduct that regulate certain business activities and functions of HNAH. More specifically, HNAH maintains an inventory of the regulatory requirements that are included within the scope of this Program. The inventory is maintained in the [REDACTED] ([REDACTED] which is linked to the [REDACTED] ([REDACTED]. As new legislation is enacted, regulatory requirements are added to [REDACTED] and updated to [REDACTED].</p> <p>The compliance risk assessment process is an integral part of an effective compliance program. Two critical components are the detailed assessment that is conducted annually with business line management using [REDACTED] and [REDACTED] and the quarterly General Compliance Enterprise-wide Risk Assessment (“ERA”). Enhancements have been made to [REDACTED] which houses the risk statements applicable to the business. The enhancements to the [REDACTED] risk statements are discussed in detail in Action Plan Article 7(a).</p> <p>The ERA is completed quarterly for all business units and gives a summary of compliance for each business unit [e.g. CML (Consumer and Mortgage Lending)]. It</p>			

measures critical components such as: the number of MRA’s that repeat, are re-opened or extended; past-due issues; and ensures policies and procedures are up to date.

Below is a summary of existing processes, as well as planned enhancements, to address requirements of the Order. These existing processes and enhancements are further described below in sections 7(a) through (c).

Existing Processes	Required Enhancements
<ul style="list-style-type: none"> <li>• Enterprise-wide Risk Management (“ERM”) program that provides oversight of HNAH’s Compliance Risk Management Program (noted in Article 7(a))</li> <li>• Dedicated functional groups, such as RMA, LCWG, and OQPA, have formalized and documented processes to ensure compliance with existing Legal Requirements and supervisory guidance of the Board of Governors as well as to incorporate changes to or new Legal Requirements or supervisory guidance (noted in Articles 7(b) and 7(c))</li> <li>• Service Delivery Control Adherence (formerly North America Quality Assurance) tests controls and ensures regulatory compliance (noted in Article 7(b))</li> <li>• Group North America Audit assesses the effectiveness of Operational Compliance and Service Delivery Control Adherence (noted in Article 7(b))</li> </ul>	<ul style="list-style-type: none"> <li>• The Good Governance Initiative (currently underway) is designed to ensure appropriate policies and procedures are in place for all functional areas and that all employees understand and consistently follow them through a formal certification process (noted in Article 7(c))</li> </ul>

**Documents to be submitted with the Action Plan**

- Refer to Action Plans for Article 7, sections (a) through (c)

**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

## Article 7(a)

<b>FRB Order Reference:</b>	<i>Article 7(a)</i>	<b>Corresponding OCC Article:</b>	N/A
<p><i>Ensure that the fundamental elements of the ECP and any enhancements or revisions thereto, including a comprehensive annual risk assessment, encompass residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</i></p>			
<p><b>Action Plan</b></p> <p>HNAH has an existing Enterprise Compliance Program (“ECP” or “Program”) in place which has been adopted by HNAH's Board of Directors (the “Board”) to demonstrate the organization's commitment to comply with laws, regulations, and regulatory requirements applicable to HNAH and its businesses and to ensure that HNAH establishes an effective firm-wide compliance risk management process to prevent, detect and address compliance issues. This Program has the full support of executive management and the Board, who has the ultimate responsibility for HNAH's compliance and have established such as a top priority throughout HNAH. This Program has the fundamental elements which include a comprehensive annual risk assessment of all HNAH lines of business, including activities such as residential mortgage loan servicing, Loss Mitigation, and foreclosure.</p> <p>The Program is designed in accordance with the Group Legal and Compliance Functional Instructional Manual (“FIM”), Group minimum compliance standards as outlined in the Group Standards Manual (“GSM”) and the principles established by the Federal Reserve in Supervision and Regulation Letter 08-8 (“SR08-8”) dated October 16, 2008, and the Basel Committee on Banking Supervision's <i>Compliance and the compliance function in banks</i> (“Basel Compliance Paper”) dated April 2005.</p> <p>To reinforce the importance of compliance within our organization, HNAH's Board of Directors has overseen the development of this Program and compliance standards and processes contained in the HSBC - North America Compliance Risk Management Program Manual. HNAH Management reviewed the HNAH Compliance Risk Management Program Manual and has confirmed that, in line with the design of the ECP to include all HNAH lines of business, the scope includes residential mortgage loan servicing, foreclosure, and Loss Mitigation. More specifically, Section 1.2 of the manual states that the ECP applies to “HSBC North America Holdings, Inc. (“HNAH”) and its subsidiaries, including all legal entities, business units, and support functions.” Residential mortgage servicing, Loss Mitigation, and foreclosure activities are fully covered through the scope of the existing ECP program.</p> <p>Additionally, to more fully denote the responsibilities of the HSBC North America Compliance Committee of the Board of Directors, the ECP was updated to include requirements of the Consent Orders as outlined in the Action Plan for Article 2, 2(d), and 2(l) of Board Oversight. Specifically, refer to the HSBC – North America Compliance Risk Management Program Manual, pages 18-20, for a listing of the</p>			

responsibilities.

As to the effectiveness of the ECP, it should be noted that the ECP framework and associated governance and controls were officially rolled out on January 31, 2011. Group Audit recently performed a general Compliance audit and found that while the Program was still maturing, the creation of the Compliance Committee oversight with bi-weekly scheduled meetings and subsequent reporting to the Board, was indicative of a high level of involvement and commitment to changing the culture and tone to one of compliance is paramount. The Executive Management oversight and governance structure were also assessed by Audit. The level of management participation and membership in the Compliance Committee as well as the governance and roles established through the Program again demonstrates management's commitment to achieving the highest levels of compliance. The actions taken by management to address governance and compliance risk within the ECP demonstrate that this Program has been effective in facilitating change within the HBIO and HBUS organizations.

### **Existing Processes / Programs:**

#### **ERM**

HNAH's enterprise-wide risk management ("ERM") program provides 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. 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 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. The HNAH Risk Management Committee 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. Operating principles of the HNAH Risk Management Framework, include but are not limited to:

- 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 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 outsized risks;
  - Establish and promote a risk management culture that appropriately balances risks and rewards;
  - Continually assess and monitor the risks HNAH faces, and regularly reappraise its risk appetite and align its risk profile accordingly

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, which is maintained 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.

As part of the ECP, the RMC provides strategic direction and oversight of various risk-related functions, process, policies, initiatives and information systems across HNAH and its subsidiaries. As part of their strategic direction, the RMC have introduced enhancements to the risk assessment framework. HBIO and HBUS adopted a Risk Control Assessment (“RCA”) methodology as of June 30, 2011. The RCA is designed to:

- identify and assess material, operational, legal and reputational risks;
- identify and assess the effectiveness and monitoring of key controls that mitigate these risks; and
- focus management attention on controls that need improvement.

The RCA process 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 process enables the assessment of both the typical and extreme exposure to operational risks and considers the direct financial costs and the indirect impacts to the business including customer service, reputational and regulatory impacts. The typical exposure to operational risk events is the total loss that is expected to occur in the next 12 months given the effectiveness of the control environment. The extreme events take into account the inherent nature of risks within the business and the control environment, but assume that one or more controls fail to operate as expected. Specific aims of the process 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 and thereby identify necessary management actions. Where an appropriate level of control monitoring is not currently in place an action plan must be raised to ensure that appropriate monitoring is implemented on a timely basis. Action plans include interim solutions to

mitigate the risks and long term solutions to ensure sustainability. Action plans developed specific to the [REDACTED] analysis follow the same methodology. Management may rely on more than one control to mitigate risk and prioritizes action plans based on the level of risk and other controls (interim and long term). The enhanced RCA program also includes a revised methodology, operational risk management system, and standard Key Risk Indicators (“KRIs”).

RCA workshops were conducted by the Business Control and Risk Management team (“BRCM”- formerly known as ORM – Operations Risk Management) for the foreclosure, loan servicing, and Loss Mitigation activities during the first quarter of 2011. RCA workshops continued for the remaining servicing and Loss Mitigation areas and were completed by the end of the second quarter of 2011. The RCA workshops included Senior Leadership, Business Managers, Compliance Managers, and Operation Risk Managers. The RCA workshops identified and documented material risks for the business, exposure to those material risks, as well as the process for on-going Risk Management and Controls to mitigate identified risks. RCA workshops are part of the overall risk framework within ECP to ensure that the appropriate business risks are identified and documented and the appropriate controls to mitigate operational risk are in place and re-evaluated on an on-going basis. See Operational Risk and Internal Control CML HMC Servicing RCA Implementation 2011, which provides an overview and findings of the RCA workshops. The workshops were designed to identify material risks and mitigating controls for these risks.

### **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 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.

Central Services, a part of HNAH Compliance, maintains the HSBC – North America Compliance Risk Management Program Manual (“Program”) and, as part of the policy certification process, certifies annually that the Program Manual is complete and up to date. The Program includes the framework, structure and processes for compliance risk management across HNAH. It documents the compliance roles and responsibilities of committees, individuals and functions throughout the organization, including executive management and the Board of Directors. It also establishes the standards and processes for managing compliance on a HNAH enterprise wide basis. (See HSBC - North America Compliance Risk Management Program Manual in its entirety. Refer to pages 9 and 10 for additional detail on the scope and objectives of the HNAH Compliance Program.)

The HNAH Risk Management Committee (“RMC”) and the HNAH Compliance Committee review and approve the Compliance Risk Management Program as significant organizational or compliance program changes occur, but not less frequently than annually.

Additionally, as indicated within the Compliance Risk Management Program Manual (See section 5.3.2 on page 43), the Program contains requirements for an Enterprise-wide Risk Assessment (“ERA”), a detailed Self-Assessment that covers the regulations and risk statements applicable to the business along with Compliance

monitoring and testing performed by the TRAC team. What is reviewed and how often the review occurs is determined based on a risk-based methodology that incorporates inherent regulatory and business risk, as well as the results of prior reviews and audits. The risk-based methodology is part of the overall RCA framework outlined below. Business units, in consultation with Compliance Officers, are responsible for conducting the Self Assessments using the Operational Risk methodology. Through this process it was determined that due to the inherently higher risk of the foreclosure process, the TRAC team would perform an in depth Foreclosure review by year-end. Historically, the TRAC team's Bankruptcy and Collections review included all aspects, for example, affidavit preparation/execution, of the foreclosure process. The scope of the last Bankruptcy and Collections review excluded foreclosure testing due to the regulatory examination in progress at that time. The on-going testing schedule for foreclosure activities will be on a more frequent basis - annually.

For Servicing and Loss Mitigation activities which are deemed high risk such as State Usury Refunding, Collections/Bankruptcy/Loss Mitigation and SCRA, TRAC reviews will be completed annually. TRAC follows the Compliance Risk Mitigation Program (See HSBC – North America Compliance Risk Mitigation Program pages 36 through 53) to determine both the frequency and scope of compliance reviews based on risk grades assigned to laws and regulations by Compliance under the Compliance Risk Management Program. (See HSBC - North America HNAH Compliance Enterprise Wide Risk Assessment and Response to FRB Supervisory Letter - 1.31.11 pages 10 and 11). TRAC review activities generally take into consideration the planned activities of other oversight groups (e.g. Group Audit) to avoid duplication. Although a review of audit results from other oversight groups occur, because each function is operating under a distinct charter and purpose, testing results are not utilized in a cross-reliant manner, e.g. TRAC tests for compliance risk and Group Audit North America tests for operational risk.

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At a business level HNAH also utilizes a risk management tool, ██████████ to document and ensure on-going compliance. ██████████ is a database that was implemented in 2005 to better organize legal requirements applicable to the business and the existing risk statements with associated controls to ensure compliance. ██████████ is used to maintain, record, and store all Compliance detail level risks and regulations identified by business management in conjunction with the Compliance Officers. ██████████ houses an inventory of regulatory requirements detailed as standardized risk statements that are scored by the business in conjunction with Compliance Officers. The Operational Risk methodology is used to score risks, assessing the Impact, Likelihood and Exposure. Key risks (A, B and high inherent C) are also recorded in the ██████████ ██████████ ("██████████"). ██████████ is a management program that streamlines the processes for adding, modifying and cancelling risks, and the associated task items, along with aligning the approval levels, management reporting, and role expectations. ██████████ allows the user to toggle between ██████████ and ██████████ to view the complete risk profile for any business.

allows for Controls to be entered against specific risks, thus documenting the control environment. Controls are documented for all risks. Areas of risk in need of attention, or additional controls, are identified and tracked through formal remediation plans. Plans are required for all A, B, and high inherent C level risks (See HSBC – North America HNAH Compliance Enterprise-Wide Risk Assessment Procedures, pages 5 through 16, and HSBC – North America Compliance Risk Management Program Manual pages 41 through 44 for an outline of the risk levels). All compliance risks in can be searched by business unit, by requirement/regulation/category, or by risk statement number/title.

As of June 30, 2011, a gap analysis was completed to ensure that risk statements for all Legal Requirements that impacted foreclosure, Loss Mitigation, and mortgage servicing are documented within . The objective of the gap analysis was two-fold: (1) to identify missing risk statements and (2) to identify control gaps for all applicable risk statements. Meetings were held with the business to walk through all identified foreclosure, Loss Mitigation, and Mortgage Servicing processes to confirm existing risk statements and controls, identify gaps, and address additional risk statements and controls needed for a given process.

The gap analysis results were compiled into a final report as of July 22, 2011 (see attached Regulations and Risk Statement Gap Analysis Results in its entirety). A summary of the gap analysis is also attached and was submitted to the FRB on August 12, 2011 (see MEMORANDUM Detailed On Line Risk Assessment ). The foregoing documents outline the Compliance Risk and Control Assessment completed within and contain the gap analysis results from that assessment.

In addition to risk statements that were added to by Compliance during the gap analysis, the business has updated with action plans to remediate any control gaps and a timeline for implementing revised controls.

The Foreclosure, Loss Mitigation, and Mortgage Servicing business teams have reviewed the control gaps identified in the gap analysis report noted above and have established remediation plans with associated completion dates for each control gap as of August 12, 2011 (see the following documents in their entirety for additional detail regarding the gap analysis remediation plans: MEMORANDUM Detail Compliance Risks With Controls & Actions

– Mtgbusadminandse, Detail Compliance Risks With Controls & Actions – CML, Detail Compliance Risks with Actions – HMC, and Detail Compliance Risks with Actions - CML).

The Detail Compliance Risks With Controls & Actions – Mtgbusadminandse and the Detail Compliance Risks With Controls & Actions – CML documents detail the established remediation plans with associated completion dates for each control gap from the [REDACTED] gap analysis. The Detail Compliance Risks with Actions – HMC and the Detail Compliance Risks with Actions – CML documents list the compliance risks as well as the actions to be taken and target dates.

Compliance completed a Risk Assessment of the foreclosure process from the initial breach letter through the foreclosure sale. This Risk Assessment included reviews of primary source materials; reviews of business policies, procedures, and functional manuals; and interviews of business staff involved in the foreclosure process. Risk Assessment results were compiled and the report was completed as of August 11, 2011 (see attached Compliance Foreclosure - Risk Assessment 8.26.11 Management Responses – “Compliance Risk Assessment”. See page 4 for the Management Summary and pages 5 through 22 for risk assessment results). The Risk Assessment results noted policy, procedure, reporting and other related gaps applicable to areas of CML and HBUS Demand and State Specific Letters, SCRA, State Notary, Affidavits, Bankruptcy, Loss Mitigation, and other related areas of foreclosure processing. Remediation of many of the noted gaps within the Risk Assessment have already been completed (e.g., notary and affidavit) as outlined in the Compliance Risk Assessment. Additionally, as of August 26, 2011, Foreclosure management completed an action plan to remediate all other gaps (e.g., bankruptcy) (see Compliance Foreclosure Risk Assessment 8.26.11 management responses, pages 5 through 22). Additionally, as part of the quarterly Enterprise-wide Compliance Risk Assessment, all businesses are required to certify as to the completeness and accuracy of the Compliance Risk Assessment.

A similar Risk Assessment was completed for Mortgage Servicing as of September 12, 2011. Risk Assessment results were compiled and a final report was completed as of September 26, 2011. Mortgage Servicing presented a response plan to remediate noted gaps on October 10, 2011 (see Compliance Loan Servicing Risk Assessment 10.10.11 Management Responses).

### **TRAC**

The TRAC team will access the [REDACTED] database, as well as the Compliance [REDACTED] Detail Database ([REDACTED] database housing state-specific requirements), as part of its annual Compliance monitoring and testing process for the foreclosure review they will conduct. This foreclosure review began October 1, 2011, and will be completed before year-end. As indicated in the responses to FRB questions submitted on August 19, 2011, the TRAC program (as detailed in the HSBC - North America Compliance Risk Mitigation Program Section 2.3.7 and Testing and Risk Assessment Compliance Unit (TRAC) Procedures Manual Section H) requires annual

reviews of risks assessed as High. For risks assessed as Medium, testing is on a 24-month cycle. Additionally, in conjunction with the implementation of the ERA, TRAC reviews will be performed on emerging risks as identified through a quarterly compliance risk certification process, or more frequently, where required. TRAC began a review on October 1, 2011 which covers all applicable risks and controls.

Finally, TRAC Compliance has initiated a project to ensure that all controls identified and documented through the risk assessment exercise are robust and include both detective and preventative controls. Compliance is developing supplemental guidance to the business about the nature of compliance risks and control identification. The targeted completion date for the project is October 31, 2011. Once completed, all controls will be catalogued and refreshed at least quarterly. As new/emerging risks and controls are identified, they will be reviewed by TRAC on an ongoing basis. The 2012 TRAC review plan will include all risks rated as High, as well as inherently high Medium risks. Please reference the attached TRAC Mortgage Testing Plan 2011 for additional information.

#### **Enhancement to Processes / Programs:**

While we believe these existing processes and procedures satisfy these requirements of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary.

#### **Documents to be submitted with the Action Plan**

- HSBC - North America HNAH Compliance Enterprise Wide Risk Assessment Procedures
- Response to FRB Supervisory Letter - 1.31.11
- HSBC – North America Compliance Risk Management Program Manual (see revised HSBC – North America Compliance Risk Management Program Manual below)
- HSBC – North America Compliance Risk Mitigation Program

#### **Additional documents completed for re-submission of Action Plan**

- Regulations and Risk Statement Gap Analysis Results
- MEMORANDUM [REDACTED] ([REDACTED])
- Detail Compliance Risks With Controls & Actions – Mtgbusadminandse
- Detail Compliance Risks With Controls & Actions – CML
- Detail Compliance Risks with Actions – HMC
- Detail Compliance Risks with Actions – CML
- Compliance Risk Assessment Report Inventory and Attachments
- Compliance Foreclosure Risk Assessment 8.26.11 Management Responses
- Compliance Loan Servicing Risk Assessment 10.10.11 Management Responses
- TRAC Mortgage Testing Plan 2011

- Operational Risk and Internal Control CML HMC Servicing RCA Implementation 2011
- HSBC – North America Compliance Risk Management Program Manual

**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

## Article 7(b)

<b>FRB Order Reference:</b>	<i>Article 7(b)</i>	<b>Corresponding OCC Article:</b>	<i>N/A</i>
<i>ensure compliance with the Legal Requirements and supervisory guidance of the Board of Governors; and</i>			
<b>Action Plan</b>			
HNAH has existing processes and programs noted below that ensure compliance with Legal Requirements and supervisory guidance of the Board of Governors.			
<b><u>Existing Processes / Programs:</u></b>			
<p>The Central Services Regulatory Monitoring and Assessment (“RMA”) team, an existing HNAH Compliance function, manages the regulatory monitoring and change management processes to facilitate compliance with Legal Requirements and Board of Governors supervisory guidance applicable to residential mortgage servicing, Loss Mitigation and foreclosure activities, as well as the activities of other business lines. RMA holds weekly meetings with the business, Compliance Officers, Legal and Government Relations to review pending and enacted legislation as it becomes known. Year to date through September 23, 2011, [REDACTED] legislative alerts were issued by this team. (See attached New Legislation Alert ID HB 331 as an example and HSBC North America New Laws and Regulations Procedure – US). The HSBC North America New Laws and Regulations Procedure – US provides guidelines for monitoring and tracking regulatory changes and updating processes appropriately. The attached New Legislation Alert ID HB 331 is an example of a legislative alert intended to communicate a high-level summary of a law or regulatory change that may affect one or more HNAH businesses.</p>			
<p>As RMA is a compliance function, it is audited by Group Audit along with other compliance functions. The RMA function was within the scope of the most recent audit of Compliance in March 2011 (report date). The scope of the audit included RMA efforts with respect to practices of all business lines that the RMA function supports, including residential mortgage loan servicing, Loss Mitigation, and foreclosure practices. Included in the audit scope was verification of the following:</p>			
<ul style="list-style-type: none"><li>• Legal and Compliance are responsible for identifying and monitoring new legislation and or changes in current legislation/regulatory requirements affecting HNAH businesses.</li><li>• Compliance reviews pending and enacted legislation to determine impact and applicability to HNAH businesses, collaborating with Legal and business partners as needed.</li><li>• Compliance communicates/escalates requirements of new and/or modified regulation to appropriate business stakeholders and ensures implementation is completed.</li><li>• Impact Analysis is prepared by the RMA group for all new/updated laws and</li></ul>			

regulations. The impact analysis is collaboration between RMA, the Local Compliance Officer, and the business unit. The impact analysis is reviewed and approved by key business stakeholders.

The findings of the report indicated that the above processes were satisfactory. In addition, Audit selected a sample of 2010 Federal and State new/pending/proposed legislation and regulations. The sample scope included five that were applicable to HBIO only. The sample was evaluated to ensure the established timeline for implementation was followed, including completion of impact analysis, communication to business units and confirmation that processes/systems have been updated to ensure compliance (See GENERAL COMPLIANCE AUDIT AND 2010 ANNUAL COMPLIANCE RISK AND CONTROL ASSESSMENT for the detailed audit report). As with other business lines RMA supports, specific roles and responsibilities of RMA with respect to the Residential Mortgage Servicing departments include but are not limited to:

- monitoring and tracking new and changed laws, regulations, and regulatory guidance, and tracking legislative, judicial, and regulatory developments, to identify potential emerging compliance risks; (See New Legislation Alert – Idaho HB 331 as an example)
- completing impact analyses for new or changed regulatory requirements; and (See Impact Analysis\_ID HB 331 as an example)
- creating and distributing legislative alerts to appropriate Residential Mortgage Servicing departments for action

The impacted Residential Mortgage Servicing departments will then work with the Law Change Working Group (“LCWG”) and Compliance Officers, and Legal (as appropriate), to update the policies, procedures and processes, and ensure implementation prior to the effective date of the new or changed requirement. The RMA and LCWG procedures are attached for reference (See Law Change Process and Implementation and Law Implementation Procedure ALL in their entirety).

The Operational Quality and Process Assurance (“OQPA”)group ensures the documented policies, procedures and processes are accurate and aligned with the Legal Requirements and Board of Governors supervisory guidance as well as business practices (See HSBC – North America Compliance Risk Management Program Manual Section 3: Compliance Program Governance and Organization, pages 22 through 26).

The [REDACTED] Database is a Compliance [REDACTED] repository of risk statements along with state-specific requirements that fall within the risk statements, as identified by business line compliance, based on regulatory requirements. As law changes occur, new risk statements are added to the state-specific information housed within the [REDACTED] Database. An internal procedure was completed and published on August 24, 2011, which outlines how the database will be updated and the approval process that must be adhered to. (see attached [REDACTED] Database – Maintenance and Approval Procedure ALL).



In addition to the processes noted above, HNAH has in place the Service Delivery Control Adherence (formerly known as NAQA) (“SDCA”) program which is managed separately from the business lines, reporting to a central Corporate Quality Utility. SDCA provides an independent, objective and on-going assessment to senior management of operational adherence to policies, procedures, and Group standards, as well as of the effectiveness of the first line of defense internal control framework for HNAH business operations.

Once new laws are identified and implemented pursuant to the processes noted above, the SDCA unit monitors the bi-monthly report distributed by the LCWG manager to gather information regarding which law changes are ready for review. Within 60-90 days post implementation, the SDCA unit schedules the law change for review.

After the SDCA unit performs a post-implementation review (See Law Implementation Procedures ALL):

- The SDCA Manager presents the post-implementation review results to LCWG:
  - If all items are not implemented as prescribed, SDCA presents the necessary remediation to LCWG.
  - If all items are implemented as prescribed, the implementation is complete. The LCWG Manager posts the following in a shared site within Lotus Notes
    - Law Memo/Impact Analysis (SDCA uses this document as means to complete a 90-day post-implementation review)
    - Post-Implementation Review Report (if issues are found within the analysis, SDCA will issue this report)

Additionally, Group Audit North America serves as a third line of defense for business operations, assessing whether the primary controls are adequate to address relevant risks and whether the secondary controls are operating effectively. The above two functions (SDCA and Audit) also provide review of business processes to ensure compliance with Legal Requirements and supervisory guidance.

TRAC also conducts on-going testing for compliance with the Legal Requirements and supervisory guidance that is independent from business line compliance.

The processes and documentation associated with the RMA, LCWG, and OQPA groups noted above ensure compliance with the Legal Requirements and supervisory guidance of the Board of Governors as directed by the Order. Additionally, the appropriate Compliance SVPs have reviewed the existing procedures to ensure they meet the requirements of the Order.

**Enhancement to Processes / Programs:**

While we believe these existing processes and procedures satisfy these requirements

of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary.

**Documents to be submitted with the Action Plan**

- HSBC – North America Compliance Risk Management Program Manual (see revised HSBC – North America Compliance Risk Management Program Manual below)
- HSBC North America New Laws and Regulations Procedure - US
- Law Change Process and Implementation
- New Legislation Alert – Idaho HB 331
- IMPACT ANALYSIS for Idaho HB 331
- GENERAL COMPLIANCE AUDIT AND 2010 ANNUAL COMPLIANCE RISK AND CONTROL ASSESSMENT
- Law Implementation Procedure ALL

**Additional documents completed for re-submission of Action Plan**

- [REDACTED] Database – Maintenance and Approval Procedure ALL
- HSBC – North America Compliance Risk Management Program Manual

**Key HSBC Contacts for the Action Plan**

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED], SVP Regulatory Monitoring and Assessment
- [REDACTED], SVP General Compliance
- [REDACTED], SVP Deputy General Counsel, CML
- [REDACTED] SVP Default Services

## Articles 7(c) & 8(l)

<b>FRB Order Reference:</b>	<i>Article 7(c)</i>	<b>Corresponding OCC Article:</b>	<i>IV.1.k</i>
<i>ensure that policies, procedures, and processes are updated on an ongoing basis as necessary to incorporate new or changes to the Legal Requirements and supervisory guidance of the Board of Governors.</i>			
<b>FRB Order Reference:</b>	<i>Article 8(l)</i>	<b>Corresponding OCC Article:</b>	<i>IV.1.k</i>
<i>Measures to ensure that policies, procedures, and processes are updated on an ongoing basis as necessary to incorporate new or changes to Legal Requirements and supervisory guidance of the Board of Governors.</i>			
<p><b>Action Plan</b></p> <p>HNAH has processes in place to ensure policies, procedures, and processes are updated on an on-going basis to incorporate new or changes to Legal Requirements and supervisory guidance of the Board of Governors. In addition, HNAH has implemented a Good Governance Initiative (discussed further below) to provide an additional level of review.</p> <p><b><u>Existing Processes / Programs:</u></b></p> <p>Management has a process in place to identify, communicate and implement changes to Legal Requirements and supervisory guidance into its business practices. The RMA group manages the regulatory monitoring and change management process in order to facilitate compliance with the applicable Legal Requirements and Board of Governors supervisory guidance (See HSBC North America New Laws and Regulations Procedure – US). This procedure provides guidelines for monitoring and tracking regulatory changes and updating processes appropriately.</p> <p>In its efforts to identify and communicate changes in applicable laws, rules, and regulations, the RMA group performs the following activities (among others):</p> <ul style="list-style-type: none"> <li>• Monitors and tracks new and changed laws, regulations, and regulatory guidance;</li> <li>• Tracks legislative, judicial, and regulatory developments, to identify potential emerging compliance risks; <ul style="list-style-type: none"> <li>○ Various sources for monitoring are utilized including, but not limited to: the Federal Register; regulatory agency websites (e.g., OCC, FRB, FDIC); trade associations; monitoring services; and various law firm websites</li> </ul> </li> <li>• Completes business impact analysis for new or changed regulatory requirements; and;</li> <li>• Communicates new legislative alerts to appropriate Residential Mortgage Servicing departments for action</li> </ul> <p>The RMA group collaborates with Legal and Compliance to determine the applicability</p>			

of the legislation, rule or regulation and the business areas impacted. If it is determined that there is an impact to a business area, the RMA group outlines the detailed requirements in an Impact Assessment document, which it then forwards to Legal for review. The RMA group and Compliance, together with the impacted business area, determine the impact to the business. The RMA then publishes an executive summary, which is called the New Legislation Alert (which includes the Impact Assessment), and distributes it to the impacted business areas. The impacted business areas work with the LCWG, Compliance Officers, and Legal (as appropriate), to update the policies, procedures and processes, and ensure implementation by the effective date of the law change. The detailed RMA and LCWG procedures are attached for reference (See Law Change Process and Implementation and Law Implementation Procedure ALL in their entirety).

The Operational Quality and Process Assurance (“OQPA”) Team, a part of the BRCM Team, reviews updated policies, procedures, processes, and training materials for accuracy and alignment with the Legal Requirements and supervisory guidance as well as business practices. Within 90 days of implementation, the SDCA group conducts an independent review of the impacted business units’ processes for adherence.

Residential Mortgage Servicing and business owners are required to annually certify the accuracy and completeness of the policies, procedures, and processes, including updates or revisions based on changes to Legal Requirements or supervisory guidance. Revisions or updates to policies and procedures may occur on a more frequent basis as dictated by changes in Legal Requirements or supervisory guidance. To document that the certification process has occurred, each policy or procedure is submitted through a change control process. A Change Control Request Form (“CCR”) is submitted to the appropriate business owners, with the document(s) attached that requires certification. The CCR form systemically tracks to ensure all required approvals have been obtained. Annually, each business process owner will certify that the policies and procedures applicable to their area of responsibility are accurate. This annual certification will be maintained by the OQPA group. In addition, all policies and procedures are expected to be certified as part of the Good Governance Initiative by the end of the fourth quarter of 2011.

Residential Mortgage Servicing is subject to many Legal Requirements that vary by state and at times at a local level, and therefore has adopted more than 100 policies and over 3,000 procedures that address these variations. Management is committed to revising and updating procedures as appropriate. To that end, Residential Mortgage Servicing began reviewing its foreclosure procedures prior to the commencement of the supervisory foreclosure practices review, and it continues to make updates as new or changed Legal Requirements and supervisory guidance are released. Initial procedures reviewed were notary and affidavit procedures which identified necessary enhancements including the procedural requirement that all signers execute the affidavit in the presence of the notary following administration of an oath. The affidavit procedure enhancements identified included the expansion of

general affidavit procedures for all applicable states, as existing procedures were in place only for certain states. Additional policies and procedures specific to Loss Mitigation related activities and key processes within Residential Mortgage Servicing such as Adverse Action Suspended Letter Procedure CML and Optional Insurance Procedure MC are expected to be updated in accordance with the timeline outlined in the Good Governance Initiative (See “Enhancement to Processes/Programs” section below for additional information regarding the Good Governance program and the attached Good Governance – Project Overview for details regarding the Good Governance Process and Scope).

The processes performed by the RMA, LCWG, and OQPA groups described above ensure that policies, procedures, and processes incorporate new or changes to Legal Requirements and supervisory guidance of the Board of Governors as directed by the Order. Additionally, Compliance SVPs have reviewed existing policies, procedures, and processes to ensure they meet the requirements of the Order.

### **Enhancement to Processes / Programs:**

To ensure that HNAH has fully documented policies and procedures and that all employees understand and consistently follow them, HNAH has established the Good Governance Initiative. Its objective is to ensure that there are proper procedures in place within HNAH for all applicable business and operational processes, and that these procedures are clear, concise, thorough, and accurate. Currently, HNAH is completing the following:

- Reviewing procedures for accuracy
- Conducting a root cause / trend analysis of past procedural breaches
- Implementing improvements pertaining to areas of concern beyond the actual procedures such as accessibility of procedures, appropriate controls and oversight, training, etc.

HNAH is following a five step process for review of procedures, and identifying and addressing any gaps. There is a standard template that guides the five steps of project implementation.

- Develop Procedures and Process Inventory
- Develop Breaches Inventory
- Conduct Gap Analysis
- Define Recommendations
- Implement Recommendations

The attached “Good Governance Project US HNAH” document, which provides additional details regarding project background, objectives, approach, governance, and specifications, was provided as part of the answers to the FRB question submitted on August 19, 2011. All policies and procedures are expected to be certified as part of the Good Governance Initiative by the end of the fourth quarter of 2011.

Additionally, an annual review of policies and procedures is required and there is a change control process in place that requires updates to policies and procedures be reviewed in advance of operational changes by delegated senior leaders and Compliance. In 2011, HNAH launched an initiative to reorganize procedures on [REDACTED] ([REDACTED]) and is in the process of improving reporting. The enhancements to [REDACTED] were completed in July 2011. HNAH has also committed to develop 18 functional courses which include the review of policies and procedures and an assessment to ensure staff members are appropriately trained and educated on key operational practices.

Please reference the attached files for examples of procedures that are housed in [REDACTED]

- [REDACTED] Foreclosure Initiation Procedure CML – outlines the process on how the Foreclosure Department initiates approved foreclosures (new referrals) on [REDACTED] accounts.
- Short Sale and DIL Referral Procedure CML – outlines the steps for referring an account to the Short Sale, Deed-in-Lieu of Foreclosure or Proactive Departments.
- Incoming Mail and Imaging Procedure CML – outlines how the Modification Support Department processes incoming mail and how documentation is prepared for the Document Image Capture Center.

The attached documents provide a list of procedures that were updated for each respective topic:

- Consent Order\_Certification\_SCRA.9.7.11
- Consent Order\_Certification\_Notary.9.7.11
- Consent Order\_Certification\_Loss Mitigation.9.7.11
- Consent Order\_Certification\_Foreclosure.9.7.11
- Consent Order\_Certification\_SPOC.9.7.11
- Consent Order\_Certification\_Collateral Management.9.7.11

#### **Documents to be submitted with the Action Plan**

- HSBC – North America Compliance Risk Management Program Manual (see revised HSBC – North America Compliance Risk Management Program Manual below)
- Law Change Process and Implementation
- HSBC North America New Laws and Regulations Procedure – US
- Policy Creation and Revision Procedure ALL
- Good Governance – Project Overview

#### **Additional documents completed for re-submission of Action Plan**

- [REDACTED] Foreclosure Initiation Procedure CML
- Short Sale and DIL Referral Procedure CML
- Incoming Mail and Imaging Procedure CML
- Consent Order\_Certification\_SCRA.9.7.11

- Consent Order\_Certification\_Notary.9.7.11
- Consent Order\_Certification\_Loss Mitigation.9.7.11
- Consent Order\_Certification\_Foreclosure.9.7.11
- Consent Order\_Certification\_SPOC.9.7.11
- Consent Order\_Certification\_Collateral Management.9.7.11
- Good Governance Project US HNAH
- HSBC – North America Compliance Risk Management Program Manual

**Key HSBC Contacts for the Action Plan**

- [REDACTED], SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED], SVP Regulatory Monitoring and Assessment
- [REDACTED], SVP General Compliance
- [REDACTED], SVP Deputy General Counsel, CML
- [REDACTED], SVP Default Services