

**Mortgage Enhancements
HSBC North America Holdings, Inc.
HSBC Finance Corporation
Action Plan Response to FRB Consent Order
Article 16 & 17 Audit**

Final Pending Approval from the Compliance Committee

October 31, 2011

Article 16

FRB Order Reference:	Article 16	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 the internal audit program with respect to 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 internal audit program in the areas of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, and shall include recommendations to strengthen the internal audit program in these areas. The plan shall, at a minimum, be designed to:</i></p>			
<p>Action Plan</p> <p>Audit Management has developed a plan to submit to the Reserve Bank which evaluates the effectiveness of HNAH's current internal audit program in the areas of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, and includes recommendations to strengthen the internal audit program. In response to the Order, Group Audit North America completed a thorough review to evaluate the Internal Audit program scope.</p> <p><u>Steps to Enhance Audit Programs (Audit Risk Assessments)</u></p> <p>Group Audit North America conducted a gap analysis for every item in the Order to identify:</p> <ol style="list-style-type: none"> 1) Areas that were not previously covered in the audit scope, 2) New controls implemented by Residential Mortgage Servicing management in response to the requirements expected and specified in the Order, and 3) Areas previously included in audit programs that require more detailed review based on the Order requirements. <p>Controls included in existing Audit Risk Assessments ("ARAs") were compared to those expected and specified in the Orders. In addition, Group Audit North America obtained the Ernst & Young, LLP ("E&Y") independent consultant risk assessment results and identified those risks and controls not previously included in applicable ARAs and revised them accordingly.</p> <p>Refer to attached AUN GAP Analysis Consent Orders vs. Audit Programs file, which has separate tabs for OCC and FRB Order GAP analyses. The column labelled "Gap Analysis" (column E) specifically identifies enhancements to existing audit programs or new audit programs.</p> <p>Further, there are two tabs for:</p> <ol style="list-style-type: none"> 1) ARA – Back End RE Secured Default Services, and 2) ARA – Front End Collections & NRE Secured Default Services 			

Both ARAs – which define the audit scope - include revised and new controls identified in the GAP analysis. Specific enhancements and/or new controls included in ARAs as a result of the Consent Order gap analysis and the analysis of the independent consultant risk assessment results have been highlighted.

The results of this analysis include, without limitation, the following:

Entities	Existing Audit Programs	New/Enhanced Audit Programs
<p>Consumer Mortgage Lending (CML) & Mortgage Corporation (HMC)</p>	<p>1) Front-End Collections & NRE Secured Default Services, which includes but is not limited, to:</p> <ul style="list-style-type: none"> - Governance - Strategy - Modification Restructures - Bankruptcy - Dialer management - Telephone Collections - Loss mitigation - Agency management - Charge-off processing - Bad debt recovery operations and debt sales - Capacity planning - Incentive Compensations - Regulatory Compliance - MIS - Vendor Management 	<p>Enhancements:</p> <ul style="list-style-type: none"> • Residential Mortgage MIS presented to the Board of Directors and Governance committees – including MIS to monitor compliance with regulatory requirements • Governance framework • Compliance with state requirements related to the identification and assessment of residential mortgage servicing compliance risks by management. • Employee compensation practices • Staff qualification assessment and workload monitoring • Process is in place to locate and secure all documents (including original promissory note) necessary to perform residential servicing and loss mitigation functions. • Affidavit execution process for the unsecured portfolio • Notarization process for the unsecured portfolio. <p>New audit programs:</p> <ul style="list-style-type: none"> • Third party attorney oversight (management of law firms) • Single Point of Contact <p>Refer to attached AUN Residential Mortgage Servicing and NRE Default Services Program Summary file (pages 15 through 23) for overview of audit programs coverage. Enhancements and</p>

		new controls to prior audit programs are indicated with bold font.)
CML & HMC	<p>2) Back-end RE Secured Default Services, which includes but is not limited, to the following :</p> <ul style="list-style-type: none"> - Governance - Foreclosure - Bankruptcy - Loss mitigation (settlements: short sale, deed in lieu, forbearance) - Reage restructures - Real Estate Owned - Valuation Review Group - Investors - Charge-off - Capacity planning - Incentive Compensation - Regulatory Compliance - MIS - Vendor Management 	<p>Enhancements:</p> <ul style="list-style-type: none"> • Affidavit execution process • Notarization process • Residential Mortgage MIS presented to the Board of Directors and Governance committees – including MIS to monitor compliance with regulatory requirements • Governance framework • Compliance with state requirements related to the identification and assessment of residential mortgage servicing compliance risks by management. • Employee compensation practices • Workloads of servicing, foreclosure and Loss Mitigation, and loan modification personnel, including Single Point of Contact (SPOC) personnel are reviewed and managed as part of capacity planning • Legal entity review and collateral assignment validation • Staff qualification assessment and monitoring of workloads • Process is in place to locate and secure all documents (including original promissory note) necessary to perform residential servicing, foreclosure and loss mitigation functions. <p>New audit programs</p> <ul style="list-style-type: none"> • Third party attorney oversight (management of law firms) • Single Point of Contact • MERS <p>Refer to attached AUN Residential Mortgage Servicing and NRE Default</p>

		Services Program Summary file (pages 6 through 15) for overview of audit programs coverage. Enhancements and new controls to prior audit programs are indicated with bold font.
CML & HMC	<p>Payments Services audit(*), which includes but is not limited to the following:</p> <ul style="list-style-type: none"> • Payment Processing • Bankruptcy payments (including cash) • Exception monitoring and research • Cash balancing • Cash management • Regulatory compliance • MIS • Vendor Management 	<p>Enhancements:</p> <ul style="list-style-type: none"> • Verification of payment posting in accordance with the underlying note Staff qualification assessment and monitoring of workloads • Compliance with specific regulatory requirements <p>Refer to attached AUN Residential Mortgage Servicing and NRE Default Services Program Summary file (pages 23 through 26) for overview of audit programs coverage. Enhancements and new controls to prior audit programs are indicated with bold font.</p>
CML & HMC	<p>Customer Service audit(*), which includes but is not limited to the following:</p> <ul style="list-style-type: none"> • Call forecasting and capacity planning • VRU and call routing • Phone inquiries • Correspondence and research • Credit Bureau disputes • Complaint resolution • Escrow and Insurance monitoring • Tax payments • Monetary, non-monetary adjustments and reages • Law record change monitoring • Payoff, research 	<p>Enhancements:</p> <ul style="list-style-type: none"> • Compliance with specific regulatory requirements • Staff qualification assessment and monitoring of workloads <p>New audit programs:</p> <ul style="list-style-type: none"> • Single Point of Contact (SPOC) <p>Refer to attached AUN Residential Mortgage Servicing and NRE Default Services Program Summary file (pages 26 through 34) for overview of audit programs coverage. Enhancements and new controls to prior audit programs are indicated with bold font.</p>

	<ul style="list-style-type: none"> • and lien releases • Billing statements • Mailroom processing • MIS • Vendor Management 	
HMC	<p>Servicing and Accounting, which includes but is not limited, to the following:</p> <ul style="list-style-type: none"> - Imaging and document administration - New loan set-up and lien release - Investor accounting - Service by others portfolio accounting (e.g. reconciling of portfolio funds) 	<p>Audit of HMC Servicing and Accounting was last completed in 2009 and has not been completed in 2011 due to strategic initiatives pending in this area. Based on the outcome of the strategic initiatives audit work will be executed in 2012.</p>

(*) ARA's will be revised during the upcoming Themed Audits of Payment Services (scheduled 4Q11) and Customer Service (scheduled 2012). Both audits will cover CML and HMC applicable processes.

It is pertinent to note that as of the date of this Action Plan, Residential Mortgage Servicing management was in the process of finalizing the implementation of Order requirements pertaining to SPOC and other areas included in the Order (i.e., Vendor management including management of law firms). The E&Y independent consultant risk assessment review did not assess these controls as enhancements were in the process of implementation.

The Themed review of Front-End Collections and NRE Default Services, Foreclosure Processing and Bad Debt Recovery, in progress at the time of the completion of this Action Plan, includes the review of controls not assessed by E&Y as noted above. Specifically, controls related to:

- Foreclosure
 - Vendor management (including management of law firms) SPOC and MERS
- Subsequent reviews will be scheduled in 2012 to address any controls not implemented at the time of the audit.

The audit covers the review of Residential Mortgage Servicing management's

implementation of Action Plans to address Consent Order requirements, including but not limited, to the following:

- Governance
- Consent Order Project Management including Cost Management Reporting to the Board of Directors and Compliance Committee
- Foreclosure activities including:
 - Foreclosure Review Group
 - Foreclosure processing (i.e., affidavit, notarization)
 - Foreclosure quality assurance (first line of defense)
- Foreclosure complaint process
- Single Point of Contact (SPOC)
- Third Party Attorney Oversight (management of law firms)
- Mortgage Electronic Registration System (“MERS”)
- MIS implementation
- Capacity Planning and capability assessment
- Incentive Compensation practices

Refer to Front-End Collections and NRE Default Services, Foreclosure Processing and Bad Debt Recovery audit scope detailed within the Audit Planning Memorandum (APM) for the audit. Specifically, pages 1 through 4 of the APM include the audit objectives and scope.

Other controls not tested as part of the E&Y risk assessment conducted pursuant to the Order (i.e., payments, real estate owned, property preservation) and not included in the scope of the Front-End Collections and NRE Secured Default Services, Foreclosure Processing and Bad Debt Recovery audit, will be included in other upcoming audits as applicable (i.e., Payment Services audit, Back-end RE secure audit).

Documents to be submitted with the Action Plan

- AUN GAP ANALYSIS – FRB CONSENT ORDERS vs. AUDIT PROGRAMS
- AUN RESIDENTIAL MORTGAGE SERVICING AND NON REAL ESTATE DEFAULT SERVICES PROGRAM SUMMARY
- AUDIT PLANNING MEMORANDUM - 2011

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Article 16(a)

FRB Order Reference:	Article 16(a)	Corresponding OCC Article:	N/A
<i>Ensure that the internal audit program encompasses residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</i>			
Action Plan			
<u>Existing Processes / Programs:</u>			
The Mortgage Default Servicing Operations Audit is on an annual review cycle [REDACTED]			
[REDACTED] Key operational areas are rotated on an annual or bi-annual cycle based on risk and transactional volume.			
This audit includes the following key areas:			
<ul style="list-style-type: none">• Front-End Collections and Back-End Default Services<ul style="list-style-type: none">○ Front-End Collections and related activities covering accounts in the first 59 days overdue (e.g., Internal Hardship, Collection Queue Management, and Dialer Strategies)○ Mid-Range Activities covering accounts from 60 to 119 days overdue (e.g., Skip Tracing and use of external collection agencies)○ Back-end Default Services – covering operations for accounts beyond 120 days overdue (e.g., Loss Mitigation Strategies, Loan Modifications, Charge-off, Real Estate Owned and, Foreclosures)			
Other residential mortgage servicing audits include:			
<ul style="list-style-type: none">• Payment Services• Customer Service			
Front End Collections and Back-End Default Services			
Audit coverage of the Collection and Default Services includes the review of collections activities on contractually delinquent accounts serviced by the Mortgage Servicing Companies and HBUS. Activities included in scope consist of front-end, mid-range and back-end collections for secured and unsecured loans. Audit coverage extends to governance and strategy; as well as processes for restructuring (e.g., modifications and re-ages), bankruptcy, foreclosure, and Loss Mitigation activities (e.g., short-sales, deed in lieu, forbearance). Dialer management is also reviewed to ensure that telephonic customer collection dialer setting queues are systemically restricted to authorized personnel, policies and procedures are adhered to, and regulatory requirements are considered. The reviews also cover Real Estate Owned (REO) activities and monitoring of external agencies (e.g., debt management).			
Front-End Collections and Default Services detailed audit scope summary has been			

included in Article 16 (FRB Order Reference – Article 16). Refer to Front-End Collections and NRE Secured Default Services Audit (Item #1) and Back-End RE Secured Default Services Audit (Item #2) included in Article 16 table attachment. In addition, the AUN Residential Mortgage Servicing and NRE Default Services Program Summary file – pages 6 - 23 -include an overview of audit programs coverage.

Payment Services

Audit coverage of Payment Services includes the review of related payment activities on accounts serviced by the Mortgage Servicing Companies and HBUS.

The Mortgage Servicing Payment Services audit includes the review of activities related to the receiving, tracking and posting of cash payments, cash exception processing (i.e., bankruptcy payment processing), verification that payment algorithms comply with State regulatory requirements, and validation of payment posting.

Payment Services detailed audit scope summary has been included in Article 16 (FRB Order Reference – Article 16). Refer to Payment Services audit program coverage included as item #3 in Article 16 table attachment. In addition, the AUN Residential Mortgage Servicing and NRE Default Services Program Summary file – pages 23-26 -include an overview of Payment Services audit programs coverage.

Customer Service

The Customer Service audit includes the review of related customer service activities on accounts serviced by the Mortgage Servicing Companies and HBUS. Customer Service activities include handling of customer correspondence (whether received by phone, letter, or e-mail), forecasting call volumes and routing via the Voice Response Unit (“VRU”), and management of complaints. Responsibilities for maintaining escrow accounts, monitoring accounts requiring special handling, and maintaining required property insurance, processing of payoffs and lien releases are also reviewed as part of this audit.

Customer Service audit scope summary has been included in Article 16 (FRB Order Reference – Article 16). Refer to detailed audit program coverage included as item #4 in Article 16 table attachment. In addition, the AUN Residential Mortgage Servicing and NRE Default Services Program Summary file – (pages 26 through— 34) include an overview of Customer Service audit programs coverage.

Regulatory Compliance Coverage

Review of compliance with the applicable federal and state regulatory requirements is included in each of the mortgage servicing audits using a standard regulatory compliance audit program. This program includes, but is not limited, to the following:

- Identification and assessment of regulatory risks by management.
- Identification of new laws and regulations and changes to existing laws and regulations
- Implementation of appropriate actions to comply with new and modified regulatory

requirements

- Monitoring of outstanding compliance related issues
- Independent testing to ensure compliance with applicable regulatory requirements
- Complaints monitoring and escalation procedures

Specific regulatory compliance coverage is included in the AUN Residential Mortgage & NRE Default Services Program Summary – pages 2 and 3 – attached below.

In addition, Group Audit North America includes the review of applicable mortgage servicing activities as part other audits, such as Remittance Processing Center, Loan Loss Reserve, Business Unit Financial Control, State Regulatory Administration, and Sarbanes Oxley.

Enhancements to Processes / Programs:

While the above audit programs encompass most activities related to residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, Group Audit North America has enhanced and developed new specialized audit programs in light of the Order. For this purpose, Group Audit North America completed an 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 to the requirements outlined in the Consent Orders. Specialized audit programs have been enhanced (e.g., deeper review of foreclosure affidavit processing) and new audit programs have been created for processes outlined in the Consent Order not covered in prior audits (e.g., SPOC, Third Party Attorney Oversight and MERS). Further, additional controls identified from the analysis of the E&Y independent consultant's risk assessment results have been incorporated in applicable audit risk assessments defining the scope of the upcoming audits.

A listing of the changes made based on the completion of the GAP analysis and the results of the independent risk assessment are addressed in Article 16 Action Plans (FRB Order Reference Article 16).

For specific GAP analysis results, refer to attached AUN GAP Analysis Consent Orders vs. Audit Programs file, which has separate tabs for OCC and FRB Order GAP analyses. The column labelled "Gap Analysis" (column E) specifically identifies enhancements to existent audit programs or new audit programs.

Further, there are two tabs for:

- 1) ARA – Back End RE Secured Default Services, and
- 2) ARA – Front End Collections & NRE Secured Default Services

Both ARAs – which define the audit scope - include revised and new controls identified in the GAP analysis. Specific enhancements and/or new controls included in ARAs as a result of the Consent Order gap analysis and the analysis of the independent consultant risk assessment results the ARAs have been highlighted.

Furthermore, Group Audit North America audits for 2011 and beyond have been expanded to monitor the effectiveness of the process improvements in response to the Order. As such, a limited audit of resumed foreclosure activities was completed by Group Audit North America in 2Q11. Upon resuming the foreclosure processing in Florida, Group Audit North America completed transaction walkthroughs and detailed testing of foreclosure processing, including:

- Foreclosure review (approval process),
- Affidavit completion and processing including notarization procedures, and
- Foreclosure quality control (first line of defense) activities.

The audit also included the review of Law Firm audits completed by external counsel, on active Florida Law Firms prior to resuming foreclosure activities. A management letter describing the audit was issued on July 11, 2011. It is pertinent to note that the audit was completed using the enhanced foreclosure audit program which incorporates affidavit, notarization and regulatory requirements. Based on the limited test work performed, Group Audit North America noted that adequate procedures and controls have been implemented to address the concerns noted by the OCC and FRB prior to resuming the foreclosure process in Florida.

Refer to Management Letter - Limited Review of Foreclosure Restart Activities attached below for detailed information.

It is important to mention that the Front-End Collections and NRE Secured Default Services, Foreclosure Processing and Bad Debt Recovery Operations audit is in process at the time of the completion of this Action Plan. This audit also covers the review of Residential Mortgage Servicing management's implementation of Action Plans to address Consent Order requirements. Specific scope coverage for this audit is addressed in Article 16 Action Plans (FRB Order Reference – Article 16). The existing Group Audit North America scope as well as enhancements in response to the Order exhibit HNAH's commitment to timely conduct audits of its mortgage related functions and ongoing compliance with the Order.

Documents to be submitted with the Action Plan

- AUN GAP ANALYSIS – FRB CONSENT ORDERS vs. AUDIT PROGRAMS
- AUN RESIDENTIAL MORTGAGE SERVICING AND NON REAL ESTATE DEFAULT SERVICES PROGRAM SUMMARY
- MANAGEMENT LETTER – LIMITED REVIEW OF FORECLOSURE RESTART ACTIVITIES

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Article 16(b)

FRB Order Reference:	Article 16(b)	Corresponding OCC Article:	N/A
<i>periodically review the effectiveness of the ECP and ERM with respect to loan servicing, Loss Mitigation, and foreclosure activities, and compliance with the Legal Requirements and supervisory guidance of the Board of Governors</i>			
Action Plan			
<p>As described below, HNAH has processes in place to review the effectiveness of the ECP and ERM with respect to loan servicing, Loss Mitigation, and foreclosure activities, and compliance with Legal Requirement and supervisory guidance in accordance with the requirements of the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>Group Audit North America conducts periodic reviews of mortgage servicing business processes including Default Services, Customer Service, and Payment Services, which assess the effectiveness of the compliance and risk management processes for loan servicing, Loss Mitigation, and foreclosure activities. These reviews include coverage of compliance with the Legal Requirements and supervisory guidance.</p>			
<p>Effectiveness of the control functions is currently evaluated through audits of ECP and ERM functions, which include, North America Compliance Management, North America ERM governance and oversight, and North America Operational Risk Management (“ORM”).</p>			
Enterprise Compliance Program (ECP)			
<p>Group Audit North America provides an annual risk and control assessment of the adequacy and effectiveness of the ECP to the Audit Committee and Compliance Committee of the HNAH Board of Directors. Reports are also provided to Chief Executive Officers, Chief Compliance Officer and other Executives. The annual compliance risk and control assessment is completed based on the results of the annual HNAH General Compliance Audit in conjunction with results from audits performed of the compliance programs relating to AML/KYC/BSA as well as non-AML/KYC/BSA requirements and the review of TRAC (Testing and Risk Assessment Compliance or second line of defense function). Results from the review and testing performed of regulatory matters in applicable business-as-usual (BAU) audits are included in the assessment. Some of the areas covered as part of the annual HNAH General Compliance audit include:</p>			
<ul style="list-style-type: none">• Compliance governance and oversight framework• Reporting (including accuracy of MIS presented to Governance committees)• Compliance Risk Management Program• Local Compliance Officer roles and responsibilities• Regulatory Monitoring and Assessment (RMA) function• Project Management Office key project initiatives implementation and monitoring			

- Regulatory complaint process
- Regulatory review support group

Refer to attached General Compliance Audit (pages 1 through 27) and 2010 annual compliance risk and control assessment report (pages 28 through 46) for details.

Identification, implementation and monitoring of new and/or changes to legal regulatory requirements are reviewed as part of the HNAH General Compliance Audit where the Regulatory Monitoring and Assessment function is audited. In addition, as part of the residential mortgage servicing audits, Group Audit North America reviews operational policies and procedures and verifies that proper review and approval is obtained from HNAH Legal and/or HNAH Compliance to ensure compliance with current regulatory requirements. The review also includes verification of change/control procedures in place.

To ensure adequate coverage of regulatory requirements Group Audit North America prepares and maintains a matrix of regulatory requirements (e.g., flood, fair lending) to assist its auditors in identifying key regulations and including them in the scope of each audit as applicable. The Compliance Risk Assessment completed by HNAH Compliance is used to update the matrix on a semi-annual basis. Group Audit North America management ensures that staff identifies and understands the regulations that apply to the audit they are performing by using the regulatory matrix. Group Audit North America monitors coverage of compliance risks during the year to ensure that there is adequate internal audit coverage of compliance risks to support the assessment at the end of the year.

Further, Group Audit North America completes a regulatory compliance review as part of every operational audit using a standard regulatory compliance audit program. This program includes, but is not limited, to the following:

- Identification and assessment of regulatory risks by management.
- Identification of new laws and regulations, changes to existing laws and regulations
- Implementation of appropriate actions to comply with new and modified regulatory requirements.
- Monitoring of outstanding compliance related issues
- Independent testing to ensure compliance with applicable regulatory requirements
- Complaints monitoring and escalation procedures

Specific regulatory compliance coverage is included in the AUN Residential Mortgage & NRE Default Services Program Summary – pages 2 and 3 – attached below.

Second line of defense functions are a critical component of the internal control framework in HSBC and they are audited on a regular basis. Specifically, the independent testing units such as Service Delivery Control Assessment (SDCA), SOX, Credit Review and Risk Identification (CRRI) and TRAC are audited annually. These are baseline audits which will eventually conclude on their effectiveness and

audit's ability to place reliance on the work performed by them.

It is pertinent to note that an audit of the SDCA function was completed in 2Q2011 where issues were noted with respect to the quality of the reviews executed by the second line of defense function supporting the Consumer Mortgage Lending (CML) business line. These issues relate to: failure to identify and perform testing for all applicable compliance risks; inappropriate management judgment with respect to scope and coverage in key reviews such as Bankruptcy, REO and Modifications; inability to provide evidence to support the work performed or rationale for decisions relating to sample sizes; exclusion of key controls from testing plans; and extended review periods. Responses including remediation action plans were provided by SDCA management and have been reviewed by Group Audit North America. Periodic meetings are held between Group Audit North America and SDCA management to verify progress of remediation actions implementation. Final verification procedures will be completed by Group Audit North America following standard audit practices for tracking and validation of audit issues by November 30, 2011.

Enterprise Risk Management (ERM)

There are two ways in which Group Audit North America covers ERM:

1.ERM is a standalone audit entity by itself and an audit is being performed in 2011 focusing on:

- Governance
- Risk identification
- Risk measuring and monitoring, and
- Risk reporting processes

2. Further, for every audit that is executed, two planning documents are mandatory in line with HSBC's methodology; the Audit Planning Memorandum ("APM") and the Audit Risk Assessment ("ARA"). The ARA follows the ERM philosophy in the sense that all risks relevant to the entity under review, including, but not limited to, credit, operational, compliance, operational and financial risks are considered and evaluated in line with this philosophy.

It is pertinent to note that as part of every audit, Group Audit North America verifies the effectiveness of operational risk management activities by assessing whether management has completed an operational risk assessment and recorded risks in the [REDACTED] (" [REDACTED] with appropriate action plans. Any missing or incomplete risks or divergence in risk assessments are reported to applicable business unit management. Specific operational risk coverage is included in the AUN Residential Mortgage & NRE Default Services Program Summary – pages 4 and 5 – attached below.

Group Audit North America's existing processes to review ECP and ERM with respect to loan servicing, Loss Mitigation, and foreclosure activities exhibit management's commitment to ensuring monitoring of mortgage related functions and compliance with the Order.

Enhancements to Processes / Programs:

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.

Documents to be submitted with the Action Plan

- AUN RESIDENTIAL MORTGAGE SERVICING AND NON REAL ESTATE DEFAULT SERVICES PROGRAM SUMMARY
- GENERAL COMPLIANCE AUDIT AND 2010 ANNUAL COMPLIANCE RISK AND CONTROL ASSESSMENT REPORT (GAO GEN 100026)

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Article 16(c)

FRB Order Reference:	Article 16(c)	Corresponding OCC Article:	N/A
<p><i>ensure that adequate qualified staffing of the audit function is provided for residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</i></p>			
<p>Action Plan</p> <p>HNAH's Group Audit North America has existing processes to ensure that adequate qualified staffing of the audit function is provided for mortgage loan servicing, Loss Mitigation, and foreclosure activities to comply with the requirement of the Order.</p> <p><u>Existing Processes / Programs:</u></p> <p>Internal audits of Residential Mortgage Loan Servicing, Loss Mitigation and foreclosure activities have been led by an experienced Audit Executive for the past three years. The members of the audit team have also been consistent over the same period with little turnover. The team consists of eight professionals who have mortgage industry and business experience, and have served as internal audit professionals in a variety of accounting firms and financial institutions. Maintaining an audit team that has the adequate skills and experience to complete the audit plan is an ongoing priority, and a formal assessment and presentation of skills and experience of the audit team is made to the Audit Committee on an annual basis and, beginning in May 2011, to the Compliance Committee of the HNAH Board of Directors.</p> <p>Additionally, in accordance with our Group Audit methodology, every auditor is required to complete at least 40 hours of training per calendar year. This can include internal or external training courses, online or computer based training, or self-study in preparation of an approved professional certification. As part of our BAU process, all training is monitored and tracked on a [REDACTED] database. Sixteen of the 40 hours must be dedicated to compliance education to keep staff up-to-date with current regulatory requirements. This is a new requirement for Group Audit North America, added in 2011 in response to the various consent orders.</p> <p>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.</p> <p>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</p>			

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.

Enhancements to Processes / Programs:

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

As of September 30, 2011, the training plan is on target and will be completed by November 30, 2011.

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.

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.

Documents to be submitted with the Action Plan

- AUN Staff Qualification and 2011 Training Program Chart
- AUN Staff Assessment and Training Program

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Articles 16(d), 16(e), 16(f)

FRB Order Reference:	<i>Article 16(d)</i>	Corresponding OCC Article:	N/A
<i>ensure timely resolution of audit findings and follow-up reviews to ensure completion and effectiveness of corrective measures;</i>			
FRB Order Reference:	<i>Article 16(e)</i>	Corresponding OCC Article:	N/A
<i>ensure that comprehensive documentation, tracking, and reporting of the status and resolution of audit findings are submitted to the audit committee; and</i>			
FRB Order Reference:	<i>Article 16(f)</i>	Corresponding OCC Article:	N/A
<i>Establish escalation procedures for resolving any differences of opinion between audit staff and management concerning audit exceptions and recommendations, with any disputes to be resolved by the audit committee.</i>			
Action Plan			
<p>HNAH completes follow-up reviews to validate implementation, effectiveness of corrective measures, comprehensive documentation, tracking, reporting of the status and resolution of audit findings that are submitted to the Audit Committee. HNAH also has escalation procedures for resolving any differences of opinion between audit staff and management concerning audit exceptions and recommendations, with any disputes to be resolved by the Audit Committee.</p>			
<u>Existing Processes / Programs:</u>			
<p>Group Audit North America employs a risk-based approach to reporting and monitoring audit findings, which is designed to ensure critical matters or exposures are escalated and addressed in a timely and comprehensive manner. For high risk findings, Group Audit North America verifies implementation of corrective measures through detailed testing. Low risk audit findings are communicated to management, and it is the business unit's responsibility to ensure corrective measures have been taken and reported. Group Audit North America management conducts on-going monitoring of aging audit issues – which are restricted to high-and medium-risk issues – to verify whether findings have been resolved, and it regularly reports stale (greater than 180 days old) high or medium risk findings to the Audit Committee. Repeat and partial repeat findings also receive separate reporting and tracking, and management has scorecard goals to keep both stale and repeat findings at low levels. Further, issues with multiple target date revisions, aged beyond 365 days, with no mitigating (interim) controls in place, are also specifically reported and escalated to Executive and Operational Risk Committees.</p>			
<p>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.</p>			

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

Group Audit North America has procedures to escalate and resolve differences of opinion between audit staff and management concerning audit exceptions and recommendations. Upon completion of audit reviews and prior to report issuance, Group Audit North America holds exit meetings with senior management to discuss

audit findings and confirm that no disagreements with the facts of the audit findings exist. Minutes from these meetings are circulated to the relevant members of management. Any disagreements and/or concerns are escalated to Executive Management. While every attempt is made to agree on the factual accuracy of the audit findings with Management, Group Audit North America is ultimately responsible for the overall control risk rating and risk rating of findings in the audit report. If a circumstance should arise where a disagreement is not resolved, it will require escalation to the Audit Committee and that responsibility is well communicated and understood by the Chief Auditor.

Responses to findings included in audit reports are provided by management within eight weeks of report issuance. These responses are reviewed by Group Audit North America to ensure adequacy of corrective actions. Any disagreement with management's responses is provided to executive management for review and response revision. If disagreement is not resolved, the results/deficiencies noted from the review of the response are escalated to the Chief Executive Officer and applicable Risk Committee for final resolution.

It is important to note that Group Audit North America presents a summary of the status of audits rated below standard (including corrective action implementation) to the Audit Committee of the Board of Directors on a quarterly basis.

Enhancements to Processes / Programs:

Group Audit North America related 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.

Documents to be submitted with the Action Plan

- 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
- HNAH Repeat Issues 2Q11

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Article 17

FRB Order Reference:	<i>Article 17</i>	Corresponding OCC Article:	<i>N/A</i>
<p><i>Within 60 days of this Order, HBIO shall submit to the Reserve Bank an acceptable enhanced written internal audit program to periodically review compliance with applicable the Legal Requirements and supervisory guidance of the Board of Governors at the Mortgage Servicing Companies that shall, at a minimum, provide for:</i></p>			
<p>Action Plan</p> <p>Group Audit North America maintains an audit plan which includes periodic reviews of compliance with the applicable Legal Requirements and supervisory guidance.</p> <p>Group Audit North America is responsible for all of the internal audit activities of the U.S. mortgage business, including HBIO and HBUS. This includes audits of the effectiveness of risk management, control, and governance processes for Residential Mortgage Loan Servicing, Loss Mitigation, and foreclosure activities. Group Audit North America has performed a review, based on the Order, of its approach for these audits and has revised applicable audit programs to ensure adequate coverage of these activities in accordance to the Order requirements.</p> <p>Revised audit programs for Default Services, Payment Services and Customer Service activities have been implemented with enhancements and additions based on the Order requirements and results of the E&Y independent consultant risk assessment.</p> <p>Specific audit program revisions are addressed in the Action Plans for Articles 16 and Article 16(a).</p> <p>Effectiveness of the controls functions is evaluated through the audits of ECP and ERM functions, which include, North America Compliance Management, North America ERM governance and oversight, and North America ORM.</p> <p>Group Audit North America provides an annual risk and control assessment of the adequacy and effectiveness of the ECP to the Audit Committee and Compliance Committee of the HNAH Board of Directors. Reports are also provided to Chief Executive Officers, Chief Compliance Officer and other Executives. The annual compliance risk and control assessment is completed based on the results of the annual HNAH General Compliance Audit in conjunction with results from audits performed of the compliance programs relating to AML/KYC/BSA as well as non-AML/KYC/BSA requirements and the review of TRAC (Testing and Risk Assessment Compliance or second line of defense function). Results from the review and testing performed of regulatory matters in applicable business-as-usual (BAU) audits are included in the assessment.</p> <p>Some of the areas covered as part of the annual HNAH General Compliance audit include:</p>			

- Compliance governance and oversight framework
- Reporting (including accuracy of MIS presented to Governance committees)
- Compliance Risk Management Program
- Local Compliance Officer roles and responsibilities
- Regulatory Monitoring and Assessment (RMA) function
- Project Management Office key project initiatives implementation and monitoring
- Regulatory complaint process
- Regulatory review support group

Refer to the General Compliance Audit and 2010 annual compliance risk and control assessment report (attached hereto) for details.

Results of the ECP assessment are summarized in the AUN Regulatory Compliance Approach Paper. This paper summarizes how Group Audit North America assesses compliance risk and provides details on compliance coverage as part of the audits completed during the year. Refer to AUN Regulatory Compliance Approach Paper attached hereto for details.

To ensure adequate coverage of regulatory requirement, Group Audit North America prepares and maintains a matrix of regulatory requirements (e.g., flood, fair lending) to assist its auditors in identifying key regulations and including them in the scope of each audit as applicable. The Compliance Risk Assessment completed by HNAH Compliance is used to update the matrix on a semi-annual basis.

Group Audit North America management ensures that staff identifies and understands the regulations that apply to the audit they are performing by using the regulatory matrix. In addition, Group Audit North America monitors coverage of compliance risks during the year to ensure that there is adequate internal audit coverage of compliance risks to support the assessment at the end of the year.

Identification, implementation and monitoring of new and/or changes to legal regulatory requirements are reviewed as part of the HNAH General Compliance Audit where the Regulatory Monitoring and Assessment function is audited. In addition, as part of the residential mortgage servicing audits, Group Audit North America reviews operational policies and procedures and verifies that proper review and approval is obtained from HNAH Legal and/or HNAH Compliance to ensure compliance with current regulatory requirements. The review also includes verification of change/control procedures in place.

Further, Group Audit North America completes a regulatory compliance review as part of every operational audit using a standard regulatory compliance audit program. This program includes, but is not limited, to the following:

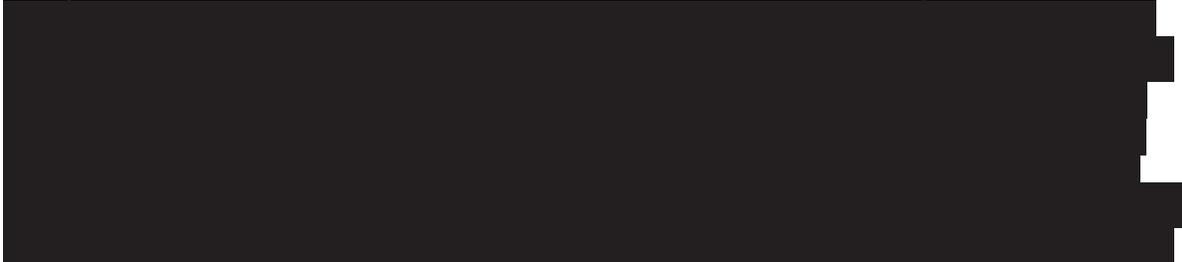
- Identification and assessment of regulatory risks by management.
- Identification of new laws and regulations, changes to existing laws and regulations.
- Implementation of appropriate actions to comply with new and modified regulatory

requirements. Monitoring of outstanding compliance related issues

- Independent testing to ensure compliance with applicable regulatory requirements
- Complaints monitoring and escalation procedures

Second line of defense functions are a critical component of the internal control framework in HSBC and they are audited on a regular basis. Specifically, the independent testing units such as Service Delivery Control Assessment (SDCA), SOX, Credit Review and Risk Identification (CRRI) and TRAC are audited annually. These are baseline audits which will eventually conclude on their effectiveness and audit's ability to place reliance on the work performed by them.

It is pertinent to note that an audit of the SDCA function was completed in 2Q2011



Responses including remediation action plans were provided by SDCA management and have been reviewed by Group Audit North America. Periodic meetings are held between Group Audit North America and SDCA management to verify progress of remediation actions implementation. Final verification procedures will be completed by Group Audit North America following standard audit practices for tracking and validation of audit issues by November 30, 2011. ERM audit coverage is included as part of Article 16(b) Action Plans.

Enhancements to Processes / Programs:

Group Audit North America related 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.

Documents to be submitted with the Action Plan

- General Compliance Audit and 2010 annual compliance risk and control assessment report (GAO GEN 100026)
- AUN Regulatory Compliance Approach Paper

Key HSBC Contacts for the Action Plan

-  EVP/Chief Auditor, HBIO

Article 17(a)

FRB Order Reference:	Article 17(a)	Corresponding OCC Article:	N/A
<i>An annual written, risk-based audit plan approved by the board of directors that encompasses all appropriate areas of audit coverage;</i>			
Action Plan			
<p>Group Audit North America's existing processes require an annual written, risk-based audit plan which is approved by the HNAH Board's Audit Committee.</p>			
<u>Existing Processes / Programs:</u>			
<p>The 2011 Group Audit Plan has been designed to provide holistic risk assurance to Executive Management, Audit Risk Committees and regulators that material risks are being managed effectively within the North American region and in line with Group's stated risk appetite. Group Audit has evaluated risk assessment results for the audit universe and its prioritization of areas to be audited on a global basis to account for changes that have occurred in the US businesses during 2010. With these changes in mind, the Group audit plan has been designed to provide comprehensive audit coverage of internal controls in order to mitigate business risks, such as compliance and operational risk. Consistent with prior years, the audit plan has been compiled using a risk-based audit approach (See 2011 AUDIT PLAN PRESENTATION attached below which summarizes the 2011 audit approach, including updates that reflect global and regional changes in the organization.).</p>			
<p>The audits scheduled for 2011 broadly fall into three categories: Group-Wide Risk-Based Audits designed to provide clear line-of-sight to the effectiveness of risk management around key risks; Governance Audits designed to assess the effectiveness of the oversight process at the Group-level and validate the second line of defense's work; and Project Audits designed to provide assurance around on-going flagship change programs across the Group. On an annual basis, the Audit Plan continues to be reviewed with the Federal Reserve, OCC, and KPMG prior to being submitted to the HNAH Group Audit Committee for approval (See Board Resolution for Audit Plan Approval attached below, which documents the formal adoption by the Audit Committee for the 2011 audit plan). A similar approach will be followed for the 2012 audit plan.</p>			
<p>Finally, Group Audit North America will be vigilant to changes in the risk profile of the region and, accordingly, the audit plan will be risk based, forward looking and dynamic at all times and will be reflected by changes to the Plan as necessary. These changes are however communicated to the Audit Committee of the Board.</p>			
<u>Enhancements to Processes / Programs:</u>			

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.

Documents to be submitted with the Action Plan

- 2011 AUDIT PLAN PRESENTATION
- Board Resolution for Audit Plan Approval

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Article 17(b)

FRB Order Reference:	<i>Article 17(b)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>the scope and frequency of audits;</i>			
Action Plan			
<p>Group Audit North America maintains an audit plan which includes the scope and frequency of periodic reviews to ensure compliance with the applicable Legal Requirements and supervisory guidance.</p>			
<u>Existing Processes / Programs:</u>			
<p>The scope and frequency of audits is based on the internal audit's assessment of risks. The scheduling of audits is an on-going dynamic process reflecting changes in internal audit's assessment of the inherent risk of the auditable entities within the audit population. A risk calculator model is used in the Annual Operating Plan (AOP) process and on-going scheduling of audits. The risk calculator seeks to identify and measure entity level risks across the audit population to determine the prioritization of audits. Resourcing and staffing needs are accordingly adjusted to enable audit resources be directed to the most appropriate areas. However, the risk calculator is a guide for senior audit management and does not preclude audits being scheduled differently. It is pertinent to mention that there are established controls that require entities with a high risk score to be audited within 12 months. As such, some of the mortgage business areas are audited on an annual basis (as described below). We have also attached a copy of the Group Audit Standard Manual which is the primary instruction manual for Group Audit and details all key policies and procedures. See THE HSBC GROUP AUDIT STANDARDS MANUAL it's in entirety. Key policy and procedure addressed in this paragraph is included in Section 4 – "The Audit Process – Identification and Planning" which includes audit scheduling procedures (pages 37 through 45).</p>			
<p>The Mortgage Default Servicing Operations audit is reviewed on an annual cycle, with key activities rotated on an annual or biannual cycle based on risk and transactional volume (i.e., Collection and Default Services, Payment Services, Customer Service). However, certain activities, such as loan modifications and foreclosures, are reviewed every year due to loan volume and regulatory considerations.</p>			
<p>In addition, Group Audit North America completes periodic audits of the second line of defense functions which are a critical component of the internal control framework in HSBC. Specifically, the independent testing units such as Service Delivery Control Assessment (SDCA), SOX, Credit Review and Risk Identification (CRRl) and TRAC are audited annually. These are baseline audits which will eventually conclude on their effectiveness and audit's ability to place reliance on the work performed by them.</p>			
<p>Group Audit North America also performs ad hoc audits and reviews outside the</p>			

normal audit activities on behalf of senior management. These include special reviews of changes in policy, significant initiatives including divestitures, compliance with new Group or regulatory requirements, consultancy, and investigations at the request of the Audit Committee and the Chief Executive Officers

It is pertinent to note that 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 Loan Loss Reserves to name a few.

Supporting documentation:

- The 2011 Audit Plan Presentation - Approved by the Audit Committee includes an overview of the 2011 audit approach including key themes and regulatory coverage. Refer to document attached hereto - pages 1 through 7.
- The 2011 AUN Audit Plan – Status - document attached hereto that includes 2011 audits covering residential servicing operations. The summary includes status of the audits as of September 30, 2011.

Enhancements to Processes / Programs:

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.

Documents to be submitted with the Action Plan

- 2011 AUDIT PLAN PRESENTATION
- 2011 AUN AUDIT PLAN – STATUS
- THE HSBC GROUP AUDIT STANDARDS MANUAL

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Article 17(c)

FRB Order Reference:	Article 17(c)	Corresponding OCC Article:	N/A
<i>the independence of the internal auditor, audit staff, and audit committee;</i>			
<p>Action Plan</p> <p>Group Audit North America has processes to ensure an independent internal auditor, audit staff, and Audit Committee provides effective auditing of the mortgage related functions.</p> <p><u>Existing Processes / Programs:</u></p> <p>HNAH requires that every employee, including those in Group Audit North America, go through a Code of Ethics certification that includes independence. Furthermore, the Audit Committee is comprised completely of independent members or non-employees.</p> <p>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.</p> <p>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:</p> <p><i>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.</i></p> <p>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</p>			

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.

Enhancements to Processes / Programs:

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.

Documents to be submitted with the Action Plan

- HSBC FINANCE CORPORATION CHARTER OF THE AUDIT AND RISK COMMITTEE
- HSBC FINANCE CORPORATION (HBIO) INTERNAL AUDIT CHARTER
- HSBC NORTH AMERICA HOLDINGS INC. CHARTER OF THE AUDIT AND RISK COMMITTEE
- HSBC NORTH AMERICA HOLDINGS INC. (HNAH) INTERNAL AUDIT CHARTER

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Articles 17(d) & 17(e)

FRB Order Reference:	<i>Article 17(d)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>inclusion in the audit scope of reviews of internal controls, MIS, and compliance with the Mortgage Servicing Companies' internal policies, procedures, and processes, including, but not limited to, the Loss Mitigation and foreclosure processes;</i>			
FRB Order Reference:	<i>Article 17(e)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>adequate testing and review of MIS used in servicing, Loss Mitigation, and foreclosure activities to ensure compliance with the Legal Requirements</i>			
Action Plan			
<u>Existing Processes / Programs:</u>			
<p>The current Group Audit North America scope includes reviews that evaluate the quality of pertinent MIS. Validation of accuracy and completeness of data included in MIS reports is the primary objective of these reviews.</p>			
<u>Enhancements to Processes / Programs:</u>			
<p>Group Audit North America will review and validate key reports to be implemented by management for foreclosure, Loss Mitigation and loan modification activities as part of the Front End Collections and NRE Default Services, Foreclosure Processing and Bad Debt Recovery audit (in process at the time of this action plan). Specific scope coverage for this audit is addressed in the Action Plans in response to Article 16.</p>			
<p>Enhanced MIS audit scope includes, but is not limited, to the following:</p> <ul style="list-style-type: none"> • Verification of implementation of comprehensive MIS for the monitoring of foreclosures (including rescinded foreclosures) and modification activities. • Implementation of MIS for the monitoring of compliance with applicable Legal Requirements; as well as for ongoing accuracy of records necessary to establish ownership of the note and the right to foreclosure. • User Acceptance Testing completed by management to ensure integrity and accuracy of MIS changes or new MIS. • Detailed testing on a sample of enhanced and new MIS to verify data accuracy. For this purpose, an independent data Audit team generates exception reports and validates the accuracy and completeness of data and reports used by the business lines. 			
<p>In addition, where applicable, integrated audits are performed with the IT Audit Team to ensure the adequate design and operating effectiveness of technology solutions.</p>			
<p>As of the date of this Action Plan, Residential Mortgage Servicing management was in</p>			

the process of implementing new MIS to address the Consent Order requirements. Subsequent reviews of key MIS will be scheduled to address any controls not implemented at the time of the Front-End Collections and NRE Default Services, Foreclosure Processing and Bad Debt Recovery audit.

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.

Documents to be submitted with the Action Plan

- Not applicable

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Article 17(f)

FRB Order Reference:	Article 17(f)	Corresponding OCC Article:	N/A
<i>controls to ensure that audits are completed on a timely basis in accordance with the approved audit plan;</i>			
Action Plan			
Group Audit North America has controls to ensure that audits are completed on a timely basis in accordance with the approved audit plan.			
<u>Existing Processes / Programs:</u>			
Group Audit North America currently has controls in place including key performance indicators to help track progress and ensure that audits are completed on a timely basis in accordance with the approved annual audit plan. Executive Management monitors the status of on-going audits to ensure that fieldwork is completed within a reasonable period based on scope and that reports are issued to the appropriate business within thirty days of completion of the fieldwork. The Audit Committee receives quarterly presentations on the status of the current year audit plan, including any changes (i.e., additions, cancellations, delays) made to the plan. Any changes to the audit plan are also communicated to the Chief Auditor of North America. The Quality Assurance process undertaken by an independent Audit Professional Practices team also reviews any unapproved audit additions, delays and cancellations during its reviews.			
Further, Group Audit North America meets with U.S. regulatory agencies on a monthly basis to discuss the results of completed audits. Additionally, an update on scope and status of the audits currently in progress is provided.			
<u>Enhancements to Processes / Programs:</u>			
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.			
Documents to be submitted with the Action Plan			
Not applicable			
Key HSBC Contacts for the Action Plan			
• [REDACTED] EVP/Chief Auditor, HBIO			

Article 17(g)

FRB Order Reference:	<i>Article 17(g)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>adequate staffing of the audit function by qualified staff;</i>			
Action Plan			
<p>As discussed in Article 16(c), HNAH's Group Audit North America has existing processes to ensure that adequate qualified staffing of the audit function is provided for mortgage loan servicing, Loss Mitigation, and foreclosure activities to comply with the requirement of the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>Internal audits of Residential Mortgage Loan Servicing, Loss Mitigation and foreclosure activities have been led by an experienced Audit Executive for the past three years. The members of the audit team have also been consistent over the same period with little turnover. The team consists of eight professionals who have mortgage industry and business experience, and have served as internal audit professionals in a variety of accounting firms and financial institutions. Maintaining an audit team that has the adequate skills and experience to complete the audit plan is an ongoing priority, and a formal assessment and presentation of skills and experience of the audit team is made to the Audit Committee on an annual basis and, beginning in May 2011, to the Compliance Committee of the HNAH Board of Directors.</p>			
<p>Additionally, in accordance with our Group Audit methodology, every auditor is required to complete at least 40 hours of training per calendar year. This can include internal or external training courses, online or computer based training, or self-study in preparation of an approved professional certification. As part of our BAU process, all training is monitored and tracked on a Lotus Notes database. Sixteen of the 40 hours must be dedicated to compliance education to keep staff up-to-date with current regulatory requirements. This is a new requirement for Group Audit North America, added in 2011 in response to the various consent orders.</p>			
<p>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.</p>			
<p>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</p>			

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.

Enhancements to Processes / Programs:

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

As of September 30, 2011, the training plan is on target and will be completed by November 30, 2011.

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.

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.

Documents to be submitted with the Action Plan

- AUN Staff Qualification and 2011 Training Program Chart
- AUN Staff Assessment and Training Program

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO

Articles 17(h), 17(i), 17(j)

FRB Order Reference:	<i>Article 17(h)</i>	Corresponding OCC Article:	N/A
<i>timely resolution of audit findings and follow-up reviews to ensure completion and effectiveness of corrective measures;</i>			
FRB Order Reference:	<i>Article 17(i)</i>	Corresponding OCC Article:	N/A
<i>comprehensive documentation, tracking, and reporting of the status and resolution of audit findings to the audit committee, at least quarterly</i>			
FRB Order Reference:	<i>Article 17(j)</i>	Corresponding OCC Article:	N/A
<i>establishment of escalation procedures for resolving any differences of opinion between audit staff and management concerning audit exceptions and recommendations, with any disputes to be resolved by the audit committee</i>			
Action Plan			
<p>As discussed in Articles 16(d) through 16(f), HNAH completes follow-up reviews to validate implementation, effectiveness of corrective measures, comprehensive documentation, tracking, reporting of the status and resolution of audit findings that are submitted to the Audit Committee. HNAH also has escalation procedures for resolving any differences of opinion between audit staff and management concerning audit exceptions and recommendations, with any disputes to be resolved by the Audit Committee.</p>			
<u>Existing Processes / Programs:</u>			
<p>Group Audit North America employs a risk-based approach to reporting and monitoring audit findings, which is designed to ensure critical matters or exposures are escalated and addressed in a timely and comprehensive manner. For high risk findings, Group Audit North America verifies implementation of corrective measures through detailed testing. Low risk audit findings are communicated to management, and it is the business unit's responsibility to ensure corrective measures have been taken and reported. Group Audit North America management conducts on-going monitoring of aging audit issues – which are restricted to high-and medium-risk issues – to verify whether findings have been resolved, and it regularly reports stale (greater than 180 days old) high or medium risk findings to the Audit Committee. Repeat and partial repeat findings also receive separate reporting and tracking, and management has scorecard goals to keep both stale and repeat findings at low levels. Further, issues with multiple target date revisions, aged beyond 365 days, with no mitigating (interim) controls in place, are also specifically reported and escalated to Executive and Operational Risk Committees.</p>			
<p>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</p>			

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

Group Audit North America has procedures to escalate and resolve differences of opinion between audit staff and management concerning audit exceptions and recommendations. Upon completion of audit reviews and prior to report issuance,

Group Audit North America holds exit meetings with senior management to discuss audit findings and confirm that no disagreements with the facts of the audit findings exist. Minutes from these meetings are circulated to the relevant members of management. Any disagreements and/or concerns are escalated to Executive Management. While every attempt is made to agree on the factual accuracy of the audit findings with Management, Group Audit North America is ultimately responsible for the overall control risk rating and risk rating of findings in the audit report. If a circumstance should arise where a disagreement is not resolved, it will require escalation to the Audit Committee and that responsibility is well communicated and understood by the Chief Auditor.

Responses to findings included in audit reports are provided by management within eight weeks of report issuance. These responses are reviewed by Group Audit North America to ensure adequacy of corrective actions. Any disagreement with management's responses is provided to executive management for review and response revision. If disagreement is not resolved, the results/deficiencies noted from the review of the response are escalated to the Chief Executive Officer and applicable Risk Committee for final resolution.

It is important to note that Group Audit North America presents a summary of the status of audits rated below standard (including corrective action implementation) to the Audit Committee of the Board of Directors on a quarterly basis.

Enhancements to Processes / Programs:

Group Audit North America related 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.

Documents to be submitted with the Action Plan

- 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
- HNAH Repeat Issues 2Q11

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO