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24 February 2012

[REDACTED]
[REDACTED]
HSBC North America Holdings, Inc.

[REDACTED]
New York, NY 10018

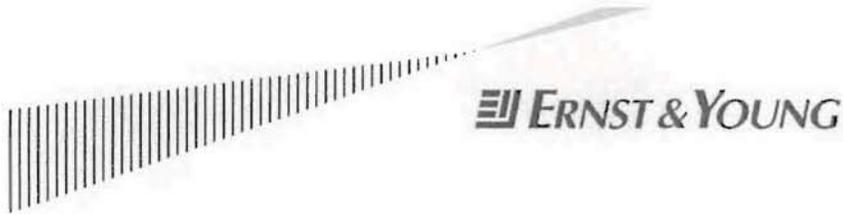
[REDACTED]
HSBC Finance Corporation

[REDACTED]
Mettawa, IL 60045

Foreclosure Review in response to Consent Order issued to HSBC North America Holdings, Inc. and HSBC Finance Corporation by the Federal Reserve Board - Executed Final

Dear [REDACTED] and [REDACTED]:

This letter ("Agreement") confirms the engagement by HSBC North America Holdings, Inc. ("HNAH") and HSBC Finance Corporation ("HBIO") and its residential mortgage loan servicing subsidiaries ("Mortgage Servicing Companies") (collectively, HNAH, HBIO and the Mortgage Servicing Companies are referred to herein as "HSBC") of Ernst & Young LLP ("E&Y"). E&Y will conduct a review of certain mortgage foreclosure matters (the "Foreclosure Review") as required by the Consent Order issued by the Board of Governors of the Federal Reserve System (the "FRB") in relation to certain residential mortgage loan servicing practices (the "Order"). This Agreement sets forth the terms pursuant to which the Foreclosure Review will be conducted in accordance with the Order, the guidance set forth in the memorandum entitled "OCC, OTS and FRB Foreclosure Review Guidance" provided to HSBC at a May 20, 2011 interagency meeting, the guidance set forth in the memorandum entitled "Expectations for Engagement Letter Borrower Complaint and Outreach Process" provided to E&Y on July 8, 2011, the guidance set forth in the memorandum entitled "OCC and FRB Guidance - Financial Injury or Other Remediation" provided to HSBC on August 29, 2011 and such further written guidance as may be provided by the FRB during the course of the Foreclosure Review (collectively the "Foreclosure Review Guidance"), subject to compliance with our professional standards. HSBC has instructed E&Y to accept direction, control, supervision and oversight of its Services (as defined in this Agreement) from the FRB which will be acting as the designee of HSBC for these purposes, provided, however, that E&Y



will keep HSBC informed of any FRB comments, directions or instructions and that any directions or instructions that would change the services to be provided by E&Y shall be documented in an amendment to the Agreement. (Please note that defined terms used herein and not otherwise defined shall have the meanings ascribed to them in the Order).

Independence of Consultant conducting Foreclosure Review

E&Y has been retained to conduct an independent review of certain residential foreclosure actions regarding individual borrowers with respect to HSBC's mortgage servicing portfolio. E&Y agrees that the Foreclosure Review will comply with all requirements set forth in paragraphs 3 and 4 of the Consent Order issued to HSBC on April 13, 2011, and that it will conduct the Foreclosure Review as separate and independent from any review, study, or other work performed by HSBC or its contractors or agents with respect to HSBC's mortgage servicing portfolio or HSBC's compliance with other requirements of the Consent Order and the Foreclosure Review Guidance, as set forth below:

1. Conduct of the Foreclosure Review by the E&Y shall not be subject to direction, control, supervision, oversight, or influence by HSBC, its contractors or agents. E&Y shall immediately notify the FRB of any effort by HSBC, directly or indirectly, to exert any such direction, control, supervision, oversight, or influence over E&Y, its contractors or agents.
2. E&Y agrees that it is solely responsible for the conduct and results of the findings required by the Foreclosure Review, in accordance with the requirements of clauses 3(a)(i) through (vii) of the Consent Order that do not require legal determinations or analyses, which are to be provided separately by a law firm to be engaged by E&Y, subject to FRB approval.
3. The conduct of the Foreclosure Review shall be subject to the monitoring, oversight, and direction of the FRB. E&Y agrees to promptly comply with all written comments, directions, and instructions of the FRB concerning the conduct of the Foreclosure Review, and that it will promptly provide any documents, work papers, materials or other information requested by the FRB, regardless of any claim of privilege or confidentiality. E&Y acknowledges that the FRB will review some of the files reviewed by E&Y in the Foreclosure Review and the FRB review will be subject to verification as provided in the Order. Each file shall include all the documentation collected by E&Y related to the foreclosure action under review, and shall be readily accessible and available, for the aforementioned review and verification to occur.
4. E&Y agrees to provide regular progress reports, updates and information concerning the conduct of the Foreclosure Review to the FRB, as directed by the FRB.
5. E&Y will conduct the Foreclosure Review using only personnel employed or retained by E&Y to perform the work required to complete the Foreclosure Review. E&Y shall not employ or use services provided by HSBC employees, or contractors or agents retained by HSBC with respect to the Consent Order or with respect to matters addressed in the Consent Order, in order to conduct the Foreclosure Review, except where the FRB specifically provides prior written approval to do

so.

6. Subject to the requirements and restrictions of no. 5 above, including the requirement of specific approval by the FRB, E&Y may utilize documents, materials or other information provided by HSBC, and may communicate with HSBC, its contractors or agents, in order to conduct the Foreclosure Review. For example, E&Y may communicate with HSBC employees to obtain clerical assistance, to determine if information provided is complete or accurate, to verify or confirm information concerning specific case files, or to communicate with HSBC employees regarding case files such that errors or omissions may be brought to the Independent Consultant's attention; however, HSBC employees may not influence or attempt to influence determinations concerning the findings of the Independent Consultant, whether regarding specific case files, categories of cases, or the Foreclosure Review more generally.

7. E&Y agrees that any legal advice needed in conducting the Foreclosure Review shall be obtained from the outside law firm whose retention for that purpose has been approved by the FRB. E&Y agrees not to obtain legal advice (or other professional services) in conducting the Foreclosure Review from HSBC's inside counsel, or from outside counsel retained by HSBC or its affiliates to provide legal advice concerning the Consent Order or matters contained in the Consent Order.

8. HSBC's agreement with E&Y provides that if the FRB determines, in its sole discretion, that E&Y has not been fully compliant with the foregoing standards (nos. 1-7, above), the FRB may direct HSBC to dismiss E&Y and retain a successor consultant, in which case HSBC shall have no further obligation to E&Y other than for services performed up to that date for the HSBC.

Scope of Services

The Order specifies that HSBC shall retain an independent consultant acceptable to the FRB to conduct a Foreclosure Review. HSBC has selected E&Y in light of its experience in the field of financial services generally and its experience in conducting objective reviews of loan and other criteria and information similar to the review that is contemplated in the Order. In order to preserve applicable attorney-client, work product or similar privileges or doctrines as more fully described below, the services of E&Y (the "Services") will be performed at the request of [REDACTED] of HNAH and HBIO and at the direction of the FRB. As further described in the Order, the Foreclosure Review shall include an independent review by E&Y of certain residential foreclosure actions or proceedings (including foreclosures that were in process or completed) for loans serviced by the Mortgage Servicing Companies, whether brought in the name of HNAH, the Mortgage Servicing Companies, the investor, the mortgage note holder, or any agent for the mortgage note holder (including MERS), that have been pending at any time from January 1, 2009 to December 31, 2010, as well as residential foreclosure sales that occurred during this time period.

The Services will be performed by E&Y following the requirements and guidance for engagements issued by the American Institute of Certified Public Accountants ("AICPA") Statements on Standards for Consulting Services, including Article 4 of the Code of Professional Conduct, which requires objectivity - the obligation to be impartial, intellectually honest, and free of conflicts of



interest. Additionally, in the performance of any professional service, Section 102 of the AICPA Code of Conduct, requires that each member maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.

Further, under the AICPA requirements, the Services and related reporting will be limited to providing a detailed description of the test steps performed, the test criteria included in each of the test steps, and the findings from the testing. Consistent with the AICPA consulting standards, no opinion or other assurances will be provided by E&Y in connection with this engagement.

The Order specifies that the purpose of the Foreclosure Review shall be to determine, at a minimum:

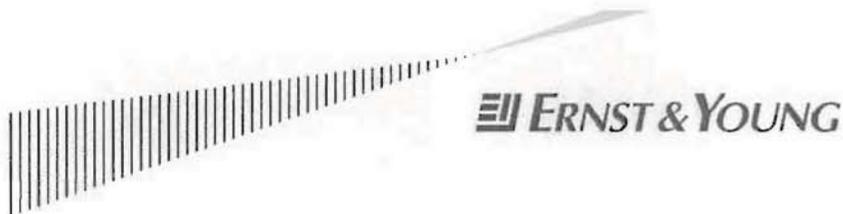
(a) whether at the time the foreclosure action was initiated or the pleading or affidavit filed (including in bankruptcy proceedings and in defending suits brought by borrowers), the foreclosing party or agent of the party had properly documented ownership of the promissory note and mortgage (or deed of trust) under relevant state law, or was otherwise a proper party to the action as a result of agency or similar status;

(b) whether the foreclosure was in accordance with applicable state and Federal laws, including but not limited to the Servicemembers Civil Relief Act ("SCRA") and the U.S. Bankruptcy Code;

(c) whether, with respect to non-judicial foreclosures, the procedures followed with respect to the foreclosure sale (including the calculation of the default period, the amounts due, and compliance with notice periods) and post-sale confirmations were in accordance with the terms of the mortgage loan and state law requirements;

(d) whether a foreclosure sale occurred when the borrower had requested a loan modification or other loss mitigation and the request was under consideration; when the loan was performing in accordance with a trial or permanent loan modification; or when the loan had not been in default for a sufficient period of time to authorize foreclosure pursuant to the terms of the mortgage loan documents and related agreements;

(e) whether a delinquent borrower's account was charged fees or penalties that were not permissible under the terms of the borrower's loan documents, state or Federal law, or were otherwise unreasonable. For purposes of the Order, a fee or penalty is "otherwise unreasonable" if it was assessed: (i) for the purpose of protecting the secured party's interest in the mortgaged property, and the fee or penalty was assessed at a frequency or rate, was of a type or amount, or was for the purpose that was in fact not needed to protect the secured party's interest; (ii) for services performed and the fee charged was substantially in excess of the fair market value of the services; (iii) for services performed, and the services were not actually performed; or, (iv) at an amount or rate that exceeds what is customarily charged in the market for such a fee or penalty, and the mortgage instruments or other documents executed by the borrower did not disclose the amount or rate that the lender or servicer



would charge for such a penalty;

(f) whether Loss Mitigation Activities with respect to foreclosed loans were handled in accordance with the requirements of the HAMP, if applicable, and consistent with the policies and procedures applicable to the Mortgage Servicing Companies' proprietary loan modifications or other Loss Mitigation programs, such that each borrower had an adequate opportunity to apply for a Loss Mitigation option or program, any such application was handled appropriately, and a final decision was made on a reasonable basis, and was communicated to the borrower before the foreclosure sale; and

(g) whether any errors, misrepresentations, or other deficiencies identified in the Foreclosure Review resulted in financial injury to the borrower or the owner of the mortgage loan.

The making of determinations, analysis and conclusions regarding each of the criteria specified in the Order requires the retention of an outside advisor that is in a position to make the determinations, analysis and conclusions regarding legal matters and issues affecting each of the criteria noted above. A law firm familiar with the applicable laws, rules and regulations, including those concerning foreclosure, the SCRA, and the U.S. Bankruptcy Code, can legally provide determinations, draw conclusions and make legal interpretations regarding compliance with such applicable laws, rules and regulations and provide legal interpretations regarding the criteria noted above.

E&Y is not a law firm and is not permitted to provide legal services in the United States under state laws and regulations governing the practice of law. As a result, E&Y will directly engage the law firm of Gibson Dunn & Crutcher LLP (the "Law Firm"). The Law Firm will be solely responsible for providing the legal conclusions, analyses and interpretations required under the Order. The Law Firm will also assist E&Y in establishing the specific and objective criteria that will be used for testing, with reviewing the results of the testing (findings), with reviewing the findings E&Y brings to the Law Firm's attention as requiring legal interpretation, and by providing such other procedures as may be necessary to enable E&Y and the Law Firm, respectively, to report on each of the criteria noted above. E&Y and HSBC acknowledge and agree that the Law Firm will be engaged to assist E&Y as set forth in this Agreement and that the Law Firm will not be engaged to be an advocate on behalf of HSBC regarding the Order. The engagement letter between E&Y and the Law Firm contains a provision to that effect. HSBC further confirms the Law Firm has not been retained by HSBC to act as, and the Law Firm has not acted as, an advocate on behalf of HSBC regarding the Order. E&Y will not provide any Service that constitutes the practice of law and will not oversee, or have any responsibility for, the legal services provided by the Law Firm.

The Order specifies the independent consultant shall prepare a written report detailing the findings of the Foreclosure Review that shall be submitted to the FRB, in accordance with the Order. Because E&Y is not a law firm and is not permitted to provide legal services, a single Foreclosure Report cannot be issued by E&Y. Rather, consistent with the approach outlined above, two separate and distinct reports (that can be included within the same document) will be issued as follows (collectively, the "Foreclosure Reports"):

- a. Findings report provided by E&Y; and

- b. Report provided by the Law Firm containing the legal analysis and findings required by the Order.

Any draft Foreclosure Reports circulated to or reviewed by the Law Firm, prior to submission of the final Foreclosure Review Reports to HSBC and the FRB, will be circulated and reviewed by the Law Firm solely for the purpose of commenting on legal analysis and findings required by the Order; and any draft Foreclosure Reports circulated to or reviewed by HSBC, prior to submission of the final Foreclosure Review Reports to HSBC and the FRB, will be circulated and reviewed by HSBC solely for the purposes of commenting on factual accuracies.

With respect to findings as to whether any identified errors, misrepresentations, or other deficiencies resulted in financial injury to the borrower or the mortgagee, the FRB has provided Guidance on Financial Injury or Other Remediation dated August 29, 2011 which will be considered by E&Y in connection with its work. E&Y's consideration of this guidance is subject to the terms and conditions of this Agreement, including specifically that E&Y will not provide any Service that constitutes the practice of law and will not oversee, or have responsibility for, the legal services provided by the Law Firm as specifically relating to financial injury. Accordingly, whether financial injury exists in a particular case will be subject to legal interpretation by the Law Firm and evaluation and quantification by E&Y. Moreover, as described in the Order and confirmed in the Foreclosure Review Guidance, notwithstanding any findings of E&Y concerning financial injury, HSBC is responsible for submitting a plan to compensate or remediate financially injured borrowers and E&Y assumes no responsibility for this task.

See Appendix C for more information regarding the Foreclosure Review methodology.

See Appendix D for the engagement letter between E&Y and the Law Firm.

See Appendix E for the memo on independence procedures (as defined by the FRB) for E&Y personnel on the Foreclosure Review

Confidentiality & Privilege

E&Y acknowledges that the Services for which it is engaged are highly confidential. To enable E&Y to carry out its responsibilities, and subject to the restrictions of no. 7 page 2 hereof, HNAH and HBIO [REDACTED] (collectively "Counsel") may need to disclose to E&Y their legal theories, as well as other privileged information and attorney work product, and HSBC, its employees, representatives or agents may need to disclose to E&Y information. In connection with E&Y's provision of Services, E&Y may need to collect information from or on behalf of HSBC, including, without limitation, the Order, supervisory letters and other confidential supervisory information. E&Y shall treat all information pertaining to the provision of Services, whether provided to E&Y by or on behalf of HSBC, or collected or compiled by E&Y, as confidential (collectively, the "Confidential Information"). E&Y further acknowledges that some of the Confidential Information, including but not limited to the Order and supervisory letters, consists of confidential supervisory information that is the property of the FRB. E&Y hereby agrees that it will not disclose the existence or content of the Order or any

other confidential supervisory information provided by or on behalf of HSBC to E&Y except as authorized by FRB regulations or as required in the Order. E&Y will treat confidential supervisory information from the FRB in conformance with Section 261.20(b) of the FRB's rules (12 C.F.R. 261.20(b)). Any and all written and oral communications between E&Y or its agents and representatives and HSBC or its agents or representatives regarding the subject matter of this Agreement and the Services performed hereunder, and any and all records, documents and work papers regarding the same, shall be treated as confidential and, with the exception of disclosure to the FRB and the Law Firm, shall not be disclosed to anyone outside of E&Y, either during or after the period of this engagement, without prior written consent of HSBC, except as may be required by law, regulation, or judicial or administrative process, or in accordance with applicable professional standards. In the event that E&Y determines that a disclosure may be required by law, regulation, or judicial or administrative process, E&Y shall, unless prohibited by law, provide prompt notice to HSBC so that HSBC may take steps to protect its interest. E&Y shall reasonably cooperate with any effort by HSBC to protect its interests, including, where possible, filing documents under seal and seeking entry of a protective order to limit disclosure.

HSBC authorizes E&Y executives at the Partner, Principal and Executive Director levels to periodically meet with the FRB upon request by the FRB. However, if any person, entity, or regulatory authority (other than the FRB) seeks to obtain any material or information within E&Y's possession, custody and control concerning this Agreement or the Services performed hereunder, E&Y shall, where practical and where permitted by law, promptly inform HSBC before taking any action or making any decision regarding the request, so that HSBC may seek to defend the disclosure. E&Y will obtain a similar commitment from the Law Firm. HSBC agrees to pay any costs reasonably incurred by E&Y or the Law Firm, including reasonable attorney's fees, in the course of resisting such a request, as and when such costs are incurred. In addition, it is agreed that all working papers and other documents prepared by E&Y pursuant to this Agreement are the property of E&Y. E&Y will provide, upon HSBC's request, access to such work papers upon the completion of the Foreclosure Review and issuance of the Foreclosure Reports.

Although E&Y has made no independent inquiry or determination with respect thereto, E&Y acknowledges (a) that the Services, the Foreclosure Reports and Reports (as defined in paragraph 9 below) provided under this Agreement may be utilized by Counsel in order to provide legal advice to HSBC, in its capacity as Counsel and, as such, your belief that such Services, Foreclosure Reports and Reports are deemed to be covered and protected by the attorney-client, attorney work product and other applicable privileges and doctrines, and (b) that HSBC and its affiliates are currently involved in various types of litigation, and anticipate such litigation in the future, for which the Services, Foreclosure Reports and Reports may be used to develop litigation strategies, thought processes and further client communications and, as such, your belief that such Services, Foreclosure Reports and Reports are deemed to be covered and protected by and qualify as communications subject to the attorney-client, attorney work product and other applicable privileges and doctrines. Accordingly, E&Y shall treat the Services, Foreclosure Reports and Reports as so privileged, subject only to E&Y's obligations under applicable law or professional requirements. Throughout the engagement, E&Y shall report to Counsel and shall send all written communications to Counsel, and agrees that all communications to Counsel shall bear the legend "PRIVILEGED & CONFIDENTIAL." Further, pursuant to 12 USC 1828(x), we shall not construe the provision of the Foreclosure Reports, the Reports to the FRB pursuant to the Order, and/or other



information and/or documents provided to the FRB in connection with the Foreclosure Review as waiving, destroying or otherwise affecting the coverage and protection of the Foreclosure Reports and Reports under the attorney-client privilege and attorney work product doctrine (and any other applicable privileges or doctrines). Additionally, E&Y represents and warrants that it has, and will continue to have for so long as it retains any Confidential Information in connection with this engagement, adequate administrative, technical, and physical safeguards (including, where applicable, proper disposal measures) designed (i) to provide for the security and confidentiality of such Confidential Information, (ii) to protect against any anticipated threats or hazards to the security or integrity of such Confidential Information, and (iii) to protect against unauthorized access to or use of such Confidential Information. E&Y shall promptly notify HSBC if it discovers there has been a material breach in its security safeguards required by this paragraph and any Confidential Information has been compromised, and shall take all reasonable and appropriate steps to protect such Confidential Information in such event.

E&Y shall use the information provided by HSBC solely in connection with this Agreement and the Services performed hereunder. Except to the extent HSBC agrees in writing, upon the termination or expiration of E&Y's engagement, E&Y will deliver to you or, in the alternative, securely dispose of all documents, information, data, and other materials (including copies) provided to E&Y by or on behalf of HSBC, which E&Y obtained from third parties, or which E&Y generated or prepared, or is in the process of generating or preparing, for this Agreement and the Services performed hereunder. Notwithstanding the foregoing, nothing in this Agreement shall require E&Y to return or dispose of documents in contravention of its document retention policy, applicable law or professional requirements.

Fees

HSBC shall compensate E&Y for the Services provided, which are based on the following hourly rates:

Level	
Partner/Principal/Director	
Senior Manager	
Manager	
Experienced Senior Advisor	
Senior Advisor	
Staff	

In addition, HSBC shall reimburse E&Y for direct expenses incurred in connection with the performance of the Services, including fees and expenses incurred by other third parties retained in connection with the performance of the Services. Direct expenses include reasonable and customary out-of-pocket expenses for items such as travel, meals, accommodations and other



expenses specifically related to this engagement. E&Y may receive rebates in connection with certain purchases, which are used to reduce overhead charges that E&Y would otherwise pass on to its clients. E&Y shall bill HSBC on a monthly basis for its fees and expenses as they are incurred. Payment is due upon receipt of E&Y's invoice.

The Law Firm will provide invoices to E&Y for its services and expenses at rates and in the manner to be specified in the engagement letter between the Law Firm and E&Y. The Law Firm shall provide a copy of such invoices to HSBC, and HSBC shall be solely responsible for their payment.

Any estimate of anticipated fees for Services that may be provided to HSBC prior to or during the course of the work is E&Y's best estimate of the effort that will be required to complete the Services based on the information available to E&Y at the time. Under no circumstances shall it be deemed a maximum fee or a fixed price.

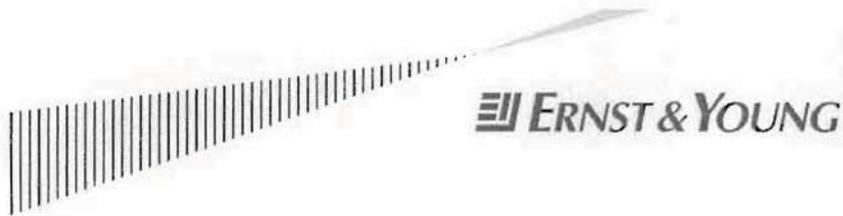
Other Matters

1. The scope of this Agreement does not constitute a rendering by E&Y or its partners, principals or staff of any legal advice, and because the Agreement is limited in nature and scope, HSBC agrees that it will not rely upon E&Y to discover all documents and other information or to provide all analyses that may have importance to this matter. Neither HSBC, nor any representative of HSBC, will hold E&Y responsible for any loss or liability that may result from the non-discovery of any matters that may otherwise have had an influence on E&Y's consultations with HSBC. E&Y personnel shall perform the Services pursuant to this Agreement as non-testifying advisors and not as expert witnesses. The Services are advisory in nature. E&Y will not render an assurance report or opinion under this Agreement, nor will the Services constitute an audit, review or examination or other form of attestation as those terms are defined by the AICPA; accordingly, because E&Y is not providing an assurance or other form of attestation engagement, the independence standards of the AICPA applicable to such an engagement shall not apply. None of the Services or any Reports will constitute any legal opinion or advice. We will not conduct our review to detect fraud or illegal acts. E&Y will perform the Services in accordance with applicable standards established by the AICPA.
2. We have reviewed our available records to determine whether potential conflicts might arise out of our performance of the Services. HSBC understands that the very nature, diversity, magnitude, and volume of E&Y and its past and present clients and professional relationships do not allow E&Y to be certain that each and every possible relationship or potential conflict has come to E&Y's attention. In the event that additional relationships or potential conflicts come to E&Y's attention, E&Y will promptly notify HSBC. E&Y agrees to abide by any court orders provided to E&Y in writing and signed by E&Y regarding confidentiality.
3. HSBC acknowledges and agrees that it will timely provide, or cause to be provided timely, to E&Y all data, information and resources reasonably required by E&Y in connection with the performance of the Services. All data and information provided to E&Y by HSBC, or on HSBC's behalf, shall be true, correct and complete in all material respects. E&Y may rely on data and information provided to E&Y by HSBC, or on HSBC's behalf and, unless otherwise agreed by the parties, E&Y will not evaluate, nor will it have any responsibility to verify independently the



accuracy or completeness thereof or the sufficiency of such data and information for HSBC's purposes. However, E&Y perform a limited assessment of the applicability of data and information used in the Foreclosure Review. To the extent necessary to enable E&Y to perform the Services, HSBC shall notify E&Y promptly in writing upon becoming aware of (A) changes in the status of the matters in connection with which the Services are provided, or (B) objections or issues with respect to the performance of the Services.

4. Notwithstanding the parties' agreement to arbitrate as set forth herein, E&Y acknowledges that money damages may not be a sufficient remedy for disclosure or misuse of Confidential Information and that, in the event of unauthorized disclosure or misuse of the Confidential Information received by or reviewed by E&Y, its employees or any person engaged by E&Y, HSBC may be entitled to seek injunctive or other equitable relief from a court of competent jurisdiction to enforce its rights with respect to the use or protection of Confidential Information.
5. Any controversy or claim arising out of or relating to Services covered by this Agreement (including any such matter involving any parent, subsidiary, affiliate, successor in interest, or agent of HSBC or E&Y, or involving any person or entity for whose benefit the Services in question are or were provided), shall be submitted first to voluntary mediation; if mediation is not successful, then to binding arbitration, in accordance with the dispute resolution procedures set forth in Appendix A to this letter. Judgment on any arbitration award may be entered in any court having jurisdiction.
6. This Agreement shall be governed by and interpreted according to the laws of the State of New York, without giving effect to the State of New York's choice of law or conflict of law provisions or principles.
7. In no event will E&Y and HSBC (or their respective subcontractors) be liable to the other (or to any affiliate of the other by, or in respect of which the Services may be performed) for any consequential, incidental, indirect, punitive or special damages (including loss of profits, data, business or good will) in connection with the performance of the Services or otherwise under this Agreement, whether or not liability is based on breach of contract, tort, strict liability, breach of warranty, failure of essential purpose or otherwise, and even if E&Y or HSBC, as appropriate, is advised of the likelihood of such damages.
8. To the fullest extent permitted by applicable law or regulation (including, for these purposes, the rules and interpretations of the U.S. Securities and Exchange Commission or other such regulatory bodies), the total aggregate liability of E&Y and its subcontractors (including, for this purpose, the Law Firm) to HSBC and its affiliates (and their respective successors and permitted assigns), regardless of whether such liability is based on breach of contract, negligence, tort, strict liability, breach of warranty, failure of essential purpose or otherwise, in connection with the performance of the Services or otherwise under this Agreement, shall be limited to the fees actually paid to E&Y or its subcontractors in respect of such Services, provided, however, that the foregoing shall not apply to limit E&Y's liability to the extent caused by its gross negligence or willful misconduct or a breach by E&Y of its confidentiality obligations under this Agreement.



9. Except as set forth in this Agreement, the Services and the information, records, data, advice or recommendations contained in any materials, opinions, presentations or other communications, written or otherwise, in draft or final form, provided by E&Y (collectively, "Reports") are intended solely for the information and use of HSBC. Except as otherwise set forth in this Agreement, and except as may be required by law, regulation, or judicial or administrative process, or in accordance with applicable professional standards, or in connection with a dispute arising hereunder, HSBC may not disclose, orally or in writing, any Report or any portion, abstract or summary thereof, or make any reference to E&Y in connection therewith, to any third party (other than the FRB) without obtaining (a) the prior written consent of E&Y, and (b) an executed access letter in a form substantially similar to Appendix B. If any person, entity, or regulatory authority (other than the FRB) seeks to obtain any material or information within HSBC's possession, custody or control concerning this Agreement, the applicable party shall promptly inform E&Y before taking any action or making any decision regarding the request, so that E&Y may seek to defend such disclosure. Notwithstanding the foregoing, E&Y acknowledges that the FRB is entitled, under either the terms of the Order or through the exercise of its power to examine HSBC, to review and obtain copies of the Reports and access to work papers supporting the Reports; therefore, HSBC and E&Y hereby commits to provide FRB examiners access to any and all E&Y work papers, including work papers prepared by the Law Firm, and all other information or documentation used or relied on by E&Y related to the Foreclosure Review upon request. Neither the prior written consent of E&Y nor an executed access letter in a form substantially similar to Appendix B will be required for the FRB to have access to such information, provided, that pursuant to 12 USC 1828(x), E&Y and HSBC shall not construe any such disclosure as waiving, destroying or otherwise affecting the coverage and protection of the work papers and Reports under the attorney-client privilege, attorney work product doctrine or any other applicable privileges or doctrines as described herein, and is further subject to all other applicable privileges afforded with regard to materials provided to the FRB. In addition, E&Y acknowledges that this Agreement will be provided to the FRB for review and is subject to their approval. Should this Agreement be disapproved by the FRB, the Agreement shall immediately terminate except that all confidentiality provisions of this Agreement shall survive any termination or expiration of this Agreement.
10. Adequate and appropriate controls will be in place to protect E&Y's work papers related to the Foreclosure Review, and to determine that the work papers' integrity is fully maintained and that no modification to source documents or finalized E&Y work papers occur, including segregation and separate maintenance of the Foreclosure Review work papers from all other documents not related to the Foreclosure Review. E&Y's work papers related to the Foreclosure Review will be maintained for at least the full period that HSBC would retain work papers under its own document retention policies and procedures.
11. You are responsible for determining whether the Services as set forth herein are sufficient to satisfy your needs with respect to the Order. You understand that E&Y cannot and does not provide any assurance that its work and findings will either support or contradict any particular position. E&Y will not render an attestation or assurance report or an attestation or assurance



opinion, as defined by professional standards under this Agreement, nor will the Services constitute (1) an audit, review or examination of financial statements in accordance with generally accepted auditing standards, or (2) an examination of prospective financial statements in accordance with standards established by the AICPA. None of the Services or any Reports will constitute any legal opinion or legal advice. In addition, it is not contemplated that any of the Services or any Reports will constitute a tax opinion or tax advice.

This Agreement is effective as of November 16, 2011. Please indicate your acceptance of the foregoing terms by signing below and returning a copy of the letter to me. We look forward to working with you.

Sincerely,

Ernst + Young LLP

Ernst & Young LLP

By:

Name:

Title:

Agreed to:

HSBC North America Holdings, Inc.

By: _____

Name: _____

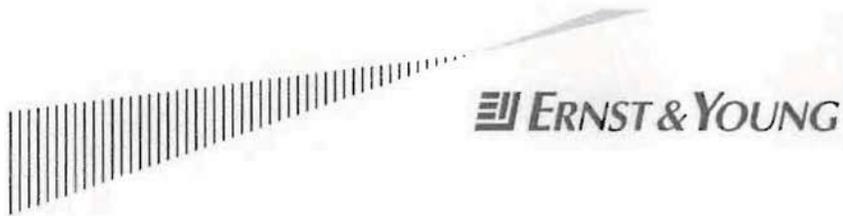
Title: _____

HSBC Finance Corporation

By: _____

Name: _____

Title: _____



APPENDIX A

DISPUTE RESOLUTION PROCEDURES

The following procedures shall be used to resolve any controversy or claim ("dispute") as provided in this Agreement other than claims that are purely for non-monetary injunctive or equitable relief. If any of these provisions are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and binding on the parties to the fullest extent permitted by law.

Mediation

A dispute shall be submitted to mediation by written notice to the other party or parties. The mediator shall be selected by agreement of the parties. If the parties cannot agree on a mediator, a mediator shall be designated by the CPR Institute for Dispute Resolution at the request of a party. Any mediator so designated must be acceptable to all parties and must confirm in writing that he or she is not, and will not become during the term of the mediation, an employee, partner, executive officer, director or substantial equity owner of any E&Y audit client.

The mediation shall be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with facilitation by the mediator, to reach an amicable resolution of the dispute. The mediation shall be treated as a settlement discussion and therefore shall be confidential. The mediator may not testify for either party in any later proceeding relating to the dispute. No recording or transcript shall be made of the mediation proceedings.

Each party shall bear its own costs in the mediation. The fees and expenses of the mediator shall be shared equally by the parties.

Arbitration

If a dispute has not been resolved within 90 days after the written notice beginning the mediation process (or a longer period, if the parties agree to extend the mediation), the mediation shall terminate and the dispute shall be settled by arbitration. In addition, if a party initiates litigation, arbitration, or other binding dispute resolution process without initiating mediation, or before the mediation process has terminated, an opposing party may deem the mediation requirement to have been waived and may proceed with arbitration.

The arbitration will be conducted in accordance with the procedures in this document and the Rules for Non-Administered Arbitration of the CPR Institute for Dispute Resolution ("Rules") as in effect on the date of the engagement letter, or such other rules and procedures as the parties may designate by mutual agreement. In the event of a conflict, the provisions of this Agreement will control.

The arbitration will be conducted before a panel of three arbitrators, two of whom are to be designated by the parties from the CPR Panels of Distinguished Neutrals using the screened selection process provided in the Rules. Any issue concerning the extent to which any dispute is subject to arbitration, or concerning the applicability, interpretation, or enforceability of these procedures, including any contention that all or part of these procedures are invalid or



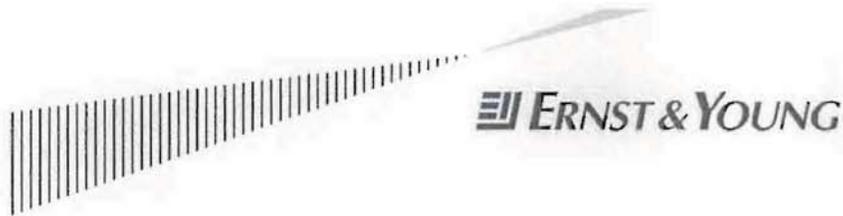
unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. No potential arbitrator shall be appointed unless he or she has agreed in writing to abide and be bound by these procedures and has confirmed in writing that he or she is not, and will not become during the term of the arbitration, an employee, partner, executive officer, director or substantial equity owner of any E&Y audit client.

The arbitration panel shall have no power to award non-monetary or equitable relief of any sort. It shall also have no power to award damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages, except as otherwise permitted under this Agreement. The parties expressly waive their right to such damages, and the arbitrators shall have no power to award them unless the foregoing waiver is invalid or unenforceable. The arbitration panel shall have no power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Discovery shall be permitted in connection with the arbitration only to the extent, if any, expressly authorized by the arbitration panel upon a showing of substantial need by the party seeking discovery.

All aspects of the arbitration shall be treated as confidential. The parties and the arbitration panel may disclose the existence, content or results of the arbitration only as provided in the Rules. Before making any such disclosure, a party shall give written notice to all other parties and shall afford such parties a reasonable opportunity to protect their interests, except to the extent such disclosure is necessary to comply with applicable law, regulatory requirements or professional standards.

The result of the arbitration will be binding on the parties, and judgment on the arbitration award may be entered in any court having jurisdiction.



APPENDIX B

THIRD-PARTY REPORT ACCESS LETTER

[Letterhead of E&Y]

[Date]

[Addressee Information]

Ladies and Gentlemen:

[INSERT FULL LEGAL NAME OF CLIENT] (the "Client") has informed Ernst & Young LLP ("E&Y") that it wishes to disclose to [INSERT FULL LEGAL NAME OF RECIPIENT] (the "Recipient") a copy of the findings and recommendations report(s)[, dated _____, 200_, [and _____, 200_, respectively]] [to be] prepared by E&Y (including all supporting schedules and analyses, the "Report(s)") in connection with the _____ services that E&Y [has provided][is providing] to the Client (the "Services").

E&Y [performed][is performing] the Services only for the Client. The Services [were not][are not being] undertaken on behalf of, or to serve the needs of, the Recipient.

The Services do not constitute (1) an audit, review or examination of financial statements in accordance with generally accepted auditing standards, (2) an examination of prospective financial statements in accordance with standards [established by the American Institute of Certified Public Accountants]¹ or (3) a review to detect fraud or illegal acts. [The Services do not include any procedures to test compliance with the laws or regulations of any jurisdiction.]²

E&Y [has prepared][will prepare] the Report(s) solely for the Client. The Report(s) address(es) only the issues identified by the Client and [is/are][will be] based solely on information obtained by the procedures specified for E&Y by the Client or otherwise [to be] provided by or on behalf of the Client. The Report(s) [is/are] [will be] subject to many limitations and [do/does][will] not provide

¹ If the Client is an "issuer" (as defined in PCAOB Rule 1001) or is otherwise following PCAOB standards, replace this bracketed language with the following: "of the U.S. Public Company Accounting Oversight Board ("PCAOB")".

² Consider if this sentence is applicable for the specific engagement and if so, retain and remove brackets.



any form of assurance with respect to any of the information discussed or referred to therein. E&Y has not placed any limitations on the Client's ability to disclose any contents of the Report(s) relating to the tax aspects or structure of any proposed transaction. The Recipient understands and accepts the scope and limitations of the Report(s). The Recipient has performed, or will perform, its own inquiries and procedures regarding the subject matter of the Report(s).

In addition, except (1) where compelled by legal process (of which the Recipient shall promptly notify E&Y and tender to E&Y, if E&Y so elects, the defense thereof), (2) with respect to any contents of the Report(s) relating to the tax treatment and tax structure of any transaction (including any facts that may be relevant to understanding the proposed tax treatment of any transaction), or (3) with E&Y's prior written consent, the Recipient will not circulate, quote, disclose or distribute [any of] the Report(s) or any information contained therein, or any summary or abstract thereof, or make any reference thereto, to anyone other than the Recipient's directors, officers or employees or legal advisors, who, in each case, need to know its contents for a valid business purpose of Recipient and who have agreed to be bound by the terms and conditions of this agreement to the same extent as Recipient.

The Recipient further agrees that it will not, and will not permit others to, quote or refer to the Report(s), any portion, summary or abstract thereof, or to E&Y, in any document filed or distributed in connection with (a) a purchase or sale of securities to which the United States or state securities laws ("Securities Laws") are applicable or (b) periodic reporting obligations under Securities Laws. The Recipient will not contend that any provisions of Securities Laws could invalidate any provision of this agreement.

In further consideration of E&Y allowing the Recipient access to the Report(s) and the information contained therein, the Recipient agrees that:

1. It does not acquire any rights against E&Y, and E&Y does not assume any duties or obligations to the Recipient or otherwise, as a result of, such access.
2. It will not rely on the Report(s) and will make no claim that it has done so.
3. It will make no claim against E&Y, its partners, employees or affiliates, or other members of the global Ernst & Young network (collectively, the "E&Y Parties") that relates in any way to the Report(s), any information contained therein, or the Recipient's access to the Report(s).
4. To the fullest extent permitted by applicable law, it will indemnify, defend and hold harmless the E&Y Parties from and against any claim or expense, including reasonable attorneys' fees, suffered or incurred by any E&Y Party relating to any breach by the Recipient of any of its representations or agreements contained herein or the use or disclosure of the Report(s) or any portion thereof by anyone who received it directly or indirectly from or at the request of the Recipient.

This letter shall be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and fully to be performed by residents thereof.



Very truly yours,

Ernst & Young LLP

Accepted by:

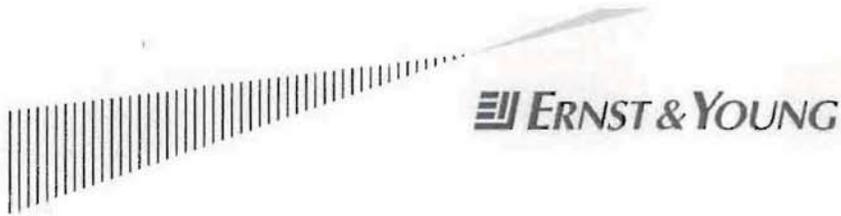
[FULL LEGAL NAME OF ADDRESSEE]

By: _____

Printed Name: _____

Title: _____

Date: _____



Appendix C

Foreclosure Review Methodology

I. Introduction

This Appendix C outlines the proposed methodology E&Y will use to perform the Foreclosure Review of certain residential foreclosure actions (the "Population") for loans serviced by the Mortgage Servicing Companies and loans serviced by the Mortgage Servicing Companies during the period January 1, 2009 through December 31, 2010 (the "Review Period"). The Foreclosure Review will be conducted pursuant to the Order, as well as in accordance with the Foreclosure Review Guidance. The objective of the Foreclosure Review is to identify borrowers whose loans were serviced by HSBC and who suffered financial injury from errors, misrepresentations or other deficiencies as set forth in the Orders that occurred during the course of foreclosure actions or proceedings, including foreclosures that were in process or completed during the Review Period. As required by Section (3) of the FRB Order, the Agreement and this Appendix shall be submitted to the FRB for approval. Capitalized terms not otherwise defined in this Appendix shall have the same meaning as set forth in the body of this Agreement.

II. Foreclosure Review Definitions and Assumptions

The following is a list of definitions for purposes of the Foreclosure Review and in accordance with the Order and Foreclosure Review Guidance.

Exception - Any errors, misrepresentations or other deficiencies identified in the Foreclosure Review on the part of a lender, servicer, or their agents which deviates from applicable law or other relevant requirements during the foreclosure process which did not result in financial injury (as defined below) to the borrower.

Error - Any errors, misrepresentations or other deficiencies identified in the Foreclosure Review on the part of a lender, servicer, or their agents which deviates from applicable law or other relevant requirements during the foreclosure process which resulted in financial injury (as defined below) to the borrower.

Financial Injury³ - The Order requires a determination of whether borrowers suffered financial injury. For this purpose, "financial injury" to the borrower or the mortgagee is defined as monetary harm directly caused by errors, misrepresentations or other

³ OCC and FRB Guidance - Financial Injury or Other Remediation - August 29, 2011

deficiencies identified in the Foreclosure Review. Monetary harm does not include physical injury, pain and suffering, emotional distress or other non-financial harm or financial injury that did not result as a direct consequence of errors, misrepresentations or other deficiencies identified in the Foreclosure Review. However, financial injury does include monies actually expended by the borrower or mortgagee that directly relate to the foreclosure action, proceeding, or sale and otherwise would not have been required but for the error, misrepresentation or other deficiency by the servicer identified in the Foreclosure Review.

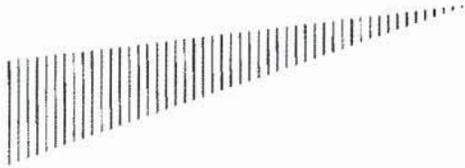
III. Summary of the Foreclosure Review Process

E&Y will execute the Foreclosure Review described herein with the Law Firm providing legal determinations as required by the Order. Specific testing will be driven by the requirements enumerated in Paragraphs (3)(a)(i)-(vii) of the Order.

The Foreclosure Review will include residential foreclosure actions or proceedings (including foreclosures that were in process or completed) for loans serviced by HSBC, whether bought in the name of HNAH, the Mortgage Servicing Companies, HSBC, the investor, the mortgage note holder, or any agent for the mortgage note holder (including MERS), that have been pending at any time from January 1, 2009 to December 31, 2010. The Foreclosure Review will encompass only foreclosure actions on owner occupied, 1-4 family units, first and junior lien loans, and will include a representation of foreclosure actions from each state in which such actions were conducted during the Review Period.

The Foreclosure Review will apply a two-pronged approach in an effort to increase the likelihood of identifying Financial Injury. The two approaches are: (1) a random statistical sampling of the Population and a risk based statistical sampling of certain segments of the Population; and, (2) a robust borrower outreach process for complaints. For the statistical sampling approach, a "core" sample will be selected by randomly selecting foreclosure actions from HSBC's [REDACTED] (described below) and increasing the sample size (if necessary) to include at least five foreclosure actions from each of the 50 states and the District of Columbia. Additionally, eight "higher-risk" segments of the Population have been identified that will be statistically sampled or, where required, a 100% review will be performed.

E&Y will expand the Foreclosure Review should a disproportionate level of statistical errors be identified within a segment or if a systemic pattern of Errors is identified. Prior to conducting any expanded review, EY will discuss and review with the FRB the initial



Foreclosure Review findings and its proposal for additional statistical sampling. The expanded file reviews will require separate FRB approval.

Testing will consist of either a comprehensive review designed to test all areas required by the Order of foreclosure actions contained in a segment (a "Comprehensive Review") or a targeted review designed to test specified characteristics of each foreclosure action in identified "higher-risk" segments (a "Targeted Review").

IV. Detailed Discussion of the Segment Review Process

1. Population & Servicing Platforms Populations

The portfolio of residential mortgages serviced by HSBC is maintained on two servicing platforms (the "Platforms"):

- [REDACTED] out of HSBC's [REDACTED] location.
- [REDACTED] out of HSBC's [REDACTED] and [REDACTED] locations.

Based on multiple interviews of HSBC officers and operations personnel and loan data systems due diligence performed by E&Y, the Population was identified by extracting data from the [REDACTED] [REDACTED] [REDACTED] [REDACTED] used by HSBC to manage the foreclosure process, and supplemented with data from HSBC's system of record ("SOR"). [REDACTED] allows both HSBC and its foreclosure attorneys to track critical dates, communicate, and transfer documentation during the foreclosure process.

Pursuant to the Consent Order, E&Y requested HSBC to extract data related to all foreclosure actions that were pending as of December 31, 2010 and all foreclosures actions completed in 2009 or 2010. HSBC communicated E&Y's request to [REDACTED] who provided HSBC a data extract with all foreclosure action referrals active as of December 31, 2010 and all referrals closed in 2009 or 2010. "Active as of 2009 and 2010" was defined as a foreclosure record with a null in the [REDACTED] Foreclosure Closed Date field (FCCloseDate) as of December 31, 2010 or a Foreclosure Closed Date between or on January 1, 2009 and December 31, 2010. E&Y later requested supplemental data fields pertaining to "higher risk" segments of the Population and data fields related to customer complaints, based upon FRB and OCC guidance (the "Supplemental Data Fields"). HSBC provided E&Y the Supplemental Data Fields which were extracted from the Platforms and



from its Enterprise-wide Complaints Tracking System ("ECTS"). E&Y imported all the data provided into a SQL database, combining the Initial Data Set and the Supplemental Data Fields to create a data set of relevant foreclosure population data ("Population Data"). The Population Data has been used by E&Y to segment the Population into foreclosure actions with similar attributes of interest and as the basis for selecting foreclosure actions for review as part of the Foreclosure Review.

HSBC and E&Y performed certain procedures designed to determine if the Initial Data Set is representative of the Population. HSBC personnel performed a comprehensive validation of the Initial Data Set before delivering it to E&Y. E&Y then conducted interviews and corresponded with HSBC personnel regarding the process used to identify the Initial Data Set and testing executed to assess the accuracy and completeness of the Initial Data Set. Additionally, E&Y reviewed documentation of the procedures HSBC executed to validation and reconcile the Initial Data Set.

HSBC assembled a Validation Team to assess the accuracy and completeness of the Initial Data Set and reconcile data fields to the Platforms. The team coded SAS programs to compare the data supplied by [REDACTED] to the Platforms maintained by HSBC Technology Systems and HSBC Corporate Information Management. SAS is a common statistical data analysis tool, used for data mining/retrieval, statistical analysis, data warehousing and reporting. A SAS program is a user built function designed to execute a specific set of instructions in order to output the desired result. The Validation Team held several formal team meetings to discuss methodology, review progress and their results. The programmers on the team cross-reviewed one another's SAS reconciliation programs and discussed the coding and functionality of each program, drawing on their experience working with the Platforms and datasets. Any discrepancies were compared between the Platforms and [REDACTED] in order to understand whether they were the result of programming errors or actual errors in the data provided by [REDACTED]

E&Y reviewed the HSBC Validation Team's reconciliation and data certification process memorandum, interviewed HSBC Validation Team members and reviewed documentation of the HSBC Validation Team's procedures related to the Initial Data set with the HSBC Validation Team members. E&Y's procedures included analyzing the procedures executed to identify and extract the Initial Data Set, and analyzing the reconciliation and data certification procedures performed by the HSBC Validation Team.

In addition to the Initial Data Set, E&Y requested Supplemental Data Fields pertaining to potentially "higher-risk" segments of the Population, including data related to owner occupancy, credit insurance, rescinded foreclosures, loan modifications, borrower delinquency, customer complaints and bankruptcies. EY consulted with HSBC personnel to



assist E&Y in determining the best fields for identifying foreclosure actions in the potentially "higher-risk" segments. As such, E&Y held several discussions with both HSBC operations and IT personnel regarding E&Y's requirements of each "higher-risk" segment. Upon receiving any Supplemental Data Fields from HSBC, E&Y compared the results to our expectations based upon our understanding of HSBC's business. Where the results were not consistent with our expectation, E&Y performed independent investigations in the Platforms, and consulted with the appropriate HSBC business operations and IT personnel to discuss the results and determine if alternative data fields should be used. Through these discussions and independent E&Y investigation of the HSBC Platforms, E&Y determined which data fields from the Platforms to use to identify each of the potentially "higher-risk" segments.

Additionally, E&Y assessed HSBC's procedures used to extract the Supplemental Data fields including scripts for accuracy and completeness, as well as logic and data sources. As part of this assessment, E&Y looked for any instances of data being excluded, or the program being written to only pull a specific section of the data. E&Y also assessed whether each set of Supplemental Data Fields included data extracted from each of HSBC's Platforms where appropriate.

In addition to the Supplemental Data fields provided from the Platforms, HSBC also provided to E&Y customer complaint data from ECTS regarding all customer complaints HSBC received during the Review Period related to its foreclosure practices or loan modifications. HSBC's ECTS codes customer complaints by "Reason" and "Sub-Reasons." E&Y received a list of all the "Reason" and "Sub-Reason" codes used in the ECTS, and consulted with HSBC business operations personnel to determine which "Reason" and "Sub-Reason" codes customer complaints related to HSBC's foreclosure practices and loan modifications fall under.

After the reconciliation, HSBC determined there were 103,825 foreclosures actions in the Population.

SCRA Verification

HSBC, under the supervision of E&Y, will request the Department of Defense's Defense Manpower Database Center ("DMDC") to provide the following information to determine if borrowers in the Population may have been eligible for protection under the Servicemembers Civil Relief Act ("SCRA"):

1. Was the borrower on active duty at origination of loan
2. Was the borrower on active duty at the start of the foreclosure action)

3. Was the borrower on active duty at the foreclosure sale date
4. Was the borrower on active duty at the foreclosure close date in instances where there was no foreclosure sale

The information gathered from the DMDC will be compared to HSBC's internal SCRA records and any additional borrowers determined to be potentially protected under SCRA while in active foreclosure will be added to the "higher-risk" SCRA segment defined below and reviewed.

2. Sampling Segments

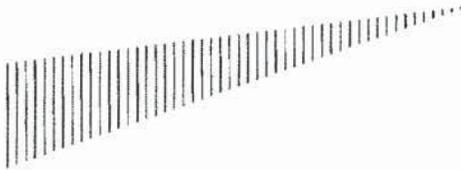
E&Y has developed a statistical sampling methodology to be used for the Foreclosure Review. The sampling methodology takes into consideration the need to provide a high degree of certainty that borrowers who experienced Financial Injury will be identified. In designing the sampling methodology to identify Financial Injury, it is helpful to segment foreclosure actions having similar characteristics or propensity for statistical sampling error. Keeping with the objective of the Foreclosure Review and the risk-based approach, "higher-risk" segments of the Population will be identified based on the risk that a borrower suffered Financial Injury as a result of any Error. In addition to reviewing each of the foreclosure actions in the core sample, each "higher-risk" segment will be reviewed by either, (1) a statistical sampling of foreclosure actions, or (2) a 100% review of foreclosure actions (collectively, the "Sampling Methodology").

Constructing Statistically Sound Samples for each Segment

When the Population or a segment of the Population is sampled with no additional stratification, it is a simple random sample. In simple random sampling without replacement, the sample selections are removed from the population and cannot be selected again. The probability of finding a particular number of statistical sampling errors in a given sample size is given by the hypergeometric distribution.⁴ The hypergeometric distribution⁵ is used to generate commonly used attribute sampling tables that provide the probability of finding one or more statistical sampling errors in a sample of a given size from a population of a particular size, under different statistical sampling population error assumptions. The same distribution is used to provide upper limits on the population's statistical sampling error rate conditional on finding a specified number of statistical

⁴ For a more complete discussion of the hypergeometric distribution, see, for example, Mood, Graybill, & Boes (1963), *Introduction to the Theory of Statistics*, McGraw-Hill, Inc. pp 86-93.

⁵ The hypergeometric distribution becomes intractable with larger samples and larger numbers of statistical sampling errors so close approximations are often used to generate tabled sample sizes and probabilities.



sampling errors in a sample of a given size. The hypergeometric distribution provides the sample sizes in the AICPA tables and the OCC Sampling Methodologies Comptroller's Handbook. Confidence or reliability refers to the level of confidence in the sample results. The higher the reliability level, the larger the sample needed to achieve the desired precision level. Precision reflects the tolerance for statistical sampling error; it is used to construct an interval or an upper limit on the estimated maximum error rate that could be in the population, given the number of statistical errors found in the sample.

Using the AICPA sample size tables and guidance found in the OCC Sampling Methodologies Comptroller's Handbook, a sample size of 100 foreclosure actions is needed to provide 95% reliability and 3% precision within a given segment. This means that 95% of the time the true unknown statistical sampling error rate will be within 3% of the statistical sampling error rate estimated from the sample, so if no statistical sampling errors are found in the sample, then the population error rate will be at most 3% with 95% confidence. If the statistical sampling error rate in the sample is 4%, the population error rate could be as low as 1% or as high as 7% with 95% confidence. The sample size is based on an assumption that no statistical sampling errors will be found in the sample. In attribute sampling where the estimate is a proportion or percent in error, the precision and error rate are related. As the error rate increases, the precision gets worse (i.e., has a larger value) for a fixed sample size. Thus it may be necessary to increase the sample size to maintain 3% precision if statistical sampling errors are found.

In selecting the sample, every foreclosure action in the Population will be given a random number which will be retained as a field in the data file. The Population will be sorted by the random numbers to place the action into a random order. The desired number of actions is selected by taking the first action and continuing along the randomly ordered file until the desired number is reached. If additional selections are needed to keep the precision at 3%, they can be made by going to the last selected action and continuing to select in the random order.

Selecting a sample size using 95% reliability and 3% precision is more rigorous than many industry and government standards. For example, the generally accepted practice for sampling is to use 90% or 95% confidence and 5% or even 10% or 20% precision. The OCC sampling guidance discusses 95% reliability (or confidence) and 5% precision; the IRS requires 95% confidence and 10% precision; and the Health and Human Services Office of the Inspector General requires 90% confidence and 20% precision.

In the case where statistical sampling error rates exceed the predicted precision rate, E&Y will expand the sample, after consultation with the FRB, to identify root causes so the



errors can be isolated and investigated. In some circumstances, the sample expansion could lead to a 100% review of a targeted segment of the Population.

3. Population Segmentation

The Population will initially be segmented by the following characteristics⁶ or attributes prior to applying the Sampling Methodology to each segment in order to have a more granular approach. Initial segments include:

Core Sample

1. *Foreclosure actions segmented by [REDACTED]* A core sample of a minimum of 100 foreclosure actions was obtained for the [REDACTED]. The core sample was then expanded to obtain a minimum of 5 foreclosure actions per state and the District of Columbia. We will perform a Comprehensive Review of each of the foreclosure actions selected in the core sample. Subject to FRB approval, E&Y may expand the sample for the segment if any systemic Errors or Exceptions are identified or if the statistical error exceeds planned precision levels.

Higher-risk Segments

1. *Foreclosure actions performed by attorney firms with: a high volume of actions, a terminated business relationship with HSBC or governmental agencies or significant audit findings by HSBC (the "High-risk Attorney Firms").* A list of 18 foreclosure attorney firms which fit the above criteria was identified by E&Y and HSBC⁷. Foreclosure actions in this segment are considered "higher-risk" due either to the volume of foreclosure actions

⁶ Certain segments have been identified based on FRB guidance. Data to identify some of the segments may not be reasonably available for HSBC (e.g. where fees were assessed to the borrower prior to delinquency which precipitated foreclosure). E&Y has identified segments where data is available from HSBC's system of record.

⁷ In order to identify foreclosure law firms with high volume, terminated relationships and significant deficiencies, E&Y performed the following procedures. High volume foreclosure law firms were determined by calculating the number of cases by law firm for the entire foreclosure lookback review population. E&Y selected the top five law firms by foreclosure volume for review. Terminated relationships were separated into two categories, relationships terminated by HSBC and investor designation changes by the GSEs. Seven relationships were terminated by HSBC as a result of audit findings. Four firms were terminated due to investor designation changes by the GSEs. Where significant deficiencies exist, HSBC has terminated the relationship and these law firms were included in the above category. HSBC Legal identified six additional law firms that did not meet the level of significant deficiencies, but there was some level of audit findings. E&Y performed internet searches on each of the six law firms. E&Y identified negative press for four of the law firms identified. Although no negative information was identified for the remaining two law firms, they were included within the segment due to the audit findings.



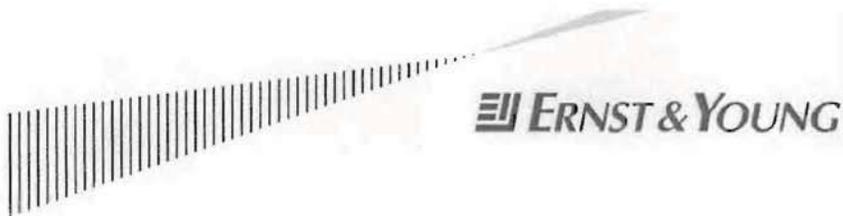
performed by the attorney firm or already identified deficiencies with the foreclosure process or the potential for deficiencies during the foreclosure process. There are a total of 33,793 foreclosure actions where a High-risk Attorney Firm performed the foreclosure action. E&Y will complete a Comprehensive Review of an aggregate sample of 2,103 foreclosure actions in the High-risk Attorney Firms segment. The sample of the High-risk Attorney Firms was selected to provide the appropriate sampling size to achieve 95% confidence with a 3% precision for each of the firms. Subject to FRB approval, E&Y will expand the sample for any firm if any systemic Errors are identified or if the statistical error exceeds planned precision levels.

2. *Foreclosure actions with borrowers who have a debt cancellation contract.* Foreclosure actions in this segment are considered "higher-risk" because of the risk that a foreclosure sale occurred while the borrower had a debt cancellation contract to possibly satisfy the outstanding note amount. There are a total of 7,619 foreclosure actions in this segment. E&Y will complete a Comprehensive Review of a minimum of 119 sampled foreclosure actions in this segment. Subject to FRB approval, E&Y will expand the sample for the segment if any systemic Errors are identified or if the statistical error exceeds planned precision levels.

3. *Rescinded foreclosure actions.* The foreclosure actions in this segment are considered "higher-risk" because a foreclosure sale occurred and was subsequently rescinded by HSBC due to a potential defect in the foreclosure process. There are a total of 1,138 foreclosure actions with a rescinded foreclosure action. E&Y will complete a Comprehensive Review of a minimum of 127 sampled foreclosure actions in this segment. Subject to FRB approval, E&Y will expand the sample for the segment if any systemic Errors are identified or if the statistical error exceeds planned precision levels.

4. *Foreclosure actions with complaints prior to outreach program cutoff⁸.* Foreclosure actions with complaints are considered "higher-risk" because a borrower has filed a complaint related to a loan that potentially had a defect(s) in the foreclosure or loan modification process. There are 1,284 foreclosure actions with a complaint related to loss mitigation or the foreclosure process. E&Y will complete a Comprehensive Review of 100% of the foreclosure actions for this segment.

⁸ Segment total currently includes complaints from January 1, 2009 through October 31, 2011. Complaints received after October 31, 2011 through the borrower outreach program will be included in Segment 4b, *Foreclosure actions with complaints subsequent to the beginning of the borrower outreach program.* Sample and population for Segment 4 amounts are shown net of 4a.



a. *Foreclosure actions with complaints referred to HSBC by state and Federal agencies prior to the borrower outreach program cutoff.* Foreclosure actions with complaints referred to HSBC from state or Federal agencies are considered "higher-risk" because a borrower has filed a complaint related to a loan modification or the foreclosure process through a state or Federal agency. There are a total of 695 foreclosure actions with a complaint via a state or Federal agency. E&Y will complete a Comprehensive Review of 100% of the foreclosure actions for this segment.

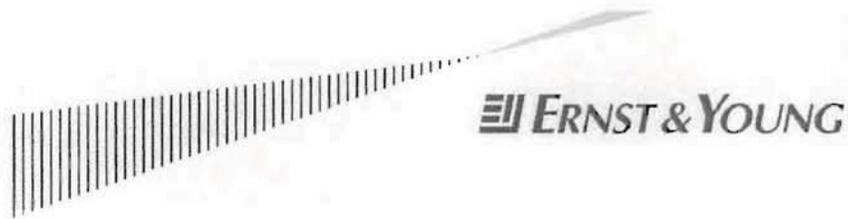
b. *Foreclosure actions with complaints subsequent to the beginning of the borrower outreach program.* E&Y will perform a Targeted Review of all specific customer complaints and a Comprehensive Review of all general customer complaints for 100% of the foreclosure actions where a complaint is filed in conjunction with the complaints intake process set forth in Section IX below.

5. *Foreclosure actions where the borrower's request to modify its mortgage was pending⁹ at the servicer without a decision at the time of the foreclosure sale.* Foreclosure actions in this segment are considered "higher-risk" due to the risk that a qualified borrower's loan modification application was not decided timely resulting in a foreclosure sale. E&Y identified foreclosure actions in this segment through data provided by HSBC including loan modification application date, modification application decision date (null), and a foreclosure sale date.¹⁰ There are a total of 399 foreclosure actions identified as potentially having a loan modification request pending at the servicer without a decision at the time of the foreclosure sale.¹¹ E&Y will complete Targeted Reviews of 100% of the foreclosure actions in this segment. Additionally, E&Y will review HSBC records to

⁹ FRB guidance defines a borrower's request for a loan modification pending if the servicer received from the borrower, as evidenced in such borrower's loan file, the borrower's: (a) W-2; (b) 4506-T; and, (c) hardship affidavit. The documents included in the FRB guidance are based upon HAMP loan modification documentation requirements, and are not applicable to HSBC's proprietary loan modification programs. HSBC's proprietary loan modification programs require from the borrower: (a) an application; (b) any one of a list of acceptable income verification documents, such as a W-2 form; and, (c) any one of a list of acceptable documents that verify permanent hardship, such as an affidavit of hardship (applicable for permanent loan modification requests only). For the purpose of this segment, E&Y defines pending loan modification requests based upon the documentation requirements of the applicable HSBC loan modification program which provide greater flexibility to borrowers than the HAMP requirements. The FRB has determined that the use of these criteria is consistent with its applicable guidance.

¹⁰ HSBC's systems do not otherwise allow for systemically determining the documents supplied by Borrowers in support of a loan modification application.

¹¹ Under the applicable HSBC proprietary loan modification programs, applications are declined if the borrower fails to provide the required documentation to HSBC within 60 days. E&Y has included in this segment foreclosure actions where HSBC's systems do not indicate a decision date and a foreclosure sale occurred less than 90 days following the borrower's loan modification application.



determine if the required documentation was provided by the borrower in time for consideration in situations where the loan modification denial is not reflected in HSBC's SOR and the foreclosure action occurred 90 days or more following the date of the loan modification application. All such files, if any, will be added to this segment and receive Targeted Reviews.

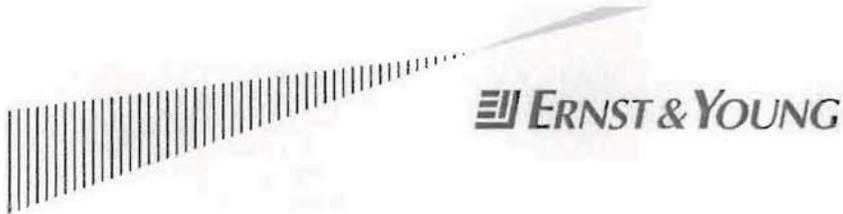
a. *Foreclosure actions where the borrower was current on all required payments pursuant to an approved loan modification at the time of the foreclosure initiation or sale.* Foreclosure actions in this segment are considered "higher-risk" due to the risk that the borrower was not in default or was performing on loan modification and was improperly foreclosed upon. There are a total of 416 foreclosure actions identified as having these characteristics in the Population data. E&Y will complete a Targeted Review of 100% of the foreclosure actions in this segment.

6. *Foreclosure actions where borrower was denied a modification at any point during the loan.* Foreclosure actions in this segment are considered "higher-risk" because of the potential that a borrower was improperly denied a loan modification. There are a total of 39,399 foreclosure actions in this segment. E&Y will complete a Comprehensive Review of a minimum of 127 sampled foreclosure actions in this segment. Subject to FRB approval, E&Y will expand the sample for the segment if any systemic Errors are identified or if the statistical error exceeds planned precision levels.

a. *Foreclosure actions where borrower was denied a HSBC modification and a foreclosure sale occurred.* Foreclosure actions in this segment are considered "higher-risk" because of the potential that a borrower was improperly denied a loan modification. There are a total of 12,631 foreclosure actions in this segment. E&Y will complete a Targeted Review of a minimum of 112 sampled foreclosure actions in this segment. Subject to FRB approval, E&Y will expand the sample for the segment if any systemic Errors are identified or if the statistical error exceeds planned precision levels.

7. *Foreclosure actions where the borrower was in active bankruptcy at any point during the foreclosure action.* Foreclosure actions in this segment are considered "higher-risk" due to the potential of non-compliance with federal bankruptcy requirements. There are a total of 36,594 actions with this characteristic in the Population data. E&Y will complete a Comprehensive Review of a minimum of 120 sampled foreclosure actions for this segment. Subject to FRB approval, E&Y will expand the sample for the segment if any systemic Errors are identified or if the statistical error exceeds planned precision levels.

a. *Foreclosure actions where a foreclosure sale occurred while the borrower was in active bankruptcy and prior to relief from stay being granted by the bankruptcy court.* Foreclosure



actions in this segment are considered "higher-risk" due to the potential of non-compliance with federal bankruptcy requirements. There are a total of 36 foreclosure actions in this segment. E&Y will complete a Comprehensive Review of 100% of the foreclosure actions in this segment.

b. *Foreclosure actions that were commenced at any time subsequent to the borrower filing for bankruptcy and prior to relief from stay being granted by the bankruptcy court.* Foreclosure actions in this segment are considered "higher-risk" due to the potential of non-compliance with federal bankruptcy requirements. There are a total of 2,430 foreclosure actions with these characteristics in the Population data. E&Y will complete a Comprehensive Review of 100% of the foreclosure actions in this segment.

8. *Foreclosure actions where HSBC or DMDC records indicate the borrower was subject to SCRA protection.* Foreclosure actions in this segment are considered "higher-risk" due to the potential of non-compliance with SCRA regulations. There are a total of 246 foreclosure actions where HSBC records indicate the borrower was subject to SCRA protection. Additionally, HSBC, under the supervision of E&Y, will submit to the DMDC all borrowers in the Population for batch processing to identify any borrower's who were on active military duty at specific dates of interest, including: loan origination; referral into foreclosure, and foreclosure close or foreclosure sale date. Any additional borrowers identified as potentially being subject to SCRA protection will be added to this segment. E&Y will complete a Comprehensive Review of 100% of the foreclosure actions in this segment.

HSBC does not believe the Population contains any foreclosure actions where fees were assessed to the borrower prior to delinquency which precipitated foreclosure. E&Y will perform testing procedures related to fees and penalties on each of the foreclosure actions receiving a Comprehensive Review. Should E&Y identify any systemic Errors resulting in foreclosure actions precipitated by fees and/or penalties assessed to the borrower prior to delinquency, E&Y will, subject to FRB approval, expand its sample to include a review of such foreclosure actions.

Below is a tabular representation of the Population segmentation. Because E&Y will select samples for each segment randomly, foreclosure actions may be selected in multiple segments. In these instances, the foreclosure action will be counted towards each applicable segment¹². Due to this possibility, the sum of segments population and sample size in the table may not tie to the total Population and sample size.

¹² The sample for each segment will selected randomly; however, due to the overlapping nature of the attributes used to segment the Population, foreclosure loans may selected for review in multiple segments. The table only shows the minimum number of foreclosure actions necessary to achieve 95% confidence with a 3% precision for each sampled segment.

Core Segments	Segment Sample	Segment Population	Sampling Technique	Loan File Review Process
1. Foreclosure actions segregated by Platform				
████	0	0	95%, 3%	Comprehensive Review
██████████	113	82,212	95%, 3%	Comprehensive Review
██	113	21,613	95%, 3%	Comprehensive Review
Supplemental Core Sample for State Coverage - Minimum 5 per State	142	N/a	N/a	N/a

Higher-risk Segments ¹³	Segment Sample	Segment Population	Sampling Technique	Loan File Review Process
1. Foreclosure actions for fourteen for high volume or high-risk foreclosure law firms				
Higher-Risk Law Firm #1	139	4,149	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #2	132	601	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #3	94	92	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #4	111	1,664	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #5	115	1,475	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #6	118	2,294	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #7	108	1,863	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #8	117	1,944	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #9	111	1,764	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #10	124	1,272	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #11	110	838	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #12	104	230	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #13	118	8,305	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #14	114	3,882	95%, 3%	Comprehensive Review

¹³ Segment sample counts represent foreclosure actions with the potential to have certain higher-risk attributes as identified in HSBC SOR data. However, due to potential HSBC SOR data inaccuracies or querying limitations, the sample counts do not represent the factual circumstances of individual borrowers.

Higher-risk Segments ¹³	Segment Sample	Segment Population	Sampling Technique	Loan File Review Process
Higher-Risk Law Firm #15	122	291	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #16	104	496	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #17	130	1,539	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #18	132	1,094	95%, 3%	Comprehensive Review
Higher-Risk Law Firm #19	-	-	95%, 3%	Comprehensive Review
2. Foreclosure actions with borrowers who have a debt cancellation contract	119	7,619	95%, 3%	Comprehensive Review
3. Rescinded foreclosure actions	127	1,138	95%, 3%	Comprehensive Review
4. Foreclosure actions with complaints prior to April 13, 2011	1,284	1,284	100%	Comprehensive Review
4a. Foreclosures complaints referred by state and Federal agencies	695	695	100%	Comprehensive Review
4b. Foreclosure actions with complaints subsequent borrower outreach program	N/A	N/A	100%	Comprehensive Review
5. Foreclosure actions where the borrower's request to modify its mortgage was pending at the servicer without a decision at the time of the foreclosure sale	399	399	100%	Targeted Review
5a. Foreclosure actions where the borrower was current on all required payments pursuant to an approved loan modification at the time of the foreclosure initiation or sale	416	416	100%	Targeted Review
6. Foreclosure actions where borrower was denied a HSBC proprietary modification at any point during the loan	127	39,399	95%, 3%	Comprehensive Review
6a. Foreclosure actions where borrower was denied a HSBC proprietary modification and a foreclosure sale occurred	112	12,631	95%, 3%	Targeted Review
7. Foreclosure actions where the borrower was in active bankruptcy at any point during the foreclosure process	120	36,594	95%, 3%	Comprehensive Review
7a. Foreclosure actions where a foreclosure sale occurred while the borrower was in active bankruptcy and prior to relief from stay being granted by the bankruptcy court	36	28	100%	Comprehensive Review
7b. Foreclosure actions that were commenced at any time subsequent to the borrower filing for bankruptcy and prior relief from stay being granted by the bankruptcy court	2,430	1,984	100%	Comprehensive Review
8. Foreclosure actions where HSBC or DMDC records indicate the borrower was subject to SCRA protection	246	246	100%	Comprehensive Review



4. Reviewing and Testing Foreclosure Actions from the Initial Samples

Review Methodology

The Order and Foreclosure Review Guidance specify the conditions under which, in the course of reviewing a foreclosure action, an Error or Exception may exist. The stipulations noted in the Order and the Foreclosure Review Guidance form the basis of the Foreclosure Review testing procedures with the objective of identifying borrowers whose loans were serviced by HSBC and who suffered financial injury from errors, misrepresentations or other deficiencies.

To identify and document any potential errors, misrepresentations or other deficiencies, E&Y will use a proprietary electronic file review platform in the form of a checklists customized for each state and the District of Columbia, (a "Checklist" or, collectively, the "Checklists"). The Checklists are designed to consider statutory requirements, all of the aforementioned Paragraph 3(a)(i)-(vii) review stipulations, and the Foreclosure Review Guidance.

As noted herein, E&Y has segmented the Population based on risk characteristics. In order to address each segment's risk characteristics, E&Y will test the selected foreclosure actions based on a review methodology customized for each segment's risk characteristics as well as criteria based on the legal interpretations provided by the Law Firm with respect to applicable statutory requirements. The testing programs will either be a Comprehensive Review of the foreclosure actions contained in the segment or a Targeted Review designed to test specific characteristics of each foreclosure action of a segment. Whether a segment will receive a Comprehensive Review or a Targeted Review will be determined based upon the specific risk characteristics of each segment.

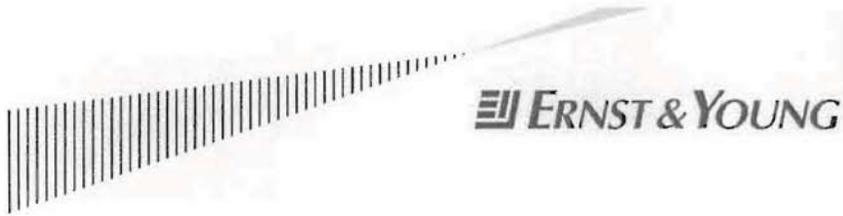
Comprehensive Review

A Comprehensive Review will test multiple areas of risk within a foreclosure action, where applicable, as identified by the Paragraph 3(a)(i)-(vii) stipulations in the Order. The Checklist has multiple test programs to address each area of risk. The tests include:

1. Ownership Testing - To test the right to foreclose, through agency or ownership of the promissory note and mortgage or deed of trust, and to test that the foreclosure was initiated by the proper party. In relation to the foreclosure action, this includes but is not limited to:



- a. Testing whether the foreclosing party had standing, through agency or ownership, to foreclose
 - b. Testing recordation of the note and mortgage
 - c. Testing endorsements or allonges
2. Federal and State Law Testing - To test whether the foreclosure was in compliance with applicable federal and state law, including SCRA and bankruptcy requirements. In relation to the foreclosure action, this includes but is not limited to:
- a. SCRA - Testing borrower eligibility for protection under SCRA
 - b. SCRA - Testing protection of servicemembers against default judgments
 - c. SCRA - Testing the interest rate on debts incurred prior to military service
 - d. SCRA - Testing whether a foreclosure sale occurred in violation of SCRA
 - e. Bankruptcy - Testing evidence of HSBC's knowledge of borrower bankruptcies
 - f. Bankruptcy - Testing whether motion of relief from automatic stay was granted
 - g. Bankruptcy - Testing whether the mortgaged property was abandoned
 - h. Bankruptcy - Testing whether any collection actions were taken against a borrowers subject to bankruptcy protection
3. Borrower's Delinquency - To test whether, at the time of foreclosure, the borrower(s) had been delinquent for the requisite period of time, including compliance with any applicable state law. In relation to the foreclosure action, this includes but is not limited to:
- a. Testing whether the borrower(s) was in default or not performing per the terms of Borrower's mortgage or loan modification at the commencement of foreclosure
 - b. Testing whether adequate notice of default or acceleration was provided in accordance with applicable law
 - c. Testing whether notice of the cure period and cure method was provided in accordance with applicable law
 - d. Testing whether the borrower was subject to foreclosure sale while performing under the terms of a loan modification



4. Fee Testing - To test the permissibility and reasonableness of fees or penalties charged to borrowers under the borrower's loan documents, applicable law and investor guidelines. See further discussion of the criteria for evaluating the reasonableness of fees and penalties below.

- a. Testing the accuracy of fees or penalties included in judgments compared to HSBC's SOR.
- b. Testing the permissibility of fees or penalties, including payments for escrow accounts or insurance placed on borrower accounts by the servicer, charged to borrowers compared to the terms of the borrower's loan documents, applicable state and federal law, or applicable servicer policies.
- c. Testing the frequency with which fees or penalties were charged to borrowers compared to the terms of the borrower's loan documents and applicable state and federal law, or applicable servicer policies.
- d. Testing the amount of fees or penalties charged to borrowers compared to any published, pre-established fee limitation or allowable amount for the service under the guidelines for the applicable government-sponsored enterprise investing in the loan or the government agency insuring the loan, or if there is no "applicable investor guide," the guide published by Fannie Mae or Freddie Mac that would apply if Fannie Mae or Freddie Mac were the investor.
- e. Testing documentation or HSBC SOR data supporting the actual performance of billed services.

5. Loss Mitigation Activity Testing - To test whether borrowers were denied modifications for which they qualified. In relation to the foreclosure action, this includes but is not limited to:

- a. Testing call notes for communication with borrowers regarding loan modification activities including missing documentation
- b. Testing documentation submitted by the borrower for consideration for loan modification
- c. Testing DTI and NPV calculations for accuracy
- d. Testing whether loan modification requests were handled in accordance with applicable policies

See the tabular presentation of segments above in Section 3, *Population Segmentation* for further identification of segments which will undergo a Comprehensive Review.



Targeted Review

Targeted Reviews will test specific characteristics of foreclosure actions in identified “higher-risk” segments. Tests include:

1. Complaints Testing - Targeted review of the issue(s) that is the subject of a specific complaint received through the borrower outreach program.
2. Loss Mitigation Activity Testing - See Loss Mitigation Activity Testing section above for further description of testing procedures.

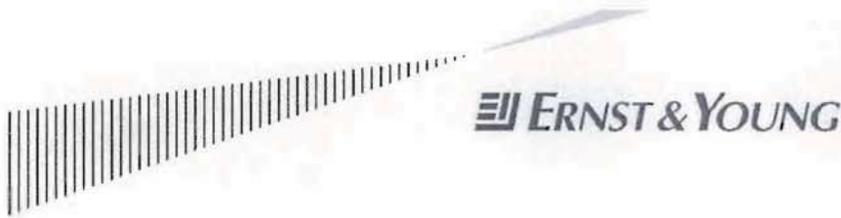
See Section 3, *Population Segmentation* for further identification of segments which will undergo a Targeted Review.

Where appropriate, E&Y may rely upon work performed during prior reviews of foreclosure actions that were prepared by internal audit, compliance or other qualified parties. An assessment of the quality of work performed and its applicability will be performed and documented by E&Y, which will perform a documented assessment of the quality and applicability of any such work relied upon. The Law Firm will provide legal advice, as requested.

Foreclosure Review Process & Workflow

The Foreclosure Review will consist of two main workstreams: (1) Document Collection and (2) the Foreclosure Review. The Foreclosure Review will consist of three sub-workstreams: (1) General Foreclosure (including SCRA and Bankruptcy); (2) Loss Mitigation; and, (3) Fees and Penalties. Additionally, the Foreclosure Review team will support the Foreclosure Complaints Review Process discussed in detail in Section IX.

The Document Collection workstream is responsible for obtaining data and documents, noted below in the *Information and Documents Under Review* section, from HSBC’s system of record and from the foreclosure attorney firms. E&Y will collect system of record data and documents from the various sources as available and compile the data into a composite file for review by the Foreclosure Review team.



The Foreclosure Review workstream is responsible for executing both Comprehensive and Targeted Reviews for all sample segments utilizing the Checklists. The Checklists will be completed initially by E&Y. The Law Firm will review the responses to all questions that E&Y identifies as exceptions, errors or other findings or observations which require a legal determination.

Both Comprehensive and Targeted Reviews consist of multiple levels of review by E&Y, and potentially the Law Firm. E&Y will perform a 1st level review of foreclosure actions by answering all applicable questions in the Checklist based on the status of the foreclosure action (i.e. in process versus sale completed) and the designated testing program (i.e. Comprehensive versus Targeted Review). The 1st level review will be followed by a 2nd level review, performed by more experienced E&Y personnel. After the 2nd level review, any foreclosure actions with a potential Error(s) will undergo a 3rd level review by senior level E&Y team members and legal interpretation by senior Law Firm team members. Additionally, a sample of foreclosure actions where no Errors or Exceptions are found will also undergo a 3rd level of quality assurance review by senior level E&Y team members to determine if the review procedures and testing programs are being applied correctly.

After a foreclosure action has passed through all appropriate levels of review and the review is complete, senior level Law Firm team members will make a determination if any Errors resulted in Financial Injury to the borrower.

Information and Documents Under Review

In performing a Comprehensive Review or Targeted Review as applicable, E&Y will analyze all applicable data as available, and the Law Firm will review all data relevant to its legal interpretation with respect to those findings that E&Y brings to the Law Firm's attention as requiring legal advice or interpretation, which may include:

System of Record Data and Loan and Foreclosure Documents to be Analyzed for Foreclosure Review

Mortgage

Note, with all endorsements/allonges

Screenshots and any imaged documents indicating whether loan is "High Cost"

Loan Modification Agreements

Assignments of Mortgage

Affidavits of Lost Mortgage/Lost Note

Screenshots of Loan History or Past Due Reports

Notice of Default

Screenshots and any imaged documents regarding a change of borrower's mailing address or address to send Notice of Default/Notice of Acceleration

Screen shots of judgment screen as of the date of execution of any Affidavit of Indebtedness ("AOI"), verified complaint, or similar document including debt figures

Screenshots and any imaged documents regarding borrower's waiver of Notice of Default/Notice of

System of Record Data and Loan and Foreclosure Documents to be Analyzed for Foreclosure Review**Acceleration**

Notice of Acceleration screenshots, imaged documents and certified mail return receipts

Foreclosure referral screenshot and any imaged documents from the referral package

Affidavit of Default

Screenshots and any imaged documents evidencing the identity of the owner or holder of the note at the time of the Foreclosure (including any custodial records)

Screenshots and any imaged documents evidencing the entity possessing the note at the time of the Foreclosure

Substitution of Trustee**Title Search**

SCRA screenshots and Department of Defense printouts

Complete Foreclosure File, including, but not limited to, the following items:

- Docket
- Complaint
- Lis Pendens
- Verification of Complaint
- Return of Process
- Borrower's Answer
- Borrower's Affirmative Defenses
- Borrower's Motion to Dismiss
- Borrower's Motion for Summary Judgment
- Plaintiff's Motion for Summary Judgment
- Affidavit of Indebtedness (AOI)
- Affidavit of Attorneys' Fees
- Affidavit of Reasonableness of Attorneys' Fees
- Judgment Figures
- Borrower's Response in Opposition to Summary Judgment
- Plaintiff's Response in Opposition to Motion for Summary Judgment
- Remediated AOI
- Motion for Summary Judgment Order
- Invoices from Foreclosure Firm
- Client documents
- Correspondence related to Foreclosure

Screenshots and any imaged documents of all fees and costs attributed to loan during Foreclosure

Notice of Foreclosure Sale and evidence of mailing/publishing Notice (including screenshots, any imaged documents and certified mail return receipts of the same)

Screenshots and any imaged documents related to requests for notice by third parties

Screenshots and imaged documents related to appraisals of the property

Confirmation of Sale**Certificate of Title****Payoff Statements****Bankruptcy docket and all pleadings**

Screenshots and imaged documents related to pursuit of an exception after Foreclosure Sale

Screenshots and imaged documents related to bidding at Foreclosure Sale

Reinstatement and Redemption Efforts (including screenshots and imaged documents)

Payment History

Plaintiff's Affidavit as to Post-Judgment Costs

Call Notes**Loss mitigation summary**

Screenshots and imaged documents/letters related to loss mitigation offers, acceptances and rejections

Screenshots and imaged documents/letters indicating whether borrower responded to loss

System of Record Data and Loan and Foreclosure Documents to be Analyzed for Foreclosure Review

mitigation attempts

Servicing Agreements related to loan

Repayment Agreements

Loan Modification/Repayment Applications

HAMP and HOPE documents (including screenshots and imaged documents related to the same), if applicable

Breach Letters and related certified mail receipts

Data Security Protocols

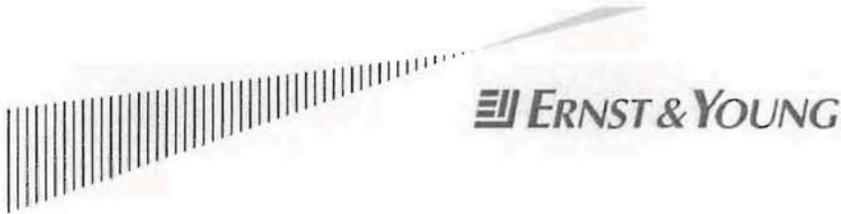
E&Y takes confidentiality very seriously, as it underscores our business model and everything we do for clients and the industry at large. We are professionally obligated to avoid disclosing confidential client information and personal data of our people, our individual clients, client personnel or third parties inappropriately.

It is in our professional responsibility to return or destroy, in a timely manner, confidential client information in our possession when it is no longer needed. We will not retain more confidential client or personal identifying information than we reasonably need or as appropriate to fulfill our professional obligations. We will not retain confidential client or personal identifying information in personal files when it is no longer needed.

All E&Y professionals are responsible for safeguarding confidential client and personal identifying information of all forms (e.g., client, personal, electronic, hard-copy) in our possession to prevent its loss or use by an unauthorized person. We take appropriate security measures when using, storing, transporting, and mailing confidential client and personal identifying information.

The data used during the Foreclosure Review will be from two main sources. The first source is HSBC's SOR data which will be extracted by the HSBC Technology & Services team from the primary loan servicing platforms: [REDACTED] and [REDACTED]. The second source of data consists of document images obtained from foreclosure files which will be extracted from the following imaging systems: [REDACTED], [REDACTED] and [REDACTED].

During the document collection phase of the Foreclosure Review, the E&Y review team will access HSBC's electronic document systems from within the HSBC network using HSBC terminals. The E&Y team will collect and store the required supporting documents from systems on HSBC's local area network ("LAN"). These documents will be used as reference in the Foreclosure Review but will not be transferred, loaded or stored to/within the E&Y loan file review tool.



The SOR data extracts will be transferred from the HSBC Technology & Services team via secure email to the E&Y review team. The original SOR extracts will be stored within the E&Y secured network until they are loaded into the loan file review tool's SQL database.

The E&Y loan file review tool resides within the firm's hosting environment. The environment and the applications and tools deployed in it are subject to our security certification process where they are reviewed by information security professionals prior to implementation. This is to confirm that the applications and tools have been developed in accordance with our information security policy and secure application development standards. The security certification process is recursive in nature and incorporates risk assessment, documentation reviews, penetration testing, and vulnerability assessments. The security certification process is applied to any application or tool used to create, store or manage information on the behalf of EY.

The following five control objectives apply to E&Y's hosting environment and have been subject to independent testing.

1. Logical Access controls to provide for logical access to system resources being restricted to properly authorized individuals.
 - Access for employees requires appropriately authorized
 - Administrative access is limited based on job responsibilities
 - Access rights are removed timely for separated employees
 - User access rights are periodically reviewed and challenged
 - Access requires users to authenticate with a unique user identification and password
 - Password composition rules have been implemented to include maximum password age, minimum password length, password complexity, account lockout threshold and duration
 - Remote access is encrypted through a 2-factor authentication mechanism
 - Firewall rules deny inappropriate traffic from the Internet
 - Direct administrative access to firewalls is limited to authorized personnel
2. Physical Security controls provide for physical access to the data centers being restricted to authorized personnel
 - Entry points are controlled by a card-key access control system
 - Entry and exit doors are alarmed and monitored
 - Entry to the data centers is logged and monitored
 - Access to the data centers is restricted to authorized personnel who require access due to their job responsibilities



- Access to the data centers requires approval by the Facilities manager
 - Access rights to the data center is removed timely for separated employees
 - User access rights to the data center are periodically reviewed and challenged
 - Visitors to the data center are escorted at all times
3. Change management controls provide for changes to production applications being authorized, tested, approved, and properly documented
 - Change requests are approved by appropriate IT management, and are tested and documented
 - Emergency change requests are approved by appropriate IT management, and are tested and documented
 - Changes are communicated to appropriate personnel
 4. Security monitoring controls provide for system security vulnerabilities being identified and unauthorized access attempts are detected in a timely manner.
 - An intrusion detection system (IDS) is installed to analyze network traffic for abnormal behavior, suspicious traffic patterns, and known vulnerabilities.
 - The IDS system is configured to alert appropriate personnel for investigation and resolution
 - Network vulnerability assessments are periodically performed
 - An anti-virus management process has been implemented
 - Any suspicious incidents will be logged
 5. Data backup controls provide for backups being performed in accordance with an authorized schedule
 - The ability to modify backup schedules is limited to authorized personnel
 - Backups of production data are configured to perform backups in accordance with requirements
 - Backups are monitored and verified that they are successfully performed
 - Backups are encrypted and periodically transported off-site to an approved 3rd party vendor

Criteria for Evaluating the Reasonableness of Fees and Penalties

HSBC uses the Fannie Mae servicing guidelines to determine what fees and penalties are recoverable from the borrower under various foreclosure scenarios (e.g. bankruptcy, REO, etc.). HSBC's disbursement department receives a list of fees and costs incurred while maintaining the property. The fees and penalties on the borrowers account are compared to the Fannie Mae guidelines and classified as recoverable or non-recoverable.



The Order requires a determination as to whether a delinquent borrower's account was charged fees or penalties that were not permissible under the terms of the borrower's loan documents, state or federal law, or were "otherwise unreasonable".¹⁴ Consistent with the objective of the Foreclosure Review, identification and remediation of borrowers who suffered Financial Injury as a result of errors, misrepresentations or other deficiencies, the evaluation of fees and penalties charged to borrowers will focus on foreclosure actions where the borrower paid fees or penalties that were impermissible, where proceeds from a foreclosure sale were used to pay fees or penalties that were impermissible, or where a deficiency judgment was obtained against the borrower that included fees or penalties that are impermissible.

5. Evaluating the Need for Expanded Review of Population Segments

The decision whether to conduct an expanded review in each segment will depend on whether the testing of the associated segment sample identifies one or more Errors.

Analytically, by virtue of the sample design, the absence of any Errors in a given segment sample will indicate, at a high level of reliability (95% or greater), that the incidence of Errors in the underlying Population segment is consistent with the initial hypothesis of being exceptionally low (i.e., zero).

E&Y recognizes that isolated events can cause Errors even in a generally statistically error free process. If Errors are found in a statistical sample of foreclosure actions in a sampled segment, the sample will be analyzed to identify the source of the Errors. If necessary, subject to FRB approval, an expanded sample of foreclosure actions will be reviewed to isolate the portion of the segment population where the Errors occur. Once the sub-segment with Errors is isolated, 100% of those foreclosure actions will be reviewed.

The table below summarizes the decision rule E&Y will apply in determining whether to conduct additional review based on the outcome of testing in each segment sample.

¹⁴ A fee or penalty is "otherwise unreasonable" if it was assessed: (a) for the purpose of protecting the secured party's interest in the mortgaged property, and the fee or penalty was assessed at a frequency or rate, was of a type or amount, or was for a purpose that was in fact not needed to protect the secured party's interest; (b) for services performed and the fee charged was substantially in excess of the fair market value of the service; (c) for services performed, and the services were not actually performed; or (d) at an amount or rate that exceeds what is customarily charged in the market for such a fee or penalty, and the mortgage instruments or other documents executed by the borrower did not disclose the amount or rate that the lender or servicer would charge for such a fee or penalty.

Decision Rule for Further File Review Based on Initial Sampling Results in Each Segment Sample:

Initial Sample Testing Outcome	Implication for Further Review
No Errors identified in tested segment sample	No further review of population segment
One or more Errors identified in tested segment sample	Expand sample size to accommodate the error rate, possibly including up to all files in the population segment, as needed. The expanded sample may also be expanded for a targeted review should a systemic Error be identified that requires review.

V. Data Systems

Loan Servicing Platforms

The loans are serviced on two platforms (the "Platforms"):

- o [REDACTED], out of HSBC's [REDACTED] location.
- o [REDACTED], out of HSBC's [REDACTED] and [REDACTED] locations.

See HSBC Servicing Platform Diagram below for a visual representation of the Platforms.

Document Management Systems

HSBC uses two main systems for managing/storing electronic document for loan servicing: [REDACTED] and [REDACTED]. [REDACTED] contains the electronic copies of collateral documents, e.g. notes and mortgages. [REDACTED] contains electronic copies of documents created during the foreclosure process, e.g. court filings, correspondence between HSBC and the foreclosure attorney firm.

HSBC Servicing Platform Diagram



Physical Location

HSBC's loan servicing IT operations are located in [REDACTED] and [REDACTED]. The [REDACTED] is hosted at the [REDACTED] location while the [REDACTED] and [REDACTED] are hosted in [REDACTED].

VI. Project Governance

A governance structure will be put in place at the project level to allow HSBC to address each element of Paragraphs 3 and 4 of the Order while maintaining confidentiality and privilege.

Independent Consultant Responsibilities: Perform Foreclosure Review as defined by the Order; provide project management support of the Foreclosure Review and certain other activities including:

- Develop sampling methodology
- Apply sampling methodology to foreclosure action population provided by HSBC
- Co-develop Checklists with the Law Firm and upload Checklists into E&Y's review tool
- Extract foreclosure file documents from HSBC imaging systems and data from HSBC's system of record for use during Foreclosure Review
- Conduct review of foreclosure actions and identify any aspects that require legal review and interpretation by the Law Firm
- Provide summary of results via a Foreclosure Review Report and maintain work papers to support the Foreclosure Review
- Provide Subject Matter Advisors (SMAs), as needed

Law Firm Responsibilities:

- Provide legal research related to federal, state and local laws impacting residential mortgage foreclosures
- Provide guidance and recommendations on Checklists used by E&Y to conduct the Foreclosure Review
- Conduct the legal review of the foreclosure actions that E&Y brings to the Law Firm's attention as requiring legal review and interpretation, as appropriate
- Draft and deliver Foreclosure Review Report of the legal analysis and findings required by the Order

HSBC Executive Committee: Executive sponsorship group consisting of the [REDACTED] [REDACTED] who collectively are responsible for HSBC's support of the Foreclosure Review project:

- Support cross-functional coordination
- Program level issue resolution

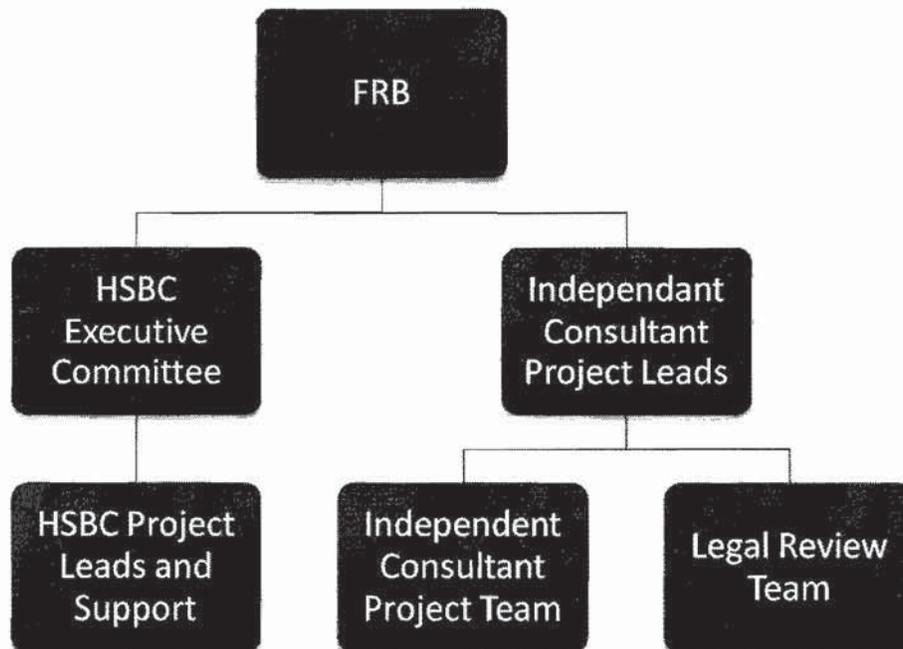
HSBC Project Leads: Overall HSBC Project Managers responsible for timely execution of HSBC support for the Foreclosure Review consistent with the requirements of the Orders, including:

- Acting as the primary business owner for day to day project matters
- Supporting key stakeholder involvement in the program
- Coordinating the HSBC project team with timely access to critical business subject matter experts (SMEs) and knowledge capital

HSBC Project Team: The business or functional leads who are responsible for the execution and success of the action steps to be performed by HSBC in connection with the Foreclosure Review, more specifically,

- Provide initial population of foreclosure actions during specified time period
- Support foreclosure file acquisition - system of record and files from foreclosure firms
- Support system of record access, as needed
- Assist in interpreting servicing file and system notes, codes, etc.
- Provide access to personnel, as needed
- Provide feedback to inquiries from the Law Firm and E&Y

The chart below depicts the governance structure described above:



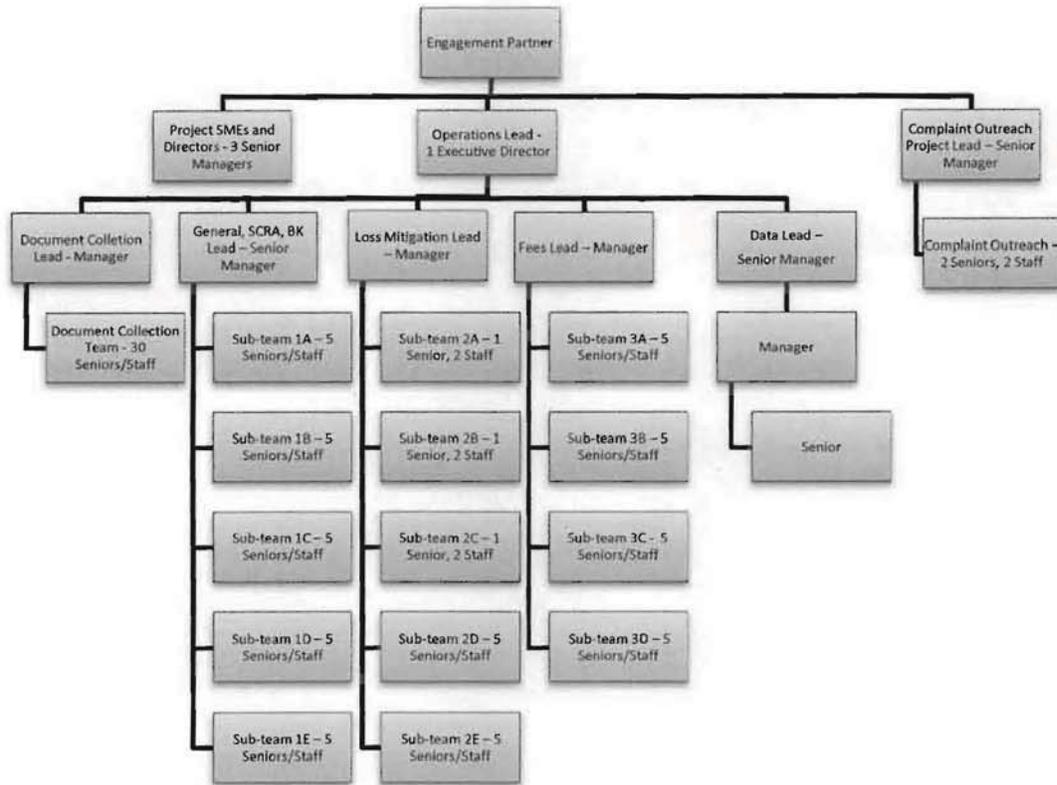


VII. E&Y Staffing and Expected Level of Effort

Staffing

The chart below depicts the E&Y proposed team structure estimated to be able support the review of approximately 10,000¹⁵ foreclosure actions, totaling approximately 100 E&Y document collection and review professionals. HSBC has also entered into a consent order with the Office of Comptroller of the Currency to perform a similar review of foreclosure actions within an entity related to HSBC Finance Corporation, HSBC Bank USA, N.A. ("HBUS"). The Foreclosure Review for HSBC Finance Corporation, the Foreclosure Review for HBUS, and the review of complaints from the borrower outreach program, will all occur concurrently and share some of the same resources to collect documents and perform reviews. Due to the sharing of resources and concurrent nature of the HBUS Foreclosure Review and the review of borrower complaints, EY will make a "best effort" to complete the HSBC Finance Corporation Foreclosure Review within the 120 day timeline specified by the Consent Order. As the scope of the Foreclosure Review of HBUS and response rate of the outreach program become clearer, EY will update the FRB and HSBC with estimated completion date for the Foreclosure Review and, as needed, a request for an extension of the Consent Order timeline.

¹⁵ All estimates are based on a sample population of 10,000 foreclosure actions and do not include expansion of the population to account for Errors or the borrower outreach program for complaints.



E&Y Roles and Responsibilities

Project Management:

1. Engagement Partner - E&Y Partner who provides project oversight, interfaces with HSBC leadership, delivers reporting to FRB and provides overall project quality assurance.
2. Project Subject Matter Advisors and Directors - Senior Managers and/or Partners, Principals or Executive Directors who provide project leadership, interface with FRB and HSBC personnel as necessary, deliver reporting to Engagement Partner, perform 3rd level review, identify areas for review by the Law Firm and provide oversight to all workstreams.
3. Operations Lead - Executive Director who will provide project leadership and manage project workflow.

Document Collection Team:

1. Document Collection Team - E&Y staff consultants who will compile file materials for this review based upon the itemized document checklist noted above.



Foreclosure Review Team:

1. Foreclosure Review Team Managers - Provide Foreclosure Review team leadership, interface with project leadership, deliver reporting to senior managers, provide 3rd level review, and identify areas for review by the Law Firm.
2. 2nd Level Reviewers - E&Y senior consultants who will perform a second review of the Checklist and escalate questions to the 3rd level reviewers.
3. 1st Level Reviewers - E&Y staff consultants who will perform the first level of the Foreclosure Review, populate the Checklist and escalate questions to the 2nd level reviewers, and perform second level review of document collection index.

Data Team:

1. Data Team Senior Manager - Leads deployment and customization of E&Y review tool, leads interactions with HSBC to plan for the data and imaged document upload.
2. Data Team Manager - supports all aspects of Data Team Senior Manager responsibilities
3. Data Team Associates - supports all aspects of Data Team Senior Manager responsibilities

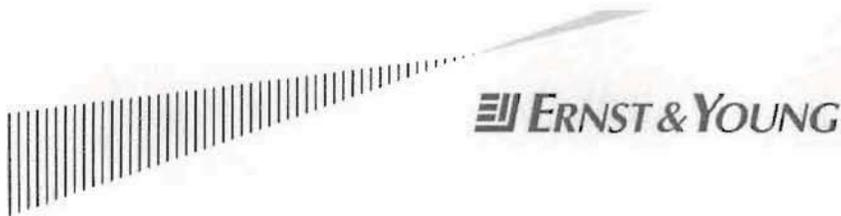
Complaints Outreach Team:

1. Complaints Outreach Team - E&Y senior manager, senior and staff consultants who will support E&Y's oversight and reporting on HSBC's foreclosure outreach and complaint review process. Complaints subject to reviews will be analyzed by the Foreclosure Review team based on the procedures set out below. At this preliminary stage, E&Y cannot estimate the number of complaint related foreclosure actions subject to Comprehensive or Targeted review. E&Y will augment the staffing mix to support the required level of effort in consultation with the Class Action Administrator ("CAA") and the Law Firm as described further in Section IX.

Expected Level of Effort - Initial Segments

As noted above, the FRB Foreclosure Review, OCC Foreclosure Review and borrower outreach complaints review will be performed concurrently using the same E&Y (and Law Firm) resources. The estimates provided below reflect the time to complete if all E&Y resources were dedicated solely to completion of the FRB Foreclosure Review.

Document Collection - We estimate it will take up to four hours to perform document collection for a Comprehensive Review and one hour to perform a document collection for a Targeted Review.



Based on a estimated total of 9,900 Comprehensive Reviews and 100 Targeted Reviews, it will take 29 weeks to complete the Document Collection with approximately 30 E&Y associates.

1st Level Review - We estimate it will take four to six hours to perform a Comprehensive Review and one hour to perform a Targeted Review. Based on an estimated total of 9,900 Comprehensive Reviews and 100 Targeted Reviews, it will take an additional 29 weeks to complete the 1st level review with approximately 50 E&Y associates.

2nd Level Review - We estimate it will take up to two hours to perform a Comprehensive Review and one half hour to perform a Targeted Review. Based on an estimated total of 9,900 Comprehensive Reviews and 100 Targeted Reviews, it will take 29 weeks to complete the 2nd level review with 20 E&Y associates.

3rd Level Review - The hours necessary to perform a third level review will vary based on the potential Error being analyzed. Additionally it is unknown how many foreclosure actions may require a third level review.

Attorney Review - The hours necessary to conduct the legal review of the foreclosure actions that E&Y brings to the Law Firm's attention as requiring legal review and interpretation will vary based on the potential Error being analyzed. Additionally, it is unknown how many foreclosure actions may require an attorney review.

Review Stage	Comprehensive Review Hours	Targeted Review Hours
Document Collection	4	1
1 st Level	4 - 6	1
2 nd Level	2	.5
Attorney Review	2	.5
Total	12 - 14	3

Expected Level of Effort - Expanded Segments

E&Y expects the total amount of hours required for a Comprehensive or Targeted Review of a foreclosure action in an expanded segment will be similar to the amount of time required to review a foreclosure action in the initial segments. See above estimate. However, due to the uncertainty of how many segments will require expansion of the sample based on Errors, it is impossible to predict the total number of hours required to perform the expanded segments.



Expected Level of Effort -Complaints

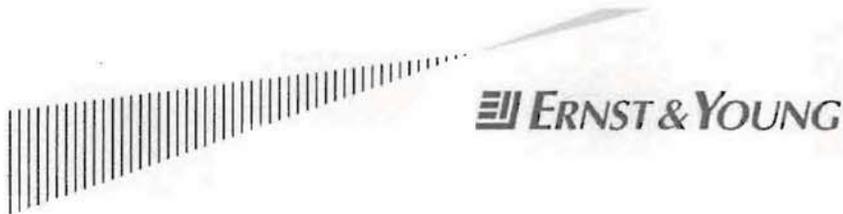
E&Y expects the total amount of hours required for the review of the borrower complaint segment will be similar to the amount of time required to review a foreclosure action in the initial segments. See above estimate. While a precise estimate is difficult to provide given the uncertainty of complaint intake volumes, if one assumes a 15% response rate from the Population of 103,825 the estimated complaint intake would be approximately 15,500 loans. The total level of effort across all levels of review is expected to be as follows:

- Targeted Reviews - 80% of 15,500 foreclosure actions (12,400 foreclosure actions) - 3 hours per foreclosure action; an additional 9 weeks using 100 E&Y reviewers
- Comprehensive Reviews - 20% of 15,500 foreclosure actions (3,100 foreclosure actions) - 14 hours per foreclosure action; an additional 10 weeks with 100 E&Y reviewers.

VIII. Foreclosure Review Timeline

ID	Requirement	Dates	Responsible Party
1	Pre scope and retention of IC		
1.1	Prepare draft methodology document and meet with FRB	Complete	E&Y
1.2	Identify foreclosure population and provide initial loan level data set	Complete	E&Y/HSBC
1.3	Develop statistical sampling approach options	Complete	E&Y
1.4	HSBC to state intent to retain the Consultant	Complete	HSBC
1.5	HSBC to submit Engagement Letter drafts to FRB	Complete	EY/HSBC
1.6	HSBC to submit revised Engagement Letter to FRB	November 15, 2011	EY/HSBC
1.7	FRB to approve Engagement Letter including sampling methodology and complaints process	November 16, 2011	FRB
2	Foreclosure Review Sampling	June 13, 2011 - November 15, 2011	
2.1	Develop draft sampling methodology and population segmentation	Complete	E&Y

ID	Requirement	Dates	Responsible Party
2.2	Finalize approved sampling methodology and segmentation	Complete	E&Y
2.3	Received final population data from HSBC for approved sampling methodology	Complete	E&Y
2.4	Apply methodology to population to create sample	Complete	E&Y
2.5	Finalize sample and segmentation	November 15, 2011	E&Y
3	Data Gathering & Document Collection	June 27, 2011 - TBD	
3.1	Pull System of record data- ongoing until all data collected	September 15 - TBD	EY/HSBC
3.2	Pull HSBC imaged foreclosure file documents- ongoing until all data collected	June 27, 2011 - TBD	E&Y
3.3	Request & obtain foreclosure law firm documents- ongoing until all data collected	August 1, 2011 - TBD	EY/HSBC
3.4	Update document checklists for each foreclosure file - ongoing until completed	August 1 - November 2011	E&Y/Law Firm
4	Preparing File Review Checklists	July 13, 2011- November 2011	
4.1	Law Firm to provide general comments on Checklist	August , 2011- September 30, 2011	E&Y
4.2	Law Firm to provide input on each state Checklist	August, 2011- November, 2011	E&Y
4.3	Approve Checklist for each state	August, 2011- November, 2011	Law Firm
5	Foreclosure File Review	October 1, 2011 - TBD	
5.1	Ascertain that loans have completed documentation - ongoing until all documents collected	October 1, 2011 - TBD	E&Y
5.2	Complete checklist based on available data - may extend given errors and increased sample	October 1, 2011 - TBD	E&Y
5.3	Perform legal review of matter referred for legal interpretation	October 1, 2011 - TBD	Law Firm
5.4	Expand sample size as needed- ongoing during review and post review, based on timeline	October 1, 2011 - TBD	E&Y
5.5	Complete File Review	TBD	E&Y
6	Draft Final Reports	Completed 30 days after completion of the FRB Foreclosure Review	
6.1	IC and Law Firm to provide the Reports to FRB	TBD	E&Y/Law Firm

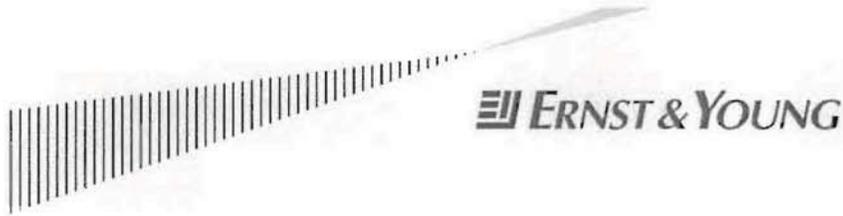


ID	Requirement	Dates	Responsible Party
7	HSBC to submit remediation plan to FRB	TBD	E&Y/HSBC
8	If applicable, HSBC to remediate/reimburse borrowers under the remediation plan.	TBD	HSBC

Timeline Assumptions and Risks

1. The estimated times reflect only the completion of the FRB Foreclosure Review and a sample size up to 10,000 foreclosure actions.
2. The scope of the FRB Foreclosure Review (and the concurrent OCC Foreclosure Review) will have a material impact on the estimated timeline.
3. The E&Y review of complaints received through the borrower outreach and intake process are not included in the estimate and will have a material impact on the estimated timeline.
4. Document gathering timeframes may be impacted by the following:
 - a. Ability to obtain documents from the foreclosure attorney firms. Many other servicers will be making similar requests for documentation to the same entities. HSBC is a mid-size servicer whereas many of the other servicers are large servicers that may receive more prompt responses from the various foreclosure attorney firms. This is outside of HSBC's control.
 - b. System down time at HSBC or the foreclosure attorney firms.
5. If excessive statistical errors are found during the Foreclosure Review, the following will be required:
 - a. The sample size will increase, subject to FRB approval, requiring new foreclosure actions to be selected and foreclosure file documents gathered.
 - b. HSBC or E&Y will then need to obtain (1) system of record data; (2) complete loan documentation (note, loan agreement, appraisal, other closing documents, etc.); and (3) the complete foreclosure files from foreclosure attorney firm
 - c. Follow up for missing documents, as needed
 - d. Update document checklist for new set of sample foreclosure actions
 - e. Assign to file reviewer
 - f. File review, including QC reviews

This may extend the effort per segment each time statistical errors are found and it is determined that the sample for such segment must be expanded.



IX. Foreclosure Complaints Review Process

As the Independent Consultant engaged to conduct the Foreclosure Review, E&Y will design, approve and supervise a process to address the complaints received from borrowers who believe that they have been financially harmed as a result of errors, misrepresentations, or other deficiencies associated with foreclosures pending or completed between January 1, 2009 and December 31, 2010 as described in the Order¹⁶ and Foreclosure Review Guidance. HSBC will participate in the formation and execution of various elements of the Foreclosure Complaints Review Process, which is explained in detail within this section. The complaints will be received through the Independent Foreclosure Review intake process.

Based on the September 29, 2011 Authorization to Commence Foreclosure Review and Complaints Process letter, all in-scope complaints received through the Foreclosure Review Complaints Process that are specific as to one or more of the errors, deficiencies, or misrepresentations encompassed by Paragraph 3(a)(i)-(vii) of the Order, as indicated by the borrower on the Request for Review ("RFR") form, will receive Targeted Reviews of the borrower's specific complaints. Borrowers making generalized complaints will receive a Comprehensive Review. As outlined in Section VII of this Appendix, E&Y and HSBC are anticipating a 15% response rate from borrowers in the Population who have a foreclosure related complaint.

E&Y and HSBC, as well as the other independent consultants and servicers subject to the Orders¹⁷, co-developed and customized a borrower outreach and complaint review process designed in consideration of the expectations communicated by the Orders and the Foreclosure Review Guidance. E&Y will oversee the entire Foreclosure Complaints Review Process, including evaluation of processes and system performance at peak volumes. E&Y will oversee complaint tracking and reconciliation throughout the Foreclosure Complaints Review Process including metrics on the number of complaints received, complaints determined to be out of scope and the reason, and tracking of the investigation of in-scope complaints. E&Y will review the reporting processes developed by HSBC and Rust Consulting for the reports detailing the complaints.

¹⁶ The scope of the foreclosure review includes foreclosure actions initiated or completed on owner-occupied (at the time of foreclosure), 1-4 family dwellings by divisions of the institution that process first lien and junior mortgage foreclosures.

¹⁷ Each of the servicers are subject to Consent Orders issued by either the Board of Governors of the Federal Reserve Board, the Office of the Comptroller of the Currency, or the Office of Thrift Supervision (collectively, the "Orders").



Rust Consulting (“Rust”), a class action administrator, will be primarily responsible for performing borrower outreach, complaint intake, and answering borrower inquiries. HSBC will be primarily responsible for research and any remediation of complaints. E&Y, as the Independent Consultant, will perform independent quality control procedures at each stage of the borrower outreach and complaints intake, screening, review and response processes.

The Law Firm has been retained by E&Y to advise on legal matters. E&Y will evaluate complaints at two points in the complaint review process: screening RFR forms to determine inclusion in the Foreclosure Complaints Review Process and in reviewing the results of the Independent Review and recommended remediation. E&Y, in consultation with the Law Firm, will have final decision making authority as to whether or not complaints are in/out of scope, and as to the results of the Independent Review. HSBC representatives will provide factual understanding and clarity as needed.

In order to achieve consistency in the approach and execution of the Foreclosure Complaints Review Process across the servicers operating under the Orders, a coordinated series of calls and meetings between the servicers and their respective ICs are being held and will continue through the duration of the Review. E&Y is represented on the Independent Consultant Oversight Committee, the committee responsible for providing oversight at the servicer consortium level to the outreach and intake process of the Independent Foreclosure Review.

A. Complaints Tracking and Documentation Database

HSBC will build and provide technical support for a customized complaints database (“Complaints Database”) to serve as the source of record for the Foreclosure Complaints Review Process. E&Y will oversee the development and ongoing execution of the Complaints Database by attending all planning calls, reviewing the planning documents, and providing input in the database development. E&Y will continue these measures during the course of the Foreclosure Complaints Review Process.

The database will house the complaint intake details, a summary of the investigation and remediation, the results of the IC review, and all correspondence with the borrower as a result of the complaint. Images of any documents submitted by the borrower including the RFR form and documentation of any complaint investigation conducted by HSBC will be housed in IAW.



The database will be designed to reflect the workflow of the complaints process and will be used to manage the workflow of the complaints. The database will allow for dynamic reporting including point in time status for any and all complaints, as well as aging of complaints.

Rust will be provided with the HSBC's Population in order to prepare the data for the direct mailing and use in complaints intake. The Population listing will specify whether the account is active or inactive. The account status will be used to determine the level of initial skip-tracing needed as well as prioritizing complaints as they are received. Complaints pertaining to accounts with a pending foreclosure date will be prioritized, followed by active accounts, and lastly inactive accounts.

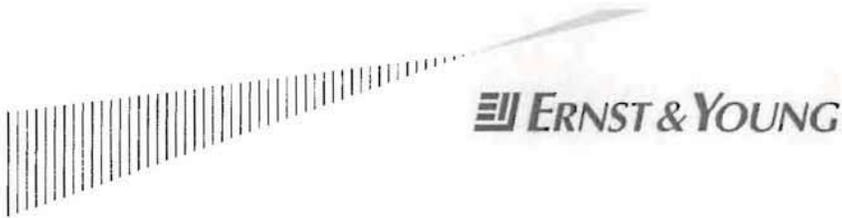
B. Borrower Outreach for Complaints Program

A communication and outreach plan has been developed to reach borrowers with foreclosures pending or completed between January 1, 2009 and December 31, 2010, known as the Population. Borrowers within the Population will receive written communication notifying them of the Foreclosure Complaints Review Process and providing them with the RFR form. The outreach efforts will be in collaboration with the other servicers and ICs in order to present a uniform, coherent and user-friendly complaint process. The name Independent Foreclosure Review has been adopted to communicate the impartial nature of the review effort and will be used for the coordinated outreach and intake effort. The outreach effort is subject to regulator input and IC supervision. The outreach plan includes a staggered mailing to borrowers followed by national media advertising.

All communication will specify that the Foreclosure Complaints Review Process pertains to borrowers with foreclosures pending or completed between January 1, 2009 and December 31, 2010 wishing to complain about their foreclosure proceedings on their primary residence and receive an independent review, and how to submit a complaint. All communication concerning the foreclosure complaints process will include a deadline for submitting the RFR by April 30, 2012. The final communication and outreach plan, and outreach materials were submitted for regulatory approval separately from this letter by the joint servicer consortium.

1. Direct Mail

A cover letter and RFR form will be mailed to the current known address of borrowers in the Population who were identified as owner-occupied at the time of mortgage origination. For borrowers whose account status is in active litigation at the time of the data feed to



Rust, reasonable efforts will be made to send the correspondence to the mailing address of the attorney that is systemically available. If no attorney address is systemically available, the correspondence will be sent to the borrower's mailing address.

HSBC maintains address data for borrowers, and these addresses will be used as the starting point for the direct mailing campaign. Prior to mailing, Rust will run the entire population of addresses through the National Change of Address (NCOA) database to identify the current mailing address of the borrower in the case that the borrower has changed their address without notifying HSBC. For borrowers whose account status indicates they are no longer at the mailing address on file, Rust will conduct skip tracing research. Rust will also be responsible for conducting secondary, targeted research on the current address of any borrowers for whom the direct mail is returned as undeliverable. The objective of the research efforts will be to reach as many borrowers in the Population as possible through direct mail, which will be facilitated through NCOA database research, address skip-tracing research and other secondary search procedures.

2. Website: www.IndependentForeclosureReview.com

The dedicated website, www.IndependentForeclosureReview.com, will provide borrowers with information on the dedicated toll-free phone number for assistance and a section with FAQs.

A search engine query of "Independent Foreclosure Review" will return the website. In addition, a paid search campaign will be run by the servicer consortium as part of the media campaign. Keyword search terms such as "foreclosure complaint form" and "HSBC foreclosure review" entered in internet search engines will display a link to the website in the paid search results. The paid search keyword campaign will be executed in conjunction with the servicer consortium media campaign.

3. Banner Ads

A banner ad will appear on the front page of the HSBC, Beneficial and HMS loan servicing websites. The banner ad will link to the Independent Foreclosure Review website.

4. Mass-media Advertisements

HSBC will participate in a mass-media advertising campaign developed by the servicer consortium media team. As currently contemplated, the advertising campaign will consist of print ads in national outlets such as *People*, *USA Weekend*, *TV Guide*, and the *Parade* Sunday newspaper insert. The ad will serve as notification that the Independent



Foreclosure Review is being conducted by independent third party consultants for borrowers subject to foreclosure actions between January 1, 2009 and December 31, 2010 on their primary residence. The ad will emphasize the need to file a RFR form in order to receive the review, the method to do so, the telephone hotline number for assistance and the deadline for submitting the complaint. The servicer consortium media team is developing the media campaign and will receive regulatory approval separately from this letter.

5. Housing Counseling Agencies

Announcement of the Foreclosure Complaint Review Process, the website and other information will be available to HUD-approved counseling agencies assisting borrowers with homeownership preservation. The servicer consortium media team is developing the outreach materials, a list of recipients and will receive regulatory approval separately from this letter.

6. Customer Inquiries

Rust will establish and maintain a dedicated toll-free phone number to answer questions concerning the Independent Foreclosure Review. The phone number will be listed on the website and all other outreach mediums. Servicer specific phone numbers will be listed on the RFR cover letter and RFR form. Rust will be provided with a Frequently Asked Questions (FAQs) script to assist with answering common questions. For questions or concerns outside of the Foreclosure Complaint Intake Process, Rust will provide the borrower with HSBC's customer service hotline.

E&Y will review the proposed script and FAQs to be used prior to implementation. Rust will conduct training to its representatives so that they are prepared to assist callers. As per usual business practices, Rust will record the calls received by the hotline. E&Y will review the recorded calls for quality and accuracy on a sample basis and communicate any discrepancies to Rust, HSBC, and the servicer consortium control room.

████████████████████ and ████████████████████ representatives will also receive training on the Independent Foreclosure Review so that they may appropriately refer and assist borrowers. E&Y will review and approve HSBC's training materials and quality control processes for the Foreclosure Complaints Review Process.



C. *Complaint Intake Form and Processing*

The RFR form will be provided in hard copy in the direct mailing campaign to the Population. The form will be pre-populated with the property address and loan number. Borrowers will complete the intake form and submit it to Rust as directed on the form and as repeated in all other communications. Rust will accept the intake form and any supporting documentation via a dedicated P.O. Box. The RFR form will be bar-coded to facilitate tracking of borrower correspondence.

Rust will review each RFR form for completeness. Incomplete forms will be returned to the borrower with a request for the missing information. The criteria for a complete intake form, as well as the template letter requesting the missing information, will be uniform for all servicers participating in the complaints intake process. As currently contemplated, criteria for a complete intake form is a signature. Responses to incomplete forms will be accepted for 30 days after the request for additional information is mailed or until April 30, 2012, whichever comes first. Rust will monitor and provide reporting on RFR forms received that lacked a signature as a part of the reporting on the status of all RFR forms received.

Rust will image all paper RFR forms and any supporting documentation submitted by the borrower upon receipt. A written acknowledgment of the receipt of the RFR form will be sent to the borrower by Rust within seven days of Rust's receipt. The acknowledgement letter template will be common across servicers and will receive regulatory approval.

The information provided on the RFR form will be recorded by Rust representatives. The RFR form consists of several questions concerning possible loss mitigation and foreclosure actions in order to identify the specific area(s) in which financial injury may have occurred. If the RFR form consists of affirmative answers to questions #2-12, the complaint will be considered targeted and will receive a Targeted Review.

As of the date of this Agreement, the website does not allow for the online submission of complaints. This functionality may exist in the future. If so, the borrower will enter identifying information such as loan number and tax identifier to validate they are part of the servicer's Population. If the borrower is not able to complete the form online they will be directed to call the hotline for assistance.

D. *Complaint Screening*

Individuals wishing to complete a RFR form may call the Rust hotline and receive a RFR form in the mail, even if they are not on the HSBC's original Population list. When



borrowers not on the original Population list submit a RFR, the HSBC reviewer will be responsible for researching the account in [REDACTED] and documenting screenshots of the results. The screenshots will include the search by loan number in [REDACTED] all foreclosure actions found for the loan, the foreclosure referral date for each foreclosure action, and the foreclosure close date field. The E&Y screener will review the documentation and make the final determination of whether the RFR is in-scope.

E&Y screeners will review complaints for which the RFR form does not clearly indicate the issue(s) to be reviewed. This includes RFR forms that do not answer affirmatively to any of the questions and that provide narrative information that does not specify an issue. In addition the E&Y will review the RFR form and supporting documentation provided by the borrower to determine:

- If the complaint is within the scope of the Foreclosure Complaints Review;
- Whether the complaint will result in a Targeted or Comprehensive Review;
- Whether additional information is needed from the borrower.

Those complaints determined to be out of scope will be addressed by the existing HSBC [REDACTED] and [REDACTED] teams, as appropriate. As currently contemplated, the borrower will be notified by mail by Rust that their complaint is not within the scope of the Independent Foreclosure Review and will be addressed by HSBC. In instances which additional information is needed from the borrower, Rust will send a letter to the borrower requesting the additional information. The request for additional information will follow the protocol detailed for incomplete intake forms above.

E. Complaint Research

Complaints which are not specific to a particular issue(s) will receive a Comprehensive Review.

Targeted, in-scope complaints research will be managed by a dedicated team of HSBC representatives and overseen by E&Y. HSBC representatives will be responsible for collecting data and documentation for each loan and providing that information to E&Y for the IC review. In order to collect the documentation necessary to review issues raised in borrower complaints, the HSBC representative will assign inquiries to business units using the Complaints Database. The protocols, which are largely an existing part of normal HSBC complaints processing, will be modified or supplemented to accommodate the particular features of the Foreclosure Complaints Review Process and related workflow. The business units contacted (e.g., Foreclosure) will respond to the inquiry with summary comments and store any documentation in [REDACTED]. Where appropriate, the business unit(s) may recommend remedial measures based on the results of their research.



Immediate remedial action steps may be made by HSBC, however E&Y will review the proposed and/or completed remedial measures and provide additional findings, as appropriate. Once all necessary information is obtained, the HSBC representative will update the Complaints Database to prompt the E&Y review.

E&Y will perform an independent review of the research process on a sample basis.

F. Independent Review

For those complaints which detail a specific issue(s), the RFR form, documents provided by the borrower, and documents collected in the research process will be provided to E&Y for a Targeted Review. The Targeted Review will be performed by E&Y, with the assistance of the Law Firm, for those areas of the Targeted Review Checklist relevant to the complaint to identify borrowers who suffered, or may have suffered, financial injury as defined in the OCC and FRB Guidance - Financial Injury or Other Remediation, issued on August 29, 2011. For Targeted Reviews, the complaint investigation and review will be limited solely to those issues raised in the complaint and determined to be within the scope of the Foreclosure Review Complaints Process.

The results of the Targeted Review Checklist, the response of the business unit and any proposed remediation actions, will be reviewed by E&Y, with input from the Law Firm, in order to identify findings and proposed recommendations for remediation as appropriate. A Comprehensive Review will be performed for those in-scope complaints which do not specify a particular issue and are general in nature.

E&Y will bring to the attention of the Law Firm possible errors, misrepresentations or other deficiencies it identifies as requiring legal interpretation regarding whether Errors or Exceptions exist. The Law Firm's legal determinations of whether a borrower has suffered or may suffer financial injury in a particular case shall be based upon the August 29, 2011 FRB Guidance on Financial Injury or Other Remediation, and E&Y's findings and the supporting information and documentation that E& Y brings to the Law Firm's attention as requiring legal interpretation. The Law Firm will provide a Final Report that will include its legal conclusions, including its legal determinations regarding financial injury, to each borrower who suffered, or may suffer financial injury in accordance with the August 29, 2011 FRB Guidance on Financial Injury or Other Remediation. E&Y's Final Report will present its findings and will quantify any financial injury and recommended remediation, based upon the Law Firm's corresponding legal determinations regarding financial injury, to each borrower who suffered, or may suffer financial injury in accordance with the August 29, 2011 FRB Guidance on Financial Injury or Other Remediation, only in so far as



quantification of financial injury and recommended remediation is possible based on the available information.

G. Complaint Response and Remediation

For complaints for which there are no E&Y findings as it relates to Financial Injury, a letter will be sent to the borrower by Rust indicating as such. The template for this letter will be drafted by the servicer consortium and submitted regulatory approval separately from this letter.

E&Y, with the assistance of the Law Firm and HSBC, will develop a remediation plan, which will be provided to FRB for prior approval. For those borrowers who have been found to have experienced Financial Injury pursuant to FRB guidelines, relevant HSBC business unit(s) will be notified by [REDACTED] and [REDACTED] representatives, and will execute the remediation according to the remediation plan. Upon completion of remediation steps, the relevant business unit(s) will notify [REDACTED] and the [REDACTED] and record the results in the Complaints Database. A response writer will draft a response which summarizes the complaint issues and their respective outcome with remedial measures, as appropriate. As currently contemplated, the approved response will be sent to the borrower by Rust.

H. Documentation and Reporting

[REDACTED] will house images of:

- The complaint intake form and any other documents sent by the borrower;
- Communication with the borrower concerning their complaint;
- Documentation compiled during complaint research;
- Documentation of remedial actions taken;
- All subsequent correspondence with the borrower relating to the complaint.

The Complaints Database will also record the detail provided on the RFR form and transmitted to HSBC by Rust. The documentation will be maintained per present HSBC business practices and in compliance with state and Federal regulations and guidance.

E&Y will report on the complaints received, complaints determined as out-of-scope, and related findings.



HSBC will provide E&Y with weekly updates on the remediation efforts and responses sent to borrowers. E&Y and HSBC will meet regularly to review the progress of the complaints review and to address any exceptions to the process and resolve issues as needed. HSBC will compile monthly reports, for review by E&Y and the appropriate regulators, with the following information:

- Number of complaints received;
- Type or Nature of complaint received;
- Number of complaints in-scope and out-of-scope;
- Number of complaints acknowledged;
- Number of complaints in process;
- Number of complaints not yet analyzed;
- Number of complaints responded to;
- Complaints' disposition;
- Number of complaints requiring remediation;
- Number of complaints remediated;
- Aging reports (as warranted); and
- Comments section to provide for other pertinent information.

Rust will be the source of record for reporting on RFR forms received, mailing conducted, hotline traffic and initial scope determination based on the Population list. The final determination of scope will be reported as well.

E&Y will not implement the communication and outreach plan, have contact with borrowers or community group representatives, or be responsible for addressing borrower complaints with borrowers.

Complete Complaints Review Process – Pg 1

DATA FEED/
AUTO-DECISION

MANUAL DECISION

OUT OF SCOPE and
SCREENING QUEUE

