

**Mortgage Enhancements  
HSBC North America Holdings, Inc.  
HSBC Finance Corporation  
Action Plan Response to FRB Consent Order  
Article 5 Single Point of Contact**

December 2, 2011

## Section 4: Single Point of Contact

### Article 5

<b>FRB Order Reference:</b>	Article 5	<b>Corresponding OCC Article:</b>	IX.1, IX.1.i, IX.1.ii
<p><i>Within 60 days of this Order, HBIO shall submit to the Reserve Bank an acceptable plan, along with a timeline for actions to be taken, for strengthening coordination of communications between the Mortgage Servicing Companies and borrowers, both oral and written, related to Loss Mitigation and foreclosure activities to ensure: (i) that communications are timely and effective, and are designed to avoid confusion to borrowers; (ii) continuity in the handling of borrowers' loan files during the Loss Mitigation and foreclosure processes by personnel knowledgeable about the borrower's situation; and (iii) that decisions concerning Loss Mitigation options or programs continue to be made and communicated in a timely fashion. Prior to submitting the plan, HBIO shall conduct a review to determine (i) whether processes involving past due mortgage loans or foreclosures overlap in such a way that they may impair or impede a borrower's efforts to effectively pursue a Loss Mitigation option or program, and (ii) that employee incentive compensation practices do not discourage Loss Mitigation. The plan shall, at a minimum, provide for:</i></p>			
<p><b>Action Plan</b></p> <p>HBIO and HBUS have developed a plan and timeline for actions to be taken, designed in accordance with the requirements of the Order and to ensure effective coordination of communications with borrowers, both oral and written, related to Loss Mitigation and foreclosure activities. As described below, the plan includes existing processes as enhanced by the development of the Single Point of Contact ("SPOC"). Further details regarding the plan related to SPOC are outlined below.</p> <p>This document begins with an introduction summarizing the new SPOC trigger events along with the current SPOC process as well as key facets of the customer outreach and modification process. Next, the SPOC-related articles are combined into one section which provides the complete view of the SPOC action plan to meet the requirements of the Order. Finally, the subsequent articles detail the action plans for non-SPOC specific Article requirements.</p> <p><i>SPOC Overview</i></p> <p><u>Future State of HBIO SPOC based upon FRB guidance received November 7, 2011</u>          HBIO will be revising policy and procedures to incorporate an additional trigger point at which a SPOC will be assigned. The policy will incorporate the three paths in which a borrower is assigned a SPOC agent. The three basic paths to enter into the SPOC program have been revised as set forth below:</p> <ul style="list-style-type: none"> <li>• in default, as soon as there is a successful communication between the borrower and the servicer about possible relief to address the borrower's</li> </ul>			

- delinquency (a trigger event in current SPOC operating model)
- not in default, if a request has been received for consideration of relief to address the borrower's anticipated or actual delinquency (a trigger event in current SPOC operating model)
- is determined pursuant to HSBC's written policies of imminent risk of default, which has been defined by HSBC as the date in which a breach event (defined as 75 days overdue with the exception of Massachusetts which is 45 days overdue) has occurred (future state enhancement to SPOC operating model).

### Current State

As detailed in the following articles, HBIO and HBUS implemented SPOC in July 2011 based on the initial FRB guidance. The SPOC assignment is based upon three trigger events:

- Borrower initiates an application for a Loss Mitigation alternative (can be verbal initiation)
- Borrower expresses interest in exit strategies, including short sale and deed-in-lieu, or
- The account is referred to foreclosure

Primary SPOC agent names and phone extensions were identified and included on introductory letters sent to borrowers who breached any one of the aforementioned trigger events. Borrowers have the ability to contact their Primary SPOC agent, and if not available, be able to contact a pool of Secondary SPOC agents. New guidance provided by the FRB on November 7, 2011 will require HBIO to revise the SPOC Program with the following enhancements:

- Accelerating the assignment of a SPOC from the time of referral to foreclosure to the time a borrower is classified as in Imminent Default (defined as when a breach event occurs)
- Resizing a secondary SPOC team to 10-20 people
- Expanding the population of letters to include collections, loan modification, and foreclosure letters
- Redefining the business model to include capacity model processes and the addition of SPOC involvement with the foreclosure review
- Revising policies, procedures and training

The additional guidance results in a significant increase in the number of SPOC eligible borrowers and increases in the timeframe required to ready procedures, processes and technology. Efforts underway to analyze the requirements for full SPOC readiness are as follows:

- Workshops scheduled for 12/6/11 and 12/7/11
- Draft Job Responsibilities completed 12/23/11
- Initial Business Requirements completed by 12/23/11
- Initial SPOC Workload review completed 12/23/11
- Analysis of initial business requirements completed 1/20/12

- Project Plan/Timelines completed on 1/20/12 which will contain task dates and resources to complete the following ensuring incorporation of the requirements of the FRB guidance:
  - Training requirements
  - Workload review
  - End to End process flow
  - Policies and Procedures
  - Collections, Loss Mitigation, and Foreclosure related communications with the borrower
  - Quality Review Procedures
  - Technology enhancements

The efforts noted above are discussed in more detail in Article 5(a).

### *Imminent Default*

As noted above, HBIO is adding an additional trigger event for SPOC assignment based on Imminent Default. HBIO has defined “Imminent Default” as the time a breach event has occurred based on the following:

- Modification programs are available to customers regardless of delinquency level
- Customer outreach program noted below, starting as early as 1 day delinquent
- Currently evaluates “Interest Only” and ARMS loans through current modification program

Breach is defined as the delinquency point where the Breach or Demand letter is sent to the borrower and occurs at 75 DOD (days overdue) with the exception of Massachusetts which is 45 DOD.

### *Customer Outreach*

HBIO and HBUS have processes involving past due mortgage loans or foreclosures that do not overlap in such a way that they may impair or impede a borrower’s efforts to effectively pursue a Loss Mitigation option or program, and employee incentive compensation practices that do not discourage Loss Mitigation. HBIO and HBUS follow applicable investor guidelines for investor owned loans serviced by each entity. Further details regarding these processes are outlined below.

HBIO and HBUS have a Call Strategy and a Letter Strategy used to reach out to borrowers. The Letter Strategy is designed to ensure notices delivered to borrowers are clear and conspicuous and are provided on a timely basis. Notices are intended to be easily understood, and plain language is used to convey messages in a way designed to be unambiguous. As noted on the timelines on pages 2 and 3 of the attached HBIO and HBUS Letter Strategy – 2011, HBUS accounts begin to receive written notifications when they are fifteen days delinquent while HBIO accounts begin to receive written notifications at ten days delinquent. Through notice and statement messaging campaigns soliciting Loss Mitigation, customers are encouraged to contact

HBUS and HBIO, as appropriate, to determine solutions that best fit the customer's current financial situation.

HBIO begins calling borrowers as early as 1 (one) day and HBUS begins calling borrowers as early as 3 days into delinquency as part of its Call Strategy. This strategy aims to establish contact with borrowers and explore repayment options (repayment plans, modifications, etc.) prior to an account entering foreclosure. As part of its proactive Call Strategy, HSBC reaches out to customers regarding loan modification supporting documentation that has not been received instead of waiting for customers to call HSBC; there is no minimum delinquency levels required to receive a loan modification.

Based on state laws and the account's stage of delinquency, daily target goals have been established for attempts to contact customers to find an alternative to foreclosure. State law restrictions and daily target goals are controlled systemically via dialers. For example, HSBC may not initiate contact with the customer by phone at their home more than twice in any seven (7) calendar day period or twice in any 30 calendar day period at any other location (in the state of Massachusetts). System pop ups provide reminders to the representatives and call monitoring assists in the evaluation of compliance with state laws. Please reference pages 2-13 of the attached State Collection Loss Mitigation Requirements Procedures ALL for more information related to specific state-level requirements. This procedure is housed in [REDACTED] ([REDACTED]) and accessible to the all Default Servicing representatives. This procedure provides written guidelines for real estate and non-real estate accounts regarding adherence to specific state regulations.

The following table provides daily target goals for customer attempts by days of delinquency (DOD) ranges.

DOD Range	Daily target goal for customer attempts **		
	HMC	HMS	CL (CII and MS)
1 – 29	200%	400%	400%
30 – 59	200%	500%	350%
60 – 119	200%	200%	350%
120 +	200%	150%	150%

\*\*Goals subject to change based on Collections strategy

*Prohibition of “Dual Tracking”*

HBIO and HBUS do not practice “dual tracking” – processing a loan for foreclosure while it is under a performing loan modification. In order to avoid this practice, HBIO

and HBUS have systems and workflows that allow multiple groups to see decisions regarding borrower modifications. Systemic controls are in place to remove loans from the foreclosure process that are ineligible for foreclosure, including those that have been approved for a modification. Additionally, a dedicated Foreclosure Review Group is in place to conduct an account review before referring an account to foreclosure. Refer to SPOC Responsibilities section below in Article 5(a) for additional detail on the Foreclosure Review Group, as well as the planned enhancements for SPOC.

### *Modification Availability*

Modification programs are available to customers regardless of delinquency level, and late charges are not assessed during a modification trial period. Negotiated reduced interest rates are fixed during a modification period. Customers who fail to remit payments in accordance with their modification will be in default and subject to all normal collection practices.

For additional modification information and statistics, please see page 2 and 3 of the attached CONSUMER & MORTGAGE LENDING MODIFICATION AND RE-AGE FLASH REPORT MAY 2011 document.

Employee compensation plans do not discourage Loss Mitigation. Collection agents' incentive compensation is based on cash collection and curing customer delinquency. This approach ensures that agents are incented on working with the customers to cure delinquency by offering Loss Mitigation options such as loan modifications. The existing plan will be enhanced for SPOC which will include, but is not limited to, metrics such as issues resolved, average time to resolve issues, customer satisfaction, and quality metrics (e.g., Resolution Rate per Inquiry, Customer Satisfaction Score, Resolution Time per Inquiry, etc.). Additionally, there is no employee incentive compensation for initiating a foreclosure. The employee compensation structure is reviewed and approved by Compliance, Legal, Risk, and Residential Mortgage Loan Servicing management.

To support the requirements received by the FRB on November 2011, HBIO will finalize and approve the SPOC process flow and business requirements, including but not limited to assignment of SPOC process, SPOC agent workload, and new training materials by December 23, 2011. The Project Plan/Timeline will be revised by January 20, 2012, incorporating the dates from the various functional teams based on the business requirements, which will detail both process and technology enhancements to meet the requirements of the FRB guidance. Please see page 1 of the SPOC Overview\_Future State for a high level flow of the SPOC process. Additionally, the attached HSBC Single Point of Contact (SPOC) Program Overview and Process Flow is provided for informational purposes only which provides the initial overview of SPOC which is being utilized in the current state, however is not updated with the FRB guidance received November 7, 2011.

An analysis has been completed to identify existing processes that address requirements of the Order and areas requiring further enhancement. Residential Mortgage Loan Servicing management conducted the analysis by evaluating the existing policies, procedures and processes in comparison to the requirements of the Order to identify what existing processes address the requirements and what enhancements will be necessary. The results of this analysis include, without limitation, the following:

Existing Processes	Required Enhancements
<ul style="list-style-type: none"> <li>• Processes to ensure that Loss Mitigation and foreclosure activities do not overlap, impair, or impede a borrower’s efforts to effectively pursue a loan modification</li> <li>• Compensation practices that do not discourage loss mitigation or loan modifications</li> <li>• Providing borrowers with decisions on Loss Mitigation options.</li> <li>• SPOC introductory letters were implemented in July 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Developing an operating model to include a SPOC that will provide continuity and assistance to customers from imminent risk of default throughout Loss Mitigation and foreclosure processing.</li> <li>• Enhancing written communication to include instructions to the borrower for obtaining and contacting a primary or secondary SPOC</li> <li>• Enhancing foreclosure proceedings to include SPOC signoff requirements</li> <li>• Enhancing quality assurance to audit and review SPOC processes and policies to ensure alignment with requirements</li> <li>• Developing and enhancing training for SPOC to include the complaints process</li> <li>• Completing a detailed analysis on the SPOC Program based upon new FRB guidance received November 7, 2011.</li> </ul>

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

- CONSUMER & MORTGAGE LENDING MODIFICATION AND RE-AGE FLASH REPORT MAY 2011
- HBIO and HBUS Letter Strategy – 2011
- HSBC Single Point of Contact (SPOC) Program Overview and Process Flow

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



- SPOC Overview\_Future State
- State Collection Loss Mitigation Requirements Procedures All

**Key HSBC Contacts for the Action Plan**

- [REDACTED] SVP Default Services, Mortgage Servicing
- [REDACTED] SVP Default Services
- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO



**Articles 5(a), 5(c), 5(d), 5(e), 5(f), 5(g), 5(h), 5(i), 10(d).iii, & 10(d).iv**

<b>FRB Order Reference:</b>	<i>Article 5(a)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.a</i>
<i>Measures to ensure that staff processing a borrower's Loss Mitigation request routinely communicates and coordinates with staff processing the foreclosure on the borrower's property;</i>			
<b>FRB Order Reference:</b>	<i>Article 5(c)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.c</i>
<i>establishment of an accessible and reliable single point of contact for the borrower so that the borrower has access to an employee of the Mortgage Servicing Companies to obtain information throughout the Loss Mitigation and foreclosure processes;</i>			
<b>FRB Order Reference:</b>	<i>Article 5(d)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.d</i>
<i>a requirement that written communications with the borrower identify by name the primary single point of contact along with one or more direct means of communication with the primary single point of contact, together with information about secondary points of contact in the event that the primary single point of contact is unavailable;</i>			
<b>FRB Order Reference:</b>	<i>Article 5(e)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.e</i>
<i>measures to ensure that the single point of contact has access to current information and personnel (in-house or third-party) sufficient to timely, accurately, and adequately inform the borrower of the current status of the Loss Mitigation and foreclosure activities;</i>			
<b>FRB Order Reference:</b>	<i>Article 5(f)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.g</i>
<i>procedures and controls to ensure that a final decision regarding a borrower's Loss Mitigation request (whether on a trial or permanent basis) is made and communicated to the borrower in writing, including the reason(s) why the borrower did not qualify for the trial or permanent modification and, if applicable, the net present value calculations utilized by the Mortgage Servicing Companies, and that involve the single point of contact within a reasonable time before any foreclosure sale occurs;</i>			
<b>FRB Order Reference:</b>	<i>Article 5(g)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.h</i>
<i>Procedures and controls to ensure that when the borrower's loan has been approved for modification on a trial or permanent basis, (i) no foreclosure or further legal action predicate to foreclosure occurs, unless the borrower is past due on two or more payments post-dating the trial or permanent modification; and (ii) the single point of contact remains available to the borrower and continues to be referenced on all written communications with the borrower.</i>			
<b>FRB Order Reference:</b>	<i>Article 5(h)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.i</i>
<i>policies and procedures to enable borrowers to make complaints regarding the Loss Mitigation process, denial of Loss Mitigation requests, the foreclosure process, or</i>			

<i>foreclosure activities that prevent a borrower from pursuing Loss Mitigation options, and a process for making borrowers aware of the complaint procedures;</i>			
<b>FRB Order Reference:</b>	<i>Article 5(i)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.j</i>
<i>procedures for the prompt review, escalation, and resolution of borrower complaints, including a process to communicate the results of the review to the borrower on a timely basis;</i>			
<b>FRB Order Reference:</b>	<i>Article 10(d).iii</i>	<b>Corresponding OCC Article:</b>	<i>VIII.1b.iii</i>
<i>Ensure that the Loss Mitigation and foreclosure staffs have sufficient and timely access to information provided by the borrower regarding Loss Mitigation and foreclosure activities</i>			
<b>FRB Order Reference:</b>	<i>Article 10(d).iv</i>	<b>Corresponding OCC Article:</b>	<i>VIII.1b.iii</i>
<i>Ensure that the single point of contact has sufficient and timely access to information provided by the borrower regarding Loss Mitigation and foreclosure activities.</i>			
<b>Action Plan</b>			
<p>HBIO and HBUS have established an accessible and reliable SPOC unit, which is in accordance with the requirements of Article 5(c), for the borrower so that the borrower has access to an employee of the Mortgage Servicing Companies or the Bank as appropriate to obtain information throughout the Loss Mitigation and foreclosure processes (including Deed in Lieu and Short Sale).</p> <p>Additionally, HBIO and HBUS have existing processes to ensure that staff processing a borrower's Loss Mitigation request communicates and coordinates with staff processing the foreclosure on the borrower's property to ensure that when the borrower's loan has been approved for modification on a trial or permanent basis no foreclosure or further legal action predicate to foreclosure occurs, unless the borrower is past due on two or more payments post-dating the trial or permanent modification. Additionally, HBIO and HBUS have processes to ensure that the SPOC remains available to the borrower and continues to be referenced on written communications with the borrower. Processes are also in place to ensure that the borrower has a SPOC agent from loss mitigation through foreclosure and every effort is made to assign the same SPOC agent if the customer exits the program and then re-enters the SPOC program. HBIO and HBUS notify the borrower of their SPOC agent through the introductory letter. HBIO will be enhancing the SPOC assignment process to ensure borrowers are assigned a SPOC agent at the time of a Breach event (as noted above) and that SPOC agent will remain from Breach through foreclosure. Written communications will be expanded to include placing the SPOC agent names on additional letters, such as collections, loan modification and foreclosure communications</p> <p>Upon receiving the Consent Orders in April 2011, HSBC began implementing a SPOC program based on the initial FRB guidance and launched the Program in July 2011. However, additional guidance received on November 7, 2011 requires changes to the</p>			

SPOC process. As a result, summarized below is both the “current” state SPOC process as well as enhancements/action plans based on the November FRB guidance. Refer to SPOC Overview Future State process flow for additional detail. The document provides a general overview of how the SPOC program will operate to meet the requirements of the Order and the FRB guidance received. HBIO will be conducting workshops with the Business, technology, HR and MIS to capture and document the business requirements based on the new guidance. The initial business requirements will be completed by December 23, 2011 which will outline expectations for all areas to provide an analysis of what changes need to occur for their respective areas. Each area will conduct an analysis from the business requirements and provide changes, impacts, resources needs, as well as technology enhancements to achieve the revised requirements. The project plan will be revised by January 20, 2012, to incorporate the data provided by each team and then the Project teams will monitor the efforts to ensure each respective area meets the timelines as agreed.

### **Single Point of Contact (“SPOC”) Overview**

A multi-channel contact strategy has been established, which works to proactively establish contact with borrowers. The intent behind the SPOC process is to assign a SPOC to help strengthen the coordination and communication between the borrower and different loss mitigation and foreclosure departments, thereby reducing confusion, improving effectiveness and enhancing the customer experience.

The SPOC process is supported by an infrastructure based on six principles:

- Communication plan to ensure that customers are aware of their SPOC agent and the general line
- Systemic tools to ensure that borrower information is easily accessible to the SPOC agent
- Comprehensive program to train SPOC agents and customer facing staff about SPOC related queries
- Flexible and scalable staffing model
- Reporting to track quality regularly and adjust staffing / case levels, as needed
- Incentives designed to encourage quick resolution of issues raised while not discouraging the exploration of alternative Loss Mitigation solutions, such as loan modification

### **Criteria for SPOC Role**

#### Current State

Upon implementation of the SPOC Program based on the Consent Orders received in April, HSBC management came to the determination that the SPOC agent needed to be solely responsible to the job role of SPOC and servicing borrower’s accounts within the Program.

### Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

As of December 1, 2011, the previous job responsibilities of all HBIO and HBUS SPOC agents will be transitioned to ensure SPOC is the only job role performed by these individuals.

HBIO will define SPOC agents as internal resources, employed by the servicing company, and no temporary or contract workers will be hired for this position. As noted above, on December 1, 2011, the previous job responsibilities of all HBIO SPOC agents will be transitioned to ensure SPOC is the only job role performed by these individuals. In collaboration with HR and the responsible business unit, HBIO expects to develop and create a draft job description detailing the roles and responsibilities, duties, and training, requirements the SPOC position by December 23, 2011.

### *Training*

#### Current State

The current SPOC training program was developed separately from the Learning and Development team (“Learning” or “L&D”), within the Skill Qualification Team (“SQT”). The SQT team is a support function within the business that reports up through the President and CEO of the Servicing Company, and is dedicated to enhancing employee skill sets by creating and delivering on-the-job coaching. On-the-job coaching does not have the formal structure and does not typically have the formal evaluations/assessments/tracking as the training facilitated by the Learning team. Review and approval of the SPOC training program materials was completed by the Senior Vice President, Default Management and Compliance personnel, and was also reviewed by Compliance to ensure adherence to current Legal Requirements.

The SPOC training program was designed for employees who are part of the SPOC operating model. This classroom curriculum includes a SPOC Overview, specific SPOC processes and procedures, and SPOC system tools that are used by the SPOC Agent. SPOC agents completed training from July 1, 2011, through September 12, 2011, with make-up sessions completed as of September, 30, 2011. (See SPOC Database Training, Single Point of Contact SPOC General, Single Point of Contact SPOC Queue Owner, SPOC Database Training General, SPOC Certification Training for additional details on the SPOC training program). By December 2011, SPOC training will be transitioned to the Learning team, which will provide enhanced materials, technology for attendance tracking and other features. Until the December transition, SPOC training will continue to be managed by the business.

Once transitioned to the L&D team, SPOC training will be monitored and tracked in

the Learning Management System (“LMS”) commonly referred to as MyLearning. Courses are classified based upon the role of the employee as either mandatory or non mandatory based on role (e.g. primarily Compliance and/or business as appropriate), and in either case, tracking is available via the LMS. Reporting is available on a bi-weekly basis, and managers are responsible for ensuring staff is trained in accordance with the established training plans. Currently, reporting for mandatory compliance training activities (Refer to “2011 Mandatory Training Calendar”) is housed in Actuate, HSBC’s North America Reporting tool. Data is refreshed in Actuate weekly, and is available at any time for business review.

Additionally, standard messages are sent as follows:

- System generated messages advising of mandatory courses to complete and timeline to complete are sent to the employee weekly starting 28 days before completion date
- Manual notifications from Central Services (function that helps facilitate reporting and ultimately reports through the Compliance function) advising of the course timeline to complete:
  - To direct manager – one week before completion date and on due date
  - To direct manager / Copy Local Compliance Officer (“LCO”) (Global Career Band 3 (“GCB3” or “SVPs”)) – 2 weeks prior to completion date
  - To business leads/LCOs/Regional Compliance Officers (“RCO”) – 2 weeks after due date

HBIO and HBUS will leverage the Learning framework for the proposed functional training and will have dedicated resources within HR for tracking and monitoring reports outlining attendance and results. Results will be reported and provided to the Senior Vice President in the business. For additional information related to training, see Article 11 Training.

#### Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

HBIO will leverage the existing Learning and Development framework noted above. Additionally as part of the December 6<sup>th</sup> and 7<sup>th</sup> workshops, L&D will participate to gain more in depth understanding of how the program is being revised in order to perform a gap analysis on the current SPOC training program against the new requirements. Once the business requirements are completed on December 23, 2011, L&D will begin the necessary due diligence and provide the project teams with the changes required along with timelines and resources required to achieve the work.

In addition, the Learning and Development team will leverage the evaluation conducted by Learning for HSBC on its mandatory compliance and business function courses, in which 18 new or enhanced training courses will be developed to determine any additional areas where references to SPOC will need to be modified. (Please reference “Learning & Development Functional Training Gap Assessment”, that was submitted with the revised Article 11 Training Action Plans and attached below for a draft summary of the evaluation conducted on mandatory compliance and



business function courses). The initial business requirements are expected to be completed by December 23, 2011 and an analysis will follow. A finalized Project Plan/Timeline will be submitted to the FRB on January 20, 2012, which will determine scope of new training enhancements, and both process and technology enhancements to meet the requirements of the Order and the November FRB guidance.

### *SPOC Capacity Modeling*

#### Current State

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

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

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

Limited testing of the volume and productivity assumptions began in July, with ongoing monthly reviews taking place along with the planned SPOC-related migrations. October test data indicated that current assumptions are valid, with target phone

penetration rates met, and abandon rate targets exceeded (currently 4% which is below 5% target). Assumptions will continue to be validated with program roll out, and any necessary adjustments will be made to ensure adequate capacity. Based on current workloads, inbound call volume, and projected time that SPOC agents will be spending with borrowers, each SPOC will have a target of 150-200 working accounts

#### Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

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

#### *Incentives*

#### Current State

Issue resolution and quality metrics have been developed for SPOC. Metrics include, but are not limited to: issues resolved, average time to resolve issues and quality metrics. SPOC agents are incented based on cash collection and curing customer delinquency, which ensures that agents are incented on working with customers to cure delinquency by offering Loss Mitigation options such as modifications. Additionally, there is no employee incentive compensation for initiating a foreclosure. Residential mortgage loan servicing management will review these metrics and make adjustments to SPOC processes, as necessary. See DRAFT - SPOC Metrics Dashboard, which is a proto-type for the SPOC metrics submitted as of September 12, 2011 with the Implementation Report.

The following metrics are used to measure the success of the SPOC Initiative:

- Secured Collections:
  - Units (# of payments) Collected per Account
  - Potential Days Past Due per Account
  - Account Balance

The metrics mentioned above are documented on the Collections website and can be pulled daily, weekly, or monthly by the Unit Manager up to the SVP for review.

- Customer Issue Resolution:
  - Elevated Issue Resolution Time (EIRT)
  - Department Abandon Rate - These metrics are distributed and reviewed daily, weekly, and monthly by Unit Managers through SVP's
- Highlights:



- Plan will award incentive based on collections and customer resolution
- Unit Manager incentive is determined by their team's participation rate and combined incentive earnings

#### Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

Default Services management evaluated the November FRB requirements, and determined no further enhancements or changes were necessary to the Current State action plan noted above to comply with the Order and November guidance. However, as part of the Business Requirements development scheduled to be completed on December 23, 2011 and subsequent analyses, HBIO will continue to evaluate whether enhancements are necessary, and where identified, will be incorporated into the finalized Project Plan/Timeline which will be completed on January 20, 2012.

#### *Policies and Procedures*

##### Current State

HBIO and HBUS are in the process of assessing over 3,000 policies and procedures related to residential mortgage loan servicing, including the newly-developed SPOC framework. Any policies and procedures requiring revisions will be reviewed and certified through the HSBC Good Governance standard process (outlined in Articles 7 and 8 below) by December 31, 2011. As of September 12, 2011, approximately 700 policies and procedures have been updated. Existing policies and procedures were updated to incorporate SPOC, as applicable, and will continue to be updated on a rolling basis, as necessary. A dedicated team drove this campaign with ownership and supervision provided by Vice Presidents and Senior Vice Presidents of HSBC. Policies and procedures specific to Foreclosure related activities, Loss Mitigation and key processes within Mortgage Servicing such as Collateral Management and SCRA were updated as of September 12, 2011.

#### Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

Once the workshops are conducted and the requirements are completed on December 23, 2011, the team will begin the review of the policies and procedure and determine which policies will need to be modified to support enhancement to the SPOC program. The analysis to identify policies and procedures for enhancements is expected to be completed by January 20, 2012. Additionally by January 20, three specific policies and procedures will be completed:

- Single Point of Contact (SPOC) General Procedure CML – This will be revised to incorporate the requirements from the guidance.
- SPOC Policy – This will be a new policy that outlines the purpose of the SPOC program and will include the new requirements the guidance. It will also include the timing of the assignment of the SPOC and will outline SPOC responsibilities.
- Account Level Documentation Policy – This will be revised to specifically include the SPOC requirement to document accounts from the initiation of the SPOC assignment until the conclusion of the SPOC assignment.

As a result of this analysis, a Timeline will be developed to enhance additional policies and procedures, as necessary that may reference the SPOC.

## **Assignment of SPOC**

### Current State

HBIO and HBUS actively work to establish contact with their customers at or before a customer is in an early stage of delinquency (30 days of delinquency or less) in order to discuss options that are available to address each customer's individual situation.

The Letter Strategy is designed to ensure notices delivered to borrowers are clear and conspicuous and are provided on a timely basis. Notices are intended to be easily understood, and plain language is used to convey messages in a way designed to be unambiguous. HSBC begins calling borrowers as early as 1 day into delinquency as part of its Call Strategy. This strategy aims to establish contact with borrowers and explore repayment options (repayment plans, modifications, etc.) prior to an account entering foreclosure.

HBUS accounts begin to receive written notifications when they are fifteen days delinquent while HBIO accounts begin to receive written notifications at ten days delinquent. Through notice and statement messaging campaigns soliciting Loss Mitigation, customers are encouraged to contact HBUS and HBIO, as appropriate, to determine solutions that best fit the customer's current financial situation.

As part of its proactive Call Strategy, HSBC reaches out to customers regarding loan modification supporting documentation that has not been received instead of waiting for customers to call HSBC. Based on state laws and the account's stage of delinquency, daily target goals have been established for attempts to contact customers to find an alternative to foreclosure. State law restrictions and daily target goals are controlled systemically via dialers. For example, HSBC may not initiate contact with the customer by phone at their home more than twice in any seven (7) calendar day period or twice in any 30 calendar day period at any other location (in the state of Massachusetts). System pop ups provide reminders to the representatives and call monitoring assists in the evaluation of compliance with state laws. Please reference the attached State Collection Loss Mitigation Requirements Procedures ALL for more information, which is housed in [REDACTED] ([REDACTED]) and accessible to the all Default Servicing representatives. This procedure provides written guidelines for real estate and non-real estate accounts regarding adherence to specific state regulations.

HBIO and HBUS updated borrower communications as part of SPOC implementation. Formal SPOC communications have been developed, including creation of introductory letters about the SPOC program that are sent to borrowers. Additionally existing borrower communications were updated to include SPOC information. SPOC introductory letters are sent to borrowers 1-3 days after one of the following trigger events, which coincide with the three basic paths to enter the SPOC Program,

which are:

- The account is referred to foreclosure
- Borrower initiates an application for a Loss Mitigation alternative (can be verbal initiation)
- Borrower expresses interest in exit strategies, including short sale and deed-in-lieu

Note the assignment of SPOC is not contingent upon a borrower already being in foreclosure.

In an effort to properly allocate SPOC agent assignments, HSBC utilized an algorithm which randomly assigned SPOC's based off of each account's check digit (the last three digits of the account number which serves as a unique identifier). When the business identifies a need to redistribute applicable accounts amongst the pool of SPOC Agent (e.g., as a result of hiring additional SPOC Agents), they communicate a new list of applicable accounts and SPOC Agents to the Customer Information Management Team ("CIM Team"). The CIM Team reruns the algorithm with these inputs and updates the system of record ( [REDACTED] ) and assigns borrower accounts to a SPOC agent. HSBC sent out approximately 72,000 SPOC introductory letters from July 7, 2011, through October 2011.

Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

HBIO will be revising policy and procedures to incorporate an additional trigger point at which a SPOC will be assigned. The policy will incorporate the three paths in which a borrower is assigned a SPOC agent. The three basic paths to enter into the SPOC program have been revised as set forth below:

- in default, as soon as there is a successful communication between the borrower and the servicer about possible relief to address the borrower's delinquency (a trigger event in current SPOC operating model)
- not in default, if a request has been received for consideration of relief to address the borrower's anticipated or actual delinquency (a trigger event in current SPOC operating model)
- is determined pursuant to HSBC's written policies of imminent risk of default, which has been defined by HSBC as the date in which a breach event has occurred (future state enhancement to SPOC operating model).

The addition of imminent risk of default noted above, adds a significant number of borrowers to the SPOC population. As a result, in an effort to properly allocate SPOC agent assignments, HBIO will need to evaluate and enhance the algorithm which randomly assigns SPOC's based upon each account's check digit (i.e., the last three digits of the account number which serves as a unique identifier). The business will need to redistribute applicable accounts amongst the pool of SPOC Agents (e.g., as a result of a new trigger event or hiring additional SPOC Agents), they will communicate the new list of applicable accounts and SPOC Agents to the Customer Information Management Team ("CIM Team"). The CIM Team will rerun the algorithm with new inputs. The algorithm will update the system of record ( [REDACTED] )

”) and assign borrower accounts to a SPOC agent.

Within five (5) business days of the any of the triggering events mentioned above, the SPOC assignment will be communicated to the borrower via Introductory Letter, which is in accordance with Article 5(d)'s requirements. This Introductory letter will confirm the borrower's Primary SPOC agent and a pool of Secondary SPOC agents (10-20), and will include the SPOC's contact information (including name toll free phone number, and telephone extension for Primary and a general line for Secondary). All borrowers who remain in a triggering event for more than 12 months will receive written correspondence reminding them of their Primary SPOC Agent and the pool of Secondary SPOC agents.

HBIO will be conducting workshops on the SPOC program, which is expected to be completed by December 7, 2011. HBIO will develop the initial SPOC process flow and business requirements. A finalized Project Plan/Timeline will be submitted to the FRB on January 20, 2012. This Project Plan/Timeline will detail process and technology enhancements, including the detailed process of incorporating imminent risk of default as a trigger event and identifying borrower communications that will need to be enhanced and updated, to meet the requirements of the FRB guidance.

### *SPOC Communication*

#### Current State

Approximately 9,500 SPOC introductory letters were mailed in August, 2011. As long as a borrower is in a SPOC trigger event for greater than 12 months, they will receive annual written communication with the contact information for the SPOC. Please reference the "SPOC Introductory Letter", for an example of the initial SPOC Introductory Letter sent to borrowers in July of 2011.

HBIO and HBUS included the name and direct extension of the Primary SPOC agent in the SPOC introduction letter and in the annual correspondence reminding borrowers of their SPOC agent. In the event that a borrower's SPOC agent changes, a letter including the name and direct extension of the borrower's new SPOC will be sent. Modification letters have the phone number for the SPOC General line. The SPOC general line is intended to be the secondary point of contact and representatives in the SPOC general pool have full access to the borrower's information. The current operating model does not contemplate the SPOC making outbound calls to the borrower (with the exception of returning calls to borrowers), but rather receiving calls from borrowers that have questions or concerns. Borrowers are able to use the SPOC General line to reach their SPOC. The representative answering the line will be able to look up the borrower's SPOC in the system and transfer the borrower to the correct individual. In the event a borrower's SPOC is unavailable, the SPOC general pool will be available to assist the borrower. The SPOC general pool is intended to be the secondary point of contact and representatives in the SPOC general pool have full access to the borrower's information. The processes noted above are in accordance with Article 5(d)'s

requirements.

Additionally, HBIO and HBUS have policies and procedures which include processes and controls to ensure that communications are made to the borrower, in writing, about approval or denial of a modification more quickly than HAMP mandates, which is in accordance with Articles 5(b) and 5(f)'s requirements. HBIO and HBUS target a 30-day decision turnaround to notify a borrower about his or her loan modification (see Article 5(b) for additional detail and documentation around the 30-day decision turnaround). Currently, decisions are being processed within seven to ten days of HBIO's receipt of a completed application package and approximately 15 days of HBUS' receipt of a completed application package. If the customer is approved for a modification, the approval letter provides the payment arrangements of the modification, including effective and end dates, the applicable interest rate, and the amount of the payment. If the customer's application is denied, the denial letter outlines the specific reason(s) for denial. Since HBIO and HBUS do not decline borrowers based on net present value calculations (for proprietary modification programs) disclosure of the net present value calculations on the denial letter is not applicable. The processes noted above are in accordance with Article 5(f)'s requirements.

As a first line of defense, the Loss Mitigation group is responsible for a review of 10% of the approved and pending Modification decisions and 25% of the Modification denial decisions (where all documents have been received). Decisions are reviewed for items including, but not limited to, eligibility, required documentation, cover sheet, and appropriate level of approvals. Only Representatives, as designated by management, are authorized to perform a modification transaction on the servicing system.

Results from the aforementioned modification reviews are communicated to the department managers and unit managers on a daily basis via the general audit mailbox. The monthly quality results are communicated to the department manager and unit managers for their review. Quality scores are given at Department Level, Unit Level and Individual Level, with a Final Summary of the audits communicated to Residential Mortgage Loan Servicing management.

Service Delivery Control Adherence ("SDCA") and Group Audit North also conduct reviews of the modification process in their roles as the second lines-of-defense.

Future State of HBIO SPOC based upon FRB guidance received November 7, 2011  
Written collections, Loss Mitigation or foreclosure-related communications (including routine default letters) with the borrower from the assignment of the Primary SPOC agent will include the SPOC's contact information, as well as the contact information of the pool of Secondary SPOC agents (10-20) who will be able to perform the same level of duties, having the same level authority as the Primary SPOC, and access to the same level of information as the Primary SPOC, which is in accordance with



Article 5(d)'s requirements. The pool of Secondary SPOC agents will be referenced as a team and identified on communications with the borrower as someone the borrower can reach if the Primary SPOC is unavailable. If the Primary SPOC Agent or pool of Secondary SPOC's is not available at the time of the borrower's call, the borrower will be given the option to speak to the pool of Secondary SPOC Agents.

HBIO will be conducting workshops on the SPOC program, which is expected to be completed by December 7, 2011. HBIO will develop the SPOC process flow and business requirements based on those workshops. A finalized Project Plan/Timeline will be submitted to the FRB on January 20, 2012. This Project Plan/Timeline will detail process and technology enhancements, and identify borrower communications, letter and communication strategies, that will need to be enhanced and updated to include the pool of Secondary SPOC agents.

### **SPOC Responsibilities**

#### Current State

The assigned SPOC agent will work in tandem with other Loss Mitigation experts to ensure the best solution is being delivered to the customer. The SPOC will serve as the primary contact for the borrower (or the borrower's authorized representative as designated in writing by the borrower). Both the assigned Primary and Secondary SPOC will have access to the borrower's records (including servicing, collections, loss mitigation and foreclosure) and other relevant personnel (including third party contractors and foreclosure attorneys), and can view the borrower's status at all times to carry out the SPOC's duties as detailed below. The processes noted above are in accordance with Articles 5(e), 10(d).iii, and 10(d).iv's requirements.

HBIO and HBUS have processes in place which allow multiple functional areas to access documentation, information and appropriate personnel (in-house or third-party) for Loss Mitigation and foreclosure activities, thereby enabling departments to communicate borrower-related actions and determine what information has been received from the borrower and identify the need for additional borrower information, as well as make and communicate decisions on loan modifications, or postponement or hold of foreclosure activities, which is in accordance of Article 5(a)'s requirement to ensure that staff processing a borrower's Loss Mitigation request routinely communicates and coordinates with staff processing the foreclosure on the borrower's property (Refer to attached Account Level Documentation Policy ALL).

HBIO and HBUS system capabilities allow Primary and Secondary SPOC agents to have access to current information and personnel (in-house or third-party) sufficient to timely, accurately, and adequately inform the borrower of the current status of the Loss Mitigation and foreclosure activities, which is in accordance with Article 5(e)'s requirements. Customer contact or account activity (including but not limited to account adjustments, refund information, customer communications, and actions taken based on customer requests) between the borrower and the SPOC are documented at the account level on the appropriate servicing system of record. This

also includes when a customer enters into a loan modification. Loan modification personnel update systems and workflows to flag the account as undergoing a modification, thereby allowing multiple function areas (e.g., Loss Mitigation, foreclosure, etc.) to verify any ongoing Loss Mitigation activity on an account. For additional detail on the deadlines for responses to borrower communications and requests refer to Article 5(b).

Incoming documents received from the borrower directly via fax, mail or from functional teams are scanned and housed in the [REDACTED] and [REDACTED] [REDACTED] ([REDACTED]). The [REDACTED] is a single database to which access is granted through a request process and approved by an employee's manager if the employee requires access to perform his/her job responsibilities. After imaging, a work item is created within the Image platform for the respective business area to take action and respond accordingly. This generally prevents borrowers from being required to resubmit documentation they have previously sent to HBIO, and allows borrowers to be promptly notified of the need for additional information.

Automated systemic processes and controls are used to send letters to customers when additional information is needed and have been configured to be consistent with HBIO's and HBUS' Letter Strategy (see attached HBIO and HBUS Letter Strategy – 2011 and OCC & FRB Update - Foreclosure and Modification Holds). Documents are also linked and updated within an internal tracking system that allows the respective HBIO or HBUS representatives to be aware of the documentation needed when speaking with the customer. The documents and workflow can be viewed by multiple mortgage servicing business departments (e.g., loan modifications, foreclosure, customer complaints), so that a member of one HBIO or HBUS department (such as foreclosure) has access to the documents that the borrower previously submitted to another department (such as Collections or Loss Mitigation), and to avoid requesting borrowers to submit documentation multiple times. The imaging processes ensure that foreclosure related documents provided by borrowers or third parties are appropriately maintained and tracked. The processes noted above are in accordance with Articles 5(e), 10(d).iii, and 10(d).iv's requirements.

#### Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

Default Services management evaluated the November FRB requirements, and determined no further enhancements or changes were necessary to the Current State action plan noted above to comply with the Order and November guidance. However, as part of the Business Requirements development scheduled to be completed on December 23, 2011 and subsequent analyses, HBIO will continue to evaluate whether enhancements are necessary, and where identified, will be incorporated into the finalized Project Plan/Timeline which will be completed on January 20, 2012.

#### *Foreclosure Review*

#### Current State

A customer's account is referred for foreclosure when the customer is seriously



delinquent (i.e., the borrower is past due on at least two or more payments post-dating the trial or permanent modification), extensive Loss Mitigation efforts to contact or work with a customer do not provide for an alternative solution and all reasonable alternatives have been exhausted (Refer to Article 5 above for further details regarding HBIO's and HBUS' customer outreach programs).

Quality Control functions, performed by the Foreclosure Review Group ("FRG"), are in place to review accounts before an account is referred to foreclosure. Systemic controls prevent accounts from being incorrectly referred to foreclosure, including those that have been approved for a loan modification. This review includes a determination of whether the borrower is in the process of negotiating a modification. The purpose of this review is to ensure all criteria have been met prior to making the decision to refer an account to foreclosure. Reviews are performed by Residential Mortgage Loan Servicing personnel, using a foreclosure checklist, which is used to ensure quality control and that proper procedures are followed before initiating the foreclosure action.

This review includes, but is not limited to, a review of the bankruptcy status, SCRA status, and duration of delinquency of an account. This review also includes a determination of whether the borrower was contacted about a modification arrangement or is in the process of negotiating a modification by checking the systems and workflows. If a modification has been approved, no further foreclosure activities occur. For additional detail, please reference the following documents:

- FRG Review for Foreclosure Referral Procedure CML - This procedure defines the process performed by the Foreclosure Review Group (FRG) to determine if accounts qualify for foreclosure.
- Default Operations Foreclosure Referral Process Procedure MC - This procedure outlines the process the Default Operations Specialist handles in order to approve a foreclosure referral. This applies only to loans serviced by Mortgage Corporation.
- Nationwide Foreclosure Summary ALL - This document explains the Nationwide Foreclosure Summary
- Nationwide Foreclosure Summary - This document outlines the pre-foreclosure business practices and regulatory business practices by state.

The team running this QC functions is within the Operations group. The team performs the QC role by conducting a review of all accounts before they are referred to foreclosure, and these reviews are conducted on an on-going, real time basis. This group reports to [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO.

Current processes do not involve the SPOC agent in the foreclosure decision.

Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

As an enhancement to the SPOC Program, the assigned SPOC will now be incorporated into the aforementioned FRG review, and included in the pre-foreclosure certification process with respect to loss mitigation actions taken prior to referring to foreclosure. Prior to proceeding with a foreclosure action, the SPOC will confirm and document that to the best of the SPOC's knowledge, in compliance with existing policies and procedures, all available loss mitigation alternatives offered have been exhausted and a non-foreclosure outcome could not be reached. The FRG responsible for initiating a foreclosure action will confirm the past due status of the account with the SPOC prior to resuming/restarting/initiating/ or taking any legal action predicate to foreclosure. The SPOC, as noted above will leverage existing processes related to borrower communications, document all of the SPOC's communication with and actions taken with respect to the borrower for recordkeeping purposes.

Should the SPOC determine at anytime that a borrower's foreclosure proceeding be stopped, the SPOC will notify his or her Unit Manager, who will have access to the system of record to stop any foreclosure related activity on the borrowers account. The Unit Manager's ability to now have access to halt foreclosure related activity on a borrowers account will be a new a capability to meet the requirements of the FRB guidance.

HBIO will develop the initial SPOC process flow and business requirements, including but not limited to assignment of SPOC process, SPOC agent workload, and new training materials, by December 23, 2011. An analysis will be conducted and a finalized Project Plan/Timeline will be submitted to the FRB on January 20, 2012, which will detail process and technology enhancements, in accordance with the FRB November guidance.

## **The SPOC Relationship**

### Current State

HBIO and HBUS implemented SPOC processes from July 13, 2011, through August 11, 2011, to ensure that the SPOC remains available to the borrower throughout all loan servicing and proceedings, including Loss Mitigation and foreclosure. As mentioned above, the SPOC assignment will begin at the initial triggering event (Loan Modification, Short Sale, Deed in Lieu) and the SPOC assignment is only terminated upon liquidation of the loan or if a borrower returns to a current status through curing their account.

If a borrower has questions after curing their account, they will have access to the general customer and/or collection service departments, and can be transferred to their SPOC agent upon request. SPOC agents have been instructed to assist customers that had been previously assigned to them, which is in accordance with the requirements of Article 5(c).

SPOC agents are responsible for resolving borrower issues and do not transfer

borrower calls unless there is a litigation or bankruptcy issue. In the instance a SPOC agent cannot immediately resolve a borrower issue; the SPOC is responsible for acquiring the appropriate information and providing it to the borrower. SPOC agents target a 48 hour turnaround time for acknowledging borrower inquiries.

Additionally, HBIO and HBUS have existing processes which establish deadlines for responses to borrower communications and requests for consideration of Loss Mitigation, including deadlines for decision making on Loss Mitigation Activities, with metrics established not being less responsive than the timelines in HAMP, in accordance with the requirements of the Order. Refer to Article 5(b) and “SPOC Communication” above for additional detail on borrower communication processes and response procedures.

If a borrower is not in Loss mitigation or Foreclosure, they do not have a SPOC agent. If a customer fails a trial modification period and is not interested in other treatment (e.g., Deed in Lieu, Short Sale), general collections activity will continue and customer will be consistently informed about the Loss Mitigation options during their delinquency lifecycle.

While the operating model is being designed to provide continuity in service throughout a borrower’s experience with Loss Mitigation and foreclosure, there may be times at which a SPOC needs to be re-assigned due to attrition or case-load balancing. All attempts will be made for the Primary and Secondary SPOC agent to remain the same from loss mitigation through foreclosure sale, and retain responsibility for assigned borrowers until he/she verifies that one of the following has occurred:

- The borrower's loan is brought current.
- The borrower's loan is paid in full.
- The loss mitigation effort (permanent loan modification, deed in lieu, short sale, etc.) was successful, which, in the case of a permanent loan modification, means two months of full compliance with the terms of the permanent modification.
- The foreclosure sale took place and, according to applicable state or local laws, the redemption period has expired.
  - Once an account is flagged as a redemption account, the account will be queued to either a Real Estate Owned (“REO”) or Foreclosure pool, and will no longer be assigned a SPOC agent. In the event the borrower contacts the previously assigned Primary or Secondary SPOC, this agent will still have access to the borrower’s account information.

If a borrower needs to re-enter the SPOC program after a successful exit, HBIO will make every attempt to re-assign the same SPOC to the borrower when reasonably possible. As described above in the “Assignment of SPOC”, the borrower will be assigned to their SPOC based on their unique identifier.

In the event that it is necessary to change the Primary or pool of 10-20 Secondary SPOC agents or any of the SPOC's information, the change will be communicated in a specific document addressed to the borrower, clearly labeled "Change in contact information for Single Point of Contact" sent within 5 business days of the SPOC change. For SPOC communications with the borrower, HBIO will follow its existing procedures for communicating to a borrower in a language other than English. Please refer to the Written and Verbal Communication Policy ALL document for additional details on alternate language correspondence for HSBC customers.

#### Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

Default Services management evaluated the November FRB requirements, and determined no further enhancements or changes were necessary to the Current State action plan noted above to comply with the Order and November guidance. However, as part of the Business Requirements development scheduled to be completed on December 23, 2011 and subsequent analyses, HBIO will continue to evaluate whether enhancements are necessary, and where identified, will be incorporated into the finalized Project Plan/Timeline which will be completed on January 20, 2012.

#### *Complaint Escalation Process*

##### Current State

Borrowers are notified of their ability to contact customer service through the contact information on their monthly billing statements. Complaints, inquiries, or incidents can be reported via fax, standard mail, express mail, or telephone. Calls related to HBIO are handled by the Customer Resolution Department ("CRD") and are monitored for quality assurance. Fifty percent of the calls are recorded and the department manager monitors 5 calls per agent per month and provides quality scores and coaching as deemed necessary). Calls related to HBUS are handled by the HBUS Executive Office. For each complaint, inquiry or incident report received, the CRD or HBUS Executive Office conducts research and prepares a written response letter to the customer. The CRD or HBUS Executive Office utilizes a database to track, process, and respond to complaints in a timely and effective manner. See the attached Escalated Complaint Resolution Policy ALL, and Customer Resolution Department Monthly Results JUN2011 for additional details regarding CRD analytics.

HBIO's and HBUS' policies and procedures for addressing complaints, inquiries, and incidents also include procedures to escalate items when appropriate (see attached Research and Response Letter Procedure CML for additional detail). HBIO's and HBUS' existing process escalates calls from the representative that receives the complaint to the Unit Manager when a resolution cannot be reached. If the Unit Manager cannot adequately respond to the customer issue, it is then escalated to the department manager. Customers may also request that an issue be directly escalated to executives (see attached Escalated and Presidential Call Procedure CML, Escalated and Presidential Call Procedure HBUS, Escalated Complaints Account

Adjustment Request Procedure CML, and Escalated Complaint Resolution Policy ALL for more detailed policy and procedures related to the escalation process).

If a borrower has a complaint outside of an existing inquiry, the process will follow the standard escalation process. HBIO's and HBUS' existing complaint escalation process escalates calls from the representative that receives the complaint to the Unit Manager when a resolution cannot be reached. If the Unit Manager cannot adequately respond to the customer issue, it is then escalated to the department manager. Customers may also request that an issue be directly escalated to executives (see attached Escalated and Presidential Call Procedure CML, Escalated and Presidential Call Procedure HBUS, Escalated Complaints Account Adjustment Request Procedure CML, and Escalated Complaint Resolution Policy ALL for more detailed policy and procedures related to the escalation process).

Every month, the CRD provides an executive report to management across multiple business and functional areas. The report highlights and provides data on complaint volume, sources of complaints, reasons for complaints, investigation results, departmental performance and turnaround times (refer to attached CML Customer Resolution Department Monthly Results June 2011 for more details).

While the SPOC introduction letters do not include complaints process instructions, borrowers are able to contact their SPOC agent and be routed to the appropriate personnel if they have a complaint. If a borrower has a complaint outside of an existing inquiry, the process will follow the standard escalation process. Borrower complaint escalation inquiry processes were enhanced to include complaint escalation by a SPOC agent. The existing complaint escalation procedure was leveraged for the SPOC process, and SPOC agents have been trained on the complaint escalation process. The existing complaint escalation procedure was leveraged for the SPOC process. (Please reference Escalated Complaint Resolution Policy ALL for addition information.)

HBIO and HBUS have a comprehensive process in place to identify and implement Legal Requirements and supervisory changes which impact their business practices, including the complaints handling process. The Compliance Regulatory Monitoring and Assessment ("RMA") group manages a centralized regulatory monitoring and change management process to aid HBIO and HBUS in complying with the applicable Legal Requirements and supervisory guidance. Refer to Article 7(b) for additional information regarding the Law Change Working Group ("LCWG").

Finally, the complaint processes have been and will continue to be reviewed by Service Delivery Control Adherence (formerly known as NAQA) ("SDCA"), Compliance, and Group Audit North America. As the policies and procedures are updated and processes enhanced, these functions will continue to enhance the scope of their reviews to reflect the most current processes and controls.



Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

Default Services management evaluated the November FRB requirements, and determined no further enhancements or changes were necessary to the Current State action plan noted above to comply with the Order and November guidance. However, as part of the Business Requirements development scheduled to be completed on December 23, 2011 and subsequent analyses, HBIO will continue to evaluate whether enhancements are necessary, and where identified, will be incorporated into the finalized Project Plan/Timeline which will be completed on January 20, 2012.

In addition, HSBC will ensure training requirements resulting from the workshops on December 6<sup>th</sup> and 7<sup>th</sup> will include the complain process, including the process for complaint filing, review, response, escalation, and appeal in order to be able to inform borrowers of the process when warranted.

**Program Oversight**

Current State

Currently, HBUS and HBIO are enhancing and developing the following active operational reviews (“first line of defense”) for SPOC:

- Open and Closed Issues (HBUS: All issues, CML: Raised/Open Issues) - to verify SPOC account handling, tracking and resolution steps. Including Letter criteria
  - Confirm Special Handling accounts are not in SPOC process
  - Validate accounts in SPOC process are following established guidelines
  - Review every issue closed independently
  - Potential Issues (CML)
- Letter/Status Code Validation
  - Date sent inline with appropriate trigger event
  - Correct Name and Number
  - Status Code Change Validation
- Unit Manager Manager Operating System (“MOS”) SPOC Activities
  - Monthly Call Monitoring

In addition, to the operational reviews mentioned above, HBIO and HBUS have developed daily exception reporting for the reviews that are conducted. Reports are reviewed by the applicable business unit manager.

HBUS and HBIO will develop and enhance the first line of defense, operational reviews to include a description and process of each review, which performs the quality review, reporting, and executive oversight.

Future State of HBIO SPOC based upon FRB guidance received November 7, 2011

HBIO will develop the following operational reviews (“first line of defense”) for SPOC:

- Review 100% UM Exception Reporting Review
  - E.G. Expired Hold Date, system hold dates
  - Expired tasks
- Voicemail Review
  - Once a month random review
- Report out stats available
  - SPOC Account Reviews
  - Ensure review was on an active SPOC account

In addition to the development of the operational reviews mentioned above, HBIO will be enhancing reporting of these reviews to include weekly dashboard reports and monthly summary reporting.

HBIO will develop the initial SPOC process flow and business requirements by December 23, 2011. HBIO will evaluate program oversight and quality control functions to determine any enhancements or updates that are necessary to meet the requirements of the FRB guidance by January 20, 2012.

Additionally, by January 20, 2012, HBIO will determine the type of reporting, the frequency and an escalation process that will be developed for reporting to the Board and senior management regarding the SPOC program.

In addition, Group Audit North America completed an analysis of the review and testing that needs to be completed in the areas of mortgage loan servicing, Loss Mitigation and foreclosure activities in accordance to the requirements outlined in the Consent Orders. Specialized audit programs have been enhanced (e.g., deeper review of foreclosure affidavit processing) and new audit programs have been created for processes outlined in the Consent Order not covered in prior audits (e.g., SPOC, Third Party Attorney Oversight and MERS). However, based on the FRB guidance received November 7, 2011, Group Audit North America will re-evaluate and enhance, if necessary, its audit programs to encompass the enhanced activities of the SPOC Program based on FRB guidance.

As part of the workshops that will be conducted on December 6<sup>th</sup> and 7<sup>th</sup>, each functional area will provide requirements outlining any additional quality assurance processes, as needed, to support the revised SPOC guidance. These requirements will be incorporated into the business requirements document, which will be completed on December 23, 2011. Tasks, timelines, and resources to support any enhancements identified for quality assurance process and procedures will be added into the project plan by January 20, 2012.

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

- HSBC Single Point of Contact (SPOC) Program Overview and Process Flow
- Telephone Calls - Call Model Procedure ALL
- Account Level Documentation Policy ALL
- FRG Review for Foreclosure Referral Procedure CML



- Default Operations Foreclosure Referral Process Procedure MC
- Nationwide Foreclosure Summary ALL (see revised Nationwide Foreclosure Summary ALL below)
- Nationwide Foreclosure Summary (see revised Nationwide Foreclosure Summary below)
- Single Point of Contact (SPOC) General Procedure CML
- Single Point of Contact (SPOC) General Procedure HBUS
- Written and Verbal Communication Policy ALL
- SPOC Introductory Letter
- Post 4.18.10 Agency Foreclosure Modification Processing (excluding NACA) Procedure CML
- Post 4.18.10 Bankruptcy Modification Procedure CML
- Post 4.18.10 FAP Foreclosure Modification Procedure CML
- Post 4.18.10 NACA Modification Procedure CML
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure
- Modification Pending Document Processing Procedure CML (Post 4.18.10)
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure
- Adverse Action Suspended Letter Procedure CML
- Adverse Action Letter for [REDACTED] Procedure CML
- Loss Mitigation Retention - Adverse Action Exception Review Procedure HBUS
- Loss Mitigation Retention Asset/CIBM Modification Procedure MC
- Private Investor Modification Process MC
- Post 04.18.2010 Modifications Procedure CML
- Escalated and Presidential Call Procedure CML
- Escalated Complaint Resolution Policy ALL
- Research and Response Letter Procedure CML
- Telephone Complaints Procedure CML
- Escalated and Presidential Call Procedure HBUS
- Escalated Complaints Account Adjustment Request Procedure CML
- CML Customer Resolution Department Monthly Results June 2011
- HBIO and HBUS Letter Strategy – 2011
- OCC & FRB Update - Foreclosure and Modification Holds

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

- SPOC Overview\_Future State
- Nationwide Foreclosure Summary ALL
- Nationwide Foreclosure Summary
- 2011 Mandatory Training Calendar
- Learning & Development Functional Training Gap Assessment

**Key HSBC Contacts for the Action Plan**

- [REDACTED] SVP Default Services, Mortgage Servicing
- [REDACTED] SVP Default Services
- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO

## Article 5(b)

<b>FRB Order Reference:</b>	Article 5(b)	<b>Corresponding OCC Article:</b>	IX.1.b
<i>appropriate deadlines for responses to borrower communications and requests for consideration of Loss Mitigation, including deadlines for decision making on Loss Mitigation Activities, with the metrics established not being less responsive than the timelines in HAMP;</i>			
<b>Action Plan</b>			
<p>HBIO and HBUS have existing processes which establish deadlines for responses to borrower communications and requests for consideration of Loss Mitigation, including deadlines for decision making on Loss Mitigation Activities, with metrics established not being less responsive than the timelines in HAMP, in accordance with the requirements of the Order. These existing processes are explained below and further detail is set forth in the following documents:</p>			
<ul style="list-style-type: none"><li>• Post 4.18.10 Agency Foreclosure Modification Processing (excluding NACA) Procedure CML - This procedure outlines the steps for processing a modification request submitted on behalf of an HSBC customer by an authorized third party agency.</li><li>• Post 4.18.10 Bankruptcy Modification Procedure CML - This describes how the Modification Processing Team is able to offer modification options to homeowners currently experiencing Active Chapter 13 Bankruptcy, as well as those with Discharged Chapter 7 Bankruptcy status.</li><li>• Post 4.18.10 FAP Foreclosure Modification Procedure CML - This procedure outlines steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement for accounts in active foreclosure using the Foreclosure Avoidance Program (FAP).</li><li>• Post 4.18.10 NACA Modification Procedure CML - This describes how to review and modify accounts for customers who are working through the Neighborhood Assistance Corporation of America (NACA).</li><li>• [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.</li><li>• Modification Pending Document Processing Procedure CML (Post 4.18.10) - This procedure details the process of reviewing Foreclosure Avoidance Program (FAP) applications pending for additional information and/or documentation.</li><li>• [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.</li></ul>			

- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.
- Adverse Action Suspended Letter Procedure CML - This procedure describes how to create and send denial letters with appropriate adverse action language.
- Adverse Action Letter for [REDACTED] Procedure CML - This describes how to create and send denial letters with appropriate adverse action language.
- Loss Mitigation Retention - Adverse Action Exception Review Procedure HBUS - This procedure describes the process the Loss Mitigation Retention Unit Manager (UM) completes when reviewing the Adverse Action Exception Daily Report.
- Loss Mitigation Retention Asset/CIBM Modification Procedure MC - This procedure outlines the process for determining the eligibility of a loan modification on Asset/Corporate Investment Banking and Markets (CIBM) loans serviced on the [REDACTED] system.
- Private Investor Modification Process MC - This procedure outlines the process for completing the Private Investor Modification Process.
- Post 04.18.2010 Modifications Procedure CML - This procedure is regarding modification arrangements made with HSBC Consumer & Mortgage Lending (CML) real estate customers as part of the delinquency management process.

**Existing Processes / Programs:**

HBIO and HBUS actively work to establish contact with their customers at or before a customer is in an early stage of delinquency (30 days of delinquency or less) in order to discuss options that are available to address each customer's individual situation.

Procedures for responding to borrower communications vary based on the nature of the request (e.g., loan modification, Deed in Lieu, Short Sale). If a borrower makes a qualified written request under the Real Estate Settlement Procedures Act ("RESPA"), the Customer Resolution Department ("CRD") provides a response to the borrower within RESPA's required response times.

HSBC has a target of responding to verbal borrower inquiries within 48 hours. These targets have been communicated to the SPOC team and will be formalized once more time has passed to confirm that this is an appropriate target response time. SPOC agents have specific times dedicated to responding to borrower voicemails and other follow ups.

While HSBC is currently monitoring the time it takes SPOC agents to respond to the borrower's inquiries, this metric is not tied to incentives. However, this will be

reevaluated if it deemed that tying this metric to incentives will enhance borrower's experience.

For other borrower communications and requests, the Loss Mitigation group has established specific targeted response times. For additional detail, please refer to the following documents:

- Post 4.18.10 Agency Foreclosure Modification Processing (excluding NACA) Procedure CML - This procedure outlines the steps for processing a modification request submitted on behalf of an HSBC customer by an authorized third party agency.
- Post 4.18.10 Bankruptcy Modification Procedure CML - This describes how the Modification Processing Team is able to offer modification options to homeowners currently experiencing Active Chapter 13 Bankruptcy, as well as those with Discharged Chapter 7 Bankruptcy status.
- Post 4.18.10 FAP Foreclosure Modification Procedure CML - This procedure is regarding modification arrangements made with HSBC Consumer & Mortgage Lending (CML) real estate customers as part of the delinquency management process.
- Post 4.18.10 NACA Modification Procedure CML - This describes how to review and modify accounts for customers who are working through the Neighborhood Assistance Corporation of America (NACA).
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.
- Modification Pending Document Processing Procedure CML (Post 4.18.10) - This procedure details the process of reviewing Foreclosure Avoidance Program (FAP) applications pending for additional information and/or documentation.
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.
- Written and Verbal Communication Policy ALL - The intent of this policy is to provide guidelines regarding the handling of both written and verbal inquiries/requests received from a customer or their appointed agent.
- Escalated Complaint Resolution Policy ALL – The intent of this policy is to provide written guidelines regarding the handling of escalated and regulatory complaints/inquiries.

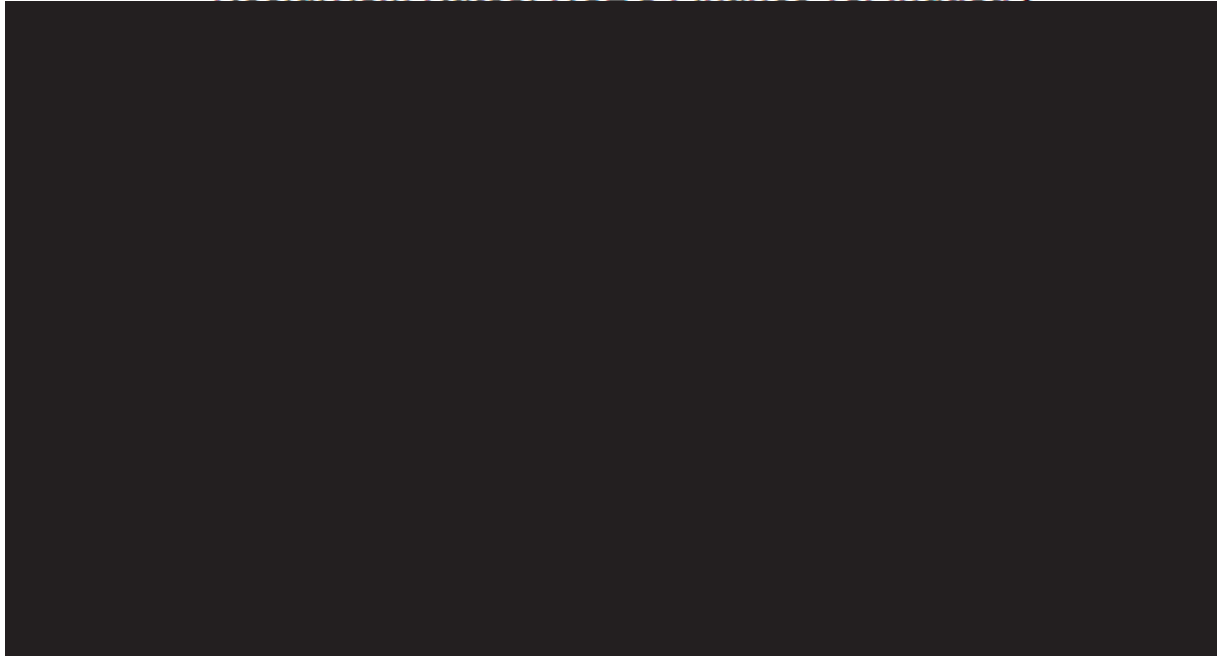
- Loss Mitigation Retention - Adverse Action Exception Review Procedure HBUS - This procedure describes the process the Loss Mitigation Retention Unit Manager (UM) completes when reviewing the Adverse Action Exception Daily Report.
- Loss Mitigation Retention Asset/CIBM Modification Procedure MC - This procedure outlines the process for determining the eligibility of a loan modification on Asset/Corporate Investment Banking and Markets (CIBM) loans serviced on the [REDACTED] system.
- Private Investor Modification Process MC - This procedure outlines the process for completing the Private Investor Modification Process.
- Post 04/18/2010 Modifications Procedure CML - This procedure is regarding modification arrangements made with HSBC Consumer & Mortgage Lending (CML) real estate customers as part of the delinquency management process
- Freddie Mac Traditional Modification Program Procedure MC - This procedure describes the process for completing the Freddie Mac Traditional Modification Program.

For HBIO, if the customer is greater than 30 days from a foreclosure sale, and the customer wishes to be reviewed for a loan modification, the customer may submit an application. Once the customer is approved for a loan modification, the terms of the modification are presented to the borrower. In order to activate the loan modification, the customer must make a reinstatement payment equal to 40% of principal, interest, taxes, and insurance or 100% of tax advances made on the borrower's behalf, whichever is greater. If the customer is less than 30 days from a foreclosure sale, the customer is required to remit 100% of the amount due, in certified funds, before the customer can submit a loan modification application.

HSBC has instituted the use of a one-time down payment in lieu of multiple trial payments, an accepted industry practice, to demonstrate borrower commitment to a modification in circumstances where trial payments would potentially trigger a restart of foreclosure proceedings in the event of default. This industry practice related to trial period payments can be followed in the guidelines set out by HAMP or similar GSE programs. These programs require 3 trial payments as part of their loan modification qualification process. HSBC's practice of requiring 40% of the past due amount is approximately equivalent to the total of two to three trial payments. The 40% threshold, which, on average, is equivalent to about 2 to 3 past due payments, represents an inflection point beyond which historical re-default rates, for the mix of loans in the HSBC portfolio, have been significantly reduced. This practice has been in place since November 1, 2009.

Recidivism (re-default) rates are reviewed monthly by the Ops Review Strategy as one measure of modification success. Please see chart below which shows that HSBC's recidivism rates are lower than the industry recidivism (re-default) rates.

## Recidivism Rates: HSBC Finance vs. Industry



HBIO and HBUS have streamlined processes for evaluating loan modification applications which provide quicker execution of approved loan modifications than those required by HAMP. HBIO and HBUS target a 30 day decision turnaround to notify a borrower about his or her loan modification; currently, decisions are being processed in seven to ten days of HBIO's receipt of a completed application package and approximately 15 days of HBUS' receipt of a completed application package. Additionally, approval/denial letters are sent to borrowers based on applicable guidelines (for a modification to be approved, a borrower's income must be verified; modification must be approved by the appropriate authority level, etc.). By January 20, 2012, HBIO will revise the appropriate procedures to clearly document the required timeframes for systemically requesting the modification approval and denial letters to be sent after the decision has been made. For additional detail, please refer to the following documents:

- Post 4.18.10 Agency Foreclosure Modification Processing (excluding NACA) Procedure CML - This procedure outlines the steps for processing a modification request submitted on behalf of an HSBC customer by an authorized third party agency.
- Post 4.18.10 Bankruptcy Modification Procedure CML - This describes how the Modification Processing Team is able to offer modification options to homeowners currently experiencing Active Chapter 13 Bankruptcy, as well as those with Discharged Chapter 7 Bankruptcy status.
- Post 4.18.10 FAP Foreclosure Modification Procedure CML - This procedure outlines steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement for accounts in active foreclosure using the Foreclosure Avoidance Program (FAP).



- Post 4.18.10 NACA Modification Procedure CML - This describes how to review and modify accounts for customers who are working through the Neighborhood Assistance Corporation of America (NACA).
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.
- Modification Pending Document Processing Procedure CML (Post 4.18.10) - This procedure details the process of reviewing Foreclosure Avoidance Program (FAP) applications pending for additional information and/or documentation.
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.
- [REDACTED] BAU Modification Processing (Post 4.18.10) Procedure - This procedure outlines the steps taken by the Loss Mitigation Processing Department when determining if a customer is eligible for a modification arrangement and what actions are taken for an approval or denial of a modification.
- Adverse Action Suspended Letter Procedure CML - This procedure describes how to create and send denial letters with appropriate adverse action language.
- Adverse Action Letter for [REDACTED] Procedure CML - This describes how to create and send denial letters with appropriate adverse action language.
- Loss Mitigation Retention - Adverse Action Exception Review Procedure HBUS - This procedure describes the process the Loss Mitigation Retention Unit Manager (UM) completes when reviewing the Adverse Action Exception Daily Report.
- Loss Mitigation Retention Asset/CIBM Modification Procedure MC - This procedure outlines the process for determining the eligibility of a loan modification on Asset/Corporate Investment Banking and Markets (CIBM) loans serviced on the [REDACTED] system.
- Private Investor Modification Process MC - This procedure outlines the process for completing the Private Investor Modification Process.
- Post 04.18.2010 Modifications Procedure CML - This procedure is regarding modification arrangements made with HSBC Consumer & Mortgage Lending (CML) real estate customers as part of the delinquency management process.

HBIO and HBUS provide a monthly report with various customer response metrics to the executive management in multiple business lines for CML and HSBC Mortgage Corporation (“HMC”). The report includes, but is not limited to, turnaround times for Loss Mitigation and foreclosure, deadlines for decisions on Loss Mitigation activities,

and decision turnaround times. HBIO and HBUS management receives the report to identify and monitor the various collection/default departments' operations. For additional detail, please reference the following documents:

- MTD HMC SPOC INVENTORY BY DAY REPORT RUNDATE – 14JUL11 - - This document contains a chart populated by the SPOC inventory according to day.
- MTD HMC SPOC TURN AROUND TIME REPORT RUNDATE – 14JUL11 - - This document contains charts showing SPOC turn around time summary by adjuster.
- MTD HMC SPOC VOLUME REPORT BY CONTACT, REASON, RESOLUTION CODE REPORT REPORT DATE – 14JUL11 - - This document provides charts with reports on SPOC volume by contact, reason, and resolution
- MTD HMC SPOC INVENTORY BY ISSUE REPORT RUNDATE – 14JUL11 - - This document contains tables exhibiting SPOC inventory summaries by certain measures as well as detail reports.
- CONSUMER & MORTGAGE LENDING AND MORTGAGE CORPORATION - FORECLOSURE FLASH JUNE 2011 - This document contains a Foreclosure Flash Report with graphs and charts showing foreclosure details such as referrals, inflows, inventory, outflow, etc.
- CONSUMER & MORTGAGE LENDING MODIFICATION AND RE-AGE FLASH REPORT MAY 2011 - This document graphically outlines CML modification and CML Re-Age.

Monthly operational reviews of HBIO's and HBUS' turnaround times demonstrate timelines to respond to borrower communications and requests for consideration of Loss Mitigation are not less responsive than HAMP timeline requirements.

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

- Post 4.18.10 Agency Foreclosure Modification Processing (excluding NACA) Procedure CML
- Post 4.18.10 Bankruptcy Modification Procedure CML
- Post 4.18.10 FAP Foreclosure Modification Procedure CML
- Post 4.18.10 NACA Modification Procedure CML
- [REDACTED] BAU Modification Processing (Post 04.18.10) Procedure
- Modification Pending Document Processing Procedure CML (Post 04.18.10)
- [REDACTED] BAU Modification Processing (Post 04.18.10) Procedure
- [REDACTED] BAU Modification Processing (Post 04.18.10) Procedure
- Adverse Action Suspended Letter Procedure CML
- Adverse Action Letter for [REDACTED] Procedure CML
- Written and Verbal Communication Policy ALL
- Escalated Complaint Resolution Policy ALL
- Freddie Mac Traditional Modification Program Procedure MC
- Loss Mitigation Retention Asset\_CIBM Modification Procedure MC
- Loss Mitigation Retention - Adverse Action Exception Review Procedure HBUS
- CONSUMER & MORTGAGE LENDING MODIFICATION AND RE-AGE FLASH REPORT MAY 2011
- Private Investor Modification Process MC

- Post 04.18.2010 Modifications Procedure CML
- MTD HMC SPOC INVENTORY BY DAY REPORT RUNDATE – 14JUL11
- MTD HMC SPOC TURN AROUND TIME REPORT RUNDATE – 14JUL11
- MTD HMC SPOC VOLUME REPORT BY CONTACT, REASON, RESOLUTION CODE REPORT REPORT DATE – 14JUL11
- MTD HMC SPOC INVENTORY BY ISSUE REPORT RUNDATE – 14JUL11
- CONSUMER & MORTGAGE LENDING AND MORTGAGE CORPORATION - FORECLOSURE FLASH JUNE 2011

**Key HSBC Contacts for the Action Plan**

- [REDACTED] SVP Default Services, Mortgage Servicing
- [REDACTED] SVP Default Services
- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO

## Article 5(j)

<b>FRB Order Reference:</b>	<i>Article 5(j)</i>	<b>Corresponding OCC Article:</b>	<i>IX.1.n</i>
<i>policies and procedures to consider loan modification or other Loss Mitigation Activities with respect to junior lien loans owned by HNAH, HBIO, or the Mortgage Servicing Companies where the Mortgage Servicing Companies service the associated first lien mortgage and become aware that such first lien mortgage is delinquent or has been modified;</i>			
<b>Action Plan</b>			
<p>To comply with this requirement of the Order, HBIO and HBUS are evaluating and enhancing existing processes, policies, and procedures as appropriate to consider loan modification or other Loss Mitigation Activities with respect to junior lien loans owned by HBIO or HBUS where the entities service the associated first lien mortgage and become aware that such first lien mortgage is delinquent or has been modified.</p>			
<b><u>Enhancement to Processes / Programs:</u></b>			
<p>HBIO and HBUS implemented a process to consider junior lien loans owned by HBIO or HBUS where those entities service the associated first lien loan when considering loan modification options. When HBIO and HBUS loan modification personnel review a modification request, they review the CML Mod Application Follow-UP Report to check if there is an internal junior lien on the property. If there is a junior lien on the property, a modification will be considered for that lien as well, subject to investor guidelines and restrictions, where applicable. Policies and procedures were updated as of August 11, 2011. See page 2 of the Loss Mitigation Junior Lien Procedure HBUS and pages 2-3 of the Related Lien Process Review Procedure CML attached. The Loss Mitigation Junior Lien Procedure HBUS describes the steps a Loss Mitigation Processor will complete to review the HMC Mod Application Follow-Up report and process a Loan Modification application on a related lien loan. The Related Lien Process Review Procedure CML provides the process for accessing the CML MOD application Follow-Up Report and submitting an application on an account with a related lien.</p>			
<p>The Customer Information Management Team generates these new CML Mod Application Follow-UP Reports daily. The report criteria logic searches across all internal servicing platforms to identify customers that have multiple outstanding loans. When an account is identified as having a senior lien, the imaged modification document is requested from the appropriate entity. This ensures the appropriate documentation is available before changing the terms of a modification.</p>			
<p>The reports went through standard user acceptance testing as part of the development process. As the reports are fully rolled out, additional testing be conducted and any issues identified will be remediated.</p>			
<p>See Related Lien Process Review Procedure CML which provides the process for</p>			

accessing the CML Mod Application Follow-UP Report and submitting an application on an account with a related lien.

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

Not Applicable.

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

- Related Lien Process Review Procedure CML
- Loss Mitigation Junior Lien Procedure HBUS

**Key HSBC Contacts for the Action Plan**

- [REDACTED] SVP Finance
- [REDACTED] SVP Controller, CML Chief Accounting Officer
- [REDACTED] SVP Default Services, Mortgage Servicing
- [REDACTED] Regulatory Head of RTL Collections Strategy, Default Services MS Strategic Administration

## Article 5(k)

FRB Order Reference:	Article 5(k)	Corresponding OCC Article:	IX.1.1
<p><i>policies and procedures to ensure that timely information about Loss Mitigation options is sent to the borrower in the event of a delinquency or default, including plain language notices about the pendency of loan modification and foreclosure proceedings; and</i></p>			
<p><b>Action Plan</b></p> <p>HBIO and HBUS have existing processes to ensure that timely information about Loss Mitigation options is sent to the borrower in the event of a delinquency or default, including plain language notices about the pendency of loan modification and foreclosure proceedings. HBIO and HBUS are, however, making enhancements to ensure that policies and procedures are fully updated to comply with the SPOC requirements of the Order.</p> <p><b><u>Existing Processes / Programs:</u></b></p> <p>HBIO and HBUS actively work to establish contact with their customers at an early stage of delinquency (and in certain circumstances prior to delinquency) in order to discuss the options that are available to address each customer’s individual situation. Please refer to Article 5 above for further details regarding HBIO’s and HBUS’ customer outreach programs.</p> <p>HBIO and HBUS provide multiple channels for outreach to customers, including, but not limited to, structured letter campaigns (Letter Strategy). This Letter Strategy, which is an existing process, is designed to ensure notices delivered to borrowers are clear and conspicuous and are provided on a timely basis. Notices are intended to be easily understood, and plain language is used to convey messages in a way designed to be unambiguous (see pages 5-13 of the attached HBIO and HBUS Letter Strategy – 2011 for example letters). The HBIO and HBUS Letter Strategy – 2011 document provides the strategy timeline, letter strategy, and an example letter. The attached OCC &amp; FRB Update – Foreclosure and Modification Holds document on pages 2-6 outlines and compares the different servicing treatment options and discusses the collection strategy for each option.</p> <p>HBUS accounts begin to receive written notification when they are fifteen days delinquent, while HBIO accounts begin to receive written notification at ten days delinquent. Through notice and statement messaging soliciting Loss Mitigation, customers are encouraged to contact HBUS and HBIO, as appropriate to determine solutions that best fit the customer’s current financial situation. Refer to the attached HBIO and HBUS Letter Strategy – 2011 for additional details on this process, as well as examples of written notification sent to customers.</p>			



These processes have been and will continue to be reviewed by SDCA, Compliance, and Group Audit North America. As the policies and procedures are updated and processes enhanced, these functions will continue to enhance the scope of their reviews to include the most current processes and controls.

**Enhancement to Processes / Programs:**

HBIO will finalize and approve the SPOC process flow and business requirements, including but not limited to assignment of SPOC process, SPOC agent workload, and new training materials by December 23, 2011 to meet the requirements of the FRB guidance received November 7, 2011. A finalized Project Plan/Timeline will be submitted to the FRB on January 20, 2012, which will detail both process and technology enhancements, including identifying the number of letters and borrower communications that will need to include both the Primary SPOC agent and team of Secondary SPOC agents, to meet the requirements of the FRB guidance.

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

- OCC & FRB Update - Foreclosure and Modification Holds
- HBIO and HBUS Letter Strategy – 2011

**Key HSBC Contacts for the Action Plan**

- [REDACTED] SVP Default Services, Mortgage Servicing
- [REDACTED] SVP Default Services
- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO

## Article 5(l)

<b>FRB Order Reference:</b>	Article 5(l)	<b>Corresponding OCC Article:</b>	IX.1.m
<i>policies and procedures to ensure that foreclosure and related documents provided to borrowers and third parties are appropriately maintained and tracked, and that borrowers generally will not be required to resubmit the same documented information that has already been provided, and that borrowers are notified promptly of the need for additional information.</i>			
<b>Action Plan</b>			
<p>HBIO and HBUS have existing processes which work to ensure that foreclosure and related documents provided to borrowers and third parties are appropriately maintained and tracked, and that borrowers generally will not be required to resubmit the same documented information that has already been provided, and that borrowers are notified promptly of the need for additional information. HBIO and HBUS are, however, making enhancements to ensure that policies and procedures are fully updated to comply with the Order.</p>			
<b><u>Existing Processes / Programs:</u></b>			
<p>HBIO and HBUS have in place policies and procedures to identify and track the documents provided to borrowers (and third parties), as well as documents received and needed from borrowers to continue with the proper actions. Customers are notified of the necessary documents through phone communication, and these notifications are reinforced by the HBIO and HBUS structured letter campaigns to ensure that borrowers are notified promptly of the need for additional information (see attached HBIO and HBUS Letter Strategy – 2011). The HBIO and HBUS Letter Strategy – 2011 document provides the strategy timeline, letter strategy, and an example letter.</p>			
<p>The Capture Center teams (Preparation, Scanning, and Indexing) receive documentation that is sent to HSBC by borrowers. Documentation is monitored by the respective leads to ensure compliance within the defined Service Level Agreements (“SLA”). The SLA’s are monitored through visual inspection or systemic reporting. These teams process documentation received based on a first in, first out methodology. Incoming documents received directly via fax, mail or from functional teams are scanned and housed in the [REDACTED]. The [REDACTED] is a single database to which access is granted through a request process and approved by an employee’s manager if the employee requires access to perform his/her job responsibilities. System capabilities have been updated to allow both the Primary and Secondary SPOC’s have access to this information. After imaging, a work item is created within the Image platform for the respective business area to take action and respond accordingly. The imagine process is designed to ensure that foreclosure related documents provided by borrowers or third parties are appropriately maintained and</p>			

tracked.

Automated systemic processes and controls are used to send letters to customers when additional information is needed and have been configured to be consistent with HBIO's and HBUS' Letter Strategy (see pages 2 and 3 of the attached HBIO and HBUS Letter Strategy – 2011 for the letter strategy timeline and pages 5-13 for example letters). The attached OCC & FRB Update – Foreclosure and Modification Holds document on pages 2-6 outlines and compares the different servicing treatment options and discusses the collection strategy for each option. Documents are also linked and updated within an internal tracking system that allows the respective HBIO or HBUS representatives to be aware of the documentation needed when speaking with the customer. The documents and workflow can be viewed by multiple mortgage servicing business departments (e.g., loan modifications, foreclosure, customer complaints), so that a member of one HBIO or HBUS department (such as foreclosure) has access to the documents that the borrower previously submitted to another department (such as Collections or Loss Mitigation), and to avoid requesting borrowers to submit documentation multiple times. The imaging processes ensure that foreclosure related documents provided by borrowers or third parties are appropriately maintained and tracked.

To assist in ensuring processes are followed and borrowers are not asked to resubmit documents previously submitted, five calls from each agent are monitored every month. A number of items are covered during the monthly reviews and addressed where appropriate. A process exists that allows for an unsatisfied borrower to escalate issues. Refer to Article 5(a) above for additional detail on escalated issues. Additionally, calls are notated on the systems to allow for HBIO or HBUS employees to see what information was requested or provided by the borrower.

In order to ensure that Capture Center Teams have performed the appropriate tasks based on their respective business function and based on the stated procedures, and to ensure that documents are being indexed to the appropriate folder, Capture Center Management performs a monthly quality review. Additionally, this includes a review to ensure that all processing is completed in compliance with the internal Servicing Level Agreements, between the Capture Center Team and respective business function, which address timeliness and accuracy. The results of this review are contained on an internal database.

The processes have been and will continue to be reviewed by SDCA, Compliance, and Group Audit North America. As the policies and procedures are updated and processes enhanced, these functions will continue to enhance the scope of their reviews to reflect the most current processes and controls.

As a further enhancement, the Enterprise Business Solutions (“EBS”) Group implemented a new review process on August 1, 2011. Quality reviews are conducted monthly by internal off-shore resources on Breach and state required notices. EBS has documented individual audit procedures for each notice that HBIO

and HBUS is required to send to a borrower. A random sample based on volume (approximately 3,000 accounts) was selected for review each month. Notices for the selected accounts are audited for accuracy, selection criteria (the correct population was included in the mailing), imaging, and correct system documentation. Monthly results are communicated to EBS for tracking and trending. EBS created a dashboard with the monthly results and will distribute it to Compliance, Operations Risk Management, and Residential Mortgage Servicing management. EBS works with the departments that use these letters (i.e., Global Information Management (“GIM”), HSBC Technology Services (“HTS”), Incident Management, and Print Vendor) to resolve any documented issues. Imaging issues are brought to HTS to resolve. System of record commenting issues are addressed by the Corporate Information Management group.

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

- OCC & FRB Update - Foreclosure and Modification Holds
- HBIO and HBUS Letter Strategy – 2011

**Key HSBC Contacts for the Action Plan**

- [REDACTED], SVP Default Services, Mortgage Servicing
- [REDACTED] SVP Default Services
- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Officer, HBIO