

**Mortgage Enhancements
HSBC North America Holdings, Inc.
HSBC Finance Corporation
Action Plan Response to FRB Consent Order
Article 6 Third Party Management**

October 10, 2011

Section 5: Third Party Management

Article 6

FRB Order Reference:	Article 6	Corresponding OCC Article:	V.1
<p><i>Within 60 days of this Order, HBIO shall submit to the Reserve Bank acceptable policies and procedures for the outsourcing of any residential mortgage loan servicing, Loss Mitigation, or foreclosure functions, by the Mortgage Servicing Companies to any independent contractor, consulting firm, law firm, property manager or other third party (including any subsidiary or affiliate of HBIO) (collectively, “Third-Party Providers”). Third-Party Providers include local counsel in foreclosure or bankruptcy proceedings retained to represent the interests of owners of mortgages in the Servicing Portfolio (“Foreclosure Counsel”). The policies and procedures shall, at a minimum, address, consider, and include:</i></p>			
<p>Action Plan</p> <p>HBIO and HBUS have policies and procedures for outsourcing their foreclosure or related functions, including Loss Mitigation, and property management functions for residential real estate acquired through or in lieu of foreclosure, and bankruptcy, to Third-Party Providers as defined by this Order, including Law Firms. As used herein, collectively “Law Firms” or “Firms” are defined as law firms and trustees that provide foreclosure, bankruptcy, eviction, and deed-in-lieu (“DIL”)/ short-sale (“SS”) legal services to HBIO and HBUS Residential Mortgage Servicing personnel in accordance with applicable laws, rules, and regulations.</p> <p>HBIO and HBUS distinguish Law Firms between active and pipeline. Active Law Firms are those to which HBIO and HBUS refer new matters and intend to continue doing business. Pipeline Law Firms are those with which HBIO and HBUS have ceased new referrals, but these Law Firms continue to service matters that had previously been referred to them. By year-end 2011, pipeline Law Firms will either be terminated and files transferred to an active Law Firm, or will be vetted through the HNAH Vendor Risk Management process.</p> <p>An analysis comparing the Article 6 requirements of the Order with existing policies, procedures, and processes was completed by management personnel in the areas of Residential Mortgage Servicing, Vendor Risk Management, Legal and Compliance. The purpose of this analysis was to identify those existing policies, procedures, and processes that address the requirements of the Order and those areas requiring further enhancement. Further details related to these policies and procedures are provided in the Action Plans for Article 6, Sections (a) through (j), and the results of the analysis include, without limitation, the following:</p>			

Existing Processes	Required Enhancements
<ul style="list-style-type: none"> • HNAH has an existing North America Vendor Risk Management infrastructure in place. As part of this infrastructure, HNAH has established policies and procedures which outline the vendor due diligence and ongoing monitoring processes associated with Third-Party Providers engaged by HNAH subsidiaries (collectively the “VRM Program”) (see Article 6(a)). • An in-depth review of legacy third party relationships is currently being conducted by HBIO and HBUS Residential Mortgage Servicing as part of the HNAH Vendor Risk Management Third Party Legacy Relationship Management Program (the “LRM Program”) (see Article 6(a) and (e)). • Enhanced governance and oversight of Third-Party Providers, including Law Firms, is managed by a centralized, dedicated team - the Mortgage Servicing Third Party Operational Risk Management Group (“TPORMG”) (see Article 6(a)). • Implemented (i) Third Party Operational Risk Management Group Procedures, that are consistent with the existing Vendor Risk Management framework, and (ii) Legal Department Law Firm Management Procedures and User Manual, to guide the management of new and existing Third-Party Providers, including Law Firms, used by HBIO and HBUS Residential Mortgage Servicing (see Article 6 (a)). • Distributed Best Practices for Outside Foreclosure, Eviction and Bankruptcy Law Firms (“Best Practices”) to, and received acknowledgement and 	<ul style="list-style-type: none"> • By end of the fourth quarter 2011, pipeline Law Firms will be evaluated and a determination made to either (i) terminate the Law Firm and transfer files to active Law Firms, or (ii) vet the pipeline Law Firm through the HNAH Vendor Risk Management process which includes a legal, information security, financial, and reputational review and, if acceptable, the pipeline Law Firm would be expected to execute the Master Services Agreement (Legal Services) and adopt the HSBC Best Practices for Outside Foreclosure, Eviction and Bankruptcy Law Firms. For more information about the pipeline file transfer process see the attached Pipeline Firm Transfer Strategy document. • By end of the fourth quarter 2011, HSBC will terminate its relationship with Law Firms that have been identified as unsatisfactory and fail to satisfy HSBC requirements, and will transfer all files to active Law Firms. For more information about the termination process see the attached Law Firm Termination Strategy document. • Agreements with [REDACTED] National Bankruptcy Services (“NBS”) and NBS’ law firm, Brice, Vander Linden & Wernick (“BVW”), are in the process of being reviewed and revised. BVW provides bankruptcy legal services to NBS and its clients. It is expected that amended and restated agreements should be in place by the end of fourth quarter 2011.

<p>pledge to comply with the Best Practices from, active foreclosure Law Firms, and distributed Best Practices to active bankruptcy , eviction and DIL Law Firms (see Article 6(a)).</p> <ul style="list-style-type: none">• Received executed Non-Disclosure and Confidentiality Agreements (“NDAs”) from active foreclosure Law Firms and sent NDAs to active bankruptcy*, eviction and DIL Law Firms as required by Section 3.2 of the HSBC- North America Vendor Risk Management (VRM) Policy (“VRM Policy”) and the HSBC North America Vendor Risk Management (VRM) PROCEDURES (“VRM Procedures”) page 11 and page 7 of the VRM Policy.• Active foreclosure, bankruptcy*, eviction and DIL Law Firms are being reviewed consistent with the HNAH Vendor Risk Management Program, including an assessment of risk regarding information security, business, financial, and reputation, and the requirements for engagement of a vendor under the VRM Program have been initiated for active foreclosure, bankruptcy*, eviction and DIL Law Firms. Additionally, legal risk is assessed and reviewed by HSBC Legal (see Article 6(a), (b), (f) and (g)).• HSBC Legal with the assistance of external counsel coordinated the completion of the initial legal reviews of active foreclosure Law Firms. Remediation Letters were sent to the reviewed Law Firms and their responses have been tracked and	
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* Except for bankruptcy Law Firms in the BVW network as BVW and its network of bankruptcy attorneys are under review.

<p>reviewed (see Article 6(a) and (g)).</p> <ul style="list-style-type: none">• Distributed the standard Law Firm Master Services Agreement to existing active foreclosure Law Firms. Following a satisfactory review, including information security, legal, business, financial and reputation, the standard Law Firm Master Services Agreement is also sent for execution to new Law Firms and existing active Law Firms that provide solely bankruptcy, eviction, or deed-in-lieu legal services (see Article 6(a)).• Other Law Firm Management tools to be used to assess and monitor Law Firms, in addition to the VRM, TPORMG and Legal Law Firm Procedures include, TPORMG [REDACTED] Database, TPORMG SharePoint Database, [REDACTED] ([REDACTED], TPORMG Mailboxes, HSBC Best Practices, the Legal Department Law Firm Management Pre-Review Questionnaire, the Review Questionnaire, Summary of Findings Memo, Review Remediation Letter and VRM Scorecard and Legal Review Scorecard (collectively "Scorecards") (see Section 1.5, pages 9 to 11 of the Mortgage Servicing Third Party Operational Risk Management Procedures ("TPORMG Procedures") and Section 5.2, pages 5 to 6 and Section 9, page 11 of Legal Law Firm Procedures HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES ("Legal Law Firm Procedures," the Scorecards) (see Article 6 (a),(g) and (j)).• Law Firm Termination Procedure identifies the process to be followed upon termination of a Law Firm and	
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<p>the transfer of files from the terminated Firm to an active Law Firm (see Article 6(f)).</p> <ul style="list-style-type: none"> • HSBC Legal has engaged outside counsel to monitor and notify HSBC of any adverse litigation and media concerning Law Firms which is also evaluated at various meetings described in the below Articles and during Law Firm reviews. • A TPORMG [REDACTED] Database and a TPORMG SharePoint Database have been developed to monitor Third-Party Providers and to maintain Third-Party documents (MSAs, review results, remediation letters, communications), including Law Firms, used by HBIO and HBUS for the Residential Mortgage Servicing operations (see Section 1.5, page 10 of TPORMG Procedure and Article 6 (a) and (j)). • Compliance with regulatory requirements is monitored and reported using existing tools such as the [REDACTED] ('[REDACTED] database (see Article 6(a)). 	
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Documents to be submitted with the Action Plan

- Refer to Action Plans for Article 6, sections (a) through (j)

Additional documents completed for re-submission of Action Plan

- Law Firm Termination Strategy
- Pipeline Firm Transfer Strategy
- HSBC- North America Vendor Risk Management (VRM) Policy (“VRM Policy”)
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- Mortgage Servicing Third Party Operational Risk Management Procedures
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO

- [REDACTED], EVP Chief of Staff HTSN and NA Head of Procurement
- [REDACTED], SVP Deputy General Counsel, CML

Article 6(a)

FRB Order Reference:	Article 6(a)	Corresponding OCC Article:	V.1.a
<i>The policies and procedures shall, at a minimum, address, consider, and include: appropriate oversight of Third-Party Providers to ensure that they comply with the Legal Requirements, supervisory guidance of the Board of Governors, and HBIO's policies and procedures;</i>			
Action Plan As described below, existing and enhanced policies and procedures for HBIO and HBUS provide for appropriate oversight, review and monitoring of Third-Party Providers, including Law Firms, to ensure that they comply with applicable Legal Requirements, supervisory guidance and HSBC policies and procedures. <u>Existing Processes / Programs:</u> <u>HSBC North America Vendor Risk Management Department</u> HSBC North America Vendor Risk Management (“VRM”) has in place a risk-based framework and program to effectively identify, assess, monitor and manage risks associated with Third-Party Provider relationships(the “VRM Program”) as set forth in the HSBC North America Vendor Risk Management Policy and Procedures (“VRM Policy and Procedures”). The VRM Program provides centralized governance and requirements for North America businesses and departments. The VRM Program also establishes accountability and corporate oversight and defines the roles and responsibilities of the various departments and functions including VRM, Residential Mortgage Servicing, Operational Risk Management, Information Security Risk (“ISR”), Compliance, and Legal so that Third-Party Providers within the scope of the existing VRM Policy and Procedures are assessed in a consistent risk-based framework. Law Firms as well as other Third-Party Providers are managed and monitored pursuant to the VRM Program (see Section 2 of the VRM Policy). The VRM Program has been designed in accordance with OCC Bulletin 2001-4, as documented in additional detail in the attached HSBC - North America Vendor Risk Management (VRM) Policy. The HBIO and HBUS residential mortgage loan servicing, Loss Mitigation, bankruptcy, foreclosure, and property management functions (collectively “Residential Mortgage Servicing” or “Mortgage Servicing”) follow the VRM Policy and Procedures and the VRM Program to manage Third-Party Providers, including Law Firms. Additional procedures and oversight have been implemented as described below to ensure Third-Party Providers are managed and monitored in accordance with the VRM Program.			

Third-Party Operational Risk Management Group (“TPORMG”)

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

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

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

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

- Initiate, renew, or terminate Third-Party Providers and coordinate the on-going reviews, monitoring and assessments of Third-Party Providers;
- Develop and monitor Third-Party Provider performance against defined service levels, performance levels, and contract terms; and coordinate distribution of MSAs, including the Law Firm MSAs to be executed by approved existing and future Law Firms (see attached MASTER SERVICES AGREEMENT (LEGAL

SERVICES));

- Schedule reviews of Third-Party Providers, including Law Firms;
- Develop and use the TPORMG Database to monitor, manage, and age Third-Party Provider reviews and remediation efforts and SLAs and performance against SLAs, to include Information Security Risk, Legal, and Operations' review findings, and for reporting to various departments and to the TPORMG Governance Committee;
- Reporting and trending of customer complaints specific to Third-Party Providers; and,
- As part of the LRM Program, performing an in-depth review of Residential Mortgage Servicing legacy Third-Party Provider relationships within the scope of the VRM Policy to ensure compliance with the VRM Policy and Procedures

Residential Mortgage Servicing Third-Party Provider Governance Committee

To ensure appropriate oversight of Third Party Providers at a senior management level, HBIO and HBUS established the Residential Mortgage Servicing Operations Third-Party Provider Governance Committee ("Third Party Governance Committee") to oversee the Mortgage Servicing Third-Party Provider management process, which includes the review of Law Firms. The Third Party Governance Committee will meet monthly, and the responsibilities of the Committee include:

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

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

HSBC Legal Support For Third-Party Management

HSBC Legal in collaboration with TPORMG, Information Security Risk, VRM and other departments assesses Law Firm compliance with applicable state and federal laws, rules and regulations and judicial requirements ("Legal Requirements") and HSBC Best Practices described below. HSBC Legal's role in evaluating and monitoring Law Firms is in addition to the VRM Policy and Procedures, and is more specifically described in the attached Legal Department Law Firm Management Procedures ("Legal Law Firm Procedures"). These Procedures also provide guidelines to assist HSBC Legal to identify, assess, monitor, and manage HSBC legal risk associated with new and existing Law Firms in a consistent manner (see Section

1.2 of the Law Firm Management Procedures).

As set forth in Section 5 of the Law Firm Management Procedures, Legal along with TPORMG, manages and coordinates a legal review of Law Firms. The legal review evaluates a Law Firm's compliance with Legal Requirements as well as HSBC Best Practices for Outside Foreclosure, Eviction and Bankruptcy Law Firms ("Best Practices"), and includes Firm file reviews.

HSBC Legal, in collaboration of TPORMG, VRM and other departments, developed and implemented the tools listed below, which have been updated since the July 20, 2011 Action Plan submission to include bankruptcy and eviction legal services and to maintain consistency with the standard Law Firm MSA and other Law Firm monitoring documents and tools. These updated tools are attached to this Action Plan and will be used go forward to conduct reviews of Law Firms (see Section 5.2 of the Legal Law Firm Procedures and each tool for more detailed information):

- HSBC Best Practices For Outside Foreclosure, Eviction and Bankruptcy Law Firms
 - Guidelines that establish HSBC expectations to ensure compliance with Legal Requirements, including the proper review, execution and notarization of complaints, affidavits and other documents and information security requirements. Best Practices also include HSBC's Escalation Protocol Matrix for reporting to HSBC; the Matrix identifies events to be reported, the timing to do so and the HSBC contacts (see Section XV and Schedule B of Best Practices)
- HSBC Mortgage Servicing Legal Department Law Firm Management Pre-Review Questionnaire
 - A questionnaire submitted to Law Firms prior to the commencement of the review to gain a better understanding of Firm practices and processes
- HSBC Mortgage Servicing Legal Department Law Firm Management Review Questionnaire
 - A questionnaire used during the review as a guide of topics and types of questions to ask to assess compliance with Legal Requirements and Best Practices.
- Law Firm Legal Review Scorecard (the "Legal Review Scorecard")
 - A tool used to capture the results of Firm Reviews to facilitate a consistent assessment and evaluation of Law Firm risk.
- Summary of Findings Memo
 - A summary of the findings and any issues, concerns or deficiencies identified during the Firm review (memos are completed by outside counsel; therefore a template is not attached).
- Review Remediation letter
 - A letter sent to the Law Firm to advise of issues, concerns or deficiencies identified during the Firm review.
- Master Services Agreement (Legal Services)

- The agreement that identifies HSBC expectations and requirements along with service level agreements and work standards.
- The MSA also includes the Escalation Protocol Matrix (see Section 1.3 and Attachment C of the MSA).
- HSBC Mortgage Servicing Legal Department Law Firm Management Procedures described above.
- HSBC Mortgage Servicing Legal Department Law Firm Management User Manual
 - Manual developed to supplement the Law Firm Procedures.

HSBC Legal organizes and facilitates a periodic meeting (the “Legal Review Meeting”) primarily to discuss the following:

- Scheduling and results of Law Firm legal reviews
 - External counsel conducting Law Firm legal reviews summarize findings and discuss general observations or concerns
- Recent adverse media coverage and recent adverse litigation concerning HSBC Law Firms
- Status regarding Law Firm terminations and transfer of pending files.
 - TPORMG provides updates on recent Law Firm terminations and the process of transferring pending files to other HSBC approved Law Firms
- Status on Law Firm MSA distribution and execution

The Legal Review Meeting is designed to create visibility for internal HSBC employees that either work with the Law Firms or have responsibility for monitoring Law Firm risk. Participants include representatives from the business, TPORMG, Compliance, Operational Risk, HSBC internal counsel and external counsel. The Legal Review Meeting typically occurs weekly. Summary information from the Legal Review meeting will be reported to the Third-Party Governance Committee (described above in this Article).

Change Controls for Legal Requirements Affecting HSBC and Third Party Providers and Investor Changes

To ensure compliance with any changes to Legal Requirements, supervisory guidance of the Board of Governors and investor guideline or requirement changes that impact HBIO, HBUS or Third Party Providers, HBIO and HBUS have policies and procedures in place to identify, assess, and implement any such applicable changes.

Changes to Government Sponsored Entities (“GSEs”) and investor guidelines, requirements and contractual obligations are collected, monitored and assessed for impact by the Investor Accounting team and the Investor Change Working Group (“ICWG”) Manager. Investor Accounting, the ICWG Manager, and the Director of Loss Mitigation for Mortgage Corporation hold weekly meetings to assess the impact and plan the implementation strategy for such investor changes. See the Implementation Section on page 2 of the attached Investor Changes Implementation Procedure ALL document for additional details regarding monitoring and implementation of changes

to GSE contractual obligations.

HBIO and HBUS have processes in place to identify and implement changes to Legal Requirements and supervisory guidance that impact their business practices. The Compliance Regulatory Monitoring and Assessment (“RMA”) group manages a centralized regulatory monitoring and change management process to identify, assess, and communicate changes in Legal Requirements and supervisory guidance that impact HBIO and HBUS lines of business as well as changes that impact services to be performed by Residential Mortgage Servicing Third Party Providers such as Law Firms. The RMA group reports to the HNAH Compliance Chief Operating Officer.

The RMA group uses various resources including, the Federal Register, regulatory agency websites (OCC, FRB, FDIC, etc.), trade associations, monitoring services, and various law firm websites to identify changes to the Legal Requirements and supervisory guidance. The monitoring process has been enhanced to include case law developments which may impact Residential Mortgage Servicing operations for HBIO and HBUS.

The RMA group collaborates with Legal and Compliance to determine the applicability of the legislation and to identify the impacted businesses. If it is determined that there is an impact to a business, the RMA group outlines the detailed requirements in an Impact Assessment document, which the Legal department reviews for accuracy. The RMA group and Compliance determine the impact to the businesses. The RMA group then publishes an executive summary, New Legislation Alert (which includes the Impact Assessment), and distributes it to the impacted businesses. The impacted Residential Mortgage Servicing departments work with the Law Change Working Group (“LCWG”), Compliance, and HSBC Legal to evaluate and timely implement any required changes to documents and updates to policies and procedures (see the New Legislation Section on page 3 of the attached HSBC North America New Laws and Regulations Procedure – US document).

Within 60-90 days of implementation of a law change pursuant to the processes noted above, the Service Delivery Control Adherence (“SDCA”, formerly known as North America Quality Assurance) unit performs a second line of defense quality review to confirm that the law changes have been implemented as prescribed. SDCA monitors the bi-monthly report distributed by the LCWG manager to identify law changes that are ready for review.

After the SDCA Unit performs a post-implementation review, as outlined on page 2 in the Post Implementation Section of the Law Implementation Procedures ALL, the SDCA Manager does the following:

- If all items are not implemented as prescribed, SDCA presents the necessary remediation to LCWG;
- If all items are implemented as prescribed, the implementation is complete. The LCWG Manager posts the following in a shared site

within Lotus Notes:

- Law Memo/Impact Analysis
- Post-Implementation Review Report.

SDCA is managed separately from Residential Mortgage Servicing management, and reports to a central quality review service delivery utility.

If a change in Legal Requirements or supervisory guidance impacts the services to be performed on behalf of HSBC by a Third-Party Provider providing legal services, the new requirements would be added to the TPORMG review of the Third-Party Provider.

[REDACTED] (“[REDACTED]”) Gap Analysis

HNAH Compliance completed a gap analysis of the [REDACTED] ([REDACTED] database (see Article 7(a) for sample gaps identified by Compliance) to ensure that risk statements were accurately documented. Once this [REDACTED] analysis was complete, the TPORMG along with BRCM and business unit management, identified gaps that impacted Third-Party Management. The objective of the gap analysis was to identify any risk statements that did not exist in order to document a risk inherent in a given process as well as to identify gaps in controls to address a given risk statement. Control gaps were identified and efforts are underway, through the Third Party Risk Management Workstream, to remediate outstanding items applicable to Third-Party Management.

HNAH Compliance and Group Audit North America provide additional control and oversight of the Third-Party Provider management process.

Enhancement to Processes / Programs:

In addition to the procedures in place to monitor changes to Legal Requirements that are described above, the Law Firm MSA (described in the following paragraph) requires Law Firms to inform HSBC of any changes in applicable laws or judicial requirements. Moreover, and notwithstanding the professional and ethical codes of conduct requiring attorneys to comply with Legal Requirements, the Law Firm MSAs and Best Practices will reinforce adherence to Legal Requirements.

In order to enhance oversight and control over Law Firms, the standard Master Services Agreement (Legal Services) (“Law Firm MSA”) was developed in collaboration with HSBC Legal, TPORMG, Information Security Risk (“ISR”), Business Continuity Program Management (“BCPM”), as well as the impacted business areas. SLAs are contained within the work standards of the Law Firm MSA. The Law Firm MSA has been distributed for execution to active foreclosure Law Firms and will be distributed to bankruptcy, eviction and DIL Law Firms upon completion of satisfactory reviews. If reviews are not satisfactory, the Firm will be considered for termination or other remediation.

Reviews and monitoring of active Law Firms will be conducted on an on-going basis consistent with TPORMG and Law Firm Management Procedures and user manuals. A comprehensive schedule of reviews is being developed, including frequency of reviews (See Article 6 (e) below for more detail regarding frequency of reviews).

The performance of all Third-Party Providers, including Law Firms, will be measured against defined service levels, performance levels and contract terms (see Law Firm MSA, SLA and Law Firm Work Standards definitions in section 1, sections 3, 4.6 and 4.2 and the Exhibit A, Statement of Work Exhibit F, Work Standards). TPORMG has developed a database to house performance data to strengthen monitoring and oversight. For legacy relationships and Law Firms, through December 2011, HBIO and HBUS will be conducting a gap analysis of defined service and performance levels against existing reporting to ensure HSBC can appropriately and effectively measure Third-Party Provider performance and results. Where applicable new or enhanced reporting will be developed. The defined service levels will be maintained centrally in the TPORMG Database (see section 1.5, page 10 of TPORMG Procedures). TPORMG will review the applicable performance reporting and update results in the TPORMG Database

Scorecards and Dashboard reporting will be generated for review in the monthly Third Party Governance Committee meeting. Prior to year end, it is anticipated service and performance level data on all Law Firms and legacy relationships will be loaded to the TPORMG Database which will allow for consistent reporting and oversight. In addition to performance and service level standards other critical information such as the status of due diligence, audit, risk assessments and remediation timelines will be monitored and reported from the TPORMG Database. This collective information including the trending of customer complaints will be reviewed and discussed by the Third Party Governance Committee (See Third Party Governance Committee Charter). Material and/or significant issues or exceptions are reviewed by the Third Party Governance Committee, which makes and records decisions regarding the reduction of new referrals, removal of existing files, or termination of a Third-Party Provider.

Documents to be submitted with the Action Plan

- HSBC - North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- HSBC BEST PRACTICES FOR ITS OUTSIDE FORECLOSURE FIRMS (see updated version below)
- Investor Changes Implementation Procedure ALL
- Law Implementation Procedure ALL
- HSBC North America New Laws and Regulations Procedure - US
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES (see updated version below)
- Attorney Risk Assessment - Law Firm Management Scorecard (see updated version below)

- HSBC Mortgage Servicing Legal Department Law Firm Management Pre-review Questionnaire (see updated version below)
- HSBC Mortgage Servicing Legal Department Law Firm Management Review Questionnaire (see updated version below)
- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see updated version below)

Additional documents completed for re-submission of Action Plan

- MASTER SERVICES AGREEMENT (LEGAL SERVICES)
- Law Firm Management Legal Review Scorecard
- HSBC Mortgage Servicing Legal Department Law Firm Management Pre-Review Questionnaire
- HSBC Mortgage Servicing Legal Department Law Firm Management Review Questionnaire
- HSBC BEST PRACTICES FOR OUTSIDE FORECLOSURE, EVICTION AND BANKRUPTCY LAW FIRMS
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES
- Mortgage Servicing Third Party Operational Risk Management Procedures
- HSBC Mortgage Servicing Legal Department Law Firm Management Procedures User Manual
- Mortgage Servicing Third Party Operational Risk Management Procedures
- Mortgage Servicing Operations Third Party Provider Governance Charter
- SAMPLE REMEDIATION LETTER - Follow Up on recent HSBC Audit - Non-Judicial Foreclosure
- SAMPLE REMEDIATION LETTER - FOLLOW-UP on recent HSBC Audit (Firm with multiple state offices)
- SAMPLE REMEDIATION LETTER - FOLLOW-UP on recent HSBC Audit

Key HSBC Contacts for the Action Plan

- [REDACTED], SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO
- [REDACTED], EVP Chief of Staff HTSN and NA Head of Procurement
- [REDACTED], SVP Deputy General Counsel, CML

Article 6(b)

FRB Order Reference:	Article 6(b)	Corresponding OCC Article:	V.1.h
<i>The policies and procedures shall, at a minimum, address, consider, and include: processes to prepare contingency and business continuity plans that ensure the continuing availability of critical third-party services and business continuity of the Mortgage Servicing Companies, consistent with supervisory guidance of the Board of Governors, both to address short-term and long-term service disruptions and to ensure an orderly transition to new service providers should that become necessary;</i>			
Action Plan			
<p>As described below, the attached existing Business Continuity Management Policy (“BCP”) for HBIO and HBUS provides strategies and tactics to continue or resume critical business operations in a timely manner, should those operations be interrupted or otherwise affected by an unexpected event.</p>			
<u>Existing Processes / Programs:</u>			
<p>To internally mitigate the risk of an outage or disruption of services provided by Third-Party Providers, the business designs, implements, and maintains a business continuity plan for the critical processes or services to address how the business would recover from an outage or disruption caused by a critical Third-Party Provider. Third-Party Providers providing critical processes or services for businesses are required to have contingency plans in place. As required by the VRM Program, the contract owner (“CO”) is responsible for monitoring material vendors including vendor financial health and public reputation. The CO reports this information to VRM and participates in determining the overall risk rating. Please see Section 1.5.6 on page 11 of the HSBC - North America Vendor Risk Management (VRM) Policy for additional detail regarding the overall risk rating. For more detail regarding business continuity plans and Third-Party Providers, refer to Section 2.3.8 on page 47 of the HSBC North America Business Continuity Management Policy Operations.</p>			
<p>At the time a [REDACTED] is submitted to VRM, a determination is made as to whether a Third-Party Provider is deemed critical to the business. A Third-Party Provider is defined as being critical to the business if the Third-Party Provider performs a process, a service, or an activity which would not otherwise be undertaken by the HNAH subsidiary that engaged the Provider, but is “mission critical” to the Line of Business (“LOB”) in provision of service to customers or employees. A critical Third-Party Provider undergoes a two-step process whereby the business completes a questionnaire to help Business Continuity & Crisis Management understand the Third-Party Provider services being provided. After review of the questionnaire by Business Continuity & Crisis Management, if more information is deemed required, a more in depth questionnaire is completed by the Third-Party Provider that includes requests for supporting documentation, as well as testing results. Upon review of the</p>			

questionnaire and supporting documentation, Business Continuity & Crisis Management completes a Vendor Risk Assessment Report with respect to the critical Third-Party Provider which considers: program governance, crisis management process, business continuity plans, disaster recovery and data backup, and Provider facilities to determine whether the Third-Party Provider passes or fails the evaluation. If the Third-Party Provider fails, remediation is implemented. Law Firms are not deemed to be “mission critical” to the business as a delay in the litigation process would not be detrimental to the customer. Additionally, if files need to be transferred to another active Law Firm this can be accomplished in a reasonable time frame. Notwithstanding, Law Firm BCP plans will be assessed as part of Law Firm reviews.

To ensure existing, legacy Third-Party Providers are subject to the same business continuity rigor as newly-added critical Third Party Providers, as part of the LRM Program management is reviewing the business continuity plans of critical legacy Third-Party Providers to ensure compliance with the requirements of the Business Continuity Management Policy Gaps identified will be remediated for any exceptions noted. For new critical Third-Party Providers, the creation of a business continuity plan is triggered during the on-boarding process when due diligence and contracting is performed with respect to the Third-Party Provider.

Additionally, depending on the type and critical nature of the service, determined at the time of the initial review of the Third-Party Provider, the standard MASTER SERVICES AGREEMENT (LEGAL SERVICES) attached will also require the Third Party Provider to have a satisfactory business continuity plan.

Enhancement to Processes / Programs:

Currently, Third-Party Providers are not monitored to ensure that critical subcontractors have continuity plans. However, evaluations are underway to add to the scope of vendor risk management that if a Third-Party Provider has been determined to be critical, and that Provider uses subcontractors, the Provider must notify HBIO or HBUS of the subcontracting relationship. As noted above, the critical Third-Party Provider must provide their business continuity plan. If in that plan review it is determined that the subcontractor plays a substantial role, then HBIO or HBUS would require evidence of a continuity plan for the subcontractor as well. Because neither HBIO nor HBUS have the relationship with the subcontractor and are therefore not in a position to request the continuity plan from the subcontractor, HBIO or HBUS will insist on evidence from the critical Third-Party Provider that they have reviewed and accepted the continuity plan of their vendor (subcontractor to HBIO or HBUS).

Documents to be submitted with the Action Plan

- HSBC - North America Business Continuity Management Policy Operations
- HSBC - North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES

- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see updated version below)

Additional documents completed for re-submission of Action Plan

- MASTER SERVICES AGREEMENT (LEGAL SERVICES)

Key HSBC Contacts for the Action Plan

- [REDACTED], SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO
- [REDACTED], SVP Vendor Risk Management

Article 6(c)

FRB Order Reference:	Article 6(c)	Corresponding OCC Article:	V.1.b
<i>The policies and procedures shall, at a minimum, address, consider, and include: measures to ensure that all original records transferred by the Mortgage Servicing Companies to Third-Party Providers (including the originals of promissory notes and mortgage documents) remain within the custody and control of the Third-Party Provider (unless filed with the appropriate court or the loan is otherwise transferred to another party), and are returned to the Mortgage Servicing Companies or designated custodians at the conclusion of the performed service, along with all other documents necessary for the Mortgage Servicing Companies' files;</i>			
Action Plan			
<u>Existing Processes / Programs:</u>			
<p>Original collateral documents sent to Law Firms are tracked when transferred from and returned to HBIO and HBUS. HBIO and HBUS typically transfer only two original collateral documents (i.e., promissory notes and allonges), when required. For additional detail regarding custody and control of collateral documents refer to CML FC Review Procedures Brandon External, CML FC Review Procedures Lien Release Internal, and HBUS FC CML Assignments Procedures Records Internal.</p> <p>The Summary and Overview Sections on page 1 of the Foreclosure Collateral Retrieval Procedure CML also require that original collateral documents (i.e., promissory notes and allonges) remain in the custody and control of the Law Firm unless filed with the court and will be returned to HBIO or HBUS, or designated custodians, as appropriate, upon reinstatement, cancellation, or conclusion of the foreclosure. Existing foreclosure document imaging procedures, detailed in the Overview section on page 1 of the Captiva Indexing Regulatory Foreclosure Documents Procedure CML document, include the retention of imaged copies for documents executed by HBIO and HBUS and sent to Third-Party Providers.</p> <p>In the event of reinstatement or cancelled foreclosure actions, HBIO or HBUS will seek return from the Law Firms and the Courts of the original collateral documents (i.e., notes and allonges). For the collateral held by the Courts, in some jurisdictions a specific motion may be required to be filed with the Court requesting the return of the collateral and a subsequent hearing on the motion may also be required. In such cases, the return of the original collateral documents may be at the discretion of the Courts.</p> <p>In the event of a successful foreclosure sale, HBIO or HBUS will seek the return of original collateral documents (i.e., notes and allonges) from the Law Firms, and will seek the return of these documents from the Courts where it can do so without posing an additional burden on the Court, where there is no requirement of filing a motion or</p>			

scheduling a hearing for the return of the original collateral documents, and where the Court is willing to return such documents.

Additionally, the Law Firm MSA contains provisions regarding custody and control of original collateral documents and provisions requiring confidentiality and security of customer and other information. Section 4.19, page 13 of the Law Firm MSA and, Attachment F Work Standards, Section 9.1 of General Standards on page 73 of the Law Firm MSA provide that all Original Documents will be maintained in a secure area, may not be provided to any third party other than the appropriate court of record and will be returned to HSBC upon cancellation or successful completion of the foreclosure action. These provisions also require the Law Firm to have a tracking system for the removal and return by authorized Law Firm Personnel of Original Documents. For confidentiality and security of customer and other confidential and information security requirements, see Section 9 (Security), 11 (Confidentiality) and 13 (Data Protection and Security) and the related Attachment D titled Information Security and Data protection Requirements, and Sections 7 and 9 in Attachment F titled Law Firm Work Standards of the Law Firm MSA. Compliance with these provisions will be monitored during ongoing Law Firm reviews.

Enhancement to Processes / Programs:

Management is developing additional procedures and processes for the transmittal and retention of specified documents (complaint, affidavit, motion for summary judgment, order for summary judgment and other relevant documents) filed with the courts. Retention of specified documents will include the use of a third-party servicing system, such as the [REDACTED] tracking system, which procedures will be completed, and processes implemented, by the end of fourth quarter 2011. Section 4.1 of the Law Firm MSA requires Law Firms to promptly upload to the designated HSBC network copies of any and all documents, pleadings, filings, declarations, affidavits, correspondence, notices or any other documents related to the legal services.

Reporting is being further enhanced to monitor and track outstanding documents. HBIO and HBUS will continue to image and retain copies of affidavits and other documents that each entity signs and sends to the Law Firms. Law firms are required to upload all imaged documents within the given foreclosure action to [REDACTED]. All enhancements will be made by the end of fourth quarter 2011.

Periodic reviews will be performed by TPORMG to monitor Law Firms adherence to HSBC's image and retention requirements. On-going monitoring will be conducted and reported by TPORMG.

Documents to be submitted with the Action Plan

- Default Document Tracking and Retrieval Procedure ALL
- CML FC Review Procedures Brandon External
- CML FC Review Procedures Lien Release Internal
- HBUS FC CML Assignments Procedures Records Internal

- Captiva Indexing Regulatory Foreclosure Documents Procedure CML
- Foreclosure Collateral Retrieval Procedure CML
- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see updated version below)

Additional documents completed for re-submission of Action Plan

- MASTER SERVICES AGREEMENT (LEGAL SERVICES)

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Servicing Administration, HSBC Consumer and Mortgage Lending
- [REDACTED] SVP Default Services

Article 6(d)

FRB Order Reference:	Article 6(d)	Corresponding OCC Article:	V.1.c
<p><i>The policies and procedures shall, at a minimum, address, consider, and include: measures to ensure the accuracy of all documents filed or otherwise utilized on behalf of the Mortgage Servicing Companies or the owners of mortgages in the Servicing Portfolio in any judicial or non-judicial foreclosure proceeding, related bankruptcy proceeding, or in other foreclosure-related litigation, including, but not limited to, documentation sufficient to establish ownership of the note and right to foreclose at the time the foreclosure action is commenced;</i></p>			
<p>Action Plan</p>			
<p>Existing policies, procedures, and processes are in place regarding the review of documents. Certain enhancements, described below, have been made to ensure the accuracy of documents filed on behalf of HBIO or HBUS.</p>			
<p><u>Existing Processes / Programs</u></p>			
<p>HBIO and HBUS enhanced their processes and updated related policies, procedures, and training to ensure the accuracy of all documents filed or otherwise utilized on behalf of the Mortgage Servicing Companies, HBIO, HBUS, or owners of mortgages in judicial and non-judicial foreclosure proceedings, including procedures for document preparation, review, execution, notarization, note ownership, and right to foreclose at the time the foreclosure action is commenced. These enhancements include:</p>			
<ul style="list-style-type: none"> • Additional guidance for requirements related to acquiring knowledge of information contained in the documents filed in foreclosure proceedings and additional procedures to ensure the accuracy of the documents prior to initiating foreclosure, including: <ul style="list-style-type: none"> • Documentation sufficient to establish ownership <ul style="list-style-type: none"> - Verification of the possession of original note (see the Summary and Overview Sections on page 1 of the attached Pre-Foreclosure Note Validation Procedure CML and Original Document States - Foreclosure and Bankruptcy Procedure ALL) - Execution of a Lost Note Affidavit, if required, upon determination that original note is missing (see the Summary and Overview Sections on page 1 of the attached Non-Judicial States Lost Note Affidavit-Declaration Procedure ALL) - Procedures for judicial states regarding Lost Note Affidavits are outlined in the Summary and Overview sections of the Judicial States- Lost Note Affidavit Procedures document. These procedures include the following: Lost Note Affidavit – HI, IA, KY, ME, NM, NY, NC, ND, OH, OK, SC, DC Procedure ALL, Lost Note Affidavit – IL, IN, KS, and NE Procedure ALL, Lost Note Affidavit – CT, LA, and WI Procedure ALL, Lost Note Affidavit – 			

Vermont Procedure ALL, and FL Lost Note Affidavit Procedure ALL

- Verification of legal entity;
- Right to foreclose at the time foreclosure action is commenced (as an example see the Summary and Overview Sections of the California 1137 Declaration Execution Procedure ALL):
 - Validation of the plaintiff for foreclosure action
 - Review of Department of Defense website
 - Review of the imaged Breach Letter (see the Summary and Overview Sections of the Foreclosure Review Group C&D Re-Review Procedure CML attached);
- Development of standardized foreclosure affidavits, (as an example see the attached Affidavit of Amount Due - Florida - █████ User Manual and the Affidavit of Amount Due - Florida - █████ User Manual, and development of instructions and procedures for verifying information as well as reviewing, signing, and notarizing documents (see the attached Notary Procedure ALL, Foreclosure Notary Maintenance and Validation Procedure ALL, and Notary Matrix Procedure ALL);
- Review and development of appropriate forms and instructions (District of Columbia is still under review). HBIO and HBUS have been reviewing and modifying forms where necessary and developing instructions and procedures for reviewing, signing and notarizing documents where applicable;
- Completion of user manuals prior to resuming or restarting foreclosures in a given state;
- Development and implementation of Business Records training, as described in the Business Records Training document, which employees are required to complete prior to executing a foreclosure affidavit (see attached Business Records Training); and,
- Implementation of quality reviews (see in the Summary and Overview Sections of the attached Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL).

A foreclosure checklist, is used as a means of guiding preparation and quality control of the AOI; the checklist and corresponding evidence is imaged and retained, with detailed information relating to imaging documents contained in the █████ User Manual CML. HBIO and HBUS created this control as a first line of defense and results are used to manage and monitor quality performance of both our employees and any Third-Party Provider preparing an affidavit. The results will be used to drive coaching, additional training, and corrective action, including termination, if warranted.

HBIO and HBUS also complete a monthly random sample review of affidavits prepared and executed. Results are provided to senior management, including Compliance and Operational Risk Management. Through the Risk Control Assessment (“RCA”) program, material operational risks are monitored and failure to meet service levels or quality thresholds requires action plans. Control deficiencies are reported to Executive Management, including the HSBC Group Operational Risk

and Internal Control (“ORIC”) through RCA control monitoring.

Additionally, HBIO and HBUS enhanced their existing procedures and practices as appropriate to comply with Legal Requirements to verify that each is in possession of the original note before taking legal action where legally required. In all judicial states and non-judicial states where possession of the original note is or may be required in order to foreclose, HBIO and HBUS confirm that each, respectively, has possession of the original note and, where required by applicable law, the original note is sent to the Law Firm. If an original note is missing, a Lost Note Affidavit, if required, will be executed and sent to the Law Firm. As appropriate, the terms of the note are validated through an imaged copy of the note, and in non-judicial states, where confirmation of possession of the original note is not required prior to commencement of the foreclosure action, additional quarterly reviews will be conducted by the Records Department to validate possession of these original notes. Outside legal counsel validated the HBIO and HBUS process regarding the possession of the original promissory note.

Enhancement to Processes / Programs:

Sections 2, 13, and 20 of the General Work Standards in the Law Firm MSA Attachment F titled Law Firm Work Standards, also contain provisions requiring accurate completion of affidavits, sworn statements and other documents. Law Firm reviews will include a review of these requirements and results will be captured in Scorecards. The TPORMG [REDACTED] Database will store performance and service level data. See Article 6(j) for additional information regarding the TPORMG [REDACTED] Database.

HBIO and HBUS engaged outside counsel and completed a comprehensive review of Residential Mortgage Servicing foreclosure related documents, procedures, and processes related to document preparation, review, execution, notarization and note ownership regarding bankruptcy proceedings. Outside counsel also performed on-site reviews of bankruptcy practices of [REDACTED] and National Banking Services (“NBS”). Enhancements to bankruptcy documents, policies, procedures, and processes regarding findings or necessary recommended remediations identified in the reviews, will be made by the end of fourth quarter 2011.

Documents to be submitted with the Action Plan

- Universe of Documents Matrix ALL
- Affidavit of Amount Due - Florida - [REDACTED] User Manual
- Affidavit of Amount Due - Florida - [REDACTED] User Manual
- California 1137 Declaration Execution Procedure ALL
- Non-Judicial States Lost Note Affidavit-Declaration Procedure ALL
- Original Document States - Foreclosure and Bankruptcy Procedure ALL
- Foreclosure Policy ALL
- Collateral Policy ALL

- Pre Foreclosure Note Validation Procedure CML
- Business Records Training
- [REDACTED] User Manual CML
- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL
- Foreclosure Review Group C&D Re-Review Procedure CML
- Notary Procedure ALL
- Notary Matrix Procedure ALL
- Foreclosure Notary Maintenance and Validation Procedure ALL
- HSBC North America (HNAH) Compliance Complaint Management Procedures
- Affidavit Processing Checklist

Additional documents completed for re-submission of Action Plan

- Judicial States- Lost Note Affidavit Procedures
- MASTER SERVICES AGREEMENT (LEGAL SERVICES)

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO
- [REDACTED] SVP Servicing Administration, HSBC Consumer and Mortgage Lending
- [REDACTED], SVP Deputy General Counsel, CML

Article 6(e)

FRB Order Reference:	Article 6(e)	Corresponding OCC Article:	V.1.d
<i>The policies and procedures shall, at a minimum, address, consider, and include: processes to perform appropriate due diligence on potential and current Third-Party Provider qualifications, expertise, capacity, reputation, complaints, information security, document custody practices, business continuity, and financial viability; and measures to ensure the adequacy of Third-Party Provider staffing levels, training, work quality, and workload balance;</i>			
Action Plan			
<p>Existing policies and procedures are in place for HBIO and HBUS, including processes to perform appropriate due diligence on potential and current Third-Party Provider qualifications, expertise, capacity, reputation, complaints, information security, document custody practices, business continuity, and financial viability. The due diligence process described in Section 1.4 of the Mortgage Servicing Third Party Operational Risk Management Procedures is also designed to promote adequacy of Third-Party Provider staffing levels, training, work quality, and workload balance as required by the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>In order to perform appropriate due diligence, the VRM Program and section 1.2 on pages 4 and 5 of the TPORMG Procedures provide guidance for examining financial information, information security measures, business continuity, reputation, and other applicable reviews of potential and existing Residential Mortgage Servicing Third-Party Providers, including the Mortgage Electronic Registration System (“MERS”), [REDACTED] National Bankruptcy Services (“NBS”), and Law Firms. The TPORMG Third Party Provider Procedures also identify the need for a legal review for Third-Party Providers of legal services in section 2.4 on pages 12 and 13.</p>			
<p>Additionally, the HSBC Mortgage Servicing Legal Department Law Firm Management Procedures (“Law Firm Procedures”) outline the legal review process for Third-Party Providers of legal services (see the Legal review process in Section 5 of the Law Firm Procedures, pages 5 to 8). These reviews are managed by HSBC Legal in order to provide requisite expertise for the review. More specifically, the risk-based methodology for identifying the scope and frequency of Law Firm reviews is outlined in Section 5.3 of the Law Firm Procedures, on pages 6 and 7:</p>			
<p>HSBC Legal uses a Risk-Based Approach to determine the scope and frequency of Firm reviews and Firm file reviews. The Risk-Based Approach includes the assessment of the overall control rating from prior reviews as well as the Firm state complexity, Firm reputational risk and issues, Firm file volume and Firm size. The</p>			

Legal Review Scorecard captures the results of prior Firm File Reviews and Firm Reviews and calculates an overall control rating for the Firm (i.e. Highly Effective, Effective, Moderately Effective, Limited, Ineffective). The overall control rating from prior reviews is the primary factor that determines the frequency and scope of subsequent reviews. Generally, Legal conducts reviews for Firms with a Highly Effective, Effective or Moderately Effective control rating annually to every 18 months. Firms with a Limited or Ineffective control rating are typically reviewed semi-annually to annually.

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

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

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

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

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

Enhancement to Processes / Programs:

Reviews and monitoring of existing active foreclosure, bankruptcy, and eviction Law Firms and new Law Firms are being conducted on an on-going basis consistent with HSBC Mortgage Servicing Legal Department Law Firm Management Procedures, Mortgage Servicing Third Party Operational Risk Management Procedures, and user manuals. A schedule of reviews is being developed by management. Additionally, as reviews are completed, and as new Law Firms become active, they will be provided the Law Firm MSA, NDA, and Best Practices, and will be included in the on-going review schedule.

Documents to be submitted with the Action Plan

- HSBC - North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES (see updated version below)

Additional documents completed for re-submission of Action Plan

- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES
- Mortgage Servicing Third Party Operational Risk Management Procedures

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO
- [REDACTED], EVP Chief of Staff HTSN and NA Head of Procurement
- [REDACTED], SVP Deputy General Counsel, CML

Article 6(f)

FRB Order Reference:	Article 6(f)	Corresponding OCC Article:	V.1.e
<p><i>The policies and procedures shall, at a minimum, address, consider, and include: processes to ensure that contracts provide for adequate oversight, including requiring Third-Party Provider adherence to HBIO’s foreclosure processing standards, measures to enforce Third-Party Provider contractual obligations, and processes to ensure timely action with respect to Third-Party Provider performance failures;</i></p>			
<p>Action Plan</p> <p>HBIO and HBUS have existing policies and procedures to ensure that contracts (Master Services Agreements), with Third-Party Providers include provisions for adequate oversight, that require Third-Party Providers to adhere to HSBC Mortgage Servicing Processing Standards, including measures to enforce contractual obligations, and processes to ensure timely action for performance failures for HBIO and HBUS. The Law Firm MSAs have also been enhanced based on legacy Law Firm reviews, existing policies and procedures, and the requirements of the Order.</p> <p><u>Existing Processes / Programs:</u></p> <p>All material Third-Party Providers must be vetted through the VRM Program. A Third-Party Provider is deemed “material” if it meets any one of the following specified criteria in the VRM Policy and Procedures: expenditure levels, receipt of restricted or highly restricted information and access to HSBC systems, providing customer facing services, having physical access to HSBC locations, or use of HSBC brand signifiers. HBUS and HBIO enter into agreements with all material Third-Party Providers, including active Law Firms.</p> <p>Standard Master Services Agreements (“MSAs”) have been in place and available for Third Party Providers (other than Law Firms) engaged by HSBC North America businesses. The MSAs include service level agreements (“SLAs”) developed by VRM and the business as appropriate for the services provided by the Third Party Provider. Representatives from the businesses and the Third-Party Provider negotiate the terms, conditions and applicable service levels to be included in these agreements. For additional information, please see Section 6.1 of the VRM Policy and Section 5 of the TPORMG Procedures.</p> <p>In order to enhance oversight and control over Law Firms, the standard Master Services Agreement (Legal Services) (“Law Firm MSA”) was developed in collaboration with HSBC Legal, TPORMG, Information Security Risk (“ISR”), Business Continuity Program Management (“BCPM”), as well as the impacted business areas. SLAs are contained within Law Firm MSA, Attachment F, titled Law Firm Work Standards.</p> <p>HBIO and HBUS directly engage the active foreclosure Law Firms that use the [REDACTED]</p>			

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

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

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

As described in more detail in Article 6(a) above, in addition to the VRM Policy and Procedures, HBIO and HBUS have implemented processes pursuant to Section 6 of the TPORMG Procedure and Section 5.4 of the Legal Law Firm Procedure regarding Law Firms reviews. These Procedures also require the negotiation and execution of the Law Firm MSA, (see Section 5 of the TPORMG Procedure and Section 4 of the Legal Law Firm Procedures). The standard Law Firm MSA has been distributed to active foreclosure Law Firms, and approximately 60 percent of those Firms have executed and returned the Law Firm MSA. A Law Firm MSA will be sent for execution to existing active bankruptcy, eviction and DIL Law Firms following satisfactory Firm reviews. It is anticipated that all MSAs will be distributed by the end of fourth quarter 2011.

Service level agreements ("SLAs") for Law Firms are contained in the Law Firm MSA Attachment F, titled Law Firm Work Standards, to ensure compliance with applicable laws, HSBC Best Practices and HSBC procedures. These SLAs were developed in collaboration with Legal, Information Security Risk ("ISR"), Business Continuity Program Management, as well as the impacted areas of the business: foreclosure, bankruptcy, and evictions. Contract Owners ("CO") within TPORMG are responsible

for ongoing monitoring of performance of Third-Party Providers against SLAs and other contract terms, including the Legal Requirements, supervisory guidance and HBIO's policies and procedures. These COs also receive feedback regarding Third-Party Provider performance from various sources including, but not limited to, the business, ISR, Customer Service, and Legal with respect to Law Firm legal reviews (described in Article 6 (a), (e) (g) and (j)). In addition, TPORMG reviews Scorecard results and Third Party Provider review findings, as appropriate, with the Third Party Governance Committee on a monthly basis, as well as having daily interactions as appropriate with the business areas. TPORMG is subject to review by HNAH VRM and Group Audit North America.

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

Enhancement to Processes / Programs:

An in-depth review of legacy Third-Party Provider relationships is currently being conducted under the VRM Program as part of the LRM Program. Upon completing this review, management will evaluate whether existing contracts with the Third-Party Providers (including Law Firms, [REDACTED] and NBS) contain provisions consistent with the requirements of VRM Policies and Procedures, or whether new agreements are necessary. If new agreements are necessary, HBIO and HBUS will use a Risk-Based Approach to prioritize, negotiate and execute contracts focusing first on critical Third-Party Providers.

The agreements with [REDACTED] and National Bankruptcy Services ("NBS") are in the process of being reviewed and revised. The revised [REDACTED] and NBS agreements will be consistent with and will include the standard VRM contract provisions and will accompany the current statement of work that will reflect the current services provided by [REDACTED] and NBS. Quality standards and performance metrics will also be included in the revised [REDACTED] and NBS agreements, which are expected to be completed by the end of fourth quarter 2011. A revised Master Services Agreement was sent to [REDACTED] for its comments. The revised Agreement is more consistent with the standard Law Firm MSA and other HSBC standard Third-Party agreements.

Generally, for Law Firms providing bankruptcy or eviction legal services only, we plan to enter into the Law Firm MSA following satisfactory reviews of the Law Firms, with the possible exception of the network of local bankruptcy attorneys engaged by the law firm BVW. The BVW firm is associated with, and provides legal services to, NBS and its clients. NBS provides bankruptcy administrative and processing support. We continue to conduct due diligence on the BVW Firm along with NBS. Upon completion of due diligence, we will determine whether to contract directly with each bankruptcy attorney within the BVW network in addition to the MSA with BVW. The BVW Agreement is also undergoing review and revision, and the updated agreement is expected to be completed by the end of fourth quarter 2011.

A Law Firm MSA will be sent for execution to existing active bankruptcy, eviction and DIL Law Firms following satisfactory Firm reviews. If the review of such Firms is not acceptable, the Firm will be evaluated for termination or other remediation. It is anticipated that all Law Firm MSAs will be distributed to active Law Firms by the end of fourth quarter 2011.

As stated throughout this Action Plan as well as this Article, the monitoring of active Law Firms is the responsibility of the TPORMG. The TPORMG will continue to engage with Vendor Risk Management, ISR, Legal and other departments to provide subject matter expertise for Mortgage Servicing Third Party relationships, including Law Firms. Active Law Firms will be monitored by TPORMG through a combination of periodic Law Firm reviews, as described in the Law Firm Management Procedures and the TPORMG Procedures. Firm Reviews include an evaluation of Firm policies and procedures, oversight, qualification, expertise, and training of staff, adequacy of staffing, control of vendor relationships, remediation processes, contested litigation management, as well as document preparation, review, and execution practices, notary practices, and document custody controls. In addition, TPORMG will review Law Firm quality results produced by other departments and escalated complaints regarding Law Firms. TPORMG will capture the results in a monthly scorecard on each Firm. Firms not performing to standard expectations will be reviewed and discussed as part of the monthly Third-Party Governance Committee meeting (see Section 10.1 of the Mortgage Servicing Third Party Operational Risk Management Procedures) and during Legal Review Meetings (described in Article 6 (a)).

Documents to be submitted with the Action Plan

- HSBC - North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES (see updated version below)
- SAMPLE REMEDIATION LETTER – Follow Up on recent HSBC Audit – Non-Judicial Foreclosure
- SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit (Firm with multiple state officers)
- SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit

- Law Firm Termination Procedure ALL
- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see updated version below)

Additional documents completed for re-submission of Action Plan

- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES
- MASTER SERVICES AGREEMENT (LEGAL SERVICES)
- Mortgage Servicing Third Party Operational Risk Management Procedures

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO
- [REDACTED], EVP Chief of Staff HTSN and NA Head of Procurement
- [REDACTED], SVP Deputy General Counsel, CML

Article 6(g)

FRB Order Reference:	<i>Article 6(g)</i>	Corresponding OCC Article:	<i>V.1.f</i>
<p><i>The policies and procedures shall, at a minimum, address, consider, and include: processes to ensure periodic reviews of Third-Party Provider work for timeliness, competence, completeness and compliance with all applicable Legal Requirements, and HBIO’s contractual obligations to GSEs and investors, and to ensure that foreclosures are conducted in a safe and sound manner;</i></p>			
<p>Action Plan</p> <p>HBIO and HBUS have policies and procedures in place to review the work of Third-Party Providers for timeliness, competence, completeness, and compliance with applicable Legal Requirements and contractual obligations of HBIO and HBUS to GSEs and investors, and to ensure that foreclosures are conducted in a safe and sound manner in accordance with the requirements of the Order (see HSBC -North America Vendor Risk Management (VRM) Policy and HSBC North America Vendor Risk Management (VRM) PROCEDURES).</p> <p><u>Existing Processes / Programs:</u></p> <p>The existing VRM Policy and Procedures require businesses, which own the contracts with the Third-Party Providers (which includes active Law Firms), to perform reviews to monitor adherence to the contract terms and service level agreements (“SLAs”) in the contracts. The Law Firm Management Procedures and the TPORMG Third Party Management Procedures require periodic reviews of Third-Party Providers including Law Firm reviews.</p> <p>HBIO and HBUS also established the Mortgage Servicing Operations Third-Party Provider Governance Committee (“Third Party Governance Committee”) to oversee the Mortgage Servicing Third-Party Provider management process, which includes the review of Law Firms. The Third Party Governance Committee will meet monthly. The responsibilities of the Committee include:</p> <ul style="list-style-type: none"> • Reviewing and assessing performance reporting and results of the Third-Party Provider reviews; • Determining retention, discipline, remediation and termination of Third-Party Providers; • Evaluating and addressing emerging trends and risks and strategies; • Determining whether or not to continue doing business with each Law Firm; and, • Escalating issues identified, as appropriate, to senior management. <p>Additionally, processes are in place to ensure that applicable legal, regulatory and investor changes are identified and appropriate changes made to relevant documents, procedures and practices. Changes to Legal Requirements and supervisory guidance are monitored by the Regulatory Monitoring and Assessment group (“RMA”) and</p>			

appropriate changes to documents, procedures and practices are implemented by the businesses with assistance from the Law Change Working Group (“LCWG”). Changes to GSE and investor guidelines are monitored and implemented in coordination with the Investor Change Working Group (“ICWG”) for HBIO and HBUS (see the attached RMA, LCWG, and ICWG procedures that provide further detail regarding the processes to monitor and implement as appropriate legal changes, supervisory guidance and investor requirements, and see HSBC North America New Laws and Regulations Procedure – US and Law Implementation Procedure ALL).

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

- Active foreclosure Law Firms are being monitored consistent with the VRM Program;
- For all active foreclosure, bankruptcy* and eviction Law Firms, a [REDACTED] ([REDACTED] that initiates the VRM process for the engagement of a Third-Party Provider has been completed;
- A Business Analysis Report (“BA”) and Financial Analysis Report (“FA”) has been completed for active foreclosure Law Firms and a Contract Owner and Third Party Risk Officer (“TPRO”) has been assigned;
- Third-Party Security Reviews (“TPSR”) by the HNAH Information Security Risk (“ISR”) group are nearing completion for active foreclosure Law Firms. A TPSR rating provided by ISR is included in the Overall Service Risk Assessment (“OSRA”) rating for each Law Firm;
- An NDA has been signed by the active foreclosure Law Firms;
- Best Practices have been distributed to active foreclosure, bankruptcy* and eviction Law Firms. All foreclosure Firms (but for one with which we are still working through remediation) have acknowledged their commitment to comply with the Best Practices;
- HSBC Legal has coordinated with the assistance of outside counsel initial reviews of active foreclosure Law Firms to assess adherence and compliance with applicable Legal Requirements, and review of the Firm processes and practices for document preparation and review, execution and notarization, staffing, training, capacity and competency;
- Remediation letters have been sent to active foreclosure Law Firms regarding

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

deficiencies or concerns and remediation expectations, including time lines for completion. Responses are being tracked and monitored in the TPORMG SharePoint Database (see SAMPLE REMEDIATION LETTER – Follow Up on recent HSBC Audit – Non-Judicial Foreclosure, SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit (Firm with multiple state offices), and SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit);

- Review of significant and material findings from the Law Firm reviews are discussed at the Legal Review Meetings (described in Article 6(a)) and will be discussed at the Third-Party Governance Committee meetings (see the attached Mortgage Servicing Operations Third Party Provider Governance Charter)). Several terminations have been recommended and agreed upon ;and,
- Law Firm termination procedures have been developed (see the attached Law Firm Termination Procedures ALL document).

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

Enhancement to Processes / Programs:

Reviews of remaining active bankruptcy* and eviction Firms will be completed, and if the reviews are satisfactory, the Law Firm MSAs will be sent for execution to these Firms, by year-end 2011. Firms with unsatisfactory reviews will be evaluated for termination or other remediation. On an on-going basis, active Law Firms will be assessed in a consistent manner with the VRM OSRA risk rating (the “VRM Scorecard”). The OSRA risk rating is comprised of a series of risk statements used to facilitate a risk assessment of key Vendor risks using the Operational Risk Self Assessment (“RSA”) Methodology to arrive at a consolidated rating. Additionally, HSBC Legal will manage the legal reviews to assess legal risks associated with Law Firms and will capture results of those reviews in the Legal Review Scorecard (see the attached Legal Review Scorecard). The Legal Review Scorecard assesses legal risk. The nature and frequency of the on-going reviews will depend, in part, on the OSRA ratings, as well as the Legal Review Scorecard results and other factors described in Article 6(a) (see the OSRA process in Section 3.5 of the VRM Policy).

Documents to be submitted with the Action Plan

- HSBC - North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES (see updated version below)
- Law Implementation Procedure ALL
- HSBC North America New Laws and Regulations Procedure - US
- Attorney Risk Assessment - Law Firm Management Scorecard (see updated version below)
- HSBC Mortgage Servicing Legal Department Law Firm Management Pre-review

Questionnaire

- HSBC Mortgage Servicing Legal Department Law Firm Management Review Questionnaire
- Mortgage Servicing Operations Third Party Provider Governance Charter
- Law Firm Termination Procedure ALL
- SAMPLE REMEDIATION LETTER – Follow Up on recent HSBC Audit – Non-Judicial Foreclosure
- SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit (Firm with multiple state offices)
- SAMPLE REMEDIATION LETTER – FOLLOW-UP on recent HSBC Audit
- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see updated version below)

Additional documents completed for re-submission of Action Plan

- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES
- Law Firm Management Legal Review Scorecard
- MASTER SERVICES AGREEMENT (LEGAL SERVICES)

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO
- [REDACTED], SVP Vendor Risk Management
- [REDACTED], SVP Deputy General Counsel, CML

Article 6(h)

FRB Order Reference:	Article 6(h)	Corresponding OCC Article:	V.1.g
<i>The policies and procedures shall, at a minimum, address, consider, and include: processes to review customer complaints about Third-Party Provider services;</i>			
Action Plan			
<p>Existing customer complaint policies and procedures ensure that customer complaints related to Third-Party Providers of HBIO and HBUS are reviewed and resolved in a timely manner and in accordance with the requirements of the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>Escalated customer complaints are handled in a similar manner by HBIO and HBUS personnel. For HBUS, escalated complaints are reviewed by the [REDACTED], and for HBIO, escalated complaints are reviewed by the [REDACTED].</p>			
<p>After researching the allegations in the complaint along with the assistance of appropriate business personnel, [REDACTED] prepares a written response to the customer (see the Research and Response Letter Procedure CML, the Escalated Complaint Resolution Policy ALL, Escalated Complaint Resolution User Manual HBUS, Escalated and Presidential Call Policy All, Escalated and Presidential Call Procedure CML, and HSBC North America (HNAH) Compliance Complaint Management Procedures documents).</p>			
<p>The [REDACTED] or [REDACTED] monitors the timely and effective resolution of customer complaints through the [REDACTED] ([REDACTED] is an enterprise-wide system used to manage the progress and handling of complaints, understand status and ownership of complaints within and across businesses, and communicate information requests and comments to other complaint representatives (see the Process Section on page 1 of the [REDACTED] Entering a Complaint Procedure ALL). Complaints are categorized according to complaint reason.</p>			
<p>The Vendor Relationship Owner (“VRO”) Team tracks and provides trending on Third-Party Provider complaints, which include complaints concerning Law Firms. The VRO is the business representative responsible for macro-level oversight of a Third-Party Provider relationship and provides oversight for Third Party relationships that may cross businesses. The VRO also serves as the primary point of contact for that Third Party Provider and oversees the Vendor Management activities of each Contract Owner (“CO”). The CO resides in the business and is responsible for monitoring the Third Party against the Service Level Agreement (“SLA”) terms, as well as other provisions specified in the contract and reporting on the Vendor’s performance.</p>			

The Escalated Complaint Team has enhanced their written procedures to require complaint tracking, which is currently in place. Reporting and trending of customer complaints specific to Third-Party Providers is underway, and the TPORMG will be notified of any such complaints going forward.

As described in the Escalated Complaint Resolution Policy ALL, the Regulatory Liaison Office (“RLO”), which is a part of HNAH Compliance, maintains a process to monitor complaint resolution to ensure that regulatory complaints are handled expeditiously and compliance issues raised in complaints are reviewed, appropriately responded to, and corrective actions are initiated. The RLO also receives complaints regarding Third-Party Providers received from state or federal regulatory agencies (see HSBC North America (HNAH) Compliance Complaint Management Procedures). Further, HSBC Legal reviews and assesses customer complaints as requested by the business.

Additionally, Law Firm reviews address customer complaints and material or significant adverse litigation concerning Law Firms, including litigation involving law enforcement agencies or regulatory authorities.

Management personnel of Residential Mortgage Servicing, Compliance and Vendor Risk Management have reviewed the existing policies and procedures described above to ensure accuracy and confirm adherence to the Third-Party Provider customer complaint review requirements of the Order. Although at the present time enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements are appropriate or necessary.

Documents to be submitted with the Action Plan

- Research and Response Letter Procedure CML
- Escalated Complaint Resolution Policy ALL
- Escalated and Presidential Call Policy All
- Escalated and Presidential Call Procedure CML
- HSBC North America (HNAH) Compliance Complaint Management Procedures
- ██████ Entering a Complaint Procedure ALL
- Escalated Complaint Resolution User Manual HBUS

Key HSBC Contacts for the Action Plan

- ██████ SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO
- ██████, SVP General Compliance

Article 6(i)

FRB Order Reference:	Article 6(i)	Corresponding OCC Article:	V.1.i
<p><i>The policies and procedures shall, at a minimum, address, consider, and include: a review of fee structures for Third-Party Providers to ensure that the method of compensation considers the accuracy, completeness, and legal compliance of foreclosure filings and is not based solely on increased foreclosure volume or meeting processing timelines; and</i></p>			
<p>Action Plan</p> <p><u>Existing Processes / Programs:</u></p> <p>As detailed earlier, HNAH has an existing North America Vendor Risk Management infrastructure in place. As part of this infrastructure, HNAH has established policies and procedures which outline the vendor due diligence, ongoing monitoring processes and provisions associated with contracting with Third-Party Providers engaged by HNAH subsidiaries (collectively the “VRM Program”) (see Article 6(a)). Regarding contracting and setting fee structures with vendors, TPORMG works with relevant business departments to develop service level agreements, work standards and associated fee parameters for services to be provided to HBIO and HBUS.</p> <p>In order to enhance oversight and control over Law Firms, the standard Master Services Agreement (Legal Services) (“Law Firm MSA”) was developed in collaboration with HSBC Legal, TPORMG, Information Security Risk (“ISR”), Business Continuity Program Management (“BCPM”), as well as the impacted business areas. SLAs are contained within the work standards of the Law Firm MSA. The MSA, as more fully described below in the Enhancement to Processes/Programs section, contains a variety of measures relating to fees and the consequences to the Firms for failure to comply with the service level agreements and other work standards. HBIO and HBUS leverage GSE guidelines in setting the attorneys fees for foreclosure and bankruptcy related services. The mortgage servicing industry has typically looked to the GSE attorney fee guidelines as being industry standard and these guidelines have routinely been adopted for non-GSE loans in addition to GSE loans. As described below, controls have been developed to ensure that accuracy, completeness, and legal compliance of foreclosure and bankruptcy filings are considered when assessing the compensation owed to a Law Firm.</p> <p><u>Enhancement to Processes / Programs:</u></p> <p>The existing VRM contracts and agreements require business Contract Owners to perform reviews of non-Legal Third-Party Providers to monitor adherence to contracts and terms as they relate to fees. For Law Firm Third-Party Providers, to ensure that the method of compensation considers accuracy, completeness, and legal compliance of foreclosure filings, HBIO and HBUS began by developing a robust set</p>			

of Best Practices and the Law Firm MSA. These documents detail HBIO and HBUS requirements concerning accuracy, completeness and compliance with Legal Requirements for services provided by the Law Firms. The Best Practices, for instance, require the Law Firms to ensure that their policies, procedures and practices comply with state notarization laws and that the Law Firms periodically review affidavits and other forms for state law compliance (See HSBC BEST PRACTICES FOR OUTSIDE FORECLOSURE, EVICTION AND BANKRUPTCY LAW FIRMS). The MSA contains many mandatory service levels and work standards that require the Law Firms to comply with Legal Requirements and service levels covering accuracy and completeness of foreclosure and bankruptcy filings in addition to adherence to required timelines. For example, Law Firms must use HSBC approved affidavits and forms. Law Firms must also have quality control programs designed to identify practices that do not comply with Legal Requirements and ensure that any deficiencies are remediated promptly. Failure of a Law Firm to comply with these requirements can result in financial penalties including reduction of new referrals, removal of files, exercise of indemnification rights, or termination of the Law Firm. Additionally, HBIO and HBUS will impose a ten-thousand dollar penalty against a Law Firm for an improper foreclosure filing if the Law Firm files a foreclosure complaint in the name of MERS in violation of the Law Firm MSA. (See sections 3.6 on page 10; 21.1 on page 36; and 24.1 and 24.2 on page 41 of the MASTER SERVICES AGREEMENT (LEGAL SERVICES)).

Documents to be submitted with the Action Plan

- HSBC - North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES
- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see updated version below)

Additional documents completed for re-submission with the Action Plans

- MASTER SERVICES AGREEMENT (LEGAL SERVICES)
- HSBC BEST PRACTICES FOR OUTSIDE FORECLOSURE, EVICTION AND BANKRUPTCY LAW FIRMS

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO

Article 6(j)

FRB Order Reference:	Article 6(j)	Corresponding OCC Article:	V.1.j
<p><i>The policies and procedures shall, at a minimum, address, consider, and include: a periodic certification process for law firms (and recertification of existing law firm providers,) that provide residential mortgage foreclosure and bankruptcy services for the Mortgage Servicing Companies as qualified to serve as Third-Party Providers to the Mortgage Servicing Companies, including that attorneys are licensed to practice in the relevant jurisdiction and have the experience and competence necessary to perform the services requested.</i></p>			
<p>Action Plan</p> <p>As described below, the existing HNAH VRM Policy and Procedures as well as the TPORMG Procedures and the Law Firm Procedures describe the assessment and review process for residential mortgage foreclosure, bankruptcy, and eviction Law Firms. The assessment includes a review of Firm qualifications to provide foreclosure, bankruptcy, and/or eviction legal services to HBIO and HBUS. These policies and procedures, along with the standard MSAs, Best Practices, Scorecards, Questionnaires and other tools described in this Action Plan are designed to ensure compliance with this requirement of the Order.</p> <p><u>Existing Processes / Programs:</u></p> <p>The existing HNAH VRM Policy and Procedures (see Section 4 on page 16) as well as the TPORMG Procedures (see Section 6 on page 18) and the Law Firm Procedures (see Section 5 on pages 5 to 9 and section 6 on page 10) provide the review and assessment process to evaluate new Law Firms and for the on-going monitoring of existing active Law Firms. While the assessment and review processes described in the VRM Policy and Procedures, TPORMG Procedures and Law Firm Procedures, are not specifically defined as a certification process, they serve the same purpose by providing guidelines to determine whether Law Firms are qualified to serve and whether HBIO and HBUS should engage or continue doing business with the Law Firm.</p> <p>These Procedures identify the type of reviews to be performed by the business, Information Security Risk, VRM, TPORMG, Legal and others to assess the financial, reputational, information security, legal and other capabilities or risks of the Law Firms.</p> <p>As previously stated, in Article 6(a), the requirements for engagement of a Third Party under the VRM Program have been initiated for active foreclosure, bankruptcy* and</p>			

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

eviction Law Firms that provide legal services to HBIO and HBUS Residential Mortgage Servicing. In addition to the various financial, information security, reputation and other reviews performed by VRM, Information Security Risk, TPORMG, the business, and others, HSBC Legal manages with the assistance of outside counsel, the legal review of Law Firms to assess Firm compliance with applicable laws, rules, regulations and judicial requirements as well as Firm qualifications to provide the legal services. These legal assessments are managed by HSBC Legal along with experienced outside counsel to provide the requisite expertise for the review and evaluation of the qualifications of the Law Firms to perform the legal services.

Law Firm reviews include:

- Assessment of Law Firm qualifications, expertise, competence, reputation, capacity, staffing, training, work quality, workload, controls, financial viability, organizational structures and affiliated or related service provider relationships;
- Assessment of compliance with applicable legal, regulatory and judicial requirements, Best Practices, compliance with HSBC Legal escalation mandates;
- Assessment of financial and information security risks;
- Review of Law Firm policies and procedures and document preparation, review, execution, and notarization practices;
- Interviews with Law Firm personnel;
- Review of material or significant adverse litigation and media coverage regarding the Law Firm; and,
- File reviews.

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

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

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

Additionally, HSBC Legal has engaged outside counsel to monitor and notify HBIO and HBUS of any adverse litigation and media coverage concerning Law Firms, and Legal and TPORMG receive frequent summaries, at least weekly, regarding litigation and media coverage concerning Law Firms. Law Firms are also required to provide notice to HSBC of significant or substantive adverse litigation and any bar grievances and sanctions (including reprimand, censure and disbarment) against the Law Firm or any Firm attorney pursuant to the Escalation Protocol Matrix described in the Best Practices and Law Firm MSA (described in Article 6(a)). Compliance with these provisions will be evaluated during Law Firm reviews. Additionally, such litigation and matters are discussed with the Law Firms as appropriate and their feedback is considered. Moreover, significant or substantive adverse litigation or adverse media coverage regarding Law Firms is evaluated during the Legal Review Meetings, and will also be discussed with the Third Party Governance Committee and the Compliance Committee, as appropriate. In the event HSBC personnel or any of the above Committees determine that any significant or substantive adverse litigation or media coverage may impact the ability of the Law Firm to perform in accordance with Legal Requirements or HBIO and HBUS policies and procedures, or presents reputational concerns for HBIO or HBUS, actions including reduction of new referrals, removal of existing files, exercise of indemnification rights, and/or termination of the Law Firm may occur.

Enhancement to Processes / Programs:

Business requirements have been developed to create a TPORMG Database that will further strengthen the monitoring and reporting regarding Third-Party Providers (see Third Party Operational Risk Management Database Design Requirements). Note that these requirements may be modified as business needs are refined and circumstances change. Population of the TPORMG database has begun. Testing and validation of the database, along with system and user manuals will be completed by the end of fourth quarter 2011.

Additional tools will be reviewed and considered to further enhance on-going Law Firm monitoring.

Management personnel of Residential Mortgage Servicing, HSBC Legal, Compliance, and Vendor Risk Management reviewed the processes and procedures described in this Article, as well as the enhancements, to ensure they are accurate and in accordance with this requirement of the Order.

Documents to be submitted with the Action Plan

- HSBC - North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES (see updated version below)
- Mortgage Servicing Operations Third Party Provider Governance Charter
- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see updated version below)

Additional documents completed for re-submission with the Action Plan

- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES
- MASTER SERVICES AGREEMENT (LEGAL SERVICES)
- Mortgage Servicing Third Party Operational Risk Management Procedures
- Law Firm Management Legal Review Scorecard

Key HSBC Contacts for the Action Plan

- [REDACTED], SVP Strategy, Operational Risk Management and Chief Information Risk Office, HBIO
- [REDACTED], SVP Vendor Risk Management
- [REDACTED], SVP Deputy General Counsel, CML