

**Mortgage Enhancements
HSBC North America Holdings, Inc.
HSBC Finance Corporation
Action Plan Response to FRB Consent Order
MERS**

October 4, 2011

Section 7: Mortgage Electronic Registration System

Article 9

FRB Order Reference:	<i>Article 9</i>	Corresponding OCC Article:	<i>VI.1</i>
<p><i>Within 60 days of this Order, HBIO shall submit an acceptable plan to ensure appropriate controls and oversight of the Mortgage Servicing Companies' activities with respect to MERS and compliance with MERS' membership rules, terms, and conditions ("MERS Requirements") ("MERS Plan"). The MERS Plan shall include, at a minimum:</i></p>			
<p>Action Plan</p> <p>HBIO and HBUS have designed a plan for appropriate controls and oversight of the Mortgage Servicing Companies' and Bank's activities with respect to compliance with Mortgage Electronic Systems ("MERS") Requirements. Further details regarding the MERS Plan are outlined in the Action Plans for Article 9, sections (a) through (g).</p> <p>A review was completed by HBIO and HBUS in February 2011 to evaluate compliance with MERS Requirements and to identify processes requiring further enhancement. The review resulted in updating the MERS HSBC Consumer Mortgage Lending Quality Assurance Plan ("QA Plan"), and will be ongoing as MERS requirements change. Since conducting this review, MERS announced a reassessment of many policies. MERS issued an Announcement 2011-06 on June 17, 2011 which describes the procedural changes taking place between now and February 27, 2012, in the Transitional Procedures Manual and the Transitional Quality Assurance Procedures Manual. Additionally, MERS issued a Training Bulletin 2011-03, on July 1, 2011, which outlines the amendments MERSCORP is making to these procedures based on Member feedback received at the MERS 2011 User Conference, which was attended by HSBC representatives. In accordance with MERS Announcement 2011-06 and MERS Training Bulletin Number 2011-03, HBIO and HBUS intend to update policies and procedures to comply with newly established MERS Requirements and timelines.</p> <p>In accordance with MERS Announcement 2011-06, HBIO and HBUS are developing enhanced reconciliation reporting to support the Transitional Quality Assurance ("QA") Procedures Manual and new reconciliation components. The QA Plan conducted by the business is discussed in further detail in sections (a) through (g). In addition, enhancements are being made to the reconciliation reports to align with updated MERS Requirements.</p> <p>HBIO and HBUS, led by the Senior Vice President of Servicing Administration, have identified existing processes that address requirements of the Order and areas requiring further enhancement. The results of this analysis include, without limitation,</p>			

the following:

Existing Processes	Required Enhancements
<ul style="list-style-type: none">Processes which provide control and oversight regarding membership registration and approval of HBIO and HBUS employees and third-party vendors through the MERS Corporate Resolution process (see Articles 9(a), 9(c), 9(d))Enhanced the MERS Quality Assurance (“QA”) Plan as of May 13, 2011, to include a quarterly validation of all MERS Corporate Resolution Management System (“CRMS”) authorized Certifying Officers.	<ul style="list-style-type: none">Updating MERS QA Plan to ensure compliance with newly established MERS Requirements (see Articles 9(a)-(g))Enhance reconciliation reporting to comply with updated MERS RequirementsEnhance Data reviews in accordance with MERS Training Bulletin Number 2011-03, to identify and correct exceptions found in reviews of MERS, [REDACTED] and [REDACTED]Validating and updating existing MERS operating procedures to ensure compliance with MERS Requirements, (see Articles 9(a), 9(c), 9(d), 9(e))

Documents to be submitted with the Action Plan

- Refer to Action Plans for Article 9, sections (a) through (g)

Key HSBC Contacts for the Action Plan

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

Articles 9(a), 9(c), 9(d)

FRB Order Reference:	<i>Article 9(a)</i>	Corresponding OCC Article:	<i>VI.1.a</i>
<i>Processes to ensure that all mortgage assignments and endorsements with respect to mortgage loans serviced or owned by the Mortgage Servicing Companies out of MERS' name are executed only by a certifying officer authorized by MERS and approved by the Mortgage Servicing Companies;</i>			
FRB Order Reference:	<i>Article 9(c)</i>	Corresponding OCC Article:	<i>VI.1.c</i>
<i>processes to ensure that the Mortgage Servicing Companies maintain up-to-date corporate resolutions from MERS for all Mortgage Servicing Companies employees and third-parties who are certifying officers authorized by MERS, and up-to-date lists of MERS certifying officers;</i>			
FRB Order Reference:	<i>Article 9(d)</i>	Corresponding OCC Article:	<i>VI.1.d</i>
<i>processes to ensure compliance with all MERS Requirements and with the requirements of the MERS Corporate Resolution Management System;</i>			
Action Plan			
<p>The Mortgage Servicing Companies and HBUS have existing processes in place to ensure that all mortgage assignments (out of MERS name) and endorsements with respect to mortgage loans serviced or owned by the Mortgage Servicing Companies or the Bank are executed only by a certifying officer authorized by MERS and approved by HBIO or HBUS, as appropriate. Additionally, HBIO and HBUS have existing processes to ensure that they maintain (1) up-to-date corporate resolutions from MERS for all HBIO and HBUS employees and third-parties who are certifying officers authorized by MERS, (2) up-to-date lists of MERS certifying officers, and (3) compliance with the requirements of the MERS Corporate Resolution Management System. Also, HBIO and HBUS have enhanced the QA Plan, as discussed below and identified throughout the Action Plan in response to Article 9, in order to comply with the requirements of the Order and MERS quality standards.</p> <p>The QA Plan is a first line of defense pursuant to which quarterly audits are conducted to ensure MERS quality standards are maintained. Processes and validations within the QA Plan are conducted by HSBC MERS personnel (MERS analyst), reporting to the VP of Records Administration. The MERS analyst utilizes a quality review checklist for the multiple section audits. The reviews cover the following areas:</p> <ul style="list-style-type: none"> • MOM Registration (“MERS as Original Mortgagee”) – validates accurate registration of MOM loans • Non-MOM Registration (“Non MERS as Original Mortgagee”) – validates accurate registration of Non-MOM loans and possession of an assignment to MERS 			

- Registration Reversals - validates removal of loans improperly registered with MERS or required to address Agency Investor updates (Fannie Mae)
- Lien Release - validates issuance of a lien release out of MERS and Paid in Full status on MERS
- Modifications and Assumptions - validates CEMA and MERS information on recorded modification agreements
- Foreclosure - validates legacy process on Foreclosure Option 1 and Option 2 loans on MERS
- Business Initiated Deactivation - validates assignment out of MERS and deactivation on the Servicing System and MERS system for loans in Default
- Transfer of Beneficial Rights - validates transfer of data to a new Investor
- Transfer of Servicing Rights - validates transfer of data to a new Servicer
- Transfer to Non-MERS member - validates assignment out of MERS and deactivation on the Servicing System and MERS system for loans in Default
- Deactivation Pay-off - validates issuance of a lien release on a short sale, charge off. Legacy practice was to deactivate a Deed in Lieu via a lien release
- Administration – validate the addition and removal of MERS Certifying Officers, in addition to reviewing MERS view and update system access
- Monthly Reconciliation - note that this component of the Quality Assurance Plan will not be implemented until the new reconciliation reports become available in October 2011 and are implemented into the overall program in the 4Q2011. This reconciliation will be a comparison of data from the HSBC servicing system to the MERS system, as well as a loan count validation

The audit and validation results are documented and reviewed by MERS senior management. Please see MERS HSBC Consumer Mortgage Lending Quality Assurance Plan in its entirety for all of the steps performed during the MERS QA Plan. As a result of MERS' policy reassessment, some of the MERS Requirements will change from now through February 2012. The MERS QA Plan and procedures will be updated accordingly, as MERS continues to enhance and update business operations and requirements.

Existing Processes / Programs:

HBIO and HBUS have procedures in place designed such that mortgage assignments (out of MERS' name) with respect to mortgage loans serviced or owned by the Mortgage Servicing Companies or the Bank are executed only by a certifying officer authorized by MERS and approved by HBIO or HBUS, as appropriate. HBIO and HBUS enhanced and centralized this function, so that the appropriate MERS certifying officers are solely responsible for executing these documents.

As part of the enhanced MERS QA Plan, noted above, completed as of May 13, 2011, HBIO and HBUS completed a quarterly validation of all MERS Corporate Resolution Management System ("CRMS") authorized Certifying Officers. As this was a new

process, the initial audits and validations conducted by HSBC were completed monthly for April, May, and June. However for future audits, HSBC will sample the loan population on a quarterly basis as indicated within the QA Plan (page 5) by aggregating a random sample of loans for the months of July through September.

HBIO and HBUS created a Legal Entity Review and Assignment/Lien Validation process in March 2011 to review all loans in preparation for submission to the foreclosure referral team. The Legal Entity Review (“LER”) Team reviews the chain of title for the mortgages or deeds of trusts to transfer applicable security instruments out of the name of the lien holders of record (e.g., MERS) into the appropriate legal entity. The assignment validation process is completed to ensure that the documents have been executed by approved MERS Certifying Officers. An additional control to ensure the execution of the assignment by a MERS Certifying Officer is the entry of these authorized individuals into the [REDACTED] which generates the assignments and lien releases. Please see Legal Entity Review and Assignment Validation (C & D) Population Procedure CML, pages 1 through 24, for the detailed process about the centralized execution of assignments.

HBIO and HBUS implemented a daily reconciliation review of key reports to ensure compliance with MERS requirements and to resolve any exceptions cited. Please see MERS Daily Reports Handling Procedure All for all of the steps required during the MERS team’s review and working of all activity related to MERS transactions. The QA team monitors transactions as defined in the QA Plan. The results of these reviews are summarized, with exception rates and remediation steps defined, and presented to the SVP – Servicing Administration. Please see page 3 of 8 of the MERS Administration Procedure All, attached hereto, for more detailed procedures related to ensuring that only authorized certifying officers execute mortgage assignments.

HBIO and HBUS also have processes in place to maintain up-to-date corporate resolutions and lists of MERS certifying officers. As a part of the QA process, HBIO and HBUS maintain a comprehensive list of the MERS certifying officers and applicable corporate resolutions, both internally and within the MERS Corporate Resolution Management System (“CRMS”). The CRMS Validation includes validation of HBIO and HBUS Certifying Officers as well as ensuring that Third-Party vendors are registered on CRMS have successfully passed the MERS test, and the third-party vendors have executed new Tri-Party Agreements with MERS and HBIO and HBUS. Also, CRMS Validation includes ensuring that MERS has provided a Corporate Resolution confirming that the individuals who passed the MERS test on CRMS are authorized to sign on behalf of MERS as a Certifying Officer. The MERS Certifying Officer List is validated quarterly by the QA Analyst, who reports to the Vice President of MERS Operations. Additions and deletions are submitted to MERS via CRMS to ensure it is up-to-date (see MERS Administrative Procedure ALL– subsection Monthly Validation of MERS Certified Officers, page 3 of 8, attached hereto). HBIO and HBUS, via the MERS centralized administration function, also receive updated corporate resolutions via CRMS. Once received, HBIO and HBUS maintain the corporate resolutions in electronic and paper form for reference.

As of June 13, 2011, HBUS notified their MERS CRMS approved third-party vendors that they were no longer authorized to execute documents on behalf of HSBC. On June 20, 2011, HSBC cancelled the tri-party agreements with the third-party vendors. HBUS received confirmation from MERS on July 13, 2011 that MERS had updated their CRMS systems to remove the signing authority of these third-party vendors.

Currently, HBIO and HBUS employees are in compliance with the MERS certifying officer approval procedures. Employees must first be appointed to be a certifying officer, register on CRMS, pass the appropriate tests, and then have a corporate resolution issued by MERS. Additionally, employees leaving HBIO or HBUS have their signing authority removed through CRMS. Refer to MERS Administration Procedure ALL pages 2 and 3 for the steps performed for removing signing authority of employees leaving HBIO or HBUS through CRMS.

HBIO and HBUS have taken steps designed to comply with all MERS requirements by revalidating and updating existing MERS operating procedures with the latest CRMS requirements related to third-party management (see MERS Administrative Procedure ALL – subsection Adding and Deleting USERS in the CRMS System, pages 2 and 3 for the steps performed for adding and deleting employees signing authority through CRMS). HBIO and HBUS are in compliance with the CRMS requirements based on senior management's review of the procedures and the CRMS requirements.

To achieve and maintain compliance, in February 2011 HBIO and HBUS completed a review of MERS' policies and procedures that focused on the QA Plan and operational procedures. As a result of the review, HBIO and HBUS have updated the MERS operational procedures and QA Plan (see MERS HSBC Consumer Mortgage Lending Quality Assurance Plan pages 6 through 18 and Article 9(a) which outlines the QA Plan as a first line of defense) for the following areas:

- MERS daily and monthly reconciliations
 - Although reconciliation procedures previously existed, management determined that enhancements were required to fully comply with MERS Requirements. See reconciliation procedures in MERS Monthly Reconciliation Procedure ALL, and pages 29 through 32 of the MERS HSBC Consumer Mortgage Lending Quality Assurance Plan
 - The daily and monthly procedures were enhanced and additional reporting requirements were identified. These additional reconciliation reports are expected to be available for review by October 14, 2011. See Enhancement to Processes / Programs below for additional detail on the enhanced additional reporting. In addition, dedicated resources (MERS Analysts) have been assigned to key MERS functions (i.e., operations and QA Support). MERS Analysts are not certifying officers, nor must they undergo a special certification process.
 - Errors and open items are more formally tracked and monitored for resolution. See page 32 of the MERS HSBC Consumer Mortgage Lending

Quality Assurance Plan for the reconciliation reports.

- Group Audit North America (“Group Audit”)
 - Group Audit will complete its first annual independent testing of the control structure of the system-to-system reconciliation process, the reject/warning error correction process, and adherence to the company’s MERS Quality Assurance Plan by December 31, 2011. (Please see Action Plans for Articles 16(a), 17(d), and 17(e) for additional detail).

Procedures and validations within the QA Plan are conducted by HSBC MERS personnel as a first line of defense for business operations. MERS personnel responsible for fulfilling the QA Plan report to the SVP Servicing Administration.

Furthermore, HBIO and HBUS have enhanced the MERS QA Plan to incorporate the validation of a sample of assignments to verify that they have been properly executed by authorized HBIO and HBUS MERS certifying officers. This validation will be completed quarterly. Requirements to produce the validation report have been defined, and the report was delivered to the MERS QA team in June 2011.

Please see attached MERS Daily Reports Handling Procedure ALL and MERS Monthly Reconciliation Procedure ALL for additional detail on the steps taken to handle daily reports and perform monthly reconciliations. The MERS Daily Reports Handling Procedure ALL details the processes to retrieve, archive, work, and save the report information in order to confirm that the [REDACTED] system is maintained daily according to standard. The MERS Monthly Reconciliation Procedure ALL defines the requirements established by MERS as it relates to the monthly reconciliation of the MERS accounts by MERS Org ID to HSBC’s servicing platform.

Enhancement to Processes / Programs:

As of September 12, 2011, to comply with new MERS Requirements submitted to HBIO and HBUS in April 2011, HBIO and HBUS are enhancing three (3) reconciliation reports. HBIO and HBUS are working with MERS to ensure compliance with HSBC information security requirements, and as a result the enhanced reconciliation reports are now targeted for implementation on October 14, 2011. The reports include the following:

- MERS Monthly Reconciliation Report - Comparison of MERS accounts and required MERS data elements on the HBIO and HBUS Servicing Platforms [REDACTED] to the MERS system of record.
- MERS One Time Audit/Reconciliation PCR23 - One Time update on the MERS system to appropriately reflect the correct foreclosure option – foreclose in the name of the legal entity (FC Opt 1) or foreclosure in the name of MERS (FC Opt 2)
- MERS Monthly Deactivated Report PCR23 - Monthly reports of all deactivated loans (Paid in Full, Charge-off, Deed in Lieu, short sales) which will be utilized to support the Quality Assurance plan

A review was completed by HBIO and HBUS in February 2011 to evaluate compliance with MERS Requirements and to identify processes requiring further enhancement. Since conducting this review, MERS announced a reassessment of many policies based on Member feedback received at the MERS 2011 User Conference, which was attended by HBIO and HBUS representatives. More specifically, based on MERS Announcement 2011-06 and Training Bulletin Number 2011-03, HBIO and HBUS are in the process of updating policies and procedures to comply with the new MERS Requirements which will be ongoing through February 2012. To comply with any new MERS Requirements, HBIO and HBUS are performing a gap analysis, to be completed by December 31, 2011, between existing requirements and the new requirements, to identify necessary technology enhancements, and update policies and procedures in accordance with MERS timelines (February 2012).

Documents to be submitted with the Action Plan

- MERS Administration Procedure All
- MERS HSBC Consumer Mortgage Lending Quality Assurance Plan
- MERS Daily Reports Handling Procedure ALL
- MERS Monthly Reconciliation Procedure ALL
- Legal Entity Review and Assignment Validation (C & D) Population Procedure CML

Key HSBC Contacts for the Action Plan

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

Article 9(b)

FRB Order Reference:	<i>Article 9(b)</i>	Corresponding OCC Article:	<i>VI.1.b</i>
<p><i>processes to ensure that all other actions that may be taken by MERS certifying officers (with respect to mortgage loans serviced or owned by the Mortgage Servicing Companies) are executed by a certifying officer authorized by MERS and approved by the Mortgage Servicing Companies;</i></p>			
<p>Action Plan</p> <p>HBIO and HBUS enhanced existing processes in a manner designed to ensure that actions taken by MERS certifying officers are executed only by a certifying officer that is authorized by MERS and approved by HBIO or HBUS, as appropriate.</p> <p><u>Existing Processes / Programs:</u></p> <p>HBIO and HBUS have enhanced the MERS QA Plan to ensure compliance with enhanced MERS procedures as of the second quarter of 2011. The enhanced QA plan incorporates the validation of a sample population of loans to verify the accounts have been properly executed as defined in the procedures. Newly implemented procedures support the following processes (See MERS HSBC Consumer Mortgage Lending Quality Assurance Plan pages 6 through 18 and Article 9(a) which outlines the QA Plan as a first line of defense):</p> <ul style="list-style-type: none"> • releasing the lien of any mortgage loan registered on MERS that is shown to be registered to HBIO or HBUS; • assigning the lien of any mortgage loan on MERS to the appropriate legal entity prior to the initiation of a foreclosure action or the filing of a bankruptcy proof of claim; • assigning any mortgage loan to a non-MERS member; and • executing those documents required to subordinate or modify any mortgage loan registered on MERS that is shown to be registered to HBIO or HBUS. <p>The updated QA Plan was approved by MERS on May 13, 2011, and as detailed in the MERS HSBC Consumer Mortgage Lending Quality Assurance Plan, each section of the QA Plan contains validation steps for the MERS analyst to conduct in order to comply with the MERS program requirements. For an example of an audit and validation process that occurs during the quarterly QA Plan, see Modification Agreements and Assumptions section, pages 13 and 14. The testing will occur on a quarterly basis using standard checklists. Testing results will be documented and reviewed by the SVP – Servicing Administration, and HBIO and HBUS will develop corrective action plans as necessary</p> <p>MERS QA testing for loan samples during the months of April, May, and June have been completed and is currently under review by HBIO and HBUS management. The findings and recommendations of the 2Q2011 MERS Quality Assurance Reviews will be summarized for distribution to the regulators by October 31, 2011. Based on</p>			

testing results and findings, the MERS QA plan will be revised as appropriate.

Enhancement to Processes / Programs:

As a result of MERS' policy reassessment, some of the MERS Requirements will change from now through February 2012. To comply with any newly established MERS Requirements, HBIO and HBUS intend to perform a gap analysis, to be completed by December 31, 2011, between existing requirements and the new requirements, to identify necessary technology enhancements, and update policies and procedures in accordance with MERS timelines.

Documents to be submitted with the Action Plan

- MERS Administration Procedure All
- MERS HSBC Consumer Mortgage Lending Quality Assurance Plan

Key HSBC Contacts for the Action Plan

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

Article 9(e)

FRB Order Reference:	<i>Article 9(e)</i>	Corresponding OCC Article:	<i>VI.1.e</i>
<i>processes to ensure the accuracy and reliability of data reported to MERS, including monthly system-to-system reconciliations for all MERS mandatory reporting fields, and daily capture of all rejects/warnings reports associated with registrations, transfers, and status updates on open-item aging reports. Unresolved items must be maintained on open-item aging reports and tracked until resolution. The Mortgage Servicing Companies shall determine and report whether the foreclosures for loans serviced by the Mortgage Servicing Companies that are currently pending in MERS' name are accurate and how many are listed in error, and describe how and by when the data on the MERS system will be corrected;</i>			
Action Plan			
<p>HBIO and HBUS reviewed and identified enhancements to processes in order to ensure accurate and reliable data reports to MERSCORP, including monthly system-to-system reconciliations and daily capture of all rejects/warnings reports associated with registrations, transfers, and status updates on open-item aging reports. They have also reviewed and identified enhancements to processes to determine and accurately report the appropriate foreclosure status for current and inactive loans on the MERS system. [REDACTED]</p> <p>[REDACTED] Also, HBIO and HBUS are enhancing, as necessary, procedures related to the transmission of accurate and reliable data to MERSCORP, as required by the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>In an effort to better identify errors, HBIO and HBUS have enhanced operating procedures defining MERS' reconciliation requirements and the related exception reporting. These enhancements are being implemented in phases, as personnel are being trained and reporting requirements are defined and developed. Please see attached MERS Daily Reports Handling Procedure ALL, MERS Monthly Reconciliation Procedure ALL, and MERS HSBC Consumer Mortgage Lending Quality Assurance Plan for a complete description of the procedures personnel utilize for MERS reconciliation. The MERS Daily Reports Handling Procedure ALL details the processes to retrieve, archive, work, and save the report information in order to confirm that the [REDACTED] system is maintained according to standard. See pages 1 through 6 of the MERS Daily Reports Handling Procedure ALL. The MERS Monthly Reconciliation Procedure ALL defines the requirements established by MERS as it relates to the monthly reconciliation of the MERS accounts by MERS Org ID to HSBC's servicing platform. See Article 9(a) and The MERS HSBC Consumer Mortgage Lending Quality Assurance Plan in its entirety for all of the steps performed in the QA Plan. For an example of an audit and validation process that occurs during the quarterly QA Plan, see Lien Release section, pages 11 and 12.</p>			

[REDACTED]

[REDACTED]

[REDACTED]

In accordance with MERS Training Bulletin Number 2011-03, issued on July 1, 2011, data reviews will only be applicable to active MERS loans. When the Draft Action Plan was submitted, MERS had not yet defined the final requirements for the Inactive (Deactivated) Loans, so HSBC used the preliminary feedback from MERS which was a two year period (January 2009 – January 2011). In accordance with MERS Training Bulletin Number 2011-03, data reviews will only be applicable to Active MERS loans. Document reviews will now only include loans no more than one year post-deactivation which encompass the Inactive (Deactivated) Loans. As a result of this notification, HSBC will comply with MERS's requirements as to which Active and Inactive (Deactivated) Loans require validation. HBIO and HBUS plan completion of the steps necessary to correct the identified exceptions on both MERS and the

applicable Servicing System no later than the first quarter of 2012. To meet this deadline, HBIO and HBUS are dependent on the ability to obtain legacy data related to the foreclosure assignments. Legacy data is dependent upon a process that requires a review of state foreclosure documents, validation of an assignment out of MERS, and a determination of whether an assignment out of MERS needs to be created. In addition, management has identified charge offs, short sales, deed-in-lieu, and servicing transfer transactions where a lien release, assignment, or MERS update will need to be created and/or recorded. HBIO and HBUS have engaged outside vendor Core Logic as of August 16, 2011, to assist in researching segments of the overall exception population related to second lien loans. HBIO and HBUS have delivered a test file of approximately [REDACTED] loans as of August 17, 2011. HBIO and HBUS conducted a quality review of the Core Logic results. The results validated that loans targeted for deactivation due to the foreclosure of the first lien were appropriate. Loans remaining on the Core Logic report are in the process of being assigned out of MERS and deactivated on the MERS system. A second file of [REDACTED] second lien loans was delivered to Core Logic on September 9, 2011. A third file of approximately [REDACTED] loans was delivered to Core Logic on September 20, 2011. A fourth file of approximately [REDACTED] loans was delivered to Core Logic on September 27, 2011. The details regarding the status of these files are conveyed in the bi-weekly MERS Reconciliation Update dated September 30, 2011.

HBIO and HBUS have and will continue to provide bi-weekly progress updates to the FRB related to the Article 9(e) MERS reconciliation. Management reviewed its reconciliation process in the context of the Order requirements to obtain comfort that the current processes meet the requirements or implemented enhancements accordingly.

Enhancement to Processes / Programs:

As of September 12, 2011, operational procedures to address the handling of charge offs, short sales, deed-in-lieu and servicing transfer transactions where a lien release, assignment or MERS system update is required are in the process of being reviewed and updated to ensure compliance with MERS requirements. Legacy matters are under review and will be addressed by the first quarter of 2012

As a result of MERS' policy reassessment, some of the MERS Requirements will change from now through February 2012. To comply with any newly established MERS Requirements, HBIO and HBUS intend to perform a gap analysis, to be completed by December 31, 2011, between existing requirements and the new requirements, to identify necessary technology enhancements, and update policies and procedures in accordance with MERS timelines.

Documents to be submitted with the Action Plan

- MERS Daily Reports Handling Procedure ALL
- MERS Monthly Reconciliation Procedure ALL
- MERS HSBC Mortgage Corporation Quality Assurance Plan

- MERS HSBC Consumer Mortgage Lending Quality Assurance Plan

Additional documents completed for re-submission of Action Plan

- MERS Reconciliation Update – June 27, 2011
- MERS Reconciliation Update – July 11, 2011
- MERS Reconciliation Update – July 22, 2011
- MERS Reconciliation Update – August 5, 2011
- MERS Reconciliation Update – August 22, 2011
- MERS Reconciliation Update – September 6, 2011
- MERS Reconciliation Update – September 16, 2011

Key HSBC Contacts for the Action Plan

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

Article 9(f)

FRB Order Reference:	Article 9(f)	Corresponding OCC Article:	VI.1.f
<i>an appropriate MERS quality assurance workplan, which clearly describes all tests, test frequency, sampling methods, responsible parties, and the expected process for open-item follow-up, and includes an annual independent test of the control structure of the system-to-system reconciliation process, the reject/warning error correction process, and adherence to the MERS Plan; and</i>			
Action Plan			
<p>HBIO and HBUS have enhanced the QA Plan as noted in Article 9(a) (See MERS HSBC Consumer Mortgage Lending Quality Assurance Plan), which describes all tests, test frequency, sampling methods, responsible parties, and the expected process for open-item follow-up. Also, the QA Plan includes an annual independent test of the control structure of the system-to-system reconciliation process and the reject/warning error correction process, as required by the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>HBIO and HBUS have enhanced the MERS QA Plan to address the corrective actions described in the Order. The updated QA Plan was approved by MERS on May 13, 2011. As detailed in Article 9(a) and the attached MERS HSBC Consumer Mortgage Lending Quality Assurance Plan, each section of the QA Plan contains validation steps for the MERS analyst to conduct in order to comply with the MERS program requirements. The testing, which will occur on a quarterly basis using standard checklists, will include the examination of a statistical sample of loans. Testing results will be documented and reviewed by the SVP – Servicing Administration, and HBIO and HBUS will develop corrective action plans as necessary.</p>			
<p>Group Audit North America was consulted to ensure that the approach and framework of the enhanced MERS QA Plan is reasonable. Group Audit will complete its first annual independent testing of the control structure of the system-to-system reconciliation process, the reject/warning error correction process, and adherence to the company's MERS QA Plan by December 31, 2011. As noted above in Article 9(b), HSBC MERS Management will provide an update of overall findings and actions through 2Q2011 by October 31, 2011 to the regulators. The QA Plan was submitted to MERS on April 18, 2011 for ORG ID [REDACTED] and on April 27, 2011, for ORG ID [REDACTED] and [REDACTED] MERS provided feedback on May 12, 2011, [REDACTED] [REDACTED] Updates were provided to MERS on May 13, 2011. MERS approved the QA Plan on May 13, 2011.</p>			
<p>Management reviewed the QA Plan to ensure the aforementioned processes were accurate and also compared the plan to the requirements of the Order to ensure that the existing and enhanced processes fulfilled the requirements of the Order.</p>			

Enhancement to Processes / Programs:

As a result of MERS' policy reassessment, some of the MERS Requirements will change from now through February 2012. To comply with any newly established MERS Requirements, HBIO and HBUS intend to perform a gap analysis, identify necessary technology enhancements, and update policies and procedures in accordance with MERS timelines.

Documents to be submitted with the Action Plan

- MERS HSBC Consumer Mortgage Lending Quality Assurance Plan

Key HSBC Contacts for the Action Plan

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

Article 9(g)

FRB Order Reference:	Article 9(g)	Corresponding OCC Article:	VI.2
<i>inclusion of MERS in the Mortgage Servicing Companies' third-party vendor management process, which shall include a detailed analysis of potential vulnerabilities, including information security, business continuity, and vendor viability assessments.</i>			
Action Plan			
<p>MERS and MERSCORP are included in the HNAH third-party vendor management process, which includes a detailed analysis of potential vulnerabilities, including information security, business continuity, and vendor viability assessments, as required by the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>In May 2011, a [REDACTED] (" [REDACTED]) was initiated as part of the Legacy Relationship Management Project ("LRM"). The [REDACTED] consists of a list of questions to determine if a vendor such as MERS has the potential to access restricted or highly restricted data, HBIO and HBUS systems, contracts for the disposal of restricted/highly restricted information (secure waste), and/or has access to the brand or logo by means of hosting a website. Depending on the answers to these questions, Information Security Risk ("ISR") will assess whether a Third Party Security Review ("TPSR") is required with respect to the vendor. [REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED] Additionally, the following assessments were completed on MERS as of September 12, 2011, in accordance with the Consent Order Action Plans:</p> <ul style="list-style-type: none">• Financial Analysis (FA) and Business Analysis (BA) – Reviews completed to ensure HBIO and HBUS understand the business reputation and financial health of MERS post-contract which are updated over the life of the relationship (see DB Comprehensive Report MORTGAGE ELECTRONIC REGISTRATION and World Check MORTGAGE ELECTRONIC REGISTRATION SYSTEMS INC).• Business Continuity Planning (BCP) – HBIO and HBUS will assign all mortgages out of MERS should MERS be permanently unable to provide the services agreed upon in the contract (see Vendor Third Party Service Provider Business Risk Assessment Survey and Vendor Risk Management - Business Continuity Disaster Recovery). Preparation of assignments can be obtained from alternate vendors.• Agreement Review – The MERS membership agreements and MERS rules and procedures were reviewed by internal counsel. The agreements and the			

rules and procedures are standard and generally the same for all MERS members. Internal counsel also participates in calls where proposed amendments to MERS rules, if any, are discussed. Additionally, internal counsel participates in a weekly call where developments and issues arising out of litigation affecting MERS and its members are discussed. Business and internal counsel also participate in regularly scheduled calls with MERS management where a variety of topics, including operations, are discussed.

HNAH Compliance and Group Audit North America provide additional control and oversight over the third-party management processes.

For additional details related to the third-party vendor management process, refer to the Action Plans for Article 6.

Enhancement to Processes / Programs:

HSBC business and internal counsel will continue to participate in the regularly scheduled calls with MERS management. As noted above, discussions will include but are not limited to arising litigation affecting MERS and its members, as well as business operations between MERS and HSBC.

Existing processes and programs are currently in place to comply with this requirement of the Order and, at this time, further enhancements are not deemed necessary.

Documents to be submitted with the Action Plan

- HSBC - North America Business Continuity Management Policy Operations
- HSBC - North America Information Security Risk Policy Risk Management
- HSBC - North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES

Additional documents completed for re-submission of Action Plan

- DB Comprehensive Report MORTGAGE ELECTRONIC REGISTRATION
- World Check MORTGAGE ELECTRONIC REGISTRATION SYSTEMS INC
- Vendor Third Party Service Provider Business Risk Assessment Survey
- Vendor Risk Management - Business Continuity Disaster Recovery
- [REDACTED] PT-001805 (MERS)
- Assessment Summary (TPSR)

Key HSBC Contacts for the Action Plan

- [REDACTED], SVP Servicing Administration, HSBC Consumer and Mortgage Lending
- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED], SVP Vendor Risk Management

