



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

**Corporate Decision #2003-2
April 2003**

March 27, 2003

Winthrop N. Brown, Esq.
Milbank, Tweed, Hadley & McCloy, LLP
1825 Eye Street, N.W.
Washington, D.C. 20006-5417

Re: Notice of Change in Bank Control
Household Bank (SB) National Association, Las Vegas, Nevada
Charter Number 22675
OCC Control Number 2002-WE-11-0004

Dear Mr. Brown:

On November 27, 2002, HSBC Holdings plc (“HSBC”) filed with the Office of the Comptroller of the Currency (“OCC”) a Notice of Change in Bank Control pursuant to the requirements of 12 U.S.C. § 1817(j) (the Change in Bank Control Act, or “CBCA”) and 12 C.F.R. § 5.50, with respect to Household Bank (SB) National Association, Las Vegas, Nevada (“Household Bank”). The Notice, as supplemented by additional material filed with the OCC subsequent to the original submission, is referred to herein as the “Notice.” The Notice was prompted by HSBC’s planned acquisition of Household International, Inc. (“HII”), a diversified, multinational company engaged in consumer, commercial and lease financing and insurance. Household Bank, a \$3 billion, wholly owned subsidiary of HII, is an insured limited purpose national bank engaged solely in credit card operations.

As required by regulation, HSBC published notice of the filing on December 4, 2002 initiating a twenty-day public comment period. In response to requests to extend the comment period, we extended the comment period until January 8, 2003. In addition, the OCC has continued to accept comments from the public subsequent to the close of the comment period. We received 69 comments from 22 community organizations, individuals, and members of Congress. These comments raised numerous concerns in connection with the broader transaction of which this Notice is a small part. We carefully considered the comments in our review of the Notice. The OCC forwarded all comments received to HSBC, and HSBC submitted responses to those comments.

The Notice pending before the OCC pertains only to HSBC’s acquisition of Household Bank,

not of HII or any of its non-bank subsidiaries, nor does the OCC regulate the activities of the subsidiaries or affiliates of HII beyond Household Bank. Accordingly, our role in reviewing the Notice before us is limited, and our focus is on the impact on Household Bank of the proposed acquisition. The review standards under the CBCA also are limited and different from those applicable to certain other corporate applications involving acquisitions and mergers. Under the CBCA, an agency does not approve the transaction; rather, the statute gives the authority only to disapprove a Notice under one or more of six statutory factors. The Community Reinvestment Act (“CRA”) is not one of those review standards. If the agency does not disapprove the Notice, the acquisition may proceed when all remaining regulatory approvals are received.

Disapproval Factors

The specific factors for disapproving any notice of Change in Bank Control and our findings with regard to each factor relative to HSBC’s Notice are as follows:

1. The proposed acquisition of control would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States.

See discussion under #2 below.

2. The effect of the proposed acquisition of control in any section of the country may be substantially to lessen competition or to tend to create a monopoly or the proposed acquisition of control would in any other manner be in restraint of trade, and the anticompetitive effects of the proposed acquisition of control are not clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Consumer credit card services are the sole business of Household Bank and are a significant line of business engaged in by HSBC. Credit card services include the marketing and issuance of credit cards, the extension of credit to cardholders, and the processing of credit card transactions.

The OCC and the Federal Reserve Board have recognized that the market for credit card services is national in scope. Credit card companies compete in soliciting and serving customers throughout the United States. This national market is highly competitive and not concentrated and will remain so if the proposed acquisition of Household Bank is consummated. The nationwide population of credit card issuing depository institutions is extensive, and there are numerous alternative card lenders in the national marketplace. HSBC notes that HII is eighth in the nation for receivables and credit card volume per the Nilson Report¹. Based on the Nilson Report, HSBC Bank USA and Household Bank combined would

¹ December 2002 issue of the Nilson Report (www.nilsonreport.com) Issue 778, "Top Bank Card Issuers Worldwide."

still rank as the eighth-largest issuer in the country.

In addition, the proposed transaction was submitted for prior review by the Federal Trade Commission and the Department of Justice pursuant to the Hart-Scott-Rodino Act. Neither agency attempted to enjoin the proposed transaction or to investigate further its competitive structure. Accordingly, we concluded that HSBC's acquisition of Household Bank would not create a monopoly or have a significantly adverse effect on competition.

3. The financial condition of any acquiring person is such as might jeopardize the financial stability of the bank or prejudice the interests of the depositors of the bank.

HSBC, with \$759 billion in total assets (as of December 31, 2002), is a diversified financial holding company, which operates on a global basis and is subject to oversight by numerous regulators. The primary regulator for HSBC, the Financial Services Authority ("FSA") in London, England, disclosed no information to the OCC reflecting adversely on the financial condition of HSBC. The financial ratings of HSBC as of February 26, 2003 are as follow:

	Moody's	S&P	Fitch	Dominion	Thomson
Outlook	Stable	Stable	Stable	-	-
Subordinated Debt	A1	-	-	-	-
LT Foreign Issuer Credit	-	A+	-	-	-
LT Local Issuer Credit	-	A+	-	-	-
ST Foreign Issuer Credit	-	A-1	-	-	-
ST Local Issuer Credit	-	A-1	-	-	-
Senior Unsecured Debt	-	-	AA-	-	-
Short Term	-	-	F1+	R-1M	WR
Corporate Credit	-	-	-	AAL	-

We considered the impact the change in control would have on the current Operating Agreement and Liquidity Reserve Deposit Agreement between the OCC and Household Bank. HSBC represented in a letter dated March 24, 2003 that it would seek written non-objection from the OCC prior to transferring any receivables originated by Household Bank to an entity other than Household Receivables Acquisition Company or Household Receivables Acquisition Company II. HSBC also affirmed that it would seek supervisory non-objection from the OCC prior to making any material changes in the business plan.

Based upon our review of the application, public information and discussions with HSBC's primary regulator, we have concluded that HSBC's financial condition would not jeopardize the stability of Household Bank or prejudice the interests of its depositors.

4. The competence, experience, or integrity of any acquiring person, or of any of the proposed management personnel, indicates that it would not be in the interest of the depositors of the bank, or in the interest of the public, to permit that person to control the bank.

HSBC is one of the world's largest banking and financial services organizations and has been in business for 138 years. As of June 30, 2002, HSBC operated in 81 countries and territories through 7,000 offices. HSBC's annual report² for December 31, 2002 shows HSBC has total assets of \$759 billion, and net profits of over \$6 billion. Total shareholders' equity was over \$52 billion.

HSBC is headquartered in London and does business in five regions: Europe; Hong Kong; the rest of Asia-Pacific; Latin America; and North America. North America is subdivided into HSBC Bank Canada and HSBC USA, Inc. HSBC has demonstrated competency, experience and integrity to operate a banking institution in the United States by its satisfactory operation of HSBC Bank USA, an \$86 billion institution based in Buffalo, New York. HSBC Bank USA is currently well capitalized. The FSA, Federal Reserve, and New York State Banking Department³ have provided no information that would lead us to adversely evaluate the competency, experience, or integrity of HSBC's management.

We received several comments regarding HSBC management practices and management qualifications at HSBC. Some letters challenged HSBC's management capability to oversee Household Bank. Commenters questioned HSBC's decision to retain the current Chief Executive Officer ("CEO") of HII as the head of HII and thereafter as the chairman and CEO of HII and HSBC North America, Inc. The OCC, however, is charged with evaluating the impact of HSBC management on *Household Bank*. Keeping the current CEO in place would not result in any change in management that could be expected to adversely affect Household Bank. The comments also expressed concerns with management integrity based on HSBC's record with respect to money laundering. We found no evidence that would cause us to object to the transaction on this basis. We requested, and received comment from the FSA, the primary regulator of HSBC. The FSA provided no information that would cause us to object to the transaction on this basis.

Based upon all the information in the record and other regulators' supervisory experience with HSBC's management of HSBC and HSBC Bank USA, we concluded that the competence, experience, and integrity of HSBC does not indicate that it would be contrary to the interests of the depositors of Household Bank or the public, for HSBC to control Household Bank.

5. An acquiring person neglects, fails, or refuses to furnish the OCC all the information it requires.

HSBC has provided the OCC all requested information.

² Annual Report on Form 20-F to the US Securities and Exchange Commission for the year ended December 31, 2002.

³ The New York State Banking Department approved HSBC's application to acquire the New York licensed subsidiaries of HII on March 25, 2003.

6. The proposed transaction would result in an adverse effect on the Bank Insurance Fund or the Savings Association Insurance Fund.

We evaluated the potential for adverse risk to the insurance fund, taking into account the agreements between Household Bank and the OCC. We concluded there is no reason to disapprove the Notice on the basis of an adverse effect on the federal deposit insurance fund.

Based on HSBC's financial and managerial resources noted above, we have concluded that HSBC's acquisition of Household Bank would not result in an adverse effect on the deposit insurance funds.

Other Comments

Many of the comments we received related to the regulatory and public scrutiny of HII resulting from its settlement of alleged violations of consumer protection laws in its subprime real estate-secured lending programs.⁴ Commenters expressed concern that the settlement does not go far enough in addressing HII's allegedly predatory practices and does not adequately compensate alleged victims.⁵ Some commenters also voiced concern that after HSBC's acquisition of HII, HII's subprime and allegedly predatory lending business would be expanded. These comments addressed issues that are beyond the scope of our review under the CBCA, since Household Bank, a limited purpose credit card bank, does not engage in real estate lending and was not a party to the settlement.

We also received comments criticizing certain aspects of Household Bank's credit card operations, including claims that its disclosures concerning annual membership fees are inaccurate, that it fails to provide proper monthly statements, that it posts payments late, resulting in unwarranted late fees, and that it reports to credit bureaus using varied creditor or retailer names. These comments have been referred to the OCC's Customer Assistance Group. The Bank's compliance with consumer laws also will be subject to ongoing oversight through the OCC's supervisory process.⁶

⁴ A number of commenters also criticized HII's tax refund anticipation loan program. Household Bank, however, as a credit card bank with a limited charter, does not engage in tax refund anticipation lending.

⁵ All 50 states and the District of Columbia have decided to participate in the settlement. As part of the settlement, HII has agreed to provide up to \$484 million to reimburse consumers who were affected by the real estate lending practices that were the basis for the settlement. Additionally, HII has adopted, as part of the settlement, numerous consumer protections. These protections include requiring that real estate-secured loans provide a net tangible benefit to the borrower; capping loan origination fees and points at 5%; affording consumers the option of loans without prepayment penalties and declining to charge prepayment penalties after the first 24 months after origination; improving and simplifying disclosures; and not offering single-premium credit insurance on mortgage loans.

⁶ We note that on March 25, 2003, the OCC entered into a Formal Agreement with Household Bank regarding the Bank's financing of door-to-door sales of heating, ventilation and air conditioning systems. The Agreement requires the Bank to provide restitution to affected consumers and to ensure that the Bank's private label credit card programs operate safely and soundly and in compliance with applicable laws, rules, and regulations.

Additionally, some commenters expressed concerns regarding HSBC's CRA record and its record of mortgage lending to minorities. As previously noted, however, an institution's record of CRA performance is not one of the statutory factors upon which the OCC may disapprove a notice. Further, HSBC Bank USA is not within the OCC's regulatory jurisdiction. We will ensure that comments pertaining to HSBC Bank USA are forwarded to the Federal Reserve Board for consideration in connection with its evaluation of that Bank's CRA performance.

Request for Hearings and for Further Extension of the Comment Period

Many of the commenters requested that the OCC grant additional time to comment and to hold public hearings. As mentioned previously, the OCC extended the comment period to January 8, 2003.

Neither the CBCA nor our regulations provide for public hearings on notices filed under that Act. Nevertheless, we did carefully consider whether to conduct a public hearing. One significant factor in determining whether to hold public hearings on filings that are subject to hearing provisions is whether hearings are needed to establish a sufficient record upon which we can make an informed decision. In connection with this Notice, we reviewed the contents of the Notice, supporting documents, comments received from the public, publicly available information, and outside regulatory comments. We also contacted the primary foreign regulator of HSBC, the Federal Reserve and the New York State Banking Department, in whose jurisdiction HSBC conducts a large portion of its U.S. banking activities.

Based on the information received and available to the OCC from all sources as noted above, we determined that a record of the issues that must be evaluated under the applicable review standards had been fully developed. Therefore, neither hearings nor a further extension of the comment period would add measurably to the relevant information already received. Accordingly, the OCC determined not to conduct public hearings in connection with this Notice or to extend the comment period beyond January 8, 2003. However, the OCC considered all comments received prior to March 25, 2003. National Bank Examiners will review any subsequent relevant comments related to Household Bank in their ongoing supervision of the bank.

Conclusion⁷

Based on the Notice as amended, and the responses by HSBC to comments received, the OCC determined that the Notice is complete, and, upon consideration of the applicable statutory factors, we have today determined not to object to the acquisition of Household Bank by HSBC under 12 U.S.C. § 1817(j). Accordingly, HSBC may proceed with the acquisition upon receipt of any other required regulatory approvals.

A separate letter is enclosed requesting your opinion of our service in processing your notice. We would appreciate your response so we may evaluate our service. If you have questions, please contact Geryl Race, Senior Licensing Analyst at (415) 545-5916.

Sincerely,

/s/ Julie L. Williams

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel

Enclosure: Survey Letter

⁷ This decision, and the activities and communications by OCC employees in connection with the filing, do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the U.S., any agency or entity of the U.S., or an officer or employee of the U.S., and do not affect the ability of the OCC to exercise its supervisory, regulatory, and examination authorities under applicable law and regulations. The foregoing may not be waived or modified by any employee or agent of the OCC or the U.S.