

**FORECLOSURE PREVENTION PROJECT - SOUTH BROOKLYN LEGAL SERVICES**  
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**PRELIMINARY COMMENTS IN OPPOSITION TO HSBC'S APPLICATION TO  
ACQUIRE HOUSEHOLD INTERNATIONAL**

**By Email and First Class Mail**

James Bundy  
Licensing Manager  
Western District Office  
Office of the Comptroller of the Currency  
50 Fremont Street, Suite 3900  
San Francisco, CA 94105-2292

Dear Mr. Bundy:

The Neighborhood Economic Development Advocacy Project ("NEDAP") and the Foreclosure Prevention Project at South Brooklyn Legal Services ("SBLs") submit these preliminary comments in opposition to HSBC Holdings plc's ("HSBC") application filed with the Office of the Comptroller of the Currency ("OCC") on November 14, 2002, to acquire Household International, Inc. and its subsidiaries, including Household Bank (SB) N.A. (collectively referred to as "Household"). NEDAP and SBLs urge the OCC to deny the application, or at a minimum to require HSBC to abide by fair lending practices described below to mitigate the harmful effects of this acquisition.

**Need for OCC to Hold Public Hearings**

Before ruling on the application, the OCC should hold regional public hearings on the proposed acquisition. Hearings are clearly necessary given the serious public interest implications and high stakes of the acquisition for borrowers and communities. The transaction is one of great magnitude, with serious implications for the public and low income communities, in particular.

**Household's Predatory Mortgage Lending Practices**

Collectively our organizations represent thousands of New Yorkers throughout the state. NEDAP provides community groups with legal, technical, and policy support on economic justice and community reinvestment issues. NEDAP has led efforts to combat predatory lending in New York State, provided testimony to federal, state, and city agencies and regulators on predatory lending, and acts as resource center on the issue

for community groups and advocates. The Foreclosure Prevention Project, a unit of South Brooklyn Legal Services, is an integrated outreach, education, and legal service delivery program for low-income homeowners at risk of foreclosure, with a specific focus on abusive lending practices by subprime mortgage companies. Since its inception in 1998, the Foreclosure Prevention Project has provided counsel and advice, referral services, or legal representation to more than 500 at risk homeowners in all five boroughs of New York City. As a result, the Project has detailed knowledge of the array of abusive practices utilized by predatory lenders, brokers, and contractors in the City, and the devastating effect that those practices have had on low- and moderate-income communities of color, particularly in Brooklyn and Queens.

Over the years our organizations have seen predatory lending ravage communities and roll back neighborhood revitalization efforts. Many of us have worked with lending institutions to increase affordable and prime CRA-related lending in our neighborhoods. HSBC's acquisition of Household will undo the hard work of our organizations and communities to secure accessible services and fair lending by financial institutions.

The Change in Bank Control Act ("CBCA"), 12 U.S.C. § 1817(j)(7)(D), authorizes the OCC to disapprove HSBC's acquisition of Household if it determines that, "the competence, experience, or integrity of . . . [HSBC] or of any of the proposed management personnel indicates that it would not be in the interest of depositors of the bank or in interest of the public" to permit HSBC to control Household. In its notice to OCC dated November 27, 2002, HSBC announced that Mr. William F. Aldinger, the chairman and chief executive officer of Household, will oversee both Household and HSBC in North America. HSBC also stated in its November 27, 2002 notice to the OCC that it has "no current plans . . . to alter the composition of [Household's] board of directors or senior executive officers." These management personnel proposals are a threat to the depositors of HSBC, and are inimical to the public's interest. In essence, HSBC will promote Mr. Aldinger to oversee not just Household, but also HSBC in North America; this is a dangerous proposition.

Mr. Aldinger and Household's current board of directors and senior executive officers have shaped Household into a disreputable company that preys on low and moderate income consumers to boost the company's profits. Indeed, Forbes has reported on Household's predatory lending practices, citing Household's nationwide tactics of luring consumers with promises of reduced monthly payments, only to then gouge them with exorbitantly high interest rate loans with excessive fees. Bernard Condon, *Home Wrecker*, Forbes (Sept. 2, 2002). Minnesota's Commerce Commissioner, James Berstein, commenting on Household's deceptive tactics, told Forbes that "[i]t's not just an occasional rogue loan officer or rogue office. It has to do with the corporate culture." Moreover, New York's former Comptroller, Carl McCall, told the Chicago Tribune that Household needs to "take drastic steps to reform its predatory lending practices." Melissa Allison, *Household Fighting Image of Predator; Suits, Politicians Put Pressure on Stock Price*, Chicago Tribune (June 2, 2002). Because of its predatory lending practices, Household was recently forced to settle lawsuits brought by many state attorneys general and individuals, for a total amount of \$484 million, the largest

consumer-lending settlement ever. This settlement alone demonstrates that Household's corporate leadership would be a liability to HSBC, and a direct threat to HSBC's depositors and the public interest.

Moreover, the OCC should disapprove HSBC's proposed acquisition of OCC because HSBC proposes to vastly increase its North American market by 30% through Household, including opening 1400 offices in 46 states, thereby exposing new consumers to Household's unscrupulous and flawed model of lending, with significant detriment to the public interest. Our organizations have witnessed Household's dishonest tactics and predatory lending patterns; these practices include, but are not limited to:

- Stripping equity from borrowers' homes by repeatedly refinancing mortgages with little or no benefit to the borrower;
- Inducing consumers to take out an unaffordable second mortgage with extremely high interest rates;
- Gouging consumers by charging points, fees, and interest rates that far exceed industry standards and legitimate risk-based pricing;
- Deceiving borrowers regarding the interest rate and monthly payments of the loan or, in other words, engaging in "bait and switch" deceptions concerning the material terms of the loan;
- Inducing consumers to sign two separate loans virtually simultaneously, with no benefit to the borrowers, as a way of further gouging consumers for points and fees;
- Bundling single premium insurance credit insurance and financing credit insurance premiums without disclosure to consumers, and without informing borrowers that the product is optional; and
- Making loans based solely on the equity of the house, rather than on the borrowers' ability to pay.

Household's egregious abuses have wreaked havoc among homeowners in New York who have taken loans with Household. The following profile is only one of many cases that our organizations have witnessed that typify Household's predatory lending practices:

Ms. C is an African-American single mother who has worked as a customer service representative for Verizon for 23 years. She owns a home in Queens, New York. After she purchased her home, Ms. C was paying \$1,300 per month on her mortgage, with an interest rate of 8%.

Shortly after Ms. C purchased her home, Household/Beneficial used high-pressure sales tactics to induce Ms. C to enter a series of second mortgages and to refinance her first mortgage. For example, in refinancing her first mortgage, Household/Beneficial promised Ms. C that it would consolidate all of her secured and unsecured debts. Although Ms. C had good credit and was current on all of her mortgage and other debts, Household/Beneficial increased her interest rate from 8% to 10%, and *still* charged her \$13,753 in points alone. Despite Household/Beneficial's representations that the refinancing of Ms. C's first mortgage would cover her property taxes and homeowner's insurance, she later learned that she had to make these additional payments of \$200 a month out of her own pocket. Ultimately, Ms. C received little benefit from the refinancing of her first mortgage. Several months after Household/Beneficial induced Ms. C to refinance her first mortgage, it also induced her to enter another second mortgage with Household/Beneficial for \$15,000 at 19.8% interest, with hidden single premium credit life insurance tacked on. Both loans contain mandatory arbitration clauses.

This series of Household/Beneficial loan flips has raised Ms. C's mortgage payments by over \$700 per month, and increased her debt-to-income ratio (not including taxes and insurance) to 80%. As a result, Ms. C and her family are at risk of foreclosure.

Although Household has adopted "best practices" and will be forced to change its business practices under the terms of the attorneys' general settlement, neither action goes far enough to protect consumers. If HSBC is truly dedicated to changing Household's corporate culture of predatory lending, we urge HSBC to comply with the following to protect HSBC's current depositors and future HSBC/Household customers if the OCC approves the acquisition:

- Impose a 3% cap on points and fees, including brokers fees and yield spread premiums;
- Prohibit the refinancing of special mortgages originated, subsidized or guaranteed by a local government or non-profit organization, which bear a below-market interest rate, or payment terms beneficial to the borrower;
- Make loans with proper regard to the repayment ability of the borrower, based upon consideration of the borrower's current and expected income, current obligations, employment status, and other financial resources, as verified by detailed documentation of all sources of income and corroborated by independent verification;
- Prohibit any prepayment penalties;
- Prohibit mandatory arbitration clauses;

- Prohibit HSBC/Household from charging additional points and fees when it refinances its own loan;
- Prohibit HSBC/Household from charging an annual percentage rate (“APR”) on first mortgages that exceeds 8% over the yield on treasury securities having comparable periods of maturity;
- Prohibit HSBC/Household from charging an APR on junior mortgages that exceeds 9% over the yield on treasury securities having comparable periods of maturity;
- Prohibit all balloon payments;
- Voluntarily report under the Home Mortgage Disclosure Act (HMDA) its open-end loans, and do not make spurious open-end loans to avoid the reporting requirements of HMDA;
- Assist Household borrowers whose credit has been harmed by abusive Household loans, to clean up their credit history by issuing a credit repair letter where applicable. In addition, HSBC must regularly report the favorable payment history of Household borrowers to the credit bureaus where applicable; and
- Ensure that every prospective Household borrower is advised in writing that it is advisable to seek loan counseling through a HUD-certified non-profit loan counselor before entering into a refinance.

Neither Household’s settlement with the state attorneys general, nor Household’s adoption of “best practices,” encompasses the items listed above, and as a result, neither actions adequately protect consumers. For example, neither the settlement nor Household’s “best practices” bar mandatory arbitration clauses. Such clauses are detrimental to borrowers because they marginalize subprime borrowers into a forum with no insurance of due process. Moreover, many of the settlement’s terms involve only the *disclosure* of negative loan terms, including balloon payments and HOEPA loans, but do not actually *prohibit* these terms. The best practices also do not prohibit HOEPA loans, nor do they prohibit balloon payments in their entirety - the best practices actually allow balloon payments in mortgages that are 15 years or longer. Lastly, the settlement primarily concerns real estate-secured loans, and only minimally touches upon the problems with Household’s other loan products, including personal loans and credit cards.

Furthermore, HSBC’s liability for Household’s predatory loans does not end with the settlement of the attorneys general claims. HSBC will face numerous potential foreclosures due to the number of unaffordable loans made by Household. HSBC will have to handle these cases in a fair manner by working with borrowers to modify loans to make the loans fair and affordable.

Additionally, the OCC should reject HSBC's proposed acquisition of Household under the Change in Bank Control Act, 12 U.S.C. § 1817(j)(7)(F), because the acquisition would result in an "adverse effect on the Bank Insurance Fund or the Savings Association Insurance Fund." According to the FDIC, the 150 depository institutions that carry subprime portfolios in excess of 20 percent of capital drain "a disproportionate share of supervisory resources, and create extremely high costs for the deposit insurance funds when institutions in these programs fail." Footnote: FDIC Press Release, *FDIC Proposes New Capital Requirements for Subprime Lenders* (Nov. 2, 1999). Indeed, a disproportionate number of subprime lenders are problematic from a safety and soundness point of view. Although subprime lenders constitute only 1 percent of all insured financial institutions, they account for 20 percent of depository institutions that have safety and soundness problems. Five of nine insured banks that failed in 1998 and early 1999 had significant subprime portfolios. Several of the subprime lenders that failed used accounting practices to cover up portfolios that contained disproportionately high rates of default. Household is no stranger to abusing accounting practices to create the appearance of higher profits.

In August 2002, Forbes reported that Household's stock dropped dramatically when it was forced under pressure from the SEC to restate its profits after wrongly including certain assets as "prepaid assets." Mark Lewis, *Household Takes Itself to the Woodshed*, Forbes (Aug. 14, 2002). Similarly, in December 2001, Barron's criticized Household's questionable accounting practices, including masking chargeoffs and delinquencies. Jennifer A. Kingson, *Aldinger Defends Household's Accounting*, American Banker (Dec. 5, 2001). HSBC's acquisition of Household would add hundreds of billions of dollars in assets and hundreds of thousands of subprime loans. It is likely that such a large lending institution would be deemed too big to fail. And it is likely that such a large subprime lending institution would pose new and unprecedented threats to the federal deposit insurance funds, particularly given the high volume of predatory loans in the Household's current portfolio.

### Household's Abusive Credit Practices

As in its mortgage lending operations, Household's non-mortgage consumer finance operations perpetuate a system of separate and unequal credit. NEDAP and SBLS join with the long list of commenters who have opposed this merger on the basis of Household's abusive credit card lending, including Household's mandatory arbitration clauses, prepayment penalties, and high interest rates.

NEDAP and SBLS urge the OCC to consider Household's central role in the making of refund anticipation loans (RALs) through well-known tax preparation outlets such as H & R Block and Jackson Hewitt. Household overwhelmingly dominates the RAL industry, with more than 60 % of the market.<sup>1</sup> This unquestionably lucrative business for Household consists of gouging borrowers with so-called rapid refunds that are, in fact, very short-term loans carrying Annual Percentage Rates that shock the

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<sup>1</sup> *American Banker*, Nov. 27, 2002.

conscience. Through tax preparers who aggressively market these loans, Household has effectively sapped untold millions from very low income people's Earned Income Tax Credits.

According to Household's own 10-K filing:

The majority of customers who use this product are renters with household incomes of less than \$25,000 who are entitled to refunds of greater than \$2,000. In 2001 we originated approximately 6.4 million accounts and generated a loan volume of approximately \$8.4 billion.

The OCC should require a commitment from HSBC that it will under no circumstances continue the making of RALs, if the acquisition is approved.

#### HSBC's Conventional Home Purchase Lending in New York City Metro Area

The OCC has ample grounds for denying HSBC's application to acquire Household, based solely on Household's unfair and predatory lending practices. The OCC should also consider HSBC's fair lending and CRA record, with respect to home purchase lending in the New York metropolitan statistical area.

The attached maps show a stark picture of disparate lending by HSBC. They should cause the OCC to scrutinize HSBC's lending activities as part of its review of the present application. As shown on Map 1, HSBC had markedly and disproportionately limited share of the home purchase lending market in predominantly non-white census tracts in New York City, in 2000. In many non-white census tracts, in fact, HSBC made no loans whatsoever, including in communities where there are relatively high levels of homeownership.

HSBC's lack of home purchase lending in New York City is even starker in the context of the bank's lending in the metropolitan region. Map 2 shows HSBC's significantly stronger market presence in suburban communities in Westchester, Rockland and Nassau Counties than in New York City.

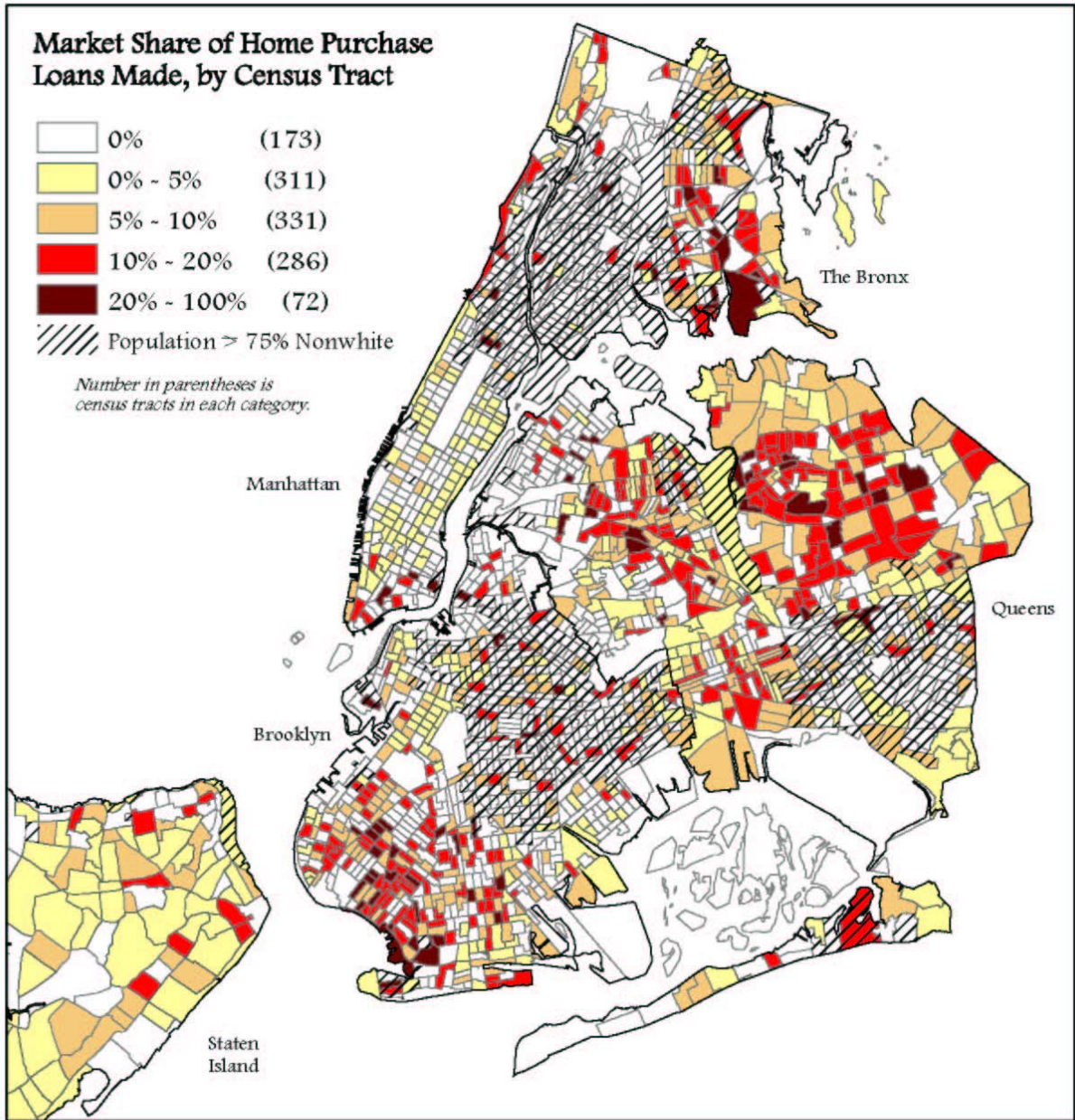
#### Conclusion

It is no coincidence that this proposed acquisition is occurring during a period when the predatory practices of Household are facing regulatory scrutiny and legal challenges throughout the country. Household clearly needs the deep pockets of HSBC to survive. For the foregoing reasons, we respectfully urge the OCC to deny HSBC's acquisition of Household. Thank you for your consideration of this comment.

Sincerely,

Foreclosure Prevention Project – South Brooklyn Legal Services  
Neighborhood Economic Development Advocacy Project

**Map 1.**  
**HSBC MORTGAGE CORPORATION**  
**MARKET SHARE OF HOME PURCHASE LOANS MADE (2000)**  
 New York City



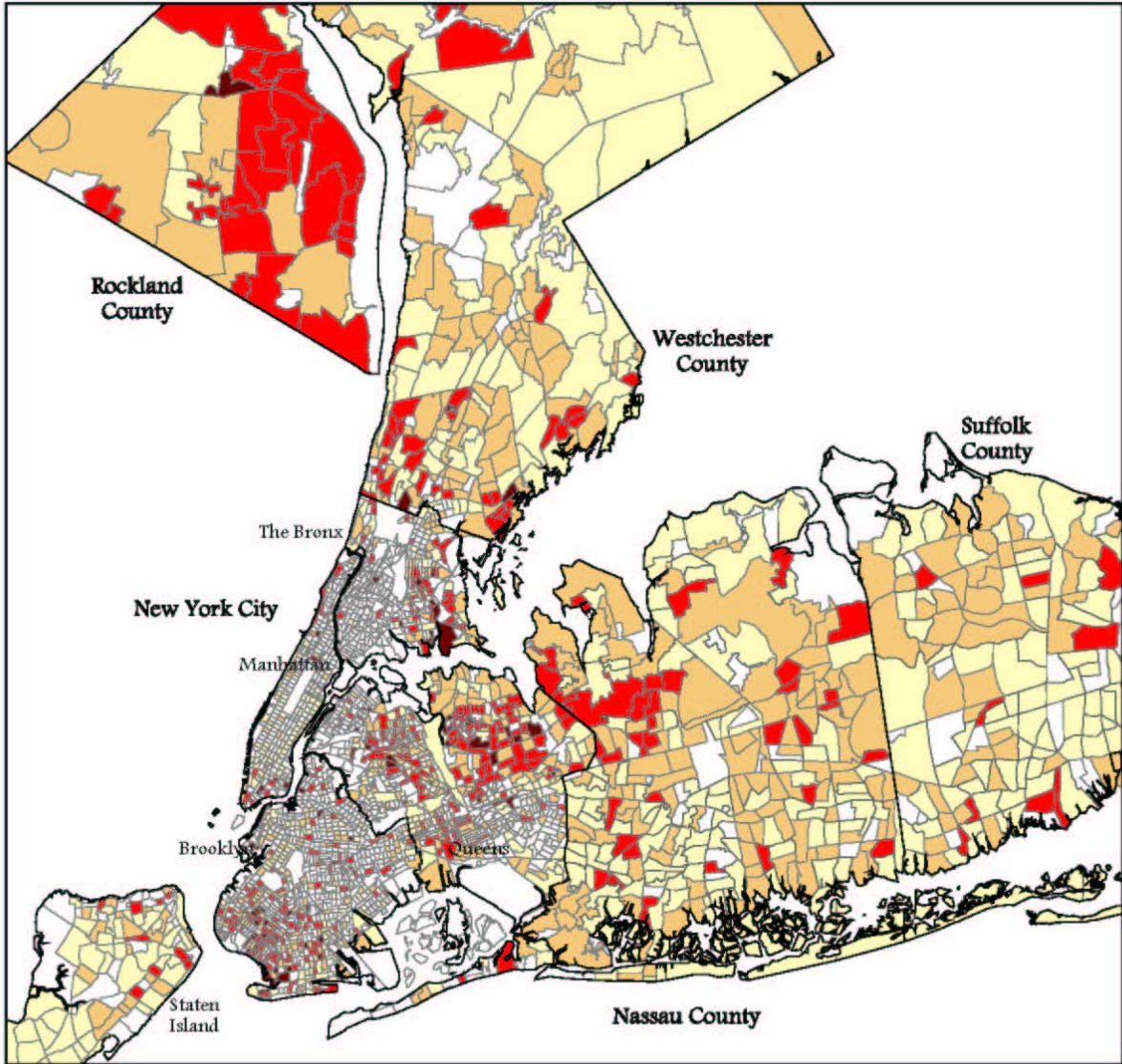
Number of Home Purchase Loans Made by HSBC Mortgage Corp. in NYC (2000): 2,257

Sources: 2000 HMDA; 1990 U.S. Census

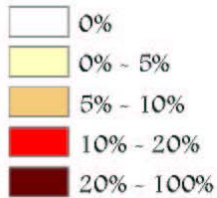


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Map 2.  
**HSBC MORTGAGE CORPORATION**  
**MARKET SHARE OF HOME PURCHASE LOANS MADE (2000)**  
 New York Metropolitan Area



**Market Share of Home Purchase Loans Made, by Census Tract**



*Sources: 2000 HMDA; 1990 U.S. Census*



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