# $12.5bn towards HSBC's Household expenses

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By Neil Collins

LONDON, April 6 (Reuters) - HSBC's shareholders have risen magnificently to the challenge, putting up $12.5 billion to break the record for the UK stock market. They looked at the rights price, 254p a share, and the market price, 459p at make-up-your-mind time, and wrote the cheques.

HSBC has been lucky. Since it invited them to buy five more shares for every 12 on March 2 (at a cost of $400 million in underwriting fees), the sector has rebounded. The realisation that bank shares were effectively long-dated out-of-the-money options, and the UK government's determination to avoid total nationalisation at all costs, helped the sector to gain 40 percent in a month.

Yet the buyers of new HSBC shares should understand that the money is being poured down the drain marked Household Finance Corporation in the US. This very sub-prime lender looked an unmissable bargain in 2002; at a cost of $15.5 billion, HSBC's superior credit rating would cut the cost of Household's debt, with a dramatic impact on margins.

Not everyone was convinced. The Hong Kong Monetary Authority, where HSBC is effectively the central bank, saw the risks and barred HSBC from formally guaranteeing the Household debt. The U.S. Federal Reserve concurred.

Household has proved a disastrous acquisition, as HSBC chairman Stephen Green now admits. Write-offs and provisions since acquisition total $54 billion. Knight Vinke, the activist investor whose predictions have been more accurate than the board's, expects much of the remaining $34 billion of sub-prime advances to become worthless. Green is continuing to support a business that has failed, and the only convincing reason to persevere is to avoid reputational damage in the U.S. HSBC may claim to be the world's local bank, but it has neither scale nor expertise in the U.S.

Moreover, history shows that investors' memories are short, and the cost of exclusion for a few years is far below the cost of continuing support for Household. Knight Vinke goes further. It points to the legal principle that if you have a power, you have a duty to consider using it.

Green's principles are of a higher order. As a Christian, he argues that it would be immoral to abandon Household. Yet this business has been lending enthusiastically to borrowers who could not repay, and HSBC's involvement was one factor that made sub-prime lending respectable.

The HSBC board is there to look after the interests of the shareholders, not the principles of the CEO. So far, those principles have cost $54 billion in write-offs and $15.5 billion in cash, and the dividend, once one of the safest in the world, has been chopped. The shareholders have surely paid enough; it's time for Green to abandon the moral high ground and cut them loose from this ruinous business. (Editing by Kevin Liffey)