



Comptroller of the Currency
Administrator of National Banks

LIMITED PURPOSE

PUBLIC DISCLOSURE

October 15, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Spirit of America National Bank
Charter Number 22183**

**1103 Allen Drive
Milford, Ohio 45150**

**Comptroller of the Currency
Southeastern District Office
Marquis One Tower, Suite 600
245 Peachtree Center Avenue, NE
Atlanta, GA 30303-1223**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

Institution's CRA rating:

This institution is rated "Needs to Improve".

The conclusions for the three rating criteria are:

- The bank demonstrates an adequate level of qualified investments and community development services activity.
- The bank demonstrates no use of innovative or complex qualified investments or community development services.
- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area.
- The bank's violation of anti-discrimination sections of the Equal Credit Opportunity Act negatively impacted this rating.

Scope of the Examination

In evaluating the bank's performance under the Community Reinvestment Act (CRA), we reviewed community development (CD) activities from April 22, 1997 through October 15, 2002. We reviewed the level and nature of qualified investments and CD services. At the bank's request, we also considered qualified investments provided by its affiliate. At the prior examination dated April 21, 1997, we rated the bank Satisfactory.

If a bank has adequately addressed its assessment area needs, the OCC considers CD activities the bank submits that benefit areas outside of its assessment area in the evaluation of its performance. The bank has adequately addressed the needs of its assessment area, and therefore, outside of assessment area qualified investments were considered in evaluating its performance.

Description of Institution

Spirit of American National Bank (SOA) was chartered on September 4, 1991, as a Competitive Equality Banking Act (CEBA) credit card bank. On August 15, 1996, SOA received its designation as a limited purpose institution for CRA purposes. CEBA banks are restricted from participation in most activities common to full service banks and primarily engage in credit card operations. CEBA banks may only accept savings and time deposits in amounts of \$100,000 and greater. Additionally, they may not engage in the business of making or purchasing commercial, residential, or retail oriented loans, with the exception of credit card loans. This prohibition significantly limits SOA's ability to help meet community credit needs within its assessment area. See page 8 for the definition of a CEBA bank. SOA may only engage in CRA CD activities relating to qualified investments and CD services due to legal restrictions. SOA's ability to provide CD services, such as financial expertise to organizations, is also affected due to

the limited number of individuals (eight) employed by the bank and the specialized nature of their financial expertise. The bank's parent company, Charming Shoppes, Inc., has provided some avenues for qualified investments.

SOA is a \$30 million financial institution located in Milford, Ohio, a suburb of Cincinnati, Ohio. It has no branch offices. SOA is a wholly-owned subsidiary of Charming Shoppes, Inc. (CSI) located in Bensalem, Pennsylvania. CSI primarily engages in the operation of specialty women's apparel retail stores under the trade names of Fashion Bug, Lane Bryant, and Catherine's Plus Sizes. There are approximately 2,400 retail stores located in the 48 contiguous states.

Table 1 provides financial information relating to SOA's financial capacity to help meet the needs of its assessment area. See pages 9 and 10 for definitions of terms. SOA's assets are centered in investment securities and interest bearing bank balances. SOA's primary business focus is the origination of private label Fashion Bug credit cards. SOA's primary source of income is derived from the servicing of the credit card receivables, which are sold to outside investors. The average amount of pass-through receivables (\$304 million, as detailed below) represents the outstanding balance of all accounts originated, subsequently sold, and presently serviced by SOA.

Table 1: Financial Information (000s)

	Year-end 1997	Year-end 1998	Year-end 1999	Year-end 2000	Year-end 2001	Most Recent Quarter-end 09/30/2002	Average for Evaluation Period
Tier 1 Capital	\$22,410	\$15,268	\$21,948	\$23,272	\$22,540	\$21,837	\$21,213
Total Income	\$74,973	\$65,682	\$26,440	\$11,842	\$11,173	7,619**	\$32,955
Net Operating Income	\$21,999	\$11,288	\$10,277	\$10,769	\$10,017	\$6,472**	\$11,804
Total Assets	\$39,659	\$31,442	\$34,281	\$31,351	\$27,890	\$29,677	\$32,383
Pass-Through Receivables	\$311,000	\$281,000	\$301,758	\$320,599	\$317,263	\$289,762	\$303,564

Source: Consolidated Report of Condition and Income and bank reported data. **Annualized data reported.

Description of Assessment Area

SOA's assessment area is comprised of Clermont and Hamilton Counties, which are part of the Cincinnati Ohio-Kentucky-Indiana multi-state metropolitan statistical area (MSA). Clermont and Hamilton Counties comprise two of the twelve counties within the MSA. SOA's assessment

area complies with CRA regulatory requirements and does not arbitrarily exclude low- and moderate-income areas. SOA's assessment area is comprised of both urban and suburban areas.

The city of Cincinnati (Hamilton County) is located on the northern banks of the Ohio River, in the extreme southwest corner of Ohio. It is the third largest city within the state. The population and total housing units within SOA's assessment area were 1,023,000 and 443,000, respectively, as of yearend 2000. Employment within SOA's assessment area as of 1998 was distributed among the service (31 percent), retail trade (17 percent), manufacturing (16 percent), government (8 percent), non-farm self employed (7 percent), wholesale trade (6 percent), and other (15 percent) sectors. As of December 2001, the greater Cincinnati area had lost approximately 11,000 jobs over the past twelve months, which has contributed to the recession. Over half of the lost jobs have come from the manufacturing sector. Manufacturing employment has been declining steadily for decades. During the current business cycle, local manufacturing employment has declined 8.5 percent. The top five employers in the Cincinnati area are the University of Cincinnati (14,084), The Procter and Gamble Company (13,700), the Health Alliance of Greater Cincinnati (13,505), Kroger Company (12,000), and GE Aircraft Engines (7,500).

According to 1990 census information, 35 (14 percent) of the geographies in SOA's assessment area are low-income, 45 (19 percent) are moderate-income, 99 (41 percent) are middle-income, 62 (26 percent) are upper income, and 1 lacks sufficient population to be assigned an income level. As a whole, the assessment area consists of 8 percent (242) of total Ohio geographies and 9 percent (1,016,000) of the state's population.

As of 1990, the assessment area had approximately 264,330 families. Twenty percent of the families were low-income, 17 percent were moderate-income, 23 percent were middle-income, and 40 percent were upper-income. As of 2002, the MSA median family income was \$64,300. Thirteen percent of families live below the poverty level, which is comparable to the State of Ohio's poverty level. The unemployment rate for SOA's assessment area was 5.1 percent as of August 2002, which is slightly lower than the statewide unemployment rate of 5.3 percent.

In 2001, 38 percent of renters in SOA's assessment area paid more than 30 percent of their income for housing costs. The fair market rent for a two bedroom-housing unit was \$576. An individual would either need to earn 215 percent of the federal minimum wage (based on a 40-hour work week) or work an 86-hour workweek to afford the fair market rent of \$576.

Table 2 provides additional demographic data for SOA's assessment area.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	242	14%	19%	41%	26%
Families	264,330	20%*	17%*	23%*	40%*
Businesses	41,365	9%**	11%**	47%**	33%**

Source: Demographic Data - 1990 U.S. Census, Dun & Bradstreet Data. *Represents families by income level.

**Represents businesses by income level of census tract.

The credit and non-credit related needs in SOA's assessment area included the following.

- Affordable housing (i.e. single-family rental, multifamily rental, home ownership, and rehabilitation). Public and rental assisted housing were also identified as needs. According to a representative from a CD agency, the waiting list for subsidized housing is in excess of two years.
- Working capital small business loans to existing and startup businesses in amounts of \$20,000 and less.
- Social services to low- and moderate-income families consisting of the following.
 - Childcare services
 - Job training
 - Business and credit counseling
 - Food and clothing donation
 - Health and dental care services
 - Infant, child, and maternal health care services

These community needs were determined by contacting a representative from a CD agency and by reviewing CRA public evaluations for financial institutions with branch offices in the Cincinnati area. We also reviewed the U. S. Department of Housing and Urban Development (HUD) Consolidated Strategy and Plan for the city of Cincinnati and Hamilton County. HUD Consolidated Strategies and Plans are comprehensive planning documents that identify community needs.

Opportunities for qualified investments, CD loans, and CD services do exist within SOA's assessment area. These opportunities include low-income housing tax credits, CD corporations, non-profit housing organizations, credit counseling agencies, low-income financial institutions, non-profit organizations that provide social services to low- and moderate-income individuals, and affordable housing revenue bonds issued by the State of Ohio. Overall, opportunities are abundant. However, SOA's ability to participate in some of these opportunities is largely limited to making donations due to the nature of its operations, as noted above, and tremendous competition from large, full-service banks.

Conclusions About Performance

Summary

- SOA has an adequate level of qualified investments and CD services, including those from its affiliate CSI, given available opportunities, competition from full service banks, legal restrictions, its financial condition, and the unique nature of its banking operations. SOA and its affiliate have made \$230,000 in qualified investments that have directly benefited its assessment area or a statewide or regional area that includes its assessment area. Of this amount, \$31,000 remained outstanding from the prior CRA evaluation period. See Table 3. CD services have mainly consisted of providing credit seminars to low- and

moderate-income individuals.

- SOA has not used innovative or complex qualified investments or CD services within its assessment area during the current evaluation period.
- SOA has exhibited adequate responsiveness to credit and CD needs within its assessment area. SOA and its affiliate have donated money for affordable housing, childcare, health care, credit counseling and job training. It has also donated clothing to the needy. These donations have been in direct response to identified community needs.

Qualified Investments

SOA’s amount of qualified investments within and outside its assessment area totaled \$230,000 and \$833,000, respectively. See Table 3. This level of qualified investments is adequate given the nature of SOA’s operations, its financial condition, and available opportunities. Table 4 details SOA’s amount of qualified investments as a percentage of Average Tier 1 Capital, Average Total Income, and Average Pass-Through Receivables. SOA’s qualified investments were responsive to identified community needs. SOA’s qualified investments are detailed below.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$25	\$0	\$25
Originated Grants	\$174	\$805	\$979
Prior-Period Investments that Remain Outstanding	\$31	\$28	\$59
Total Qualified Investments	\$230	\$833	\$1,063

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	1.08%	3.93%	5.01%
Total Investments/Average Total Income	.70%	2.53	3.23%
Total Investments/Average Pass-Through Receivables	.08%	.27%	.35%

Deposits in Local Financial Institutions

- SOA placed a non-interest bearing \$25,000 certificate of deposit in a credit union located in a distressed area of Cincinnati called “Over-The-Rhine”. This area is part of an Empowerment Zone. The credit union used SOA’s funds and funds from other sources to originate home equity and automobile loans to low- and moderate-income individuals that reside in this area of town. Funds were also used for home purchase down payment assistance.

- SOA continues to maintain a \$31,000 certificate of deposit in another financial institution located in a low- to moderate-income area of downtown Cincinnati. This financial institution used SOA's funds and funds from other sources to originate affordable home purchase loans to low- and moderate- income individuals. Down payment assistance was also provided to these individuals. This investment was made prior to the current CRA evaluation period.

Low-Income Housing Tax Credits

- In 1996, SOA acquired \$50,000 in low-income housing tax credits. Proceeds were combined with other funds to construct an eighty-four-unit apartment complex located outside SOA's assessment area in Middletown, Ohio. Forty-two of the units are earmarked as special needs units for the elderly. The outstanding balance of this investment is \$27,653.

Donations

SOA contributed \$979,000 to various CD organizations to fund their operations and programs. A total of \$174,000 of this amount was given to organizations that serve low- and moderate-income individuals who reside within SOA's assessment area or a statewide or regional area that includes its assessment area.

- SOA donated \$800,500 to a consumer credit counseling agency that provides services primarily to low- and moderate-income individuals throughout the United States. A total of \$55,000 of this amount was used for credit counseling within the State of Ohio.
- CSI donated 7,800 and 1,162 winter coats to low- and moderate-income individuals residing in Cincinnati, Ohio and Philadelphia, Pennsylvania, respectively. Bank management estimated the value of the coats to be \$58,000 and \$35,000, respectively.
- SOA donated \$26,500 to a non-profit housing organization in Clermont County that provides single-family housing to low- and moderate-income individuals. This organization has built nine homes since 1999.
- CSI donated \$13,000 to a non-profit organization that provides child and family development, educational, health, nutritional, and other social service programs to low- and moderate-income individuals who reside in Trevoze, Pennsylvania.
- SOA donated \$12,500 to a non-profit CD lender and financial intermediary serving the greater Cincinnati, Ohio. The organization's main objective is to provide affordable housing to low- and moderate-income individuals. They accomplish this by providing short term financing to construct new housing stock and rehabilitate existing housing stock. This organization also works with other non-profit organizations and financial institutions to increase the flow of long-term capital to low-income families and communities. The following is an example of this organization's impact on the community. In 1999, they lent funds to construct a three-bedroom house in the "Over-the-Rhine" neighborhood, twenty single resident occupied apartments for the homeless, and five single family homes.

- SOA donated \$10,500 to a local non-profit housing foundation that provides down payment assistance and closing cost grants to low- and moderate-income individuals residing in greater Cincinnati, Ohio. The housing foundation has made 237 grants, totaling \$280,000 since 1998.
- CSI donated \$6,000 to a non-profit organization that provides grants primarily to low- and moderate-income individuals residing in Philadelphia, Pennsylvania, who lack insurance coverage for rehabilitation services.
- CSI donated \$5,000 to a non-profit organization that in turn provides grants to other non-profit organizations that provide childcare, education, and health care services to low- and moderate-income individuals across the United States.
- SOA donated \$11,500 to five other organizations that provide job training, credit counseling, childcare, and housing related services to low- and moderate-income individuals residing within its assessment area.

Community Development Services

SOA's CD services were limited to conducting credit and homebuyer's seminars that meet a community need. A description of these CD services is detailed below.

- SOA conducted thirteen credit seminars for low- and moderate-income individuals who attend a local high school located in the "Over-the-Rhine" neighborhood (2), a middle school located in Claremont County (1), a vocational school (9), and a community college (1).
- SOA conducted seven homebuyer's classes since 1999 in participation with the Better Housing League of Greater Cincinnati. This course is a required course for the Shuttleworth Down Payment Assistance Program. The students who attend the homebuyer's classes are primarily low- and moderate-income individuals.
- SOA participates in an annual event in which students from a local middle school spend the day job shadowing bank employees. The students are primarily from low- and moderate-income families. Approximately thirty-five students have participated each year since 1997.

Fair Lending Review

During the review of the bank's underwriting criteria and credit scoring systems, we identified certain actions taken on applications that violated federal laws and regulations governing credit decisions. Bank management responded with appropriate remedies and corrective actions. The corrective actions included changes to automated systems, policies, procedures, and training programs. The issue was considered in the CRA evaluation.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate – Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA) – A geographic area that consists generally of one or more MAs (using the MA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area – A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank’s assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

Block Numbering Area (BNA) – Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

CEBA – Competitive Equality Banking Act of 1987, which permitted corporations to form limited-purpose credit card banks, whose operations are restricted to credit card activities, without the corporation becoming subject to the limitations of a “bank holding company” under the Bank Holding Company Act. A CEBA credit card bank engages only in credit card operations, does not accept demand deposits or savings or time deposits of less than \$100,000 (other than to secure extensions of credit), maintains only one office and does not engage in the business of making commercial loans.

Census Tract (CT) – Small, locally defined statistical areas within Metropolitan Areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

Community Development (CD) – Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) – The statute that requires the OCC to evaluate a bank’s

record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography – A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Limited Purpose Institution – An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect.

Median Family Income (MFI) – The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50 percent of the MFI.
- **Moderate-Income** – An income level that is at least 50 percent and less than 80 percent of the MFI.
- **Middle-Income** – An income level that is at least 80 percent and less than 120 percent of the MFI.
- **Upper-Income** – An income level that is 120 percent or more of the MFI.

Metropolitan Area (MA) – Area defined by the director of the United States Office of Management and Budget. MAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments.

Pass-Through Receivables – Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8.

Qualified Investment - A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Tier 1 Capital – The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Total Assets – Total bank assets as listed in the Consolidated Report of Condition and Income.

Total Income – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income.