



Comptroller of the Currency

Limited Purpose

Public Disclosure

June 30, 1998

Community Reinvestment Act Performance Evaluation

**Beneficial National Bank USA
Charter Number 22474**

**One Christina Centre
301 North Walnut Street
Wilmington, Delaware 19801**

**Office of the Comptroller of the Currency
Western District Office
Mid-size/Credit Card Banks
50 Fremont Street, Suite 3900
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Note: 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.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Beneficial National Bank, USA** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 30, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**. The factors supporting the bank's overall rating include:

- the bank has a good record of responding to community credit needs;
- an adequate dollar amount of qualified investments and grants/donations to support affordable housing;
- an innovative method of using mortgage backed securities to provide directed funding for loans to low- and moderate-income applicants; and
- a reasonable level of community development services.

During the two-year evaluation period (July 1996 - June 1998), Beneficial National Bank USA (BNB USA) has entered into formal commitments totaling \$6.25 million to qualified community development investments in its assessment area. During the two-year time period, advances totaling \$5.6 million were made on these and prior year commitments. These programs address the community's most pressing needs - affordable housing development, affordable mortgage loans for low- and moderate-income individuals, and funding for commercial revitalization in targeted economically distressed cities and towns. The volume of investments is notable as there is intense competition for community development investments in BNB USA's assessment area given the numerous credit card institutions with Limited Purpose designations headquartered in Delaware.

Scope of the Examination

This evaluation covers the period July 1996 through June 30, 1998, using financial information as of June 30, 1998. BNB USA has been designated by the Office of the Comptroller of the Currency as a limited-purpose institution as a basis for evaluation under the CRA. A limited-purpose institution is evaluated pursuant to the community development test, which assesses a bank's record of meeting assessment area credit needs through community development lending, qualified investments, or community development services.

Description of Institution

As of June 30, 1998, BNB USA had total owned assets of \$3.1 billion consisting of \$3.0 billion in credit card loans. BNB USA offered customized private-label and co-branded revolving charge programs to large regional and national retailers. BNB USA was among the nation's largest private-label credit card banks.¹ BNB USA is chartered under the Competitive Equality Banking Act (CEBA) which limits its operation as a full service banking institution. BNB USA is also subject to Delaware state banking regulations that limit its activities within the state. As a credit card bank, BNB USA does not offer other types of credit nor does it maintain any public offices nor accept deposits from the retail public sector.

Other than the restrictions imposed by the bank's CEBA charter and state regulations, there are no additional legal constraints which impact BNB USA's ability to help meet its community's credit needs.

¹ Subsequent to the close of the evaluation period and prior to the issuance of this Public Disclosure, the nature of this institution has changed. As of June 30, 1998, Household International, Inc. purchased the parent of BNB USA, Beneficial Corporation. All private label credit card receivables have since been transferred to another Household International Inc. affiliate located in Nevada. As of December 31, 1999, BNB USA now has \$100 million in total assets with \$90 million in MasterCard and Visa card receivables.

Description of Assessment Area ²

BNB USA has designated 115 census tracts (ACTS@) in New Castle County, (ANCC@) Delaware to the Chesapeake and Delaware Canal as its assessment area (AAA@), which comprises the majority of the 9160 Metropolitan Statistical Area (AMSA@).

The assessment area complies with CRA guidelines and does not arbitrarily exclude low- and moderate-income areas. Based on 1990 census data, the AA is the most densely populated area of the state with 422 thousand or two-thirds of Delaware's population. Wilmington represents the largest city in the AA with a population of 71 thousand. Newark, which contains the University of Delaware, is the other significant urban area in the AA. The assessment area contains 115 populated census tracts. Eight percent (8%) of the tracts are low-income, 19% are moderate-income, 51% are middle-income, and 22% are upper-income.

All of the low-income census tracts and nine of the 22 moderate-income census tracts are located in Wilmington. The median family income of the MSA is \$44,332. A total of 110 thousand families reside in the AA of which 17% are low-income, 18% are moderate-income, 26% are middle-income and 39% are upper-income. There is a total of 167 thousand housing units in the AA. Seventy-six percent (76%) of these housing units are one-to-four family structures, 20% are multifamily structures and 4% are vacant. Sixty-three percent (63%) are owner occupied and 30% are rentals. Five percent (5%) of housing units are vacant. The median housing value is \$120 thousand for the AA, and \$88 thousand for Wilmington.

Nearly 10% of employment in Delaware is found in the financial and insurance sector of the economy, nearly one-third higher than the national average. One in every 20 Delaware jobs is related to the credit card industry. Approximately 21% of the workforce are in manufacturing jobs, but this figure is declining steadily as a result of large plant closures and reductions by some of the state's largest employers. The economy as reflected by expansion in the job market is strong. In the prior twelve months (June 1997 - June 1998) a net gain of 13 thousand non farms jobs were created placing the state as the 6th in job growth nationwide. Seasonally adjusted unemployment rate for the state is 4.0% in June versus 4.1% in the previous month. Six-month average is 3.7% versus 4.5% compared to prior period in 1997. The AA comprises most of NCC, which as the largest county in Delaware, leads and often exceeds the state averages in all the categories discussed above.

² Subsequent to the close of the evaluation period and prior to the issuance of this Public Disclosure, the bank's headquarters has moved to the community of New Castle, Delaware. The assessment area remains the same.

The 1995 Department of Housing and Urban Development consolidated plan for NCC identifies affordable housing as a primary need for low- and moderate-income households, especially those residing in Wilmington. The Delaware State Housing Authority study of 1996 has identified affordable multifamily housing for low and very low income persons; housing for special needs persons, including senior citizens and handicapped; and rehabilitation of affordable housing units as areas requiring attention over a five and twenty year period. Community organizations have also identified affordable home purchase and rehabilitation financing as pressing needs, as well as financing for small and minority owned businesses in distressed areas of the state. BNB USA has determined that credit education, affordable housing, rehabilitation of housing and revitalization of commercial areas are significant issues within the AA that present ongoing roadblocks to the community's economic development. The bank supports organizations and programs that address these areas.

Intense competition exists for qualified investments in the assessment area since numerous credit card banks are headquartered in Delaware.

Conclusions with Respect to Performance

Community Development Investments

BNB USA seeks investment opportunities that revitalize and stabilize low- and moderate-income geographies within its assessment area. In the evaluation period, BNB USA made investment commitments totaling \$6.25 million for community development in its assessment area. During this period, \$5.6 million was advanced on these and previous investment commitments. In addition, the bank extended grants and donations totaling \$188 thousand to community development organizations operating within the assessment area. Described below are the various investments made by the bank over the past two years.

Delaware Community Investment Corporation (ADCIC@)

DCIC is a multi-bank community development corporation whose mission is to foster the production of affordable housing in Delaware for low- and moderate-income individuals. BNB USA has been providing investments to the DCIC, since 1992. BNB USA's cumulative investment commitments to DCIC total \$3.25 million, including \$1.0 million pledged in the evaluation period. For the two-year period of the evaluation period, advances of \$725 thousand have been made to DCIC's housing equity fund under prior commitments. These investments helped fund five affordable housing projects containing a total of 204 housing units and rehabilitation of 1,309 housing units in twenty-two

projects within the state. Discussed below are BNB USA's investment commitments to new

DCIC initiatives.

In 1996, DCIC offered two new investment initiatives: Community Development Loan fund and the Tax Exempt Bond Placement Program (ATEBP®). The Community Development Loan Fund, totaling \$5.0 million, represents DCIC's investment fund which will provide equity for loans used to revitalize commercial real estate in target cities in Delaware. Program uses a 60/40 loan matching fund concept in that to be eligible, borrowers must qualify for government grants from a state loan fund up to 40% and provide an additional 60% from non state sources. Loans are to be made in distressed communities that have a master revitalization plan for commercial area. BNB USA has committed \$500 thousand to this fund. No advances have been requested from DCIC as of June 30, 1998.

The Tax Exempt Bond Program (ATEBP®) is innovative in that it will purchase private activity, multifamily housing bonds from a government issuer and privately place them with DCIC participating member institutions. Through a 4% tax credit, the program allows for development of rental housing units available for occupancy by low income persons in under served areas of the state. BNB USA committed \$500 thousand to TEBP in 1997.

Delaware State Housing Authority Bond Programs

The Delaware State Housing Authority (ADSHA®) offers a program to facilitate funding for low- and moderate-income first-time home buyers by providing second mortgages up to \$5 thousand for use in closing costs and down payments. The program is known as the Second Mortgage Assistance Loan Program (ASMAL®). DSHA services the pool of loans and holds title to loans. BNB USA committed to purchase \$1 million of these mortgage revenue bonds, issued by DSHA in 1997, and has advanced \$918 thousand as of June 30, 1998.

The Delaware State Housing Family Mortgage Revenue Bonds for low- and moderate-income qualified borrowers with reduced interest rate feature. Funding from this issue resulted in mortgage loan rates of 5.60%. BNB USA committed and funded (purchased) \$250 thousand of these bonds from DSHA in 1997.

Government National Mortgage Association (GNMA®)

BNB USA purchased in 1996 mortgage backed securities totaling \$1.1 million designed to provide below market interest rates for first time low- and moderate-income homeowners residing in the AA.

In 1997, BNB USA used an innovative approach to providing funding to low income families residing in the AA. The bank directed a mortgage broker to assemble a pool of loans directed at low income borrowers using a tiered rate program based in part on family

size. The broker sold mortgage pool to GNMA and BNB USA purchased the mortgage backed securities from GNMA. The bank has committed \$3.0 million and funded \$2.6 million as of June 30, 1998.

Qualifying Grants and Donations

During the two-year evaluation period the bank has provided qualified grants and donations to community organizations that support affordable housing, credit counseling, quality of life programs for low- and moderate-income individuals, and for small business development. The total dollar amount for the period, including an in-kind donation of equipment valued at \$10 thousand, was \$188 thousand.

These funds were distributed among sixteen community development purpose organizations, all within BNB USA's assessment area. Groups receiving grants and donations include: YWCA Centers for Homeownership; Delaware State Housing Authority's Housing Partnership; West End Neighborhood House - Rental Assistance Program; Interfaith Housing, Community Housing, Inc.; and the Small Business Development Center.

Community Development Services

BNB USA employees have contributed their financial expertise to local community development organizations through their memberships and active participation in programs. Employees hold various positions in local housing organizations including the following.

- C The CRA Officer is a member of the Housing Capacity Building Program serving as a member of the grant review committee. She also serves on the Board of Directors for Christmas in April, providing technical support for fund raising activities. Christmas in April is an organization that operates a housing rehabilitation program for low- and moderate-income senior citizens. The CRA Officer also is a member of the Leadership Council of Interfaith Housing Inc. where she provides technical support for fund raising.
- C The Compliance Officer serves on the Board of Directors of the Center for Home Ownership.
- C Three other officers serve on Committees or Board of Directors for Interfaith Housing, Inc., People's Settlement, and Westside Health Services all of which serve needs of low- and moderate-income community or individuals.

BNB USA has developed a computer based educational CD ROM on proper use of credit and budgeting income. The interactive program is designed to provide users with a means to make purchases on credit, budget income, and make decisions impacting their lifestyles. The program is to be used in low- and moderate-income credit counseling programs, and for use in first time home owner seminars for affordable housing. Distribution is within the AA and nationwide.

Record of Compliance with Anti-discrimination Laws and Regulations

A concurrent fair lending examination established a reason to believe that a violation of the Equal Credit Opportunity Act (ECOA) and Regulation B had occurred. The violation involved disparate treatment of applicants on a prohibited basis due to a credit program that did not meet the requirements of a "special purpose credit program" under Regulation B. Bank management disagrees that a violation of the ECOA and Regulation B occurred. However, the practice was immediately halted when identified by the OCC, steps have been taken to strengthen internal monitoring efforts to prevent illegal discriminatory practices, and the bank has agreed to take appropriate corrective action. The bank was recently acquired by Household International. Household International has for several years owned two subsidiaries regulated by the OCC, and those subsidiaries have a satisfactory record of complying with anti-discrimination laws and regulations. The violation did not cause the CRA rating to be adjusted downward.