



**LIMITED PURPOSE**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**May 07, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**May National Bank of Ohio  
Charter Number 21922**

**300 Sheffield Center  
Lorain, OH 44055**

**Comptroller of the Currency  
Credit Card Bank Supervision  
1117 Perimeter Center West, Suite W401  
Atlanta, Georgia 30338**

**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 Community Reinvestment Act (CRA) rating:**

**This institution is rated Satisfactory.**

The conclusions for the three rating criteria are:

- May National Bank of Ohio had an adequate level of community development activities over the evaluation period.
- The bank's community development activities occasionally involve innovative or complex characteristics.
- Bank activities are responsive to the social service needs of low- and moderate-income individuals in the Cleveland Primary Metropolitan Statistical Area (PMSA).

## **Scope of the Examination**

This evaluation considers the level and nature of qualified investments and community development services from August 25, 1998 through January 31, 2004. At the bank's request, we also included qualified activities by affiliates. Bank performance was rated "Satisfactory" at the previous CRA examination dated August 24, 1998.

Qualified investments that benefit areas outside the Cleveland PMSA (the bank's assessment area) were also considered in this evaluation because the bank has adequately addressed needs inside this area. The OCC considers such activities only when a bank requests such consideration and has adequately addressed needs within its assessment area.

## **Description of Institution**

May National Bank of Ohio (MNB) is a Competitive Equality Banking Act (CEBA) credit card bank, headquartered in Lorain, Ohio. The OCC designated MNB as a limited purpose institution for CRA purposes on January 22, 1996.

Legal restrictions limit the activities of CEBA banks and their available means to fulfill CRA obligations. CEBA banks may only have one office facility and may only engage in credit card activities. Refer to the *Definitions and Common Abbreviations* section of this Performance Evaluation for a more detailed description of CEBA.

Due to these legal constraints, MNB may only engage in community development investment and service activities. Furthermore, the bank's ability to participate in equity investments is somewhat limited by the specialized nature of its operations.

The bank is ultimately owned by The May Department Stores Company (MDSC). MDSC is one of the nation's largest retailing companies with almost 450 department stores in 46 states, the District of Columbia and Puerto Rico. An affiliated financial institution (May National Bank of Arizona) merged with MNB on April 15, 2003. MNB is now the sole issuer of private label credit cards for its affiliated retail stores, including Lord & Taylor, Robinsons-May, Foley's, Filene's, Kaufmann's, Hecht's, Famous-Barr, Meier & Frank, Strawbridge's, L.S. Ayres, and The Jones Store.

Table 1 below details financial information that provides perspective regarding the bank's capacity to help meet the community development needs of its assessment area. As previously mentioned, MNB's business focus is the origination of private label credit cards for affiliated retail stores. The bank sells the receivables associated with the cards to an affiliate on a daily basis. Consequently, MNB's income is primarily derived from merchant fees (for sales transacted with the cards) and services fees (for remittance processing) rather than interest income. Pass-through receivables (detailed below) represent the outstanding balance of all accounts originated, subsequently sold, and presently serviced by MNB. Refer to the *Definitions and Common Abbreviations* section of this Performance Evaluation for a more detailed description of the financial terms in the following table.

**Table 1: Financial Information (000s)**

	Year-end 1999	Year-end 2000	Year-end 2001	Year-end 2002	Year-end 2003	Average for Evaluation Period
<b>Tier 1 Capital</b>	12,040	12,597	12,891	14,187	35,798	17,503
<b>Total Income</b>	73,080	91,554	90,566	85,140	112,914	90,651
<b>Net Operating Income</b>	33,116	51,494	52,554	49,955	64,178	50,259
<b>Total Assets</b>	12,144	12,704	13,065	14,758	36,366	17,807
<b>Pass-Through Receivables</b>	1,425,184	1,464,611	1,374,830	1,251,155	1,636,436	1,430,443

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

At the bank's request, we considered the community development activities of two affiliates in this evaluation – the bank's parent company (MDSC) and an affiliated charitable foundation (May Foundation). MNB has no subsidiaries.

# Description of Assessment Area

MNB’s assessment area consists of the Cleveland-Lorain-Elyria primary metropolitan statistical area (PMSA), a six county urban and suburban area in northeastern Ohio. The following table summarizes select demographic information for the Cleveland PMSA:

**Table 2: Cleveland PMSA Demographics**

	Number	Low	Moderate	Middle	Upper	N/A*
<b>Tracts</b>	714	15%	20%	40%	24%	1%
<b>Families by Income Level</b>	590,866	20%	18%	22%	40%	0%
<b>Businesses by Geography</b>	119,989	7%	15%	42%	35%	1%

*Source: Demographic Data - 2000 U.S. Census, 2003 Dun & Bradstreet Data.*

*\*No income category assigned.*

The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The area’s principal city of Cleveland is the second-largest city in the state and the 33<sup>rd</sup> largest city in the country. The Port of Cleveland provides access to Great Lakes shipping as well as world ports via the St. Lawrence Seaway.

Greater Cleveland has long been famous as a durable goods manufacturing area. Following the national trend, however, the area has been shifting to a more services-based economy. Today it is a world corporate center for leading national and multinational companies in industries ranging from transportation, insurance, retailing, and utilities, to commercial banking and finance.

Economic conditions have weakened during the past few years due to the impact of a national recession on local manufacturing and retail trade. Seasonally adjusted unemployment rates range from a low of 3.9% (November 2000) to a high of 6.2% (July 2003). The current rate is 5.6% (April 2004).

Competition among financial service providers is strong in the Cleveland PMSA. There are more than 50 FDIC-insured depository institutions in this market, including several large interstate banks. The market is also fairly concentrated, with 48% of area deposits held by two banks per June 30, 2003 FDIC information.

The Cleveland PMSA contains 108 low-income and 146 moderate-income tracts. Most (222 or 87%) of these low- and moderate-income (LMI) tracts are concentrated in the City of Cleveland. There are also pockets of LMI tracts in the communities of Lorain, Elyria, Astabula and Conneaut.

Like other older cities in the nation’s “Rust Belt”, the City of Cleveland has experienced widespread population decline and job loss over the last thirty years. It lost more than one-third of its population between 1970 and 2000, primarily from its central core and older, inner-ring suburbs. And while the region overall had modest population growth in the 1990s, growth is far from the urban core. Today, only one in five residents of the Cleveland region lives in the central city, and less than one-third of the area’s workers are employed there.

Another challenge for the area includes the lack of a highly educated workforce. Per 2000 census data, Cleveland ranks 96<sup>th</sup> of the 100 largest cities in the share of adults who have a bachelor's degree. Not coincidentally, the city's unemployment rate is the second highest among large U.S. cities, and its median household income is the third lowest. Some 62% of households in the city had incomes below \$34,000 in 2000. Families with children were especially likely to earn low wages - nearly half earned incomes below or near the federal poverty level.

Low wages impede families' ability to benefit from the city's relatively affordable rental and ownership opportunities. About half of Cleveland's households own their own homes. According to analysis by the Brookings Institution (Center on Urban and Metropolitan Policy), this share is typical among large cities, but it is low for a city with such large stock of single-family homes. Cleveland's median unit rents for only \$465 per month. Nonetheless, 40,000 Cleveland renters still pay more than 30 percent of income on rent, suggesting that most earn too little to afford even a modestly-priced unit. A lack of market demand leaves senior citizens as the largest group of homeowners in many city neighborhoods.

There are many identified community development needs in the Cleveland PMSA, including a need for:

- Increased educational access;
- Job training and placement services;
- Continued economic integration and expanded retail services for inner-city neighborhoods;
- Micro loans, venture capital and technical assistance for small businesses;
- Affordable housing – construction of new housing on vacant lots and the rehabilitation of older homes, in particular;
- Financial literacy programs; and
- Other social services targeted to low- and moderate-income individuals – particularly emergency food and shelter services, health and dental care, and substance abuse services.

Community development opportunities are also plentiful, fostered by a multifaceted and overlapping network of Community Development Corporations, urban development funds and foundations. In addition, the area benefits from a relatively high level of private sector participation and proactive local governments. City support for urban development includes an active land bank, down payment assistance and tax abatement program. Cleveland also has several Empowerment Zones with programs that utilize Community Development Block Grants and other funding. According to the Brookings Institution, about \$2.4 billion flows into Cleveland's urban development activities annually.

OCC examiners recently met with representatives of five community development organizations. We also participated in a community development forum convened by the City of Cleveland in 2002. Contacts reaffirmed the aforementioned community development needs and opportunities. None of the contacts specifically commented on MNB's CRA performance. MNB has not received any CRA complaints over the evaluation period.

## Conclusions About Performance

### Summary

- May National Bank of Ohio had an adequate level of community development activities over the evaluation period. The level of qualified investments is particularly good with \$2.3 million investments that directly benefit the bank’s assessment area.
- The bank’s community development activities occasionally involve innovative or complex characteristics. Notable activities include seed funding for a Hispanic adolescent health care initiative, education services that benefit at-risk high school students, and job training for economically and physically disadvantaged individuals.
- Bank activities are responsive to the social service needs of low- and moderate-income individuals. MNB has engaged in charitable contributions and service activities that address job training and education needs in its assessment area. Bank contributions also address identified social service needs related to emergency food and shelter services, health care, and financial literacy.

### Qualified Investments

MNB’s qualified investments totaled \$2.3 million inside the Cleveland PMSA and \$6.9 million outside this area over the evaluation period. Most investments were charitable grants (\$8.2 million or 90%). The other investments consist of certificates of deposit in Community Development Financial Institutions and minority-owned banks that primarily lend in low- and moderate- income (LMI) areas or to LMI borrowers. Table 3 summarizes the bank’s investment activity.

**Table 3: Qualified Investment Activity (000s)**

	Benefits AA*	Outside AA*	Totals
<b>Originated Investments</b>	\$100	\$360	\$460
<b>Originated Grants</b>	\$2,204	\$6,051	\$8,255
<b>Prior-Period Investments that Remain Outstanding</b>	\$0	\$460	\$460
<b>Total Qualified Investments</b>	\$2,304	\$6,871	\$9,175

\*AA= assessment area

The bank’s level of investments is good in light of the unique nature of its operations and financial capacity. Table 4 shows qualified investments as a percentage of various financial capacity indicators.

**Table 4: Qualified Investment Percentages**

	Benefits AA* (%)	Outside AA* (%)	Total (%)
<b>Total Investments/Average Tier 1 Capital</b>	13.16%	39.26%	52.42%
<b>Total Investments/Average Total Income</b>	2.54%	7.58%	10.12%
<b>Total Investments/Average Pass-Through Receivables</b>	0.16%	0.48%	0.64%

\*AA= assessment area

In the Cleveland PMSA alone, the bank made a total of 113 qualifying grants to more than 30 different organizations over the evaluation period. As illustrated in Table 5, most of these donations (92% by dollar) funded social services for LMI individuals. These donations are responsive to several identified needs in the assessment area – in particular, job training and education, emergency food and shelter services, health care, and financial literacy needs.

**Table 5: Qualified Donations In the Assessment Area – Sorted by Type**

Type of Donation	Number of Donations	Number of Organizations	Donation Dollars	Donation Mix (by dollars)
United Way	13	2	\$1,174,700	53%
Job Training/Education	34	10	\$338,700	15%
Emergency/Transitional Housing	16	3	\$166,478	7%
Health Services	7	3	\$160,000	7%
Food Service	12	4	\$76,350	3%
Financial Literacy Programs	5	1	\$60,000	3%
Other Social Services	11	5	\$51,000	2%
<b>Social Service Subtotal</b>	<b>98</b>	<b>26*</b>	<b>\$2,027,228</b>	<b>92%**</b>
Affordable Housing	10	4	\$133,250	6%
Revitalization/Stabilization	5	1	\$44,000	2%
<b>Total Donations</b>	<b>113</b>	<b>31</b>	<b>\$2,204,478</b>	<b>100%</b>

*\*The number of organizations receiving social service donations is not equal to the sum of its subcategories due to organizations that have donations in more than one subcategory.*

*\*\*Column does not add to 92% due to rounding.*

Specific donations inside the Cleveland PMSA include:

- \$105,000 to a non-profit organization that provides job training to economically disadvantaged minorities in Lorain County.
- \$84,126 to an organization that operates a shelter for abused women in the Lorain area.
- \$80,000 to a free clinic that provides medical assistance to LMI families in the Lorain area.
- \$76,350 to four different organizations that provide meals and food supplies to individuals in need.
- \$67,352 to an organization that operates day-care facilities for LMI families as well as a homeless shelter.
- \$62,700 to a non-profit organization that finds meaningful employment for LMI individuals with physical and mental disabilities.
- \$60,000 to an organization that provides free debt counseling and financial education programs targeted to LMI individuals.
- \$54,500 to a local community college for scholarships and programming designed to promote higher retention and graduation rates in Lorain County's school districts of greatest need.
- \$40,000 to a health foundation for the development of a health care program that targets under-served Hispanic adolescents in the greater Cleveland area. The bank was one of only three investors that provided seed money for this initiative.
- \$26,600 to a local high school for a career-based intervention program that provides vocational training for students at-risk.
- \$20,000 to a Lorain County social service agency to establish a computer skills laboratory for low-income families.
- \$15,000 to a Cleveland non-profit for a career-to-school program that prepares disadvantaged Cleveland students for opportunities in the work force and higher education.
- \$15,000 to a Cleveland shelter that provides transitional housing to women overcoming chemical dependency.

Grant activity outside the bank's assessment area also reflects responsiveness to a wide variety of community development needs. Of the \$6 million donations outside the Cleveland PMSA, \$3.7 million (or 62%) went to organizations that provide consumer credit counseling targeted to LMI individuals. Another \$1.5 million (or 25%) went to community organizations that provide social services to individuals in need, and the remaining \$851 thousand (or 14%) supported affordable housing, economic development, or revitalization initiatives.



## **Community Development Lending**

MNB may not engage in community development lending due to CEBA banking constraints. The bank did not submit any lending activity by affiliates for consideration.

## **Community Development Services**

MNB provided several community development service activities over the evaluation period. Services primarily consist of providing technical expertise (as Board or committee members and consultants) to organizations that promote social services for LMI individuals. Notable service activities include the following:

- MNB initiated a partnership with a local high school to provide on-the-job financial services education to “at-risk” students. The bank trained seven students in this program. Three students remained employed after graduation. One student is currently enrolled at local community college and is taking advantage of the bank’s tuition reimbursement program.
- MNB is the only private sector company that assists a local nonprofit organization with both charitable contributions and employment opportunities for LMI individuals with physical and mental disabilities. The bank currently employs 12 clients on a part-time basis. MNB took the lead in providing critical employment-related accommodations that enabled several individuals to gain financial service industry skills they could not have otherwise experienced.
- The bank was instrumental in negotiating an arrangement between two non-profit organizations to re-open a consumer credit counseling office in the Lorain community. Without the bank’s involvement, LMI residents of Lorain would no longer have readily available access to free credit counseling and financial education services.

## **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.

## 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 MSAs (using the MSA 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% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

**Metropolitan Statistical Area (MSA)** – Area defined by the director of the United States Office of Management and Budget. MSAs 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. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, “PreTax Operating Income (TE)”*]

**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. [*If not already reported to the OCC, the bank provides this information.*]

**Primary Metropolitan Statistical Area (PMSA)** - Area defined by the director of the United States Office of Management and Budget. A PMSA may exist in an MSA which has more than one million persons. PMSAs consist of a large urbanized county or cluster of counties that demonstrate very strong internal, economic and social links.

**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. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, “Net Tier One”.*]

**Total Assets** – Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, “Total Assets”.*]

**Total Income** – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, “Total Interest Income” and “Noninterest Income”.*]