



LIMITED PURPOSE BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 30, 2001

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**JCB Bank, N.A.
Charter Number 18788**

**626 Wilshire Blvd., Suite 200
Los Angeles, CA 90017**

**Comptroller of the Currency
Western District Office
50 Fremont Street Suite 3900
San Francisco, CA 94105**

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 **JCB Bank, N.A.**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 30, 2001**. 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.

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 by 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 which 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, (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area, or (iii) the supervisory office may give positive consideration to CD activities outside the AA as benefiting the 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 bank being considered a bank 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 \$100M (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 ten 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 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. A limited-purpose institution continues to meet the narrow product line requirement if it only infrequently provides other types of loans.

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

Low-Income Family or Geography - An income level that is less than 50% of the MFI.

Moderate-Income Family or Geography - An income level that is at least 50% and less than 80% of the MFI.

Middle-Income Family or Geography - An income level that is at least 80% and less than 120% of the MFI.

Upper-Income Family or Geography - 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 defined by the Consolidated Report of Condition and Income, income before adjusting for extraordinary items.

Pass Through Receivables - Outstanding receivables tied to all accounts issued or owned by the bank. The bank provides this information.

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

Total Assets - Total bank assets as defined by the Consolidated Report of Condition and Income.

Total Income - From the Consolidated Report of Condition and Income -- Interest income plus non-interest income.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from January 1, 1997, through April 30, 2001. We reviewed the level and nature of qualified investments and community development services. At the prior examination dated December 31, 1996, we rated the bank Satisfactory.

Institution's CRA rating:

This institution is rated "Satisfactory."

The major characteristics that support this rating are:

- The bank demonstrates an adequate level of community development services and qualified investment activity.
- The bank demonstrates occasional use of innovative or complex qualified investments.
- The bank demonstrates excellent responsiveness to the community development needs in its assessment area.

Description of Institution

JCB Bank, N.A., (JCB), is headquartered in Los Angeles, California. The bank has no branches. It was chartered in May 1993 as a credit card bank under the Competitive Equality Banking Act (CEBA) of 1987 and received its designation as a limited purpose bank for purposes of the Community Reinvestment Act (CRA) in January 1996. The bank issues three co-branded credit cards and its own "brand name" general-purpose consumer credit card, which are accepted by almost 500 thousand merchants in the United States. CEBA credit card banks are subject to significant activity restrictions. These banks must:

- Engage only in consumer credit card operations;
- Not accept demand deposits or other deposits able to be withdrawn for payment to third parties;
- Not accept any saving or time deposits less than \$100 thousand (except for collateral purposes);
- Maintain only one office that accepts deposits; and
- Not engage in the business of making commercial loans.

The bank's capacity to provide a significant dollar volume of CD investments is limited due to its lack of profitability. Since its inception, the bank has not generated a profit. For year-end 2000, the bank reported total assets of \$2.6 million and net operating losses of \$121 thousand. The bank retains all credit card receivables on-book.

JCB is wholly owned by JCB International Credit Card Co., Ltd. (JCB USA), which is located in Los Angeles, California. JCB USA is a wholly owned subsidiary of JCB, Ltd. (JCB Tokyo,

Japan). JCB USA has offices in Los Angeles, San Francisco, Chicago, New York, and Honolulu, whose purpose is to increase the number of merchants who will accept the JCB credit card. As of December 31, 2000, JCB USA reported total assets of \$11 million and net losses of \$180 thousand. JCB USA has 87 employees. About half of them are headquartered in Los Angeles. The bank does not have any full-time employees. JCB USA lends JCB five employees who work part-time for the bank.

Table 1: Financial Information (000s)

	Year-end 1997*	Year-end 1998*	Year-end 1999*	Year-end 2000*	Average for Evaluation Period
Tier 1 Capital	2,135	1,804	2,167	1916	2,006
Total Income	209	236	184	176	201
Net Operating Income	(41)	(329)	(139)	(121)	(158)
Total Assets	3,222	3,148	2,793	2,555	2,930
Outstanding Receivables	2,432	2,159	1,529	1,421	1,885

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

* *Actual data reported.*

Description of Assessment Area

JCB operates in an urban area. The bank has designated 196 census tracts in the Los Angeles MSA as its assessment area. The assessment area meets the legal requirements of the CRA. The table below shows the demographics of the bank's assessment area.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts*	196	44%	46%	7%	2%
Families	203,005	47%	22%	16%	15%
Small Business**	27,848	54%	33%	8%	4%

Source: Demographic Data - 1990 U.S. Census, Dun & Bradstreet Data

* *1% of the census tracts do not have an income designation.*

** *1% of the businesses are located in census tracts that do not have an income designation.*

The bank's assessment area consists of a portion of the Los Angeles MSA. It includes the communities of Chinatown, Little Tokyo, Central Los Angeles, Crenshaw, Boyle Heights, Central City, Vernon, Baldwin Hills, and Leimert. The 1990 U.S. Census data indicates that 90 percent of the bank's assessment area consists of low- and moderate-income census tracts and almost half of the families are low-income families.

Overall, Los Angeles is recovering and in some instances, has recovered from the recession of the early 1990s. The entertainment and garment industries coupled with the busy ports of Los

Angeles and Long Beach have contributed to revitalize the area. In the Los Angeles MSA, the unemployment rate has continued to decline. The Bureau of Labor and Statistics reported an unemployment rate of 4.7 percent as of March 2001. The 2000 HUD updated median family income for the Los Angeles MSA is \$52,100. However, economic prosperity has been slower to come to the lower income areas. The impact of events, including the civil disturbances, during the early to mid-1990s has resulted in reluctance for banks and other financial service providers to provide loans for larger economic development projects and developments.

The largest industries in the assessment area in order of importance are services, retail trade, wholesale trade, finance and real estate, manufacturing, and construction. In response to concessions from other states, the motion picture industry has moved a great deal of its production activity out of Los Angeles. However, there are many business opportunities within the assessment area. According to recent Dun & Bradstreet statistics, 83 percent of businesses and farms located within the assessment area have annual revenues of less than \$1 million.

We reviewed five recent community contacts with community development organizations. Some organizations provide technical and management assistance for small businesses; while others promote affordable housing for low- and moderate-income individuals, reinvestment in declining older neighborhoods, and economic development in low- and moderate-income areas.

Community contacts indicate there is an ongoing need for affordable housing loans. Public resources have been reduced over the last few years. An example is the drastic reduction in affordable housing support previously provided by the Los Angeles Community Redevelopment Agency. The tax increment generated by the Bunker Hill and Downtown redevelopment areas has been virtually used up, forcing affordable housing developers to seek other funding sources. The lack of funding is extremely problematic when compared to the influx of low-income people, including the homeless (Los Angeles has one of the largest homeless populations in the country). A community contact indicated that motels represent a primary source of affordable housing for low-income families. However, Los Angeles has a law that prevents individuals from staying in motels more than 90 days, which exacerbates the problem. The types of loans needed are land development loans, loans to rehabilitate boarded-up single family residences, and home mortgage loan products to meet the special needs of LMI individuals. There is also a significant need for credit counselors to train potential homebuyers about credit evaluation, mortgage financing, and loan processing.

Small business loans are another significant need in the assessment areas. Small business owners are continually in need of capital. Although banks have begun to provide loans for small businesses in lower amounts (\$2,500 and up), most small businesses are unable to qualify for financing. Many small business owners are foreign-born entrepreneurs with language issues and no credit history. They are often reluctant to utilize bank depository services, and even more reluctant to complete loan applications. Community contacts indicate there is a need for banks to participate in providing funds for micro loan pools. Loans in amounts of \$50 thousand to \$500 thousand to finance equipment and expansion are also needed. Technical assistance is needed for small businesses, especially assistance in obtaining business credit.

In general, construction financing is needed for both affordable housing and commercial developments. Overall, there are abundant opportunities for community development loans and services in the assessment area, with fewer opportunities for community development investments.

Conclusions about Performance

Summary

The overall level of qualified community development investments and services is adequate, relative to the opportunities available in the assessment area given the bank's charter restrictions and the bank's financial capacity. We based our conclusions primarily on the bank's excellent efforts to provide qualified community development services and its adequate financial contributions to help meet the affordable housing needs of LMI individuals in the assessment area. In addition, the bank also made an effort to help meet the needs of small businesses by providing funds to be loaned to small businesses in low- and moderate-income communities.

JCB made a good effort to provide a community development investment, which was both innovative and complex. The investment was innovative because this was the only small business fund of its kind, which had been established in the assessment area; and it was complex because neither the bank nor its parent has the expertise in CD investments.

The bank's responsiveness to community development needs is excellent. Community groups indicate there is a significant need to revitalize LMI areas, as well as to provide education programs for LMI homebuyers. The bank has responded by teaching quarterly credit education classes for LMI homebuyers. In addition, one of the bank's employees provided his financial expertise as a member of a loan committee of a community development organization. These contributions are significant because of the bank's limited human resources. The bank also provided funds to purchase paint and other supplies to revitalize homes in LMI neighborhoods, as well as funds to purchase materials for the homebuyer education programs promoted by a local community development organization.

Qualified Investments

During the review period, the bank contributed a total of \$15 thousand in grants to a local community development organization. In addition, JCB also had a prior period investment totaling \$50 thousand to this organization, which was terminated by the organization in 2000. The purpose of the organization is to improve and restore certain low- and moderate-income neighborhoods targeted for revitalization in the bank's assessment area. The organization promotes economic development and provides low-interest homeownership and home repair loans, home ownership education, financial counseling, and affordable housing for low- and moderate-income individuals. The table below provides a breakdown of the bank's investments in its assessment area:

Table 3: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	
Originated Grants	\$ 15
Prior Period Investments	
Totals	\$ 15

The following table provides a breakdown of the bank's investment activity in relationship to its financial capacity (family of financial measures):

Table 4: Qualified Investment Percentages (000s)

	Benefit AA (%)
Total Investments/Average Tier 1 Capital	.75%
Total Investments/Average Total Income	7.46%
Total Investments/Average Receivables	.80%

Note: Total Investments is found in Table 3. Average capital, income And receivables are found in Table 1.

The grants consisted of the following:

- \$11 thousand helped provide affordable housing and home ownership education for low- and moderate-income individuals;
- \$3 thousand provided paint and other supplies to improve targeted properties in low- and moderate-income neighborhoods; and
- \$1 thousand represents an in-kind donation of five personal computers to a community development organization, which are used in the organization's corporate office and in the home ownership centers.

During the review period, the bank also had a prior period investment that totaled \$50 thousand and originated in 1995. The bank's investment represented 20 percent of a fund which was set up to provide small, flexible loans to existing small businesses that needed loans which they could not traditionally get at a bank. The loan fund was terminated in 2000 because the applicant pool consisted primarily of small start-up businesses with little or no capital, which did not meet the fund's requirements for eligible borrowers. However, the investment characterizes the bank's desire and efforts to help meet the community development needs in its assessment area. It also demonstrates an innovative and complex endeavor to help meet the needs of the community. The investment was considered innovative because there wasn't another fund like this in the assessment area; and it is considered complex for JCB because neither the bank nor its parent company employees have the expertise in CD investments.

Community Development Services

The bank provided two community development services during the review period. During 2000 and in 2001, the bank partnered with a community development organization to provide quarterly home mortgage credit education classes in conjunction with the organization's Homebuyer's Education Program. In addition, an executive officer of the bank provided financial expertise as a member of the Small Business Loan Committee, which oversaw the Small Business Loan Program sponsored by a local community development organization.

Compliance with Anti-Discrimination Laws and Regulations

We reviewed the bank's compliance with fair lending laws and regulations during our December 31, 1999, examination. Our review consisted of a comparative file analysis of male approvals to female declines. The sample covered a six-month time frame. We also reviewed the bank's fair lending policies and procedures, underwriting criteria, and credit scorecards. The bank has a good record of complying with the anti-discrimination laws and regulations. We did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations.