



Comptroller of the Currency
Administrator of National Banks

Limited Purpose

Public Disclosure

February 1, 2001

Community Reinvestment Act Performance Evaluation

**Cedar Hill National Bank
Charter Number: 23323**

**316 Business Center, Building D
1000 Hurricane Shoals Road
Lawrenceville, Georgia 30243**

**Office of the Comptroller of the Currency
Midwestern District Office
Credit Card East Division
2345 Grand Boulevard, Suite 700
Kansas City, Missouri 64108**

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 "Satisfactory."

The conclusions for the three rating criteria are:

- The bank demonstrates an adequate level of community development qualified investment activity and no community development services.
- The bank demonstrates no use of innovative or complex qualified investments, community development loans, or community development services.
- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from **February 2, 1998** (when the bank opened) through **February 1, 2001**. We reviewed the level and nature of qualified investments. This is the first CRA evaluation for this bank.

If a bank has adequately addressed its assessment area needs, the OCC considers community development (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 CD qualified investments were considered in evaluating its performance. At the bank's request, we also considered qualified investments provided by its affiliates.

Description of Institution

Cedar Hill National Bank (CHNB) was chartered February 2, 1998. During the charter application process, the OCC approved the Bank's request for designation as a limited purpose bank. CHNB is headquartered in Lawrenceville, GA and has no branches. The bank is wholly owned by The Cato Corporation, headquartered in Charlotte, NC. The Cato Corporation is a regional chain of women's retail clothing stores. They operate over 800 stores in 21 states primarily in the south and southeast. CHNB reported total assets of \$10.5 million as of December 31, 2000.

CHNB was chartered to offer private label consumer credit cards for The Cato Stores only. CHNB does not accept deposits other than a deposit from The Cato Corporation. Credit card receivables originate at point of sale terminals in the clothing stores. The bank sells the receivables to another affiliate (Cato West). CHNB is responsible for servicing the accounts receivable. Their primary source of income is the discount earned on the credit card receivables.

CHNB was chartered as a credit card bank under the Competitive Equality Banking Act (CEBA) of 1995. As a CEBA credit card bank, CHNB must engage only in credit card operations and must not: (1) accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties or others; (2) accept any savings or time deposits of less than \$100,000; (3) maintain more than one office that accepts deposits; or (4) engage in the business of making commercial loans. Also, until 1999, due to regulatory restrictions on the types of investment securities a bank could hold, CHNB could not legally invest in some of the types of bonds used to facilitate community development.

CHNB's ability to provide community development services is affected by the number of individuals employed by the bank and the specialized nature of the bank's financial expertise. The majority of the bank's operations staff (42) are housed in an office in Charlotte, NC. The Lawrenceville, GA office consists of an office manager and 4 employees. The parent holding company provides some investment expertise and avenues for CRA qualified investments.

Table 1 reflects relevant financial information and provides a perspective on the bank's capacity to help meet the credit needs of its assessment area (AA).

Table 1: Financial Information (000s)

	Year-end 1998 (11 months)	Year-end 1999	Year-end 12/31/2000	Average for Evaluation Period
Tier 1 Capital	\$ 4,761	\$ 5,071	\$ 5,487	\$ 5,106
Total Income	\$ 4,994	\$ 5,537	\$ 5,773	\$ 5,435
Net Operating Income	\$ 587	\$ 604	\$ 845	\$ 441
Total Assets	\$ 8,880	\$ 8,910	\$10,559	\$ 9,450
Pass Through Receivables	\$48,729	\$50,601	\$51,927	\$50,419

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

Description of Assessment Area

CHNB has designated the Atlanta MSA as their assessment area (AA) for CRA purposes. This assessment area meets the legal requirements of the Act. The Atlanta MSA is a twenty-county area surrounding the city of Atlanta with a total of 504 census tracts. There were 2.9 million persons in the area comprising 784 thousand families and 1.1 million households according to the 1990 census data. The 1990 census median family income was \$41,047, while the updated median family income for 2000 was \$63,100. The unemployment rate for the City of Atlanta was 5.2% in 2000, while the rate for the state of Georgia was 4.0% and the U.S. was 4.2%. Homeownership is low in Atlanta at 43% while the overall rate in Georgia was 65% and U.S. rate was 64% according to 2000 statistics available from the GA Department of Community Affairs.

Additional demographic data is displayed in Table 2.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Geographies (Census Tracts)*	504	12%	23%	38%	25%
Small Businesses by Geography*	136,737	4%	16%	43%	36%
Distribution of Families by Income Level	784,394	19%	18%	24%	39%

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

* Does not add to 100%. Five Census Tracts (3%) are not income categorized

The Atlanta MSA is internationally recognized as the transportation, communication, industrial, and cultural center of the Southeastern United States. It has one of the strongest economies of any major urban area. Due to its location and extensive transportation network, Atlanta has developed as a major distribution center for the Southeast. Distribution and associated industrial activities are gradually being transferred to other urban centers in the South, while Atlanta has evolved as a major provider of technological and financial support services.

The Atlanta MSA has a diverse industrial base that includes manufacturing, transportation, distribution, retailing, wholesaling, finance, government, research, education, medicine, and technical support. Ninety percent (90%) of the Fortune 500 companies maintain regional offices in the Atlanta area. In addition, ninety-eight of the nation’s top industrial firms maintain some type of operational facility in metro Atlanta. Foreign trade has played a significant role in the area’s growth over the last two decades. More than 200 foreign firms have established their U.S. headquarters in Atlanta. Of these companies, thirty-one are foreign based banks with offices in Atlanta.

U.S. Department of Housing and Urban Development (HUD) studies indicate Atlanta has a need for affordable housing. According to the HUD studies, a majority of Atlanta households are affected by housing concerns, most common of which is cost burden. Fifty-five percent of households pay at least 30% of their income for housing and 28% of all households are severely cost burdened (they devote at least 50% of their income to housing). Local governmental agencies and quasi-governmental groups that are working to address the problem are the Atlanta Housing Authority, the Atlanta Neighborhood Development Partnership, and the Atlanta Planning Advisory Board. The City of Atlanta and its development community have been pursuing Federal, State and local resources to assist in the production and maintenance of affordable housing. These resources include Federal Low Income Housing Tax Credits and the State Housing Trust Fund (administered by the Georgia Housing Finance Authority). The city encourages eligible nonprofit organizations to request funding directly from the State. The Atlanta Housing Resource Committee lists 425 housing related organizations. These organizations serve the MSA or a wider regional or statewide area that includes the Atlanta

MSA. The assessment area has a significant level of opportunities for CD investments and services.

During the examination, we reviewed recent community contacts conducted by the OCC, Federal Reserve Bank, and Federal Deposit Insurance Corporation and CRA Performance Evaluations of other banks in the assessment area. These community contacts identified community development needs as creating additional affordable housing and other support services for low- and moderate-income residents. These services include job training, budgeting, parenting skills training, drug and alcohol rehabilitation, affordable childcare, and basic home maintenance. In addition, the 1995 Atlanta Consolidated Plan Executive Summary lists increasing the number of affordable low-income housing units and expanding public facilities and services to low-income residents as primary goals. In addition, we performed one community contact with a community foundation outside the assessment area that brings together donors and charities.

Conclusions About Performance

Summary

CHNB has demonstrated adequate performance in helping to meet the community development needs of the AA, including the credit needs of low- and moderate-income individuals and small businesses through investments and/or grants. Since CHNB's charter restricts its lending to credit cards, it cannot directly originate community development loans. However, through its investments, the bank and an affiliate have provided low cost funds for affordable housing and rehabilitation in the bank's AA.

- CHNB has an adequate level of qualified investments within its AA (including those from its affiliate), given the legal restrictions, its financial condition and the available investment opportunities. CHNB does not use innovative or complex qualified investments.
- No CD services were submitted for consideration during the evaluation period.
- The bank exhibits adequate responsiveness to credit and community economic development needs in the AA. The bank has invested \$275 thousand in bonds issued by the Georgia state housing authority. The bonds funded single family and multi-family affordable housing projects. The bank has also opted to receive credit for investments made by its parent company. Within the AA, the parent company invested \$60 thousand in bonds issued by a county to fund multi-family affordable housing.

The bank has adequately addressed the needs of its AA. Therefore, we also considered activities of the parent company that benefit areas outside the bank's AA. Outside the AA, the parent company invested \$1.015 million in affordable housing bonds issued by the North Carolina Housing Finance Agency.

Qualified Investments

Tables 3 and 4 summarize the bank and its affiliate's qualified investments and compare the dollar amounts to indicators of the bank's financial capacity. The vast majority of the investments were in securities that support affordable housing. These are responsive to the needs of the AA.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$ 335	\$ 1,015	\$ 1,350
Originated Grants	\$ 1	\$ 0	\$ 1
Prior Period Investments that Remain Outstanding	NA	NA	NA
Total Qualified Investments	\$ 336	\$ 1,015	\$ 1,351

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	7%	20%	26%
Total Investments/Average Total Income	6%	19%	25%
Total Investments/Average Receivables	<1%	2%	3%

The bank invested \$275 thousand in Georgia State Housing & Finance Authority Revenue Bonds. These bonds are issued to fund affordable housing in GA, benefiting a broader area that includes the Atlanta, GA MSA. Housing was the number one identified need in that AA.

CHNB has also donated approximately \$1 thousand to the Gwinnett Community Foundation. This foundation coordinates community services targeted to low- and moderate-income individuals in Gwinnett County, GA, the county in which the bank is located.

As provided by the CRA regulation, CHNB can receive credit for community development investments made by its affiliates. The parent company, The Cato Corporation, invested \$60 thousand in the Atlanta MSA. The investment was in "Acworth GA Housing Authority Revenue

Bonds". These bonds were issued to fund affordable housing in Acworth County, GA, which is in the bank's AA. This is an identified need of the AA. This investment is not claimed by any other affiliate.

Due to its satisfactory performance in the AA, CHNB can receive credit for qualified investments, contributions and grants made outside the Atlanta MSA. The Cato Corporation invested an additional \$1.015 million outside the bank's AA. No other affiliate received CRA credit for these investments. These investments were North Carolina Housing Finance Agency Revenue Bonds. These housing bonds benefit an area outside the bank's AA, but are responsive to the need for affordable housing in the southeastern region of the country.

Fair Lending Review

Neither the bank nor the OCC received public comments regarding CRA. An analysis of 1999 and 2000 consumer complaint information was performed according to the OCC's risk based fair lending approach. The analysis of the information revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with the CRA evaluation this year. A comprehensive fair lending exam has not previously been performed.

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 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, 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 \$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 and for which a designation as limited purpose bank is in effect. 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 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)

Pass Through Receivables - Outstanding receivables tied to all accounts issued or owned by the bank regardless of the balances of those receivables being carried on the bank's books or sold to another entity. The bank provides this information.

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.