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Public Disclosure

May 8, 2000

**Community Reinvestment Act
Performance Evaluation**

**CrediCard National Bank
Charter Number: 23401**

**100 West Olmos Drive, Suite 200
San Antonio, TX 78212**

**Office of the Comptroller of the Currency
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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 **CrediCard National Bank**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 8, 2000**. 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, 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 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 attributed 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 noncumulative 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 noninterest income.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from January 1999 through May 8, 2000. Although the bank was chartered in August 1998, the first few months of operations were developmental for the bank. We reviewed the level and nature of qualified investments. This is the first CRA examination of the bank.

Institution's CRA rating:

This institution is rated "Needs to Improve".

The major characteristics that support this rating are:

- The bank demonstrates a poor level of qualified investment activity.
- The bank did not demonstrate the use of innovative or complex qualified investments.
- The bank demonstrates poor responsiveness to community development needs in its assessment area.

Description of Institution

CrediCard National Bank (CCNB) is headquartered in San Antonio, Texas. The bank was chartered in August 1998 to offer private label consumer credit cards. Private label credit cards are issued by the bank for a retailer, such as a department or specialty store. These cards differ from general-purpose cards because they limit where the cards are accepted, the credit limits are generally lower, and the cardholders often exhibit a higher risk profile. CCNB offers consumer credit cards through a network of retail merchants in 20 states.

The bank was designated as a "limited purpose" bank for purposes of CRA during the charter approval process. Although CCNB has a national bank charter, it does not have many of the characteristics of a typical retail bank. CCNB does not offer the standard fare of retail products such as retail deposit accounts, commercial or consumer loans (other than the private label credit cards), safe deposit box rental, or an ATM network. The bank only offers brokered and jumbo certificates of deposit, which provides the bank's funding.

The bank has 12 full time and two part time employees, which includes four officers. The bank has no branches. The bank has no other legal impediments to meeting the community development needs of its assessment area.

The bank is privately owned and presently has slightly over \$7 million in assets. CCNB retains the credit card account receivables as the major component to their total assets. Table 1 below reflects the bank's financial position during the review period.

Table 1: Financial Information (\$000s)

	Year-end 1999	Most Recent Quarter-end 03/31/2000	<i>Average for Evaluation Period</i>
Tier 1 Capital	2,638	2,570	2,604
Total Income	1,575	1,564**	1,570
Net Operating Income	205	228**	217
Total Assets	7,747	7,334	7,541
Credit Card Receivables	7,300	6,294	6,797

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

**Annualized data reported

Description of Assessment Area

CCNB has designated the San Antonio MSA, consisting of four counties (Bexar, Comal, Guadalupe and Wilson), as its assessment area (AA). The designated AA meets the legal requirements of CRA for a limited purpose bank. San Antonio is the eighth largest city in the U.S. with an estimated population of 1.5 million. The San Antonio MSA is one of the fastest growing MSAs in the United States.

Table 2 below provides a breakdown of the income levels by census tracts. The most recent HUD updated median family income for 1999 was \$41,900 and for 1998 was \$39,800. The unemployment rate was reported as 2.7% in December 1998 and 3% in 1999, and estimated at 4.3% in the first quarter of 2000. This compares to the state and national averages of 4.4% and 4.3% respectively.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tract	256*	8.6%	29.3%	34.4%	26.6%**
Families	338,630	6.3%	26.3%	36.9%	30.4%**
Small Business	51,628	5%	22.9%	38.3%	33.6%**

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

*3 Census Tracts (1.17%) are not income categorized

** Does not add to 100% due to rounding

The San Antonio economy is considered diverse, stable and improving. Government, health-care services, financial services, and trades dominate the area's employment base. The San Antonio area is host to five military bases: the Kelly, Lackland, Randolph, and Brooks Air Force bases, and the Fort Sam Houston Army Post. The federal base realignments and closures have steadily reduced the number of civilians and military personnel on defense payrolls. Increasing trade with Mexico resulting in part from the implementation of NAFTA has expanded San Antonio's economy, especially trucking and warehousing industries. Tourism and hospitality provide support to San Antonio's trade and service industries. The metropolitan area has four of the state's top 10 tourism attractions, resulting in millions of visitors each year. Low wages and business costs have resulted in the metro area becoming a mecca for the teleservices industry. While this bodes well for absorbing labor and keeping the area's unemployment rate low, it also reinforces low-income levels.

San Antonio is divided into large economic quadrants containing many small communities. Many of these communities contain substantial ethnic and minority populations. The major distressed neighborhoods in San Antonio are within San Antonio's Enterprise Community Enterprise Zone. This is a 15 square mile area comprised of the inner-city portions of the west and east side quadrants. The inner-city portion of the west side quadrant includes the Avenida Guadalupe community. The total population within the Enterprise Zone is about 100,000. There are three other large distressed areas in San Antonio also identified as Enterprise Zones. The West-Southwest Enterprise Zone is located west of the Enterprise Community and south of Commerce Street. The Eastside Enterprise Zone is east of the Enterprise Community. The Southside Enterprise Zone is south of the Enterprise Community. The Southside Enterprise Zone includes the South Town area. There are relatively few bank branches located within these Enterprise Zones.

For a city with a low-income population as large as San Antonio's there are a relatively small number of Community Housing Development Organizations. In 1990, the City of San Antonio identified 19% of the City's housing stock to be in substandard condition. There is a severe shortage of decent rental units available. Vacancy rates have dropped below 4%. Rents have been increasing over the past two years at the rate of 14% per year with a current average cost of \$589 for a two bedroom, two bathroom apartment. Many low-income renters are paying the same amount for rent, as they would need to pay to support a monthly mortgage payment. Community contacts identified down payment and closing cost-assistance as the most critical unmet need limiting the number of low-income homebuyers. Lack of predevelopment funding was also identified as a need for providing affordable housing to low- and moderate-income families.

Our community contacts also identified the lack of funding for entrepreneurial training and technical assistance for business plans. This need is a limiting factor in the expansion of small business lending in the low-income communities of the San Antonio MSA. Other unmet needs identified were small business counseling, financial literacy counseling, and a need for Individual Deposit Accounts (IDA) to subsidize mortgage downpayment needs. This information was gathered from 13 community contacts performed in the San Antonio MSA over the past two years.

The bank experiences some barriers to achieving high levels of CRA performance. It is in competition with 13 large financial institutions (those over \$1 billion in assets) in the San Antonio MSA for

investment opportunities. Due to CCNB's chosen funding source of jumbo and brokered certificates of deposit, the bank finds it difficult to economically compete with the larger bank's CD lending rates.

Conclusions About Performance

Summary

The level of the investments is considered poor when compared to the bank's capacity and the availability of numerous opportunities in the San Antonio MSA. The qualified investments shown in Table 3 benefit a broader area than the bank's AA. Therefore, the direct benefit to the AA during this review period was minimal. There were no investments that solely benefited the AA.

There are numerous community development investment, loan, and service opportunities in the San Antonio MSA. For example: there are four Community Development Financial Institutions and one Community Development Credit Union in the MSA; there are organizations that facilitate small business lending as well as other organizations that facilitate low-income housing loans; there are opportunities for targeted mortgage backed securities through the Federal National Mortgage Association (FNMA). Also, the San Antonio, TX Enterprise Community has a working plan for improvement for the 15 square mile enterprise zone.

The bank's investments were not considered innovative or complex. The Small Business Investment Corporation (SBIC) has 57 other banks in the state that has invested funds for capitalizing small businesses throughout the state. This investment is responsive to a particular need for small business capital in the state. The CCCS contributions are a direct result of services provided for the bank's customers.

Qualified Investments

The bank has committed a \$100,000 investment to a Small Business Administration Small Business Investment Corporation (SBIC), Independent Bankers Capital Fund, L.P. This fund provides capital for small business owners in the state of Texas, which includes the San Antonio MSA. In November 1999, CCNB responded to the first capital call with \$13,250 to the Independent Bankers Capital Fund, L. P. The remainder is to be funded over the next five years. The SBIC has a commitment of \$23.1 million by 58 banks throughout Texas.

The bank also contributed \$2,050 to Consumer Credit Counseling Services (CCCS) as their "fare share contribution" for collection and counseling services provided to are used by CCCS for credit counseling and consumer education for primarily low- and moderate-income individuals.

Table 3: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	\$13
Originated Grants	\$2
Prior Period Investments that Remain Outstanding	- 0 -

Totals	\$15
Unfunded Commitments*	\$87

(*) "Unfunded Commitment" means legally binding investment commitment that is tracked and recorded by the bank's financial reporting system.

Table 4 below indicates the levels of investment compared to three standard financial measures of a limited purpose bank.

Table 4: Qualified Investment Percentages

	Benefit AA (%)
Total Investments/Average Tier 1 Capital	.5
Total Investments/Average Total Income	.8
Total Investments/Average Receivables	.2

Compliance with Anti-Discrimination Laws and Regulations

A fair lending examination was conducted concurrently with the CRA review. No violations of the substantive provisions of anti-discrimination laws were identified. The review included a comparative file analysis of approved and declined credit card loan applicants.