

Washington, DC 20219

Public Disclosure

November 1, 1999

Community Reinvestment Act Performance Evaluation

**First Consumers National Bank
Charter Number: 21688**

**9300 S. W. Gemini Drive
Beaverton, Oregon 97008**

**Office of the Comptroller of the Currency
Western District
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 **First Consumers National Bank**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 1, 1999**. 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 - 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 1, 1996 through October 31, 1999. We reviewed the level and nature of qualified investments and community development services. At the bank's option, we also considered community development activity provided by its affiliates. At the prior examination dated December 12, 1995, 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 a good level of qualified investment and community development services.
- The bank demonstrates an occasional use of innovative qualified investments and community development services.
- The bank demonstrates good responsiveness to community development needs in its assessment area.

Description of Institution

First Consumers National Bank (FCNB) commenced operations on December 12, 1988 as a credit card bank subject to the provisions of the Competitive Equality Banking Act (CEBA) of 1987. In general, the bank cannot engage in the making of commercial loans and cannot accept any savings or time deposits less the \$100,000 that do not secure an outstanding credit card account. The bank has no other legal or financial impediments to serving the community development needs of its designated assessment area.

The bank is headquartered in Beaverton, Oregon in Washington County and has no branch offices. FCNB is owned by Spiegel, Inc., a group of retailers which includes Eddie Bauer, Inc., Newport News, Inc., and Spiegel Catalog, Inc. This group of companies shows \$1.9 billion in total assets as of the January 2, 1999 annual report.

The bank issues and services consumer credit cards for these retail operations and issues general purpose bank cards under its own name. Table 1 below reflects the bank's financial position over the past four years. Income has dropped in the past year, but total assets have continued to grow to \$299 million as of September 31, 1999. FCNB staff has grown to 900 since its founding in 1988. The bank sells the majority of its credit card account receivables daily to either Spiegel Acceptance Corporation or First Consumers Master Trust. Table 1 indicates that an average of \$1.7 billion in receivables passes

through the bank.

Table 1: Financial Information (000s)

	Year-end 1996	Year-end 1997	Year-end 1998	Most Recent Quarter-end 9-30-99	Average for Evaluation Period
Tier 1 Capital	30,679	34,947	50,380	55,683	42,922
Total Income	77,802	73,697	139,231	97,823**	97,138
Net Operating Income	13,320	24,541	63,011	11,652**	28,131
Total Assets	174,940	146,515	158,066	298,617	194,535
Pass Through Receivables	1,705,568	1,548,816	1,660,071	1,776,976	1,672,858

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

**Annualized data reported.

Description of Assessment Area

FCNB has designated Washington County, Oregon as its assessment area. Washington County occupies 727 square miles with approximately 397,700 citizens as shown on the county's website updated in March 1999. The county's largest cities are Beaverton, Hillsboro, and Tigard. The western area of the county is rural with Banks and Forest Grove as the population and service centers. Based on 1990 Census information Table 2 below shows that 95% of Washington County's census tracts are in the middle- and upper-income brackets. There are no low-income census tracts in the county and only 5% of the total fall into the moderate-income category. Likewise, only 6% of the families in the county fall within the low or moderate-income categories.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tract	62	0%	5%	63%	32%
Families	83,799	3%	3%	64%	33%
Small Business	17,880	0%	4%	70%	27%

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

Percentages do not equal 100% due to rounding.

Washington County is the second largest and fastest growing county in Oregon. From 1990 through 1998, the population increased 27.6%. In years past, Washington County was primarily a rural agricultural area. The expansion of the high-tech industry, which fueled growth in the retail and service sectors, contributed significantly to the county's rapid growth. From 1990 through 1995, Washington County saw an increase in non-farm employment of 27.3%. Between 1990 and 1998, high tech

employment grew by 69% in Oregon. Most of that growth was in Washington County, which has 52% of the state's high tech jobs. Today, 89% of the jobs in Washington County fall into the manufacturing, retail, or service sector. Thirty-six percent are in the manufacturing sector. Washington County has a large commuting population, with 37% of workers commuting into Washington County each day.

The Oregon Progress Board reports that unemployment in Washington County in 1998 was at 3.9% while statewide unemployment was reported at 5.6%. The increase in employment correlates to the growth of the high-tech industry.

The Housing and Urban Development (HUD) estimated median family income for Washington County at \$52,400 for 1999, compared to \$36,705 in 1990, an increase of 30%. From 1990 through 1995, non-farm personal income in Washington County grew by 33.9%, against an increase of 31% for the Portland-Vancouver PMSA. The Oregon Progress Board reports that Washington County has shown steady income growth with a level of income over 100% (113% in 1997) of the U.S. per capita income level. While incomes in Washington County have increased, they have not kept pace with the increase in land and housing costs.

Estimated median housing prices in the first quarter of 1999 in Portland was \$165,300. This reflects an 87% increase in the Portland area since 1991. The National Association of Realtors' Housing Opportunity ranked Portland as the second least affordable housing market in the nation in the first quarter of 1997.

In southeastern Washington County, 97% of rental units are considered unaffordable to low-income households, compared with a figure of 41% for the Portland metro area. For families with very low incomes, rental costs are absorbing as much as 75% of their monthly salaries. The shortage of affordable housing is requiring workers to be commuters and to drive farther to reach their places of employment.

Despite the increasing urbanization in Washington County during the 1990's, agriculture is still a significant component of the economy. The affordable housing problems described above are even more acute for the county's farm workers, whose incomes fall below 50 percent of the median family income for the Portland-Vancouver PMSA. According to the City Planning Department of Forest Grove the population growth within in the Urban Growth Boundary has been due to technology and manufacturing employment and commuters to other areas of the county.

As shown in the statistics above, housing prices and rents have grown at a much faster rate than personal income. As a result, the county is no longer affordable for many people, including farm workers. This presents FCNB with targeted community development opportunities in the area of affordable housing. The infrastructure needed for development of affordable housing in rural areas has not been developed and, therefore, community development investment opportunities are minimal.

We obtained information from six community contacts made at the time of the examination. These contacts confirmed that the overwhelming need of limited number of low- and moderate-income families

in Washington County is affordable housing. However, these contacts also revealed that there are minimal community development investment and service opportunities in the county. The bank has determined that other community development opportunities in the assessment area include education, community services, and consumer education.

Conclusions About Performance

Summary

FCNB has adequately served its assessment area's community development needs through a variety of qualified investments and services. During the review period, the bank has invested \$2.8 million in projects and activities that benefit Washington County. Employees of FCNB have provided many hours of qualified community services mostly in the area of consumer education. Since the bank has adequately searched out and placed funds with appropriate organizations to assist with the needs of low- and moderate-income population in its AA, in our analysis we considered qualified investments placed outside the assessment area by both the bank and its affiliates with a total of \$4.6 million.

- The level of investments is good considering the capacity of FCNB and the opportunity for qualified community development investments in the assessment area.
- FCNB occasionally participated in innovative projects and activities, often meeting a need that had previously been unmet.
- FCNB's responsiveness to the community development needs in its assessment area is good. The majority of the bank's investments (92%) were directed to affordable housing projects and activities.

Qualified Investments

During the review period, 40 qualified investments were made directly benefiting the assessment area for a total of \$2.8 million or 6.4% of Tier 1 Capital. The bank and its affiliates have made qualified investments of \$4.6 million or 10.7% of Tier 1 Capital benefiting low- or moderate-income individuals or areas outside the assessment area. The majority of these funds (61%) were invested by the bank within the state of Oregon. The highest dollar amount went to consumer education on credit related topics. The second highest dollar amount went to affordable housing through a prior investment of \$1.5 million in housing tax credits outside of Oregon, which was invested by an affiliate. The remaining dollars went to community services. See Tables 3 and 4 below for more detail regarding the level of community development investment. Each year of the four-year review period FCNB has increased the number and dollar of investments benefiting its assessment area. They have participated in investment programs developed for banks investing in the low- and moderate-income segments of the community such as tax credit and mortgage backed securities.

Table 4 presents some calculations to illustrate the level of investments comparable to the bank's

capacity. We consider these levels to be adequately serving the community development needs of the assessment area in consideration of the size, structure, and CEBA limitation of this bank.

FCNB participated in several investments that are considered innovative in serving Washington County assessment area. Some examples of these innovative activities are the bank: 1) providing funds for a computer study center in the Beaverton library targeted to low- and moderate-income students; 2) providing funds to purchase playground equipment for a rehabilitated low- and moderate-income housing complex; and 3) providing funds for a program to educate middle and high school students from low- and moderate-income families on personal finance management. In the area of community services, the bank has reached out to abused children in the community with innovative activities such as, supporting a program that tracks and intervenes for the children at the highest risk of dying due to child abuse, a need previously unmet in the community.

FCNB has searched out the needs of their assessment area and contributed to the betterment of Washington County. Considering the CEBA limitations on lending, the bank has responded to the identified affordable housing need by investing \$2.5 million (92% of the total qualified investments benefiting Washington County and Oregon state) in mortgage-backed securities, mortgage revenue bonds, affordable housing development funds, housing rehabilitation projects, and homeowner education programs. The mortgage-backed securities of \$308,420 consist of low- and moderate-income mortgages in the bank's AA. The Oregon Housing and Community Services Department reports that 69.05% of the mortgage financed by 1998 Series A and B Mortgage Revenue Bonds were of low- and moderate-income families. The bank invested \$2.1 million in 1998 Series A and Series B mortgage bonds. The remainder of the funds invested in housing were grants to various rehabilitation projects for affordable housing specifically in Washington County.

The bank has contributed \$136,966 to 15 projects for unmet educational needs of the low- and moderate-income segment of the community including consumers, homeowners and children. The bank has also searched out specific community service projects that target the low- and moderate-income population contributing \$69,876 to ten projects in their assessment area such as supporting a domestic violence resource center for low- and moderate-income women or supporting special Friday night programs for low- and moderate-income children.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	2,450	-0-	2,450
Originated Grants	306	3,087	3,393
Prior Period Investments	-0-	1,500	1,500
Totals	2,756	4,587	7,343

Table 4: Qualified Investment Percentages (000s)

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	6.4	10.7	17.1
Total Investments/Average Total Income	2.8	4.7	7.6
Total Investments/Average Receivables	.16	.3	.4

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

Community Development Services

FCNB participated in seven qualified community development services during the review period providing 663 hours of service. Several of these were ongoing activities and showed innovative use of staff resources. One such activity is the development and distribution of a newsletter on good money management distributed in the statements of all secured card accounts which the bank's records show as low- and moderate-income individuals. This is an educational tool to assist cardholders in making better financial decisions. Another is the presentation "All About Money" made to children from low- and moderate-income families to educate them regarding money management. The bank researched the materials and made the presentation in community of Hillsboro where this type of presentation had not been done before.

Considering the bank's limited staff resources to provide qualified community development services, these are good levels of community involvement. Only a few of its employees have financial services background to offer expertise. Also, the limited number of low- and moderate-income population and census tracts limits the opportunities for qualified services.

Compliance with Anti-Discrimination Laws and Regulations

We reviewed the bank's compliance with fair lending laws and regulations during our March 1, 1999 examination. We reviewed the policies, procedures, and scoring process used in processing credit card applications. There were a limited number of overrides to the scoring system; therefore, a comparative file analysis would not have been meaningful. We identified no violations of the substantive provisions of the anti-discrimination laws and regulations, and no technical violations were cited.