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**Comptroller of the Currency  
Administrator of National Banks**

**Limited  
Purpose**

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## **PUBLIC DISCLOSURE**

**July 31, 1997**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Dillard National Bank  
Charter Number 18777**

**396 North William Dillard Blvd.  
Gilbert, AZ 85233**

<b>NOTE:</b>	<b>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.</b>
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## 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 Community Reinvestment Act (CRA) performance of **Dillard National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of July 31, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated “**Satisfactory.**”

Dillard National Bank (DNB) has a satisfactory record of meeting the community's credit needs under the CRA. The bank has a reasonable level of qualified investments and support for community development services in relation to its resources and financial constraints. The extent of DNB's community development activities includes deposits with community development credit unions, investments into community-based organizations and supporting qualified community development services. Overall, DNB's CRA performance reflects a satisfactory response to the credit needs of its assessment area. However, the bank is rarely innovative, in its use of community development investments or services.

## DESCRIPTION OF INSTITUTION

DNB was chartered June 18, 1991 as a Competitive Equality Banking Act (CEBA) credit card bank. On February 9, 1996, DNB was approved for designation as a limited purpose bank effective May 1, 1996, for purposes of CRA. Therefore, its CRA performance is evaluated under the Community Development Test. As a result of its CEBA status, the bank can only engage in credit card activities. DNB may not (1) accept demand deposits or other checkable accounts; (2) accept 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.

While both limited purpose and CEBA designations limit the evaluation of the bank's CRA activities to community development investments and services, this evaluation also considered to a lesser extent, some of the bank's CRA efforts since its last examination that do not meet the community development guidelines. Specifically, limited consideration was given to the bank's efforts to target individuals in low- and moderate-income census tracts for DNB credit cards. These efforts were given consideration only from the bank's last CRA examination to the date it received the limited purpose designation, a period of approximately 14 months.

DNB is located in Gilbert, Arizona and is a wholly-owned subsidiary of Dillard Investment Co., Inc. (DIC). DIC is the wholly-owned finance subsidiary of Dillard Department Stores (DDS). DDS is headquartered in Little Rock, Arkansas, with assets of \$5.1 billion as of February 1, 1997. DDS operates 253 retail department stores located in 24 states, primarily in the Southeastern, Southwestern and Midwestern areas of the United States. DNB is the issuer of Dillard National Bank credit cards, which may be used to purchase goods and services at DDS locations.

DNB has average assets of \$1.1 billion and net income of \$7.5 million as of June 30, 1997. DNB had average assets of \$1 billion and net income of \$7.4 million for 1996. Assets consist mainly of credit card receivables, income is derived almost entirely from these credit card receivables. DNB has approximately 8 million credit card account holders of which approximately 2.5 million are active accounts.

DNB is an insured depository institution within the meaning of the Federal Deposit Insurance Act and, as such, is subject to CRA. In its only previous CRA exam, dated November 29, 1994, DNB received a "Needs to Improve" rating.

### **DESCRIPTION OF ASSESSMENT AREA**

DNB has designated the Phoenix-Mesa Metropolitan Statistical Area (MSA) as its assessment area. The bank's sole office is located in Gilbert. The bank has collection centers located in Phoenix, Arizona and Arlington, Texas. These centers are not considered branches of DNB.

Based on 1990 Census Data, the MSA consists of 490 census tracts and has a population of 2.2 million. The following table shows the number and percent of census tracts by income level, and the number and percent of households in those tracts.

<b>PHOENIX-MESA MSA</b>				
<b>Income Tract Characteristic</b>	<b>Number of Census Tracts</b>	<b>% of total census tracts</b>	<b>Number of Households</b>	<b>% of Households</b>
Low income	31	6%	33,266	4%
Moderate income	122	25%	226,606	27%
Middle income	184	38%	347,946	41%
Upper income	149	30%	239,482	28%
NA	4	1%	43	0%
<b>Total</b>	<b>490</b>	<b>100%</b>	<b>847,343</b>	<b>100%</b>

Local economic conditions are good, unemployment has been low historically. The 1997 U.S. Department of Housing and Urban Development (HUD) estimated median family income for the Phoenix MSA is \$47,500. The services and retail industries are the main providers of employment in the Phoenix-Mesa MSA followed by government and manufacturing.

Competition in the banking industry is strong within the Phoenix-Mesa MSA. The market is dominated by four large, multi-state banking companies. Two other CEBA chartered retail credit card banks are based in the assessment area. An integral part of this evaluation, included both direct contact with community-based organizations and a review of community contacts performed by the OCC and other regulatory agencies. Based upon this analysis, the needs within the assessment area include: affordable housing, small business lending, and credit education programs.

## **CONCLUSIONS WITH RESPECT PERFORMANCE**

DNB was evaluated based on its record of community development activities. The CRA defines community development as (1) affordable housing for low-and moderate-income individuals; (2) community services targeted to low-and moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the Small Business Administration's size limits for development and investment companies or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low-or moderate-income areas.

### **Summary**

DNB's level of community development activities is satisfactory. During 1996 and through July 31, 1997, the bank made qualified investments and provided support for community development services totaling \$158,270 and \$254,570 respectively. We found this performance to be satisfactory and consistent with DNB's resources and financial capacity.

Based on the bank's satisfactory CRA performance within its assessment area, we considered its record, and the record of its affiliates, outside the assessment area. The bank's parent, DDS made qualified investments and provided support for community development services nationally of \$998,650 in 1996 and \$1.179 million through July 31, 1997.

### **Investments and Services**

DNB invested a \$100,000 certificate of deposit with Chicanos Por La Causa Federal Credit Union located in Phoenix on September 30, 1996. This credit union was developed to meet the financial needs of low-income consumers.

Its mission is (1) to provide and expand quality financial services and opportunities at favorable rates to meet the needs of the community; (2) to develop a lending relationship in South Phoenix and other economically disadvantaged areas; (3) to educate community residents of traditional lending practices and neighborhood economics; and (4) to provide consumer education on the need to establish and maintain a good credit history.

In July 1997, DNB invested \$100,000 in a term share certificate with First American Credit Union in Casa Grande, Arizona. First American is designated as a Community Development Credit Union by the National Credit Union Administration. First American serves the credit needs of Native Americans in Arizona and New Mexico, including those reservations that are within the bank's assessment area.

DNB makes ongoing contributions to Consumer Credit Counseling Services Southwest (CCCS) as part of CCCS's "Fair Share Program." DNB contributes a percentage of the gross amount collected from DNB's borrowers who have voluntarily entered CCCS's program. These contributions totaled \$39,000 in 1996 and \$28,000 through July 31, 1997. In addition, DDS supported CCCS nationally with contributions of \$684,582 in 1996 and \$538,800 through July 31, 1997. These funds are used for credit education, credit counseling, and debt management programs within the Dillard's Southwest Region and includes the states of Arizona, New Mexico, Nevada, Utah and Colorado. Demographics provided by CCCS support that these contributions are used to provide counseling and debt management programs to low-and moderate-income individuals.

Both DNB and its parent support the community development services provided by Ronald McDonald House. In the Phoenix-Mesa MSA the bank made investments of \$19, 270 during 1996 and \$25,570 through July 31, 1997. During that same period, DDS made contributions of \$314, 068 and \$639, 830 respectively.

The bank and its parent also support many other worthwhile organizations in both the Phoenix-Mesa MSA and on a national basis. Through July 31, 1997, contributions to local United Way Chapters exceeded \$200,000. In addition, DNB made a \$1,000 investment into Neighborhood Housing Services of Phoenix and the President serves on its Second Mortgage Loan Pool Development Committee.

## **COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

Our examination did not disclose any violations of the substantive provisions of the antidiscrimination laws and regulations.

## **Appendix A**

### **SCOPE OF THE EXAMINATION**

The examination of DNB's Community Reinvestment Act performance was conducted in accordance with standard procedures for Limited Purpose Institutions. All community development investments and services presented by bank management were reviewed in detail to ensure they qualify for consideration under the Community Development test from the date of the bank's designation as a limited purpose bank through July 31, 1997. Prior to the bank's designation as a limited purpose bank, limited consideration was given to the bank's efforts to target individuals in low- and moderate-income census tracts for DNB credit cards.