



LIMITED PURPOSE

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 12, 2003

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**CrediCard National Bank
Charter Number: 23401**

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

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

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 lending, community development services, and qualified investment activity.
- 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 **May 9, 2000**, through **May 12, 2003**. We reviewed the level and nature of qualified investments, community development lending, and community development services. At the prior examination dated **May 8, 2000**, we rated the bank Needs to Improve.

The bank has adequately addressed the needs of its AA, and therefore, we considered a community development service outside CrediCard National Bank's AA in evaluating the bank's performance.

Description of Institution

CrediCard National Bank (CCNB) is a privately owned \$10 million bank located in San Antonio, Texas. The bank consists of a very small operation, with only ten full time and four part time employees. The bank has no branches.

CCNB was chartered in August 1998 as a full-service bank, but limited its activities to credit card operations through its Articles of Association. Consequently, CCNB does not offer many of the standard retail products such as deposit transaction accounts, commercial or consumer loans (other than credit cards), safety deposit box rental, or an ATM network. The only deposit products the bank offers are certificates of deposit, which provide the bank's funding. CCNB retains its credit card receivables as the major component of its total assets. The bank received a limited purpose designation for CRA during the charter approval process.

The bank's credit card operations are limited to a very specific niche. CCNB issues private label credit cards to consumer and some business customers of retail merchants whose needs cannot

be met by larger credit card or commercial banks. These cards differ from general purpose cards because the cards can only be used at the designated merchants, the credit limits are generally lower, and the cardholders often exhibit a higher risk profile. CCNB issues cards to customers of approximately 70 retail merchants in approximately 20 states.

Other than the loan and deposit limitations mentioned previously, there are no other legal, financial, or other factors impeding the bank's ability to help meet the credit and financial needs in its AA. Table 1 below reflects the bank's financial position during the review period.

Table 1: Financial Information (000s)

	Year-end 2000	Year-end 2001	Year-end 2002	Most Recent Quarter-end 03/31/2003	Average for Evaluation Period
Tier 1 Capital	* 2,755	*2,769	* 2,665	2,690	2,720
Total Income	* 1,614	* 1,763	* 1,737	**1,639	1,688
Net Operating Income	* 346	* 391	* 244	** 99	270
Total Assets	* 9,204	*10,867	*10,298	10,255	10,156

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

* Actual data reported. The Average for Evaluation Period is the average of the numbers in the four columns.

**Annualized data reported.

Description of Assessment Area

CCNB operates in an urban area. The bank has designated the San Antonio Metropolitan Area (MA) as its AA. The designated AA meets the legal requirements of the CRA. The AA consists of 317 census tracts. The 2000 census data indicates the San Antonio AA has a population of 1.5 million. There are four counties in the AA - Bexar, Comal, Guadalupe, and Wilson. Table 2 shows the demographics of the bank's AA.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	317	4%	38%	34%	24%
Families	402,882	21%*	18%*	21%*	40%*
Businesses	82,957	4%**	21%**	36%**	39%**

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

*Represents families by income level.

**Represents businesses by income level of census tract.

The economy in the San Antonio AA is considered diverse and stable. The 2003 HUD updated medium family income is \$50,500. As of March 2003, the unemployment rate for San Antonio was 5.1%. This compares very favorably to the unemployment rate for Texas at 6.7% and the national unemployment rate of 5.8% for the same time period. San Antonio is the strongest large metropolitan area in Texas, despite the closure of Kelly Air Force Base in 2001. (At one time, the base was the city's largest employer with more than 12,000 workers.) Service, government, retail trade, and healthcare industries currently dominate the area's employment base. Principal

employers are Valero Energy Corporation, USAA Insurance Company, Fort Sam Houston, Lackland Air Force Base, Randolph Air Force Base, SBC Communications, the University of Texas Health Science Center at San Antonio, the Methodist Health Care System, and the Baptist Health Care System. In February 2002, Toyota Motor announced its selection of San Antonio for its sixth vehicle assembly plant in North America. This will further boost the economy of a city, which in recent years has been adversely impacted by the loss of thousands of military jobs.

There are a number of competing financial institutions in the AA. Some of these have significantly larger staffs to perform community development services and more dedicated resources for community development loans and investments. While there are other financial institutions that are smaller, they also compete for available investments in the AA. Financial institutions in the AA include, but are not limited to, Bank of America, N.A., Bank One, N.A., Broadway National Bank, Citizens State Bank, Compass Bank, Chase Bank, Citicorp, N.A., First Financial Bank USA, Frost National Bank, Guaranty Federal, Laredo National Bank, Washington Mutual, Wells Fargo Bank, N.A., and Zions First National Bank.

During this examination we used information obtained from five contacts with community organizations associated with affordable housing, business development, and economic development. One of the contacts was performed during this examination. The contacts identified the following primary credit and community needs of the San Antonio AA: loans for affordable housing, both residential and rental; small business loans, particularly micro loans; and loans or investments for revitalization of low-income neighborhoods. The contacts also identified a need for home ownership counseling and outreach, down payment and closing cost assistance programs, and more flexible underwriting standards for small businesses. Opportunities for community development loans and grants appear to be abundant. However, opportunities for investments are more limited. One community contact noted that “Equity Equivalent Investments” are more prevalent. These are longer-term investments with a lower interest rate. During the review period, bank management made various attempts to find qualified investments that would meet the bank’s needs and qualify as a CD investment, with no success. Consequently, management requested and the OCC granted approval to narrowly amend the bank’s Articles of Association to allow the bank to make community development loans for the sole purpose of meeting the bank’s CRA objectives.

Conclusions About Performance

Summary

CCNB has done an adequate job serving its AA's community development needs through its investments, services, and loans. During the review period, CCNB invested \$55 thousand and provided a loan amounting to \$50 thousand in projects and activities that benefit the bank's AA and a greater regional area. CCNB employees also provided some qualified services to community development organizations.

The overall level of community development investments, services, and loans is adequate, particularly considering the opportunities available for limited purpose banks and the bank's small staff. We based our conclusions primarily on the bank's good efforts to help meet the needs of very small- to medium-size businesses, many of which do not have access to loans from commercial banking sources. The bank also provided an investment that helped capitalize small- and medium-size businesses. These companies, in turn, have created thousands of jobs. In addition, the bank provided a loan to a CD organization that helps micro entrepreneurs strengthen their businesses, stabilize their incomes, create additional employment, and contribute to the economic revitalization of communities in the AA. An officer of the bank provided financial literacy classes in a school that primarily serves low- and moderate-income (LMI) students.

The bank did not use innovative or complex community development activities during this review period. CCNB's narrow focus, expertise, and small staff limit its ability for involvement in complex community development loans or investments.

CCNB demonstrated adequate responsiveness to the credit and community development needs of its AA. A majority of the bank's qualified investments, loan, and services assisted with meeting identified credit needs, including small business credit needs, financial education and other community services for LMI individuals. Community contacts indicate a need for small business loans with more flexible underwriting standards, including micro loans for very small businesses. The bank's loan to a local CD organization and its investment in a Small Business Investment Company (SBIC) meet these needs.

Qualified Investments

During the review period, CCNB provided \$37 thousand in investments and grants to community development organizations. All of the investments and grants benefited the AA and a greater regional area. In addition, the bank provided a \$100 thousand investment in a credit union that serves an LMI area. In turn, the credit union used the investment to provide loans for LMI individuals. The investment is not noted in the table below since it matured in October 2001 and is no longer reflected on the bank's books. At maturity, the credit union did not have a need for additional funding, so the investment was not renewed.

Table 3: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	37
Originated Grants	5
Prior-Period Investments that Remain Outstanding	13
Total Qualified Investments	55
Unfunded Commitments*	50

* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system.

Table 4: Qualified Investment Percentages

	Benefit AA (%)
Total Investments/Average Tier 1 Capital	2%
Total Investments/Average Total Income	3%

CCNB’s most notable qualified investments, grants, and donations in the assessment area consist of the following:

- \$37 thousand provided funds to a small business investment company (SBIC), which was created to provide flexible financing to small- and medium-size businesses that provide job creation and help diversify the Texas economy, but that do not qualify for conventional financing.
- \$2 thousand represents the fair value of donations of office furniture and equipment to an organization, which primarily serves LMI, abused and neglected children.
- \$1 thousand represents a donation to United Way of San Antonio. The donation provides funds to service agencies that provide health and human services, primarily for LMI individuals, in the San Antonio MA.
- \$2 thousand consists of fair share contributions to Consumer Credit Counseling Services (CCCS) organizations that benefit the bank’s AA and a greater regional area. Data indicates that those who use the services of CCCS are generally LMI individuals.

Community Development Lending

During the review period, the bank provided a qualified community development loan which totaled \$50 thousand in its AA. The purpose of the organization is to help individuals work their way out of poverty by providing small loans and business assistance to micro entrepreneurs. Table 5 below shows the financial contribution relative to CCNB’s financial information.

Table 5: Community Development Lending Percentages

	Benefits AA (%)
Total CD Lending/Average Tier 1 Capital	2%
Total CD Lending/Average Total Income	3%

Community Development Services

During the review period, CCNB provided the following community development services:

- An officer of the bank attended the specified orientation and became a certified volunteer for an organization that provides a personal finance program in public schools. The program is designed to help middle and high school students make informed decisions about the effective use of income to reach personal financial goals. The officer was assigned to a school that primarily serves low- and moderate-income students. She taught financial literacy classes from October through December 2002.
- An employee of the bank volunteers his time at the family support centers at military bases in the AA. He performs accounting services for individuals that are primarily LMI.

Consideration of Activities that Benefit Areas Outside the Bank's Assessment Area

CCNB has adequately addressed the needs of its AA; therefore, we considered activities outside the AA. During the review period, one of CCNB's employees provided his financial expertise by serving as a board member at a day care for low-income children. The organization is located outside the bank's AA.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.

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 that consists generally of one or more MAs (using the MA 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.

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 10-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 the 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.

Median Family Income (MFI) – The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

Metropolitan Area (MA) – Area defined by the director of the United States Office of Management and Budget. MAs 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.

Qualified Investment - A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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.