

PUBLIC DISCLOSURE

October 31, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Sears National Bank
Charter No. 20670
4605 East Elwood, 7th floor,
Phoenix, Arizona 85040**

**Comptroller of the Currency
Phoenix Duty Station
2929 North 44th Street, Suite 230
Phoenix, Arizona 85018**

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 Sears National Bank, prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of October 31, 1996. The agency evaluates performance in assessment area (s), as they are delineated by the institution.. 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**

- o Sears National Bank has a satisfactory level of community development related qualified investments that are not routinely provided by private investors.

- o The institution makes use of innovative or complex qualified investments or community development services.

- o Sears National Bank also exhibits a good responsiveness to credit and community development needs of its assessment area.

Description of Institution

Sears National Bank (SNB) was chartered on January 31, 1994 as a Competitive Equality Banking Act (CEBA) credit card bank. On April 9, 1996, SNB was approved for designation as a limited purpose institution effective June 30, 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's activities are limited as it does not take deposits and cannot extend loans outside the credit card product line. This prohibition limits the bank's community development activities to investments and services.

SNB is located in Phoenix, Arizona and is a wholly-owned subsidiary of Sears Financial Holding Corporation (SFHC), a one bank holding company. SFHC is a subsidiary of Sears, Roebuck and Company (SRC). SRC, headquartered in Chicago, with assets of \$33 billion as of December 31, 1995, is the second largest retailer in the country with 800 full-line department stores and 1,500 off-the-mall stores. SRC is the number one credit provider among retailers, serving more than 50 million households. As of December 31, 1995, SRC had \$23.8 billion in credit card receivables making SRC the largest proprietary credit card issuer in the country and the fourth largest issuer when ranked with bankcard portfolios.

SNB's average total assets were \$12 million for the first six months of 1996. This profile reflects the bank's practice of selling its credit card receivables to its holding company. In the third quarter 1996, SNB undertook a master card program whereby the related receivables would be retained. This retention increased the bank's asset size significantly to \$71 million for period ending September 30, 1996. Since this financial profile was only recently changed, our CRA analyses were focused on the bank's lower asset base.

Description of Assessment Area

SNB has designated Maricopa County, Arizona as its assessment area. Maricopa County is located within the Phoenix-Mesa Metropolitan Statistical Area (MSA). The bank's sole office is located in this county. Nine Regional Credit Card Operating Centers located throughout the United States service SNB's credit cards through a contractual relationship. These centers are not considered branches of SNB.

Based on 1990 Census Data, Maricopa County consists of 466 census tracts and has a population of 2,122,101. The following table shows the number and percent of census tracts by income level, and the number and percent of households in those tracts.

Income Tract Characteristic	Number of Census Tracts	% of total census tracts	Number of Households	% of Households
Low income	27	6%	29,281	9%
Moderate income	108	23%	201,610	39%
Middle income	178	38%	337,746	38%
Upper income	149	32%	239,482	13%
NA	4	1%	43	0%
Total	466	100%	808,162	100%

Local economic conditions are good and unemployment rates have been historically low. Arizona ranked third in the nation with 5.4% job growth during 1995 and first in the nation with personal income growth of 10.4%. The 1996 U.S. Department of Housing and Urban Development (HUD) estimated median family income for the Phoenix-Mesa MSA is \$45,000. The services and retail industries are the main providers of employment in Maricopa County followed by government and manufacturing. Retirees are also an important part of the economy, representing 16% of the population.

Competition in the banking industry is strong within Maricopa County. 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.

We obtained information on community needs within Maricopa County from discussions with bank management and Chicanos Por La Causa. We also reviewed prior community contacts performed by the OCC and other regulatory agencies. The primary need within the assessment area is affordable housing for low and moderate income individuals.

Conclusions with Respect to Performance

Overall, the CRA performance of Sears National Bank is satisfactory. The bank has provided over \$109 thousand to various qualified community development programs within its assessment area. Their investments are in the form of donations which are funding sources not normally provided by private investors. The institution has also been involved in several community development related services. Many of its community development activities are in the area of affordable housing, a primary need within the bank’s assessment area. This conclusion, regarding the bank’s direct activities in its chosen assessment area, provides the

basis for considering the further performance of its affiliate, both within and beyond this assessment area.

Community development activities of SNB's affiliate, Sears Roebuck and Company (SRC), were also considered. CRA regulations allow consideration of an affiliate's qualified activities that benefit geographies outside of a bank's assessment area if that bank has adequately responded to the needs of its assessment area. We conclude that SNB has adequately served the credit needs of its assessment area. At the affiliate level, donations of over \$40 million to community development related investments and services have been made nationwide. As a matter of information, CRA defines community development as affordable housing for low and moderate income individuals, community services targeted to low and moderate income individuals, activities that promote economic development by financing small businesses and farms, and activities that revitalize or stabilize low and moderate income areas.

The level of community development activities of Sears National Bank and its affiliate Sears, Roebuck and Company is high. The following are highlights of these initiatives.

Sears National Bank - Investments:

- o Habitat for Humanity - \$57,000 was donated to the local chapter to fund the sponsorship of two homes, appliances and tools. This organization's primary mission is to provide affordable housing to low and moderate income families. The bank also provides several members of its management team, including the bank's president, to help build these homes. The president's efforts helped serve as a catalyst for recruiting at least one other local bank president to participate in this program. As this home-building work is being done at the expense of the bank, it is considered an in-kind contribution.
- o City of Phoenix Neighborhood Services - \$25,000 was given to this entity which has as its objective revitalizing low and moderate income geographies within the bank's assessment area. The funds will help provide qualifying individuals with assistance towards down payment/closing costs and credit counseling.
- o Maricopa County, Dynamic Program Planning - \$10,000 was given by SNB to assist with closing costs for low income home buyers in the bank's assessment area. The organization helps low income families with closing cost assistance.
- o Aid to Adoption of Special Kids - SNB provided \$6,000 to this organization which is dedicated to the placement of special needs children into permanent

homes. Over 85% of the children and families served over the past two years had income levels below 80% of the median income. The funds were used to assist in the organization's parent counseling program.

- o Homeward Bound - \$4,100 was given by SNB to this organization which is a program to assist low income, homeless persons in the Phoenix area with job development and property/housing management related counseling.
- o Rainbow 4/Tri-Tronics - \$2,500 was provided by SNB to assist in funding the educational programs relating to improving money management and computer training skills for low income and other disadvantaged persons.
- o Thomas Pappas Foundation - \$2,000 was given by SNB to this organization which is a public school located in a low income census tract. The school serves homeless people and the funds will help provide for these disadvantaged children.
- o Administrative Resources and Choices - \$1,500 was given by SNB to this organization which assists predominately elderly, low income individuals with counseling and advice with respect to placement of reverse mortgages.
- o Valley Community Revitalization Project, Inc. - \$1,000 was provided by SNB to this organization which administers the Housing and Urban Development HOPE 3 Program. This community program, formed in 1991, assists low income persons in purchasing and revitalizing homes. The average household income for a qualifying family is 54% of the HUD median income.

Sears, Roebuck and Company (Affiliate) - Investments

- o New Homes for Chicago - \$30 million, over a ten year period, will be donated to this program which provides construction funding for affordable housing to low and moderate income families. To date, \$10 million has been extended.
- o Consumer Credit Counseling Services (CCCS) - Sears participates with CCCS through \$8.6 million in donations to its Fair Share program to assist consumers in resolving financial difficulties. \$252 thousand was provided to the CCCS chapter in the bank's assessment area for 1996. Demographics have shown that CCCS clients are primarily low/moderate income persons.
- o National Alliance to End Homelessness, Inc. - \$525,000 was provided in conjunction with songwriter/singer Phil Collins in the form of 61 grants. The funds are used to provide no-cost shelter, food, clothing and counseling to

homeless people in 54 cities. In addition, SRC, through its fundraising partnership with Phil Collins, raised nearly \$1.5 million to aid the homeless in America.

- o Opportunities for Youth Empowerment - \$500,000 has been provided to date by SRC in conjunction with singer Gloria Estafan to support inner-city community service and educational programs for low income youths. This will be an ongoing initiative by SRC for a commitment of up to \$1 million.
- o National Minority Supplier Development Council - \$250,000 was given to this organization to develop and implement Advanced Management Education Centers to serve minority small businesses. The entity works to assure the survival and growth of small businesses.

Sears National Bank - Services

- o Habitat for Humanity - SNB provides members of its management staff to this program to assist in the home building efforts. This is paid for by the bank and is considered an in-kind contribution.
- o Self-Employment Loan Fund, Inc. - a non-profit entity established to promote small business growth among low and moderate income individuals through credit related training, counseling and access to credit. SNB provided an employee to assist in over 20 hours of library research for this program and makes available its President for business, banking and accounting related counseling.
- o Rainbow 4/Ri Tronics - SNB provides financial service related assistance such as budgeting, profit/loss preparation, strategic planning and grant requests. The organization mission is to serve low/moderate income and other disadvantaged individuals by providing financial money management and computer skills.

Sears, Roebuck and Company (Affiliate) - In kind contributions

- o Christmas in April - SRC provided products and services to target home renovation projects for low income families in 11 major markets through this program.

Compliance with Anti-discrimination Laws and Regulations

The fair lending component of the compliance examination identified two bank practices that violated Regulation B (12 C.F.R., Part 202), which implements the Equal Credit Opportunity Act (ECOA). The OCC determined that the Sears Card Application itself, and the bank's procedures for embossing additional cards for authorized users on a SearsCard account, treated unmarried applicants less favorably than married applicants. Although the OCC found the violation involving the Sears Card application to be limited to a small number of states, the finding negatively impacted the CRA evaluation of the bank, because that violation had the potential to discourage or deny access to credit. The bank consented to the corrective action requested by the OCC, and management was responsive in acting on the application.

Scope of Examination

In reviewing the bank's performance under the CRA, we reviewed community development activities since its inception, January 31, 1994, through the date of this examination. Due to the bank's limited purpose designation, we evaluated its CRA performance using the Community Development Test. We reviewed the level and nature of community development related investments and services. At the bank's option, we also considered community development investments and services provided by its affiliates.