



# LIMITED PURPOSE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

March 15, 2010

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Talbots Classics National Bank**  
**Charter Number: 24015**

**4 Blackstone Valley Place**  
**Lincoln, RI 02865**

**Office of the Comptroller of the Currency**  
**Credit Card Bank Supervision**  
**7101 College Park Boulevard, Suite 1600**  
**Overland Park, KS 66210**

**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.

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## **INSTITUTION'S CRA RATING:**

**This institution is rated Outstanding.**

The conclusions for the three rating criteria are:

- The bank and its affiliates demonstrate a high level of qualified community development investments in this evaluation period, which are not routinely provided by private investors in the state of Rhode Island. Talbots Classics National Bank (TCNB) and its affiliate, The Talbots, Inc. (TTI) more than adequately addressed community development needs within its assessment area (AA), which allowed consideration of their activities outside the AA. The bank's performance, coupled with significant levels of qualified grants by its affiliate, results in excellent CRA performance.
- The bank demonstrates extensive use of qualified investments that leverage and link multiple social agencies in ways that are innovative and demonstrate management's leadership in addressing specific needs.
- The bank demonstrates excellent responsiveness to community development needs in its AA.

## **Scope of the Examination**

In evaluating the bank's performance under the CRA, we reviewed the level and nature of community development investments from January 1, 2003 through March 15, 2010. Due primarily to performance context, specifically the very low number of bank employees and the limited number of traditional banking skills employed, TCNB was not able to provide community development services for our review. In addition, there has been an almost 25 percent reduction in staff since the prior PE.

TCNB presented community development investments originated during the evaluation period by its affiliate, TTI, which we considered.

As part of the examination scope, we also considered community development (CD) activities outside the institution's assessment area in reaching our performance conclusion. TCNB and TTI more than adequately addressed CD needs of its assessment area.

## Description of Institution

TCNB is a limited-purpose credit card bank headquartered in Lincoln, Rhode Island. TCNB is an affiliate of TTI, a publicly traded retail company listed on the New York Stock Exchange (NYSE) with the ticker symbol "TLB". TCNB was designated a limited purpose bank for evaluation under the Community Reinvestment Act on July 5, 2000. Its activities are limited to its proprietary credit card program, as described in 12 U.S.C. 1841(c)(2)(F). TCNB is chartered under the Competitive Equality Banking Act (CEBA) of 1987 which limits its operation as a full service banking institution, and restricts lending to credit cards. TCNB provides credit card services to nearly 1.5 million customers of TTI. The proprietary credit card is a private label credit access instrument and may only be used to purchase merchandise through a TTI catalogue or retail store. TCNB does not accept deposits from the general public nor seek deposits from brokers. Its principal office is at 4 Blackstone Valley Place in Lincoln RI, a suburb of Providence, RI. This single location is the operating facility for seven of its eight employees. One employee maintains an office at TTI in Hingham, MA. TCNB has no branch network.

Current operations evolved from credit card activities originated by TTI. On July 5, 2000, the TTI credit card portfolio was purchased and merged into TCNB. At the same time, the outstanding credit balances were sold to Talbots Classics Finance Company (TCFC), another affiliate of TTI. TCNB acquires accounts through retail and catalog operations of TTI and to lesser degree from direct mail to existing TTI customers. TCNB has assets totaling \$10.5 million and another \$196 million under management. TCNB was rated "Outstanding" at the prior CRA examination dated July 3, 2003.

TCNB has a modest capacity with which to help meet the credit needs of its AA. Charter limitations, specifically on lending products, preclude underwriting community development loans. Also, very low staff levels inhibit participation in community development services. Acknowledging these limitations, TCNB adopted an independent and focused strategy. TCNB emphasizes an historic focus of its affiliate TTI and is helping meet specific needs of women and children in its AA. As well, TCNB strives to enable low-income women to transition into stronger economic circumstances. Community development investments in its assessment area focus on this strategy.

Qualified investments of affiliates are not counted elsewhere in performance tests under CRA. As a result, we were asked to analyze and include several eligible investments made by TTI that are both inside and outside TCNB's AA. The most significant examples include gifts in kind, and consumer credit counseling service contributions.

TTI is a national specialty retailer and cataloger of women's and children classic apparel, accessories and shoes. At fiscal year end, February 1, 2010, TTI reported revenue of \$1.2 billion. It operates 604 outlets, a significant decrease from 910 outlets reported in the previous CRA examination, and circulates 50 million catalogs. Roughly 49 percent of sales, in fiscal year 2009, were placed on charge cards issued by TCNB. TTI is headquartered in Hingham, Massachusetts, a Boston suburb.

Generally, TCNB sells all of its receivables. During the evaluation period, 100% of receivables were securitized and sold to an affiliate of TTI. Please refer to Table 1 for financial highlights.

**Table 1: Financial Information (000's)**

	Year-end 2003	Year-end 2004	Year-end 2005	Year-end 2006	Year-end 2007	Year-end 2008	Year-end 2009	Average for Evaluation Period
<b>Tier 1 Capital</b>	3,028	3,021	3,427	3,707	3,461	3,445	3,968	3,437
<b>Total Income</b>	5,964	6,683	7,243	7,584	7,697	6,945	5,477	6,799
<b>Net Operating Income</b>	1,217	995	1,162	1,197	1,203	375	520	953
<b>Total Assets</b>	9,741	9,733	10,384	11,509	11,240	10,466	10,226	10,471
<b>Pass-Through Receivables</b>	208,403	221,350	234,685	242,036	237,009	201,185	186,072	218,677

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

## Description of Assessment Area

TCNB designates the state of Rhode Island as its AA. The bank's AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- and moderate-income geographies. This mainly urban AA contains 233 geographies and just over one million people. Rhode Island is the smallest and second most densely populated state in the Union. Eleven percent of the geographies are low-income and 17 percent are moderate-income. Thirty-nine percent of families are low- or moderate-income (LMI), including 12 percent of families having income below the poverty level. The updated 2009 HUD adjusted median family income for the AA is \$72,500.

Population centers include Providence, Pawtucket, Warwick, and Cranston, all of which are older industrial cities. Rhode Island also has one of the oldest populations, and 15 percent of families in the AA are over 65. The city of Providence poverty rate of 29 percent is more than twice the state's average of 12.4 percent.

As of December, 2009, Rhode Island's unemployment rate was 12.7 percent, a historical high. This rate is only marginally lower than the national leaders, Michigan at 14.1 percent and Nevada at 13.2 percent. The national average is 10 percent. Total employment for Rhode Island for November 2009 was 496,755 jobs, down 28,668 from November 2008. This level of employment is the lowest in the state since April 1998, when the state had 455,000 jobs. In the AA, the highest unemployment rate was found in service occupations, a business style representing 38 percent of business classifications. Production occupations; installation, maintenance and repair occupations; and sales related occupations ranked second, third, and fourth in unemployment rates.

Rhode Island's economy includes large private companies in health care, financial services, marine products, defense, and manufacturing sectors. Firms headquartered in the AA include CVS Pharmacy, Hasbro Toys, and Amica Insurance. The state also is home to large divisions of RBS Citizens Bank, Fidelity Investments, Metropolitan Life Insurance, and General Dynamics. Rhode Island is a leading center of higher education with seven institutions of higher learning, including Brown University, the University of Rhode Island, Johnson & Wales, and Bryant University. In addition, the U.S. Navy has long had a significant presence in the Newport area, home to the Naval Undersea Warfare Center and the U.S. Naval War College.

Numerous medical facilities, municipalities, and a well-developed tourism industry also employ significant numbers of workers.

Population levels have decreased substantially from levels seen ten years ago. Out-migration of the population is evident. Estimates for growth reflect a fifteen year horizon to add 50,000 persons to the current 1.048 million person base. Housing values are lower than in surrounding states, because the weighted average median age of housing stock is 52 years. The median cost of housing stock is \$136,588 compared to low-income family income of \$36,250 and moderate-income family income of \$58,000.

Competition for banking services is strong in Rhode Island. There are 24 full-service financial institutions representing 254 banking offices in the AA. Among the largest banks are RBS Citizens, N.A, Bank of America, N.A, and MetLife Bank, N.A. The local customer base is well served. All of these institutions provide strong competition for community development activities. Competition for community development investments for a limited purpose, credit card, CEBA-chartered, institution is particularly keen due to its charter-limiting constraints that prohibits meeting credit needs in the AA by other traditional lending activities.

**Table 2: Assessment Area Description**

	Number	Low	Moderate	Middle	Upper
<b>Tracts</b>	233	11.2%	16.7%	46.4%	25.7%
<b>Families</b>	266,665	21.6%*	17.4%*	22.0%*	39.0%*
<b>Businesses</b>	72,276	8.5%**	14.7%**	46.9%**	29.9%**

Source: Demographic Data – 2000 U.S. Census, 2009 Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract.

**Community Contacts:**

Two community contacts were made in conjunction with this examination. One community contact focuses on developing affordable-housing; a need it believes is the most significant in the AA. While this not-for-profit agency works in areas of other social services, it found that only after suitable shelter and sustenance is available can other needs be addressed. As a result, they integrate affordable housing with issues of substance abuse, domestic violence, and work training. While women have historically been its focus, women and children are not its exclusive focus. Corporate sponsors account for about 25 percent of annual funding needs. The opportunities for bank involvement are many and diverse. TCNB was referenced as a committed member of the financial community helping to enhance its client’s back to work programs through innovative participation.

The other contact is a transitional housing facility, started in 1990, that includes 23 apartments for homeless women and children. This agency also operates a food-shelter that serves 75,000 meals a year, and a thrift store designed to provide a variety of clothing for men and women suitable for many work environments. This not-for-profit calls affordable rental housing the number one community development need in Rhode Island. The overall objective of the transitional housing program is “habituating” single family mothers, who have children under 10-years old, into a bundle of life-building skills sufficient for them to independently manage an apartment home, enter the workforce and earn \$35-45,000 a year, and educate their children. Required classes include youth training, housing advocacy, finances and budgets, and motivational exercises. There are numerous opportunities for banks to participate in this

objective as well as help support the food kitchen and thrift shop. Grants and donations are important. However, advocating for and helping underwrite loans and bonds for Section 8 housing and affordable rental housing are also important. TCNB was mentioned for its generous financial support of training programs and helping support an emergency fund for the evitable automobile break-downs and break-ins that befall members of this community.

## Conclusions about Performance

### Summary

- ❖ TCNB and its affiliates demonstrate high levels of community development activities in this evaluation period. TCNB's level of community development activities in the state of Rhode Island is excellent based upon performance context issues that include operating from only one office, its low number of employees, and strong competition for community development opportunities. Qualified investments that directly benefit the assessment area total \$378 thousand. In addition, investments totaling \$45 thousand were made outside the AA which helps provide supportive housing for low-income women and families. Total investments demonstrate leadership in addressing low- and moderate-income women and family needs.

In addition, TCNB affiliate's CRA-related activities enhance the bank's excellent CRA performance. The affiliate provides a very high level of qualified community development grants inside, as well as, outside the bank's immediate assessment area. During the evaluation period, 39 grants inside the AA totaled \$811 thousand and 1,415 grants outside the assessment area totaled \$9.0 million. They demonstrate a strong leadership commitment by the parent company providing assistance to programs that help improve the quality of life for disadvantaged women and children. Please see Table 3.

- ❖ TCNB and its affiliate help develop and participate in innovative community development projects that address specific needs previously un-met. Their CRA program focus is to enhance the economic development of low- and moderate-income women by helping them return to the workforce. Examples of linked investments include transitional housing for women and head of household mothers, family finance and work skills training programs, and gifts in kind of women's clothing, appropriate to the work environment.
- ❖ TCNB demonstrates excellent responsiveness to the community development needs of very low-income women in the state of Rhode Island. The bank continues to research specific needs of this under-served population, makes investments to help address critical needs, and follows the result of projects with which it's involved. TCNB's participation includes grant-money for food, housing and training programs. TCNB's parent participates with gift in kind clothing grants.

### Qualified Investments

During the evaluation period, the bank provided qualified community development investments of \$138 thousand to their assessment area. The bank's prior period \$239 thousand investment in the AA is the current book balance of a \$250 thousand equity investment in a

Community Development Corporation’s investment fund. The fund investment supports four affordable housing units. TCNB made qualified community development investments outside the AA totaling \$45 thousand.

TCNB’s affiliate, TTI, made qualified grants in the AA during the evaluation period totaling \$673 thousand. In addition, TTI made several hundred qualified CD donations outside the AA totaling \$9.0 million. The service agencies receiving these grants, primarily as gifts-in-kind, qualify as meeting the primary purpose of community development.

Overall, TCNB and its affiliate made investments and grants totaling more than \$10 million, or 294 percent of average Tier 1 Capital.

The bank demonstrates extensive use of qualified investments that are innovative and demonstrate management’s leadership in providing specific services to low- and moderate-income women and children. Several grants provide specific financial training for low- and moderate-income women. One element of this initiative evolved into a stand-alone training program being offered through out the AA and the New England region. In addition, the bank’s involvement in strategic planning for low-income women’s training program links a consortium of other agencies in such a way that leverages the investment dollars across a much wider spectrum than previously demonstrated.

The financial training grants are characterized as innovative and not routinely provided by private investors. Factors that make the investment program distinctive include the following:

- Funds provide financial training services to women not otherwise available;
- Funds are put to work in a strategic plan that leverages benefits across a framework of housing, training in managing a home, and work place skills training.
- Gifts in kind clothing is provided appropriate for job interviews and the work place. This is a unique and innovative initiative for the benefit of low- and moderate-income women and head of household mothers.

**Table 3: Qualified Investment Activity (000’s)**

	<b>Benefits AA</b>	<b>Outside AA</b>	<b>Totals</b>
<b>Originated Investments</b>	\$0	\$0	\$0
<b>Originated Grants</b>	\$811	\$9,064	\$9,875
<b>Prior-Period Investments that Remain Outstanding</b>	\$239	\$0	\$239
<b>Total Qualified Investments</b>	\$1,050	\$9,064	\$10,114
<b>Unfunded Commitments*</b>	\$0	\$0	\$0

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

**Table 4: Qualified Investment Percentages**

	<b>Benefits AA (%)</b>	<b>Outside AA (%)</b>	<b>Total (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	30.6%	263.7%	294.3%
<b>Total Investments/Average Total Income</b>	63.3%	546.7%	610.0%
<b>Total Investments/Average Pass-Through Receivables</b>	0.5%	4.1%	4.6%

The following examples illustrate the most significant community development investments and grants by TCNB and its affiliate. They benefit the state of Rhode Island, and broad regional and national areas that include the AA.

*Financial Training and Education---one of the top three needs in the AA.*

- Seven donations totaling \$62,900 to an Economic Empowerment Program that develops financial management skills for low-income women. Several years ago, TCNB helped design this program, the first of its kind in this area. As well, TCNB fostered the availability of this program to more than twenty social service agencies it had met while researching area needs. This linkage to multiple agencies and fostering the use of “train-the-trainer” principles was innovative in this service sector and AA and demonstrated leadership in financial training. Later, TCNB helped make this training bi-lingual. In this evaluation period, TCNB continued its close association with this agency’s program on family budgets and establishing personal credit.
- Seven donations totaling \$45,250 to a women’s housing and economic development agency helping provide computer learning skills to its residents and low-income families living adjacent to the housing facility.
- Seven donations totaling \$20,800 to an agency supporting transitional housing facilities for low-income single parent families. Overall, funding supports programs that help low-income families achieve economic independence.
- Seven grants totaling \$476 thousand to the Consumer Credit Counseling Service as allocations to assist in financial, credit, and family budget programs, primarily for low- and moderate-income families.

*Affordable Housing---the number one need in the AA according to community contacts.*

- A current book value of \$239 thousand, remaining on a \$250 thousand prior period, equity investment in a regional Community Development Corporation’s investment fund. Funds were used to underwrite four units of affordable single-family mortgages to LMI borrowers in the state of Rhode Island. The facilities remain operational, and the investment continues to support its original objectives. (Access Capital Fund)
- Six donations totaling \$11 thousand to an agency providing “Learning Club” experiences, as best-practices models for at home study, for low-income children. (Museum)

*Food---a need identified by community contacts serving families in subsidized housing.*

- Seven donations totaling \$41 thousand to a community food bank serving low-income individuals and families in Rhode Island. (Food Bank)

*Clothing—a need identified by community contacts serving poverty-level families trying to transition into the work force and needing to dress appropriately.*

- Monthly donations in each year of the evaluation period, from affiliate outlets in Rhode Island, of gifts in kind (women’s and children’s clothing) totaling \$669 thousand. The clothing went to service agencies in the AA providing work-appropriate outfits for low-income women interviewing for jobs or who are new to the working world. (GiK)
- Annual donations, from regional and nationwide affiliate outlets, of gifts in kind clothing totaling \$8.5 million to social service agencies individually qualified as meeting the community development primary purpose test. The gifts in kind are provided as clothing only. (GiK & DfS)

## **Community Development Lending**

Evaluation of CD Lending is not applicable. TCNB’s charter restricts it lending to credit cards. As a result, it cannot originate CD loans.

## **Community Development Services**

No CD services were offered in this Evaluation Period. Performance context, specifically the very low number of bank employees (seven in the AA) and banking skills limited to only issuing a private-label credit card, in a non-traditional retail banking environment, severely deterred conducting CD services. The lack of CD services did not detract from the overall bank rating.

## **Fair Lending Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## 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 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 has the potential to benefit the assessment area and is located in the 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.

**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 corporation becoming subject to the limitations of a "bank holding company" 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 \$100,000 (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 statistical 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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or

- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
- a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**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 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 Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Net Operating Income:** As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments.

**Pass-Through Receivables:** Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8.

**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.