

Limited Purpose

Public Disclosure

May 30, 1997

**Community Reinvestment Act
Performance Evaluation**

**Associates National Bank (Delaware)
Charter Number: 22277**

**4550 New Linden Road
Wilmington, Delaware 19808**

Comptroller of the Currency

**1114 Avenue of the Americas, Suite 3900
New York, N.Y. 10036**

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 **Associates National Bank (Delaware)** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **May 30, 1997**. 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 **Needs to Improve**.

The following are the primary factors supporting the bank's overall rating.

- A concurrent fair lending examination established a reason to believe that a substantive violation of the Equal Credit Opportunity Act (ECOA) and Regulation B had occurred. The bank disagrees that a violation occurred.
- The bank maintains an adequate level of qualified community development investments; however, few new investments were made during the evaluation period.
- An adequate level of community development services are provided which are responsive to credit and community economic development needs in the assessment area.

Scope of the Examination

This CRA performance evaluation of Associates National Bank (Delaware) (hereinafter "ANB") covers the period from January 1995 through May 1997. In January 1996, ANB was designated as a Limited Purpose Bank by the Office of the Comptroller of the Currency. As a Limited Purpose Bank, ANB's CRA performance is evaluated pursuant to the community development test.

Description of Institution

ANB was chartered in April 1991 as a credit card bank under the Competitive Equality Banking Act (CEBA). The bank engages only in credit card operations, and is restricted to accepting savings and time deposits in the amount of \$100,000 or greater. In addition, the bank does not operate a branch office system. ANB is a wholly owned subsidiary of Associates First Capital Corporation whose principal operating subsidiary is Associates Corporation of North America located in Dallas, Texas. Ford Motor Company is the ultimate parent of these affiliates. ANB is a leading issuer of Visa and MasterCard bank cards and private label credit cards. Ninety-five percent of the bank's credit card loan originations are participated out to an affiliate, Associates Diversified Services, Inc. At year end 1996, ANB had total assets of \$328 million including outstanding credit card loans totaling \$278 million. Other than the restrictions imposed by the bank's CEBA charter, there are no known legal or financial constraints which impact ANB's ability to help meet its community's credit needs.

Description of Assessment Area

ANB defines its assessment area as New Castle County, Delaware ("NCC") which comprises the 9160 Metropolitan Statistical Area ("MSA"). The bank's only office is located in NCC. Based on updated 1990 census data, NCC is the most densely populated county with 442,000 or two-thirds of Delaware's population. Wilmington represents the largest city in NCC with a population of approximately 72,000. Newark, which contains the University of Delaware, is the other significant urban area in NCC. The assessment area contains 118 populated census tracts. Eight percent (8%) of the tracts are low-income, 19% are moderate-income, 51% are middle-income, and 21% are upper-income. All of the low-income census tracts, and nine (9) of the 23 moderate-income census tracts are located in Wilmington. The median family income of the MSA averages to \$44,332. A total of 115,305 families reside in NCC of which 17% are low-income, 18% are moderate-income, 26% are middle-income and 39% are upper-income. There are a total of 173,560 housing units in NCC. Seventy-six percent (76%) of these housing units are one-to-four family structures and 19% are multifamily structures. Sixty-four percent (64%) are owner occupied and 31% are rentals. Five percent (5%) of housing units are vacant. The median housing value is \$98,300 for NCC and \$72,000 for Wilmington. ANB's assessment area complies with CRA guidelines and does not arbitrarily exclude low- and moderate-income areas.

Over the last decade, the banking industry has dominated the growth in the local job market. Numerous out-of-state financial institutions have opened credit card facilities in NCC. Most of these institutions, including Associates, have banded together to form bank consortiums which jointly assess, and share information regarding community credit needs. There are currently twelve credit card banks in Delaware which the OCC has designated as limited purpose. Bank management has identified five credit card banks in NCC, that are similar in asset size, as its peers for CRA performance purposes. A

process is in place to periodically assess the bank's performance relative to its asset size and to peer financial institutions. ANB's 1996 self assessment concludes that its CRA performance is in line with peer credit card banks.

The most recent consolidated plan for NCC identifies affordable housing as a major need of low- and moderate-income households, especially those residing in Wilmington.

Conclusions with Respect to Performance

Community Development Investments

Due to CEBA charter restrictions, ANB is not permitted to engage in any forms of lending other than credit cards. Recognizing the need for affordable housing and also small business loans in its assessment area, the bank placed deposits totaling \$700,000 with a local full service financial institution and community development credit union. The deposits are targeted to fund low interest rate loans for small businesses, and for low- and moderate-income individuals seeking to purchase or improve a home. These deposits, which qualify as community development investments, are further described below.

Since May 1994, ANB has maintained \$600,000 in deposits with PNC Bank (Delaware) (hereinafter "PNC"). These deposits are allocated among three separate loan programs as follows: \$350,000 for mortgage loans and \$150,000 for home improvement loans to low- and moderate-income individuals through PNC's Open Door loan program, and \$100,000 for loans to small business through PNC's Key Loan Fund program. The deposits bear low interest rates of 2% and 3%, and terms of six and ten years. Since 1994, \$528,993 of ANB's deposits have been utilized to fund loans to individuals and businesses in NCC, including \$98,100 during the evaluation period. Specifically, \$334,650 funded six (6) low income mortgage loans, \$98,843 funded five (5) home improvement loans and \$95,500 funded nine (9) small business loans. As the loans are amortized, the bank's funds are reallocated to make additional loans under these programs.

ANB placed a \$100,000 deposit with the People's Settlement Association Federal Credit Union ("PSAFCU") in February 1994. PSAFCU is a community development credit union located in Wilmington. The credit union draws its membership from the geographic areas of East and South Wilmington and parts of NCC. The deposit, which has no agreed upon maturity date, is intended for home equity loans to PSAFCU members. To date, the bank's funds have not been utilized for this purpose due to a low volume of applications for home equity loans from qualified borrowers. ANB management is working with PSAFCU management on ways to increase applications for these loans.

ANB has also made a qualified investment outside of its assessment area. In September

1996, the bank placed \$100,000 in a deposit with Oak Cliff Community Federal Credit Union (“Oak Cliff”) located in Dallas, Texas. Oak Cliff, which is a low-income community development credit union, is based in the same general location as ANB’s corporate headquarters. The bank’s deposit has a term of four (4) years and bears a low interest rate of 2%. The deposit will assist in developing the credit union’s community development loan programs.

ANB supports organizations that promote affordable housing and small business development in NCC through annual monetary contributions. In 1995 and 1996, the bank contributed \$105,000 to 14 organizations. The following are brief descriptions on some of the organizations which have received ANB’s financial support.

Community Housing Incorporated (CHI) - CHI is a nonprofit housing development property and management corporation known for its development and management of low- and moderate-income housing in Delaware. The organization also provides home ownership and credit counseling services.

Delaware Community Investment Corporation (DCIC) - DCIC operates a multi-bank community development corporation to finance the production of affordable housing in Delaware. Three recent initiatives include the Community Investment Loan Fund, Tax Exempt Bond Placement Program and the Delaware Equity Fund for Housing Limited Partnership II.

First State Community Loan Fund (FSCLF) - FSCLF is a nonprofit, community centered financial institution providing loans and technical assistance to individuals and organizations preserving, developing or expanding affordable housing, and small business and other community development initiatives especially in distressed and under served communities throughout Delaware.

Interfaith Housing Delaware, Inc. - This organization develops, builds, rehabilitates, and manages quality affordable housing for low- and moderate-income families in Delaware.

University of Delaware Small Business Development Center (SBDC) - SBDC provides assistance to small businesses in Delaware in order to promote growth, expansion, innovation, increased productivity and management improvement.

Wilmington Housing Partnership (WHP) - WHP is directly involved in organizing the construction of affordable housing projects in the Wilmington area which benefit low- and moderate-income families.

Community Development Services

Various members of bank management have contributed their financial expertise through their memberships and active participation in local community development organizations. The CRA officer holds various positions in local housing organizations including: Board member and Treasurer, Quaker Hill Neighborhood Association; Technical Assistance Committee member, Housing Capacity Building Program of the Delaware State Housing Authority; Board member and Development Committee member, Interfaith Housing; and Audit committee member, Delaware Community Investment Corporation. ANB's President is a member of the Salvation Army Delaware Regional Advisory Board and holds a position on its Finance Committee. Two bank managers hold committee positions in the Urban Bankers of Delaware, which provides professional career development and networking for minority bankers, as well as banking education to urban communities.

ANB's responsiveness to the needs of community development organizations is especially evident in its involvement with Quaker Hill Neighborhood Association. The Association is dedicated to enhancing the economic and cultural health of the Quaker Hill neighborhood, a low-income area of Wilmington. Programs include housing revitalization and a Building Trades Training school. ANB management has maintained a vital role in this organization by providing their community reinvestment and development experience, as well as their banking, financial planning, marketing and fund raising expertise.

Compliance with Anti-discrimination Laws

A concurrent fair lending examination established a reason to believe that a substantive violation of the Equal Credit Opportunity Act (ECOA) and Regulation B had occurred. The violation involved disparate treatment of applicants and card holders on a prohibited basis. Deficient internal controls were determined to be the underlying causes of the violation. Bank management disagrees that a violation of the ECOA and Regulation B occurred. Nonetheless, the bank has self-initiated corrective actions to address the affected individuals and the underlying causes of the disparate treatment. A majority of these actions were completed during the fair lending examination. In addition, steps are being taken to strengthen policies, procedures, training programs and internal assessment efforts to prevent illegal discriminatory credit practices.