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Comptroller of the Currency  
Administrator of National Banks

**LIMITED PURPOSE**

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## **PUBLIC DISCLOSURE**

**December 31, 2002**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Granite National Bank  
Charter Number 23585**

**126 North Main Street, Suite 2A  
Bowling Green, Ohio 43402**

**Comptroller of the Currency  
Southeastern District Office  
Marquis One Tower, Suite 600  
245 Peachtree Center Avenue, NE  
Atlanta, GA 30303-1223**

**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 a high level of qualified investments and community development services activity.
- The bank demonstrates no use of innovative or complex qualified investments or community development services.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment area.
- The bank's violation of anti-discrimination sections of the Equal Credit Opportunity Act negatively impacted this rating.

## **Scope of the Examination**

In evaluating the bank's performance under the Community Reinvestment Act (CRA), we reviewed community development (CD) activities from August 1, 1998 through December 31, 2002. We reviewed the level and nature of qualified investments and CD services. At the bank's request, we also considered qualified investments provided by its affiliate. This is the first CRA examination since the bank was chartered on August 1, 1998.

If a bank has adequately addressed its assessment area needs, the OCC considers CD activities the bank submits that benefit areas outside of its assessment area in the evaluation of its performance. The bank has adequately addressed the needs of its assessment area, and therefore, outside of assessment area qualified investments were considered in evaluating its performance.

## **Description of Institution**

Granite National Bank (GNB) was chartered on August 1, 1998, as a Competitive Equality Banking Act (CEBA) credit card bank. On the above date, GNB received its designation as a limited purpose institution for CRA purposes. CEBA banks are restricted from participation in most activities common to full service banks and primarily engage in credit card operations. CEBA banks may only accept savings and time deposits in amounts of \$100,000 and greater. Additionally, they may not engage in the business of making or purchasing commercial, residential, or retail oriented loans, with the exception of credit card loans. This prohibition significantly limits GNB's ability to help meet community credit needs within its assessment area. See page eight for a definition of a CEBA bank. GNB may only engage in CRA CD activities relating to qualified investments and CD services due to legal restrictions. GNB's

ability to provide CD services, such as financial expertise to organizations, is also affected due to the limited number of individuals (eight) employed by the bank and the specialized nature of their financial expertise. The bank’s parent company (Stage Stores, Inc.) has provided investment avenues for qualified investments outside the bank’s assessment area.

GNB is a \$5 million financial institution located in Bowling Green, Ohio. It has no branch offices. GNB is a wholly owned subsidiary of GNB Holding Co., Inc. (GHC). Stage Stores, Inc. (SSI) which is headquartered in Houston, Texas wholly owns GHC and another subsidiary, Specialty Retailers LP (TX) (SRLP). SRLP operates approximately 340 clothing specialty stores in thirteen states (Alabama, Arizona, Arkansas, Colorado, Florida, Iowa, Kansas, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, and Texas). The clothing stores consist of the Bealls (of Texas), Palais Royal, and Stage.

Table 1 provides financial information relating to GNB’s financial capacity to help meet the needs of its assessment area. See pages eight through ten for definitions of terms. GNB’s assets are centered in equity securities. GNB’s primary business focus is the origination of private label credit cards, from the three stores mentioned above, which are sold to SRLP. GNB’s primary source of income is derived from the merchant fee assessed on sales generated on the proprietary cards. The average amount of pass through receivables (\$341 million), detailed below, represents the outstanding balance of all accounts originated by GNB, subsequently sold, and presently serviced by SRLP.

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

	<b>Year-end 1998</b>	<b>Year-end 1999</b>	<b>Year-end 2000</b>	<b>Year-end 2001</b>	<b>Most Recent Quarter- end 9/30/2002</b>	<b>Average for Evalua- tion Period</b>
<b>Tier 1 Capital</b>	\$2,000	\$2,050	\$3,175	\$4,640	\$3,783	\$3,130
<b>Total Income</b>	\$4,790	\$6,945	\$5,983	\$5,723	\$4,757**	\$5,640
<b>Net Operating Income</b>	\$4,744	\$1,131	\$1,787	\$2,253	\$1,209**	\$2,225
<b>Total Assets</b>	\$3,653	\$3,167	\$3,874	\$5,687	\$4,651	\$4,206
<b>Pass-Through Receivables</b>	\$378,589	\$391,750	\$343,615	\$321,818	\$271,696	\$341,494

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

## **Description of Assessment Area**

GNB’s assessment area consists of one (Wood County) of the three counties that comprise the Toledo metropolitan statistical area (MSA). It doesn’t include Fulton County and Lucas County. GNB’s assessment area complies with CRA regulatory requirements and does not arbitrarily exclude low- and moderate-income areas. GNB’s assessment area is mostly rural.

Wood County, Ohio is located in northwest Ohio. The city of Bowling Green is the largest city in the county and is the county seat. The county’s population as of 2000 was approximately 121,000. Bowling Green’s population was estimated at 30,000 individuals, of which approximately half are students at Bowling Green State University. Local business starts have remained fairly stable from 1995 through 2000, with an average of 184 per year. Active businesses in Wood County totaled 1,877 as of 2000. Employment within the assessment area is distributed among the manufacturing (26 percent), trade (23 percent), services (21 percent), government (17 percent), and other (13 percent) sectors. In 2000, the average weekly earnings for all industrial groups were \$586. Major employers consist of Bowling Green State University, Cooper Tire and Rubber Company, and Wood County Government. Wood County ranks first in the state in the production of wheat, second in processing of tomatoes, third in soybean production, and fourth in corn production with 77 percent of the land being farmland.

According to 1990 census information, one (4 percent) of the geographies in GNB’s assessment area is moderate-income, eighteen (72 percent) are middle-income, five (20 percent) are upper-income, one (4 percent) lacks sufficient population to be assigned an income level. There are no low-income geographies. As a whole, the assessment area consists of 1 percent of total Ohio geographies (2,862) and 1 percent of the state’s population (10,847,115).

As of 1990, the assessment area had approximately 27,629 families. Fifteen percent of the families were low-income, 18 percent were moderate-income, 25 percent were middle-income, and 42 percent were upper-income. As of 2002, the MSA median family income was \$56,700. Eleven percent of households live below the poverty level, which is lower than the State of Ohio’s poverty level of 13 percent. The unemployment rate for Wood County was 4.5 percent as of October 2002, which is lower than the statewide unemployment rate of 5.3 percent.

In 2001, 38 percent of renters in Wood County paid more than 30 percent of their income for housing costs. As of 2001, the fair market rent for a two-bedroom-housing unit was \$561. An individual would either need to earn 209 percent of the federal minimum wage (based on a 40-hour workweek) or work an 84-hour workweek to afford the fair market rent of \$561.

Table 2 provides additional demographic data for GNB’s assessment area.

**Table 2: Assessment Area Description**

	Number	Low	Moderate	Middle	Upper
<b>Tracts</b>	25***	0%	4%	72%	20%
<b>Families</b>	27,629	15%*	18%*	25%*	42%*
<b>Businesses</b>	5,526	0%**	2%**	62%**	36%**

Source: Demographic Data - 1990 U.S. Census, Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract. \*\*\* One (4 percent) census tract has not been assigned an income classification.

The credit and non-credit related needs in GNB’s assessment area included the following.

- Affordable Housing
  - Rental Assisted Housing: As of 2001, all U.S. Department of Housing and Urban Development (HUD) Section 8 housing complexes were fully occupied. The waiting list for this type of housing ranges from six months to one year.
  - Affordable non-Assisted Rental Housing: As of 2001, 38 percent of renters were paying more than 30 percent of their income for housing (rent and utilities). Affordable rental housing is extremely difficult to obtain in the city of Bowling Green since the majority of it is allocated for student housing associated with the university.
  - Affordable Single Family Owner Occupied Housing
  - Rehabilitation of rental (single and multifamily) and owner occupied housing units
- Small Business Loans
  - Working capital loans to existing and start up businesses in amounts of \$15,000 and less
- Social Services to Low- and Moderate-Income Families
  - Child Care Services
  - Counseling and Job Training
  - Business and Credit Counseling
  - Food Donation
  - Health and Dental Care Services
  - Infant, Child, and Maternal Health Care Services

These community needs were determined by contacting representatives from the city of Bowling Green government, a small business development center, and a non-profit community action commission. We also reviewed the HUD Consolidated Strategy and Plan for the city of Bowling Green. HUD Consolidated Strategies and Plans are comprehensive planning documents that identify community needs.

Opportunities for qualified investments and CD services exist within GNB's assessment area. These opportunities include affordable housing revenue bonds issued by the State of Ohio, non-profit housing organizations, non-profit community action agencies, credit counseling agencies, and various other organizations that provide social services primarily to low- and moderate-income individuals. However, our research revealed the opportunity for qualified investments is mainly limited to donations and grants,

with the exception of affordable housing revenue bonds. GNB’s ability to acquire affordable housing revenue bonds is limited due to the tremendous competition from large full service banks.

**Conclusions About Performance**

**Summary**

- GNB has a high level of qualified investments and CD services, including those from its affiliate SSI, given available opportunities, competition from full service banks, legal restrictions, its financial condition, and the unique nature of its banking operations. GNB and its affiliate have made \$275,000 in qualified investments that have directly benefited its assessment area or a statewide or regional area that includes its assessment area. See Table 3. CD services have mainly consisted of providing small business counseling.
- GNB has not used innovative or complex qualified investments or CD services.
- GNB has exhibited excellent responsiveness to credit and CD needs within its assessment area. GNB and its affiliate have donated money for affordable housing, childcare, credit counseling, and small business counseling. These donations have been in direct response to identified community needs.

**Qualified Investments**

GNB’s amount of qualified investments within and outside its assessment area totaled \$275,000 and \$1,061,000, respectively. See Table 3. This level of qualified investments is high given the nature of GNB’s operations, its financial condition, and available opportunities. Table 4 details GNB’s amount of qualified investments as a percentage of Average Tier 1 Capital, Average Total Income, and Average Pass-Through Receivables. GNB’s qualified investments were responsive to identified community needs. GNB’s qualified investments are detailed below.

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

	<b>Benefits AA</b>	<b>Outside AA</b>	<b>Totals</b>
<b>Originated Investments</b>	\$0	\$0	\$0
<b>Originated Grants</b>	\$275	\$1,061	\$1,336
<b>Prior-Period Investments that Remain Outstanding</b>	\$0	\$0	\$0
<b>Total Qualified Investments</b>	\$275	\$1,061	\$1,336

**Table 4: Qualified Investment Percentages**

	<b>Benefits AA (%)</b>	<b>Outside AA (%)</b>	<b>Total (%)</b>

<b>Total Investments/Average Tier 1 Capital</b>	8.79%	33.90%	42.69%
<b>Total Investments/Average Total Income</b>	4.88%	18.81%	23.69%
<b>Total Investments/Average Pass-Through Receivables</b>	.08%	.31%	.39%

**Affordable Housing / Rehabilitation - \$240,000**

- GNB donated \$100,000 to a non-profit organization that provides social services and administers programs primarily to low- and moderate-income individuals residing in Wood, Sandusky, Ottawa, and Seneca Counties. These services and programs include the following:
  - Child Development: childcare, nutrition, medical, dental, educational
  - Community and Economic Development: revolving loan funds, technical assistance to small local businesses, CD Block Grant administration
  - Family: food, shelter, energy assistance programs
  - Housing: first time homebuyer down payment assistance and counseling, housing rehabilitation
  - Senior: nutrition, transportation, health checks

GNB’s donation was used to provide down payment assistance for first time homebuyers and to rehabilitate/weatherize homes located in the Village of West Millgrove.

- GNB donated \$140,000 to a non-profit organization that constructs and provides new homes to low- and moderate-income individuals residing in Wood County. GNB’s donations were used to construct a home (\$40,000) and to start an endowment fund (\$100,000) that will be combined with other contributions to fund construction costs of future homes.

**Consumer Credit Counseling - \$925,000**

- SSI donated \$925,000 to an organization that provides free consumer credit counseling services primarily to low- and moderate-income individuals who reside within the thirteen states mentioned above. Two of the programs this organization sponsors are as follows.
  - Money and Credit, Managing the Flow: Participants learn how to manage their income, expenses, and credit. They also learn skills about budgeting and credit management.
  - Young Adult’s Guide to Money & Credit: Designed for the high school audience, this program covers three main points about money management. Participants learn basic budgeting skills, how interest works, and the cost of money.

**Social Services - \$146,000**

- SSI donated \$136,000 to a non-profit organization that provides grants to other organizations that primarily have a CD purpose. These organizations provide temporary shelter, food, care for dependent children, literacy training, and other social services primarily to low- and moderate-income individuals residing in Jacksonville, Texas. Jacksonville, Texas is where SSI has its distribution center and credit card call center.
- GNB donated \$10,000 to a non-profit organization that provides before and after school child care and summer care, primarily to low- and moderate-income individuals residing in Wood County, thus enabling their parents to work.

### **Small Business Counseling - \$25,000**

- GNB donated \$25,000 to a non-profit organization that provides management and technical expertise primarily to low- and moderate-income entrepreneurs or would-be entrepreneurs residing in Wood County. One of the programs offered by this organization is a 12-week Business Management Training Program. This organization also operates a Micro Loan Pool funded by HUD CD Block Grants. GNB's donations were used to pay the printing costs for the organization's Resource Guide Book, to pay a portion of the instructor's salary, and to provide scholarships to the 12-week Business Management Training Program for individuals who can't afford the tuition.

### **Community Development Services**

GNB has provided one CD service that was not innovative or complex and had only limited impact on the bank's assessment area. GNB's CD service consisted of reviewing candidates who are applying for the 12-week Business Management Training Program as discussed above.

### **Fair Lending Review**

During the review of the bank's underwriting criteria and credit scoring system, we identified certain actions taken on applications that violated federal laws and regulations governing establishment of credit limits. Bank management responded with appropriate remedies and corrective actions. The corrective actions included changes to automated systems, policies, procedures, and training programs. The issue was considered in the CRA evaluation.

## 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.

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

**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.

**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.