

Public Disclosure

December 20, 1999

**Community Reinvestment Act
Performance Evaluation**

**Commerce Bank, National Association
Charter Number: 20500**

**10840 Old Mill Road
Omaha, Nebraska 68145**

**Office of the Comptroller of the Currency
Central District
One Financial Place
440 South LaSalle St., Suite 2700
Chicago, Illinois 60605**

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 **Commerce Bank, National Association, Omaha, Nebraska**, prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **December 20, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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 by 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 which 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 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 bank being considered a bank 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 ten-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.

Definitions and Common Abbreviations (continued)

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 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. A limited-purpose institution continues to meet the narrow product line requirement if it only infrequently provides other types of loans.

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

Low-Income Family or Geography - An income level that is less than 50% of the MFI.

Moderate-Income Family or Geography - An income level that is at least 50% and less than 80% of the MFI.

Middle-Income Family or Geography - An income level that is at least 80% and less than 120% of the MFI.

Upper-Income Family or Geography - An income level that is 120% or more of the MFI.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income - As defined by the Consolidated Report of Condition and Income, income before adjusting for extraordinary items.

Pass Through Receivables - Outstanding receivables tied to all accounts issued or owned by the bank, regardless of the balances of those accounts being carried on the bank's books or sold to another entity. The bank provides this information.

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 defined by the Consolidated Report of Condition and Income.

Total Income - From the Consolidated Report of Condition and Income -- Interest income plus noninterest income.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from February 25, 1998 through December 20, 1999. We reviewed the level and nature of qualified investments and community development services. At the bank's option, we also considered a qualified donation provided by an affiliate. At the prior CRA examination, dated February 25, 1998, we rated the bank's CRA performance "Needs to Improve".

Institution's CRA rating:

This institution is rated "Outstanding."

The major characteristics that support this rating are:

- Commerce Bank, National Association, Omaha, Nebraska (CBO) demonstrates a high level of community development investments in its assessment area (AA).
- CBO demonstrates excellent responsiveness to identified community development needs in the AA by investing in entities that primarily facilitate expansion of affordable housing.
- CBO demonstrates no use of innovative or complex community development investments or services. However, CBO's use of routine investments and services does not detract from the level and responsiveness of the bank's qualified investments in the AA.

Description of Institution

CBO is a \$9 million limited purpose bank headquartered in Omaha, Nebraska. The bank has no branches, as required by Nebraska State law. CBO is a subsidiary of Commerce Bancshares, Inc. (CBI), an \$11.5 billion bank holding company headquartered in Kansas City, Missouri. CBI operates four banks with over 300 locations in Kansas, Missouri, Nebraska, and Illinois. CBI opened the Omaha bank on October 1, 1985, and received approval from the OCC on October 9, 1996, to operate the bank as a limited purpose institution.

Management's business strategy and Nebraska State law limit the bank's loan services to the issuance of credit cards, solicitation of new customers, and transaction processing. Nebraska State law also prohibits the bank from operating in a manner or from a location that is likely to attract customers from the general public, and requires the bank to receive deposits only from affiliated banks which are not domiciled in Nebraska. These restrictions do not impede CBO from participating in community development investments. However, the bank's specialized financial expertise somewhat impairs its ability to provide community development services.

CBO's relatively small asset base does not provide a true representation of the size of the credit card portfolio. CBO sells participations in most credit card receivables to affiliate banks (as of September

30, 1999, there was \$517 million in outstanding balances).

Description of Institution (continued)

The following table displays selected bank financial information.

Table 1: Financial Information (\$000s)

	Year-end 1997	Year-end 1998	Most Recent Quarter-end 09/30/99	Average for Evaluation Period
Tier 1 Capital	\$3,106	\$3,186	\$3,322	\$3,205
Total Income	\$4,684	\$3,847	\$3,820*	\$4,117
Net Operating Income	\$179	\$180	\$179*	\$179
Total Assets	\$6,271	\$11,335	\$8,909	\$8,838
Pass Through Receivables	\$562,087	\$540,005	\$516,967	\$539,686

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

* Annualized data.

Description of Assessment Area

CBO designates all of Douglas County, Nebraska as its AA. Douglas County is a part of the Omaha Metropolitan Statistical Area (MSA 5920). Based on 1990 Census Data, the AA has a population of 416,444. The 1999 Department of Housing and Urban Development estimated median family income was \$53,600 for the Omaha MSA. The bank's AA complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income (LMI) census tracts.

The following table depicts selected AA demographics.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tract	108*	14%	31%	33%	22%
Families	107,239	18%	18%	24%	40%
Small Business**	11,136	5%	16%	39%	40%

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

* Of the 108 census tracts in the AA, 107 are populated.

** Defined as businesses with gross annual revenues of \$1 million or less.

The economy of Douglas County remains strong, with an unemployment rate of approximately two percent and only six percent of households receiving public assistance. Major employers in the area include: Offutt Air Force Base; Alegent Health; First Data Card Services Group; Omaha Public Schools; and University of Nebraska Medical Center.

Description of Assessment Area (continued)

We reviewed seven community interviews conducted by federal financial institution regulators during 1997, 1998, and 1999. Interviewees included representatives from five economic development entities, one affordable housing organization, and one real estate services firm. These interviews revealed small business and affordable housing lending as the primary credit needs in the Omaha area.

Many community development opportunities exist in CBO's AA. Community development donation and service opportunities are much more abundant than qualified investment securities.

Types of entities operating in the AA that could receive qualified community development donations or services include: affordable housing organizations; organizations providing community services to LMI individuals; entities that promote economic development; and groups that are involved in revitalizing or stabilizing LMI geographies. Qualified investment securities include some municipal bond issuances and Low-Income Housing Tax Credits (LIHTCs). For example, according to the Nebraska Investment Finance Authority, during 1998 and 1999, LIHTCs available in CBO's AA totaled \$1.8 million.

Performance Conclusions**Summary**

- CBO provided a high level of community development investments and an adequate level of community development services in the AA. We considered restrictions placed on the bank as a result of its limited purpose designation while determining the adequacy of community development activities. For example, the bank's ability to provide community development services is somewhat impaired due to the specialized nature of its financial expertise. Despite the restrictions, CBO successfully provided financial assistance and a community development service to entities that serve LMI individuals in the AA.
- CBO demonstrated excellent responsiveness to the community development needs of the AA. The bank helped address one of the major community development needs identified during community interviews. CBO made a significant portion of the dollar volume of its community development investments in organizations that facilitate the rehabilitation or construction of affordable housing.
- Although CBO provided only routine community development investments and services, this did not detract from the level and responsiveness of the bank's qualified investments in the AA.

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

CBO more than adequately addressed the community development needs of its AA. Therefore, we considered activities benefiting areas outside of the AA. This is permissible when regulators evaluate the CRA performance of limited purpose institutions.

Qualified Investments

CBO made qualified community development investments and donations totaling nearly \$1.3 million during the evaluation period and had \$94,500 in prior period investments still outstanding. The following tables depict the amount of the bank's qualified investments and the dollar volume of these activities in relation to CBO's financial capacity.

Table 3: Qualified Investment Activity (\$000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$1,012	\$0	\$1,012
Originated Grants	\$19	\$233	\$252
Prior Period Investments	\$95	\$0	\$95
Totals	\$1,126	\$233	\$1,359

Table 4: Qualified Investment Percentages (000s)

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	35%	7%	42%
Total Investments/Average Total Income	27%	6%	33%
Total Investments/Average Receivables	0.21%	0.04%	0.25%

The following is a list of the most significant community development investments and donations provided by CBO. Affordable housing investments and donations discussed below had the greatest impact on community development needs of the AA.

- \$1 million investment in Nebraska Investment Finance Authority affordable housing bonds purchased during this period and \$94,500 remaining from the previous evaluation period. These bonds provide funds for forgivable second mortgages for downpayments and closing costs, and funds for the purchase of mortgage loans made to LMI individuals. The bonds benefited a broader statewide area that includes the bank's AA.
- \$12,500 investment in Equity Fund of Nebraska VII, L.P., which invests in low-income housing properties. Investments in this entity provide low-income housing tax credits to equity participants in a broader statewide area that includes the bank's AA.
- \$11,225 in donations to an agency that provides consumer education and credit counseling services primarily to LMI individuals. CBO customers located in the bank's AA or in a broader area that

includes the AA benefited from these donations by using consumer education and credit counseling services provided by the recipient of these funds.

Qualified Investments (continued)

- \$7,000 in donations to a local non-profit organization that facilitates consortium financing of affordable housing for LMI individuals.
- \$233,000 in donations to an agency that provides consumer education and credit counseling services primarily to LMI individuals. These services benefited bank customers residing outside of the AA. CBO received credit for these donations since it adequately met the community development needs of the AA with investments and donations discussed above.

Community Development Services

A bank employee provided a community development service by acting as a member of a group that meets monthly to identify investment and service opportunities in the Omaha area. As a result of these meetings, CBO made qualified donations to a local affordable housing organization discussed under the qualified investment section above.

Compliance with Anti-Discrimination Laws and Regulations

CBO is in compliance with anti-discrimination laws and regulations. We did not identify any violations of fair lending laws or regulations during our December 20, 1999 CRA examination. We conducted a comparative file analysis of denied applications for credit cards received from individual female applicants and approved applications for credit cards received from individual male applicants. We performed this analysis to determine if underwriting practices were applied consistently between female and male applicants.