Comptroller of the Currency
Administrator of National Banks

Limited Purpose

Public Disclosure

March 31, 2007

Community Reinvestment Act Performance Evaluation

Credit One Bank, N. A.
Charter Number: 20291

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Las Vegas, NV 98119

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Mid-Size and Credit Card Bank Supervision
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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 Community Reinvestment Act (CRA) rating:

This institution is rated Outstanding

The conclusions for the three rating criteria are:

- Credit One Bank, N.A. (Credit One) demonstrates a high level of qualified investments and community development (CD) services.
- Credit One demonstrates occasional use of innovative or complex qualified investments and CD services.
- Credit One demonstrates excellent responsiveness to credit and CD needs in its assessment area (AA).

Scope of the Examination

In evaluating Credit One's performance under the CRA, we reviewed CD activities from May 21, 2002 through March 31, 2007. 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 parent, Sherman Financial Group LLC (Sherman). At the prior examination dated May 20, 2002, we rated the bank Satisfactory**.**

If a bank has adequately addressed its AA needs, the OCC considers CD activities the bank submits that benefit areas outside of its AA in the evaluation of its performance. Credit One has adequately addressed the needs of its AA, and therefore, qualified investments originated outside of its AA by Sherman was considered in evaluating its performance.

Description of Institution

Credit One is located in Las Vegas, Nevada, has no branch offices, and operates as a Competitive Equality Banking Act (CEBA) credit card bank. In July 1984, Credit One began operations as a full service bank under the name of First National Bank of Marin (FNBM) in San Rafael, California. FNBM maintained a wide range of products until 1995 when it began focusing primarily on two types of products, partially and fully secured credit cards. FNBM received a limited purpose designation from the OCC in June 1996. Limited purpose banks offer only a narrow product line. The bank moved from San Rafael, California to Las Vegas, Nevada in November 1998. FNBM was sold to Sherman Financial Group, LLC (Sherman), obtained its CEBA status in March 2005 and subsequently changed its name to Credit One in 2006.

During the evaluation period, Credit One ceased offering fully and partially secured credit cards and currently offers only unsecured cards. As Credit One changed to CEBA status, it began selling all but a very small portion of its receivables on a daily basis. Therefore, in 2005 and thereafter, the levels of assets, capital, and income have experienced large decreases compared to prior years. Credit One's target market is sub-prime borrowers who desire to either build or repair credit and ultimately become eligible for increased credit availability. Customer contact is made by telephone, through the mail and via the Internet.

Credit One has 506 employees, the majority of whom are customer service and transaction service representatives and collectors. There are 44 bank officers. The staff has declined from 806 employees at the lasts CRA Evaluation, 17 who were officers. The decline in resources has resulted in fewer employees devoted to community development activities.

As of December 31, 2006, Credit One reported total assets of approximately $82 million and Tier 1 Capital of approximately $29.5 million. Because Credit One no longer holds its receivables on its books, total assets declined 63% from approximately $223 million at year end 2002 to year end 2006. When Credit One's CRA performance was last evaluated, Tier 1 Capital was $27,704. No pass-through receivables were reported. In the current evaluation period, average Tier 1 capital is $41,635, an increase of $13,931 or 33.4%. The significant increase occurred in 2003 and 2004, and leveled off to approximately the same levels shown in the prior evaluation period. The increase in capital had an impact on the ratios (performance measures), and was taken into consideration in our analysis.

Credit One is a wholly owned subsidiary of Sherman. Sherman is an integrated financial services company engaged in purchasing and servicing receivable portfolios acquired at a discount, and originating and servicing credit card receivables. The company consists of numerous asset holding and operating entities throughout the United States and in Mexico City, Mexico. As of December 31, 2006, Sherman reported total assets of $1,204 million and net income of $347 million.

Credit One is a designated CEBA financial institution. A CEBA is restricted from accepting retail deposits or extending loans outside of its credit card operations. A more detailed definition of CEBA credit card banks can be found at the end of this evaluation in "Definitions and Common Abbreviations". Otherwise, there are no additional legal, financial or other factors impeding the bank's ability to help meet the credit needs in its AA.

The table below shows year end financial information for the five year period since the last CRA evaluation and through the most recent quarter end.

Table 1: Financial Information (000s)

	Year-end 2002	Year-end 2003	Year-end 2004	Year-end 2005	Year-end 2006	Most Recent Quarter-end 3/31/07	Average for Evaluation Period
Tier 1 Capital	$36,357*	$51,564*	$77,303*	$23,625*	$29,528*	$31,431*	$41,635
Total Income	$147,697*	$150,082*	$163,319*	$67,411*	$120,944*	$159,164**	$134,770
Net Operating Income	$10,440*	$23,758*	$39,321*	$4,134*	$8,391*	$11,416**	$16,243
Total Assets	$222,998*	$217,006*	$215,061*	$89,147*	$82,090*	$73,490*	$149,965
$Pass-Through Receivables	$0*	$0*	$0*	$378,299*	$636,679*	$676,117*	$563,698

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

Description of the Assessment Area

Credit One has delineated its AA as a majority of Clark County, which is 320 census tracts including the cities of Las Vegas, North Las Vegas, Henderson, and the Las Vegas Valley. Clark County is part of the Las Vegas-Paradise, NV metropolitan statistical area (MSA). The AA includes the location of Credit One's charter office, support operations, and administrative activities. The portions of Clark County that are excluded from Credit One's AA are on its perimeter, none of which are low- or moderate-income geographies. The AA complies with the technical requirements of the regulation and does not arbitrarily exclude low-or moderate income geographies. The following discussion and tables present general demographic and economic information on the AA.

<u>Clark County, Nevada</u>

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper	N/A%
Tracts	320	5.6%	17.6%	48.00%	28.00%	.80%
Families	326,897	18.83%*	18.71%*	23.47%*	38.99%*	.00%*
Businesses	105,734	8.49%**	21.48%**	35.87%**	34.10%**	.06%**

Source: Demographic Data – 2000 U.S. Census, Dun & Bradstreet Data. N/A category consists of geographies that have not been assigned an income classification.
*Represents families by income level.
**Represents businesses by income level of census tract.

Las Vegas is the most populous city in the state of Nevada, and a major vacation, shopping, entertainment and gambling location. The name Las Vegas is often applied to the unincorporated areas of Clark County, with a 2005 population estimate of 1,710,551 that surrounds the city, especially the resort areas on and near the Las Vegas Strip. This 4½ mile stretch of Las Vegas Boulevard is mostly outside the Las Vegas city limits, in the unincorporated town of Paradise.

In the last decade, Las Vegas climbed the ranks of large cities in the U.S., growing 66.3% from 63rd largest in 1990 to 32nd largest in 2000. This population growth exemplifies a favorable job market, a relatively stable economy with low business costs, and a lenient tax structure which results in low individual and business taxes. Nevada does not have a state income tax. Rapid population growth within the MSA has led to a significant urbanization of the AA, with a US Department of Housing and Urban Development (HUD) updated median family income of $52,577, while the unemployment rate is 4.3% as of June 30, 2006. The tax structure has a direct impact on the extent to which public agencies are able to address the pressing social and health needs of the region's low- and moderate-income individuals and families. Conversely, a reliance on property tax income provides public agencies with an incentive to promote growth and upper income developments within their jurisdictions, rather than mixed income or affordable hosing.

Tourism drives the economy in the Las Vegas – Paradise MSA, with 36 million people visiting the city each year and visitor spending estimated at $35 billion in 2005. Approximately 60% of the workers in the Las Vegas-Paradise MSA are employed in retail trade or in the service sector. Though many miles away, the terrorist attacks of September 11, 2001 had a devastating effect on the Las Vegas economy as the gaming and travel sector responded with extensive layoffs. While the city had mostly recovered by 2003, other problems became apparent, primarily difficulties in drawing tourists back to the downtown area. Development and revitalization projects are currently in progress to revitalize the downtown economy.

Housing costs have outpaced incomes. The most serious problems facing Clark County is a lack of affordable quality housing. The area's explosive growth has put a strain on local government and increased the demand for affordable housing, schools, and health care for low-and moderate income families, seniors and people who are homeless. The fact that 89% of the land in Clark County is owned by the federal government places a premium on available private lands that creates a disincentive to the development of affordable housing. Housing in Las Vegas has become less affordable to low- and moderate income families and individuals. For example, the price of an existing home rose 87% from $169,494 in 2002 to $317,400 in 2006, making housing increasingly less affordable over the evaluation period.

While the entertainment and service industries are collectively the largest employers in Las Vegas, the major single employer is the Clark County School District, followed by Nellis Air force Base. Obtaining and retaining long-term employment at wages capable of sustaining family households is a challenge for low and moderate-income families in the Las Vegas-Paradise MSA. Approximately 60% of the workers in the MSA are employed in retail trade or in the service sector but many of them are not earning a living wage; thus housing, healthcare, health insurance and childcare are not affordable.

Additionally, wages are not enough to keep up with the increasing cost of housing in the MSA.

There is strong competition among financial institutions to provide financial services and meet their CRA obligations in the Las Vegas-Paradise MSA. Many of these large regional institutions and credit unions vie for a part of available CD opportunities. Institutions having a significant presence in the AA are: Wells Fargo Bank, N.A., Bank of America, N.A., Citibank Nevada, N.A., and Washington Mutual Bank.

Through the course of our examination, we received information from community organizations to identify community credit needs. We learned that affordable housing for low- and moderate income families, transitional housing, economic development, and small business financing and development are the predominant needs in the community. Other CD needs include multi-family rental housing assistance and financial literacy counseling for both business owners and individual customers. Through the interview process, we also learned that the infrastructure for CD activities is not well developed in this MSA and opportunities are limited by this factor.

Conclusions About Performance

Summary

During the evaluation period, Credit One originated a high level of qualified investments in relation to the limited opportunities available in its AA, strong competition from larger financial institutions that have access to more dedicated staff resources for community development investments, limited staff dedicated to CD activities. In addition, the increase in average Tier 1 Capital had an impact on the bank's performance measures. Total investments exceeded $3.5 million or 8.45 % of the bank's average Tier 1 capital, 2.61% of average total income, and .62% of average pass-through receivables.

Credit One's level of CD services is high in relation to opportunities and limited staff with regard to CD activities. By serving on the Boards of Directors and on finance committees of 16 different community groups and non profits, these officers provide necessary financial skills and services. Credit One provided a marketing initiative that utilized extensive man hours and yielded significant financial results,

Credit One's use of innovative or complex qualified investments, grants, and donations is rare. However, CD services showed extensive innovation and originality by dedicating talent within the bank to assist a non-profit organization in an original and creative way. Credit One was highly innovative in its use of the marketing talents of its staff to develop and implement a fund raising initiative that significantly advanced the funds of local non-profit entities that benefit low and moderate individuals and families.

Credit One's qualified investments show excellent responsiveness to identified credit needs of low- and moderate-income individuals and families in its AA. Qualified investments, grants and donations funded entities that provide critical services to low- and moderate income individuals and families, affordable housing, and promote economic development by financing small businesses. Approximately 74% of Credit One's qualified investments benefited affordable housing projects for low- and moderate income families and individuals, meeting a critical need in the bank's AA.

Qualified Investments

The level of Credit One's qualified investments, grants, and donations is high. Total investments exceeded $3.5 million or 8.45 % of the bank's average Tier 1 capital, 2.61% of average total income, and 0.62% of average pass-through receivables. As stated earlier, this level is excellent in relation to the limited opportunities available in its AA, strong competition from larger financial institutions that have access to more dedicated staff resources for CD investments, and the increase in its capital base over the evaluation period.

The majority of Credit One's qualified investments fall in two categories, providing significant grant and donation support for organizations that meet the needs of low- and moderate income individuals, and national investments funds that finance affordable housing in the AA. The level of qualified investments is significant in relation to the restrictions to lending that CEBA charter banks face and limited opportunities in the AA. Credit One's CRA program is designed to target a wide range of programs that promote financial and homebuyer education, affordable housing, building life skills for low- and moderate income individuals and families, emergency services, and health and human services. Credit One's CRA program strives to impact multiple areas of the community by providing vital funds in support of various community organizations.

The majority of qualified investment dollars are placed in CRA qualified funds specifically designated to Credit One. The projects are highly responsive to the need for affordable housing which has reached a critical level in the AA. The bank's initial $1 million investment funded two large projects:

- The rehabilitation of a multifamily rental housing development located in a low-income census tract. It contains 114 units, all of which are low-income.

- Financing a 142 unit project in a moderate-income census tract. The project is an assisted living/multifamily rental facility by the Nevada Housing Division. Bonds to fund the project were issued for the purpose of providing housing for low-income seniors.

A second CRA fund totaling $1.5 million funded multiple projects.

- Financing the construction and permanent mortgage of multifamily housing project containing 270 units. All of the units are designated for persons or families who have incomes at or below 60% of median.

- Freddie Mac qualified CRA mortgage pools

The remainder of Credit One's qualified investments is grants and donations that fund local community groups providing vital goods and services to low- and moderate income individuals, families and small businesses. However, the bank's involvement is not limited to its dollars. Its officers demonstrate their commitment to the community by building multifaceted relationships with organizations to increase their sustainability. For example, Credit One's investment of more than $36,000 in a local micro enterprise initiative is supported by officers serving on the Board of Directors, finance committee, and providing direct technical assistance to small business owners.

Another example is Credit One's ongoing financial support of a housing organization that develops, promotes and initiates affordable housing in the AA for low- and moderate income individuals. The non profit organization operates a rental housing program, a home ownership program consisting of homebuyer education, counseling, and down payment assistance, as well as a program to ensure the security of its housing recipients. Besides providing a substantial financial grant, Credit One's president serves on its Board of Directors.

Credit One's out of area qualified investment consisted of a donation to the victims of Hurricane Katrina. These funds indirectly impacted the AA because the city of Las Vegas and Clark County provided funding to more than 5,000 persons who were displaced by the disaster and relocated to Las Vegas. The initiative provided housing, clothing, food, and job related services to these individuals and families. Other qualified investments outside the AA are provided by Sherman or its affiliated companies. They consist of grants and donations that are targeted to low- and moderate income individuals and families and the creation of affordable housing.

Table 3a: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	$2,500		$2,500
Originated Grants	$534	$381	$915
Prior-Period Investments that Remain Outstanding	$100		$100
Total Qualified Investments	$3,134	$381	$3,515

Table 4a: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	7.53%	.92%	8.45%
Total Investments/Average Total Income	2.33%	.28%	2.61%
Total Investments/Average Pass-Through Receivables	1.11%	.14%	.62%

Community Development Services

Credit One's CD services are designed to supplement their investment dollars by building sustainability in the initiatives of local non profit organizations. An example of a creative and innovative CD service that was a major investment of time and talent follows.

CD services that Credit One provided to the Las Vegas Rescue Mission (The Mission) exhibit creativity and innovation and represent an activity that is not commonly available in the Las Vegas-Paradise MSA or other similar communities. The Mission provides emergency services, such as short-term housing for the homeless, emergency shelter, long-tern assistance to low- and moderate-income individuals seeking to making lasting changes in their lifestyles, clothing, job development and counseling. President/Chief Executive Officer (CEO) Robert DeJong serves on the Board of Directors of this organization, providing financial guidance and assisting in the pursuit of the organization's mission. In his leadership role, President/CEO DeJong invested a significant amount of his own time, as well as made available the resources of the bank's marketing department to design, develop and implement an ongoing direct mail program to obtain new donors for the Mission. The marketing department used its extensive knowledge to develop a model that targeted prospective donors with a high likelihood for a positive response. Unique marketing material kits were created, printed and mailed. Tracking reports were created and used to identify areas for improvement. More than 30 internal meetings and an additional 10 meetings with Mission staff were held. In all, over 200 hours were donated to this effort. The mail campaign occurred in late 2006 and raised significant funds for the organization. Donations continue to be received and the campaign was deemed a success. Credit One will continue to be involved in overseeing this marketing initiative into the foreseeable future.

As discussed previously, Credit One's investment in a micro enterprise initiative builds sustainability by the bank's investment of time and talent. The CRA Officer provides financial services as a member of the Board and other officers serve on the Board of Directors and finance committee. This business development corporation is a certified financial institution that attempts to reduce barriers to success through micro loans, business training, and technical assistance to underserved populations in Nevada. Its purpose is to increase participation in entrepreneurship among low- and moderate-income individuals. Credit One officers also provide technical and financial assistance to small businesses served by the organization.

Nevada Bankers Collaborative is an alliance of financial institutions in Nevada. It seeks to help meet CD needs of the State's rapidly increasing low- and moderate-income population by providing a focused, innovative approach to solving Nevada's greatest challenges. Currently, it is involved in three initiatives:

- Individual Development Accounts (IDAs) to promote asset building among low- and moderate-income populations.
- Non-profit Capacity Building Initiative to provide tools and training to build more efficient, responsive, and sustainable nonprofit organizations in Nevada.
- Neighborhood Revitalization Initiative to promote economic advancement and sustainability of Nevada communities through neighborhood revitalization for the benefit of low- and moderate-income individuals and families.

The Collaborative has selected a 40 block area in North Las Vegas for a pilot revitalization initiative. The area is located in a Community Development Block Grant (CDBG) eligible moderate income census tract. Credit One's CRA Officer works closely with the collaborative, providing financial guidance. In addition, Credit One also provides investment dollars.

Credit One has launched an internal program, Road to Good Credit, that is targeted to schools that have a majority of low- and moderate income students. The bank developed the program and provided employees to present program topics. The CD service is considered innovative because it helps high school students better understand credit, how to use credit wisely, and how to avoid the pitfalls of excessive revolving credit. This service is noteworthy because the bank's decline in staff has resulted in fewer employees devoted to CD activities.

Credit One officers identified a foundation associated with its data resource provider that offers matching funds to qualifying agencies within the operating locale of its clients. Through the bank's efforts, it obtained more than $32,000 in funds for CD organizations in its AA and the results were highly responsive to the needs of its AA.

Other CD services are provided through community involvement of the CRA and other bank officers. By serving on the Boards of Directors and on finance committees of 11 additional community groups and non profits, these officers provide necessary financial skills and services. It is notable that Credit One also provides grants to 12 of these community groups and non profits described in this section. The financial expertise of the bank officers assist with capacity building and sustainability of the organizations.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. During the evaluation period, Credit One operated under enforcement actions relative to its credit card operations. The Orders required, among other things, that the bank not engage in any unfair or deceptive acts or practices relative to a partially secured credit card product. Our evaluation revealed that Credit One no longer offers the partially secured credit card. Customer complaints relative to the current credit card product are nominal in relation to the volume of open accounts and new originations. The bank has fully complied with the Orders, one of which has since been terminated. We considered these actions during our evaluation and concluded that they should not have an adverse impact on Credit One's CRA Performance rating.

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.

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 non-cumulative 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 – Total Interest income plus Total Non-interest income as listed in the Consolidated Report of Condition and Income – Total Interest income plus Total Non-interest income.

Wholesale Institution – An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.