



**LIMITED PURPOSE**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**June 07, 2004**

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

**DSRM National Bank  
Charter Number 23097**

**5801 Osuna Road N.E.  
Albuquerque, NM 87109**

**Comptroller of the Currency  
Mid-Size/Credit Card Bank Supervision  
250 E Street, S.W.  
Washington, DC 20219**

**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 an adequate level of community development (CD) lending, CD services, and qualified investment activity, particularly investments that are not routinely provided by private investors.
- The bank demonstrates occasional use of innovative or complex CD loans.
- The bank demonstrates excellent responsiveness to credit and CD needs in its assessment area (AA).

## **Scope of the Examination**

In evaluating the bank's performance under the CRA, we reviewed CD activities from November 1, 1999 through June 7, 2004. We reviewed the level and nature of qualified investments and CD services. At the bank's option, we also considered CD lending provided on the bank's behalf by its parent company, Diamond Shamrock Refining and Marketing Company (DSRMC). At the prior examination dated November 1, 1999, we rated the bank Satisfactory.

## **Description of Institution**

DSRM National Bank (DSRM) was chartered on October 1, 1996 as a Competitive Equality Banking Act (CEBA) credit card bank. The bank simultaneously received its designation as a limited-purpose institution for purposes of the CRA. 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. As such, this prohibition significantly limits DSRM's ability to help meet community credit needs within its AA. DSRM may only engage in CD activities relating to qualified investments and CD services due to legal restrictions. DSRM's ability to provide CD services is also affected due to the specialized financial expertise of bank employees. See page seven for a definition of a CEBA bank.

DSRM is a wholly owned subsidiary of DSRMC, which is a subsidiary of Valero Energy Corporation (Valero) in San Antonio, Texas. Valero is a Fortune 500 oil refining and marketing company with refineries in the United States, Canada, and Aruba. DSRM's operations are performed by Valero Credit Card Center out of Amarillo, Texas. In addition to providing the majority of the operational activities, the credit card center also provides customer service and other support functions.

DSRM is a \$3 million financial institution located in Albuquerque, New Mexico. It has no branch offices. DSRM offers proprietary credit cards under the brand names of Diamond Shamrock, Ultramar, Beacon, Shamrock, Total and Valero. The bank's private label and consumer credit cards primarily support Valero's core business of refining and petroleum sales.

As of March 31, 2004, the bank reported total assets of \$2.9 million and total income of \$167 thousand. DSRM's assets reflect the bank's practice of selling on a daily, non-recourse basis, all of its receivables generated by credit card accounts to its parent company. There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its AA. Table 1 below provides financial information relating to DSRM's financial capacity to help meet the needs of its AA.

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

	<b>Year-end 1999</b>	<b>Year-end 2000</b>	<b>Year-end 2001</b>	<b>Year-end 2002</b>	<b>Year-end 2003</b>	<b>Most Recent Quarter- end 3/30/2004</b>	<b>Average for Evaluation Period</b>
<b>Tier 1 Capital</b>	2,097	2,186	2,299	2,348	2,411	2,419*	2,293
<b>Total Income</b>	729	711	747	711	732	668**	716
<b>Net Operating Income</b>	140	166	169	115	90	68**	125
<b>Total Assets</b>	2,805	2,829	2,935	3,016	2,942	2,963*	2,915
<b>Pass-Through Receivables</b>	84,752	82,422	59,162	65,801	61,612	61,104*	69,142

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

\*Actual data reported. \*\*Annualized data reported.

## **Description of Assessment Area**

DSRM's AA is the Albuquerque Metropolitan Statistical Area (MSA) #1074. For the majority of the evaluation period, the bank's AA included only the counties of Bernalillo, Sandoval and Valencia in central New Mexico. Torrance County was added to the Albuquerque Census File based on the Office of Management and Budget's metropolitan area definitions released in June 2003 and updated in December 2003. The recent changes in the AA did not impact the bank's performance. The bank's AA is legal and does not arbitrarily exclude any low-or moderate-income areas.

The Albuquerque MSA is the largest urbanized area in New Mexico. The 2004 Department of Housing and Urban Development estimated median family income for the AA is \$51,400. Local economic conditions are very good. The population of the MSA grew by about 21% from 1990 to 2000. The February 2004 unemployment rate for New Mexico was 5.7%, just slightly above the national unemployment rate of 5.6%. However, the MSA enjoys a stronger unemployment rate of 4.9%, ranking 109 of 331 MSAs nationwide. The governmental sector is the area's largest employer followed by retail trade, the health care industry, food services, and technical services.

**Table 2: Assessment Area Description**

	<b>Number</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
<b>Tract</b>	189	4.23%	25.93%	39.68%	28.04%
<b>Families</b>	183,078	2.28%*	25.51%*	41.55%*	30.66%*
<b>Small Business</b>	28,896	2.19%**	26.24%**	45.13%**	26.44%**

Source: Demographic Data - 2000 U.S. Census, Dun & Bradstreet Data.

\*Represents families by income level.

\*\*Represents businesses by income level of census tract.

During the examination we met with a community representative of a small business technical and financial assistance organization and reviewed information gathered from representatives of housing related organizations. The contacts indicated there are opportunities for financial institutions to participate in CD loans and grants, but opportunities for investments are limited in Albuquerque. Primarily, there is a need to provide funds to organizations that operate micro-loan programs targeted to minorities, low-income residents, and small businesses. Other needs include the provision of technical and financial assistance in conjunction with the lending programs.

## **Conclusions About Performance**

### **Summary**

DSRM has done an adequate job of serving its AA's CD needs through its investments, services, and loans. During the evaluation period, DSRM invested \$265,633 and provided loans amounting to \$100,000 in projects and activities that benefit the bank's AA and a greater regional area. DSRM employees also provided qualified services to local CD organizations.

The bank's overall level of CD activities is adequate, particularly considering the opportunities available for limited purpose banks and the bank's small staff. As indicated above, due to its size and focus, DSRM is limited to investments and services as a means to meeting the CD needs of its AA. We based our conclusions and rating primarily on the bank's good efforts to help meet the needs of small businesses, many of which do not have access to loans from commercial banking sources. DSRM provided investments to CD organizations that provide funding to new and existing micro entrepreneurs. This has contributed to job creation and economic revitalization of communities in the AA. Four of seven bank employees provided technical and financial assistance during bank time to organizations that serve low- and moderate-income individuals.

The bank did not use innovative or complex CD investments or services during this evaluation period. DSRM's narrow focus, expertise, and small staff limit its ability for involvement in complex CD activities. However, the CD loan is considered complex given the bank's limited expertise in this type of lending.

DSRM demonstrated excellent responsiveness to the credit and CD needs in its AA. A majority of the bank's qualified investments, loan, and services assisted with meeting identified credit needs for low- and moderate-income individuals. Community contacts indicate a need for micro loans for small

businesses with flexible underwriting standards and for financial services, including technical assistance for low- and moderate-income individuals and small businesses. The bank’s loan to a CD organization and its investments and services in grass roots CD organizations meet these needs.

**Qualified Investments**

During the evaluation period, the bank provided a total of \$265,633 in grants to local community organizations. The investments are not innovative or complex, but are highly responsive to the CD needs of the community. By focusing specifically on six organizations that provide CD services that benefit the AA, DSRM has made a significant impact with these organizations and they, in turn, with the community.

DSRM donated \$85,000 to a CD organization dedicated to extending micro and small business loans to low-income individuals. The investment in the individuals with small entrepreneurial initiatives not only encourages their economic self-reliance, but also stimulates economic growth through job creation. Many of the recipients of these loans do not qualify for conventional financing. Unfunded commitments to this organization total \$23,000.

DSRM contributed \$40,000 to an education foundation that benefits low- and moderate-income students. Per written agreement with a local technical vocational institute, the bank funds scholarships for students with financial need enrolled in an Environmental Technology program. The bank’s books reflect an additional \$10,000 in unfunded commitments for this year.

Additionally, the bank contributed \$112,311 to a consumer credit service organization that benefits the bank’s AA and a broader regional area. The organization provides free counseling services primarily to low- and moderate-income individuals who reside in the United States. Portions of those funds were used for individuals residing within the bank’s AA.

DSRM donated the remaining funds to organizations that provide shelter to the homeless and health services to low- and moderate-income individuals and families.

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

	<b>Benefits AA</b>
<b>Originated Investments</b>	0
<b>Originated Grants</b>	265,633
<b>Prior-Period Investments that Remain Outstanding</b>	0
<b>Total Qualified Investments</b>	265,633
<b>Unfunded Commitments*</b>	40

\* “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>Benefit AA (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	12%
<b>Total Investments/Average Total Income</b>	37%
<b>Total Investments/Average Pass-Through Receivables</b>	0.4%

Note: Total Investments is found in Table 3. Average capital, income and receivables are found in Table 1.

### **Community Development Lending**

At the bank’s request, we considered a CD loan made by the bank’s parent company in behalf of the bank. DSRMC provided a total of \$100 thousand for community lending over the evaluation period. The funds consisting of five \$20,000 loans with five years maturity were provided to a statewide CD organization headquartered in Albuquerque. The funds help provide micro loans at below market rates to start-up and existing small businesses located in low-to-moderate income areas in New Mexico. To ensure that the CD loan benefits the bank’s AA, DSRMC stipulated that their monies be earmarked for loans extended in the Albuquerque MSA. DSRM contributes all interest earned on the loan back to the organization.

The CD lending is responsive to the credit needs of the community. While the loans are not innovative, they are considered complex for the bank, as neither the bank nor the parent corporation has any expertise in this type of lending. The loans are flexible because of their nominal interest rate.

**Table 5: Community Development Lending Percentages**

	<b>Benefits AA (%)</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	4%
<b>Total CD Lending/Average Total Income</b>	14%
<b>Total CD Lending/ Average Pass-Through Receivables</b>	0.1%

Note: Total CD lending equals the current period CD lending activity (including binding CD loan commitments); average capital, income, and receivables are found in Table 1.

### **Community Development Services**

DSRM is actively involved in providing CD services and has positively impacted the AA. Over the evaluation period, the bank contributed a total of 3,231 hours of community service to organizations that target services to low- and moderate-income individuals and small businesses. This level of service is reflective of the bank’s excellent responsiveness to the needs of the community. Approximately 96% of the total hours were provided to a local CD organization that provides micro and small business loans to entrepreneurial businesses and individuals. On a weekly basis, the bank provides two employees for one day each to assist the organization with loan processing, client counseling, and other loan data entry.

This service is not considered innovative or complex, but is considered a substantial contribution particularly since the bank has only seven employees.

Two other bank employees donated the remainder of the hours of community service to organizations

that provide financial assistance and other services for low- and moderate-income individuals, and micro lending for small businesses. The employees served as Board directors and loan/ credit committees.

### **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.

## 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% 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 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.