



Comptroller of the Currency
Administrator of National Banks

Limited Purpose

Public Disclosure

February 2, 2001

Community Reinvestment Act Performance Evaluation

**First North American National Bank
Charter Number: 22196**

**225 Chastain Meadows Court
Kennesaw, Georgia 30144**

**Office of the Comptroller of the Currency
Midwestern District Office
2345 Grand Boulevard, Suite 700
Kansas City, Missouri 64108**

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 services and qualified investment activity.
- The bank demonstrates no use of innovative or complex qualified investments or community development services.
- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from **July 13, 1998** through **February 2, 2001**. We reviewed the level and nature of qualified investments and community development services. At the prior examination dated **July 13, 1998**, we rated the bank satisfactory.

If a bank has adequately addressed its assessment area needs, the OCC considers community development (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 CD qualified investments were considered in evaluating its performance. At the bank's request, we also considered qualified investments provided by its affiliates.

Description of Institution

First North American National Bank (*FNANB*) is a wholly-owned subsidiary of Circuit City Stores, Inc. (Circuit City) and has one office located in Kennesaw, Georgia. Circuit City is an electronic products retailer with national operations headquartered in Richmond, Virginia. *FNANB* was chartered as a Competitive Equality Banking Act (CEBA) credit card bank in 1990. While also issuing a significant volume of Visa and Mastercard bankcards, the bank's primary mission is to issue Circuit City credit cards and to process, pool, sell and service the private label receivables. The private label cards provide credit to Circuit City customers and facilitate retail sale transactions. Both the bankcards and private label cards are issued on a national level.

On February 8, 1996, *FNANB* was approved for designation as a limited purpose institution for CRA purposes. As a result, its CRA performance was evaluated under the Community Development Test. The bank's CRA performance was last evaluated on July 13, 1998.

CEBA credit card banks are restricted from performing many of the services and functions associated with full service banking. As a condition for obtaining its charter, *FNANB* must adhere to the following activities:

- engage only in credit card operations;
- not accept demand deposits or deposits that the depositor may withdraw by check or similar means of payment to third parties or others;
- not accept savings or time deposits of less than \$100,000;
- maintain only one office that accepts deposits; and,
- not engage in the business of making commercial loans.

Also, until 1999, due to regulatory restrictions on the types of investment securities a bank could hold, *FNANB* could not legally invest in some of the types of bonds used to facilitate community development.

The foregoing prohibitions and conditions for operation limit *FNANB's* ability to participate in community development activities for CRA purposes. The bank may not engage in community development lending, thereby removing this as one of its three options for participating in community development.

Additionally, the bank's ability to provide community development services, such as financial expertise to organizations, is limited. While the bank employs 527 people, almost all are involved in highly specialized areas such as processing applications, customer service, fraud investigations or other support functions. Also, a large segment of the workforce is employed only on a part-time basis and, in fact, is enrolled in college. The expertise to provide credit counseling or other such community development service currently exists on a limited basis. Because of these challenges, both legal and human, *FNANB* chose to meet the community development test primarily through the investment option.

As of December 31, 2000, *FNANB* had total assets of \$478 million and equity capital of \$279 million. The bank's assets consist primarily of the seller's interest in pools of securitized credit card receivables. The seller's interest is retained as a credit enhancer for the securitized receivables. These assets are funded largely by inter-company payables due to the parent company. Securitized credit card receivables as of December 31, 2000 totaled \$2.9 billion for the private label and bankcard portfolios.

FNANB had net income of \$97 million for the fiscal year ending December 31, 2000. Almost all of the income continues to be generated from servicing fees associated with the securitized cards.

The bank has one affiliate, the Circuit City Foundation. The Foundation is an independent, incorporated foundation governed by a seven member Board of Trustees. The Trustees have identified public education reform programs as the primary beneficiary of the foundation's grants. However, the Foundation is providing a number of investments, donations, and grants to community organizations and agencies that have community development as their primary purpose.

Table 1: Financial Information (000s)

	Year-end 1998	Year-end 1999	Year-end 2000	Average for Evaluation Period
Tier 1 Capital	\$ 271,097	\$ 207,578	\$ 278,962	\$ 252,546
Total Income	\$ 262,885	\$ 306,945	\$ 304,219	\$ 291,350
Net Operating Income	\$ 101,681	\$ 138,459	\$ 156,790	\$ 132,310
Total Assets	\$ 498,166	\$ 408,586	\$ 478,365	\$ 461,706
Pass Through Receivables	\$3,016,645	\$2,917,000	\$2,880,000	\$2,937,882

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

Description of Assessment Area

FNANB's assessment area meets the technical requirements of the Act and does not arbitrarily exclude low- and moderate-income census areas. While the bank operates from the northern suburbs of Atlanta in Kennesaw, Georgia, it has designated the Atlanta Metropolitan Statistical Area as its primary assessment area.

The defined assessment area is comprised of a twenty-county area surrounding the city of Atlanta with a total of 504 census tracts. According to the 1990 United States Census, the population of this defined area is approximately 3 million people. The census median family income for the assessment area is \$41,047. The Department of Housing and Urban Development's (HUD) *updated* median family income estimate for the Atlanta MSA is currently \$63,100. The unemployment rate for the City of Atlanta was 5.2% in 2000, while the rate for the state of Georgia was 4.0% and the U.S. was 4.2%.

The Atlanta MSA is internationally recognized as the transportation, communication, industrial, and cultural center of the Southeastern United States. The Atlanta MSA has one of the strongest economies of any major urban area. Due to its location and extensive transportation network, Atlanta has developed as a major distribution center for the Southeast. Distribution and associated industrial activities are gradually being transferred to other urban centers in the South, while Atlanta has evolved as a major provider of technological and financial support services.

The Atlanta MSA has a diverse industrial base that includes: manufacturing, transportation, distribution, retailing, wholesaling, finance, government, research, education, medicine, and technical support. Ninety percent (90%) of the Fortune 500 companies maintain regional offices in the Atlanta area. In addition, ninety-eight of the nation's top industrial firms maintain some type of operational facility in metro Atlanta. Foreign trade has played a significant role in the area's growth over the last two decades. More than 200 foreign firms have established their U.S. headquarters in Atlanta. Of these companies, thirty-one are foreign-based banks with offices in Atlanta.

U.S. Department of Housing and Urban Development (HUD) studies indicate Atlanta has a need for affordable housing. According to the HUD studies, a majority of Atlanta households are

affected by housing concerns, most common of which is cost burden. Fifty-five percent of households pay at least 30% of their income for housing and 28% of all households are severely cost burdened (they devote at least 50% of their income to housing). Local governmental agencies and quasi-governmental groups that are working to address the problem are the Atlanta Housing Authority, the Atlanta Neighborhood Development Partnership, and the Atlanta Planning Advisory Board. The City of Atlanta and its development community have been pursuing Federal, State and local resources to assist in the production and maintenance of affordable housing. These resources include Federal Low Income Housing Tax Credits and the State Housing Trust Fund (administered by the Georgia Housing Finance Authority). The city encourages eligible nonprofit organizations to request funding directly from the State. The Atlanta Housing Resource Committee lists 425 housing related organizations. These organizations serve the MSA or a wider regional or statewide area that includes the Atlanta MSA.

While the main purpose of these organizations is to address the community's housing needs, in order for these organizations to continue to serve the needs of low- and moderate-income areas and families, investments, grants, and services are required. Examples of specific non-federal, public opportunities for community development are:

- mortgage revenue bonds issued by the Georgia Housing Finance Authority;
- grants for the Housing Trust Fund for the Homeless loan fund which is leveraged 2:1 by private capital;
- 50-50 matching funds under the Transitional Housing Program;
- Non-Profit Housing Technical Assistance Program;
- grants for the 50-50 cost-shared Supportive Facilities Loan Program for delivery of homeless shelter, essential services or affordable housing; and,
- matching grants for Housing Trust Fund Programs.

Additional demographic data is displayed in Table 2.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Geographies (Tracts)*	504	12%	23%	38%	25%
Distribution of Families by Income Level	784,394	19%	18%	24%	39%
Small Businesses by Geography*	136,737	4%	16%	43%	36%

Source: Demographic Data - 1990 U.S. Census, Dun & Bradstreet Data. *Five census tracts (3%) are not income categorized.

During the examination, we reviewed recent community contacts conducted by the OCC, Federal Reserve Bank, and Federal Deposit Insurance Corporation and CRA Performance Evaluations of other banks in the assessment area. These community contacts listed creating additional affordable housing and other support services for low- and moderate-income residents as identified community development needs. These services include job training, budgeting,

parenting skills training, drug and alcohol rehabilitation, affordable childcare, and basic home maintenance. In addition, the 1995 Atlanta Consolidated Plan Executive Summary lists increasing the number of affordable low-income housing units and expanding public facilities and services to low-income residents as primary goals.

Conclusions About Performance

Summary

FNANB has demonstrated adequate performance in helping to meet the community development needs of the assessment area, including the credit needs of low- and moderate-income individuals and small businesses through investments and/or grants. Since *FNANB*'s charter restricts its lending to credit cards, it cannot directly originate community development loans. However, through its investments, the bank has provided low cost funds for affordable housing and rehabilitation, childcare, educational, health, and social services targeted to low- and moderate-income persons.

- *FNANB* has an adequate level of qualified investments, grants, and services in its assessment area including those from its affiliate, given legal restrictions and its financial capacity. While competition is keen among area financial institutions, there are numerous community development investments, loans, and service opportunities in the Atlanta MSA.
- The bank does not use innovative or complex qualified investments.
- The bank has exhibited adequate responsiveness to credit and community economic development needs in the assessment area. The bank helped meet the need for affordable housing through its investment of \$500 thousand that helped provide 60 low- and moderate-income housing units for qualifying families. Also, the bank provided \$45 thousand each for the construction of two houses for low- and moderate-income families under the Habitat for Humanity Program.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$ 600	\$ 600	\$1,200
Originated Grants	\$ 323	\$7,527	\$7,850
Prior Period Investments that Remain Outstanding	\$ 200	0	\$ 200
Total Qualified Investments	\$1,123	\$8,127	\$9,250
Unfunded Commitments*	0	0	0

* "Unfunded Commitments" means legally binding investment commitment that is tracked and recorded by the bank's financial reporting system.

Consideration of Activities that Benefit the Bank's Assessment Area

Qualified Investments

Federal National Mortgage Association (FNMA)

FNANB purchased in 2000 mortgage-backed securities totaling \$500 thousand designed to finance an apartment complex for low- and moderate-income families residing in the Atlanta MSA. The apartment complex is a Low Income Housing Tax Credit Project. The complex consists of 144 units and has a current occupancy rate of 97%. The property meets or exceeds the income and occupancy restrictions of the Federal Low Income Housing Tax Credit Program, as defined under the Internal Revenue Code.

- At least 20% of all units must have restricted rents affordable to households earning no more than 50% of the area median income, adjusted for family size, or
- At least 40% of all units must have restricted rents affordable to households earning no more than 60% of the area median income, adjusted for family size.

Minority Bank Certificates of Deposits

FNANB continues to maintain a \$100 thousand certificate of deposit in each of the two minority-owned financial institutions in the Atlanta area. These deposits are governed by a "Community Development Agreement" whereby the banks agreed that the funds invested in their institutions will be used to originate loans or investments that meet the definition of community development loans in the CRA regulation.

In addition, the bank placed another \$100 thousand certificate of deposit at Mutual Federal Savings Bank, Atlanta, Georgia. This bank has been designated as a Community Development Financial Institution (CDFI) by the U.S. Treasury Department. A CDFI is a private, for-profit financial institution with community development as its primary mission.

Qualifying Grants and Donations

During the two-year evaluation period, the bank has provided qualified grants and donations to community organizations that support affordable housing, credit counseling, quality of life programs for low- and moderate-income individuals, and for small business development. The total dollar amount for the period, including in-kind donations of equipment, was \$173 thousand.

These funds were distributed among twenty-six community development purpose organizations, all within the Atlanta MSA. Groups receiving grants and donations include: Consumer Credit Counseling Service of Greater Atlanta, Kimberly Credit Counseling Alliance, Christian Financial Ministries, Atlanta Children Shelter, Gwinnett County Habitat for Humanity, Children's Restoration Network and Support to Employment Project.

Cobb County Habitat for Humanity

Since December 1998, the bank has provided funds totaling \$90 thousand to this organization to sponsor the construction of two new homes for low- to moderate-income residents of Cobb County, Georgia.

United Way Atlanta Individual Deposit Accounts

FNANB contributed \$30 thousand in both September 1999 and May 2000 to the Metropolitan Atlanta's Individual Deposit Accounts Program (IDA). This program was launched in 1997 to help 100 families save enough money to become new homeowners. Each family is asked to save money in an individual account for the purpose of a down payment on a new home. Contributions from financial institutions and corporate sponsors are used to match each family's savings by four to one.

Upon completion of a fifteen-session economic literacy training program, each family is eligible to withdraw both the funds they have saved and the matching funds. Funds may only be withdrawn for down payment and other home ownership purposes; otherwise, the matching funds are forfeited. Families have only two years to complete the program without forfeiting the matching funds. This program is offered only to low- to moderate-income residents in the Atlanta area.

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

The bank has adequately addressed the needs of its assessment area. Therefore, we have considered qualifying activities outside the assessment area provided by its affiliate, the Circuit City Foundation, to support the bank's CRA performance. Overall, these qualifying investments, grants, and donations mirror those made in the bank's assessment area and total \$8.1 million. The majority of these funds benefitted the Richmond, Virginia MSA with the remainder dispersed throughout the United States.

The following comprise the majority of the qualifying investments, grants and donations:

- \$500 thousand in FNMA mortgage-backed securities designed to finance affordable housing for low- and moderate-income families residing in the Richmond MSA;
- \$100 thousand certificate of deposit in a Virginia minority bank with the monies to be used to fund community development loans or investments; and,
- \$6.6 million contributed to various Consumer Credit Counseling Agencies under the Fair Share Contributions Program. This program contributes a percentage of credit card payments collected through a consumer credit counseling agency back to that local agency. These funds are used to provide credit counseling to low- and moderate-income individuals.

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	0.44%	3.22%	3.66%
Total Investments/Average Total Income	0.39%	2.79%	3.17%
Total Investments/Average Receivables	0.04%	0.28%	0.31%

Community Development Services

We evaluated the bank's CD services, primarily focusing on the responsiveness to the needs of the community and the level of innovation and/or complexity involved. Based on the information available, we did not observe any innovation or complexity in the activities.

FNANB has recently developed a dynamic community development service program for the Atlanta MSA. Over the past year, bank representatives have used a variety of consumer educational materials to create an informative in-person presentation for local organizations that serve low- to moderate-income individuals. The presentation can be adapted to the specific needs of the agency or organization being assisted. Topics include the consumer credit application; credit reporting; an explanation of annual percentage rates, fees, and grace periods; identity theft and fraud issues; billing error resolution; debt collection; budgeting; and general information on the rights and responsibilities of consumers.

The budgeting portion of this training addresses the need for assistance with budgeting as indicated in various community contacts. As indicated in the "Description of Assessment Area" section of this evaluation, HUD studies and recent community contacts indicate that affordable housing continues to be a significant need in the bank's assessment area. The majority of the bank's qualified investments in its AA, in volume and dollars, helped create affordable housing.

As a component of the bank's CRA program, strong relationships have been established with various consumer credit counseling agencies throughout the Atlanta MSA. In June 2000, the bank entered into a partnership with Consumer Credit Counseling Service of Greater Atlanta, sponsoring 20 consumer education presentations for organizations that otherwise would not be able to afford the seminars. The presentations were conducted between September and November of 2000 and approximately 500 individuals in North Georgia attended.

Fair lending Review

We reviewed the bank's compliance with fair lending laws and regulations during this examination. We reviewed policies, practices, and procedures for both bankcards (MasterCard and VISA) and private label Circuit City credit cards. Our review focused on the bank's criteria for pre-approving credit cards and for the credit scoring system. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

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 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 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 \$100M (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.

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 and for which a designation as limited purpose bank is in effect. 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 listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. (Schedule RI - Income Statement, line 8)

Pass Through Receivables - Outstanding receivables tied to all accounts issued or owned by the bank regardless of the balances of those receivables 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 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.