

Public Disclosure

October 23, 2000

Community Reinvestment Act Performance Evaluation

**Pier 1 National Bank
Charter Number: 22568**

**11059 West Maple Road
Omaha, Nebraska 68164**

**Office of the Comptroller of the Currency
Midwestern District
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 the 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 "Satisfactory."

The conclusions for the three rating criteria are:

- The bank demonstrates a high level of 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 (AA).

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from May 1, 1997* through October 23, 2000. We reviewed the level and nature of qualified investments and community development services. At the bank's request, we also considered qualified donations provided by its affiliates. At the prior examination, dated July 25, 1996, we rated the bank (then Texaco Credit Card Bank, National Association) "Satisfactory."

If a bank has adequately addressed the needs of its AA, the OCC considers community development activities submitted by the bank that benefit areas outside of its AA in the evaluation of its performance. The bank adequately addressed the needs of its AA; therefore, outside of AA community development activities (i.e., qualified investments) were considered in evaluating its performance.

* We used May 1, 1997 as the start date of the current CRA evaluation period since Pier 1 Assets, Inc. purchased the bank charter on that date.

Description of Institution

Pier 1 National Bank (Pier 1 NB), a \$3 million credit card bank located in Omaha, Nebraska, was chartered under the provisions of the Competitive Equality Banking Act of 1987 (CEBA). Pursuant to CEBA restrictions, the bank's activities are limited to offering and maintaining consumer credit cards for Pier 1 Imports, Inc. In addition, the bank is limited to one office and it may not accept deposits of less than \$100,000. There are no other legal or any financial restrictions that impede the bank's ability to participate in community development activities.

Description of the Institution (continued)

Pier 1 NB was originally chartered December 1, 1994 as Texaco Credit Card Bank, National Association. The bank received its limited purpose CRA designation on May 1, 1996. Pier 1 Assets, Inc. purchased the bank charter May 1, 1997 from Texaco Refining and Marketing, Inc. Pier 1 Assets, Inc. owns 100% of Pier 1 NB's stock. Pier 1 Assets, Inc. is a wholly owned subsidiary of Pier 1 Imports, Inc. of Fort Worth, Texas. Pier 1 Imports, Inc. is a \$654 million company with over 800 retail stores located throughout the United States, Puerto Rico, Canada, the United Kingdom, Mexico, and Japan.

Although Pier 1 NB has a relatively small asset base, the bank has generated a much larger credit card portfolio. Pier 1 Assets, Inc. purchases all credit card receivables from the bank daily. As of September 30, 2000, Pier 1 Imports credit card receivables totaled \$111 million. The following table displays credit card receivables and other selected bank financial information.

Table 1: Financial Information (000s)

| | Year-end 1997 | Year-end 1998 | Year-end 1999 | Most Recent Quarter-end 09/30/2000 | Average for Evaluation Period |
|-------------------------------------|--------------------------|--------------------------|--------------------------|---|--|
| Tier 1 Capital | \$1,758 | \$1,888 | \$2,010 | \$1,900 | \$1,889 |
| Total Income | \$642* | \$727 | \$747 | \$724* | \$710 |
| Net Operating Income | \$26* | \$45 | \$31 | \$31* | \$33 |
| Total Assets | \$2,739 | \$2,775 | \$2,811 | \$2,593 | \$2,730 |
| Pass Through Receivables | \$100,088 | \$99,858 | \$108,165 | \$110,619 | \$104,683 |

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

* Annualized data. 1997 income data is annualized data from May 1, 1997 through December 31, 1997.

Description of Assessment Area

Pier 1 NB 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 2000 Department of Housing and Urban Development estimated median family income was \$58,600 for the Omaha MSA. The bank's AA complies with the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income (LMI) census tracts.

Description of the Assessment Area (continued)

The following table depicts selected AA demographics.

Table 2: Assessment Area Description

| | Number | Low | Moderate | Middle | Upper |
|-------------------|---------------|------------|-----------------|---------------|--------------|
| Tracts | 108* | 14% | 31% | 32% | 22% |
| Families | 107,239 | 18% | 18% | 24% | 40% |
| Businesses | 16,924 | 6%** | 16%** | 37%** | 41%** |

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

* Of the 108 census tracts in the AA, 107 (or 99%) are income-categorized.

** Percentage of AA businesses located in low-, moderate-, middle-, and upper-income census tracts.

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.

We performed one community contact during the examination and reviewed nine contacts completed in the AA during 1997, 1998, and 1999. Interviewees contacted included representatives from city government offices, economic development entities, affordable housing organizations, trade associations, and a real estate services firm. These interviews revealed small business and affordable housing lending as the primary credit needs in the Omaha area.

A moderate level of resources and opportunities exist in the AA to help address community development needs. Portions of Omaha have been designated as Enterprise Communities, an Enterprise Zone, a Distressed Community, and blighted areas. These designations provide incentives to lend or invest in targeted areas and encourage partnerships with community development organizations. However, actual partnerships in which Pier 1 NB could participate have been somewhat limited. For example, there is only one community development financial institution in the MSA and no small business investment companies, community development corporations, or shared small business loan pools.

Community development donation and service opportunities are much more abundant than qualified investment securities in the AA. 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 available in the AA or in the broader statewide area that includes the AA consist of some municipal bond issuances and Low-Income Housing Tax Credits (LIHTCs). For example, according to the Nebraska Investment Finance Authority, during 1998, 1999 and 2000, LIHTCs available in the AA totaled \$2.3 million. Competition in the AA for LIHTCs and other qualified investments is strong.

Performance Conclusions

Summary

- Pier 1 NB provided a high level of qualified investments in the AA given available opportunities, legal restrictions, and the bank's financial capacity. The bank provided \$130,000 in qualified investments and donations in the AA, while two bank affiliates provided another \$942,000 in qualified donations in areas outside the AA. The bank also provided one community development service in the AA. Please refer to Table 3 below for qualified investment data.
- Pier 1 NB provided only routine community development activities in the AA during this evaluation period. The bank's community development activities consisted of qualified investments and donations that are routinely provided by other entities and one community development service.
- Pier 1 NB demonstrated adequate responsiveness to the community development needs of the AA by providing community development activities that primarily helped address the affordable housing needs of the broader statewide area that includes the AA. The majority of the dollar volume of the bank's affordable housing investments were in statewide bond issuances. Thus, the responsiveness of the bank's community development activities directly in the AA was somewhat impaired, but overall adequate. As discussed above, the bank also provided one community development service to an affordable housing intermediary that facilitates homeownership by LMI individuals.

Qualified Investments

Pier 1 NB made qualified community development investments and donations totaling \$130,000 in the AA during the evaluation period. In addition, Pier 1 NB affiliates made qualified donations totaling nearly \$942,000 in areas outside of the Omaha AA. The following tables depict the amount of the bank's and affiliates' qualified investments and donations and the dollar volume of these activities in relation to Pier 1 NB's financial capacity.

Table 3: Qualified Investment Activity (000s)

| | Benefits AA | Outside AA | Totals |
|---|--------------------|-------------------|---------------|
| Originated Investments | \$100 | \$0 | \$100 |
| Originated Grants | \$30 | \$942 | \$972 |
| Prior Period Investments that Remain Outstanding | \$0 | \$0 | \$0 |
| Total Qualified Investments | \$130 | \$942 | \$1,072 |

Qualified Investments (continued)**Table 4: Qualified Investment Percentages**

| | Benefits AA (%) | Outside AA (%) | Total (%) |
|---|------------------------|-----------------------|------------------|
| Total Investments/Average Tier 1 Capital | 6.88% | 49.87% | 56.75% |
| Total Investments/Average Total Income | 18.31% | 132.68% | 150.99% |
| Total Investments/Average Receivables | 0.12% | 0.90% | 1.02% |

The following is a list of community development investments and donations provided by Pier 1 NB and its affiliates during the evaluation period.

- \$75,000 investment in two Nebraska Investment Finance Authority (NIFA) affordable housing bonds. NIFA affordable housing bonds provide funds for forgivable second mortgages for down payments 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.
- \$30,000 in donations to an inner-city private school in the AA that primarily serves LMI minority students who otherwise would not have the opportunity to attend a private school.
- \$25,000 investment in a nonprofit affordable housing intermediary in the AA whose goal is to facilitate the construction of 100 homes annually for LMI individuals. This entity also provides homeownership counseling and facilitates consortium financing for LMI individuals.
- \$540,000 in donations made by the bank's affiliate, Pier 1 Services Co., to an entity that collects contributions and distributes them primarily to organizations that provide community development services to LMI individuals. Although these donations benefited LMI individuals outside of the AA, the bank received credit for them since it adequately met AA community development needs with qualified investments and donations discussed above.
- \$392,000 in donations made by the bank's affiliate, Pier 1 Imports, Inc., to an agency that provides consumer education and credit counseling services primarily to LMI individuals. These services benefited bank customers residing primarily outside of the AA. Pier 1 NB received credit for these donations since it adequately met AA community development needs with qualified investments and donations previously discussed.

Qualified Investments (continued)

- \$10,000 in in-kind donations of computer equipment made by the bank's affiliate, Pier 1 Services Co., to an inner-city school in Fort Worth, Texas that primarily serves LMI students. Pier 1 NB received credit for these donations since it adequately met AA community development needs with qualified investments and donations discussed above.

Community Development Lending

Pier 1 NB did not originate or purchase any community development loans during the evaluation period. However, this is reasonable given the CEBA restrictions discussed above and the nature of the bank's limited services.

Community Development Services

A Pier 1 NB employee provided one community development service during the evaluation period. The bank's Cashier acted as a Board member for a nonprofit affordable housing intermediary in the AA. In this capacity, the employee reviewed budgets and helped plan affordable housing construction projects.

Fair Lending Review

Pier 1 NB complies with the substantive provisions of anti-discrimination laws and regulations. During our March 8, 1999 Fair Lending examination, we performed a comparative analysis of approved individual male credit card applicants and denied individual female credit card applicants. We did not identify any evidence of discrimination or disparate treatment on the basis of gender during the examination.

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 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 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 C.F.R. 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 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.

Definitions and Common Abbreviations (continued)

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.