



LIMITED PURPOSE

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 06, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Belk National Bank
Charter Number 23726**

**2100 Riverside Parkway, Suite 124
Lawrenceville, GA 30043**

**Comptroller of the Currency
ADC - Mid-Size/Credit Card
2345 Grand Boulevard, Suite 700
Kansas City, MO 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 qualified investment activity.
- The bank demonstrates no use of innovative or complex qualified investments.
- 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 **May 1999** through **May 2002**. We reviewed the level and nature of qualified investments. This is Belk National Bank's first CRA evaluation.

Description of Institution

Belk National Bank (Belk NB) is a credit card bank, chartered under provisions of the Competitive Equality Banking Act of 1987 (CEBA). Belk NB received its limited purpose designation for CRA purposes on September 11, 1998, and opened for business in May 1999. Belk NB is headquartered in Lawrenceville, Georgia, a suburb located north of Atlanta.

Belk NB operates under legal restrictions that limit its ability to help meet the credit needs in its assessment area. As a CEBA credit card bank, its business is limited by the law and its articles of association, and it may:

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

Another factor that restricts the bank's ability to help meet the credit needs in its assessment area is that the bank staff located in Lawrenceville is limited to 3-5 clerical staff persons who have limited resources for performing CRA-related activities. There are currently no financial impediments.

As of March 31, 2002, the bank's total assets approximated \$18 million. Outstanding receivables for credit card accounts owned by the bank as of March 31, 2002 approximated \$290 million. The bank issues private label credit cards for use in Belk Department Stores and sells all receivables to an affiliate company on a daily basis. No loans are carried on the bank's

books.

Belk NB was chartered for and is a wholly-owned subsidiary of Belk, Inc., the parent of Belk Department Stores. Belk, Inc., headquartered in Charlotte, North Carolina, is the largest, privately held department store chain in the United States. As of February 2, 2002 (its fiscal year end), Belk, Inc. had total assets approximating \$2 billion and total stockholders' equity of \$898 million. Revenues for the fiscal year approximated \$2 billion, income from operations \$137 million, and net income \$63 thousand. It operated 207 stores in both metropolitan and non-metropolitan areas in thirteen states throughout the southeastern United States, including Lawrenceville, Georgia. Belk stores are traditional department stores, catering to the middle- and upper-middle-income clientele in the metropolitan areas, but also appealing to the typical consumer in the non-metropolitan areas.

Pertinent bank financial information is displayed in the following table.

Table 1: Financial Information (000s)

	Year-end 1999	Year-end 2000	Year-end 2001	Most Recent Quarter-end 03/31/2002	Average for Evaluation Period
Tier 1 Capital	\$ 2,095	\$ 2,240	\$ 2,359	\$ 2,358	\$ 2,263
Total Income*	\$ 266	\$ 430	\$ 448	** \$ 344	\$ 372
Net Operating Income	\$ 158	\$ 233	\$ 186	** \$ - 4	\$ 143
Total Assets	\$ 6,058	\$ 16,779	\$ 11,659	\$ 18,293	\$ 13,197
Pass-Through Receivables	\$ 377,891	\$ 388,578	\$ 367,431	\$ 289,548	\$ 355,862

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

* Year-end 1999 and 2000 Total Income figures are based on net noninterest income, rather than the gross amounts reported, to be consistent with reporting rules that became effective in 2001.

** Annualized data reported.

Description of Assessment Area

Belk NB has designated the Atlanta, Georgia Metropolitan Statistical Area (MSA) as its assessment area. The Atlanta MSA is a twenty-county area surrounding the city of Atlanta. There were 2.9 million persons in the area comprising 1.1 million households according to the 1990 census data. The 1990 census median family income was \$41,047, while the updated median family income for 2002 is \$71,200.

Additional demographic data is displayed in Table 2.

Table 2: Assessment Area Description (Atlanta, GA MSA)

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

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

* Does not add to 100%. Five Census Tracts (3%) are not income categorized

The Atlanta MSA is internationally recognized as the transportation, communication, industrial, and cultural center of the Southeastern United States. It 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. As reported by the U.S. Bureau of Labor Statistics, as of April 2002 unemployment rates (not seasonally adjusted) were: City of Atlanta, 7.1%; Atlanta MSA, 4.4%; State of Georgia, 4.2%; and U.S., 5.7%. As a comparison, unemployment rates for April 2001 (not seasonally adjusted) were: City of Atlanta, 4.7%; Atlanta MSA, 2.8%; State of Georgia, 3.5%; and U.S., 4.2%.

A perspective of the economy in the area during the evaluation period was compiled based on information in various Federal Reserve Bank of Atlanta economic analyses. Their reports cover their entire district, the Sixth District, comprised of Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee. Their analyses indicate the District's economy was strong during 1999. By June 2000, growth had weakened in retail sales. Evidence of a slowdown in the District's single-family residential market was mounting; however, commercial real estate markets remained strong. Overall, loan demand had weakened slightly. Reports from the industrial and tourism sectors were mostly positive, tight labor markets continued to constrain growth and reports concerning prices were mixed. The District economy expanded modestly during December 2000, amid further signs of economic deceleration, with holiday sales results not achieving the high levels of growth experienced during 1999. The real estate markets were declining, manufacturing weakening and loan demand slowing in some areas. In May 2001, reports indicated the overall pace of the District's economy remained sluggish. For November through early January 2002, economic conditions were reported as mixed. Retail sales were reported as mediocre and bank loan demand was still concentrated in the consumer sector with a modest increase in demand for financing of mergers and acquisitions noted. Hotel occupancy was still below normal. Conditions improved during January and February 2002. In

April 2002, conditions reportedly continued to improve. First quarter retail sales rose modestly from a year earlier, but District auto sales were below national trends. Residential housing markets were robust, but commercial real estate markets continued to suffer weak demand, with Georgia results mixed. Factory activity was improving and significant price increases were reported in health care, insurance and fuel.

According to statistics available from the GA Department of Community Affairs for the year 2000, homeownership was low in the City of Atlanta at 43% while the overall rate in Georgia was 65% and the U.S. rate was 64%. Available census information shows the homeownership rate for the assessment area, the Atlanta MSA, at 68% for 2000. One of the hindrances to affordable housing, as discussed in a 2001 study prepared by a Professor of City Planning at Georgia Technical University, is exclusionary zoning throughout the region. His study compared housing trends in the metropolitan Atlanta region to the metropolitan areas of Dallas, Houston, Phoenix and Tampa. He states in part that according to current data, the average minimum lot size in the metropolitan Atlanta region is three times as large as those in the other regions studied and the metropolitan Atlanta region is producing half the number of multi-family housing units.

U.S. Department of Housing and Urban Development (HUD) studies indicate the City of 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.

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. The community contacts identified community development needs as creating additional affordable housing and other support services for low- and moderate-income residents. 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. The assessment area has a significant level of opportunities for CD investments and services.

Conclusions About Performance

Summary

Under the regulation, an institution may comply with CRA through community development loans, qualified investments, community development services, or any mix of these activities. Belk NB has chosen to comply through qualified investments, because of the limitations discussed earlier in this report.

- Belk NB’s level of qualified investments is adequate in number and dollar amount given its financial and human resource capacity.
- Belk NB’s investments consist of investment securities issued for various affordable housing projects. They are neither innovative nor complex.
- The investments are very responsive to identified community development needs. As indicated earlier, affordable housing is a primary need identified by both governmental entities and community contacts.

Qualified Investments

All of Belk NB’s investments fund affordable housing. Belk NB has invested \$275 thousand in multifamily housing revenue bonds issued by the City of Atlanta, DeKalb County, and Fulton County. It invested \$75 thousand in Georgia Housing and Finance Authority (GHFA) Single Family Mortgage Bonds. Per a performance audit of the GHFA issued August 1998, based on an analysis of loans made since 1996, the average borrower’s yearly income was \$26.7 thousand and the average loan amount was \$65 thousand. Homes purchased were concentrated in and around Georgia’s metropolitan areas. And housing was about as affordable in 1998 as it was in 1972 when the authority that became GHFA was created.

Table 3: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	\$ 350
Originated Grants	0
Prior-Period Investments that Remain Outstanding	0
Total Qualified Investments	\$ 350
Unfunded Commitments*	0

* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system.

Belk NB's dollar amount of investment activity is compared to its financial indicators in the following chart.

Table 4: Qualified Investment Percentages

	Benefit AA (%)
Total Investments/Average Tier 1 Capital	15.47 %
Total Investments/Average Total Income	94.09 %
Total Investments/Average Pass-Through Receivables	< 1 %

Fair Lending Review

During a previous review of the bank's underwriting criteria and credit scoring system, we identified certain actions taken on applications that violated federal laws and regulations governing credit decisions. Bank management responded with appropriate remedies and corrective actions. The corrective actions included changes to automated systems, policies, procedures and training programs. The issue was considered in the CRA evaluation and did not cause the CRA rating to be adjusted downward.

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.