



**LIMITED PURPOSE**

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

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## **PUBLIC DISCLOSURE**

**July 30, 2004**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Spirit of America National Bank  
Charter Number 22183**

**1103 Allen Drive  
Milford, Ohio 45150**

**Comptroller of the Currency  
Assistant Deputy Comptroller  
Credit Card Bank Supervision  
1117 Perimeter Center West, Suite W401  
Atlanta, Georgia 30338-5417**

**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 investments and community development services 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 Community Reinvestment Act (CRA), we reviewed community development (CD) activities from October 16, 2002 through July 30, 2004. 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 affiliate. At the prior examination dated October 15, 2002, we rated the bank Needs to Improve.

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. The bank has adequately addressed the needs of its AA, and therefore, outside of AA qualified investments were considered in evaluating its performance.

## **Description of Institution**

Spirit of America National Bank (SOANB) was chartered on September 4, 1991, as a Competitive Equality Banking Act (CEBA) credit card bank. On August 15, 1996, SOANB received its designation as a limited purpose institution for CRA purposes. 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. This prohibition significantly limits SOANB's ability to help meet community credit needs within its AA. See page 8 for the definition of a CEBA bank. SOANB may only engage in CRA CD activities relating to qualified investments and CD services due to legal restrictions. SOANB's ability to provide CD services, such as financial expertise to organizations, is also affected due to the limited number of individuals (ten) employed by the bank and the specialized nature of their financial expertise. The bank's parent company, Charming Shoppes, Inc. (CSI), has provided some avenues for qualified investments.

SOANB is a \$30 million financial institution located in Milford, Ohio, a suburb of Cincinnati, Ohio. It has no branch offices. SOANB is a wholly owned subsidiary of CSI located in Bensalem, Pennsylvania. CSI primarily engages in the operation of specialty women's apparel retail stores under the trade names of Fashion Bug, Lane Bryant, and Catherine's Plus Sizes. There are approximately 2,200 retail stores located in the 48 contiguous states.

Table 1 provides financial information relating to SOANB's financial capacity to help meet the needs of its AA. See pages 7 through 9 for definitions of terms. SOANB's assets are primarily centered in investment securities. SOANB's primary business focus is the origination of private label Fashion Bug and co-brand VISA credit cards. SOANB's primary source of income is derived from an origination fee on all credit card charges and revenues from a debt cancellation program. The average amount of pass-through receivables (\$286 million, as detailed below) represents the outstanding balance of all accounts originated, subsequently sold, and presently serviced by SOANB.

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

	<b>Year-end 2002</b>	<b>Year-end 2003</b>	<b>Most Recent Quarter-end 06/30/2004</b>	<b>Average for Evaluation Period</b>
<b>Tier 1 Capital</b>	\$22,279	\$23,456	\$24,192	\$23,309
<b>Total Income</b>	\$8,268	\$11,418	\$12,992**	\$10,893
<b>Net Operating Income</b>	\$7,123	\$9,338	\$8,926**	\$8,462
<b>Total Assets</b>	\$26,649	\$28,068	\$29,674	\$28,130
<b>Pass-Through Receivables</b>	\$318,875	\$279,928	\$259,633	\$286,145

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

## Description of Assessment Area

SOANB's AA is comprised of Clermont and Hamilton Counties, which are part of the Cincinnati – Middletown, OH-KY-IN multi-state metropolitan statistical area (MSA). Clermont and Hamilton Counties comprise two of the fifteen counties within the MSA. SOANB's AA complies with CRA regulatory requirements and does not arbitrarily exclude low- and moderate-income areas. SOANB's AA is comprised of both urban and suburban areas.

The city of Cincinnati (Hamilton County) is located on the northern banks of the Ohio River, in the extreme southwest corner of Ohio. It is the third largest city within the state. The population and total housing units within SOANB's AA were 1,023,000 and 443,000, respectively, as of year-end 2000.

The economic condition in Hamilton and Clermont Counties is good according to community contacts. The top five components of the regional economy (excluding government) are services, manufacturing, health care and social services, wholesale trade, and retail trade. The top five industries with the greatest impact on the creation of jobs are chemical, petroleum and coal, metals and steel, food, and motor vehicles. The top five employers in the greater

Cincinnati area are northern Kentucky state and local government (15,642), University of Cincinnati (15,400), Health Alliance of Greater Cincinnati (13,139), Proctor and Gamble Company (13,000), and Kroger Company (13,000).

According to 2000 census tract information, 40 (15 percent) of the geographies in SOANB’s AA are low-income, 55 (21 percent) are moderate-income, 114 (43 percent) are middle-income, 52 (20 percent) are upper income, and 2 (1 percent) lack sufficient population to be assigned an income level. As a whole, the AA consists of 9 percent (263) of total Ohio geographies and 9 percent (1,023,280) of the state’s population.

As of 2000, the AA had approximately 262,612 families. Twenty-one percent of the families were low-income, 18 percent were moderate-income, 22 percent were middle-income, and 39 percent were upper-income. As of 2004, the MSA median family income was \$61,400. Eight percent of families live below the poverty level, which is comparable to the State of Ohio’s poverty level. The unemployment rate for SOANB’s AA was 5.3 percent as of July 2004, which is lower than the statewide unemployment rate of 6.2 percent.

In 2000, 62 percent and 38 percent of households in SOANB’s AA owned homes and rented, respectively. The average monthly rent payment in Hamilton County and Clermont County was \$485 and \$552, respectively. The average monthly mortgage payment in Hamilton County and Clermont County was \$723 and \$820, respectively. Thirty-five percent and 33 percent of renters in Hamilton County and Clermont County, respectively, were cost burdened renters, paying more than 30 percent of their income for housing costs. Twenty-three percent and 21 percent of households with a mortgage in Hamilton and Clermont Counties respectively, were cost burdened, paying more than 30 percent of their income for housing costs.

Table 2 provides additional demographic data for SOANB’s AA.

**Table 2: Assessment Area Description**

	<b>Number</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
<b>Tracts</b>	263	15%	21%	43%	20%
<b>Families</b>	262,612	21%*	18%*	22%*	39%*
<b>Businesses</b>	55,367***	9%**	17%**	48%**	25%**

Source: Demographic Data - 2000 U.S. Census, Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract. \*\*\* 1 percent of businesses are located in census tracts that lack sufficient population to be assigned an income level.

The credit and non-credit related needs in SOANB’s AA included the following.

- Affordable housing for low-income and very low-income individuals. (i.e. single-family rental, multi-family rental, and rehabilitation). Public and rental assisted housing were also identified as needs. According to a representative from a public housing agency, the waiting list for subsidized housing is in excess of one year.
- Small business lending, including micro-loans, and technical assistance.
- Participation in economic development projects through technical assistance and/or financial

contributions.

- Social services to low- and moderate-income families including childcare services, medical care, dental care, and year-round employment opportunities for school age youths.
- Job training to enable low-income individuals to access better paying jobs.

These community needs were determined by contacting a representative from an economic development agency, a public housing agency, a for-profit housing consulting firm, and by reviewing CRA public evaluations for financial institutions with branch offices in SOANB's AA. We also reviewed the U. S. Department of Housing and Urban Development (HUD) Consolidated Strategy and Plan for the city of Cincinnati. HUD Consolidated Strategies and Plans are comprehensive planning documents that identify community needs.

Opportunities for qualified investments, CD loans, and CD services do exist within SOANB's AA. These opportunities include low-income housing tax credits, CD corporations, non-profit housing organizations, credit counseling agencies, low-income financial institutions, non-profit organizations that provide social services to low- and moderate-income individuals, and affordable housing revenue bonds issued by the State of Ohio. Overall, opportunities are abundant. However, SOANB's ability to participate in some of these opportunities is largely limited to making donations due to the nature of its operations, as noted above, and tremendous competition from large, full-service banks.

## **Conclusions About Performance**

### **Summary**

- SOANB has an adequate level of qualified investments and CD services, including those from its affiliate CSI, given available opportunities, competition from full service banks, legal restrictions, its financial condition, and the unique nature of its banking operations. SOANB and its affiliate have made \$762,000 in qualified investments during the current evaluation period that have directly benefited its AA or a statewide or regional area that includes its AA. See Table 3. CD services have mainly consisted of providing financial and credit related seminars to low- and moderate-income individuals and assisting in fund raising activities for a non-profit housing organization.
- SOANB has not used innovative or complex qualified investments or CD services within its AA during the current evaluation period.
- SOANB has exhibited adequate responsiveness to credit and CD needs within its AA. Qualified investments from SOANB and CSI were used for affordable housing, credit counseling, and job training. These donations have been in direct response to identified community needs.

### **Qualified Investments**

SOANB’s amount of qualified investments within and outside its AA totaled \$762,000 and \$308,000, respectively. See Table 3. This level of qualified investments is adequate given the nature of SOANB’s operations, its financial condition, and available opportunities. Table 4 details SOANB’s amount of qualified investments as a percentage of Average Tier 1 Capital, Average Total Income, and Average Pass-Through Receivables. SOANB’s qualified investments were responsive to identified community needs. SOANB’s qualified investments are detailed below.

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

	<b>Benefits AA</b>	<b>Outside AA</b>	<b>Totals</b>
<b>Originated Investments</b>	\$600	\$0	\$600
<b>Originated Grants</b>	\$162	\$286	\$448
<b>Prior-Period Investments that Remain Outstanding</b>	\$0	\$22	\$22
<b>Total Qualified Investments</b>	\$762	\$308	\$1,070

**Table 4: Qualified Investment Percentages**

	<b>Benefits AA (%)</b>	<b>Outside AA (%)</b>	<b>Total (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	3.27%	1.32%	4.59%
<b>Total Investments/Average Total Income</b>	7.00%	2.83%	9.83%
<b>Total Investments/Average Pass-Through Receivables</b>	.27%	.11%	.38%

*Deposits in Local Financial Institutions*

- SOANB placed two \$100,000 certificates of deposit in three different financial institutions for a total of \$600,000. Two of the three financial institutions are located in distressed areas of town in an Empowerment Zone. SOANB has entered into a written contract with all three financial institutions that requires them to use the certificate of deposit funds to originate CD loans above and beyond their normal level of lending. The contracts also require the three banks to provide quarterly reports to SOANB.

*Donations*

SOANB contributed \$448,000 to various CD organizations to fund their operations and programs. A total of \$162,000 of this amount was given to organizations that serve low- and moderate-income individuals who reside within SOANB’s AA or a statewide or regional area that includes its AA.

- SOANB and CSI donated \$310,000 to consumer credit counseling agencies that provide services primarily to low- and moderate-income individuals throughout the United States. A total of \$24,000 of this amount was used for credit counseling within the State of Ohio.

- SOANB donated \$75,000 to a non-profit housing organization in Clermont County that provides single-family housing to low- and moderate-income individuals.
- SOANB donated \$30,000 to a non-profit housing organization that provides a full range of home ownership counseling, credit counseling, and educational services pertaining to home ownership primarily to low- and moderate-income individuals. This organization also has an Emergency Mortgage Assistance Fund that provides one-time grants to prevent mortgage foreclosures and homelessness for very low-income families.
- SOANB donated \$10,000 to a for-profit organization that provides consulting and advisory services primarily to public housing and community organizations. SOANB's donation was used to provide funding for a train-the-trainer program focusing on financial literacy and homeownership. As a result of the training, participants from ten community organizations are planning to incorporate financial literacy and home ownership education in their existing education programs for low- and moderate-income individuals.
- SOANB donated \$8,500 to a non-profit CD lender and financial intermediary serving the greater Cincinnati, Ohio area. The organization's main objective is to provide affordable housing to low- and moderate-income individuals. They accomplish this by providing short term financing to construct new housing stock and rehabilitate existing housing stock. This organization also works with other non-profit organizations and financial institutions to increase the flow of long-term capital to low-income families and communities
- SOANB donated \$6,000 to a local non-profit housing foundation that provides down payment assistance and closing cost grants to low- and moderate-income individuals residing in greater Cincinnati, Ohio.
- SOANB donated \$8,500 to three other organizations that provide job training, credit counseling, and housing related services to low- and moderate-income individuals residing within its AA.

#### *Low-Income Housing Tax Credits*

- In 1996, SOANB acquired \$50,000 in low-income housing tax credits. Proceeds were combined with other funds to construct an eighty-four-unit apartment complex located outside SOANB's AA in Middletown, Ohio. Forty-two of the units are earmarked as special needs units for the elderly. The outstanding balance of this investment is \$22,261.

#### **Community Development Services**

SOANB's CD services were limited to providing financial and credit related seminars to low- and moderate-income individuals and assisting in fund raising activities for a non-profit housing

organization.

- A SOANB representative assisted in fund raising activities for a non-profit housing organization in Clermont County that provides single-family housing to low- and moderate-income individuals.
- A SOANB representative provided a credit workshop to high school seniors at a school located in downtown Cincinnati, in a low-income area called Over-the-Rhine. Twenty-five students participated in the workshop. The majority of the participants were from low- and moderate-income families.
- A SOANB representative provided a credit workshop to low-income women participating in a “Teen Choices” program at the local YWCA of Greater Cincinnati. These young women are mothers between 16 and 21 years of age working on their General Equivalency Diploma (GED) Degree. Fifteen individuals participated in the workshop.
- A SOANB representative participated in eight homeownership and credit counseling workshops primarily for low- and moderate-income individuals. Approximately 400 individuals attended.

### **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 percent of the MFI.
- **Moderate-Income** – An income level that is at least 50 percent and less than 80 percent of the MFI.
- **Middle-Income** – An income level that is at least 80 percent and less than 120 percent of the MFI.
- **Upper-Income** – An income level that is 120 percent 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.