



LIMITED PURPOSE

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Public Disclosure

November 29, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Providian National Bank
Charter Number: 1333**

**295 Main Street
Tilton, NH 03276**

**Office of the Comptroller of the Currency
Special Supervision
250 E Street SW
Washington, D.C. 20219-0001**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including 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 that support this rating are:

- Providian National Bank (PNB) demonstrates a high level of qualified investment and service activities, particularly investments that are not routinely provided by private investors. PNB also demonstrates an adequate level of community development lending.
- PNB demonstrates extensive use of innovative qualified investments and occasional use of innovated community development services. In addition, PNB also extends complex reverse mortgage loans to low-to-moderate income (LMI) individuals.
- PNB demonstrates excellent responsiveness to credit and community development needs in its assessment area (AA).
- During the evaluation period, a limited number of PNB's credit card customers received confusing and misleading messages in their monthly account statements. Although management has taken appropriate corrective action, the issue negatively impacted this rating.

Scope of the Examination

In evaluating PNB's performance under the CRA, we reviewed community development (CD) activities from February 21, 2001 through November 29, 2004. We reviewed the level and nature of qualified investments, CD lending, and CD services. At the prior examination dated February 20, 2001, we rated PNB "Satisfactory."

If a bank has adequately addressed its assessment area (AA) needs, the Comptroller of the Currency (OCC) considers CD activities that the bank submits that benefit areas outside of its AA in the evaluation of its performance. PNB has adequately addressed the needs of its AA, and therefore, outside of AA qualified investments and CD services were considered in evaluating its performance.

Description of Institution

Providian National Bank is a Competitive Equality Banking Act (CEBA) limited purpose bank specializing in credit card lending and deposit products. The main office of PNB is located in Tilton, New Hampshire, with a single branch office located in Belmont, New Hampshire. PNB offers proprietary credit card products nationwide under the Visa and MasterCard brands and in collaboration with third-party affinity partners. PNB's credit card loans are sourced primarily through direct mail solicitations. As of September 30, 2004, bank assets totaled \$13.1 billion.

PNB employs approximately 3,460 individuals with major employment centers for PNB’s credit card activities in San Francisco and Pleasanton, California, and Arlington, Austin, El Paso and San Antonio, Texas.

PNB is the result of the 1997 merger of PNB, Concord, New Hampshire, into First Deposit National Bank, Tilton, New Hampshire, with the combined bank retaining the PNB name. As an accommodation to customers who used the products and services of the predecessor institutions, PNB offers commercial and consumer loans and deposit products to local residents at PNB’s New Hampshire main office and branch. Generally, CEBA banks cannot make commercial loans nor accept any savings or time deposits less than \$100 thousand. PNB, however, is allowed to provide commercial loans and to accept savings or time deposits at its New Hampshire main office and branch, as a result of the CEBA-grandfather provision. This provision allows “non-bank banks” chartered prior to March 5, 1987, to conduct these activities if they could lawfully conduct them prior to the CEBA being enacted. PNB was originally chartered in 1853 and designated as a limited purpose bank for CRA purposes on April 19, 1996. Lending activities at the main office and branch amount to less than 1% of managed assets.

PNB is a wholly owned subsidiary of Providian Financial Corporation (PFC), a Delaware corporation based in San Francisco, California. As of September 30, 2004, PFC reported total assets of \$13.9 billion. Effective December 31, 2003, PNB acquired substantially all of the assets and assumed the liabilities of PFC’s other wholly owned bank subsidiary, Providian Bank (PB), a Utah industrial loan corporation organized under the laws of Utah and a member of the FDIC. Immediately following the transaction, PB was merged with and into PNB.

During the course of the evaluation period, PNB underwent significant changes in its financial condition, management, and business strategy. In late 2001, as a result of deterioration in its asset quality, PNB entered into a written agreement with the OCC to address various safety and soundness concerns. From year-end 2000 to year-end 2001 PNB’s earnings dropped from \$665 to \$189 million. PNB’s on-balance sheet Report of Condition and Income (Call Report) assets dropped from over \$17 billion to just over \$13 billion from year-end 2001 to the most recent quarter-end of September 30, 2004. While the financial condition of PNB has recently improved, during the majority of the evaluation period PNB experienced significant financial challenges. These challenges had the potential to impact PNB’s capacity in helping to meet the credit and CD needs of its AA.

Table 1: Financial Information (000s)

	Year-end 2001	Year-end 2002	Year-end 2003	Most Recent Quarter-end 9/30/04	Average for Evaluation Period
Tier 1 Capital	\$2,245,166	\$2,611,567	\$3,003,755	\$3,297,291	\$2,789,445
Total Income	\$5,116,136	\$3,797,749	\$2,733,944	\$2,671,681*	\$3,579,878
Net Operating Income	\$188,063	\$200,226	\$228,399	\$391,381*	\$252,017
Total Assets	\$17,259,913	\$14,798,877	\$13,769,393	\$13,145,483	\$14,743,417
Pass-Through Receivables	\$32,152,541	\$18,272,147	\$16,926,377	\$17,628,551	\$21,244,904

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

*Annualized data reported.

Description of Assessment Area

PNB’s main office and branch are located in non-metropolitan central New Hampshire. Since 1998, PNB’s AA has included the towns of Laconia, Gilmanton, Belmont, Sanbornton and Tilton in Belknap County, and Northfield, Franklin, Hill, Boscawen, Canterbury, Loudon and Concord in Merrimack County. The AA meets the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income (LMI) geographies. The following section presents general AA demographic and economic information and a discussion of CD needs.

Table 2: AA Description

	Number	Low	Moderate	Middle	Upper
Tracts	25	0%	8%	80%	12%
Families	27,490	17%*	19%*	26%*	37%*
Businesses	5,308	0%**	0%**	85%**	15%**

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

* Represents families by income level.

** Represents businesses by income level of census tract.

Of the 25 census tracts included in PNB’s AA, three are designated upper-income (two in Concord and one in Canterbury), down from five in the 1990 census; twenty are designated middle-income; and, two have moved from middle to moderate-income (one in Concord and one in Laconia). There are no low-income CTs in PNB’s AA. The 2004 estimated NH non-metropolitan area median family income for PNB’s AA was \$59,600¹.

The AA is located in a predominantly rural region of the state. Communities of low population per square mile, extensive open space, and traditional New England community centers surround the cities of Laconia (population of 19,473²) in Belknap County and Concord (population of 40,687) in Merrimack County. Residents of the outlying towns, and other labor market towns outside of the two county areas, generally, travel to these cities for employment. The area has a long history of manufacturing and, in recent decades, a growing retail and service sector. These sectors are geared to a population of seasonal residents and tourists drawn to both recreational activities on the lakes, ski resorts, and the New Hampshire International Speedway in Loudon. Laconia is also home to Lakes Region General Hospital. Concord, the capital of New Hampshire, offers job opportunities in state government, insurance, retail, manufacturing, and long-term and acute health care.

The full state of New Hampshire is considered an overlay to PNB’s AA, due primarily to the limited CD capacity of the immediate AA and the benefit of most statewide CD programs on the broader statewide area that includes PNB’s AA.

During the evaluation period, the New Hampshire economy slowed. Although the area unemployment rate is below the national average, it moved steadily upward between 2000 and 2003. The top four job categories in both counties are retail, followed by manufacturing, health

¹ US Department of Housing and Urban Development

² Unless otherwise noted, figures are from the 2000 US Census.

care and accommodations/food. Between 2001 and mid-year 2003, Belknap County lost 25% of its manufacturing jobs with modest gains in retail and health occupations. In Merrimack County, during the same time period, 15% of the manufacturing jobs were lost while the health, retail and accommodation/food sectors showed gains.³ Of particular concern is the difference in wages between job-gaining industries and job-losing industries. In New Hampshire, wages in industries gaining jobs are 35% lower than in industries losing jobs.

The availability of housing in the region, including affordable housing, is low and the cost of housing, for both rental and purchase, continues to climb. The AA communities have 50,255 housing units of which 31% are renter occupied. During the evaluation period LMI individuals became less likely to obtain homeownership status in PNB's AA. The average home sale price in 2003 was \$201,229 in the Concord area, up a dramatic 67% from \$120,254 in the second quarter of 1999, and \$238,483 in the Lakes Region, up 56% from \$152,759 in the second quarter of 1999. Heavy local resistance to any new development exacerbates the affordable housing problem.

PNB representatives conducted interviews with community leaders in 2001, including the directors of housing and health and human service organizations, to ascertain the most pressing CD challenges faced by LMI residents of the AA. Regardless of area of expertise, respondents consistently placed the lack of affordable housing, both rental and for purchase, at the top of the list. They also expressed concern about stagnant job growth, in general, and the growth trend in sectors creating low-wage jobs, in particular. They pointed out that lower wages reduce the likelihood of economic independence and limit worker capacity to purchase services such as childcare or save for education, retraining, or home purchase. They also identified the need for an adequate supply of high quality, affordable childcare, to allow LMI working parents to participate in the workforce. The cost of stable, quality care, however, exceeds both the state subsidy for low-income working parents and the fees LMI families can afford, jeopardizing workforce participation. It was also noted that state and federal funding for programs that assist working families and low-income individuals has declined, forcing reductions in service and, in some cases, increases in client fees.

Based on their meetings with CD partners, identified CD resource gaps, and consideration of the CD capacity of the AA and state of New Hampshire, PNB chose to focus their CRA efforts primarily on the creation of affordable housing and the continuation of their commitment to support workforce participation of primarily LMI working families through the expansion and improvement of affordable childcare. PNB also sought opportunities in the areas of job creation and retention and financial literacy, primarily targeting the LMI population in their AA and the state of New Hampshire.

CD resources in PNB's AA are shaped by the rural nature of the state, the scarcity of development and operations funds, and the state funding distribution structure, which increasingly sends state dollars to organizations that serve broad geographic regions. CD

³ New Hampshire Department of Employment Security

organizations range from small single purpose agencies that serve a handful of towns, such as childcare centers and regional organizations, to statewide project developers or financing agencies.

As part of this examination, we met with leaders of four different CD organizations that cover PNB's AA. These included representatives of a statewide CD Financial Institution, the state housing authority, a local affordable housing developer and homebuyer education center in Concord, and a multi-purpose social service agency in Laconia that covers the Lakes region. The leaders identified similar CD needs as those discussed above. The contacts were all complimentary of PNB's CD activities and the majority identified PNB as a CD leader in the AA and statewide. One of the contacts indicated that PNB stands out as an organization willing to take quick action to address identified CD needs, using innovative approaches. In the area of childcare services for LMI families, another leader indicated that PNB has focused attention and rationalized solutions to the problem and has made a significant impact statewide. Another leader indicated that PNB has really made a difference in this area by their focus on ensuring sustainability of the programs implemented. The majority of the leaders indicated that significant initiatives undertaken by their respective organizations in the areas of affordable housing, economic development and childcare services would not have been possible without the financial support and leadership provided by PNB.

Conclusions About Performance

Summary

PNB's overall CRA performance as a limited purpose bank is "Satisfactory." Over the evaluation period, PNB provided for a high level of CD activities that benefited its AA and the larger statewide area, particularly qualified investments. Private investors do not routinely provide a number of the qualified investments made by PNB, particularly those related to their innovative childcare program. Many of PNB's CD investments are innovative, particularly those targeting community services for LMI individuals. All of PNB's CD activities reflect excellent responsiveness to the needs of its AA and the larger statewide area. In addition, after satisfactorily meeting the CD investment needs of its AA and the larger statewide area, PNB made significant CD investments outside of the that area.

More specifically:

- PNB invested in a high level of qualified investments in its AA and the larger statewide area over the evaluation period, in relation to available opportunities and PNB's capacity. Those investments totaled almost \$25 million. Private investors do not routinely provide a high number of these investments, particularly those related to PNB's innovative childcare program, which benefits primarily LMI working families. PNB also invested in a high level of investments that addressed the urgent need for affordable housing in the AA and the larger statewide area. Having adequately addressed the needs of its AA and the larger statewide area, PNB made an additional \$117 million in qualified investments outside of its AA and the broader statewide area.

- Over the evaluation period, PNB also provided a high level of CD services through participation and leadership roles in a number of AA and statewide CD organizations. PNB also provided a number of CD loans that benefited the AA or the larger statewide area that includes the AA. This included mortgages to LMI individuals and loans made to small businesses with annual revenue under \$1 million. PNB also originated a small number of loans to community-based organizations whose primary purpose is CD. In combination, CD loans total almost \$17 million, including \$9.5 million that directly benefited the AA and \$7.4 million that benefited the larger statewide area.
- PNB uses innovative CD investments extensively, in the areas of affordable housing and investments targeting community services to LMI individuals. PNB's innovative childcare program targeting community services to LMI families, comprises the majority of the community services targeted investments. Examples of innovative types of investments that PNB invested in include the Homes Downtown program, PNB's Quality Matters program, and a significant equity equivalent investment in the National Community Capital Association. In addition, PNB originated \$6.7 million in complex reverse mortgages over the evaluation period. These mortgages allowed LMI senior citizens to remain in their own home with monthly payments from equity conversion.
- PNB's CD investments reflect excellent responsiveness to the CD needs of the immediate AA and the larger statewide area, as well as areas outside of the AA where PNB has invested. PNB has focused their CD activities on a few primary areas, most notably affordable housing and childcare for LMI working families, in an effort to take a leadership role in those areas and create sustainability to the programs developed and funded with PNB's investment dollars. PNB's formal CD investments are often supported and enhanced by grant support for research, capacity building and project development. CD loans and services provided by PNB are responsive to the needs of the community and reflective of the focus of PNB's CD initiatives.

Qualified Investments

During the evaluation period, PNB provided total qualified CD investments that benefited their AA and the larger statewide area that includes their AA of \$17 million. In addition, PNB retained \$7 million in CD investments made during the prior evaluation period for total AA and statewide-qualified investments of \$25 million. After adequately addressing the needs of its AA and the larger statewide area, PNB also made almost \$107 million in qualified CD investments that benefited areas outside of its AA and the state. PNB also retained \$11 million in CD investments made during the prior evaluation period that benefited these areas for total qualified investments outside of the AA and the larger statewide area of \$117 million. Activity outside of the AA was primarily focused on communities where PNB has business locations. The combination of CD investment activity both inside and outside of the AA results in total CD investments of \$142 million. This represents an 83% increase in total qualified CD investments

between the prior CRA evaluation period and the current period. It should be noted, however, that the current evaluation period extends 10 months longer than the previous evaluation period, making a period-to-period comparison less meaningful.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$12,032	\$32,291	\$44,323
Originated Grants	\$5,434	\$74,399	\$79,833
Prior-Period Investments that Remain Outstanding	\$7,375	\$10,703	\$18,078
Total Qualified Investments	\$24,841	\$117,394	\$142,235
Unfunded Commitments*	\$1,216	\$7,917	\$9,132

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

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Totals (%)
Total Investments/Average Tier 1 Capital	0.89	4.21	5.10
Total Investments/Average Total Income	0.69	3.28	3.97
Total Investments/Average Pass-Through Receivables	0.12	0.55	0.67

Investments range from traditional vehicles, such as Low Income Housing Tax Credits (LIHTC) and LMI mortgage backed securities, to innovative instruments designed to meet the distinct needs of projects or initiatives, such as Equity Equivalents or special purpose bonds. Opportunities for formal investments are often supported and enhanced with the flexibility offered by grant support for research, capacity building and project development.

While PNB made numerous qualified investments in their AA and the broader statewide area that includes the AA, the following are highlighted because they are representative of PNB’s activities over the evaluation period:

Affordable Housing for LMI Individuals

- In 2004, PNB joined Concord Area Trust for Community Housing (CATCH), the City of Concord, the Community Action Program, another local bank, Manchester Neighborhood Housing Services and Fannie Mae to create the innovative Homes Downtown program. With a \$450 thousand Equity Equivalent investment from PNB, CATCH will acquire declining single-family homes and duplexes in the working class Abbott-Downing neighborhood in Concord and ready them for purchase by LMI families. The project goals are to convert eight rental properties to LMI ownership properties, stabilize the neighborhood, preserve-targeted properties as permanently affordable ownership opportunities and minimize gentrification in the neighborhood. CATCH will provide homebuyer education through the Homeownership Center funded by PNB with \$165 thousand in grants. PNB also provided

\$25 thousand in grant money to manage the project and \$60 thousand for unfunded rehab costs or equity buy down. The project will expand to two other downtown neighborhoods as properties and funds become available

- In 2003, PNB responded to the critical need for affordable AA rental housing by investing a total of \$2.6 million in LIHTC projects in Concord and Belmont. One of the Concord projects, Centennial Families, is a unique co-location of social services with affordable housing for families headed by a single parent at risk of homelessness. The Belmont project, Sandy Ledge, was at risk of losing the Tax Credit commitment when PNB personnel stepped in to recruit a sponsor with extensive experience in low-income senior housing project development in the Belmont area. The transition to an alternate sponsor kept the project on track for completion on the original schedule.
- PNB provided a number of grants to affordable housing organizations that serve its AA to support efforts in finding new solutions to the inadequate supply of affordable housing in New Hampshire. As an example, PNB provided a grant of \$29 thousand to the New Hampshire Charitable Foundation to fund a series of facilitated issue mapping sessions. The Foundation convened a group of stakeholders with representation from state and local government, housing developers, and public and private funders of affordable housing. As a follow-up to one of the project findings, the New Hampshire Housing Finance Authority issued a request for a proposal to study of the impact of inadequate affordable housing supply on economic development. With the award of a \$30 thousand grant, PNB was the only corporate sponsor of the study. During the current evaluation period, PNB also provided a \$10 thousand grant to update and re-publish, *Feeling the Pinch*, a presentation of the challenges New Hampshire residents face when seeking and securing affordable housing.
- PNB is a significant investor in the New Hampshire funds of the Northern New England Housing Investment Fund, which syndicates tax credit investments for non-profit affordable housing developments, manages project compliance and provides technical assistance. During the current evaluation period, PNB contributed \$6.7 million toward funding commitments to the New Hampshire Housing Equity Fund 1998 and Community Capital 2000. Approximately \$1.2 million of the original \$8 million in total commitments remains unfunded.
- During the current examination period PNB provided \$400 thousand in continued support of the New Hampshire Housing Futures Fund, which provides an annual grant of \$40 thousand in operating funds to each eligible non-profit affordable housing development agency and technical assistance from the New Hampshire Community Loan Fund.

Community Services Targeted to LMI Individuals

Childcare to Support LMI Workforce Participation

- In late 2002, PNB launched the Quality Matters program. Quality Matters is an innovative, systematic, hands-on program designed to produce measurable results in the quality and stability of childcare for LMI working families. The program is lead by the Lakes Region Community Services Council, a leading social and community service organization in
- Belknap County. PNB's investment in the program over the evaluation period totaled \$650 thousand and generated measurable improvement for the 1,400 children enrolled in childcare programs impacted by the program.
- Excluding Quality Matters grants, PNB made innovative grants to AA childcare centers totaling approximately \$311 thousand. The grants were used to increase the capacity to support work force participation by mostly low-income parents by providing childcare at affordable prices, improving quality of care and preventing short-notice closings. As an example, the Lake Region Childcare Services (LRCCS) operates two childcare centers and four after-school programs for working parents in the Lakes Region. Over 50% of LRCCS enrolled families are low-income and the program must raise significant funding from the community to maintain affordable fees for these families. During the evaluation period, PNB provided over \$51 thousand in grants to assist the program.
- As the leading investor in the expansion and improvement of childcare services to LMI working families in New Hampshire, PNB was asked to support the operation of a variety of organizations dedicated to the same goal. In order to make efficient use of bank resources and ensure that the industry was served without duplication of effort, PNB's childcare initiative manager suggested that these organizations consider closer collaboration and consolidation. In 2002, PNB hosted a meeting of representatives of 7 statewide childcare organizations to present the concept of merger and discuss the benefits and challenges it presented. As a result of that meeting, 5 organizations joined together to form Early Learning New Hampshire (ELNH) in 2003. PNB provided over \$473 thousand to support the activities of ELNH during the evaluation period.
- The New Hampshire Community Loan Fund (NHCLF) manages the Providian Childcare Finance Fund, which provides tailored loans to meet the needs of childcare centers serving primarily LMI working families. During the evaluation cycle, PNB provided \$350 thousand to the NHCLF for management of the Fund and grants to childcare centers. In addition, PNB made a \$30 thousand grant to create an innovative and responsive program to match funding for maintenance and repair of centers serving primarily LMI working families.
- PNB made a \$25 thousand grant to CATCH to explore the innovative possibility of incorporating childcare in affordable housing developments. The report, completed in 2004, explores the challenges and opportunities of on-site childcare, both family and center based. The report will be distributed to all New Hampshire affordable housing developers.

Financial Literacy

- In 2001, the NHCLF launched an ambitious project to create a statewide Individual Development Account (IDA) program to encourage LMI individuals to increase savings for home down payment, a small business or education to increase employment opportunity. Program participants receive incentive matching funds for each dollar saved and financial management training and coaching. A large bank with branches throughout New Hampshire agreed to offer the special accounts and PNB provided \$1.1 million in grant funding to support project administration and match of successful LMI savers.
- PNB made grants in the amount of \$85 thousand over the evaluation period to the Affordable Housing Education and Development (AHEAD) organization, an affordable housing developer in the AA's North Country. The grants were used to support the organization's Assets for Building Community (ABC) homebuyer education program. The program addresses the specific needs of low-income people with challenging financial circumstances, to ready them for home ownership.
- PNB made a \$25 thousand grant to the New Hampshire Community Loan Fund (NHCLF). The NHCLF created the innovative Community Home Loan Program (CHLP) to bring affordable financing to people residing in manufactured housing parks. The NHCLF is working directly with park residents to provide financing to purchase parks when they come on the market and form park cooperatives. The second phase of the project is to change the way these manufactured homes are financed. The CHLP is refinancing high rate loans and offering parallel financial education. PNB's grant supports a financial literacy program for borrowers and park residents.

Other

- PNB made over \$290 thousand in grants to health and welfare organizations serving primarily LMI people in New Hampshire, including \$110,492 to directly benefit the AA through the Community Crisis Fund and \$9,526 through the Education Aid Fund. The Crisis Fund is unique to PNB's AA. It assists AA residents with small grants, usually less than \$250, to meet an immediate critical need that cannot be met by any other public or private funding source. Examples of needs covered by Crisis Fund grants include heating oil during the winter, medications for older adults and cribs and baby care items for teenage mothers. The Education Aid program will pay for General Education Diploma or GED courses and testing for low-income individuals who desire to receive a high school education.

Economic Development

- PNB made a grant of \$222 thousand to the Seed Equity for Economic Development (SEED) project, a project of the New Hampshire CD Finance Authority. The purpose of the project is to strengthen the capacity of regional economic development and planning organizations to meet the needs of New Hampshire communities. These regional organizations generally serve a countywide area with technical assistance and in some cases loans. Small revolving

loan funds were established with CD Block Grant funds, which require the creation of jobs for people. PNB made the only corporate donation to support this project with a grant of \$222 thousand.

- PNB made a grant of \$50 thousand to support strategic planning and fundraising efforts of the New Hampshire Small Business Development Center (NHSBDC), the leader in New Hampshire for providing support to small businesses. The Center is based at the University of New Hampshire, but provides services through regional offices located throughout the state.

Examples of qualified investments that benefit geographies outside of PNB's AA and the larger statewide area include the following:

- PNB made an innovative Equity Equivalent investment in the National Community Capital Association (NCCA) in the amount of \$9.5 million for the purpose of financing affordable childcare for LMI families nationwide through the NCCA member CDFIs. These funds are distributed at low-cost and long term to CDFIs working to expand the supply of affordable care for LMI working families and in LMI neighborhoods. This investment is an element of the collaboration between the NCCA and PNB named the National Partnership for Childcare Finance. During the current evaluation period, the NHCLF borrowed \$1 million of these funds to support lending to New Hampshire childcare centers.
- PNB made \$67.4 million in grants to various non-profit Consumer Credit Counseling Service (CCCS) organizations under the CCCS "Fair Share" program. Financial institutions that use the services of the CCCS to assist their customers with financial difficulties voluntarily make such contributions, which are used by the CCCS to fund its activities.
- PNB funded \$3.3 million of a \$5 million commitment to the Bay Area Smart Growth Fund, during the evaluation period. The Fund is an innovative development fund that targets LMI geographies in the Bay Area for intensive real estate redevelopment. The purpose of the Fund is to stabilize and create economic growth in communities where LMI people live and work through real estate, acquisition and development.
- In partnership with the Low-Income Investment Fund, based in Oakland, California, PNB launched the Providian Community Campaign for Childcare Innovation. With a \$1 million grant from PNB, the project offers critical early stage grant money to childcare centers serving primarily LMI populations seeking to expand services to working parents. The project will ensure opportunities for workforce participation by creating 400 new affordable childcare slots in the Bay Area.
- During the evaluation period, PNB invested \$2.6 million of a \$5 million commitment to the CRA Fund, which is a unique fund that invests in SBICs, which in turn invest in small businesses.

- PNB made \$775 thousand in grants to the National Consumer Credit Counseling Foundation to create the Consumer Education Fund. The Fund awards grants of between \$10 thousand and \$25 thousand to local consumer credit counseling organizations. The grants are competitive and the funded proposals must emphasize education programs directed at LMI people and offer specific, measurable performance objectives to assess the effectiveness of individual financial education programs.
- A \$300 thousand total grant to the Consumer Federation of America to expand America Saves, an innovative grass-roots savings mobilization effort involving community and civic organizations and local governments to improve savings rates among LMI consumers. This grant underwrites local organization efforts in four to six metro areas per year.

PNB also encourages employees to donate to or volunteer with CD organizations providing community services to LMI individuals or communities. During the evaluation period, PNB made over \$200 thousand in donations to these organizations to recognize employee commitment.

CD Lending

Table 5: CD Lending Percentages

	Benefits AA (%)	Outside AA (%)	Totals (%)
Total CD Lending/Average Tier 1 Capital	0.34	0.27	0.61
Total CD Lending/Average Total Income	0.27	0.21	0.48
Total CD Lending/Average Pass-Through Receivables	0.04	0.04	0.08

PNB originates home purchase and small business loans from its Tilton main office and Belmont branch, primarily as an accommodation to local residents who used predecessor institutions at these locations. Included with the home purchase originations are reverse mortgages, the majority of which are originated outside of the AA but within the state of New Hampshire. A portion of these loans meet the definition of CD, including mortgages originated to LMI individuals and loans made to small businesses with annual revenue under \$1 million. PNB also originates a small number of loans to community-based organizations whose primary purpose is CD. CD loans totaled almost \$17 million, including \$9.5 million that directly benefited the AA and \$7.4 million that benefited areas outside of the AA but within the state of New Hampshire.

The following includes the most significant CD loans made by PNB during the evaluation period:

- PNB made \$9.7 million in accommodation mortgage originations to LMI borrowers. A total of \$3.4 million were in PNB’s AA, and the remainder in the state of New Hampshire. The majority of the loans made outside of PNB’s AA were reverse mortgages of which PNB

originated \$6.7 million over the evaluation period. PNB is a leading resource for LMI senior citizens who wish to remain in their own home and do so with a monthly payment from equity conversion.

- PNB made \$6.7 million in loans to small businesses (businesses with gross annual revenues of less than \$1 million) during the evaluation period. Of this total, \$5.5 million was loaned to AA businesses. Loans were made for purchase of equipment, purchase of real estate, working capital, renovation, refinance and lines of credit.
- During the evaluation period PNB made two loans to an organization that provides housing and support services to homeless individuals. The first loan in the amount of \$40 thousand financed the renovation of the building used to house clients. The second was a working capital loan in the amount of \$25 thousand.
- PNB extended a line a credit in the amount of \$300 thousand to a center providing services to LMI youth. The line is used to cover operating expenses.

CD Services

PNB provided a high level of CD services over the evaluation period that benefited the AA and the statewide area that includes the AA. The services are responsive to the needs of the community and reflective of the focus of PNB's CD initiatives.

PNB recently launched a community financial literacy project. Three PNB employees from diverse departments were trained by the FDIC to present Money Smart. These employees adapted the curriculum to meet the needs of disadvantaged high school students and are currently presenting the program at the Franklin Career Academy, an AA high school created to meet the needs of students at risk of dropping out of school.

PNB also provided a high level of CD services over the evaluation period through participation and leadership roles in a number of AA and statewide CD organizations. PNB officers serve in the following capacities with a number of CD organizations:

- Board chairman for a local affordable housing organization that develops affordable rental housing for LMI people in the Franklin-Tilton-Northfield area. The organization also runs a peer-lending program for the self-employed person working on developing a bankable credit history. As board chair, the PNB officer offers both guidance and technical assistance.
- Member of the investment committee of a statewide housing investment fund that invests in LIHTC projects. As a member of the committee, the PNB officer participates in deal evaluation and makes recommendations to the full board. Another PNB officer also serves on the finance and executive committees of the organization.

- Board member of the CCCS of New Hampshire/Vermont, which offers educational programs to the general public on the wise use of credit and individual counseling and credit management services to people with credit problems. As a board member, the PNB officer applies her perspective as a lender in the oversight of education, outreach and counseling activities with particular attention to services currently provided or to be provided to residents of PNB's AA.
- Board member and immediate past co-chair of a statewide organization concerned with the availability of affordable, high quality childcare for primarily LMI working families and inadequate compensation for childcare workers. As a board member, the PNB officer participates in research, public information efforts, and the offering of products and services to the childcare industry to expand and improve childcare and, thus, workforce participation.
- Board member and chair of the finance committee of an organization that provides services to LMI working families in the Laconia area of PNB's AA. As chair of the finance committee, the PNB officer works to secure community, state, federal and grant money to operate. The organization is currently involved in a significant project to build a new center co-located with a LIHTC housing project in downtown Laconia.
- Treasurer and immediate past chair of the statewide organization authorized to award tax credits to CD projects in New Hampshire. The organization also awards seed and capacity building grants to economic development organizations. The PNB officer was originally appointed by the former Governor of New Hampshire to represent financial institutions on the board. The current Governor subsequently reappointed the officer in 2004.
- Banking advisory board member and chair of a statewide fund designed to help community based affordable housing organizations achieve organizational growth and stability and increase their capacity for community leadership. The fund has two components, the grant program and the technical assistance program. As a member of Banking Advisory Board, the PNB officer participates in the annual review of the technical assistance component and approval of the applications submitted for funding by individual affordable housing organizations.

Fair Lending Review

We found no evidence of illegal discrimination. During the evaluation period, however, we found that certain consumer credit card periodic statements provided by PNB to delinquent customers contained inadvertent errors that resulted in confusing and misleading statement messages. As a result, customers who may have submitted their payments based on these messages may have incurred unnecessary fees. PNB completed an analysis that identified the population of impacted customers and provided the appropriate reimbursement. PNB management also implemented improvements to its compliance risk management program to prevent the recurrence of such errors. The internal control breakdown that allowed the error to occur negatively impacted PNB's CRA rating.

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 the same company directly or indirectly controls both companies. A bank subsidiary is controlled by PNB and is, therefore, an affiliate.

AA (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 PNB has its main office, branches, and deposit-taking ATMs.

Benefit to AA – A qualified CD activity benefits the AA if (i) the activity benefits areas within the AA, or (ii) the activity benefits a broader statewide or regional area that includes PNB’s AA. If a bank has adequately addressed the needs of its AA, then the OCC also considers activities submitted by PNB that benefit areas outside of its AA.

Census Tract (CT) – Small, locally defined statistical areas within metropolitan statistical 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 PNB, and to take this record into account when evaluating certain corporate applications filed by PNB.

Geography – A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

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.

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.

Wholesale Institution – An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.