

## **PUBLIC DISCLOSURE**

December 31, 1996

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Direct Merchants Credit Card Bank, N.A.  
Charter Number 22734**

**1455 West 2200 South, Suite 300  
Salt Lake City, Utah 84119**

**The Office of the Comptroller of the Currency  
Western District  
50 Fremont Street, Suite 3900  
San Francisco, California 94105**

**NOTE: 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.**

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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Direct Merchants Credit Card Bank, N.A. (DMCCB)** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **December 31, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

## INSTITUTION'S CRA RATING

This institution is rated **Satisfactory**.

DMCCB's performance under the community development test of the CRA is reasonable given its restrictions as a credit card bank and the short time the bank has been chartered. The bank has made adequate community development investments which positively impact its assessment area and a broader statewide area. In addition, the bank's affiliate/parent company, Fingerhut Companies, Inc., has made significant community development investments, in the form of grants, to organizations providing services to low-income individuals. These grants impact various geographies in the United States.

## DESCRIPTION OF INSTITUTION

DMCCB is chartered as a credit card bank as defined in the Competitive Equality Banking Act of 1987 (CEBA). As such, the bank is legally restricted in the types of business it can engage in. The bank can only engage in credit card operations and cannot: (1) accept demand deposits or other checkable accounts, (2) accept savings or time deposits of less than \$100,000, (3) maintain more than one office that accepts deposits, or (4) engage in the business of making commercial loans.

The bank's parent company is Fingerhut Companies, Inc. (FCI), headquartered in Minnesota. The bank is a wholly owned subsidiary of Metris Companies, Inc. which is 83% owned by (FCI). The remainder of Metris is publicly traded in Nasdaq National Market. FCI is one the largest direct mail catalog retailers in the United States with 1995 revenues of \$2.1 billion and is publicly traded on the New York Stock Exchange.

DMCCB began credit card operations in March 1995 with initial capitalization of \$5 million. At the end of September 1996, it had total assets of \$38 million, equity capital of \$12.3 million and no retail deposits. The bank has one office in metropolitan Salt Lake City, Utah and employs more than seventy people. It issues and services MasterCard credit card accounts nationwide, but receivables are funded and purchased by Metris on a daily basis. While DMCCB's asset base is relatively small, it services a portfolio exceeding 1.4 million accounts, \$2.5 billion in credit limits and \$1.6 billion in outstanding balances.

Factors impacting the bank's ability to meet community development needs include: (1) legal (CEBA) restrictions, (2) staff expertise limitations and (3) limited experience as a regulated financial institution. Notwithstanding these factors, the bank and its affiliates have the financial resources to fund reasonable levels of community development investments and services.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE

*DMCCB's performance under the community development test of the CRA is reasonable given its restrictions as a credit card bank and the short time the bank has been chartered.*

**The bank has made adequate community development investments which positively impact the Salt Lake City-Ogden area and the State of Utah.**

During 1996, its qualified community development investments totaled \$125,000. These included the following:

Purchase of a \$75,000 Utah Housing Finance Agency (UHFA) bond which matures in July 2006. The UHFA was established to facilitate the development and purchase of affordable housing for low-income people. The agency raises capital through issuance of bonds and uses the funds to facilitate low-income housing programs. These include low interest/low down payment mortgages, rent subsidization programs and development of low-income housing projects. Since 1977, the UHFA has raised more than \$2 billion in funds which have been reinvested in such programs.

Placement of a \$50,000 certificate of deposit (CD) with a one-year maturity in a local bank to help facilitate its U.S. Small Business Administration (SBA) loan program. That bank is a very active SBA lender in Utah. Approximately 32% of its loan portfolio, or \$5 million, consists of SBA loans. In addition, the bank has sold guaranteed portions of SBA loans totaling approximately \$4.5 million. According to the Salt Lake City SBA District Office, that bank originated 18 loans totaling \$1.6 million between October 1995 and September 1996.

**The bank's affiliate/parent company, Fingerhut Companies, Inc. (FCI), has made significant community development investments. These investments consisted of grants to organizations providing services to low-income individuals in various geographies in the United States.**

During 1996, FCI made contributions of merchandise (food, clothing, appliances etc.) exceeding \$3 million in wholesale value (FCI's cost basis) and \$7 million in retail value (value of products if sold at retail). The contributions were given to various organizations which provide social services to low-income individuals and were specifically targeted toward such services. Services included food and clothing for homeless, low-income, chemical dependent and abused individuals and families, as well as others in need of basic social services. Organizations were based in various states including Minnesota, California, Arizona and Tennessee but provided

services to larger regional areas. Some of the more notable contributions/grants are summarized in the following table.

<b>Organization</b>	<b>Wholesale Value or Cost Basis of Contribution</b>	<b>Retail Value of Contribution</b>
The Salvation Army	\$1,400,000	\$2,600,000
Western Eagle Foundation	\$450,000	\$1,100,000
Brother to Brother International	\$400,000	\$900,000
Anoka County Community Action Program	\$280,000	\$620,000
Project for Pride in Living	\$280,000	\$650,000

The OCC found DMCCB to be in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act.

## ASSESSMENT AREA

For CRA evaluation purposes, the OCC approved the bank's request for designation as a *Limited Purpose Bank* on March 19, 1996. The bank's assessment area is the **Salt Lake City-Ogden Metropolitan Statistical Area (MSA)**. Because of its limited purpose designation, consideration is given to community development activities performed: (1) in the bank's assessment area, (2) in a broader statewide area which includes the assessment area, or the State of Utah and (3) by affiliates, in this case FCI.

### Summary of Institution's Operations in the Salt Lake City-Ogden MSA

DMCCB operates one office in metropolitan Salt Lake City, Utah. Through this office, and in conjunction with its affiliate Metris Companies, Inc., the bank offers, originates and services credit card (MasterCard) accounts throughout the U.S. The bank employs more than seventy people in its Salt Lake City location. A substantial volume of servicing is contracted out to third party vendors, including Metris.

### Description of the Salt Lake City-Ogden MSA and the Broader Statewide Area of Utah

The Salt Lake City-Ogden MSA includes the majority of Utah's population base. It is estimated that more than 60% of Utah's two million residents reside in this MSA. The MSA consists of 230 census tracts. The income characteristics of these census tracks are summarized in the following table.

<b>Income Characteristics (% of median family income per the 1990 census)</b>	<b>Number of Tracts</b>	<b>Percent of Total Tracts</b>
Low-Income (<50% of area median income)	11	5%
Moderate-Income (50% to <80% of area median income)	49	21%
Middle-Income (80% to <120% of median income)	120	52%
Upper-Income (120% or > of median)	50	22%
<b>Total Salt Lake City-Ogden MSA</b>	<b>230</b>	

The estimated 1996 median family income for this MSA is \$45,500. This compares to the entire State of Utah's estimated median family income of \$42,400. Income levels have increased substantially since the 1990 census. In 1990, the median family income for the Salt Lake City-Ogden MSA was about \$34,000. For the entire State of Utah it was about \$33,000.

Economic growth in the Salt Lake-Ogden area mirrors the strong growth of the State of Utah. Since 1990, Utah's population has increased an average of 43,700 people per year. Of this, 18,000 new residents per year are moving from other states. Income and job growth is also strong. Utah's current unemployment rate is about 3.4%. The economy is being positively impacted by high technology manufacturers, including computer software and peripheral makers and biotechnology/medical device companies. Service industries, particularly telecommunication centers and national retailers, have also seen strong growth. The construction industry is strong for both commercial and residential real estate. Vacancy rates for apartments and commercial spaces are low, and rents are increasing.

The strong economy over the past six years has resulted in an escalation in housing prices. In 1990, the median home value for the Salt Lake-Ogden area was \$70,000. In 1996, median sales prices approached \$130,000.

During this CRA evaluation, we reviewed nine community contact interviews performed by federal financial institution regulators during 1995 and 1996. These interviews were conducted to better understand economic conditions, credit needs and the performance of financial institutions in Salt Lake City-Ogden and Utah. Groups contacted included nonprofit and government related organizations which focus on affordable housing, small business, economic development and community redevelopment initiatives.

All of these groups affirmed the strength of the local economy. Most groups commented on the need for increased resources in the affordable housing arena, particularly with the escalation of housing prices and rents. Others mentioned the need for increased small business lending, neighborhood revitalization and additional commercial redevelopment initiatives. The groups, with few exceptions, had favorable comments regarding the efforts of local financial institutions in meeting credit and community development needs.

Financial institution competition in the Salt Lake City-Ogden area is intense. The area has a substantial number of banks and other lenders, including numerous nationwide consumer lenders. The presence of credit unions is particularly strong in Utah. And, in recent years there has been a noticeable influx of nontraditional mortgage lenders into the area.

### **Discussion of Performance Tests in the Above Assessment Area**

DMCCB has made adequate community development investments which positively impact the Salt Lake City-Ogden area and the broader statewide area of Utah. In addition, the bank's affiliate/parent company, Fingerhut Companies, Inc., has made significant community development investments, in the form of grants, to organizations providing services to low-income individuals. These grants impact various geographies in the United States.

A summary of community development initiatives follows:

- o The bank made direct community development investments totaling \$125,000 in 1996.
- o The bank's parent company, FCI, made sizable community development investments in nonprofit organizations outside the bank's assessment area during 1996. These organizations provide social services to low-income individuals. These investments, in the form of grants or donations of merchandise, had a wholesale value exceeding \$3 million and a retail value exceeding \$7 million.

For further details on these activities and initiatives, see the section of this disclosure entitled ***CONCLUSIONS WITH RESPECT TO PERFORMANCE.***

## APPENDIX - SCOPE OF EVALUATION

Time Period Reviewed:	<b>March 1995 to December 1996.</b>
Financial Institution:	<b>Direct Merchants Credit Card Bank, N.A.</b>
Activities Reviewed:	<b>Community Development Investments in the bank's assessment area and a broader statewide area.</b>
Affiliate Reviewed:	<b>Fingerhut Companies, Inc.</b>
Activities Reviewed:	<b>Community Development Investments (Grants) in areas outside of the bank's assessment area.</b>
Assessment Area:	<b>Salt Lake City-Ogden MSA</b>
Broader Statewide Area:	<b>The State of Utah</b>
Areas Impacted by Affiliate Activities:	<b>Regional areas in and around California, Minnesota, Tennessee and Arizona.</b>

Consistent with its designation as a *Limited Purpose Bank*, the OCC focused on the bank's performance relative to the community development test. Consideration was given to community development activities: (1) within the assessment area and a broader statewide area which includes the assessment area, and (2) by affiliates outside the bank's assessment area.