

Washington, DC 20219

Public Disclosure

October 18, 1999

Community Reinvestment Act Performance Evaluation

**EFS National Bank
Charter Number: 22404
2525 Horizon Lake Drive
Memphis, Tennessee 38133**

**Office of the Comptroller of the Currency
Memphis Field Office
57 Germantown Court, Suite 309
Memphis, TN 38018**

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.

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 CRA performance of **EFS National Bank**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 18, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA) - A geographic area which consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area - A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 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 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 a limited purpose bank is in effect, in accordance with 12 CFR 25.25(b). A limited-purpose institution continues to meet the narrow product line requirement if it only infrequently provides other types of loans.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income Family or Geography - An income level that is less than 50% of the MFI.

Moderate-Income Family or Geography - An income level that is at least 50% and less than 80% of the MFI.

Middle-Income Family or Geography - An income level that is at least 80% and less than 120% of the MFI.

Upper-Income Family or Geography - An income level that is 120% or more of the MFI.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income - As defined by the Consolidated Report of Condition and Income, income before adjusting for extraordinary items.

Qualified Investment - A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Small Businesses - Businesses with revenues less than or equal to \$1 million as reflected in the Dun & Bradstreet Business Demographic Data.

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 defined by the Consolidated Report of Condition and Income.

Total Income - From the Consolidated Report of Condition and Income -- Interest income plus noninterest income.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from January 1, 1997 through October 18, 1999. We reviewed the level and nature of qualified investments, community development lending, and community development services. At the bank's option, we also considered community development activity provided by its affiliates. At the prior examination dated December 19, 1996, we rated the bank Satisfactory. During this evaluation, the bank presented for our review community development loans, investment securities, charitable contributions/grants, and community development services.

Institution's CRA rating:

This institution is rated "Satisfactory".

The major characteristics that support this rating are:

- EFS National Bank demonstrates an adequate level of community development lending, community development services, and qualified investment activity. One of its investments is not routinely provided by private investors.
- The bank demonstrates no use of innovative and/or complex qualified investments, community development loans, or community development services.
- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area.

Description of Institution

EFS National Bank (EFSNB) is headquartered in Memphis, Tennessee. It does not have any branches. EFSNB was designated a limited purpose institution for CRA on July 3, 1996. EFSNB currently has two primary types of business lines: (1) bank card authorization, data capture and payment services; and (2) cash payment, transfer and billing services for trucking companies and truck stops. The bank was chartered in 1992. It began opening consumer deposit accounts in 1994 and began handling direct deposit of payrolls into individual deposit accounts for trucking companies and their employees in 1996.

According to its articles of association as approved by OCC, EFSNB's credit products are limited to extensions of credit in connection with its two primary types of business and through the issuance of credit cards. The bank currently issues credit cards related to its trucking company services, only. There are no additional legal, financial or other factors impeding the bank's ability to help meet the credit needs in its assessment area (AA).

EFSNB is wholly owned by a bank holding company, Concord EFS, Inc.(Concord), also headquartered in Memphis. As of year-end 1998, Concord had total assets of \$520 million and Tier 1 capital of \$318 million. In addition to the national bank, Concord owns a federal savings bank and several other subsidiaries. They operate together in providing payment services, including merchant processing, cash card and forwarding services primarily for the trucking industry; check authorization and collection services for supermarkets and drug store chains; electronic funds transfer services for financial institutions; and the sale or lease of terminals and communications equipment.

Table 1 reflects relevant financial information and provides a perspective on the bank's capacity to help meet the credit needs of its assessment area.

Table 1: Financial Information (000s)

	Year-end 1997	Year-end 1998	Quarter-end 06/30/99	Average for Evaluation Period
Tier 1 Capital	141,729	187,109	209,365	179,401
Total Income	232,801	336,087	393,886	320,925
Net Operating Income	42,420	58,952	59,752	53,708
Total Assets	244,271	327,594	380,636	317,500

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

Description of Assessment Area

EFSNB has one assessment area: Shelby County, Tennessee. Shelby County is one of five counties in MSA 4920, "Memphis, TN-AR-MS". The assessment area meets legal requirements.

Shelby County contains urban, suburban, and rural areas. The HUD updated median family income for 1999 is \$48,600, compared to the 1990 census median of \$31,900. Shelby County, of which the City of Memphis is a part, accounts for the majority of the population in the MSA. In 1990, Shelby County population was approximately 826 thousand and the MSA population was approximately 1 million. Approximately 17% of the households in Shelby County were below the poverty level. As of 1997, the predominant industries, both in terms of number of employees and number of establishments are service and retail trade. Shelby County is a major distribution center and the largest employer is Federal Express, which is headquartered in Memphis. Unemployment is typically higher in the Shelby County than in other parts of Tennessee; as of 1998, the MSA unemployment rate was 3.69%.

Additional demographic data is displayed in Table 2.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper	NA
Tracts	185	23%	22%	22%	29%	4%
Families	213,632	23%	15%	19%	42%	n/a
Small Businesses	22,162	11%	14%	25%	50%	n/a

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

One community contact was performed during the examination with a not-for-profit organization that provides affordable housing for low- and moderate-income families. In addition, five community contact reports prepared by other bank regulatory agencies during the evaluation period were reviewed. Community development needs and opportunities were determined to be as follows:

- Partner or collaborate with not-for profit organizations to provide affordable housing.
- Provide assistance in obtaining grants from the Federal Home Loan Bank of Cincinnati's Affordable Housing Program.
- Provide funding to the Memphis (City Government) Housing Resource Center to foster new home ownership in the City of Memphis.
- Provide funding and no-interest construction loans to a not-for-profit affordable housing developer.
- Provide financial advice to community development organizations.
- Provide credit counseling to clients of community development organizations.
- Provide assistance to small businesses in preparing and refining business plans.
- Provide funding for public schools that serve low- and moderate-income individuals or geographies.

There are no known barriers to community development lending, investment, and service.

Conclusions About Performance

Summary

EFSNB's level (number and dollars) of community development activities was adequate; it has not used innovative or complex community development activities; and its responsiveness to community development needs in its assessment area was adequate.

Level of community development activities: As indicated in Tables 3 and 4, the bank's qualified investments for the evaluation period totaled \$8.6 million, or 5% of its average Tier 1 Capital and 3% of its average total income.

Responsiveness to identified community development needs: EFSNB has been responsive to the needs for public schools serving low- and moderate-income individuals or geographies, funding, and no-

interest construction loans for a not-for-profit affordable housing developer.

The public schools funding benefits school systems throughout the State of Tennessee, including the bank's AA. The affordable housing loan directly benefits the bank's AA. No-interest lending is a type of lending that is not routinely provided by local lenders.

Consideration of Activities that Benefit Areas Outside of the Bank’s Assessment Area

The bank provided a list of investments benefiting areas outside its assessment area. However, none was shown to meet the definition of community development as defined in the Community Reinvestment Act regulation.

Qualified Investments

Tables 3 and 4 summarize the bank's qualified investments and compare the dollar amounts to indicators of the bank's financial capacity.

Table 3: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	\$5,930
Originated Grants	47
Prior Period Investments	2,635
Totals	\$8,612

Table 4: Qualified Investment Percentages

	Benefit AA (%)
Total Investments/Average Tier 1 Capital	5%
Total Investments/Average Total Income	3%

Significant investments are as follows:

- Tennessee Housing Development Authority (THDA) investment securities. Eight issues totaling \$2.9 million were purchased during the current evaluation period. Ten issues totaling \$2.6 million were purchased during the prior evaluation period and are still outstanding. These securities are issued to fund affordable housing throughout the entire state, benefiting an area wider than the bank's assessment area. THDA statistics for 1998 show that \$24 million, or 20%, benefited Shelby County, out of a total expenditure of \$123 million.
- Qualified Zone Academy Bonds (QZAB's). During the examination, the bank purchased \$3 million in QZAB's. This amount is included in the tables. The bonds will fund primary and

secondary education improvements. The improvements may include rehabilitating or repairing public school facilities, providing equipment, developing educational course materials, and training teachers and other personnel. Among other requirements to receive funds, a school must have 35% of its students qualified for free or reduced meals and QZAB funds must be used for schools in an empowerment zone or enterprise community or something similar. These securities are issued to fund school districts throughout the entire state, benefiting an area wider than the bank's assessment area. The City of Memphis, located in Shelby County, is listed among "borrowers currently known to be in the pool".

- Charitable donations. Twelve grants were made to charitable organizations for affordable housing and community services targeting low and moderate-income individuals, including the following five that equal or exceed \$5 thousand:
 - Habitat for Humanity (affordable housing) \$30 thousand
 - Neighborhood Housing Opportunities, Inc. (affordable housing) \$5 thousand
 - The Exchange Club Family Center (community social service) \$5 thousand
 - Teen Challenge (community social service) \$5 thousand

Community Development Lending

Tables 5 and 6 summarize the bank's community development lending and compare the dollar amounts to indicators of the bank's financial capacity.

Table 5: Community Development Loan Activity (000s)

	Benefits AA
CD Loans Originated	\$159
CD Loans Outstanding from Prior Periods	0
Totals	\$159

Table 6: Community Development Lending Percentages

	Benefits AA (%)
Total CD Lending/Average Tier 1 Capital	<1%
Total CD Lending/Average Total Income	<1%

EFSNBs community development lending is composed of zero-interest loans to an affordable housing developer. During the evaluation period, the bank has maintained a \$100 thousand line of credit to the developer to fund construction of affordable homes. Under the line, three loans were advanced during the evaluation period, totaling \$159 thousand. Information was not available on the specific number of homes built with these funds, however, the average number of homes built each year by the developer is

17 to 20.

Community Development Services

We evaluated the bank's CD services, primarily focusing on the responsiveness to the needs of the community and the level of innovation and/or complexity involved. Based on the information available, we did not observe any innovation or complexity in the activities. As indicated in the *Interagency Questions and Answers Regarding Community Reinvestment (64 Federal Register 84-23618)* we did not give credit for personal charitable activities provided by the bank's employees and directors outside the ordinary course of their employment. During 1998, one officer served as a director for the Exchange Club Family Center. The Center offers community social services to prevent and intervene in abusive and violent family situations. Low- and moderate-income families are provided supportive services such as long-term in-home volunteer parent aides, parenting classes, truancy classes, pre-natal/parenting/life-skills classes for first-time teen mothers, and counseling for both adults and children. As a director for the Center, the bank officer developed budgets, raised funds, and planned for meeting the needs of the community.

Compliance With Anti-Discrimination Laws and Regulations

We did not review the bank's compliance with fair lending laws and regulations during our examination. The bank does not make consumer loans and monitoring information provisions of Regulation B do not apply to business loans.