



WHOLESALE OR LIMITED PURPOSE

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Fleet Bank (RI), National Association
Charter Number 23536**

**111 Westminster Street
Providence, RI 02903**

**Comptroller of the Currency
Large Bank Supervision
250 E Street, SW
Washington, D.C. 20219**

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 "Outstanding".

The conclusions for the three rating criteria are:

- The bank demonstrates a high level of qualified investment activity, and a high level of community development services.
- The bank demonstrates occasional use of innovative or complex qualified investments.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment area.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from January 1, 2000 through December 31, 2002. We reviewed the level and nature of qualified investments, community development lending, and community development services. At the bank's request, we also considered qualified investments, community development lending, and community development services provided by its affiliate, Fleet National Bank. At the prior examination dated March 6, 2000, the bank was rated Satisfactory.

Fleet Bank, (RI), NA, (FBRI) has adequately addressed the needs of its assessment area, and therefore, we were able to consider investments, and community development loans from outside of assessment area in evaluating the overall performance.

Description of Institution

FBRI is a limited-purpose bank headquartered in Providence, Rhode Island. FBRI is an affiliate of Fleet National Bank (FNB), a subsidiary of FleetBoston Financial Corporation. FBRI was designated a limited purpose bank for evaluation under the Community Reinvestment Act on October 14, 1997. Its activities are limited to credit card activities described in 12 U.S.C. 1841 (c)(2)(F). FBRI is chartered under the Competitive Equality Banking Act (CEBA) of 1987 which limits its operation as a full service banking institution, and restricts lending to credit cards. About one-half of FBRI's 3121 employees work in its operations center in Horsham, Pennsylvania, a suburb of Philadelphia. Other company facilities are in Colorado, Delaware, and New York. FBRI has no branch bank offices.

Current operations evolved from credit card activities originated by FNB. In 1998, Advanta's credit card portfolio, then tenth largest in the United States, was purchased and merged into FBRI. FBRI is smaller than the largest credit card companies, but has assets of more than \$6.9

billion and another \$12.4 billion under management, making it the eighth largest credit card company in the nation. FBRI acquires accounts through direct mail, telemarketing, Internet solicitations, and through FNB branch activities.

FBRI has ample capacity to help meet the credit needs of its assessment area. However, charter limitations, specifically a narrow lending focus, preclude direct extensions of community development loans. Strong competition from FNB, Citizens Bank and Sovereign Bank limit the availability of qualified investments and CD loans within the assessment area. Also, virtually no full-time bank staff skilled in CD investments and loans is employed in Rhode Island. As a result, FBRI collaborates with FNB to identify and make many qualified community development investments and community development loans. FBRI participates in the investments and is allocated a number of the CD loans.

FBRI sells portions of their receivables. During the evaluation period, about 67 percent of receivables were securitized and sold. There was no merger or acquisition activity impacting the scope of the bank's operation during the evaluation period. Please refer to Table 1 for financial highlights. This data provides perspective on the bank's capacity to help meet the needs of its assessment area.

Table 1: Financial Information (000s)

	Year-end 2000	Year-end 2001	Year-end 2002	Average for Evaluation Period
Tier 1 Capital	1,215,607	1,407,861	1,594,514	1,405,994
Total Income	1,259,697	1,264,528	1,237,618	1,253,947
Net Operating Income	166,764	152,921	183,298	167,661
Total Assets	6,308,526	6,788,690	6,758,180	6,618,465
Pass-Through Receivables	9,801,966	10,148,000	12,392,277	10,780,748

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

Description of Assessment Area

FBRI designates the multi-state Providence/Fall River RI-MA MSA and the non-MSA geographies in Newport County as its assessment area; it meets the regulatory requirements for an AA. This mainly urban assessment area contains 274 geographies and nearly 1.2 million people. The majority of the AA is in Rhode Island, the smallest and second most densely populated state in the Union. Four percent of the geographies are low-income and 22 percent are moderate-income. Thirty-seven percent of families are of low- or moderate-income, including 11 percent of families having income below the poverty level. The updated 2001 weighted average median family income of the MSA is \$54,245.

Population centers include Providence, Fall River, Pawtucket, Woonsocket, and Central Falls, all of which are older industrial cities. Rhode Island also has one of the oldest populations, and 15

percent of total population in the AA is over 65. The cities of Providence and Central Falls reflect poverty rates twice the average of the AA.

Employment in goods producing industries has substantially decreased in the past ten years, while the service producing sector accounted for the most growth and employment. High technology and financial operations centers are relatively new to the area, in part, because the proportion of the adult population having a college degree or better is one of the lowest in all of the New England. As a result, the state’s economy did not display the boom-like qualities of neighboring states during the late stages of the past expansion, and the national recession’s cyclical impact was more muted in Rhode Island than in neighboring states. Nevertheless, economic progress is being made and proximity to employment in Massachusetts and Connecticut keeps unemployment manageable at 3.6 percent and lower than the national average of 4 percent. Goods producing sectors include manufacturing, fishing, and construction. They contribute about 17 percent of total personal income. Major manufacturing-sector employers include Trifari, Monet, and Vargas in jewelry; A.T. Cross and Quill in pens; Hasbro in toys; G-Tech in lottery machines; Brown & Sharpe in navigation equipment; and Raytheon in medical and defense equipment. Rhode Island’s service producing sector contributes about 50 percent of total personal income. Employment has increased in all areas except wholesale and retail trade. Wage rates are generally among the lowest in this sector and concerns over “living wages” are beginning to surface. Major sector participants include Fleet and Citizens in banking; Fidelity in financial services; Lifespan, St. Joseph Hospital, and Roger Williams Hospital in health care; Brown University, Rhode Island School of Design, and University of Rhode Island in higher education; and the U.S. Navy’s Naval Undersea Warfare Center.

Population levels have decreased substantially from levels seen ten years ago. After several years of out-migration, total population levels and the numbers of residents who are employed in the state appear to be stabilizing. Housing values are lower than in surrounding states. Housing values have increased more slowly in the evaluation period than housing values in adjacent states. Nevertheless, the rise in current housing values far outdistances the increases in personal income. The weighted average value of housing is very high compared to the incomes of low-income families and the 11 percent of total households below the poverty level. The median cost of housing stock is \$134,703 compared to low-income family income of \$27,123. Please refer to Table 2 below for a summary of demographic data in the assessment area.

Table 2: Assessment Area Description

Demographic Characteristics	Number	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies	274	4.0%	21.9%	54.4%	17.5%	2.2%
Families*	314,103	19.3%	17.9%	25.3%	37.5%	0
Small Businesses**	48,572	4.5%	14.5%	61.4%	19.6%	0

Source: Demographic Data - 1990 U.S. Census, Dun & Bradstreet Data. *Represents families by income level. **Represents businesses by income level of census tract.

Three community contacts were made as part of this evaluation. We also referenced two other

community contacts made in connection with a recent CRA examination of another bank. All community agencies identified poverty as a critical social concern. Also, low levels of education and training were cited as primary causes of poverty. Lack of income, or “living-wages”, is a term some use to describe many social needs, including but not limited to food and affordable housing.

Affordable housing, both rental and for purchase, is a primary need of low- and moderate-income families as well as of the “working poor” who, according to one contact includes some families with income marginally higher than 80 percent of median income. Wage rates and housing supply levels have been historically low and continue to be low. However, the rate of increase in housing costs is among the highest in the country. At the same time, actual housing costs are lower than neighboring Massachusetts and Connecticut. Rental rates have increased beyond levels affordable by local low- and moderate-income families, in part due to college and university enrollment increases of 5-7 percent over the last five years without a corresponding increase in dormitory space. Public housing has not been a viable alternative. One contact said there are more realtors in Rhode Island than there are houses for sale. Another commented that legislating zoning variances to facilitate affordable housing as a percentage of overall projects have been mishandled. Many communities saying affordable housing is good, but “not in my back yard.”

Suggested solutions to housing needs are many and varied. Examples include more initial and recurring equity investments in community development financial institutions (CDFIs), larger investments in low-income housing tax credit pools, repeat or sequential monetary grants, and sponsorship of educational forums covering home buying, home budgeting and the use of credit. One contact suggested that banks could help agencies package their loans for sale and be active intermediaries in the marketing process to enhance agency liquidity. Another suggested communication between bankers holding foreclosed real estate and bankers managing CRA programs and social service agencies be enhanced.

Conclusions About Performance

Summary

- FBRI demonstrates excellent performance in helping meet the community development needs of its assessment area and areas outside of the assessment area. The level of community development investments helping meet the credit needs of low- and moderate-income families and small businesses is high. FBRI originated investments of more than \$11 million in the AA during the evaluation period. The bank put 83 percent of their investments to work helping provide housing solutions, the primary need identified by community contacts. Four investments within the AA are characterized as complex and not routinely provided by private investors. The bank's investments outside the AA are generally low-income housing tax credit (LIHTC) instruments. They total more than \$126 million and also respond directly to a primary need of low- and moderate-income families as identified by community contacts. With an additional \$50 million in grants total investments were \$187 million. FBRI's charter restricts its lending to credit cards. As a result, it cannot directly originate community development loans. Nevertheless, FBRI was allocated a high level of community development loans that were originated by its affiliate, FNB. While all of these loans were outside the AA, we include them for performance purposes due to FBRI's satisfactory response to needs within the AA. Considering performance context, specifically less than one full-time equivalent bank employee in the AA, FBRI's level of community development services is high.
- FBRI occasionally participates in innovative community development projects that address and help resolve needs of low- and moderate-income families and geographies.
- FBRI demonstrates excellent responsiveness to community development needs of low- and moderate-income individuals, families and geographies in the Providence RI/Fall River MA assessment area. FBRI's participation includes investments to convert previously distressed properties into affordable housing and educational facilities for low- and moderate-income individuals. FBRI assumed a leadership role in administering grants by stepping into a stalled homeless shelter project and funding its completion. Another leadership role was reflected in earmarking five grants for low- and moderate-income children and at-risk youth. These programs are acknowledged successes in reducing future needs.

Qualified Investments

The level of community development investments is high. FBRI made \$137 million in investments and extended \$50 million in qualified grants during the evaluation period. FBRI's investment activity benefited its assessment area as well as areas outside of the assessment area. Responsiveness to the needs of the assessment area is high and investment innovation is adequate. Examples of responsiveness and innovation are included in the following paragraphs. In addition, Table 3 provides an overview of the qualified investment activity through community development investments and grants. Table 4 provides a breakdown of the bank's investment activity in relationship to financial capacity.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	11,380	126,042	137,422
Originated Grants	336	49,518	49,854
Prior-Period Investments that Remain Outstanding	5,586	18,377	23,963
Total Qualified Investments	17,302	193,937	211,239
Unfunded Commitments*	470	0	470

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

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	1.2%	13.8%	15%
Total Investments/Average Total Income	1.4%	15.5%	16.9%
Total Investments/Average Pass-Through Receivables	0.3%	1.8%	2.1%

Complex Investments

- FBRI made a \$375 thousand equity equivalent investment in a CDFI; this was their second such investment. One complex issue in this investment is its structure, which resembles subordinated debt to FBRI and looks like equity to the CDFI. The CDFI uses the investment to enhance its capital from which loans are made. At the time, FBRI was the only bank participating in this investment vehicle. Another complex issue is introduced to this investment through monitoring the CDFI's loan portfolio, thereby insuring the continuing qualification of loans to their restricted uses. Investment proceeds created a specific loan fund, JOBS 2000 Revolving Loan Fund, to target and generate micro-loans, principally to service-sector companies, employing low- and moderate-income individuals. Proceeds also provide low interest gap financing to businesses located in distressed investment areas.
- FBRI made a \$2 million direct investment to convert an outmoded nursing home into affordable housing for low- and moderate-income senior citizens. This project is significant because of its location and condition of the building. It was a vacant 85-year old building, and it is located in the federally designated Providence Enterprise Community.
- FBRI made a \$750 thousand investment to help convert an abandoned mill building into a school serving predominately low- and moderate-income children. This project is

complex due to significant changes that arose in the overall funding process. Organizers of the facility had problems certifying this project for the issuance of tax-exempt bonds. FBRI supported the project through its protracted certification process even though final certification was not a certainty.

Low-Income Housing Tax Credits (LIHTCs)

- FBRI made nine separate investments, totaling \$6.3 million, in the State of Rhode Island's principal housing agency dedicated to helping find affordable housing for low- and moderate-income families. This agency, which does not receive tax dollars, depends entirely upon issuance of its bonds to provide funds for:
 - First time home buyers featuring below market rates and relaxed underwriting,
 - Loans for repairs or elimination of hazardous substances,
 - Combination loans for acquisition and rehabilitation of distressed properties,
 - Reverse mortgages for low- and moderate-income senior citizens, and
 - Project financing for low- and moderate-income rental and owner-occupied housing developments.
- FBRI made 12 direct investments, totaling \$92 million, in LIHTCs during the Evaluation Period. The properties covered by these investments were outside FBRI's assessment area. In total, these investments help fund more than 6600 units of affordable housing for low- and moderate-income families.

Grants

- FBRI made six independent grants, totaling \$95 thousand, to service agencies helping provide affordable housing, the number one community need mentioned by community contacts. In one situation FBRI assumed a leadership role in a stalled project. A service agency that historically provided food to indigent persons initiated a housing project. Ultimately, however, funding was insufficient. FBRI stepped in and helped fund the completion of the shelter. This is the only homeless shelter in this neighborhood and FBRI is the only bank involved. In another grant, the bank evidenced creativity. The recipient agency is well known and generally has little difficulty funding its building programs from contributions designated for construction materials. However, agency operations were severely constrained due to the lack of "general purpose" and unrestricted funding. FBRI committed to a three-year funding program to help meet the general-purpose needs of this agency.
- FBRI took a leadership role in helping meet the needs of low- and moderate-income children and youth. The bank made five independent grants, totaling \$98 thousand, to help provide daycare, training programs, and counseling for at-risk youth. This forward-looking objective helps to limit larger needs experienced by low- and moderate-income adults.

Community Development Lending

FBRI's charter restricts direct loan origination to credit cards. However, management identified many worthwhile community development activities, in which they wanted to participate. As a result, FBRI was allocated loans valued at more than \$276 million originated by its affiliate and accomplished the dual purpose of fulfilling the overall objective of furthering its CD involvement and helping additional agencies meet needs of low- and moderate-income individuals and families. FBRI's level of involvement is high. The loans do not evidence innovation. However, in management's decision to help meet credit needs and to do so at the levels reflected, FBRI responds positively to needs traditionally served by community development activities.

Table 5: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	0	19.7	19.7
Total CD Lending/Average Total Income	0	22.0	22.0
Total CD Lending/ Average Pass-Through Receivables	0	2.6	2.6

Community Development Services

- The bank demonstrates high responsiveness to community development needs in its assessment area.

Performance context issues within the AA make accomplishments, under this test, more difficult for this bank than performance for a traditional bank. Specifically, the staff level was less than one full-time-equivalent employee during the evaluation period. As a result, staff levels severely inhibit performance.

Despite this performance context issue, FBRI's level of community development services is high.

The services provide a positive impact on the assessment area. All services respond directly to community housing needs identified by community contacts. A description of each follows. A bank manager serves on the Construction Committee of the local affiliate of Habitat for Humanity. In this capacity, he dealt with financial issues such as creating budgets and tracking construction costs. He also performed comparative analysis of building materials and costs.

A bank manager serves the local affiliate of Habitat for Humanity as a financial consultant helping create escrow and reserve accounts for home-ownership projects.

A bank manager advises a local neighborhood enrichment program on its development of a

homeowners' training program for low- and moderate-income residents of the AA.

A bank manager provides financial guidance to a community outreach organization renovating a vacant building to a transitional shelter for homeless and low-income individuals and families.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal 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% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

Metropolitan Area (MA) – Area defined by the director of the United States Office of Management and Budget. MAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments.

Pass-Through Receivables – Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8.

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

Tier 1 Capital – The total of common shareholders’ equity, perpetual preferred shareholders’ equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Total Assets – Total bank assets as listed in the Consolidated Report of Condition and Income.

Total Income – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income.

