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**Comptroller of the Currency  
Administrator of National Banks**

**Strategic Plan**

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## **Public Disclosure**

April 30, 2001

# **Community Reinvestment Act Performance Evaluation**

**Household Bank (SB), N.A.  
Charter Number #22675**

**1111 Town Center Drive  
Las Vegas, NV 89144**

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Western District Office  
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**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 **Household Bank (SB), N.A.** (Household Bank), prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **April 30, 2001**. The agency evaluates performance in the assessment area(s), as they are delineated by the institutions, rather than individual branches. This assessment area(s) evaluation may include the visits to some, but not necessarily all of the institutions' 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.

**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 bank being considered a bank 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 \$100M (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 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. 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.

**Tier 1 Capital** - The total of common shareholders equity, perpetual preferred shareholders equity with non-cumulative 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.

## **Institution's CRA Rating**

Household Bank (SB), N.A. is rated **"Satisfactory"**.

The Strategic Plan was approved by the OCC on April 27, 1997 for Household Bank and its Affiliated Banks, Household Bank (Illinois), N.A. – charter number 18767, and Household Bank (Nevada), N.A. – charter number 18818, collectively. Household Bank (Illinois), N.A. closed soon after the Plan was approved with its assets transferred to Household Bank (Nevada), N.A. Household Bank (Nevada), N.A. closed on June 30, 2002 with its assets transferred to Household Bank. The Strategic Plan was also revised in January 1999, with the approval of the OCC, to expand the types of qualified investments the bank could utilize to achieve the annual goals. This evaluation assessed Household Bank using the combined goals of the three banks to meet either an outstanding or a satisfactory rating in the areas of investments and services. These goals are detailed and analyzed below.

Household Bank has demonstrated outstanding CRA performance by substantially meeting the Strategic Plan goals set forth. However, the bank's conduct with regard to discriminatory or other illegal credit practices adversely affected its CRA rating. This is further described in the Compliance with Anti-discrimination Laws and Regulations section of this performance evaluation.<sup>1</sup> The tables and discussions later in this document also give more details. The bank continues to effectively work with the community groups who support three aspects of community development investments and services of education, affordable housing and human services to find ways and means to create the most benefit to the community.

During our meetings with community groups, it was made very clear that the community at large is very pleased with the bank's community development work and touts the extensive and far reaching benefit to the community. The community views Household Bank as a leader in community development among the banking industry in Las Vegas and North Las Vegas.

## **Examination Scope**

Our evaluation covered the period beginning January 1, 1999 through December 31, 2000. We reviewed the assessment area of Las Vegas and North Las Vegas, Nevada. Examiners reviewed information provided by management to verify performance under the plan. As required by the regulation, the Plan contains annual goals. This examination assessed actual results compared to the goals for years 1999 and 2000.

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<sup>1</sup> The issuance of the CRA Performance Evaluation was delayed pending the resolution of the OCC's review of Household Bank's conduct regarding customers of Hispanic Air Conditioning and Heating, which was a dealer under several of the bank's private label credit card programs. The review was completed in the Spring of 2003.

## Description of Institutions

Household Bank, located in Las Vegas, Nevada, was chartered in December 1993 to issue a co-branded MasterCard card (GM Card). It also is the credit card issuer and servicer for merchant private label cards throughout the United States, as well as other MasterCard and VISA credit cards.

The bank was chartered under the Competitive Equality Banking Act (CEBA) of 1986. A CEBA credit card bank is not a “bank” for purposes of the Bank Holding Company Act if it engages “only in credit card operations” and does not: (1) accept demand deposits or other checkable accounts; (2) accept savings or time deposits of less than \$100,000, unless for collateral on a loan; (3) maintain more than one office that accepts deposits; or (4) engage in the business of making commercial loans. These statutory provisions reflect a legislative policy of restricting the ability of CEBA credit card banks to compete with retail banks by limiting the institution’s deposit taking and lending activities.

### BANK ASSETS AND EQUITY CAPITAL

BANK	As Of 12-31-99		As Of 12 31-00	
	ASSETS (000)	EQUITY CAPITAL (000)	ASSETS (000)	EQUITY CAPITAL (000)
Household Bank	4,741,950	804,820	5,440,067	1,087,394

## Description of Assessment Areas

Household Bank has designated its assessment area (AA) as Las Vegas and North Las Vegas, Nevada where their headquarter offices are located. The AA has 58 census tracts. The table below shows the number and percent of census tracts by income level, and the number and percent of families in those tracts based on 1990 U.S. Census Data. The entire assessment area is located within Clark County and the Las Vegas/Mojave Multi-state Metropolitan Statistical Area (MSA). The 1990 census showed the median family income of \$33,965, compared to the 2000 Department of Housing and Urban Development estimated median family income for this MSA of \$50,700, for an increase of \$16,735 or 67%.

The Housing and Community Development Consolidated Plan for 2000/2004 developed by Clark County Nevada states that the cities of Las Vegas and North Las Vegas continue to grow at a high rate, 77% and 128% respectively between 1990 and 1999. This population growth is fueled by the continued expansion of the hotel and gaming industry. This job growth creates a very high migration of persons into Nevada looking for employment and housing. Las Vegas Valley is attracting the poor with plenty of work, but is unable to control the rising housing costs that result from a supply-demand deficit.

An increase in the cost of housing out paces increases in household incomes, average home price in 2000 was \$137,000 as compared to the 1990 census showing a median home price of \$83,400 for an increase of \$53,600 or 39%. Approximately 22% of all households in the area are considered extremely low- or low-income. Approximately 63% of the residents are renters and 37% are owners. There are a large percentage of overcrowded units and approximately 17,000 substandard rental units. The annual demand for low-income housing units is 3,500. There are nearly 20,000 homeless people in Southern Nevada.

The Consolidated Plan reports the employment base is dominated by low-paying jobs in the service and hotel/gaming/recreation arenas. In fact, the service industry makes up 45% of Las Vegas MSA jobs, according to the Research and Analysis Bureau of the Nevada Department of Employment, Training and Rehabilitation. This industry offers low to moderate wages, with periods of lay-off and reductions in work hours in response to the fluctuations in tourism. The service sector offers an average monthly salary of slightly over \$2,200 - an inadequate amount to afford the average apartment rent of \$698 or a mortgage payment of about \$800 for an average priced home at today's rates. The retail and trade sector is the second largest industry at 20.8% of all Las Vegas MSA jobs and offers an average monthly salary of slightly over \$1,800, again inadequate to afford a fair market rental or mortgage. Individuals and families coming to Las Vegas frequently find that they do not have the skills required for available jobs, that the available jobs do not pay enough to afford the cost of housing, and that the cost of living is not as low as they had anticipated.

Although the economy is performing well above average, the two primary drivers are gaming and population growth. Migration has remained high. Gaming, on the other hand, has undergone a sharp reduction in investment that will keep the Las Vegas economy from replicating the speed of growth in 1999 in the foreseeable future. Although unemployment rate dropped from 4.4% in 1999 to 3.8% in 2000, the rate is expected to increase by a full percentage point over the next four years. Outside the gaming industry, the Las Vegas area is picking up export-related business services jobs leading to some diversification of the employment base. While the number of new jobs pales in comparison to last year's casino hiring, these are significant additions and more of the same is expected. The long term forecast however is for a downward trend.

Virtually all community contacts commented on the lack of houses or rental units for low- and moderate-income (LMI) people. They said that the area's rapid growth far exceeds the number of available affordable housing units. Some contacts said that small business owners also need technical assistance from the financial institutions to understand basic banking and how to prepare a business plan. Our contacts included 17 representatives from local community development organizations that focus on affordable housing issues, that provide needed social services to LMI people, and educators from schools serving the LMI population. These outreach sessions also brought a number of issues to the forefront: 1) community development organizations are relatively "young" and not heavily steeped in development expertise; 2) with some exceptions, Household Bank being one, most financial institutions are not taking leadership on tough developmental finance issues; 3) mergers and acquisitions are reducing the

number of financial institutions to assist with community development projects; and 4) a strategy has not yet emerged which offers an incentive to the gaming industry to help resolve the plight facing lower wage employees.

The Consolidated Plan also reports that the Hispanic population has increased from 11.6% in 1990 to 13.8% in 1999 in the Las Vegas MSA. This population is most likely undercounted due to the in-migration of illegal immigrants from Mexico and Latin America. The other notable increase is the Asian/Pacific Islander population, which has increased from 3.5% in 1990 to 6% in 1999. Due to these changes in the demographic make-up of the community, language education and financial services education was identified by our community contacts as a growing need.

Household Bank Assessment Area															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
Census Tracts		Total Families		Census Tracts		Total Families		Census Tracts		Total Families		Census Tracts		Total Families	
7	12%	16,511	20%	14	24%	14,910	18%	24	41%	19,354	23%	13	22%	31,779	38%

Source: Demographic Data - 1990 U.S. Census (Does not add to 100% due to rounding)/

## Discussion of Performance in the Assessment Area

### Strategic Plan Goals and Actual Performance:

The approved Strategic Plan is structured with two areas of goals, Investments and Services, with goals set for an outstanding rating or a satisfactory rating for a five year period. The Investments category is further broken down into CRA CDs, Philanthropy, and Consumer Credit Counseling Services (CCCS). The CRA CDs are certificates of deposit placed in local banks to be lent out for CRA qualified community development projects to benefit the Las Vegas/North Las Vegas, NV assessment area. The Philanthropy goals, which we have called Grants/Contributions, are based on impact and need of the assessment area. The CCCS goals are the anticipated “fair share percentage” allocation based on the number of accounts collected by CCCS for Household Bank. In the area of Services, the plan states: “The Bank believes that credit education will make a significant impact by utilizing employee talent and partnerships with other organizations.” Goals were set to make that impact.

During the development of the plan, the bank sought comments from 18 Las Vegas, NV and five Cook County, IL community agencies or individuals. Community needs expressed for Las Vegas were affordable housing, homebuyer education, and general education needs. The agencies in Cook County echoed the needs of affordable housing and homebuyer education. The bank incorporated the community group’s suggestions and kept the expressed needs in the forefront of the plan’s goals. These needs were again expressed by the community during our meetings for this evaluation as mentioned above.

## **Conclusions**

### **Investments:**

The performance of Household Bank has exceeded the goals set for investments by the Strategic Plan for an outstanding rating for both years reviewed as shown in the table below. The table below shows the goals and actual performance for Investments and Grants/Contributions for both 1999 and 2000. Although the Bank /West CD was not funded, the total goals were substantially exceeded for both review years. This CD, which funds are to be used for a senior medical center in the economically depressed West Las Vegas, is still under development and should be funded during 2001. A major player in the project is leaving Las Vegas and required the other participants to reorganize their participation.

The Consumer Credit Counseling Services (CCCS) contributions are the “fair share percentage” allocation based on the number of accounts collected by CCCS for Household Bank. The elevated dollar amount in the CCCS contributions, shown in the table below, is largely due to the increase in credit card debt and collection of that debt. These contributions increase with the number of clients assisted for payment of consumer debt. CCCS also provides credit counseling for its clients, of which a majority is low-income individuals. These contributions are used by CCCS to collect debt but also to provide credit counseling and credit education.

Household Bank continues to seek out opportunities to invest in the Las Vegas/North Las Vegas area to improve housing, health and human services, and education for LMI individuals. The bank’s CD funds were used for affordable housing (1999 - \$3,233,352; 2000 - \$4,721,352) helping meet the most pressing need of the community. Other CD funds were used for health and human services (1999 - \$792,000; 2000 - \$792,000) and to support an Enterprise Zone Community Development Credit Union (1999 - \$100,000; 2000 - \$100,000). The bank is viewed by the 17 community representatives we spoke to as a leader in community development and is willing to do what ever the bank can to improve their designated assessment area. These community representatives stressed the significant positive impact Household Bank has had on the assessment area.

The bank has found it difficult to find appropriate investment projects in Las Vegas and West Las Vegas partly because of their CEBA bank limitation and partly because the community continues to struggle with the infrastructure for the development of qualified community development projects. The bank continues, according to the 17 community groups we interviewed, to be involved and supportive of all the possible housing and health and human services projects in their AA. Household Bank is also in competition with 13 large banks for Community Development investments such as Bank of America, Wells Fargo Bank, Citibank, U.S. Bank, Nevada State Bank, Bank West of Nevada, California Federal Bank, and Washington Mutual Bank to name the largest.

In the area of Grants/Contributions, the table below shows that the bank has also significantly exceeded the goals set by the Strategic Plan for an outstanding rating for both years reviewed.

The breakdown of contributions for the review period is affordable housing and first time home buyer education totaled \$227,783; educational programs, both financial services and education of LMI students totaled \$165,212; health and human services totaled \$17,970; and economic development projects totaled \$1,000. These totals indicate that the bank is supporting programs in housing and education, which were the strongest needs identified by the community organizations.

During the examination process investments and contributions were validated as to their qualifications under the CRA regulation and the Strategic Plan. All CRA CDs and contributions included in the table met the qualification requirements.

### COMMUNITY DEVELOPMENT INVESTMENTS

	1999 OUTG. GOAL (\$)	1999 SAT. GOAL (\$)	1999 ACTUAL (\$)	2000 OUTG. GOAL (\$)	2000 SAT. GOAL (\$)	2000 ACTUAL (\$)
<b>Investments</b>						
Wells Fargo Bank CD	1,000,000	1,000,000	942,000	1,000,000	1,000,000	942,000
Bank/West CD	1,000,000	1,000,000	- 0 -	1,000,000	1,000,000	- 0 -
New Investments- Previously Funded	2,000,000	1,000,000	2,135,806	3,000,000	1,500,000	3,083,352
New Investments	1,000,000	500,000	1,047,546	1,000,000	500,000	1,588,000
Sub-total	5,000,000	3,500,000	4,125,352	6,000,000	4,000,000	5,613,352
<b>Grants/Contributions</b>	140,000	140,000	188,025	160,000	160,000	223,940
<b>CCCS</b>	5,000,000	3,000,000	14,387,404	5,000,000	3,000,000	15,329,804
<b>TOTAL INVESTMENTS</b>	10,140,000	6,640,000	18,700,781	11,160,000	7,160,000	21,167,096

OUTG. - Outstanding; SAT. - Satisfactory; CCCS - Consumer Credit Counseling Services

#### Services:

The table below shows that Household Bank has significantly met or exceeded the goals set in the Strategic Plan for outstanding in the area of Community Development Services. The column labeled ACTUAL indicates the number of credit education classes held and the number of credit education radio programs hosted by the bank.

The bank has formed an Educational Task Force of volunteer staff members who develop and conduct the adult and student financial educational programs. These programs are also presented in Spanish by bilingual staff members where needed. The community feedback and the validation of services during our review indicated that the bank's educational programs are innovative and quite effective.

In addition to the educational services provided by the bank staff, the CRA Officer provides leadership representation by participating on 11 volunteer boards of directors and committees. These include, Academy of Finance at Clark High School, Nevada Council on Economic

Education, Women’s Development Center, West Las Vegas Pride Community Development Corporation, among others. These organizations all meet the qualifying definition of community development under the act.

Household Bank has also taken a leadership role in the development of Clark County School District’s 21st Century Community Learning Centers Program application for Federal Education assistance. If approved in June 2001 it will put \$3.2 million into four schools serving the LMI population in Las Vegas. This proposal includes financial services education for both adults and students. According to the community organization representatives we interviewed, this participation by a bank officer has a very positive impact on the community as a whole. The CRA Officer has also taken a leadership role by involving other businesses in the community to participate in housing and educational projects to benefit the LMI population of the assessment area.

### COMMUNITY DEVELOPMENT SERVICES

	1999 OTG. GOAL		1999 SAT. GOAL		1999 ACTUAL		2000 OTG. GOAL		2000 SAT. GOAL		2000 ACTUAL	
	Adu.	Stu.	Adu.	Stu.	Adu.	Stu.	Adu.	Stu.	Adu.	Stu.	Adu.	Stu.
<b>CLASSES</b>												
<b>CREDIT</b>	18	60	12	40	14	67	18	60	12	40	23	62
<b>RADIO</b>	18		12		20		18		12		20	
<b>TOTAL</b>	36	60	24	40	34	67	36	60	24	40	43	62

Adu. - Adult; Stu. - Student; OTG. - Outstanding; SAT. - Satisfactory

### Compliance with Anti-discrimination Laws and Regulations

Evidence of discriminatory or other illegal credit practices adversely affects the OCC's evaluation of a bank's CRA performance. During the examination period, the OCC conducted a review of Household Bank's conduct regarding customers of Hispanic Air Conditioning and Heating, which was a dealer under several of the bank's private label credit card programs. That review identified evidence of discriminatory or other illegal credit practices. The Bank's conduct adversely affected the Bank's CRA rating.