



PUBLIC DISCLOSURE

April 01, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Scottrade Bank
Charter Number 718050

700 Maryville Centre Drive, Suite 300
St. Louis, MO 63141

Office of the Comptroller of the Currency

One Independence Square
250 E Street, SW
Washington, DC 20219-0001

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 Satisfactory.

The conclusions for the three rating criteria are:

- The bank demonstrates an adequate level of community development lending, community development services, and qualified investment activity in its assessment area.
- The bank demonstrates occasional use of complex community development loans given its performance context. The bank does not use innovative or complex qualified investments or community development services.
- The bank demonstrates adequate 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 (CD) activities from July 8, 2008 through April 1, 2013. 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 donations provided by its affiliate, Scottrade, Inc. This is the bank's first CRA examination.

If a bank has adequately addressed its assessment area needs, the OCC considers CD activities the bank submits that benefit areas outside of its assessment area in the evaluation of its performance. The bank has adequately addressed the needs of its assessment area, and therefore, we considered qualified investments and community development loans outside of the assessment area in evaluating its performance.

Description of Institution

Scottrade Bank (Scottrade), an \$18 billion institution, is a wholly owned subsidiary of Scottrade Financial Services, Inc. (Scottrade Financial), a \$25 billion bank holding company incorporated under the state laws of Delaware and located in St. Louis, Missouri. Scottrade Financial has minimal operating activities and owns two brokerage firms: Scottrade, Inc., an Arizona corporation that is one of the largest online securities brokerage firms in the United States, and Scottrade Hong Kong Ltd. We considered qualified donations made by Scottrade, Inc. in evaluating CD performance.

In February 2013, Scottrade Financial purchased the parent company of Boulevard Bank, which became a subsidiary of the holding company. This acquisition did not impact the scope of bank operations during the evaluation period.

Scottrade, headquartered in St. Louis, Missouri, began operations on July 8, 2008. At that time, the Office of Thrift Supervision designated the bank as a wholesale institution for purposes of the Community Reinvestment Act. Scottrade is an internet-based Federal Savings Bank that does not have any retail branches.

The bank provides a mechanism to sweep cash funds held by customers of Scottrade, Inc. to the bank for investment purposes. Scottrade offers various personal deposit products and services, which are exclusive to Scottrade, Inc. customers and bank/brokerage company employees. In 2011, Scottrade began purchasing loans for its portfolio; the bank does not originate or service loans. As of December 31, 2012, total loans are 1.8 percent of total assets.

Scottrade does not have in-house systems to create loan documents or service loans. This makes it difficult for the bank to originate loans. No other legal, financial or other factors impede the bank's ability to help meet the credit needs in its assessment area (AA). Scottrade functioned as a de novo bank during a majority of the review period where the institution did not have approval to originate or purchase loans. In the fourth quarter of 2010, the bank received approval to purchase loans. Scottrade began limited loan purchases in 2011.

Table 1: Financial Information (000s)

	Year-end 2008	Year-end 2009	Year-end 2010	Year-end 2011	Year-end 2012	Most Recent Quarter-end 3/31/2013	Average for Evaluation Period
Tier 1 Capital	305,338	511,359	619,704	1,082,520	1,210,730	1,191,094	820,124
Total Income	4,177	31,905	37,888	58,603	242,948	270,752 **	107,712
Net Operating Income	3,125	15,940	20,156	34,646	157,835	167,448 **	66,525
Total Assets	3,691,035	6,309,022	7,762,217	13,354,909	16,771,604	17,699,811	10,931,433

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

The substantial asset growth is attributable to the sweep program for Scottrade, Inc. customers.

Description of Assessment Area

Scottrade's delineated AA includes St. Louis County and St. Louis City County in Missouri. The AA meets legal requirements and does not arbitrarily exclude low- or moderate-income geographies.

Table 2 outlines AA demographic information:

Table 2: Assessment Area Description – St. Louis County and St. Louis City County

	Number	Low	Moderate	Middle	Upper
Tracts	305 ***	18.36%	23.93%	26.89%	30.49%
Families	332,402	18.59%*	18.06%*	24.25%*	39.10%*
Businesses	130,267****	7.93%**	18.55%**	26.27%**	47.13%**

Source: Demographic Data – 2010 U.S. Census, Dun & Bradstreet Data.

*Represents families by income level. **Represents businesses by income level of census tract. *** 0.33% of tracts do not have an income designation. ****0.13% of businesses are in tracts that have no income designation.

The AA is part of the St. Louis MO-IL Metropolitan Statistical Area (MSA). According to the 2010 U.S. Census Data, the median family income (MFI) is \$67,013, while the 2012 updated MFI is \$70,400 as determined by the Federal Financial Institutions Examination Council (FFIEC). The AA population is 1.3 million persons. Approximately 59 percent of housing units are owner-occupied. The median housing value is \$189,570.

The St. Louis economy is slow and continues to lag behind other major metropolitan areas since the end of the most recent recession. In 2011, St. Louis was the nation's 21st largest metropolitan economy. Unemployment in the AA averaged 7.7 percent in March 2013. This compares to an unemployment rate of 7.4 percent in the St. Louis MSA, 6.7 percent in the state of Missouri, and 7.6 percent in the United States.

Major industries in St. Louis include manufacturing, healthcare/social service, professional/technical services, and retail trade. Major employers include BJC HealthCare, Boeing Defense Space & Security, SSM Health Care, Washington University, Schnucks, and Wal-Mart Stores, Inc.

Competition is strong. A large number of financial institutions operate in the AA. Because Scottrade does not originate or service loans, it is difficult to participate in CD lending projects. Otherwise, there are no barriers to CD lending, investment, and service activities.

Opportunities are very good for financial institutions to participate in CD activities. OCC representatives met with two affordable housing organizations that operate in the AA. The contacts identified the following needs within the community: refinancing of expiring low-income housing tax credit projects, financing and technical assistance for small non-profit organizations, and mortgage products for low- and moderate-income borrowers.

Conclusions about Performance

Summary

Scottrade's CRA performance in the St. Louis AA is satisfactory.

- The level of CD activities is adequate given the bank's capacity and available opportunities. Scottrade funded two CD loans and eight qualified investments in its AA. A majority of these activities helped meet affordable housing needs. Scottrade

also donated funds to CD organizations that benefit the AA. In addition, bank employees provided CD services to organizations that provide affordable housing and community services to low- and moderate-income individuals.

- In rare instances, Scottrade makes use of complex CD activities. During the evaluation period, the bank originated two complex CD loans. To ensure proper structuring and loan servicing, the bank hired outside counsel. Bank management did not have the expertise since Scottrade does not originate or service loans. The bank did not use any innovative products or services in meeting CD needs.
- Scottrade’s CD activities demonstrate adequate responsiveness. A majority of CD loans and investments support affordable housing needs in the AA. CD service activities also provide technical assistance to non-profit affordable housing organizations.

Qualified Investments

Scottrade provided an adequate level of qualified investments to meet community needs. During the evaluation period, the bank made eight qualified investments totaling \$6 million in the AA. Six of these investments, totaling \$4.6 million, were to the St. Louis Equity Fund, which helps provide affordable housing and neighborhood revitalization. In addition, Scottrade invested \$1.4 million in a mortgage loan pool where all loans were to low- and moderate-income (LMI) borrowers. The bank also made donations in the AA that promote both affordable housing and community services to low- and moderate-income individuals.

Scottrade adequately addressed community development needs in its AA. Therefore, we considered CD investments and donations that benefit the St. Louis MSA, which includes the bank’s AA. The bank invested \$1 million in the St. Louis Equity Fund to provide affordable housing. In addition, the bank invested \$1.2 million in a mortgage loan pool that consisted of loans to LMI borrowers.

Table 3a: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	6,424	2,242	8,666
Originated Grants	132	103	235
Prior-Period Investments that Remain Outstanding	0	0	0
Total Qualified Investments	6,556	2,345	8,901
Unfunded Commitments*	0	0	0

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

Table 4a: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	0.80%	0.29%	1.09%
Total Investments/Average Total Income	6.09%	2.18%	8.26%

Community Development Lending

Scottrade provided an adequate level of CD lending in its AA. The bank originated two CD loans totaling \$13 million. These loans provided bridge financing to the St. Louis Equity Fund for affordable housing projects in the AA. Financing was complex since the bank does not originate or service loans. Scottrade does not have in-house systems to create loan documents or service loans. In addition, the bank did not receive approval to originate or purchase loans until late in 2010. Management hired outside counsel to ensure the adequacy of loan structuring and servicing.

Scottrade adequately addressed community development needs in its AA. Therefore, we considered CD loans that benefit the St. Louis MSA, which includes the bank's AA. In March 2013, the bank made a \$500 thousand loan commitment to a local Community Development Financial Institution that provides affordable housing.

Table 5a: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	1.59%	0.06%	1.65%
Total CD Lending/Average Total Income	12.07%	0.46%	12.53%

Community Development Services

Scottrade employees provide an adequate level of CD services. As of December 2012, the bank had 28 employees. Senior level employees provided CD services to the following organizations:

- Rebuilding Together – this organization helps low-income homeowners with rehabilitation efforts. Bank management provided financial services as a Board member.
- St. Louis Equity Fund – promotes affordable housing through low-income housing tax credits. Bank management provided financial services as a Board member and through membership on the finance and investment committees.
- Horizon Housing Foundation – supports affordable housing programs and helps low-income residents become self-sufficient. Bank management provided financial services as a Board member and Treasurer.

- Spirit of St. Louis Women’s Fund – supports organizations that target services to low- and moderate-income individuals. Bank management provided financial services as a Board member and Treasurer.

These services are responsive to identified affordable housing needs in the AA and help with the provision of services to low- and moderate-income individuals. However, they are not innovative or complex. The organizations served benefit the St. Louis MSA, which also includes the bank’s AA. A significant majority of services target the bank’s AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

The OCC did not identify evidence of discriminatory or other illegal credit practices with respect to this institution.

Further, section 1025 of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203) assigns to the CFPB exclusive examination authority, and primary enforcement authority, to ensure compliance by banks and FSAs with Federal consumer financial laws, if the bank or FSA has more than \$10 billion in assets. The CFPB has not provided the OCC with any information about, or other evidence of, discriminatory or other illegal credit practices relative to this institution with respect to the Federal consumer financial laws.

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 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 has the potential to benefit the assessment area and is located in the 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.

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. [*This definition is not needed for non-CEBA Limited Purchase or Wholesale Institutions.*]

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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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 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. [*This definition is not needed if bank is designated a wholesale institution.*]

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 Division: As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that

represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Net Operating Income: As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, "PreTax Operating Income (TE)"*]

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. [*If not already reported to the OCC, the bank provides this information. If not applicable to institution being examined, definition is not required.*]

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. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, "Net Tier One"*]

Total Assets: Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, "Total Assets"*]

Total Income: From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, "Total Interest Income" and "Noninterest Income"*]

[*For wholesale institutions, add this definition*]

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.