



Limited Purpose

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 30, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Cedar Hill National Bank
Charter Number 23323
316 Business Center, Building D
1000 Hurricane Shoals Road
Lawrenceville, GA 30243**

**Office of the Comptroller of the Currency
Credit Card Bank Supervision
3 Ravinia Drive, Suite 550
Atlanta, Georgia 30346**

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.

This institution is rated Outstanding.

The conclusions for the three rating criteria are:

- The bank demonstrates a high level of community development qualified investment activities and an adequate level of community development qualified services.
- The bank demonstrates no use of innovative or complex qualified investments, or community development services.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment area (AA).

SCOPE OF THE EXAMINATION

In evaluating the bank's performance under the CRA, we reviewed community development activities from February 3, 2001 through October 30, 2006. We reviewed the level and nature of qualified investments and community development services. At the prior examination, dated February 2, 2001, we rated the bank Satisfactory.

If a bank has adequately addressed its AA needs, the OCC considers community development (CD) activities the bank submits that benefit areas outside of its AA in the evaluation of its performance. The bank has adequately addressed the needs of its AA, and therefore, outside of AA CD qualified investments were considered in evaluating its performance. At the bank's request, we also considered qualified investments provided by its affiliates.

DESCRIPTION OF INSTITUTION

Cedar Hill National Bank (CHNB) was chartered February 2, 1998 as a limited-purpose credit card bank under the Credit Equality Banking Act of 1987 (CEBA). CHNB is headquartered in Lawrenceville, GA and has no branches. The bank is wholly owned by The Cato Corporation headquartered in Charlotte, NC. The Cato Corporation is a regional chain of women's retail clothing stores. They operate 1,061 stores in 31 states across the Eastern and Central U.S. CHNB reported total assets of \$10.3 million as of September 30, 2006.

CHNB was chartered to offer private label consumer credit cards for The Cato Stores only. CHNB does not accept deposits other than a deposit from The Cato Corporation. Credit card receivables originate at point of sale terminals in the clothing stores. The bank sells the receivables to an affiliate, Cato West. CHNB is responsible for servicing the accounts receivable. Their primary source of income is the servicing income earned on the credit card receivables.

As a CEBA credit card bank, CHNB must engage only in credit card operations and must not: (1) accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties or others; (2) accept any savings or time deposits of less than

\$100,000; (3) maintain more than one office that accepts deposits; or (4) engage in the business of making commercial loans.

CHNB's ability to provide community development services is affected by the number of individuals employed by the bank that work in the defined AA, as well as the specialized nature of the bank's financial expertise. The Lawrenceville, GA office consists of an office manager, 1 part-time, and 2 full-time employees. The majority of the bank's operations staff is housed in Charlotte, NC. The parent company provides some investment expertise and avenues for CRA qualified investments.

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

Table 1: Financial Information (000s)

	Year-end 2001	Year-end 2002	Year-end 2003	Year-end 2004	Year-end 2005	9 mo. ending 9/30/2006	Average for Evaluation Period
Tier 1 Capital	6,436	5,324	5,862	5,930	6,598	7,229	6,631
Total Income	5,726	5,219	4,275	3,968	4,622	3,566	4,761
Net Operating Income	780	373	538	7	669	631	535
Total Assets	9,388	8,637	8,758	8,791	9,345	10,290	9,773
Pass Through Receivables	98,685	107,511	112,360	115,722	116,935	113,539	117,100

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

DESCRIPTION OF ASSESSMENT AREA

CHNB has designated the Atlanta-Sandy Springs-Marietta, GA MSA as their AA for CRA purposes. This AA meets the legal requirements of the Act. The AA is a twenty-eight county area surrounding the city of Atlanta with a total of 690 census tracts. There were 4.2 million persons in the area comprising 1.1 million families and 1.6 million households according to the 2000 census data. The 2000 census median family income was \$58,437, while the updated median family income for 2005 was \$68,100. The unemployment rate for the MSA was 4.5 % in August 2006, compared to the rate of 4.6% for both the state of Georgia and the U.S. Homeownership in the AA is 66.4%, while the overall rate in Georgia was 67.9% and U.S. rate was 68.9% according to 2005 statistics available from the U.S. Census Bureau.

Additional demographic data is displayed in Table 2.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Geographies (Census Tracts)*	690	10.4%	26.8%	36.2%	26.4%
Small Businesses by Geography*	477,559	4.4%	19.3%	38.7%	37.6%
Distribution of Families by Income Level	1,087,862	20.0%	18.1%	22.3%	39.6%

Source: Demographic Data - 2000 U.S. Census, Dun & Bradstreet Data.

* Does not add to 100%. One Census Tract (1.4%) has no income designation.

The Atlanta-Sandy Springs-Marietta, GA MSA is located in the Southeast United States. Metro Atlanta ranked among the top five in the nation in job growth over the past decade, and is home to 27 Fortune 1000 companies. Hartsfield-Jackson Atlanta International Airport is recognized as the world's busiest airport. Atlanta is also considered the rail center of the South, supporting one of the largest inland ports in the world, and one of the top five distribution centers in the U.S.

The Atlanta MSA has a diverse business and industrial base that includes manufacturing, transportation, distribution, retailing, wholesaling, finance, government, research, education, medicine, and technical support. The trade, transportation, and utilities sector is the area's largest employment category with 535,000 employees, or 23% of Atlanta's workers. The professional and business services sector ranks second with 17%, and educational and health services rank third at 10%.

The 2005-2010 Consolidated Plan for the State of Georgia indicates the Atlanta metro area has a need for affordable housing, particularly for those who are homeless or diagnosed with HIV/AIDS. The 2005 American Community Survey indicates approximately 25% of homeowners with mortgages in the AA allocated 35% or more of their household income to housing expenses, compared to 24% in the State of Georgia and 26% across the U.S. Approximately 9% of homeowners in the AA with no mortgage paid 35% or more of household income for housing costs, compared to 10% in Georgia and 12% across the U.S. Housing costs were equal to 35% or more for approximately 38% of renters in the AA, compared to 37% of renters in Georgia and across the U.S.

During the examination, we reviewed five recent community contacts conducted by the OCC and CRA Performance Evaluations of other banks in the AA. These community contacts identified the primary community development need as creating additional affordable housing. Financial literacy for low-income and immigrant families, and working capital loans for small businesses were also identified as community development needs.

CONCLUSIONS ABOUT PERFORMANCE

Summary

CHNB has demonstrated excellent performance in helping to meet the community development needs of the AA, including the credit needs of low- and moderate-income individuals. Since CHNB's charter restricts its lending to credit cards, it cannot directly originate community development loans. However, through its investments, the bank and an affiliate have provided low cost funds for affordable housing and rehabilitation in the bank's AA, and funds to organizations that provide services to low- and moderate-income families.

- CHNB has a high level of qualified investments within its AA (including those from its affiliate), given the legal restrictions, its financial condition and the available investment opportunities. CHNB does not use innovative or complex qualified investments.
- CHNB provided an adequate level of qualified community development services within its AA.
- The bank demonstrates excellent responsiveness to credit and community development needs in its AA.

The bank has adequately addressed the needs of its AA. Therefore, we also considered activities of the holding company that benefit areas outside the bank's AA.

Qualified Investments

Tables 3 and 4 summarize the bank and its affiliate's qualified investments and compare the dollar amounts to indicators of the bank's financial capacity. The vast majority of the investments were in securities that support affordable housing in the bank's AA. These are responsive to the needs of the AA that were identified by community contacts and the Consolidated Plan for the State of Georgia.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	2,300	0	2,300
Originated Grants	0	82	82
Prior Period Investments that Remain Outstanding	0	0	0
Total Qualified Investments	2,300	82	2,382

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	34.68%	1.24%	35.92%
Total Investments/Average Total Income	48.31%	1.74%	50.03%
Total Investments/Average Receivables	1.96%	0.07%	2.03%

The bank invested \$2 million in Cobb County Housing Authority Revenue Bonds. These bonds are issued to fund affordable housing in Cobb County. The bank also invested \$300 thousand in City of Roswell Housing Authority bonds, issued to fund affordable housing in Roswell. Both investments provide direct benefit to the AA.

As provided by the CRA regulation, CHNB can receive credit for community development investments made by its affiliates. Due to its satisfactory performance in the AA, CHNB can receive credit for qualified contributions made outside the Atlanta MSA. The Cato Corporation contributed \$30 thousand to the Second Harvest Food Bank of Metrolina. The food bank provides services to low- and moderate-income families and is located in Charlotte, NC where the bank maintains an operations center. The Cato Corporation also made contributions to an organization that provides direct funding to a number of community development organizations in the Charlotte area. These contributions are not claimed by any other affiliate.

Community Development Services

Table 5 summarizes the bank's qualified community development services. These support affordable housing and services for low- and moderate-income families, and are responsive to the needs of the AA.

Table 5: Community Development Service Activities

CD Service	Benefits AA	Outside AA
Branch manager provides financial expertise to Habitat for Humanities	X	
Affiliate contributed 52 boxes of new clothing and shoes to the Harvest Center for the homeless.		X

FAIR LENDING REVIEW

We found no evidence of illegal discrimination or other illegal credit 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 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 AA if (i) the activity benefits areas within the AA, or (ii) the activity benefits a broader statewide or regional area that includes the bank’s AA. If a bank has adequately addressed the needs of its AA, then the OCC also considers activities submitted by the bank that benefit areas outside of its AA.

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 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.

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 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 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.

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.