



**Office of the Comptroller of the Currency
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PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

May 31, 1997

**First Union National Bank of Washington, D.C.
740 15th Street, N.W.
Washington, D.C. 20061**

Charter Number 15127

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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First Union National Bank of Washington, D.C.**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **May 31, 1997**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DESCRIPTION OF CONTENTS

The balance of this document contains information presented in four sections. The sections are: **Performance Context, Summary of Institution's Performance, Discussion of Institution's Performance** and **Additional Information**.

The **Performance Context** section provides data about the bank, its direct and indirect (affiliate) lending structure, and its delineated community. The **Summary of Institution's Performance** presents the bank's rating and performance highlights which are further discussed relative to the 12 assessment factors grouped under five performance categories (refer to **General Information**).

Performance Context

- Institution Profile
- Community Profile

Summary of Institution's Performance

- Institution's Rating
- Performance Highlights

Discussion of Institution's Performance

- Ascertainment of Community Credit Needs
- Marketing and Types of Credit Offered and Extended
- Geographic Distribution and Record of Opening and Closing Offices
- Discrimination and Other Illegal Credit Practices
- Community Development

Additional Information - Corporate and Local CRA Programs

PERFORMANCE CONTEXT

Institution Profile

First Union National Bank of Washington, D.C. (FUNB-DC) is a subsidiary of **First Union Corporation (First Union)**, a multi-bank holding company. First Union is the sixth largest banking company in the nation, with assets of **\$140 billion** as of year-end 1996. It is headquartered in Charlotte, North Carolina, and owns ten national banks based in the District of Columbia, Florida, Georgia, Maryland, North Carolina, Pennsylvania, South Carolina, Tennessee, and Virginia.

FUNB-DC has total assets of **\$2 billion** and is the third largest bank, based on year-end 1996 assets, in the District where it operates 24 branch offices within this community. The District is part of the multi-state Washington, D.C. Metropolitan Statistical Area (MSA) which includes portions of Maryland, Virginia, and West Virginia. The MSA median family income is \$68,300. As detailed below, the income of individuals who reside in the District is significantly less than individuals that reside in the entire MSA. The District represents a reasonable community delineation and it does not arbitrarily exclude any low- and moderate-income (LMI) areas.

Lending by affiliates helps FUNB-DC identify and address community credit needs. For the First Union subsidiary banks, residential mortgage lending is largely consolidated at **First Union Mortgage Corporation (FUMC)**. FUMC processes mortgage loan applications and subsequently sells originations to First Union national bank affiliates or the secondary market. Another subsidiary of the holding company, **First Union Home Equity Bank, N.A.**, provides home equity financing in 35 states, including this bank's markets.

Notes:

LMI denotes low-and moderate-income (LMI). This means an individual or borrower income that is less than 80% of the area median income or, in the case of a geography, a median family income that is less than 80% of the respective MSA.

The **population statistics and income information** reflects data obtained from the 1990 Census and the United States Department of Housing and Urban Development (HUD).

Evaluation Period - The bank's previous CRA Performance Evaluation is dated April 11, 1994. This Performance Evaluation reflects the bank's performance assessed since then through May 31, 1997, based primarily upon data for 1995 and 1996.

Community Profile

The Washington, D.C. MSA has a median family income of \$68,300. As detailed below, the income of individuals who reside in the District is significantly less than individuals that reside in the entire MSA.

	Washington, D.C. Delineated Community	Multi-State Washington, D.C. MSA
% of Low- Moderate- Middle- Upper- Income Families	37% 20% 17% 26%	18% 19% 25% 38%
% of Low- Moderate- Middle- Upper- Income Census Tracts	27% 34% 18% 18% 3% unpopulated	6% 24% 40% 23% 7% unpopulated
% of Households Below Poverty Level	14%	6%

Washington, D.C., the nation’s capital, is an international city. The federal government is the area’s largest employer, with approximately 2.8 million people. With 20 million visitors a year, tourism has become the second largest income producer. The local government is undergoing major revision, including the privatization of services, organizational restructuring, downsizing, and a general refocusing of governmental priorities. While these changes are expected to have positive long-term effects, they are reducing the financial resources that would otherwise be available to the community for services and development needs.

Based upon 1990 data, Washington, D.C. has a resident population of 606,900. Over the last 10 years, the population has declined by approximately 5% from residents in all income levels. While the number of families has decreased, the available housing stock has remained relatively constant. However, much of the available housing is in need of renovation. Also, the median housing value for Washington, D.C. has historically risen faster than median income, making it more difficult for the low- and moderate-income residents to obtain suitable housing. As of the 1990 census, the median housing value for Washington, D.C. is \$103,150.

SUMMARY OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented, this institution is rated: **“Outstanding record of meeting community credit needs.”**

Performance Highlights:

- o FUNB-DC has demonstrated responsive action to develop loan programs that help meet identified community credit needs. Some of these programs pertain to affordable housing, small businesses, and consumer loans.
- o In 1995 and 1996, at least 40% of this \$2 billion bank’s mortgage originations have been in LMI areas.
 - This volume shows a high level of responsiveness by FUNB-DC, particularly when only about 40% of owner-occupied homes are located in LMI areas.
 - Compared to the available market data (year-end 1995), FUNB-DC made a higher percentage of its consumer real estate loans both in LMI areas (56%) and to LMI borrowers (45%) when compared to the market at 48% and 44%, respectively.
- o FUNB-DC is actively involved with community development activities, often in a leadership role.
 - The bank was a leader in the effort to create a micro-loan fund in the District.
 - FUNB-DC established the first public/private micro-loan partnership. As a result of the bank’s leadership efforts, now there are eight micro-loan programs in the District funded by three area banks. FUNB-DC has provided \$400 thousand of the funding.
- o FUNB-DC has also taken a lead role and responded to the need for financing for multi-family housing and provides funds for all facets of the transactions, unlike many lenders.
- o FUNB-DC uses the Federal Home Loan Bank (FHLB) Affordable Housing Program and the Community Investment Fund to promote community development efforts.
 - FUNB-DC has the largest dollar and number of affordable housing program grants and loans when compared to other District banks.
 - The bank manages 11 affordable housing projects totaling \$6 million in subsidies or below-market loans; this represents 646 housing units in the District.
- o Affordable home mortgage originations total 166 loans for \$20 million compared to 1994 with two loans at \$144 thousand. These results were gained from one of three mortgage products that were recently (June of 1996) introduced to the market.
- o In 1996, the bank reports 108 loan originations to small businesses with gross annual revenues less than or equal to one million dollars; this totaled \$11 million. The aggregate total of loans to small businesses equals \$40 million (221 loans) for 1996. At the prior evaluation, bank records reflect \$3.7 million for 32 loans.

DISCUSSION OF INSTITUTION'S PERFORMANCE

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- o FUNB-DC has effectively determined the credit needs of its delineated community, including low- and moderate-income areas.**
- o The bank has responded pro-actively to the identified credit needs.**

Bank directors, officers, and employees at all levels have ongoing meaningful contacts with a large range of groups and individuals to ascertain community credit needs. FUNB-DC uses a formal officer call program as the primary method to ascertain community credit needs.

During 1994, 1995, and 1996, bank employees met with business owners (small and minority owned), community development corporations, housing advocacy groups, church leaders, representatives from city and county government, Realtors, and other community organizations. Through these contacts, the bank has established productive relationships that have resulted in public and private partnerships. These partnerships have assisted the bank in meeting credit needs pertaining to affordable housing, small business loans, and credit counseling.

FUNB-DC meets with various organizations and community members to obtain relevant information about community development activities and credit needs. Participants in such meetings represent a cross section of individuals with housing, business, religious, community, and governmental backgrounds.

FUNB-DC representatives document community contacts, ascertain credit needs, and submit quarterly reports to the bank's Self Assessment Committee (SAC). Information from these contacts are then used to develop an action plan for the bank's delineated community. This plan helps the bank address identified credit needs which include: affordable housing loans (single-family and multi-family), home improvement loans, consumer loans, student loans, small business loans, secured credit cards, and small business credit cards.

These community credit needs were verified during our examination by reviewing a combination of prior community contacts, prior examination findings, economic and demographic data, and the U.S. Department of Housing and Urban Development (HUD) Consolidated Strategy and Plan for Washington, D.C. The Consolidated Strategy and Plan is a comprehensive planning document that identifies community needs for affordable housing and other related services/activities.

The Board of Directors and senior management are highly proactive and responsive in addressing community credit needs. FUNB-DC offers special loan products with flexible lending criteria to help make credit more widely available throughout its communities. Examples of these products include: Special Vehicle Loan, Special Home Improvement Loan, Secured MasterCard, Visa Business Card, and several affordable home mortgage loans. The characteristics of these loan programs and the corporate **Small Business Banking Division (SBB)** are discussed in more detail under **Assessment Factor I**.

On a semi-annual basis, management analyzes demographic information for Washington, D.C. and identifies the bank's lending activity in all census tracts. Census tracts with a low volume of loans are targeted for increased marketing and outreach activities.

Assessment Factor C - The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- o CRA is an integral part of the Board's planning process and banking philosophy.**
- o The Board and senior management, at both the bank and holding company level, are actively involved in the bank's CRA program.**

The CRA SAC exercises active policy oversight and conducts quarterly reviews of CRA activities and performance. The committee is chaired by the President and Chief Executive Officer. Committee members also include senior management from various areas of the bank. A CRA program has been established to help ensure community credit needs are met. The CRA program establishes goals and objectives and provides a methodology for an annual self assessment. In addition, CRA action plans are developed to ensure corporate goals and directives are met. The Board of Directors receives quarterly progress reports of CRA activities.

Directors, advisory directors, and senior management actively participate in a variety of organizations that assist the bank in improving the community. Examples of these organizations include the Greater Washington Board of Trade, Joint Subcommittee to Study Capital Access and Business Financing, Washington Airports Task Force, Washington Hospital Center Foundation, and the United Way.

The Board actively supports CRA training for all personnel and ensures all CRA regulatory requirements are met.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- o FUNB-DC has implemented sound marketing and advertising programs.**
- o These programs inform all segments of the bank's delineated community of available loan products, including those developed to meet identified credit needs.**

Annually, FUNB-DC develops a written marketing plan in conjunction with the First Union corporate marketing plan. The corporate plan outlines objectives, defines markets, and highlights the marketing strategies. First Union conducts corporate wide advertising campaigns which are supplemented by subsidiary bank campaigns. Market penetration reports and audience profiles are used when developing specific marketing strategies.

Marketing and advertising of credit products are primarily accomplished by aggressive officer calling programs and meetings with community groups. These marketing programs are geared toward individuals in low- and moderate-income areas. Bank staff are actively involved in a variety of community organizations which afford FUNB-DC the opportunity to market credit products that were identified as credit needs.

FUNB-DC also advertises specific credit products through local newspapers, direct mail campaigns, magazines, radio, and telemarketing. Many of bank's advertisements are specifically targeted to low- and moderate-income individuals and to address identified credit needs. Examples of specific products marketed include: affordable home purchase and home improvement loans, home equity lines of credit, affordable automobile loans, credit cards, and small business loans.

The bank has also used a weekly radio program as an innovative way to inform the community about its credit products and programs (refer to **Assessment Factor L**). FUNB-DC also markets its credit products when sponsoring or participating in neighborhood fairs, affordable mortgage presentations, community home buyer seminars, credit counseling seminars, and small business seminars. Complete marketing and advertising records are maintained and reviewed for compliance with applicable laws.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- o FUNB-DC has undertaken efforts to address a significant portion of the identified community credit needs through the origination and purchase of loans.**
- o Loans are primarily generated within the delineated community.**
- o Lending levels reflect a responsiveness to the most pressing community credit needs.**

FUNB-DC offers a variety of loan products to meet the identified credit needs of individuals and businesses, including specialized products for low- and moderate-income individuals and small businesses. The bank also offers loans through government-sponsored loan programs at both the local and national level which provide affordable loans for qualified applicants.

The following table summarizes the volume of lending the bank has originated during the evaluation period.

Loan Originations		
Loan Type	#	\$ (000's)
Residential Mortgage*	720	\$ 71,978
Small Business**	108	10,974
Small Farm	1	50
Consumer ***	11,826	97,777
TOTAL	12,655	\$180,779

* Residential mortgage loans consist of home purchase, mortgage refinance, home improvement and home equity credit lines.
 ** 1996 data for businesses with gross annual revenues of \$1 million or less.
 *** Consumer loans consist of vehicle loans, revolving credit, and other secured and unsecured loans.

While the bank's traditional banking products help meet the credit needs of a significant portion of the communities, additional specialized credit products are offered. These products are targeted at borrowers who would often not qualify for traditional lending programs. The following descriptions highlight features of these products. The number of loans originated in 1996 (January 1, through October 31, 1996) as well as the dollar volume of credit extended are also provided. These totals are product-specific and are included in the total originations previously listed. The first three products listed reflect the ones which have only been offered since June of 1996.

o Affordable Home Mortgage Loan - 166 loans totaling \$20 million

Introduced in June of 1996, this product features flexible terms to home buyers. Features include a low 5% down payment which can come from the borrowers funds, sweat equity, or a gift and higher than traditional loan to value and debt to income limits. In addition, mortgage insurance is not required.

o Neighborhood Development Loan - 1 loan totaling \$140 thousand

Introduced in June of 1996, this loan can only be used to purchase a home in a designated low- and moderate-income census tract. The borrower's income must be less than 120% of the HUD median income. Down payments can be as low as 5%, with at least 3% coming from the borrower's own funds. The other 2% can come from gifts, grants, sweat equity, or a loan. Higher debt to income ratios are also allowed.

o Community Partnership Mortgage - No loans were originated through this new product before year-end 1996.

Introduced in June of 1996, the bank requires no down payment, but does require the borrowers to have \$500 of their own funds at closing. These funds may come from a grant, gift, or be paid by the seller. The bank will pay the closing costs in exchange for a 1/4% increase in the interest rate. Participation in home buyer counseling sessions is required. Eligibility is the same as the *Affordable Home Mortgage Loan*.

o Fannie 97 Agency Mortgage - 1 loan totaling \$167 thousand

This community lending product offers a low down payment feature of 3%. Closing costs can come from gifts, grants, or loans. The applicant must participate in financial counseling, and must have income below 100% of HUD median family income.

o **Special Home Improvement** - 12 loans totaling \$210 thousand

The Special Home Improvement loan provides low dollar, long term housing rehabilitation loans. The minimum loan amount is \$1,500 and repayment periods extend up to 180 months. In addition to the flexible terms, First Union will provide a 2% rebate of interest at the end of each year for borrowers who pay as agreed.

o **Special Vehicle Loan** - 116 loans totaling \$1 million

This product provides low dollar automobile financing for both new and used cars. First Union allows financing of vehicles up to seven years old with a minimum loan amount of \$2,500. Extended repayment terms are available to provide for lower monthly payments.

o **Secured MasterCard** - 220 loans totaling \$150 thousand

The Secured MasterCard provides credit to customers who do not qualify for traditional unsecured credit. The Secured Card allows the customer to re-establish credit and eventually graduate to a traditional, unsecured credit card.

First Union credit products are outlined in bank brochures which are available at branch offices. Brochures discuss credit products, available deposit products and services and delivery systems.

To better address the credit needs of small businesses, First Union developed a **Small Business Banking Division (SBBD)** which also serves the District. The SBBD targets businesses with annual revenues of \$5 million or less. This Division addresses loan requests for \$25,000 to \$350,000 and was established to expedite the loan process for small businesses. In 1996, this Division originated 214 loans totaling \$27 million in the FUNB-DC community.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

o **FUNB-DC participates in government-insured, guaranteed and subsidized loan programs.**

FUNB-DC participates in several government related programs for housing. As noted under **Assessment Factor I**, the bank offers its own small business loan products which are designed to be flexible in helping to meet the credit needs of business owners. Such products have been emphasized through the focused division (SBBD), which mitigates, or explains to a degree, the lack of volume of Small Business Administration (SBA) loans. The volume generated through SBBD indicates that FUNB-DC is effectively helping small businesses obtain financing through traditional lending channels.

First Union began offering loans to small businesses on a corporate level through the centralized SBBD during the second quarter of 1995. The Division is designed to provide prompt and efficient service by telephone within a 24-hour response time. The program's success indicates an ability to help meet customer needs.

FUNB-DC also offers comparable in-house credit products for housing and other consumer loans. These products are detailed in **Assessment Factor I**. The following table details the bank's participation in governmentally-insured, guaranteed or subsidized loan programs.

Government Guaranteed Loans -- 1996		
Type of Credit	#	\$ (000's)
Federal Housing Authority (FHA) - Mortgage	33	\$3,281
Veterans Administration (VA) - Mortgage	8	\$1,167

In 1995, FHA and VA lending for FUNB-DC was provided through First Union National Bank of Virginia. In addition, FUNB-DC originated \$1.1 million in D. C. Housing Finance Agency (DCHFA) loans during the evaluation period.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

- o FUNB has demonstrated a reasonable penetration of lending to all segments of its delineated community, including low- and moderate-income neighborhoods.**
- o In addition, management effectively identifies portions of their assessment area that are under served and targets them for priority attention and resources.**

The following are analyses of the bank's residential mortgage, consumer, and small business lending based on the bank's records for January thru October 1995 and for the year ended October 31, 1996. The records illustrate an adequate distribution of lending among low- and moderate-income areas. Bank management also periodically identifies and targets potentially under served areas for priority attention and directs resources to ensure all parts of its assessment areas are being served. During our review, we also analyzed the bank's 1995 residential lending

distribution as reported under the Home Mortgage Disclosure Act (HMDA). Our analyses included both the geographic location of the bank’s residential loans and the extent to which the bank was lending to low- and moderate-income borrowers.

The following table details the bank’s state-wide distribution of lending in LMI assessment areas; it illustrates a reasonable penetration in those geographies of the community. It also reveals that FUNB-DC is increasing lending activity in its LMI areas as a percentage of overall lending.

**State-Wide Geographic Distribution of Lending in
Bank Identified Low- and Moderate-Income (LMI) Areas**

Loan Type	1995 #	% of total # loans	1995 \$ (000s)	1996 #	% of total # loans	1996 \$ (000s)
Mortgage	89	40%	\$ 4,729	230	44%	\$ 20,836
Consumer	2,850	41%	17,837	1,875	39%	14,607
Small Business	NA	NA	NA	51	45%	5,220
Total	2,939	41%	\$ 22,566	2,156	40%	\$ 40,663

Note: Information is for FUNB-DC and its affiliates for the 10 months ending October 31, 1995 and 12 months ending October 31, 1996.

Distribution of Consumer Real Estate Lending

The following analyses of the distribution of consumer real estate lending was based on 1995 HMDA data for the bank and its affiliates. The analyses use median “family” income as the designation for low- and moderate-income census tracts and includes only the Washington, D.C., MSA. Our review includes a comparison of the bank’s distribution of lending with that of all lenders reporting activity in the MSA.

The next table identifies the percentage of owner-occupied housing units in low- and moderate-income census tracts, and the number and dollar amount of loans reported in low- and moderate-income areas of the community. It also compares the bank’s percentage of loans in low- and moderate-income census tracts to the percentage of loans made by all lenders in the market for the same low- and moderate-income census tracts.

This table indicates the bank is effectively reaching low- and moderate-income areas of its community. It also reveals that the bank extended a larger percentage of its residential mortgage loans within low- and moderate-income areas than other lenders in the same markets.

1995 Geographic Distribution of Consumer Real Estate Lending in LMI Areas

AGGREGATE RESIDENTIAL LENDING by Income Level of CT - 1995					
ASSESSMENT AREA:	% of Owner Occupied Housing in LMI CTs	Bank % of Loans in LMI CTs	Market % of Loans in LMI CTs	Bank # of Loans in LMI CTs	Bank \$ of Loans in LMI CTs (000s)
Washington, D.C., MSA	36%	56%	48%	144	\$10,542

The following table reveals the bank is making a reasonable percentage of its consumer real estate loans to low- and moderate-income borrowers. The bank made a higher percentage of its loans to low- and moderate-income borrowers than other lenders in the same area.

1995 Distribution of Consumer Real Estate Lending By Borrower Income Level

AGGREGATE RESIDENTIAL LENDING by Income Level of Borrower - 1995					
ASSESSMENT AREA:	% of LMI Families	Bank % of Loans to LMI Borrowers	Market % of Loans to LMI Borrowers	Bank # of Loans	Bank \$ of Loans (000s)
Washington, D.C., MSA	57%	45%	44%	114	\$7,658

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- o **FUNB-DC office locations provide all segments of the delineated community with reasonable access to bank services.**
- o **The bank's record of opening and closing offices has not adversely affected the level of services available in low- and moderate-income areas.**

The bank offers service to its customers through 24 branches. We reviewed data where the bank closed 13 branches in 1995 and 1996; one branch was located in a low- and moderate-income neighborhood. Before branches in low- and moderate-income areas are closed, management normally contacts influential members of the local community to discuss the potential closing and adverse impact on the community.

The "Branch Closings, Consolidations and Reductions in Service" policy requires management to perform a detailed analysis prior to reducing services or closing any branches in any low- to moderate-incomes areas. This analysis includes the potential impact to residents and alternative solutions to a proposed reduction in service. The policy provides guidelines for :

- branch closures,
- branch consolidations,
- branch relocations,
- reductions in service, and
- branch/ATM divestitures.

A review of the policy shows that First Union has adopted a strategy to reduce the number of branch facilities while improving the overall level of service to its customers. The corporation has pledged to adopt effective written policies and procedures that minimize any adverse effect such actions may have on the communities served.

The First Union policy requires each bank to:

- objectively determine those branches which should be closed, consolidated, or have services reduced;
- consider alternative solutions such as adjusting branch hours and services, including the use of ATMs;
- identify and examine options that minimize potential adverse effects and inconvenience on the communities; and
- communicate anticipated changes to affected customers and communities with sufficient advance notice to minimize adverse effects and inconvenience.

Before taking action, each bank evaluates several factors outlined in the policy. If the bank decides to proceed, management completes the appropriate forms to obtain final approval from

the bank President and Board of Directors. The CRA coordinator receives copies of the forms. When an action impacts a low- and moderate-income community, the policy outlines that one or more of the following steps be taken as appropriate:

- complete an analysis,
- make community contacts, and/or
- review the credit need ascertainment calls.

These steps help to identify other alternatives and to more fully evaluate the issues. Bank management uses input from the Marketing Division, Real Estate Division, and State CRA Coordinator to explore potential remedial actions to improve any identified recommendations.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- o **The bank solicits credit applications from all segments of the community, including low- and moderate-income areas.**
- o **We did not find any practices intended to discourage credit applications on a prohibited basis.**

FUNB-DC actively solicits applications from all segments of its delineated communities including low- and moderate-income areas. The Board and management have developed a number of programs to ensure compliance with fair lending laws and provide equal access to credit.

Management committees have been formed to oversee the bank's fair lending initiatives. Major departments of the bank are represented on these committees including a corporate department which was created to manage the overall fair lending activities of the company.

Detailed, formal policies, procedures and training programs have been developed to help ensure the institution does not illegally discourage or pre-screen applicants. First Union has developed and provided a fair lending training program for its employees to ensure they understand the legal requirements as well as bank policies and procedures. The company uses videos, formal training sessions, and on-the-job training to ensure employees become familiar with the fair lending laws and regulations. In addition, the bank conducts diversity training sessions for its employees.

FUNB-DC has established several processes to ensure applicants are treated fairly. These processes include, but are not limited to, a "second review" program and a comparative analysis of loan files. The bank conducts a second review on proposed denials of loans subject to the Home Mortgage Disclosure Act. This review occurs prior to the issuance of a denial or adverse

action notice to the applicant(s). The comparative loan review process, applied on a regular basis, enables the bank to monitor compliance with fair lending laws and to assess the effectiveness of its fair lending programs. The process includes activities to evaluate actions for fair treatment of all applicants.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **We noted no evidence of discrimination or other illegal credit practices.**

We performed an examination for compliance with the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA) in conjunction with this CRA examination. We reviewed the bank's policies and procedures for conformance with these laws and regulations, and conducted tests to check for any areas of noncompliance. Our comparative file analyses for racial and gender discrimination did not detect any instances of illegal disparate treatment or discrimination.

The comparative file review of HMDA applications received during 1995 tested First Union actions to determine if any instances of racial discrimination occurred. We reviewed and compared 368 denied minority transactions to 645 approvals for white applicants sampled from all national banks within First Union plus its mortgage company. The above total includes 315 minority denials and 502 white approvals originated by all of the individual banks. The remaining applications represented 53 minority denials and 143 white approvals received by First Union Mortgage Corporation. In accordance with OCC procedures, minorities selected for comparison purposes represented American Indian, African American, and Hispanic applicants.

The other aspect of our testing included a comparative file review to test for gender discrimination in one of the corporation's significant lending areas, automobile loans. We reviewed and compared 124 denied female applicants to 226 approved male applicants.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- o FUNB-DC is actively involved with community development activities, often in a leadership role.**

During 1996, FUNB-DC has invested \$18 million in community development loans and projects. In addition, \$1.8 million in tax credit investments were made, and \$1.9 million in the Federal Home Loan Bank’s Affordable Housing Program was disbursed. During 1995, the bank invested more than \$10 million in community development loans and projects. In addition to \$1.2 million in community development loans originated, FUNB-DC was a leader in projects related to micro lending and affordable housing funding. Bond placements for the Washington D.C. Housing Finance Agency were also made in 1995. This transaction totaled \$4.9 million. The following details specific community development projects.

- o Federal Home Loan Bank (FHLB) Affordable Housing Program:** As a member of the FHLB of Atlanta, FUNB-DC utilizes the Affordable Housing Program and the Community Investment Fund (CIF) programs to promote community development efforts. The bank has the largest dollar and number of affordable housing program grants and loans of any bank in DC. FUNB-DC is currently managing 11 affordable housing projects totaling \$6 million in subsidies or below market loans and 646 housing units in the District, with community partners such as ACORN, MANNA, the Salvation Army, Jubilee Enterprise, and WISH. Projects initiated during this assessment period include:

Project	Number of Units	Subsidy or Loan Dollars	Community Partner
801 P. Street N.W.	16	\$320,000(s)	MANNA
Harbor Light Center/Single Room Occupancy	21	115,500(s)	Salvation Army
Archbishop Rivera Y. Damas Coop	34	289,000(s)	WISH
Livingston Manor	396	1,600,000(1)	Jubilee Enterprise
Nehemiah Coop.	32	300,000(s)	WISH
Total	499	\$2,624,500	

- o **Micro-lending Initiative:** FUNB-DC was a leader in creating micro-lending funding in the District. The bank established the first public/private micro-loan partnership with East of the River CDC. This program provided businesses counseling and capital for minority and women entrepreneurs of small businesses. FUNB-DC also brought the Columbia Capital Group into the micro-loan arena to add loan loss reserves and guarantees to strengthen the community partner’s credit requests. There are eight micro-loan programs in the District funded by three area banks as a result of the bank’s leadership efforts. The following table illustrates the bank’s efforts in the micro-lending area:

Partner	Funding	Outstanding Loans
East of the River Community Development Corporation (CDC)	\$200,000	\$200,000
North Capital CDC	\$100,000	0
Kennilworth Parkside CDC	\$100,000	0

- o FUNB-DC has been a leader in the District in financing and investing in multi-family affordable housing. The bank provides funding for all facets of the transactions including, construction, debt, and equity investments for the same project. FUNB-DC currently maintains a \$3.3 million equity position in two projects within the District, representing 214 units of affordable housing. The initiative funded during the assessment period was **Benning Road**, an 86 unit complex. FUNB-DC committed \$1.8 million in equity to the project.
- o **Keener Squire Project:** FUNB-DC invested \$4 million in a multi-family housing project in a low- and moderate-income area of the community. This investment provided financing for the purchase and renovation of a 177-unit apartment complex. As a result of this investment, FUNB-DC was formally recognized by the Treasury Department through its Bank Enterprise Award. FUNB-DC was the only bank in the Washington metropolitan area to receive this award; given in recognition of the bank’s lending efforts in lower-income Washington neighborhoods.
- o **Benning Road Apartments/DC Housing Finance Agency (DCHFA):** Funding from FUNB-DC provided tax-exempt housing revenue bonds and low-income housing tax credit syndication proceeds to DCHFA for a private sponsor to acquire and renovate a low-income (86 unit) multi-family housing project. The project is located in Ward 7 of the Anacostia area.

- o **Livingston Manor Apartments:** This reflects an innovative partnership with Jubilee Enterprise, the DCHFA, and the Enterprise Corporation. FUNB-DC provides a \$4.7 million financing package for the renovation of 369 units in 49 buildings. This Southeast Washington, D.C. property reserves 10% of the units for formerly homeless citizens. FUNB-DC provides a letter of credit supporting the \$4.7 million in tax-exempt bonds issued by the DCHFA. The bank invests another \$1.6 million into the project by receiving an Affordable Housing Award in late 1995. An additional \$500,000 was approved in 1996 for funding by the Federal Home Loan Bank in Atlanta to the project through FUNB-DC.
- o **Marshall Heights Project:** FUNB-DC provided \$150,000 to upgrade the infrastructure and rehabilitate property in an industrial park, and received \$75,000 in tax credits spread over a 10 year period. The project is in an industrial park that is located in a LMI area. The major goal is to attract businesses back to this area of the community.

Assessment Factor K - The institution's ability to meet various community needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Factors affecting loan originations:

- During 1996, President Clinton “shut down” the government offices in order to reduce costs. This shutdown dramatically affected the morale of the city’s residents and diminished their borrowing confidence. FUNB-DC addressed this issue with full-page advertisements, encouraging borrowers to come to the bank’s branches for assistance (i.e. payment extensions).
- Most of the bank’s branches are in the business district in downtown Washington, D.C. However, most of the city’s workforce is transient by nature. A significant portion of these individuals reside in the District’s suburbs and commute into the city to work. As a result, many of them conduct banking activities in areas near their homes outside of the bank’s community.
- Nearly all of the District’s low- and moderate-income neighborhoods are areas where owner-occupied housing is low, comprised largely of rental property dwellings. Most of the owner-occupied residential areas of the community reflect middle- and upper-income levels. FUNB-DC targets the low- and moderate-income markets through community development projects in an effort to help improve the standard of living. The bank also addresses credit needs through the special programs mentioned in **Assessment Factor I**.
- The Washington D.C. market was dramatically affected by inclement weather conditions in 1996. This nearly debilitated the District and reduced borrowing opportunities for area residents.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- o **FUNB-DC has engaged in several other meaningful activities not included in other performance categories. These activities enhance the bank's efforts to help meet community credit needs, as well as non-credit banking needs of low- and moderate-income individuals.**

Educational Programs

Choices & Decisions: Taking Charge of Your Life is an educational program designed for high school students developed by Visa U. S. A. in cooperation with the United States Office of Consumer Affairs and the National Consumers League. The program teaches personal financial management skills to students throughout the District of Columbia.

School Savings Banks reflect a program offered by First Union in partnership with elementary schools. These banks are designed to assist students in learning the importance of saving money. Students operate the banks with assistance from First Union employees to learn the careful and responsible way to handle money. The students also learn customer service skills as they operate these banks. First Union pays the regular savings interest rate for the deposits and sends each student customer a quarterly statement. FUNB-DC participates in this program and currently has established one *School Savings Bank* in the District.

Examples of other projects which enhance the community include:

- o A variety of charitable and philanthropic efforts are offered by the bank and its employees. These efforts include donations of both time and money to organizations and programs such as: local schools, adult literacy programs, junior achievement programs, the United Way, and varied other educational programs. Monetary donations total \$65,260 for this assessment period.
- o The bank awards college scholarships such as the 1995 four-year award to an intern for \$20,000. The 1995 presentation was made by the bank's area president during the Anacostia Community Days event.
- o FUNB-DC sponsors 10 shows per year of the African American Business Association's weekly radio program. This one hour talk-radio program focuses on the credit needs of individuals who own small businesses or are minority business owners. FUNB-DC uses the radio program to discuss bank products and services and to answer questions from call-in listeners.

ADDITIONAL INFORMATION

Corporate and Local CRA Programs

FUNB-DC has access to the Corporate CRA staff based in Charlotte, North Carolina, which coordinates CRA activities throughout First Union. The Corporate CRA staff provides various types of support which include analytical tools and the platform for communication across the company. Since several aspects of the bank's CRA activities have been influenced by the parent company, the remainder of this section summarizes basic components of the corporate program.

CRA Policy

The First Union Community Reinvestment Policy has been updated to reflect the recent changes in CRA and has been distributed to all of the individual banks. The policy was designed to provide overall guidance to the Corporation, its Directors, management and all employees to continually renew the First Union dedication and commitment to serve credit needs of all its communities. Administration of the policy remains a corporate-wide responsibility under the overall direction of the Boards of Directors for First Union and each state.

CRA Organization Structure

The Board of Directors has identified committees and individuals to focus on CRA activities and to receive periodic reports to help keep the Directors informed. The Board receives administrative support for CRA through committees, local advisory boards, officer positions and teams that work closely with CRA related activities.

The corporate and bank Audit Committees monitor compliance for their respective Boards and report to the Directors at least quarterly. The Audit Committees receive quarterly reports from the Director of Community Reinvestment at the corporate level or from the appropriate Regional CRA Coordinator at the bank level.

The Corporate CRA Steering Committee has overall responsibility to implement the policy throughout First Union. This committee monitors and supervises compliance with the policy on behalf of the Board of Directors. The Vice Chairman of the corporation chairs the committee which includes executive officers from major department areas and bank presidents for each state.

Regional CRA Self-Assessment Committees (SAC) have the overall responsibility to implement the policy in the states and to assess compliance with policy relative to performance. For each region, this committee reviews and analyzes the ascertainment efforts as well as the results to address community credit needs. The state President chairs this committee.

The Corporate CRA Staff has the responsibility to interface with the CRA committees to implement the policy throughout the corporation. Included as part of this staff, a senior level officer serves as the Corporate Director of Community Reinvestment. The ongoing activities

relative to CRA are undertaken by other officers who serve as Assistant Director of Community Reinvestment, CRA Lending Manager, Fair Lending/Home Mortgage Disclosure Act Manager, Communications Manager, Regional CRA Coordinators and Community CRA Coordinators.

Regional CRA Coordinators have the responsibility to interface with the Corporate CRA Staff and the appropriate state CRA committee to implement the policy in each state. The state coordinators receive support from the various local area coordinators.

CRA Reporting

The policy requires no less than quarterly reports to the Board of Directors, or committees thereof. First Union also uses quarterly data for most reports as it implements the policy and monitors community reinvestment performance focusing on results.

Board Reviews

In addition to periodic reports, the Board reviews other CRA related material. Annually, the Board reviews and adopts the bank's CRA statement (no longer required with the latest regulatory revision) and the local community delineations. The Board also approves the CRA plan which contains policies and procedures for implementing CRA.

CRA Plans

FUNB-DC updates the formal CRA Plan that directs its CRA activities and includes changes to reflect the revised regulation. The plan serves to affirm the company's commitment to help meet the needs of low- and moderate-income individuals in communities serviced by the First Union banking operations. The plan also highlights the overall process to implement the Community Reinvestment Policy.

CRA Self-Supervision

First Union and its subsidiary banks have established a system to ensure compliance with the basic technical requirements of the Act. The corporation relies upon the Internal Audit Division and the Regulatory Compliance Division to monitor performance and test compliance under the Act. In addition, the Branch Operations area has the responsibility to monitor compliance with technical requirements of the Act.

Regional Self-Assessments

First Union has implemented a process to evaluate its own performance under the Act. Regional self-assessments of performance have been made on an annual basis. The Regional CRA Self-Assessment Committee receives reports on the evaluation results. Each bank uses other, more frequent reviews in the interim to monitor the progress of each community.

CRA Training

Board of Directors and senior management have supported CRA training for bank and corporate personnel. The CRA related training conducted in 1996 adequately covered the technical and regulatory requirements of the Act, CRA reform, and a reemphasis on roles and responsibilities.

Throughout First Union, training was provided to the Board of Directors, senior management, area presidents, CRA coordinators, Self-Assessment Committee members, branch managers, lending officers, tellers, and customer service representatives. Computer based training was also provided to new and existing employees. The CRA Manual used in the training sessions, which is in process of being updated to reflect the regulatory revisions; it serves as a reference tool at the branch levels. First Union also included training sessions directed to promote fair lending throughout the corporation.

CRA Public File

We encourage the readers of this Performance Evaluation to contact the bank to review information contained in the public file.