



Public Disclosure

February 23, 1998

Community Reinvestment Act Performance Evaluation

Providian National Bank Charter #1333

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Tilton, NH 03276

Comptroller of the Currency
Northeastern District
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NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Providian National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 23, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **Outstanding**. The overall rating is supported by:

- a high level of community development activities, including \$10.8 million in community development loans and \$13.7 million in qualified investments;
- excellent responsiveness to identified credit and economic development needs by providing technical assistance and seed money to community groups engaged in affordable housing and economic development programs and projects; and
- good use of innovative qualified investments which help leverage additional funds and build and strengthen capacity.

Description of the Institution

Providian National Bank (Providian) is a designated limited purpose institution specializing in unsecured and secured revolving consumer loans and home equity lines. Providian is primarily a credit card bank, but also offers mortgages, small business loans, and consumer loans through its main office in Tilton and its branch in Belmont, New Hampshire. The lending activities at Tilton and Belmont account for less than 1% of managed assets. Providian is the result of the merger of two institutions at the end of 1997 - First Deposit National Bank (FDNB), headquartered in Tilton, and Providian National Bank (PNB), headquartered in Concord, New Hampshire. Although PNB was merged into FDNB, the combined company retained the name of Providian. Both banks are wholly owned by Providian Financial Corp., a publicly traded (NYSE) San Francisco-

based company specializing in consumer lending. As of December 31, 1997 total assets of the combined banks aggregated \$4 billion, with approximately \$6.5 billion in off- balance sheet securitized credit card and home equity receivables. These loans are sourced through nationwide mail solicitations and telemarketing. While there are no financial impediments that would prevent Providian from helping to meet the credit needs of the assessment area, it is subject to the limitations of the Competitive Equality Banking Act of 1987 (CEBA).

Description of the Assessment Area

Providian's assessment area consists of the towns surrounding its main office and branch. The assessment area, for purposes of this CRA review, includes the towns of Belmont, Gilford, Gilmanton, Laconia, Sanbornton, and Tilton in Belknap county; and Franklin, Hill, Northfield, Boscawen, Canterbury, Loudon, and Concord in Merrimack county. The assessment area is located in a non-metropolitan area of New Hampshire, and does not arbitrarily exclude any low- and moderate-income areas.

A total of 26 block numbering areas (BNA's) comprises the assessment area with 21 middle- and 5 upper-income areas. There are no low- or moderate income areas. Low-income families make up 15%, moderate-income 19%, middle-income 27%, and upper-income 39% of the distribution of families in the assessment area. The state non-metropolitan area median family income is \$43,100. Of the total housing units, owner occupied units make up 51%, rental units 29%, and vacant units 21%. Vacant units include vacation homes in the Lakes region and area ski resorts. The shift toward services and lower paying job opportunities has been identified as a barrier to housing affordability for low income households. There are around 4,900 businesses in the assessment area with the majority in the services (42%), the retail trade (21%), and the construction (11%) sectors. Most of these businesses are in a single location (83%), hire 1-4 employees (66%), and have sales equal to or less than \$1 million (74%).

Identified credit and community development needs revolve generally around affordable housing and economic development. Specifically these needs include affordable housing for elders and rental assistance for low- and moderate-income people. Job training helps overcome a barrier and improve access to affordable housing. Specific credit and community development needs of small businesses include micro loans, start-up financing, and loans to the hospitality/tourism sector. Because of welfare and health care reform, many nonprofits have experienced diminished funding sources. The state government has identified child care as a critical need for services. These needs were identified through contacts with community-based organizations and in an internal economic context study conducted by Providian. Further, Providian has served as a catalyst in forging partnerships among representatives of the local public, nonprofit, and business sectors to address these identified needs. The presence of many community groups and programs, in the assessment area and throughout the state, devoted to affordable housing, economic

development, and social services affords direct and partnering opportunities for Providian to help address these needs.

Conclusions with Respect to Performance

Overall CRA performance is rated outstanding. The evaluation covers the period from April 1, 1995 to December 31, 1997. We reviewed and tested for accuracy the community development activities provided by management for our consideration. During the evaluation period, Providian has engaged in a high level of community development activities that included loans, qualified investments, and services as shown in Table 1. Providian has demonstrated excellent responsiveness to the credit and community development needs in its assessment area through innovative or complex community development activities. Providian's support has allowed community-based programs to attract additional capital, and community-based groups to develop their infrastructure and build capacity. These activities are discussed in greater detail in the following sections.

| Table 1 - Community Development Activities | | | |
|---|----------------------------|--|---|
| | Loans \$(000's) | Qualified Investments \$(000's) | Services |
| <i>Affordable Housing</i> | 9,272 | 822 | <i>Providian is engaged in community development services as discussed in the Community Development Services section.</i> |
| <i>Economic Development</i> | 1,545 | 5,767 | |
| <i>Community Services</i> | 0 | 6,205 | |
| <i>Revitalization</i> | 0 | 874 | |
| TOTAL | 10,817 | 13,668 | |

Community Development Loans

Providian originated a high level of community development loans that aggregated more than \$10 million during the evaluation period. These loans helped address identified needs for affordable housing, and economic development by financing small businesses. Providian, through its Tilton and Belmont offices, originated 55 mortgages aggregating \$4.2 million to low- and moderate-income borrowers. Included in these mortgages are 24 loans aggregating \$2.5 million under the FHA Home Equity Conversion Mortgage

(reverse mortgages) program. Providian was the first bank in the state to offer this product and is designated a preferred lender. Providian continues to be one of only a small number of banks in the state to offer this product. Reverse mortgages benefit elderly people by giving them extra cash to spend. While Providian is not a HMDA reporter, market data for 1996, the latest year when data is available, shows that Providian would have been among the top 15 HMDA lenders, out of a total of 84 lenders, in its assessment area. This is noteworthy, considering the fact that lending activities at Tilton and Belmont account for less than 1% of Providian's managed assets.

We also gave positive consideration to 87 mortgages originated to low- and moderate-income borrowers under Providian's national lending program. These additional mortgages aggregated \$5.0 million and were made during the evaluation period. Providian's record of originating mortgages demonstrates its responsiveness to identified credit needs in the housing sector, and is further enhanced by qualified investments which are discussed in the following section.

Providian, through its Tilton and Belmont offices, also originated 20 loans to small businesses which aggregated \$1.5 million. All but three of these loans were in amounts of less than \$100 thousand, and were used primarily for working capital, equipment purchase, or building purchase or improvement. Of the 17 loans, 13 were in amounts of \$50 thousand or less. Loans of this size were identified as among the credit needs of small businesses in the area. Providian's lending record demonstrates its responsiveness to the credit needs of the small business sector, and is further enhanced by qualified investments which are discussed in the following section. Loans made in the assessment area aggregated 65% of total dollar originations. Market data for 1996, the latest year when data is available, shows that Providian was among the top 14 small business lenders, out of a total of 38 lenders, in its assessment area. This is noteworthy, considering the fact that lending activities at Tilton and Belmont account for less than 1% of Providian's managed assets.

Qualified Investments

Providian has a high level of qualified investments as evidenced by 166 in number or nearly \$14 million in dollars during the evaluation period. Table 2 in the following page shows a breakdown of these qualified investments, showing the types of programs and projects which were assisted. Table 2 also shows the breakdown between committed and funded amounts for presentation purposes. The major difference between the committed and funded amounts is attributable to the Providian Child Care Initiative which is described in greater detail below. We gave full consideration to amounts committed by Providian. A substantial majority of these qualified investments are grants in the form of charitable contributions. These qualified investments exhibit good responsiveness to identified credit and community development needs. Further, Providian supports a wide variety of organizations dedicated to affordable housing rehabilitation and construction,

economic development by financing small businesses, and community services for low- and moderate-income individuals. Providian also uses innovative qualified investments which are discussed further in the following paragraphs.

Providian’s qualified investments are divided into four categories as reflected in the table below:

| Table 2 - Total Qualified Investments | | | | | | |
|--|------------------|------------|---------------------|------------------|------------|---------------------|
| <i>Type/ Name</i> | <i>Committed</i> | | <i>% of Total *</i> | <i>Funded</i> | | <i>% of Total *</i> |
| | <i>\$(000's)</i> | <i>#</i> | | <i>\$(000's)</i> | <i>#</i> | |
| <i>Affordable Housing</i> | 822 | 9 | 6.0 | 565 | 9 | 6.3 |
| <i>Economic Development</i> | 5,767 | 24 | 42.2 | 1,322 | 21 | 14.8 |
| <i>Community Services</i> | 6,205 | 122 | 45.4 | 6,198 | 122 | 69.2 |
| <i>Revitalization</i> | 874 | 11 | 6.4 | 874 | 11 | 9.7 |
| TOTAL | 13,668 | 166 | 100.0 | 8,959 | 163 | 100.0 |

*based on dollar amount

The more significant qualified investments are discussed in detail below.

One of the largest portion (37%) of qualified investments is the “Providian Child Care Initiative” backed by a \$5 million commitment. Launched in October 1997, this program consists of three elements. The first element is a \$1.8 million grant (\$800 thousand funded) to the New Hampshire Community Loan Fund (NHCLF), enabling it to raise a \$3.0 million loan pool. As a result, the fund will be able to make loans to existing child care centers or programs which would otherwise fail because of access to capital problems. More concretely, this grant will facilitate the creation and retention of at least 1,800 child care spaces for low- and moderate-income working families. The second element will provide \$200 thousand to research the complex issues of creating and sustaining an adequate supply of affordable, high quality child care providers in the state. The remaining \$3 million will be used to address priority areas including the small business financing needs of child care providers, the education of child care workers and, possibly, the development of unique approaches to child care resources in rural New Hampshire communities. The approach to this important workplace issue and the bank’s partnering with NHCLF is considered innovative. Providian’s major grant has provided not only the initial capital infusion, but also ongoing financial support for this program. Providian will also actively participate as a member of the Child Care Lending Advisory Board, and help promote community awareness of the initiative. NHCLF is the first statewide fund of its type in the country.

NHCLF further received \$315 thousand in support of its other economic development programs. Providian's contributions have allowed NHCLF to attract additional loan capital via matching grants or donations and build a loan loss reserve for higher risk economic opportunity lending. Since its founding in 1983, NHCLF has lent more than \$15 million, helping to create or retain 157 jobs and build 1,822 affordable housing units.

Affordable housing programs for low- or moderate-income individuals were the beneficiaries of 9%, or \$822 thousand, of total qualified investments. For example, the New Hampshire Housing Futures Fund (NHHFF) received \$300 thousand in operating grants, out of the bank's \$500 thousand five-year commitment to support NHHFF's grant program. Through this program, NHHFF has helped increase the organizational competence and capacity of grassroots affordable housing organizations. The Concord Area Trust for Community Housing (CATCH) received \$43 thousand for its Permanence Fund which will help it to maintain and build permanently affordable housing, and \$50 thousand for its Perley Place revitalization project which created 11 affordable rental housing units. Since its formation in 1989, CATCH has created 88 units of affordable housing and has 42 units under development. Providian invested \$118 thousand in the form of a low income housing tax credit allocated to the Cottage Hotel project in Tilton, a 6-unit affordable housing project.

Another innovative activity is the Community Crisis Fund which was developed by Providian. The Fund is intended as a resource of last resort for low- and moderate-income people who find themselves in situations where there is no formal program of assistance. Confidential referrals are made by a network of outreach administrators in human service, home care and health organizations, and town welfare offices. This network also helps identify emerging needs in the communities. In the evaluation period, \$77 thousand has been anonymously donated through the Community Crisis Fund.

During the evaluation period, Providian contributed a total of nearly \$4 million to the Consumer Credit Counseling Service (CCCS) agencies. The agencies provide consumer education and credit counseling services, targeted to low- and moderate-income individuals, in communities throughout the country. CCCS operates an agency in New Hampshire.

Providian's involvement with NHHFF illustrates the bank's role as a catalyst in the community. By supporting the fund Providian helps develop the infrastructure and strengthen the capacity in the community to provide affordable housing. Providian is similarly engaged in supporting economic development through job training and entrepreneurial development. By supporting programs and projects such as the Women's Business Center and youth job training programs, Providian helps develop the capacity in the community to provide gainful employment and economic opportunities to youths and women-owned businesses. Better job and business opportunities help overcome housing and economic barriers.

We also gave positive consideration to qualified investments originated during the evaluation period by Providian's parent companies, Providian Financial Corporation and Providian Corporation. These investments included a \$500 thousand investment in a community development bank formed to finance redevelopment activities in the West End of Louisville, Kentucky, a \$1 million investment in the Louisville, Kentucky-based African American Venture Capital Fund for economic development and revitalization purposes, and nearly \$2.5 million in grants to community services targeted to low- and moderate-income individuals.

Community Development Services

Providian supports most of the community groups in its assessment area primarily through grants. It also helps these groups through community development services by actively providing technical assistance to these community organizations. Bank officers in various capacities and roles assist numerous groups in fundraising. These community groups leverage off of the skills, experiences, and financial expertise of the bank officers. For example, a bank officer is a board member of the Twin Rivers Community Corporation (TRCC), a local affordable housing organization which develops affordable rental housing for low- and moderate-income people in the Franklin-Tilton-Northfield area. This officer offers technical assistance in TRCC programs which help tenants meet their budget obligations and self-employed persons develop a bankable credit history. A bank officer is a member of the Loan Committee of the Belknap County Economic Development Council. This regional organization, located in Laconia, helps recruit new businesses and provide technical assistance to existing businesses through a revolving loan fund. The bank's Community Reinvestment Officer sits on the board of the New Hampshire Community Development Finance Authority which is authorized to award tax credits to community development projects. These tax credits provide investment impetus for economic development and affordable housing projects in the state.

Compliance with Anti-discrimination Laws

Prior to this evaluation of Providian's CRA performance, we conducted a Fair Lending review at the bank. No violations of the substantive provisions of applicable Anti-discrimination laws and regulations were identified. Our Fair Lending review included a sample of the bank's primary product - unsecured credit cards - using sex as a prohibited basis. We found that internal systems and controls help ensure compliance with Anti-discrimination laws and regulations, and include an effective compliance review.

Appendix A – Scope of Examination

| | | | |
|--|-------------------------------|---|--------------------------|
| Time period reviewed: <i>04/01/95 to 12/31/97</i> | | | |
| Financial Institution <i>Providian National Bank Tilton, New Hampshire</i> | | Products Reviewed <i>Community Development investments and services; mortgages, small business, and consumer loans.</i> | |
| Affiliate(s) | Affiliate Relationship | Products Reviewed | |
| <i>Providian Financial Corp.</i> | <i>Parent Company</i> | <i>Mortgages, investments, and grants.</i> | |
| List of Assessment Areas and Type of Examination | | | |
| Assessment Area (AA) | Type of Exam | Branches Visited | Other Information |
| <i>Tilton, New Hampshire AA</i> | <i>On-site</i> | <i>Main Office</i> | <i>None</i> |