



Public Disclosure

July 6, 1998

**Community Reinvestment Act
Performance Evaluation**

Household Bank (Nevada), N.A.

Charter Number #18818

Household Bank (SB), N.A.

Charter# Number 22675

Household Bank (Illinois), N.A.

Charter Number #18767

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

General Information

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

This document is an evaluation of the CRA performance of **Household International, Inc.'s** three nationally chartered banks, prepared by **The Office of the Comptroller of the Currency**, the institutions' supervisory agency, as of **July 6, 1998**. The agency evaluates performance in the assessment area(s), as they are delineated by the institutions, rather than individual branches. This assessment area(s) evaluation may include the visits to some, but not necessarily all of the institutions' branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA rating: Household Bank (Nevada), N.A. (HBNV), charter # 18818; Household Bank (SB), N.A. (HBSB), charter # 22675; and Household Bank (Illinois), N.A.(HBIL), charter #18767, collectively identified as "Household Bank" is rated **"Satisfactory"**.

Examination Scope

Our evaluation covered the period beginning April 27, 1997, through July 6, 1998. We reviewed the assessment areas in both Nevada and Illinois. This is the first evaluation under the Household Bank's five-year strategic plan which includes performance goals for all three entities. The plan was approved on April 27, 1997. Examiners reviewed information provided by management to verify performance under the plan. As required by the regulation, the plan contains annual goals, the examination considered performance in 1997 and in 1998, up to the examination.

Description of Institution

The affiliates of Household International issue consumer credit card loans as follows:

- HBNV, located in Las Vegas, Nevada, was chartered in April 1993 to issue MasterCard and Visa cards which carry the Household Bank name or the names of co-branded partners, and to purchase and manage acquired credit card accounts;
- HBSB, also located in Las Vegas, Nevada, was chartered in December 1993 to issue a co-branded MasterCard (GM Cards);

- HBIL, located in Prospect Heights, Illinois, was chartered in April 1990 to issue private label credit cards for retail businesses. However, HBIL, in the first quarter of 1996, sold virtually all the bank’s assets to HBNV. The remaining assets represent MasterCard and Visa card receivables that either originated from expired private label cards or promotions in low- and moderate-income areas.

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

BANK ASSETS AND EQUITY CAPITAL (as of 3-31-98)		
BANK	ASSETS (\$000)	EQUITY CAPITAL (\$000)
HBNV	4,735,653	1,710,781
HBSB	1,102,751	497,379
HBIL	2,709	823
TOTAL	5,841,113	2,208,983

The bank has many credit card competitors. These include Capital One, Citicorp, Bank One/First USA, MBNA, Corp., and Providian.

Description of Assessment Areas

Nevada:

HBNV and HBSB have designated their assessment area as Las Vegas and North Las Vegas, Nevada where the headquarters office is located. The area has 58 census tracts. The table below shows the number and percent of census tracts by income level, and the number and percent of families in those tracts based on 1990 U.S. Census Data. The entire assessment area is located within Clark County and the Las Vegas/Mohave Multistate Metropolitan Statistical Area (MSA). The 1990 census showed the median family income at \$33,965. The 1998 Department of Housing and Urban Development estimated median family income for this MSA is \$46,900 for an increase of \$12,935 or 28%.

The Federal Reserve Bank of San Francisco published a community profile in September of 1997 that stated, "A strong factor in the Las Vegas Valley's growing economy is an increasing population. From 1994 to 1995, the population in the Las Vegas Valley grew 5.6 percent; from 1995 to 1996, the population grew 7.6 percent." The Center for Business and Economic Research at the University of Nevada, Las Vegas, shows that population grew from 1996 to 1997 at 6.83%.

A study of 50 of the nations largest metropolitan areas made by American City Business Journals reported that "Las Vegas has America's fastest-growing residential base. Its metropolitan population increased by 40.9% between 1990 and 1996. Las Vegas also has America's fastest-growing employment base. Its total number of jobs increased by 16.5% between 1994 and 1996. It follows then that Las Vegas has the fastest-growing housing base." The 1990 census showed the median home price as \$83,400. The Center for Business and Economic Research at the University of Nevada, Las Vegas, reported that the median sales price of a home in the fourth-quarter of 1997 was \$130,000 for an increase of \$46,600 or 36%.

The local and state economies also have grown and diversified with the attraction and development of a broader range of businesses. The Nevada Research and Analysis Bureau reported that in 1997 the service sector continues to be the largest employer at 37% (18 of the top 25 employers were casino/hotels), while the trades employ 27% of the workforce. The construction and finance industries employ 11% and 13% respectively with the finance industry showing the largest growth from 1995 to 1997 of 11%. The unemployment rate has also increased from 3.8% in May 1997 to 4.1% in May of 1998.

We reviewed eight community contacts conducted by our agency examiners and other regulatory agencies with groups in the Las Vegas area to determine credit needs and opportunities within the assessment area during our examination. We also met with 16 separate agencies' directors and school officials in Las Vegas and North Las Vegas as a follow-up to the comments provided when the strategic plan was developed. Affordable single family housing continues to be a need even though the housing market has increased drastically in the past few years. Education and guidance for small businesses were also seen as community needs. With the influx of immigrants, language barriers are a problem in schools, employment, and business transactions. While lending products are of the greatest demand, the opportunity for community development investments are limited.

Illinois:

HBIL's designated assessment area centers around the city of Prospect Heights, a northern suburb of Chicago, where the bank's office is located, with a total of 51 census tracts. The HBIL assessment area also includes all census tracts in the adjacent communities of Arlington Heights, Wheeling, Northbrook, and Mt. Prospect. In addition, HBIL has included two adjacent moderate-income census tracts, in Glenview and Elk Grove Village. The entire assessment area is located within the Chicago MSA. The 1998 Department of Housing and Urban Development estimated median family income for this MSA is \$59,500.

This area primarily represents upper income suburbs of Chicago as reflected in the home prices. According to the Prospect Heights Internet Home Page, average housing prices on single family detached residences in Prospect Heights fall between \$175,000 and \$450,000. Condominiums range from \$40,000 to \$100,00, and town homes are priced between \$122,000 and \$190,000. Northbrook Chamber of Commerce reports Owner Occupied median value of homes at \$272,400. And the Chicago Tribune reported the median home value at \$209,351 for Arlington Heights.

The population for Cook County, Illinois, in which these communities are located, has been stable. According to Northern Illinois University, the population has grown only 1% since 1990 with negligible growth projected through 2002. As the economy has steadily improved throughout the 1990's, unemployment has dropped and is now down to 4.8% for 1997 from 7.6% in 1991. The labor force in Cook County is 63% White Collar, 25% Blue Collar and 12% Service. Major area employers include Allstate Insurance, Borden, Motorola, Commonwealth Edison and the United Parcel Service.

We reviewed 11 community contacts performed by our agency examiners and other regulatory agencies to determine credit needs and opportunities within the assessment area. According to the interviews, there is a need for affordable housing for rental or purchase for low- and moderate- income individuals because of the high cost of housing. There is also a need for first time home buyers and credit counseling seminars. Language barriers were also mentioned as an issue, with bilingual literature a possible response.

The table below shows the number and percent of census tracts by income level, and the number and percent of families in those tracts based on 1990 U.S. Census Data.

Household Bank Assessment Areas																
Assessment Area	Low-Income				Moderate-Income				Middle-Income				Upper-Income			
	Census Tracts		Families		Census Tracts		Families		Census Tracts		Families		Census Tracts		Families	
Nevada	7	12%	5,249	6%	14	24%	14,736	18%	23	40%	34,565	42%	14	24%	28,418	34%
Illinois	0	0%	0	0%	2	4%	1,289	2%	14	27%	20,230	27%	35	69%	54,225	71%

Source: Demographic Data - 1990 U.S. Census

Discussion of Performance in the Assessment Area

Strategic Plan Goals and Actual Performance:

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

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

The combined performance of the three banks under the Strategic Plan has substantially met the goals set for a satisfactory rating as described below. The effect of the failure to meet the 1997 Investment goals was offset by the bank exceeding the outstanding goals in the areas of Grants/Contributions, CCCS, and Services in the plan for 1997 and meeting or exceeding the annualized outstanding goals for 1998 and by the circumstance of the failure. The tables below indicates the goals and actual performance for Investments, Grants/Contributions and Services for both 1997 and 1998.

INVESTMENTS:

COMMUNITY DEVELOPMENT INVESTMENTS

	1997 OUTG. GOAL (\$)	1997 SAT. GOAL (\$)	1997 ACTUAL (\$)	1998 OUTG. GOAL (\$)	1998 SAT. GOAL (\$)	1998 ACTUAL (\$)
HBNV, HBSB, & HBIL						
INVESTMENTS						
Norwest Banks	1,000,000	1,000,000	950,500	1,000,000	1,000,000	950,500
Wells Fargo Bank	1,000,000	1,000,000	867,000	1,000,000	1,000,000	942,000
New money placed in Banks w/Sat. CRA Ratg.	1,000,000	500,000	0	1,000,000 (retained)	500,000 (retained)	
New money placed in Banks w/Sat. CRA Ratg.				1,000,000	500,000	1,100,000
TOTAL	3,000,000	2,500,000	1,817,500	4,000,000	3,000,000	2,992,500
HBNV, HBSB, HBIL, & HFC						
CCCS	5,000,000	3,000,000	6,998,960	5,000,000	3,000,000	5,360,681
HBNV, HBSB, & HBIL						
GRANTS/ CONTRIBUTIONS	135,000	125,000	174,383	155,000	145,000	170,656
TOTALS	8,135,000	5,625,000	8,990,843	9,155,000	6,145,000	8,523,837

HFC - Household Finance Corporation

CRA CDS:

The bank failed to meet its 1997 goal for investments in CRA CDS. However, considering the circumstances of the failure, and the bank's performance in the other areas of the plan, including its performance in 1998, we conclude that overall the bank has substantially achieved the plan goals for a Satisfactory rating. Household Bank faced unexpected difficulties in placing the certificates of deposit in qualified institutions as stated in the Strategic Plan. As indicated above, community development investments permissible for a CEBA bank are limited in the Las Vegas area. Household Bank had a written commitment for acceptance of a \$2 million certificate of deposit from a community development bank. The funds were to be used for one or a combination of three separate projects in the Las Vegas area. Negotiations for the use of the funds began in early 1997. However, through no fault of Household Bank, all three of the projects were canceled in the Fall of 1997. At that time management began a focused campaign to place certificates of deposit in qualified institutions. One qualifying bank agreed to accept a

\$1,100,000 certificate of deposit in June of 1998 with the agreement to be signed and funded in early July. These funds were placed during the examination.

Household Bank has explored all other known options to place CRA CDS suggested by community groups or known to the bank. However, with the CEBA charter restrictions and the strategic plan restrictions, management has found it difficult to meet the plan goals. The community groups that we met with were aware of Household Bank's efforts and difficulties in meeting the stated goals for 1997. The groups did not suggest other investments within the assessment area that were available to Household Bank during 1997.

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

Household Bank, in recognition of the current Strategic Plan investment limitations, is in the process of amending the plan to broaden their investment opportunities.

Grants/Contributions:

In the area of Grants/Contributions, the bank exceeded the 1997 goals for outstanding by \$39,383 or 29%. In the first six months of 1998, the bank has already exceeded the total goal set for outstanding performance in 1998. During the examination validation process and our meetings with the community groups, it was pointed out that these moneys have had a significant impact on the community as a whole. In the area of affordable housing or first time home buyers, education for low and moderate-income individuals, the bank contributed \$115,633 in 1997 and \$117,922 in 1998. Grants to the schools of Las Vegas and North Las Vegas have made a significant impact on the quality of education and ability of students to graduate high school.

SERVICES:

COMMUNITY DEVELOPMENT SERVICES

	1997 OUTG. GOAL	1997 SAT. GOAL	1997 ACTUAL	1998 OUTG. GOAL	1998 SAT. GOAL	1998 ACTUAL
CREDIT	22	14	29	22	14	4
RADIO	18	12	20	18	12	16
SCHOOLS	60	40	89	60	40	30

In the area of Services reflected in the table above, Household Bank has significantly exceeded their 1997 goals for an outstanding rating by 29 separate activities or 48%. In the first six months of 1998, the bank has already met the goals for an outstanding rating halfway. The bank has formed an Educational Task Force in Las Vegas. These volunteers develop and present the adult and student educational programs. The community feedback and the validation of services indicated that the bank's educational programs are innovative and quite effective.

The credit and financial services education call-in radio program is sponsored and programed by Household bank through a local public radio station. These programs are very well received and very popular with the community. The community group executives that we met with all voiced a high regard for the content, high quality of presenters used, and continued participation from the general population.

Compliance with Anti-discrimination Laws and Regulations

We reviewed Household Bank's compliance with fair lending laws and regulations during a recent fair lending examination. No violations of the substantive provisions of the anti-discrimination laws and regulations (Equal Credit Opportunity Act, Fair Credit Reporting Act) were identified.