



Comptroller of the Currency
Administrator of National Banks

Midwestern District Office
2345 Grand Blvd., Suite 700
Kansas City, Missouri 64108

PUBLIC DISCLOSURE

February 25, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Commerce Bank, National Association
Charter Number 20500
10840 Old Mill Road
Omaha, Nebraska 68145**

**Supervisory Agency: Office of the Comptroller of the Currency
Midwestern District
Mid-Size/Credit Card Banks
2345 Grand Blvd., Suite 700
Kansas City, Missouri 64108**

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.

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Assessment Area (AA) - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of a Metropolitan Statistical Area (MSA). A rural assessment area may contain one or more neighboring counties.

Census Tract (CT) - Small, locally defined statistical areas within an MSA. The United States Census Bureau determines these areas in an attempt to group homogeneous populations. A CT has defined boundaries per 10-year census and an average population of four thousand.

Commerce Bank, N. A., Omaha, Nebraska (Commerce) - The Comptroller of the Currency approved Commerce's request for designation as a limited purpose bank on October 9, 1996.

Commerce Bancshares, Inc., Kansas City, Missouri (CBI) - A bank holding company which owns **100%** of Commerce.

Community development - Activities related to at least one of the following four areas:

- affordable housing (including multifamily rental housing) for low- and moderate-income individuals;
- community services targeted to low- and moderate-income individuals;
- activities that promote economic development by financing businesses or farms that meet size and revenue standards defined by the CRA regulation; or
- activities that vitalize or stabilize low- and moderate-income geographies.

Community development loan - A loan which must have as its *primary* purpose community development. Community development loans specifically exclude loans which have been reported under the Home Mortgage Disclosure Act or as small loans to businesses or farms, except for multi-family rental housing loans which can be reported under both categories.

Community development service - A service that has community development as its *primary* purpose, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services.

Community Reinvestment Act (CRA) - A statute that requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs in the institution's local community. *(This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2901, as amended, and 12 C.F.R. 25, as amended.)*

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS **(Continued)**

Income Levels - These relate to individuals, families, households, or the CTs in an MSA.

Low = An income level that is less than 50% of the median income.

Moderate = An income level that is at least 50% and less than 80% of the median income.

Middle = An income level that is at least 80% and less than 120% of the median income.

Upper = An income level that is 120% or more of the median income.

Limited purpose bank - A bank that offers only a narrow product line (such as credit card or automobile loans) to a regional or broader market. The bank must apply to and get from its regulator a designation as limited purpose.

Median Family Income (MFI) - The median (midpoint, not average) family income for a specific MSA as determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

Metropolitan Statistical Area (MSA) - An area containing a city with a population of at least 50 thousand or an urbanized area with a population of at least 50 thousand and a total metropolitan population of at least 100 thousand. Generally, MSAs consist of one or more whole counties that have a high degree of interaction.

Qualified investment - A lawful investment that has as its *primary* purpose community development.

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 **Commerce Bank, N.A., Omaha, Nebraska (Commerce)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 25, 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 C.F.R. Part 25.

Institution's CRA Rating: We rated this institution **"Needs to Improve record of meeting community credit needs."**

The OCC examined Commerce using the CRA regulation's Community Development Test, which assesses the bank's record of helping to meet community credit needs through community development loans, qualified investments or community development services. The only lending product Commerce offers is credit card loans. By definition, credit card loans cannot be community development loans. Therefore, we evaluated Commerce's CRA performance by the amount of its qualified investments and community development services.

This evaluation covers the period from **October 9, 1996 to February 25, 1998**. This is Commerce's first CRA evaluation.

We rated the bank's CRA performance "Needs to Improve" because:

- The bank has a poor level of qualified investments within its assessment area given its financial resources and the community development opportunities available.
- It offers no community development services within its assessment area.

DESCRIPTION OF INSTITUTION

Commerce, headquartered in Omaha, Nebraska, is a wholly-owned subsidiary of Commerce Bancshares, Inc. (CBI), a \$10 billion banking organization headquartered in Kansas City, Missouri. CBI opened the bank on October 1, 1985. Management's business strategy and Nebraska State law limit the bank's loan services to the issuance of credit cards, solicitation of new cardholders, and transaction processing. State law further limits Commerce to one banking office, prohibits Commerce from operating in a manner or from a location that is likely to attract customers from the general public, and requires the bank's deposits come only from affiliated banks not domiciled in Nebraska. However, these restrictions place no limitation on the bank's ability to participate in qualified investments and community development services within the assessment area.

Because of its narrow product line, Commerce applied for a limited purpose designation as permitted under the CRA. On October 9, 1996, the OCC approved the bank's application for a limited purpose designation.

As of December 31, 1997, Commerce had total assets of \$6.3 million, equity capital of \$3.1 million and net income of \$179,000. Over the last five years, the bank generated an annual average net income of \$177,000.

Although the bank's asset base is relatively small, it services a credit card portfolio exceeding 464 thousand accounts with \$532 million in outstanding balances. The majority of its customers reside in Missouri, Illinois, and Kansas. Commerce has one office located in Omaha, Nebraska and employs seventy-three people. Commerce, consistent with its size and resources, can help meet the credit needs of its assessment area through qualified investments and community development services.

DESCRIPTION OF ASSESSMENT AREA

Commerce's assessment area is Douglas County, Nebraska. Douglas County has a population of 416,444 and is the largest county located within the Omaha, Nebraska Metropolitan Statistical Area (MSA). The MSA median family income at the 1990 census was \$36,011. The estimated median family income for 1997 was \$48,500. The assessment area complies with the requirements of the regulation and does not arbitrarily exclude low- or moderate-income areas.

Community Reinvestment Act Performance EvaluationCommerce Bank, N.A., Omaha, Nebraska

The following chart shows the distribution of census tracts and families by income level.

Income Level	Census Tracts		Families	
	#	%	#	%
Low-income	15	14%	19,441	18%
Moderate- income	33	31%	18,775	18%
Middle-income	35	32%	26,177	24%
Upper-income	24	22%	42,843	40%
N/A (income not available)	1	1%	0	0%
Total	108	100%	107,236	100%

Source: 1990 U.S. Census

The economy of Douglas County is strong with unemployment at 2%, occupied housing units at 93% and only 5% of households receiving public assistance. Major employers in the assessment area include the transportation, insurance, telecommunications, and financial service industries. There is a strong and growing need for additional affordable housing units for low- and moderate-income families. Presently, 92% of the rental units within the assessment area are occupied. Increasing housing prices and rental rates are making it more difficult for low- and moderate-income families to find affordable housing.

During this evaluation, we reviewed fourteen community contact interviews performed by federal financial institution regulators during 1996 and 1997. The regulators interviewed persons representing housing, small business and economic development organizations, and government agencies. These contacts help the OCC to better understand the economic conditions and credit needs of the community and to identify community development opportunities that exist within the bank's assessment area.

Based on these contacts, primary needs in the assessment area include creation of additional affordable housing units for low- and moderate-income persons, credit counseling for low- and moderate-income persons, and additional venture capital for small business development. In addition, several qualified investment opportunities exist within the assessment area, such as: community development corporations, a community development financial intermediary, micro loan programs for small businesses, and various not-for-profit organizations providing community development services to low- and moderate-income persons.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TEST

Commerce has not adequately helped meet the credit needs of its assessment area. The bank has a poor level of qualified investments in light of its financial capacity. Evidence of that capacity is the bank's profitability and capitalization.

During the evaluation period, the bank's community development efforts have been limited to \$6,500 in charitable donations and a \$100,000 qualified investment. The bank donated \$3,000 to Omaha 100, a local community development financial intermediary, and \$3,500 to the Consumer Credit Counseling Services of Nebraska. Both organizations provide community development loans or services throughout the bank's assessment area. In addition to the charitable donations, Commerce invested \$100,000 in a Nebraska Investment Finance Authority Single Family Housing Revenue bond which provides mortgage financing to LMI home buyers. This is a qualified investment.

As indicated by the community contacts, several other opportunities exist for community development investment in the assessment area. Over one-third of the families in the assessment area are in the low- or moderate-income categories. Almost half of the assessment area's geographies are low- or moderate-income. Several community development entities that serve these families or areas exist in the assessment area. (See comments on the previous page listing the types of entities.) Investment in these entities would qualify for CRA credit.

Although opportunities to deliver community development services exist within the bank's assessment area, Commerce has neither developed nor provided any.

We did not identify any violations of anti-discrimination laws and regulations.

SCOPE OF EVALUATION

Consistent with its designation as a *Limited Purpose Bank*, the OCC focused exclusively on the bank's record of providing qualified investments and community development services. We assessed all qualified investments and community development services since the bank's designation as a *Limited Purpose Bank* on October 9, 1996, through the date of this evaluation.

We did not identify any community development activities provided by the bank's affiliates that were eligible for consideration in this evaluation.

We also conducted a comparative file analysis of male and female loan applicants to ensure that underwriting decisions are not based on prohibited factors.