



Public Disclosure

June 8, 1998

**Community Reinvestment Act
Performance Evaluation**

**Sears National Bank
Charter Number 20670**

**2626 South Hardy Drive
Tempe, AZ 85282**

**Office of the Comptroller of the Currency
Western District Office
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San Francisco, CA 94105**

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 **Sears National Bank**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 8, 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 the 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 "Satisfactory."** The major factors which support this rating include:

- Sears National Bank (SNB) has an overall satisfactory level of qualified investments and community development services. Investments and grants within the assessment area equal 4.4% of the bank's capital. When investments and grants that benefit a larger area than the assessment area are included, the dollar volume exceeds the bank's capital. SNB's level of qualified community development related services is good.
- SNB occasionally uses innovative and/or flexible qualified investments or community development services. A majority of its qualified investments are grants that are funding sources not normally provided by private investors.
- SNB exhibits a good responsiveness to credit and community development needs of its assessment area. A high percentage of the institution's qualified investments (53%) and services support affordable housing needs.

Description of Institution

Sears National Bank was chartered on January 31, 1994, as a Competitive Equality Banking Act (CEBA) credit card bank. On April 9, 1996, SNB was approved for designation as a limited purpose institution, effective June 30, 1996, for purposes of the Community Reinvestment Act (CRA). The CEBA status limits the bank's ability to accept deposits and extend loans outside the credit card scope of operations. As such, the bank's CRA evaluation focuses on community development investments and services of the bank and its affiliate, Sears, Roebuck and Company.

SNB is located in Tempe, Arizona, and is a wholly-owned subsidiary of Sears Financial Holding Company (SFHC), a legal entity. SFHC is a subsidiary of Sears, Roebuck and Company (SRC). SRC is headquartered in the Chicago area. With assets of \$39 billion as of December 31, 1997, it is the second largest retailer in the country. SRC owns 833 full-line department stores and more than 2,600 specialty stores. SRC is the number one credit provider among retailers, serving more than sixty million credit card accounts. As of December 31, 1997, SRC had \$29 billion in managed credit card receivables, the majority of which were generated by SNB. SRC is the largest proprietary credit card issuer in the country and the sixth largest issuer when ranked with bankcard portfolios.

SNB's average assets totaled \$14 million for the last three months of 1997, and total capital equaled \$11.7 million at year end 1997. This profile reflects the bank's normal practice of selling its credit card receivables to its holding company. However, in the first five months of 1997, SNB owned a proprietary MasterCard program and retained receivables for those accounts. This retention increased the bank's average asset size significantly, to \$56 million, for the twelve month period ending December 31, 1997. Since this financial profile was temporary, our CRA analysis focused on the bank's lower asset base.

Description of Assessment Area

SNB has designated Maricopa County, Arizona, as its assessment area. Maricopa County is located within the Phoenix-Mesa Metropolitan Statistical Area (MSA). The bank's sole office is located within this county. The 1998 Department of Housing and Urban Development (HUD) estimated median family income for this MSA is \$48,300. Nine Regional Credit Card Operating Centers located throughout the United States service SNB's credit cards through a contractual relationship. These centers are not considered branches of SNB.

Based on 1990 Census Data, Maricopa County consists of 466 census tracts and had a population of 2.1 million. The following table shows the demographics for these tracts.

Sears National Bank's Assessment Area															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
Census Tracts		Families		Census Tracts		Families		Census Tracts		Families		Census Tracts		Families	
27	6%	19,500	4%	108	23%	12,438	22%	178	38%	228,054	41%	149	32%	180,917	33%

Source: Demographic Data - 1990 U.S. Census - Note: The four tracts not listed are N/A.

By 1997, the population increased 21 percent, to an estimated 2.7 million. Local economic conditions are good, and unemployment rates are at historical low levels. As of 1997, employment was growing at a 6.9 percent annual rate, while the population was increasing by 3.4 percent. Combining these strong growth numbers with relatively low unemployment of 4.9 percent, the Phoenix area has boasted six continuous years of business expansion. The services and retail industries are the main providers of employment in the Phoenix MSA, followed by government and manufacturing. During 1997, Arizona ranked second in the nation in non-agricultural job creation.

Competition in the banking industry is strong within Maricopa County. Large multi-state banking companies dominate the local banking market. In addition, several community banks and three other CEBA chartered retail credit card banks also compete for banking business within the assessment area.

We reviewed community contacts performed by examiners from OCC and other regulatory agencies to determine credit needs and opportunities within the assessment area. According to the interviews, the primary credit need within the assessment area is affordable housing financing for low- and moderate- income individuals. The groups also mentioned the need for flexible lending standards, small business loans, credit education, and counseling for both business owners and individual consumers. Maricopa County has many community-based organizations whose purpose is community development. However, few opportunities for equity investments in these organizations exist. Available opportunities for financial institution participation are centered in services and grants to community development organizations. The Federal Low Income Housing Tax Credits Program offers financial institutions qualified investment opportunities. However, competition for these credits is strong and dominated by larger multi-state financial institutions.

Conclusions with Respect to Performance

We evaluated SNB based on its record of community development activities. The CRA defines community development as (1) affordable housing for low- and moderate-income individuals; (2) community services targeted to low- and moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the Small Business Administration's size limits for development and investment companies or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low- or moderate-income areas.

Summary

SNB's level of community development activities within its assessment area is satisfactory. From November 1996 through June 8, 1998, the bank provided a good level of meaningful, ongoing services to community development organizations. In addition, the bank made qualified investments and grants, totaling \$25,000 and \$196,536 respectively. And, the bank's affiliate, SRC, provided \$296,571 to the regional consumer credit counseling service. We found this performance to be satisfactory and consistent with SNB's resources and financial capacity.

Because the bank achieved satisfactory CRA performance within its assessment area, we considered qualified investments outside the assessment area. SRC provided qualified community development contributions nationally of \$17,041,242, during the assessment period.

Community Development Services Within the Assessment Area

- The bank's President serves as a member of the Board of Directors for Habitat for Humanity (Habitat). This organization's primary mission is to provide affordable housing to low- and moderate-income families. The President also lends his financial and management expertise to Habitat by serving as Treasurer of the organization and on various committees, including the Audit and Finance, Executive, Construction, and Fund Raising Committees. These activities consume roughly fifteen hours per month, not counting the President's personal time spent managing a building crew each weekend. In 1997, SRC arranged to have television personality Bob Vila available for a Habitat fundraising event. The event was highly successful, largely because of Mr. Vila's name recognition. In addition, the bank stores home furnishing materials for Habitat free of charge. In the past eighteen months, Habitat constructed fifty-seven homes for low- and moderate-income families. SNB's donation of time and financial expertise facilitated Habitat's role in meeting a very important need in the community. SNB has had a significant ongoing service commitment with this organization for several years.
- The bank's CRA officer serves as a member of the Board of Directors and as a fundraiser for the Thomas J. Pappas Regional Education Center Foundation. This non-profit foundation serves the financial needs of a school for children of homeless families. The officer lends her financial expertise in overseeing the financial needs of the school and has recruited other financial institutions to make grants to the foundation. The school is the only one of its kind in the nation and serves children in kindergarten through eighth grade. The school provides a curriculum adapted to fit the special needs of children of homeless families, but also meets the state's academic standards. It also provides medical and dental care, counseling, and clean clothing for more than 900 children per year. Its average daily attendance is 300 children.
- SNB provided a consultant to assist the director of an affordable day care center, serving very low-income families in south Phoenix. The consultant assisted in developing a funding strategy, list of potential donors, identification of future Advisory Board members, and other critical capacity building issues for the project. We considered this activity to be innovative.

Qualified Investments Within the Assessment Area

Grants

- \$85,000 to help a nonprofit organization build two new affordable homes in a Phoenix low- to moderate-income area. Grant monies purchased building materials, tools, and a truck to haul materials to job sites. The organization began operations in the Phoenix area in 1987. Since then, the organization has completed eighty-seven affordable homes in low- to moderate-income areas.
- \$18,000 to a nonprofit foundation that supports the financial needs of a school that serves children of homeless families. The foundation provides equipment and furnishings for the school. The school furnishes services beyond those provided by traditional educational institutions, including crisis intervention counseling, extended medical services, and clothing distribution.
- \$15,000 to help fund teaching staff salaries for a program that served low-income youth in South Phoenix with tutoring and enrichment activities. This grant funds ten percent of the annual budget for a teaching staff that serves 200 children.
- \$14,000 to provide assistance for closing costs associated with home purchases by low- to moderate-income individuals residing in Maricopa County. The down payment grant enabled seventeen families to have the opportunity to participate in home ownership.
- \$20,600 to six nonprofit groups that promote affordable housing for low- and moderate-income individuals within the assessment area.
- \$32,336 to seven nonprofit organizations that provide and promote community services targeted to low- to moderate-income individuals within the assessment area. Some provide administrative services for affordable housing projects, some provide home ownership counseling for low- and moderate-income persons/families, one engages in fix-up work on the homes of low- and moderate-income persons/families, and some provide a combination of the above community services.
- \$11,600 to an organization that promotes economic development by financing small businesses. These monies funded operating costs and a micro-enterprise loan fund.

Investments

- SNB purchased a \$25,000 certificate of deposit carrying a below-market rate at a Native American-owned financial institution located in Casa Grande, Arizona. This institution is designated as a Community Development Credit Union by the National Credit Union Administration. It serves the credit needs of Native Americans in Arizona and New Mexico, including those reservations that are within the bank's assessment area. This below-market rate certificate of deposit exhibits SNB's investment flexibility.
- During the evaluation period, SNB's affiliate, SRC, contributed \$296,571 to Consumer Credit Counseling Services Southwest (CCCS) that benefitted the bank's assessment area, or a

broader statewide area, including the assessment area. CCCS provides credit education and counseling for consumers.

Qualified Investments Outside the Assessment Area

- \$2,712,465 to provide construction funding for affordable housing to low- and moderate-income families. The amount represents SRC's final payment on its \$30 million pledge toward the development of a new housing/commercial/community center on the former Sears national headquarters site on Chicago's west side.
- \$758,350 to contribute to affordable housing and community services for low- to moderate-income individuals. This amount represents the portion of SRC's contributions to the national nonprofit service organization dedicated to emergency shelter/homeless programs, housing, community development, and income/jobs organizations.
- SNB's affiliate, SRC, contributed \$13,570,427 to the National Foundation for Consumer Credit, the umbrella agency for all CCCS affiliates. CCCS provides credit education and counseling for consumers.

Compliance with Anti-Discrimination Laws and Regulations

We reviewed the bank's compliance with fair lending laws and regulations during our June 8, 1998, examination. We identified no violations of the substantive provisions of the anti-discrimination laws and regulations.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities since our last examination, October 31, 1996, through June 8, 1998. We reviewed the level and nature of community development related qualified investments and services. At the bank's request, we also considered community development investments and services provided by its affiliates, since none of these count towards the CRA performance of another financial institution.