

PUBLIC DISCLOSURE

July 10, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cedar Hill National Bank
Charter Number 23323

9401 Southern Pine Blvd, Suite P
Charlotte, NC 28273

Office of the Comptroller of the Currency

Midsized and Credit Card Bank Supervision
400 7th Street SW, Suite 3E-218
Washington, DC 20219

NOTE: This document is an evaluation of this 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. 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.

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INSTITUTION'S CRA RATING:

This institution is rated Outstanding.

The conclusions for the three rating criteria are:

- The bank demonstrates an excellent level of community development (CD) investment activity.
- The bank demonstrates no use of innovative or complex qualified investments, CD loans, or CD services.
- The bank demonstrates excellent responsiveness to credit and CD needs in its assessment area (AA).

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA): A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area: The OCC considers all qualified investments, community development loans, and community development services that benefit areas within the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Benefit Outside Assessment Area: The OCC considers the qualified investments, community development loans, and community development services that benefit areas outside the bank's assessment area(s), if the bank has adequately addressed the needs of its assessment area(s).

CEBA: Competitive Equality Banking Act of 1987, which permitted corporations to form limited-purpose credit card banks, whose operations are restricted to credit card activities, without the corporation becoming subject to the limitations of a "bank holding company" under the Bank Holding Company Act. A CEBA credit card bank engages only in credit card operations, does not accept demand deposits or savings or time deposits of less than \$100,000 (other than to secure extensions of credit), maintains only one office and does not engage in the business of making commercial loans.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster

areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Limited Purpose Institution: An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect. [*This definition is not needed if bank is designated a wholesale institution.*]

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Net Operating Income: As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. . [*Schedule RI - Income Statement, line 8 or UBPR, page 2, "PreTax Operating Income (TE)"*]

Pass-Through Receivables: Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8. . [*If not already reported to the OCC,*

the bank provides this information. If not applicable to institution being examined, definition is not required.]

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, "Net Tier One"*]

Total Assets: Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, "Total Assets"*]

Total Income: From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, "Total Interest Income" and "Noninterest Income"*]

Description of Institution

Cedar Hill National Bank (CHNB) is an \$11 million financial institution headquartered in Charlotte, North Carolina. CHNB was chartered on February 2, 1988 as a limited-purpose credit card bank under the Competitive Equality Banking Act (CEBA). CEBA banks are restricted to credit card operations, maintain only one office, and do not accept demand deposits or savings or time deposits of less than \$100,000 (other than to secure extensions of credit). Additionally, CEBA banks may not engage in the business of making commercial loans. However, credit card loans to businesses, which meet the criteria for a “small business concern,” that are eligible for business loans under regulations established by the Small Business Administration under 13 CFR 121 are not considered commercial loans. Lending limitations preclude the bank from making CD loans. Excluding customer service and collection staff, many of which are part time, the bank has nine employees. We considered the specialized nature of the bank’s financial expertise in our evaluation of the bank’s CRA performance. There are no other legal, financial, or other factors impeding the bank’s ability to help meet the credit needs of its AA. See pages 3 through 5 for definitions of a CEBA bank and other terms.

CHNB’s assets are primarily centered in municipal securities. CHNB is a wholly-owned subsidiary of The Cato Corporation, headquartered in Charlotte, NC. It is a leading specialty retailer of women’s fashion apparel operating over 1,300 stores throughout the United States under the store brands of Cato, It’s Fashion, and Versona Accessories. CHNB offers private label consumer credit cards for the above stores, services the accounts, and sells the receivables to an affiliate, CatoWest, LLC.

Table 1 provides financial information relating to CHNB’s financial capacity to help meet the needs of its AA.

Table 1: Financial Information (000s)

	Year-end CY13	Year-end CY14	Year-end CY15	Year-end CY16	Most Recent Quarter- end 03/30/2017	Average for Evaluation Period
Tier 1 Capital	8,956	9,049	8,867	8,804	8,826	8,900
Total Income	3,582	3,357	3,290	3,093	2,752**	3,215
Net Operating Income	544	489	490	462	88**	415
Total Assets	11,850	12,579	11,270	11,086	11,197	11,596
Pass-Through Receivables/Managed Assets	.71	.69	.69	.67	.63	.68

Source: Consolidated Report of Condition and Income and bank reported data. **Annualized data reported.

Scope of the Examination

CHNB is a limited purpose institution. We evaluated CHNB's CRA performance on the basis of its CD qualified investments or CD services; use of innovative or complex qualified investments or services and the extent to which investments are not routinely provided by private investors; and responsiveness to community credit and development needs. We reviewed CD activities from November 1, 2013 through July 10, 2017. At the bank's request, we also considered qualified investments provided by its parent company. At the prior examination dated October 31, 2013, we rated the bank Needs to Improve.

If a bank has adequately addressed its AA needs, the OCC considers CD activities submitted by the bank that benefit areas outside its AA in the evaluation of its performance. The bank has adequately addressed the needs of its AA. Therefore, we considered qualified investments originated outside of the AA in evaluating the bank's performance.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Description of Assessment Area

CHNB's AA consists of the entire Charlotte MMSA. The AA consists of both urban and suburban areas and does not arbitrarily exclude low- or moderate-income geographies. According to 2010 census information, 42 (9 percent) of the geographies in this AA are low-income, 109 (23 percent) are moderate-income, 165 (35 percent) are middle-income, 148 (32 percent) are upper-income, and four (1 percent) have not been assigned an income classification.

The MMSA's economic recovery continues to outpace those of North Carolina and the United States. Real output grew 4 percent in 2016, double the rates of the state and the nation, and the local economy continues to perform well in 2017. Employment showed stronger job growth in 2016, especially in the second half of the year. Private services expanded at a robust pace, while government employment rose higher late in the year. Goods producers also added workers, but at their slowest rate since the upturn began. Banks have added about 5,000 workers since 2015. Banking industry payrolls will rise more modestly this year but growth will exceed that in the rest of the Southeast and the United States. Major industries consist of professional and business services, followed by government, and retail trade. Major employers include Carolinas HealthCare System, Wells Fargo, Wal-Mart Stores, Inc. and Bank of America Corporation. A rapid rise in the labor force is preventing the unemployment rate from falling further. Above-average income growth is energizing the housing market¹.

In the MMSA, non-agricultural wage and salaried employment increased 38.5 percent from 856,999 in October 2013 to 1,187,000 in May 2017. During this same period, the unemployment rate decreased from 7.5 percent to 4.0 percent.

¹ Moody's Analytics, March 2017

As of 2016, there were 470,872 families in the AA. The 2016 Department of Housing and Urban Development’s adjusted median family income for the AA was \$67,000. The 2016 Federal Financial Institutions Examination Council (FFIEC) estimated median family income for the MSA of \$64,100. Twenty-one percent of families were low-income, 17 percent were moderate-income, 20 percent were middle-income, and 42 percent were upper-income. Ten percent of families live below the poverty level in the AA based on 2010 Census Data. See Table 2 for additional information.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	468	9%	23%	35%	32%
Families	470,872	21%*	17%*	20%*	42%*
Businesses	110,983	8%**	17%**	32%**	42%**

Source: Demographic Data – 1990 or 2000 U.S. Census, Dun & Bradstreet Data. *Represents families by income level. **Represents businesses by income level of census tract.

We determined the credit and CD needs by contacting a representative from a nonprofit housing organization. We also reviewed the Department of Housing and Urban Development (HUD) Consolidated Housing and CD Plans for Charlotte, North Carolina. HUD Consolidated Housing and CD Plans are comprehensive planning documents that identify community needs. In addition, we reviewed the City of Charlotte and Charlotte-Mecklenburg Regional Housing Consortium’s Annual Action Plan, which identifies the City’s CD, needs.

According to the community contact, the Charlotte area has been growing rapidly for the past few years, driven mostly by the banking and energy industry as well as government, and universities. The contact stated many people come to the area without jobs, attracted by the lower cost of living and the draw of employment in the banking industry.

The contact stated the biggest struggle in the Charlotte area is the challenge of upward mobility. The area is experiencing strong growth in the economy and in the luxury housing market, but jobs and affordable housing for low- and moderate-income persons remains a challenge. Lower rent housing is regularly torn down and replaced with luxury projects, creating greater disparity. Affordable housing is becoming scarcer and more expensive, especially due to rising construction costs, rising interest rates, rising land costs, and the elimination of local tax credits. Average rents have increased from \$800 a month to \$1050.

We identified the following credit and CD related needs for this AA:

Affordable Housing Needs

- Retaining and improving the condition of existing housing stock and affordable housing in residential neighborhoods
- Opportunities for homeownership
- Affordable housing construction financing, including financing for supportive rental housing
- Emergency rental and utility assistance
- Affordable permanent housing that is accessible to job opportunities

Community Service Needs

- Financial education, including basic banking, budgeting, saving, investing
- Assistance for unbanked persons in opening a bank account
- Job training
- Support facilities and programs for the homeless
- Domestic violence assistance
- Increase neighborhood sustainability

Economic Development Needs

- Revitalization and stabilization of five distressed business districts as identified by the City of Charlotte. These areas consist of Beatties Ford Road, Eastland Mall area, Rozzells Ferry Road, North Tryon Street, and Wilkinson/Freedom/Morehead.
- Promotion of business growth and a robust workforce

Opportunities for qualified investments and CD services within this AA are abundant. The AA has numerous housing and social service agencies that provide community services to low- and moderate-income individuals and there are numerous agencies involved in economic and business development. Available investments include low-income housing tax credits, mortgage-backed securities secured by mortgages to low- and moderate-income individuals, qualified investment funds (QIF), and investments in CD financial institutions (CDFI). However, data from the FDIC as of July 10, 2017 shows there are 44 banks and savings institutions operating 543 offices in the Charlotte MMSA. Therefore, there is significant competition from other financial institutions for these CD opportunities and subsequent CRA credit.

Conclusions about Performance

Summary

CHNB has demonstrated excellent performance in helping to meet the community development needs of the AA, including the credit needs of low- and moderate-income individuals. Since CHNB's charter restricts its lending to credit cards, it cannot directly originate community development loans. However, through its investments, the bank and an affiliate have provided low-cost funds for affordable housing, small businesses, and funds to organizations that provide services to low- and moderate-income families in its AA.

- CHNB's overall level of CD activities, including those from its parent company, The Cato Corporation, is excellent given available opportunities, strong competition from full service banks, legal restrictions, its financial capacity, and nature of its banking operations. CHNB and its affiliate made \$5.34 million in CD investments in the current evaluation period. The bank did not provide any CD services.
- CHNB did not use innovative or complex qualified investments to meet the credit and community needs of this AA. The narrow operating focus and small staff limit the bank's ability for involvement in complex CD activities.

- CHNB exhibited excellent responsiveness to credit and CD needs in the AA. CHNB’s qualified investments address the needs for affordable housing and economic development, which are two of the greatest needs in the AA.

The bank has adequately addressed the needs of its AA. Therefore, we also considered activities of the parent company that benefit areas outside the AA.

Qualified Investments

Table 3 identifies the total dollar amount of qualified investments. Qualified investments within and outside CHNB’s AA totaled \$2.22 million and \$3.13 million, respectively. This level of qualified investments is excellent given the nature of CHNB’s operations, legal restrictions, its financial condition, intense competition from full service banks, and available opportunities. The investments are responsive to needs of the AA as identified by a community contact and by the City of Charlotte and Charlotte-Mecklenburg Regional Housing Consortium’s Annual Action Plan. Although the qualified investments were highly responsive to community needs, they are not innovative or complex.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$695	0	\$695
Originated Grants	\$1,523	\$3,126	\$4,649
Prior-Period Investments that Remain Outstanding	0	0	0
Total Qualified Investments	\$2,218	3,126	\$5,344
Unfunded Commitments*	0	0	0

* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system.

Table 4 details the amount of CHNB’s qualified CD investments as a percentage of Average Tier One Capital, Average Total Income, and Average Pass-Through Receivables. As shown below, total qualified CD investments represent 60 percent of Average Tier One Capital, 166 percent of Average Total Income and 22 percent of Average Pass-Through Receivables.

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	25	35	60
Total Investments/Average Total Income	69	97	166
Total Investments/Average Pass-Through Receivables	9	13	22

In 2014, the bank donated \$15,000 to an organization serving children from low- and moderate-income families. In 2015, the bank purchased \$95,000 in Charlotte Housing Revenue Bonds, which support low- and moderate-income housing. In 2016, the Cato Corporation donated \$300,000 to a public housing child development center located in a low-

income census tract. In 2017, the bank made a \$600,000 investment in a Qualified Investment Fund (QIF), which was designated for a small business loan to a day care located in a low-income census tract within the AA.

The parent company has made other donations during each year of the evaluation period, The Cato Corporation gave new clothing with a total market value of \$4.33 million to a non-profit, which then distributes the clothing to a network of well over 100 non-profit social services agencies. These agencies distribute the clothing to low- and moderate-income individuals in over 48 states. Of this in-kind donation, \$1.21 million benefited individuals from inside the AA and the remaining \$3.12 million benefited individuals outside the AA. Although the qualified investments were not innovative or complex, they were highly responsive to community needs.

Community Development Services

CHNB did not provide any CD services for us to consider in evaluating the bank's performance