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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

**Conditional Approval #258  
November 1997**

October 27, 1997

Mr. Alan E. Wiley  
The CATO Corporation  
8100 Denmark Road  
Charlotte, NC 28273-5975

Re: Application by The CATO Corporation to charter a national CEBA credit card bank with the title "Cedar Hill National Bank" Lawrenceville, Georgia  
Application Control Number: 97-SE-01-0002

Dear Mr. Wiley:

The Office of the Comptroller of the Currency (OCC) has reviewed your application to establish a new national CEBA credit card bank with the title, Cedar Hill National Bank ("Bank"). On October 27, 1997, after a thorough evaluation of all data available to the OCC, we found that your proposal met the requirements for preliminary conditional approval.

This approval is granted based on a thorough review of all information available, including the commitments and representations in the charter application and by Bank representatives. We also made our decision to grant preliminary conditional approval with the understanding that the proposed national bank will apply for membership in the Federal Reserve System.

The OCC also granted your request for a waiver of the residency requirements of 12 U.S.C. §72 for a majority of the board of directors. This waiver is granted based upon a review of all available information, including the filing, subsequent correspondence and telephone conversations, and the bank's representations that this waiver will not affect the Board's responsibility to direct the bank's operations in a safe, sound and legal manner. Please understand that the OCC reserves the right to withdraw or modify this waiver and, at its discretion, to request additional information at any time in the future.

The proposed Bank must take steps to ensure that internal systems will be Year 2000 compliant and the proposed Bank must perform due diligence to ensure that any third-party data processing servicers or purchased applications or systems from software vendors will also be Year 2000 compliant. In addition, each vendor is to certify its Year 2000 compliance through covenants in the vendor contract.

Your request that the proposed bank be designated a limited purpose institution for the purposes of the Community Reinvestment Act was approved on September 11, 1997. You received a separate letter regarding this approval.

The operating plan will provide the context for the supervisory review at the pre-opening examination. Major deviations from the plan or changes in the composition of the board of directors, ownership, or chief executive officer that the OCC has not approved may result in withdrawal of preliminary conditional approval. Please note that all relevant financial documents should reflect the Bank as a stand alone entity. Receivables, both donated and purchased, must be reflected on the Bank's financial statements at fair value. Additionally, with respect to dual employee supervisory personnel, Bank financials must reflect the personnel costs associated with time devoted by these employees to Bank matters.

This approval is subject to the following conditions:

1. The Bank must obtain the prior approval of the Federal Deposit Insurance Corporation (FDIC) to become an "insured depository institution" within the meaning of 12 U.S.C. § 1813(c)(2).
2. The Bank will maintain status as an "insured depository institution" within the meaning of 12 U.S.C. § 1813(c)(2).
3. At the earliest practicable time, the Bank will provide notice to the OCC of any action initiated or taken by the FDIC that is directed toward termination of the Bank's status as an insured depository institution.
4. In the event the FDIC initiates or takes any action to terminate the Bank's status as an "insured depository institution," the Bank must request and obtain the prior approval of the OCC before continuing operation as a non-FDIC insured national bank. In determining whether to approve the continued operation by the Bank as an uninsured national bank, the OCC may impose additional conditions upon the Bank. Such conditions shall be regarded as conditions "imposed in writing by the agency in connection with the granting of any application or other request by the depository institution" within the meaning of 12 U.S.C. § 1818.
5. The limitations of the Bank's activities must be enumerated fully in its Articles of Association. Specifically, the articles must state:

- The business of the association will be limited to that of a national credit card bank, as specified in the Competitive Equality Banking Act (CEBA) of 1987, and
  - The Bank must obtain the prior written approval of the OCC before amending its Articles of Association to expand the scope of its activities and services.
6. The Bank must have full recourse to return any accounts to The Cato Corporation for any reason. Prior approval from the OCC must be obtained before any alteration of the recourse agreement is effected.
7. The Bank must maintain on file on its premises current financial information on The CATO Corporation, i.e., audited annual financial reports, quarterly financial statements, 10-K and 10-Q reports, 8-K reports as appropriate, and any other publicly available financial data required to be prepared by the company to keep investors apprised of its financial condition. The financial information must be provided to the Bank's supervisory office once it becomes available.

It is to be expressly understood that the OCC's authority to impose conditions under # 4 above, is in addition to, and not in substitution of, any other authority the OCC presently possesses--or may come to possess--for uninsured national banks.

Please be advised that the above conditions shall be deemed to be conditions "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. § 1818.

The Bank may offer credit life, health, and accident insurance in accordance with 12 C.F.R. 2.

In addition, our approval is based on the following representations made by the applicant in connection with its application to charter the Bank:

Any services performed by affiliates for the Bank and payments to said affiliates by the Bank will be rendered pursuant to contracts which comply with federal law and regulation, reflect safe and sound practices, and are at costs similar to what the Bank would pay an independent third party for the same services. The contracts are to be submitted to the Southeastern District Office for review at or before you establish corporate existence.

You may now establish the corporate existence of the Bank and forward the Articles of Association and Organization Certificate to the Southeastern District Office within 30 days.

Alan E. Wiley  
Cedar Hill National Bank  
Application Control Number: 97-SE-01-0002  
Page 4

As a legal entity, you may begin to take those steps necessary for obtaining final approval, but you may not begin the business of banking until you fulfill all requirements for a bank-in-organization and final approval is granted (See Corporate Organizational Booklet enclosed).

Enclosed are procedural requirements that must be met before the Bank will be allowed to commence business. Please note that some of the requirements referenced in the enclosed package may not be applicable since the Bank's activities will be limited to those of a national CEBA credit card bank. Management must ensure that the applicable policies and procedures are established and adopted by the Board of Directors before the Bank commences business.

We require that, prior to opening, the Bank engage an independent, external auditor to perform an audit according to generally accepted auditing standards of sufficient scope to enable the auditor to render an opinion on the financial statements of the Bank. The audit period shall commence on the date that the organizing group forms a body corporate and may end on any calendar quarter-end no later than 12 months after the Bank opens. We expect that such audits will be performed on an annual basis for at least three years following commencement of operations. Engagement of an auditor will be verified during the pre-opening examination.

The OCC has no objection to you serving as President and Chairman of the Board, as proposed in the application. Additionally, the OCC has no objection to the following persons serving as executive officers: James A. Rembowski as Cashier and Senior Lender; and, Theresa R. Gebhardt as Chief Financial Officer. Additional officers and directors, particularly the position of Office manager are subject to the OCC's prior review and clearance. Also, please note that the OCC requires that you obtain prior approval of additions or changes in executive officers and directors for two years after the Bank opens for business.

The OCC will send to you under a separate cover an appropriate set of OCC handbooks, manuals, issuances and select other publications.

You should direct any questions concerning this preliminary conditional approval to me at (202) 874-5060 or John O. Stein, Licensing Manager in the Southeastern District Office, at (404) 588-4525.

Sincerely,

/s/

John W. Graetz  
Acting Director for Corporate Activity

Alan E. Wiley  
Cedar Hill National Bank  
Application Control Number: 97-SE-01-0002  
Page 5

Bank Organization and Structure