



## LIMITED PURPOSE

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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

September 29, 2003

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**World Financial Network National Bank  
Charter Number 21739**

**800 Techcenter Drive  
Gahanna, Ohio 43230-6605**

**Comptroller of the Currency  
Assistant Deputy Comptroller  
Credit Card Bank Supervision  
Marquis One Tower, Suite 600  
245 Peachtree Center Avenue, NE  
Atlanta, Georgia 30303**

**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.**

## **Institution's CRA rating:**

**This institution is rated "Satisfactory".**

The conclusions for the three rating criteria are:

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

## **Scope of the Examination**

In evaluating the bank's performance under the Community Reinvestment Act (CRA) we reviewed community development (CD) activities from September 19, 2000 through September 29, 2003. We reviewed the level and nature of qualified investments and CD services. At the bank's request, we also considered qualified investments provided by its affiliate. At the prior examination dated September 18, 2000, we rated the bank Outstanding.

If a bank has adequately addressed its AA needs, the OCC considers CD activities the bank submits that benefit areas outside of its AA in the evaluation of its performance. The bank has adequately addressed the needs of its AA, and therefore, outside of AA qualified investments were considered in evaluating its performance.

## **Description of Institution**

World Financial Network National Bank (WFNNB) was chartered on May 1, 1989, as a Competitive Equality Banking Act (CEBA) credit card bank. On March 20, 1996, WFNNB received its designation as a limited purpose institution for CRA purposes. CEBA banks are restricted from participation in most activities common to full service banks and primarily engage in credit card operations. CEBA banks may only accept savings and time deposits in amounts of \$100,000 and greater. Additionally, they may not engage in the business of making or purchasing commercial, residential, or retail oriented loans, with the exception of credit card loans. This prohibition significantly limits WFNNB's ability to help meet community credit needs within its AA. See page seven for a definition of a CEBA bank. WFNNB may only engage in CRA CD activities relating to qualified investments and CD services due to legal restrictions. WFNNB's ability to provide CD services is also affected due to the specialized financial expertise of bank employees. WFNNB's parent, Alliance Data Systems, Inc. (ADS) has provided investment avenues for qualified investments outside the bank's AA.

WFNNB is a \$529 million financial institution located in Gahanna, Ohio, a suburb of Columbus, Ohio. It has no branch offices. WFNNB is a wholly owned subsidiary of ADS. ADS is a leading provider of transaction, credit, and marketing services to companies in the retail, petroleum, supermarket, financial services, and utility services sectors.

Table 1 provides financial information relating to WFNNB’s financial capacity to help meet the needs of its AA. See pages seven through nine for definitions of terms. WFNNB’s assets are primarily centered in credit card receivables and investment securities. WFNNB’s primary business focus is the origination of private label credit cards for approximately 60 retailers throughout the United States. WFNNB’s primary source of income is derived from the servicing of sold credit card receivables. The average amount of pass-through receivables (\$2.6 billion), detailed below, represents the outstanding balance of all accounts originated, subsequently sold, and presently serviced by WFNNB.

**Table 1: Financial Information (000s)**

	<b>Year-end 2000</b>	<b>Year-end 2001</b>	<b>Year-end 2002</b>	<b>Most Recent Quarter- end 06/30/2003</b>	<b>Average for Evaluation Period</b>
<b>Tier 1 Capital</b>	\$188,311	\$213,217	\$202,107	\$241,664	\$211,325
<b>Total Income</b>	\$240,953	\$259,979	\$306,952	*\$321,288	\$282,293
<b>Net Operating Income</b>	\$59,935	\$39,878	\$68,121	*\$122,902	\$72,709
<b>Total Assets</b>	\$430,282	\$514,139	\$435,502	\$529,447	\$477,343
<b>Pass-Through Receivables</b>	\$2,400,172	\$2,540,644	\$2,871,678	\$2,700,175	\$2,628,167

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

## Description of Assessment Area

WFNNB’s AA is comprised of all six counties (Delaware, Fairfield, Franklin, Licking, Madison, and Pickaway Counties) within the Columbus, Ohio metropolitan statistical area (MSA). WFNNB’s AA complies with CRA regulatory requirements and does not arbitrarily exclude low- and moderate-income areas.

The Columbus, Ohio MSA is located in central Ohio. It is the second largest MSA within the state. As the state capital, Columbus is the third fastest growing metro area in the Midwest. The growth is evident not only through the extensive development the region has experienced since the early 1980’s, but also the number of new businesses that start each year. Local business starts increased from 3,851 in 1990, to 5,598 in 2001. Franklin County has led the state in business starts each year since 1996. Home to five Fortune 500 companies, Columbus thrives on a diverse mix of service, retail, government, and manufacturing industries. Employment by sector within WFNNB’s AA is distributed among the service (31%), retail trade (19%), government (14%), manufacturing (10%), and other (26%) sectors. This base has given the

Columbus MSA economic prosperity and stability. The top five employers by number of employees are The State of Ohio, The Ohio State University, Greater Columbus Federal Government, Nationwide, and Bank One Corporation.

According to 2000 census information, 36 (10%) of the geographies in WFNNB’s AA are low-income, 102 (27%) are moderate-income, 145 (39%) are middle-income, 88 (24%) are upper-income, and 1 (<1%) lacks sufficient population to be assigned an income level. As a whole, the AA consists of 13 percent of total Ohio geographies (2,941) and 14 percent of the state’s population (11,353,140).

As of 2000, the AA had 393,982 families. Twenty percent of the families were low-income, 18 percent were moderate-income, 23 percent were middle-income, and 39 percent were upper-income. As of 2003, the MSA median family income was \$63,800. Ten percent of the households lived below the poverty level, which is comparable to the State of Ohio’s poverty level. The unemployment rate for WFNNB’s AA was 4.5 percent as of August 2003, which is lower than the statewide unemployment rate of 5.5 percent.

There are 24 designated Enterprise Zones located within WFNNB’s AA. There are four Enterprise Zones located in Delaware County, one in Fairfield County, eight in Franklin County, six in Licking County, three in Madison County, and two in Pickaway County. The local municipalities offer a wide range of incentives to attract businesses to locate or expand existing operations within an Enterprise Zone. Incentives include sales tax exemptions, inventory tax exemptions, job creation tax credits, and manufacturing machinery and equipment investment tax credits.

**Table 2: Assessment Area Description**

	<b>Number</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
<b>Tracts</b>	372	10%	27%	39%	24%
<b>Families</b>	393,982	20%*	18%*	23%*	39%*
<b>Businesses***</b>	78,721	8%**	15%**	40%**	36%**

Source: Demographic Data - 2000 U.S. Census, Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract. \*\*\*One percent of businesses are located in census tracts in which an income classification has not been assigned.

The credit and non-credit related needs in WFNNB’s AA included the following.

- Affordable housing (i.e. single-family rental, multifamily rental, home ownership, and rehabilitation). Public and rental assisted housing were also identified as needs.
- Micro business loans for existing and start up businesses.
- Banking facilities in low- and moderate-income neighborhoods and low cost financial services.
- Technical assistance for small business owners.
- Social services to low- and moderate-income individuals consisting of the following.

- Childcare services.
- Job training and counseling.
- Food donation.
- Health and dental care services.

These community needs were identified by contacting representatives from six organizations and reviewing CRA public evaluations for financial institutions with branch offices in the Columbus area. The representatives we contacted were from a non-profit community and business development organization, a non-profit housing CD corporation (CDC), a non-profit economic development corporation, a non-profit homeless and housing organization, city of Columbus government, and a CD collaborative organization consisting of representatives from four banks. We also reviewed the U.S. Department of Housing and Urban Development (HUD) Consolidated Strategy and Plan for the city of Columbus and Franklin County. HUD Consolidated Strategies and Plans are comprehensive planning documents that identify community needs.

Opportunities for qualified investments, CD loans, and CD services exist within WFNNB's AA. These opportunities include low-income housing tax credits, CDCs, non-profit housing organizations, credit counseling agencies, affordable housing mortgage bonds, and non-profit organizations that provide social services to low- and moderate-income individuals. Overall, opportunities are abundant. However, WFNNB's ability to participate in some of these opportunities is limited due to the unique nature of its operations, as noted above, and immense competition from large full-service banks.

## **Conclusions About Performance**

- WFNNB has an adequate level of qualified investments and CD services, including those from its affiliate ADS, given available opportunities, competition from full service banks, legal restrictions, its financial condition, and the unique nature of its banking operations. WFNNB and its affiliate have made \$4,231,000 in qualified investments that have directly benefited its AA, or a statewide or regional area that includes its AA. See Table 3 on page five. WFNNB did not present any CD services for us to consider.
- WFNNB has not used innovative or complex qualified investments or CD services within its AA during the current evaluation period.
- WFNNB has exhibited adequate responsiveness to credit and CD needs within its AA. WFNNB's and ADS's qualified investments have been for affordable housing, credit counseling, and other social programs targeted to low- and moderate-income individuals. These qualified investments have been in direct response to identified community needs.

## **Qualified Investments**

WFNNB's amount of qualified investments within and outside its AA totaled \$4,231,000 and \$9,602,000 respectively. See Table 3. This level of qualified investments is adequate given the nature of WFNNB's operations, its financial condition, and available opportunities. Table 4

details WFNNB’s amount of qualified investments as a percentage of Average Tier 1 Capital, Average Total Income, and Average Pass-Through Receivables. WFNNB’s qualified investments were responsive to identified community needs. WFNNB’s qualified investments are detailed below.

**Table 3: Qualified Investment Activity (000s)**

	<b>Benefits AA</b>	<b>Outside AA</b>	<b>Totals</b>
<b>Originated Investments</b>	\$1,215	\$0	\$1,215
<b>Originated Grants</b>	1,391	9,602	10,993
<b>Prior-Period Investments that Remain Outstanding</b>	1,625	0	1,625
<b>Total Qualified Investments</b>	\$4,231	\$9,602	\$13,833

**Table 4: Qualified Investment Percentages**

	<b>Benefits AA (%)</b>	<b>Outside AA (%)</b>	<b>Total (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	2.00%	4.54%	6.54%
<b>Total Investments/Average Total Income</b>	1.50%	3.40%	4.90%
<b>Total Investments/Average Pass-Through Receivables</b>	.16%	.37%	.53%

*Affordable Housing – \$2,963,000*

- WFNNB purchased two multifamily housing revenue bonds issued by Franklin County, Ohio in 1994. Bond proceeds were used to renovate a 376-unit apartment complex, with more than half of the units reserved for low- and moderate-income individuals. The outstanding balance of these two bonds is \$1,625,000.
- ADS purchased a mortgage backed security in September 2003 consisting of a pool of 13 mortgages to low- and moderate-income borrowers residing in Franklin and Fairfield Counties. The outstanding balance is \$1,215,000.
- WFNNB donated \$90,000 to a non-profit organization that renovates and builds new homes for rent and sale to low- and moderate-income individuals in the Columbus MSA. The organization also provides down payment assistance. Since 2001, the organization has built 136 multifamily units, built 132 single-family residences, and rehabilitated 10 single-family residences.
- WFNNB donated \$26,000 to a non-profit organization that constructs, sells, and finances new homes to low- and moderate-income individuals residing in the Columbus MSA. This organization has constructed and sold 33 homes since 2001.

- WFNNB donated \$7,000 to a non-profit organization that refurbishes homes of low- and moderate-income individuals residing in the Columbus MSA. This organization has refurbished 94 homes since 2001.

*Consumer Credit Counseling - \$10,147,000*

- WFNNB has made donations and fair share payments of \$10,147,000 to organizations that provide free consumer credit counseling services primarily to low- and moderate-income individuals who reside within the United States. A portion of this amount (\$545,000) was used for individuals residing within the State of Ohio.

*Other Social Services – \$723,000*

- ADS donated \$418,000 to a non-profit organization that provides grants to other non-profit organizations within the Columbus MSA. At least 51 percent of the agency’s grants went to organizations that have a CD purpose. Many of these organizations provide temporary shelter, job training, counseling, educational services, health services, child development services, youth recreational activities, domestic violence social services, and other social services primarily to low- and moderate-income individuals.
- WFNNB donated \$265,000 to a non-profit organization that provides a multitude of social services primarily to low- and moderate-income individuals residing in the Columbus MSA. The three major programs consist of the following.
  - Micro Enterprise Training Program: This program assists disadvantaged low- and moderate-income Franklin County residents by providing a micro enterprise course that allows individuals to evaluate their potential for success with an entrepreneurial venture.
  - Micro Enterprise Revolving Loan Fund: This fund provides loans between \$5,000 and \$15,000 that promote economic development by creating permanent jobs primarily for low- and moderate-income individuals. Thirty-four loans have been originated since 2001 for approximately \$275,000.
  - Individual Development Accounts (IDA): This organization assists low- and moderate-income individuals to raise money to buy a vehicle, start a business, pay for education, or remodel / buy a house. This organization will match participant’s bank deposits at a rate of 2 or 3 to 1 for a maximum of \$6,000. Approximately 600 IDAs have been opened since the program’s inception in 1999.
- WFNNB donated \$34,000 to a non-profit organization that provides grants to various CDCs in the Columbus MSA. These CDCs assist in revitalizing and stabilizing low- and moderate-income neighborhoods, and providing affordable housing and various other social services for low- and moderate-income individuals.
- WFNNB donated \$6,000 to a non-profit organization that operates a federally funded

program called LEAP (learning, education, and parenting). Teen mothers, residing in the Columbus MSA, who qualify under poverty guidelines and remain in school, receive free babysitting and transportation to school. It also provides recreation opportunities, health services, employment services, tutors, and mentors.

### **Community Development Services**

WFNNB didn't present any CD services for us to consider.

### **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.

### **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** – A geographic area that consists generally of one or more Metropolitan Areas (using the Metropolitan Area 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** – A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

**Block Numbering Area (BNA)** – Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

**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)** – Small, locally defined statistical areas within Metropolitan Areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

**Community Development (CD)** – Affordable 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 the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

**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 or a block numbering area 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.

**Median Family Income (MFI)** – The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

**Metropolitan Area (MA)** – Area defined by the director of the United States Office of Management and Budget. MAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Net Operating Income** – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments.

**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.

**Qualified Investment** - A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Tier 1 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.

**Total Assets** – Total bank assets as listed in the Consolidated Report of Condition and Income.

**Total Income** – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income.