



# LIMITED PURPOSE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

August 30, 2010

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

World Financial Network National Bank  
Charter Number: 21739

One Righter Parkway  
Wilmington, DE 19803

Office of the Comptroller of the Currency

Credit Card Bank Supervision  
7101 College Boulevard, Suite 1600  
Overland Park, KS 66210

**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 community development (CD) services and qualified investment activity.
- The bank demonstrates rare use of innovative or complex qualified investments, or CD services.
- The bank demonstrates excellent responsiveness to credit and CD needs in its assessment area (AA).

## **Scope of the Examination**

In evaluating the bank’s performance under the CRA, we reviewed CD activities from October 1, 2006 through July 31, 2010. 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 affiliates. At the prior examination dated January 9, 2007, we rated the bank Satisfactory.

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 pages eight through ten for a definition of a CEBA bank and other terms. 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 Corporation (ADS) has provided qualified investments within the bank’s AA.

WFNNB is a \$5 billion financial institution that relocated from Columbus, Ohio to Wilmington, DE on August 9, 2010. It has no branch offices. Table 1 provides financial information relating to WFNNB's financial capacity to help meet the needs of its AA. 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 85 retailers throughout the United States. The average amount of pass-through receivables (\$4.3 billion), detailed below, represents the outstanding balance of all accounts originated, subsequently sold, and presently serviced by WFNNB. However, due to accounting standards, the bank is required to record the pass through receivables on their financial reports.

WFNNB is a wholly owned subsidiary of ADS, an \$8 billion entity located in Dallas, Texas. ADS is a provider of marketing-driven credit solutions and other marketing related services.

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

	Year-end 2006	Year-end 2007	Year-end 2008	Year-end 2009	Most Recent Quarter- end 06/30/2010	Average for Evaluation Period
<b>Tier 1 Capital</b>	\$491,804	\$522,573	\$541,078	\$638,605	\$478,745	\$534,561
<b>Total Income</b>	\$740,504	\$826,779	\$763,418	\$717,797	*\$1,266,542	\$863,008
<b>Net Operating Income</b>	\$329,687	\$382,743	\$312,691	\$213,675	*\$340,854	\$315,930
<b>Total Assets</b>	\$978,691	\$1,052,477	\$1,286,554	\$2,100,391	\$4,971,994	2,078,021
<b>Pass-Through Receivables</b>	\$4,027,836	\$4,016,011	\$4,220,061	\$4,993,619	\$4,608,574	\$4,373,220

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

## Description of Assessment Area

WFNNB's AA during the evaluation period comprised the entire Columbus, OH metropolitan statistical area (MSA) # 18140, consisting of Delaware, Fairfield, Franklin, Licking, Madison, Morrow, Pickaway, and Union Counties. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The Columbus, OH MSA # 18140 is the second largest MSA within the state and consists of both urban and suburban areas.

According to 2000 census information, 35 (9 percent) of the geographies in WFNNB's AA are low-income, 102 (26 percent) are moderate-income, 153 (40 percent) are middle-income, 94 (24 percent) are upper-income, and 1 (<1 percent) lacks sufficient population to be assigned an income level. As a whole, the AA consists of 13 percent of total Ohio geographies and 14 percent of the state's population.

The recovery of the Columbus economy remained on track in the first five months of the year. Following the measurably milder than average recession, job losses have finally come to an end and payrolls are starting to see small buy steady monthly increases. However, the pace of the recovery is uneven across industries. While construction is in the midst of a modest rebound, manufacturing continues to lose jobs.

The bulk of job gains in recent months have been in private services, with professional / business payrolls complementing hiring in recession-proof health care / education sectors. Public sector payrolls have provided limited support so far this year. Major industries consist of government, professional and business services, followed by education and health services. Major non-government employers include Ohio State University, JPMorgan Chase & Company, Nationwide, and Ohio Health.<sup>1</sup>

In the AA, non-agricultural wage and salaried employment declined from 911,738 in October 2006 to 888,346 in July 2010, a decrease of 2.5 percent. During this same time period, the unemployment rate increased from 4.2 percent to 9.0 percent. The state of Ohio's unemployment rate was 10.3 percent, as of July 2010. Ten percent of households live below the poverty level in the AA based on 2000 Census Data. It is especially difficult for this segment of the population to afford and maintain a home.

As of 2000, the AA had 413,882 families. Nineteen percent of families were low-income, 19 percent were moderate-income, 23 percent were middle-income, and 39 percent were upper-income. The 2010 Department of Housing and Urban Development's (HUD) adjusted median family income for the AA is \$68,600.

In 2010, the National Low Income Housing Coalition estimated that 44 percent of the area median income was needed to afford the fair market rent for a two bedroom unit. An individual would either need to earn 198 percent of the federal minimum wage (based on a 40-hour work week) or work a 79-hour work week to afford the fair market rent of \$750.

There are 33 designated Enterprise Zones located within WFNNB's AA. An Enterprise Zone is a specific geographic area targeted for economic revitalization. The zones encourage economic development and investment in distressed areas by offering tax advantages and incentives to businesses locating or expanding existing operations within the zone boundaries. Incentives include sales tax exemptions, inventory tax exemptions, job creation tax credits, and manufacturing equipment investment tax credits. There are 3 Enterprise Zones located in Delaware County, 1 in Fairfield County, 13 in Franklin County, 6 in Licking County, 4 in Madison County, 1 in Morrow County, 3 in Pickaway County, and 2 in Union County.

**Table 2: Assessment Area Description**

	Number	Low	Moderate	Middle	Upper
<b>Tracts</b>	385	9%	26%	40%	24%
<b>Families</b>	413,882	19%*	19%*	23%*	39%*
<b>Businesses</b>	9,616	7%**	18%**	40%**	34%**

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

We determined the community's needs by contacting representatives from a housing organization and an economic development organization. We also reviewed the Department of HUD Consolidated Housing and CD Plan for the city of Columbus and Franklin County. HUD Consolidated Housing and CD Plans are comprehensive planning documents that identify community needs.

<sup>1</sup> Moody's Analytics, June 2010, Economy.com

We identified the following credit and non-credit related needs in this AA:

- Down payment assistance for prospective homeowners, home rehabilitation grants, and affordable owner occupied housing for low- and moderate-income individuals.
- Affordable rental units for low-income individuals, including HUD Section 8 subsidized housing. According to the HUD Consolidated Housing and CD Plan, half of the 44,000 renter households pay more than 50 percent of their income for housing.
- Flexible and affordable mortgage loans targeted to low- and moderate-income individuals.
- Emergency shelters for the homeless.
- Foreclosure prevention counseling.
- Home buying and credit counseling.
- Micro small dollar venture capital loans.
- Social services for low- and moderate-income individuals including after school care programs, workforce development, child care, health and dental care, and financial literacy services.

Opportunities for CD services and qualified investments other than grants and donations do exist within WFNNB's AA. However, WFNNB's ability to take advantage of these opportunities is somewhat limited due to the nature of its operations and tremendous competition from larger, full-service banks. Opportunities include low-income housing tax credits, CD and low-income financial institutions, securities backed by mortgages to low- and moderate-income individuals, non-profit housing organizations, credit counseling agencies, community housing development organizations, community action agencies, and non-profit organizations that provide social services to low- and moderate-income individuals.

## Conclusions about Performance

### Summary

- WFNNB's level of qualified investments and CD services, including those from its affiliate ADS, is adequate 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 \$21 million in qualified investments that have directly benefited its AA. See Table 3 on page five.
- WFNNB's use of innovative or complex qualified investments or CD services is rare, but had a significant impact in its AA. WFNNB partnered with the Columbus Housing Partnership, Inc. (CHP) to form the Central City Development Fund I (CCDFI) whose mission is to provide affordable housing to low- and moderate-income individuals. This CD activity was complex, demonstrated originality, and required a significant amount of time and effort to bring this activity to fruition. See page five for further information.
- WFNNB exhibits excellent responsiveness to credit and CD needs within its AA. WFNNB's and ADS's qualified investments and CD services provided affordable housing, credit counseling, and other social service programs targeted to low- and moderate-income individuals. These CD activities were in direct response to identified community needs.

## Qualified Investments

WFNNB's amount of qualified investments within and outside its AA totaled \$21,145,000 and \$244,000, respectively. 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. The qualified investments exhibit excellent responsiveness to credit and CD needs. WFNNB's qualified investments are detailed below.

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

	Benefits AA	Outside AA	Totals
<b>Originated Investments</b>	\$14,742	\$0	\$14,742
<b>Originated Grants</b>	1,755	244	1,999
<b>Prior-Period Investments that Remain Outstanding</b>	4,648	0	4,648
<b>Total Qualified Investments</b>	\$21,145	\$244	\$21,389
<b>Unfunded Commitments*</b>	\$0	\$0	\$0

\* "Unfunded Commitments" means legally binding investment commitments that are tracked and recorded by the bank's financial reporting system.

**Table 4: Qualified Investment Percentages**

	Benefits AA (%)	Outside AA (%)	Total (%)
<b>Total Investments/Average Tier 1 Capital</b>	3.96%	.05%	4.01%
<b>Total Investments/Average Total Income</b>	2.45%	.03%	2.48%
<b>Total Investments/Average Pass-Through Receivables</b>	.48%	.01%	.49%

*Affordable Housing: \$19,810,000*

- In May 2007, WFNNB made a \$1,500,000 capital contribution upon formation of the CCDFI. The capital contribution was used as a catalyst to create New Market Tax Credits (NMTCs) which were subsequently sold to investors. Proceeds from the sale and funds from other sources were pooled to capitalize special purpose intermediaries called Community Development Entities (CDEs). CDEs must use substantially all capital from its investors to provide investments in low-income communities. CHP raised \$9,500,000 with a blended 1.9 percent cost of funds which is significantly lower than prime rate. The above structure enabled CHP to create the necessary incentives for attracting equity investors by offering them an enhanced return on investments. Four specific development projects have been identified consisting of new home construction on acquired lots and the acquisition and rehabilitation of existing homes. Projections indicate approximately 300 owner occupied homes will be built or renovated and subsequently sold over a ten year horizon. CHP has developed and sold 45 homes to date that are directly attributable to the CCDFI investment. This qualified investment was complex, was responsive to community needs, required a significant amount of time and effort, and was a new endeavor for CHP as they had never embarked on a similar program in the past.

- WFNNB purchased 5 mortgage backed securities, for \$13,242,000, secured by 85 mortgages to low- and moderate-income individuals within the AA. An additional 7 mortgage backed securities, secured by 47 mortgages to low- and moderate-income individuals, remain outstanding from prior evaluation periods. The outstanding balance is \$4,648,000.
- WFNNB donated \$345,000 to a non-profit organization with proceeds used to support the organization's Homeport Home Ownership Division (HHOD) and Pre-purchasing Home Counseling program. The HHOD sells high quality energy efficient newly built or renovated homes to low- and moderate-income individuals residing in the AA. This non-profit has developed over 4,000 affordable homes and has served over 23,000 individuals since its inception in 1987.
- WFNNB donated \$75,000 to a non-profit organization with proceeds used to support the organization's City Living Network Project, which assists low- and moderate-income individuals residing in the AA in the home buying process.

*Community Services: \$1,529,000*

- ADS donated \$576,000 to a non-profit organization that provides grants to other non-profit organizations within the AA. At least 51 percent of the agency's grants went to organizations that have a CD purpose. Many of these organizations provide affordable housing, 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 made donations of \$289,000 to organizations that provide free consumer credit counseling services primarily to low- and moderate-income individuals across the United States. A portion of this amount (\$45,000) was used for individuals residing within the AA.
- WFNNB donated \$200,000 to an association of statewide CD corporations with proceeds used to fund 36 Individual Development Accounts (IDA). IDAs are matched savings accounts that help low- and moderate-income individuals save towards the purchase of a home. The above program was targeted to low- and moderate-income individuals residing in the AA.
- WFNNB donated \$185,000 to a non-profit organization with proceeds used to provide business incubation services to low- and moderate-income individuals within the AA.
- WFNNB donated \$170,000 to a non-profit organization with proceeds used to purchase mathematical materials and school supplies for 13,788 students from low- and moderate-income families residing in the AA.
- WFNNB donated \$85,000 to a non-profit organization with proceeds used to support their financial literacy program for low- and moderate-income individuals residing in the AA. This entity has served over 2,100 individuals within the past 5 years.

- ADS donated \$24,000 to a mid Ohio food bank that distributes food to more than 500 food pantries, soup kitchens, and homeless shelters within the AA.

*Activities that Promote Economic Development: \$50,000*

- WFNNB donated \$50,000 to a non-profit organization to establish a small business revolving loan fund. The fund provides loans ranging from \$500 to \$35,000 to small business entrepreneurs in the AA. Six loans have been originated totaling \$50,000 since the fund was established in 2009.

## **Community Development Services**

WFNNB provided CD services to three organizations that provide affordable housing and community services to low- and moderate-income individuals residing in the AA. These CD services are listed below.

- A WFNNB employee assisted with fund raising activities for the CHP.
- A WFNNB employee assisted with fund raising activities for a mid Ohio food bank.
- A WFNNB employee provided financial expertise by serving on the Audit Committee for a non-profit organization that provides grants to other non-profit organizations within the AA. As an Audit Committee member, the employee provided strategic direction and oversight of the annual audit, assisted in establishing internal controls, and assisted in identifying and minimizing various risk to the organization.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.



## 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:** A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity has the potential to benefit the assessment area and is located in the 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.

**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 statistical 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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;

- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**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.

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

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

**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.

**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.