



LIMITED PURPOSE

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Public Disclosure

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Community Reinvestment Act Performance Evaluation

World Financial Network National Bank
Charter Number: 21739

800 Tech Center Drive
Gahanna, Ohio 43230-6605

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Credit Card Bank Supervision
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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 Community Reinvestment Act (CRA) rating:

This institution is rated "Satisfactory."

The conclusions for the three rating criteria are:

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

Scope of the Examination

In evaluating World Financial Network National Bank (WFNNB) performance under the CRA, we reviewed CD activities from October 1, 2003 through September 30, 2006. We reviewed the level and nature of qualified investments and CD services. At the bank's request, we also considered qualified investments and CD services provided by its affiliates. At the prior examination, dated September 29, 2003, we rated the bank Satisfactory.

WFNNB has adequately addressed the needs of its AA, and therefore, qualified investments and CD services outside of the AA were considered in evaluating its performance.

Description of Institution

WFNNB was chartered on May 1, 1989, as a limited-purpose credit card bank under the Competitive Equality Banking Act of 1987 (CEBA). WFNNB is a \$714 million financial institution located in Gahanna, Ohio, a suburb of Columbus, Ohio and has no branch offices. The bank's primary business focus is the origination of private label credit cards for approximately 80 retailers throughout the United States. WFNNB is a wholly owned subsidiary of Alliance Data Systems, Inc. (ADS) who is a leading provider of transaction, credit and marketing services to companies in the retail, petroleum, supermarket, financial services, and utility services sectors.

As a CEBA credit card bank, WFNNB is engaged only in credit card operations. CEBA banks may only accept savings and time deposits in amounts of \$100,000 and greater. Additionally, CEBA banks may not engage in the business of making or purchasing commercial, residential, or retail oriented loans, with the exception of credit card loans.

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 by the specialized financial expertise of bank employees. WFNNB’s parent, ADS, has provided investment avenues for qualified investments outside the bank’s AA.

Table 1 provides 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 and the bank’s primary source of income is derived from the servicing of sold credit card receivables. The average amount of pass-through receivables (\$3.4 billion), detailed below, represents the outstanding balance of all accounts originated, subsequently sold and presently serviced by WFNNB.

Table 1: Financial Information (000s)

	Year-end 2003	Year-end 2004	Year-end 2005	Most Recent Quarter-end 09/30/2006	Average for Evaluation Period
Tier 1 Capital	\$290,938	\$319,412	\$379,829	\$448,096	\$359,569
Total Income	\$472,318	\$546,660	\$597,210	**\$742,229	\$589,604
Net Operating Income	\$137,995	\$199,770	\$249,399	**\$351,016	\$234,545
Total Assets	\$671,787	\$618,389	\$781,369	\$714,346	\$696,473
Pass-Through Receivables	\$3,310,620	\$3,435,075	\$3,626,207	\$3,442,253	\$3,453,539

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

Description of Assessment Area

The bank’s AA is the entire Columbus, OH metropolitan statistical area (MSA). It consists of eight counties (Delaware, Fairfield, Franklin, Licking, Madison, Morrow, Pickaway and Union). The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The Columbus, OH MSA is Ohio’s third-largest MSA with over 1.5 million residents. According to the U. S. Census Bureau, in 2005 the AA had a total of 636,602 households with a median household income of \$44,215 compared to the statewide median income level of \$44,349.

The following table summarizes additional select demographics for the Columbus, OH MSA:

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	385	9%	26%	40%	25%
Families	413,882	5%*	21%*	44%*	30%*
Businesses	108,888	7%**	19%**	41%**	33%**

Source: Demographic Data - 2000 U.S. Census, Dun & Bradstreet Data. *Represents families by income level.

**Represents businesses by income level of census tract.

The Columbus, OH MSA unemployment rate is trending down, following the same pattern as the Ohio unemployment rate. The seasonally-adjusted local unemployment rate was 4.2% in June 2005, its lowest level since October 2001 and lower than the 4.6% national average and 5.1% state average.

The Columbus economy remains stable. The number of jobs in the Columbus, OH MSA grew moderately during the first six months of 2006, with the largest contributors in the fields of education and health services, and professional and business services. Employment is expected to grow by 0.5% or 4,800 jobs in Columbus in 2007. The Ohio State University is Columbus' largest employer with 17,000 employees. The high proportion of college graduates is a distinct competitive advantage for Columbus' future employment prospects. Approximately 30% of adults over 25 years of age hold at least a bachelor's degree compared to only 25% nationwide. This allows Columbus to support its financial services jobs at banks and insurance companies, government jobs, education and private research jobs. The Columbus, OH MSA is home to five Fortune 500 companies; Cardinal Health, Nationwide Insurance, American Electric Power, Limited Brands and Hexion Specialty Chemicals.

Data from the U. S. Census Bureau indicates that 14% of all families and 32% of families with a female head of household and no husband had incomes below the poverty level. In the city of Columbus, there were a total of 358,000 housing units. Of the total housing units, 59% were single unit structures, 40% multi units, and 1% were mobile homes. Occupied units totaled 301,000, with 160,000 (53%) owner occupied and 141,000 (47%) renter occupied. Six percent of the households did not have telephone service and 8% did not have access to a vehicle for personal use. The median monthly housing costs were \$1,146 for mortgaged owners, \$383 for homeowners with no mortgage, and \$673 for renters. The proportion of household income spent on housing ranged from 32% for owners with mortgages, 13% for owners without mortgages and 44% for renters in Columbus.

During the examination, we met with a non-profit housing organization and reviewed information gathered from representatives of housing related organizations. The contacts indicated that there are an abundance of opportunities for qualified investments, CD loans, and CD services within WFNNB's AA. These opportunities include non-profit housing organizations, credit counseling agencies, and non-profit organizations that provide social

services to low- and moderate-income individuals. WFNNB's ability to participate in some of these opportunities is largely limited to making donations due to the nature of its operations and tremendous competition from large full-service banks.

The credit and non-credit needs in WFNNB's AA include the following:

- Affordable housing for low-income and very low-income individuals, housing units including single-family rental, multi-family rentals and rehabilitated homes.
- Flexible underwriting residential mortgage program guidelines for low- to moderate-income families.
- Participation in economic development projects through technical assistance and financial contributions.
- Social services to low- and moderate-income families including after school care, job readiness training and workforce development.

Conclusions About Performance

Summary

Level of Activity

WFNNB's level of qualified CD investments and services is adequate given available opportunities for limited purpose banks, competition from full-service banks, legal restrictions, and the unique nature of its operations. While competition is keen among financial services within the AA, there remain ample opportunities for CD investments and services. WFNNB has provided services that target the social service needs of low- and moderate-income individuals and families.

Responsiveness to Identified Community Development Needs

WFNNB has exhibited adequate responsiveness to the credit and CD needs of the AA. The bank has contributed to affordable housing, credit counseling and quality of life programs for low- and moderate-income individuals and families. All donations and investments made were in response to specific identified community needs.

Qualified Investments

During the evaluation period, WFNNB provided over \$11.1 million in investment grants to CD organizations. Approximately \$8.3 million benefited the AA and \$2.7 million benefited areas outside the bank's AA. Prior period investments within the AA, consisting of mortgage backed securities of over \$1.8 million remained outstanding. Table 3 summarizes WFNNB's qualified

CD investments. WFNNB’s level of qualified investments is adequate given the nature of 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. Tables 3 and 4 represent WFNNB’s qualified CD investments and compare the dollar amounts to indicators of its financial capacity. The majority of total qualified investments are represented by affordable housing mortgage backed securities that were purchased by WFNNB.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$7,513	\$0	\$7,513
Originated Grants	\$880	\$2,698	\$3,578
Prior-Period Investments that Remain Outstanding	\$1,857	0	\$1,857
Total Qualified Investments	\$10,250	\$2,698	\$12,948
Unfunded Commitments*			

* “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 (%)
Total Investments/Average Tier 1 Capital	2.85%	0.75%	3.60%
Total Investments/Average Total Income	1.74%	0.46%	2.20%
Total Investments/Average Pass-Through Receivables	.30%	.07%	.37%

Originated Investments - \$7,513,000

WFNNB purchased several Federal Home Loan Mortgage Corporation pools of residential mortgage backed securities totaling \$7,513,000 during the assessment period. These mortgage loans were for single family residential housing units to low-and moderate-income individuals in the Franklin and Fairfield Counties.

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 \$1,857,000.

Originated Grants - \$880,000

Affordable Housing:

Donations of \$280,000 were made to the Ohio Community Development Corporation Association (OCDCA). OCDCA is a statewide membership organization of community development corporations (CDC's) that engage in capacity-building, advocacy and public policy development that foster socially and economically healthy communities. OCDCA provides low-income families and individuals' affordable housing.

Donations of \$270,000 were made to the Columbus Housing Partnership, a private, nonprofit organization which provides affordable housing, housing counseling and community building programs to low- to moderate-income households in Columbus and the surrounding area.

A \$100,000 donation was made to Hilltop Christian Community Development Corporation (HCC) and Hilltop Neighborhood Investment District Community Stability Revitalization/Housing Services. The goal of the organizations is to holistically restore the neighborhood surrounding Hilltop Lutheran Church, and to be fully engaged in the process of transformation and continuing development under local leadership. In addition to building its capacity for long-term sustainability, one of HCC priorities is to provide affordable rental housing for low- and moderate-income neighborhood residents who are in the process of transforming their lives, leading to eventual home ownership.

Financial Education:

A \$160,000 donation was made to the Economic and Community Development Institute (ECDI) which promotes social and economic change and sustainability. Low income individuals learn to become self sufficient through entrepreneurial training and technical assistance.

Quality of Life Programs:

A \$10,000 donation was made to St. Vincent De Paul Food Pantry (SVDFP), a non profit organization which provides social services to primarily disadvantaged, low- and moderate-income individuals. SVDFP provides referral services to the City of Columbus, Franklin County and the State of Ohio social services offices. Home delivery of assistance for low- to moderate-income elderly and homebound is also provided. Services for low to moderate income individuals and families include personal emergency assistance services to promote community stability in the City of Whitehall and the surrounding area. All monies are used to assist with rent or mortgage payment assistance to purchase gasoline vouchers, emergency meal vouchers, public transportation passes, home fuel payment emergency assistance, and grocery vouchers.

A \$15,000 donation was made to the Ohio Newsboys' Association Inc. (Charity Newsies), a not for profit Ohio Corporation organized for the purpose of providing clothing, shoes, books, and other assistance to school aged children in Franklin County and Central Ohio. WFNNB's donation to the organization assisted in the purchase and distribution of calculators,

mathematical flashcards, rulers, and geometrical puzzles for low- and moderate-income children in grades 2-4. These materials foster a foundation of monetary fiscal responsibility and savings education.

WFNNB has made donations and fair share payments of \$885,000 to organizations that provide free consumer credit counseling services primarily to low- and moderate-income individuals who reside within the AA. Additionally, the bank provided \$5,253,000 in fair share payments to individuals residing outside the AA and within the United States.

Community Development Services

Employees of WFNNB provided several community development service activities over the evaluation period. Services primarily consist of providing technical expertise to organizations that promote social services for low- to moderate-income individuals. Notable service activities are summarized in Table 7.

Table 7: Community Development Service Activities

CD Service	Benefits AA	Outside AA
The CRA Officer serves on the Advisory Board of the Columbus Housing Network.	X	
An employee serves as a Board member for Jobs for Columbus At-risk Students.	X	
An Employee teaches English as a Second Language (ESL) at the Literacy for Life Program.	X	
The Senior Vice President of Tax serves as a Board member for Kids N Kamp.	X	

X means yes; Blank means No

Fair Lending Review

We found no evidence of illegal discrimination or 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 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 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.

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 Statistical Area (MSA) – Area defined by the director of the United States Office of Management and Budget. MSAs 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.

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.