S&P Global Ratings

Research

Presale:

World Financial Network Credit Card Master Note Trust (Series 2023-A)

May 5, 2023

PRIMARY CREDIT ANALYST

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Preliminary ratings

Class	Rating	Interest rate (%)	Amount (mil. $)	Credit support (%)	Expected maturity date	Legal maturity date
A	AAA (sf)	Fixed	250.000	27.00	May 15, 2026	March 15, 2030
M	AA (sf)	Fixed	22.261	20.50	May 15, 2026	March 15, 2030
B	NR	N/A	12.843	16.75	May 15, 2026	March 15, 2030

Note: This presale report is based on information as of May 5, 2023. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. NR--Not rated. N/A--Not applicable.

Profile

Collateral	A collateral certificate representing an ownership interest in the receivables held by World Financial Network Credit Card Master Trust. The receivables are generated under consumer credit card accounts originated through various merchant agreements.
Issuer	World Financial Network Credit Card Master Note Trust.
Depositor	WFN Credit Co. LLC.
Sponsor/originator/servicer	Comenity Bank (formerly known as World Financial Network Bank).
Subservicer	Comenity Servicing LLC.
Indenture trustee	U.S. Bank N.A.
Owner trustee	Citicorp Trust Delaware N.A.
Bank account provider	U.S. Bank N.A.

Rationale

The preliminary ratings assigned to World Financial Network Credit Card Master Note Trust's $285.104 million asset-backed notes series 2023-A are based on:

- Our view that the credit support for each class of notes is sufficient to withstand the simultaneous stresses we apply to our 10.50% base-case loss rate, 14.50% base-case payment rate, and 25.25% base-case yield, as well as stressed excess spread assumptions. Our purchase rate assumption for this transaction is zero (see the S&P Global Ratings' Rating Scenarios below for our stressed assumptions the preliminary ratings).

- Our view that the 4.00% minimum seller's interest (6.00% for November, December, and January) will be insufficient in our stress scenarios to cover dilutions or noncash reductions in the receivables. Our 'AAA' and 'AA' rating scenarios reflects 2.75% and 1.75% uncovered dilution, respectively, which are captured in our cash flow analysis.
- Our expectation for the timely interest and ultimate principal payments by the legal maturity date based on stressed cash flow modeling scenarios using assumptions that are commensurate with the assigned preliminary ratings.
- Our expectation that under a moderate ('BBB') stress scenario, all else being equal, our ratings will remain within the credit stability limits as specified in the credit stability section of "S&P Global Ratings Definitions," published Nov. 10, 2021.
- Our view of the credit risk inherent in the collateral loan pool based on our economic forecast, the trust portfolio's historical performance, and the collateral's characteristics.
- Our view of Comenity Bank's (Comenity; not rated) servicing experience and Comenity Servicing LLC's experience as a subservicer, and our opinion of the quality and consistency of Comenity's account origination, underwriting, account management, collections, and general operational practices. Comenity is a wholly owned subsidiary of Bread Financial Holdings Inc.
- The transaction's underlying payment structure, cash flow mechanics, and legal structure.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. For credit card ABS, we view the exposure to environmental credit factors as below average, social credit factors as above average, and governance credit factors as average (see "ESG Industry Report Card: Credit Card Asset-Backed Securities," published March 31, 2021). In our view, the exposure to ESG credit factors in this transaction is in line with our sector benchmark.

Social credit factors are generally viewed as above average, given the relatively high interest rates for borrowers who carry a balance month-to-month. However, we believe our approach to determining yield stresses, which considers the impact of any potential legislation or regulatory actions on interest rates and fees, adequately accounts for this risk.

Governance factors are generally viewed as average, reflecting the originator's active role managing the revolving collateral pool over the transaction's life, exposing investors to the risk of loosening underwriting standards or potential adverse selection. To account for this risk, we assumed that the pool's composition and quality will reflect the originator' and servicer's track records, operational strategies, and historical performance data across varying economic cycles, which typically result in a higher expected loss than that of the actual pool.

Transaction Overview

Series 2023-A will be issued out of World Financial Network Credit Card Master Note Trust (WFNCCMNT), a master note trust that issues notes through discrete series, pari passu, supported by a collateral certificate representing an undivided interest in the receivables in World

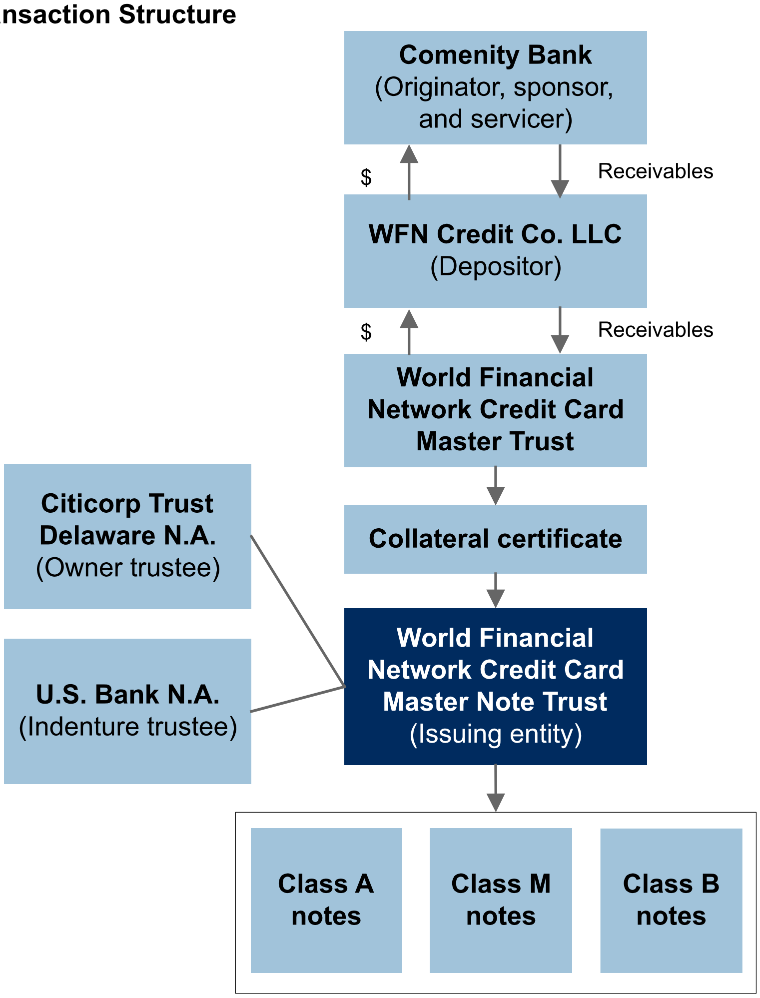
Financial Network Credit Card Master Trust (the master trust). The master trust's receivables are generated under consumer credit card accounts originated through merchant agreements with various retailers.

Comenity sells receivables in designated accounts to the transferor, a bankruptcy-remote, special-purpose, wholly owned subsidiary, which then transfers them to the master trust. The master trust issues a collateral certificate to the transferor, which then conveys the collateral certificate to the World Financial Network Credit Card Master Note Trust (see chart 1).

In rating this transaction, S&P Global Ratings will review the legal matters that it believes are relevant to its analysis, as outlined in its criteria.

Chart 1

Transaction Structure



Series 2023-A Notes Summary

The series 2023-A's transaction structure has not changed from that of the previous series, 2019-C, including the issuing entity, eligible accounts and receivables, payment priority, collection and allocation mechanics, early amortization events, and events of default.

Principal is scheduled to be paid to the noteholders on the expected principal payment date, which will be after a 12-month controlled accumulation period. However, the actual accumulation period may be shorter, depending on the trust's principal payment rate and its other issuances' payment maturities.

According to the transaction documents, the series 2023-A notes' incorporates the following features:

- A senior-subordinated structure consists of class A, M, and B notes;
- The class A notes will benefit from 27.00% credit enhancement from the subordination of the class M (6.50%) and B notes (3.75%) and the excess collateral amount (ECA; 16.75%); and
- The class M notes will benefit from 20.50% of credit enhancement from the subordination of the class B notes (3.75%) and the ECA (16.75%).

Collateral Overview

The portfolio backing the ownership interest includes a diversified pool of principal receivables from multiple retailers owned by the master trust. As of March 31, 2023, approximately 38.71% of the principal receivables were generated by soft goods retailers (e.g., clothing and similar merchandise), 32.07% by co-brand retailers, 20.16% by jewelry retailers, 7.38% by furniture retailers, 1.63% by department stores, and 0.05% by other retailers. The portfolio does not include all of Comenity Bank's private-label and co-branded credit card programs. The two largest concentrations of receivables from any merchant (including affiliates of that merchant) are Signet Retail Group (20.00% of the principal receivables) and L Brands Inc. (15.37%). No other merchant accounts for more than 7.50% of the principal receivables as of March 31, 2023.

Individual retailer concentrations are represented in Table 1 below. Our assumptions for the trust incorporate the potential shift in collateral composition due to potential contract terminations or retailer performance.

Table 1

Trust composition by retailer(i)

As of March 31, 2023

Retailer	No. of accounts	% of total accounts	Principal receivables ($)	% of total principal receivables
Victoria's Secret PL Total	8,223	25.97	881,900	14.48
Kay Jewelers PL	1,855	5.86	841,887	13.83
Caesar's Entertainment	669	2.11	715,051	11.74
Comenity Card BC	1,044	3.30	488,251	8.02
Jared PL	599	1.89	368,412	6.05
Loft Mastercard CB	946	2.99	280,073	4.60

Table 1

Trust composition by retailer(i) (cont.)

As of March 31, 2023

Retailer	No. of accounts	% of total accounts	Principal receivables ($)	% of total principal receivables
Torrid PL	1,305	4.12	243,461	4.00
Lane Bryant PL	1,790	5.65	217,851	3.58
Sony VISA CB	251	0.79	209,858	3.45
Express PL	1,699	5.37	192,424	3.16
Other retailers	13,286	41.96	1,649,400	27.09
Total	31,666	100.00	6,088,568	100.00

(i)As of March 31, 2023

Asset Pool Collateral Characteristics

As of March 31, 2023, the trust assets backing the ownership interest securitized under this transaction consisted of $6.09 billion in principal receivables and had the following characteristics:

- The average receivables balance per active account was $873;
- The average credit limit per active account was $2,839;
- The utilization rate (the average receivables balance divided by average credit limit) was 30.76%;
- The accounts' weighted average age was approximately 79 months;
- Accounts older than 60 months generated 49.81% of the receivables;
- Accounts 12 months old or younger generated 16.48% of the receivables;
- Obligors whose VantageScore credit scores were less than 600, including no score, represented 13.09% of the receivables, obligors with credit scores of 601-660 represented 28.01% of the receivables, and obligors with credit scores of 661 or greater represented 58.90% of the receivables;
- The percentage of accounts for which cardholders made minimum payments was 16.72%, while the percentage of accounts for which cardholders made full payments was 9.31%; and
- The top five geographic concentrations were California (11.46% of the receivables), Texas (9.26%), Florida (7.60%), New York (6.42%), and Illinois (5.47%).

Collateral Performance

We compared the historical trust portfolio performance with S&P Global Ratings' Private Label Credit Card Quality Index (PLCCQI). Overall, the trust's receivables exhibit a higher yield and loss rate, and a lower payment rate than our PLCCQI (see charts 2, 3, and 4).

S&P Global Ratings' Rating Scenarios

We used cash flow modeling to determine the transaction's ability to pay timely interest and ultimate principal to the notes, by their legal final maturity dates, under stress scenarios that we believe are consistent with the assigned preliminary ratings. A summary of our forward-looking stresses is shown in table 2.

Table 2

S&P Global Ratings' assumptions

	Net losses (i)	Total payment rate (ii)	Yield (ii)	Excess spread	Purchase rate (ii)	Uncovered dilution
Base-case (%)	10.50	14.50	25.25	N/A	N/A	N/A
'AAA' stress (%)	36.75	6.89	12.00	(5.00)	0.0	2.75
'AA' stress (%)	31.50	7.61	12.50	(4.00)	0.0	1.75

(i)In all rating scenarios, losses start near our base-case assumption and then rise to the stressed level over 12 months. (ii)In all rating scenarios, the total payment, yield, and purchase rates start at the stressed level in the first month of the cash flows. N/A--Not applicable.

In our opinion, one of the risks generally inherent in pools with multiple partner relationships is the potential shift in concentrations, which we believe could affect the pool's collateral quality and receivables performance. To reflect this risk, we considered how removing certain partners based on their performance and size could affect the pool's performance and the overall receivables composition in the pool. Additionally, our simulations may consider multiple scenarios to test the impact of merchant bankruptcies on the pool's performance. We may consider the impact of bankrupt merchants' liquidated receivables remaining in the pool with deteriorating performance. Our current base-case assumptions factor in these scenarios and were able to withhold the simulated performance.

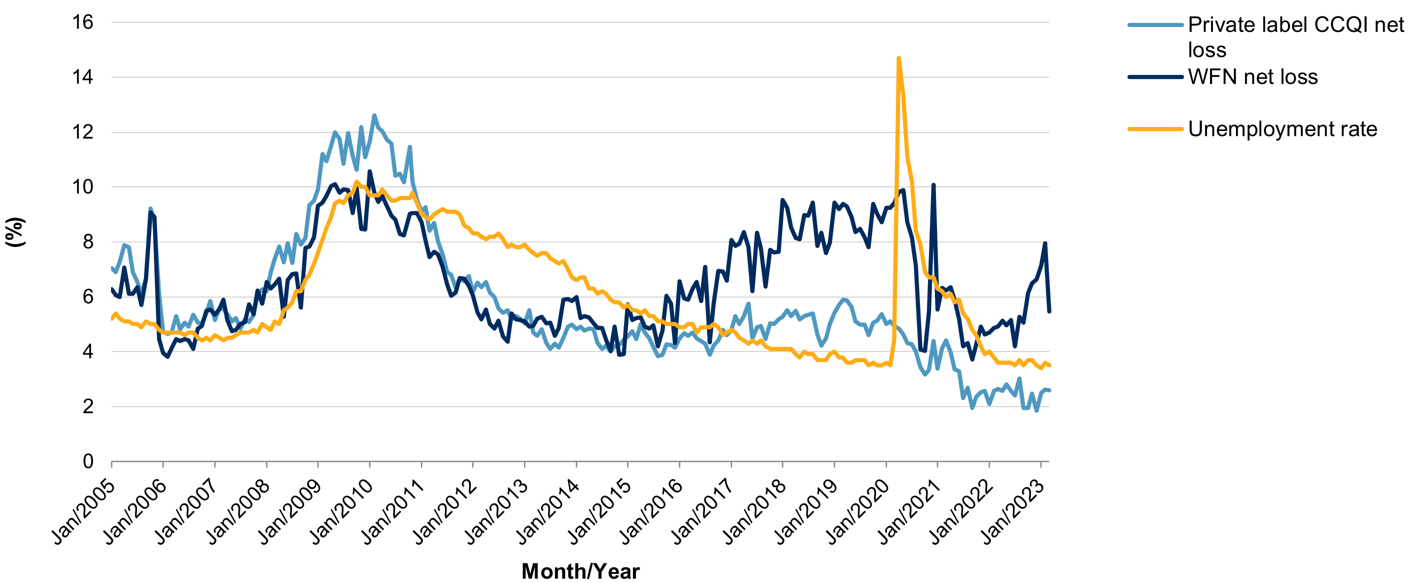
Net losses

Our base-case loss assumption of 10.50% factors in the loss performance trend, peer comparisons to other private-label credit card issuers, and simulations we ran on the pool. In our hypothetical scenarios, we removed better-performing merchants from the trust to account for potential shifts in the portfolio or termination of merchant agreements, as well as stressed performance for merchants in bankruptcy. Additionally, our base case is a forward-looking view and reflects economic variables, including our U.S. unemployment forecast.

The master trust's net loss rate has exceeded the PLCCQI's net loss rate since early 2013 and averaged approximately 5.3% in 2022 (see chart 2).

Chart 2

Net loss



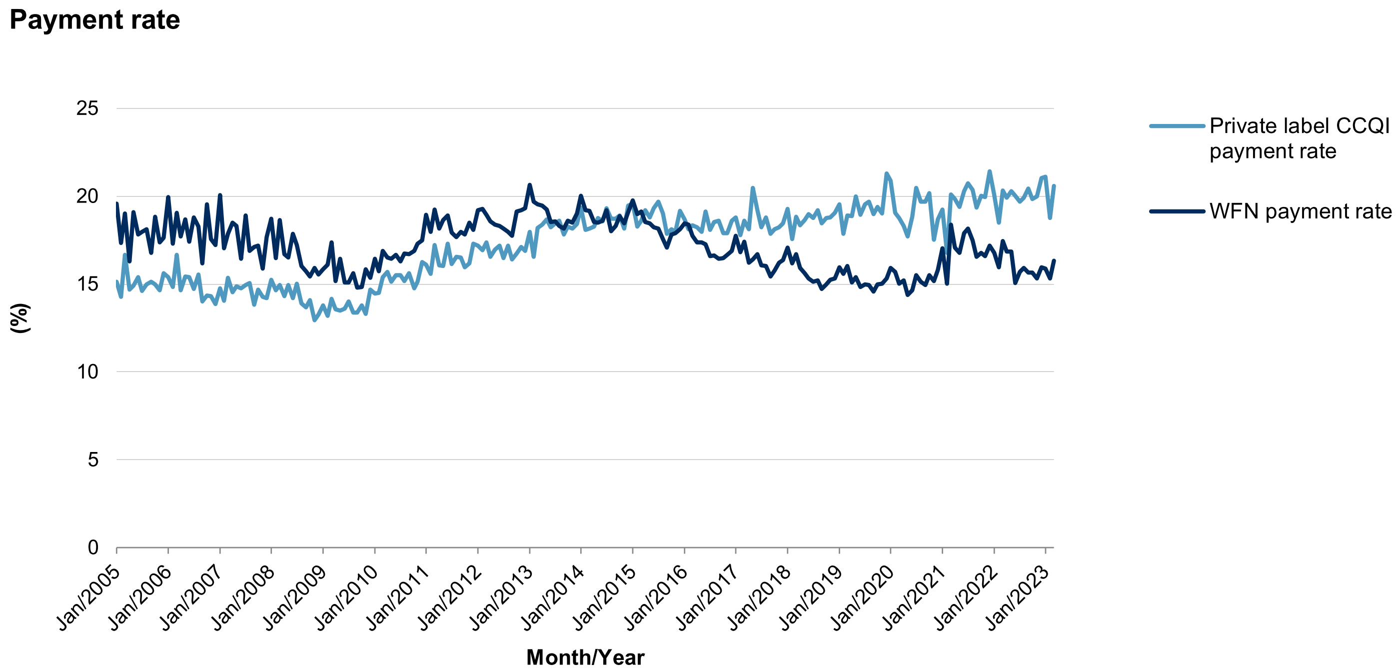
Total payment rate

The payment rate is the rate at which individuals pay down their balances each month. The magnitude of the payment rate affects the length of time during which ABS investors are subjected to the credit risk of a deteriorating pool of assets. The higher the payment rate, the more quickly investors can be paid out in adverse scenarios.

Our base-case payment rate assumption on the pool is 14.50%. As shown in chart 3, the trust's monthly payment rate has generally been below the PLCCQI's rate, averaging approximately 16% in 2022.

In our stress scenarios, consistent with our criteria, we assume that the number of convenience users in the pool will decline before the amortization period begins and the portion of revolving accounts (users who carry over some of their debt to subsequent months) will increase, which could result in a significant drop in payment rates.

Chart 3



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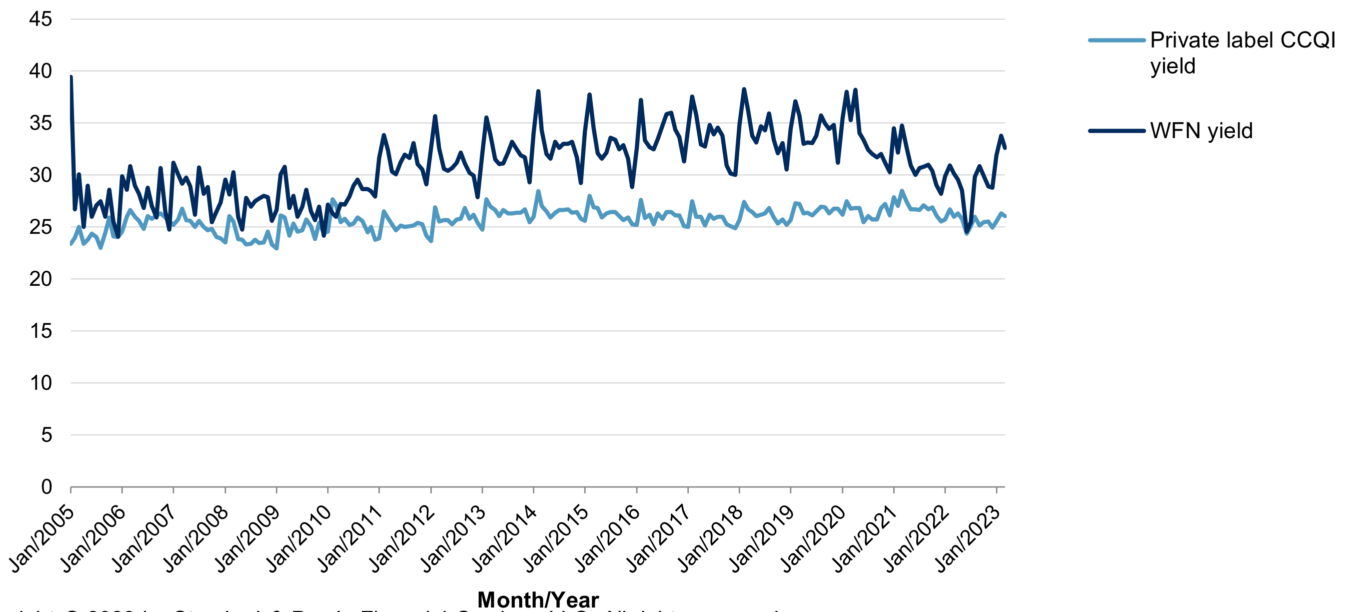
Yield

The base-case yield assumption on the pool is 25.25%. The trust's historical yield exceeds the PLCCQI's yield and averaged approximately 29% over 2022 (see chart 4).

In our analysis, we believe interchange may not be available to the trust if the card lender becomes insolvent. We generally do not assign any credit to interchange in our yield assumptions for the higher rating categories. Our analysis also considers the rapid shift in the retail merchant composition due to contract expirations. The effect on yield from the removal of each merchant is based on its performance and size. In addition, we also consider the effect legislation or regulatory actions could have on interest rates, fees, and competitive pressures, which could result in a yield in the 10.00%-13.00% range.

Chart 4

Yield



Purchase rate

Our purchase rate assumption accounts for our credit rating on the originator relative to the rating we assigned to the notes, the originator's ability to continue generating and transferring receivables to the master trust, the originated receivables' credit characteristics, and the diversity of the merchant portfolios in the pool.

We assume a zero-purchase rate in the trust's cash flow runs. S&P Global Ratings currently does not rate Comenity or its parent, Bread Financial Holdings Inc. (formerly Alliance Data Systems Corp.).

Dilution analysis

Dilutions are noncash reductions to the receivables balance including credits, returns, fraud, and small balance adjustments.

Under the transaction's terms, in every month besides November, December, and January, the required transferor percentage must equal at least 4.00% of the principal receivables to cover dilution. During November, December, and January, the required transferor percentage must equal at least 6.00% of the principal receivables balance to cover dilution, or noncash reductions in the principal receivables balance.

In our analysis, we reviewed the trust's monthly dilution data as well as peer data. Based on the available data, we believe the 4.00% minimum transferor's interest (6.00% for November, December, and January) will be insufficient in our stress rating scenarios to cover our dilution stress, resulting in 2.75% and 1.75% uncovered dilution in our 'AAA' and 'AA' stress scenarios, respectively, which is captured in our cash flow analysis.

Sensitivity Analysis

Our ratings incorporate credit stability as one of several factors that we use to determine an issue's creditworthiness (see the credit stability section of "S&P Global Ratings Definitions," published Nov. 10, 2021). Accordingly, we ran sensitivity analyses to determine the notes' credit stability during periods of moderate economic stress.

To test whether the preliminary 'AAA (sf)' and 'AA (sf)' rating we assigned to the class A and M notes, respectively, would be vulnerable to a downgrade of more than one category in a moderate ('BBB') stress scenario, we ran sensitivity analyses assuming the pool's base-case loss rate would increase to our current 'BBB' stressed loss rate assumption. In this scenario, we believe that our preliminary ratings on the notes would not become vulnerable to a downgrade by more than one rating category based on the credit support available to the class A and M notes.

Structural Overview And Payment Priority

The finance charge collections allocated to the series 2023-A notes will be deposited daily into a collection account allocated for monthly payments in a specified priority (see table 3).

Table 3

Payment waterfall

Priority	Payment
1	Class A monthly interest.
2	Class M monthly interest.
3	The monthly noteholder servicing fee.
4	The aggregate investor default amount and any investor uncovered dilution amount.
5	Any reimbursements for previous investor charge-offs or reallocated principal collections.
6	The required reserve account amount to cover interest payment shortfalls for the series 2023-A notes during the controlled accumulation period.
7	Other payments the transferor requires, which will be made from series 2023-A's share of finance charge receivables collections.
8	Any remaining finance charge collections to be shared with other series in the trust.

If the available finance charge collections are insufficient to pay the monthly note interest or the servicing fee, shortfalls may be paid by reallocating amounts from available principal collections. Reallocated principal collections and unreimbursed investor charge-offs, if any, will reduce the series 2023-A notes' collateral amount.

During the revolving period, principal collections will be allocated to the series 2023-A notes based on the series' collateral amount. Comenity will pay the principal collections to the transferor, which will then reinvest the amount in new receivables. During the controlled accumulation period, collected principal will be retained in a collection account to distribute to the noteholders on the expected principal payment date. Under the transaction documents, a reserve account, which will be funded from finance charge collections, will be available to cover any negative carry risk if the investment earnings on the cash deposited into the principal funding account are insufficient to make monthly interest payments during the accumulation period.

If an early amortization event occurs, the trust will cease reinvesting in new receivables, and the principal collections allocated to the series 2023-A notes will be immediately distributed to the noteholders in the following priority:

- The class A notes until paid in full; then
- The class M notes until paid in full; and then
- The class B notes until paid in full.

Early amortization events include:

- The trust fails to make interest or principal payments to the noteholders when due;
- The three-month average portfolio yield for any monthly period is less than the three-month average base rate;
- The transferor breaches any material representation or warranty;
- A servicer default occurs;
- The transferor fails to transfer the receivables into the trust to maintain the required transferor's interest or the required minimum principal receivables balance; and
- The trust fails to pay the series 2023-A notes in full on the expected principal payment date.

Events of default include:

- A failure to pay interest on the series 2023-A notes for 35 days after it is due;
- A failure to pay principal on the series 2023-A notes when it becomes due and payable on the series' final maturity date;
- Bankruptcy, insolvency, or similar events relating to the issuing entity; and
- A material failure by the issuing entity to perform its obligations under the indenture, subject to applicable grace periods.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities , Dec. 22, 2020
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria , May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions , March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions , Jan. 30, 2019
- Criteria | Structured Finance | ABS: U.S. Credit Card Securitizations: Methodology And Assumptions , Aug. 24, 2017

- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions , Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts , May 31, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment , May 28, 2009

Related Research

- Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise, March 27, 2023
- U.S. And Canada Credit Cards ABS Review, Feb. 23, 2023
- Global Structured Finance 2023 Outlook, Jan. 11, 2023
- Credit Conditions North America Q1 2023: Worse Before It Gets Better, Dec. 1, 2022