

Presale:

# American Express Credit Account Master Trust (Series 2023-1)

June 5, 2023

## Preliminary rating

Class	Preliminary rating	Preliminary amount (mil. \$)	Credit support (%)	Expected maturity date	Legal maturity date
A	AAA (sf)	500.000	12.50	May 15, 2026	May 15, 2028
B	NR	21.429	8.75		
Collateral interest	NR	50.001	N/A		

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

## Profile

Issuer	American Express Credit Account Master Trust.
Collateral	A pool of receivables generated by designated consumer American Express credit card accounts and pay-over-time revolving credit features associated with certain credit card accounts that are owned by American Express National Bank.
Sponsor and originator	American Express National Bank (A-/Stable/A-2).
Depositor and transferor	American Express Receivables Financing Corp. III LLC.
Servicer	American Express Travel Related Services Co. Inc. (A-/Stable/A-2).
Trustee	The Bank of New York Mellon.

## Rationale

The preliminary rating assigned to American Express Credit Account Master Trust's (AECAMT or the trust) fixed-rate asset-backed series 2023-1 class A certificates reflect:

- Our view that the proposed credit support of 12.50% is sufficient to withstand the simultaneous stresses we apply to our 4.75% base-case loss rate, 25.0% base-case payment

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rate, and 18.0% base-case yield assumptions for the credit card receivables backing the certificates. In addition, we use stressed purchase rate, excess spread, and certificate interest rate assumptions to determine if sufficient credit support is available for the certificates at the assigned preliminary rating level. The stress assumptions outlined above are based on our criteria and assumptions (see "U.S. Credit Card Securitizations: Methodology And Assumptions," published Aug. 24, 2017).

- Our view that the 7.0% minimum transferor percentage will be insufficient in our 'AAA' stress scenarios to absorb dilution (noncash reductions in the receivables) stress of 8.25%, resulting in a 1.25% uncovered dilution, which is captured in our cash flow analysis.
- The timely payment of interest each month and principal repayment by the legal final maturity date under our stressed cash flow modeling scenarios for the assigned preliminary rating.
- Our expectation that under a moderate ('BBB') stress scenario, all else being equal, the preliminary 'AAA (sf)' rating will be within our credit stability limits.
- Our view of the credit risk inherent in the collateral loan pool (based on our economic forecast), the master trust portfolio's historical performance, the collateral characteristics, and vintage performance data.
- That the trust receivables performance has remained steady to-date. We believe our base-case and stressed assumptions continue to adequately reflect our views regarding the credit risk of the prime credit card receivables and corresponding performance, our updated macroeconomic forecast for the U.S., and our forward-looking view of the credit card sector.
- Our view of American Express Travel Related Services Co. Inc. (TRS; A-/Stable/A-2), the servicer, and American Express National Bank (AENB; A-/Stable/A-2), the originator, servicing and collection experience, account origination, underwriting, account management, and general operational practices.
- Our view of the certificates' 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, to social credit factors as above average, and to 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. Governance credit 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/servicer's track records, operational strategies, and the historical performance data across varying economic cycles, typically resulting in a higher expected loss than that of the actual performance data.

## **Transaction Overview**

The trust is a master trust that issues certificates through a discrete series. The series 2023-1 certificates will have a senior/subordinate structure consisting of class A and B certificates and a collateral interest, with sequential payment of interest and principal in order of class seniority. Interest will be due on the 15th of each month (or the next business day), beginning July 17, 2023. Principal is scheduled to be paid to the certificates on the expected principal payment date. Based on the transaction documents, this will follow a controlled accumulation period that is initially designated to be 12 months, but it can be shortened to one month depending on the trust's principal payment rate and the payment maturities of the other series issued from the trust.

## **Credit Support**

According to the transaction documents, the series 2023-1 certificates' credit support will be structured as follows:

- The class A certificates will benefit from the subordination of the class B certificates and the collateral interest, which will equal 12.50% of the initial collateral amount in aggregate.
- The class B certificates will benefit from the subordination of the collateral interest, which will equal 8.75% of the initial collateral amount in aggregate.

## **Legal Structure**

AENB will transfer the receivables from designated accounts to the transferor (a bankruptcy-remote, special-purpose, wholly owned subsidiary), which, in turn, will transfer the receivables to AECAMT. S&P Global Ratings will review all of the documentation that the transaction's parties have submitted to us to assess the transaction's consistency with our legal criteria.

## **Collateral Overview**

The trust's portfolio consists of consumer credit card accounts and pay-over-time revolving credit features associated with certain credit card accounts owned by AENB. The accounts designated to the trust are highly seasoned and well-diversified prime accounts with high FICO scores.

The credit card portfolio has the following features:

- AENB has a spend-centric business model that aims to win a greater share of each member's wallet, leading to higher purchase volumes than many of its competitors.
- AENB has entered into co-branding arrangements with various retail and services companies through which cardholders can earn benefits, such as frequent-flyer miles, hotel loyalty points, and cash back that may be redeemed with the co-branding partner. Currently, AENB's largest co-branding arrangement is with Delta Air Lines Inc. If any of the account owners' co-branding arrangements experienced reduced volume or were terminated for any reason, the trust's performance, particularly the payment rate, could change.
- AENB offers reward programs, such as the Membership Rewards Program or various cash back programs. Through the Membership Rewards Program, cardholders can accumulate points

based on purchases that can be redeemed for airfare, travel, or other merchandise. These programs drive the high overall payment rates.

## Collateral Characteristics

As of April 30, 2023, the trust consisted of approximately \$27.40 billion in principal and finance charge receivables and had the following characteristics:

- The average account balance for all accounts is \$1,801.
- The average account balance for accounts with a nonzero balance is \$4,467.
- Accounts with credit limits of \$10,000 or more generated 51.65% of the receivables.
- Pay-over-time accounts with no preset spending limit generated 41.19% of the receivables.
- Accounts aged 60 months or more generated 100.00% of the receivables.
- Of the accountholders, 7.92% made minimum payments, while 66.69% made full payments.
- The top five geographic concentrations are California (11.86% of receivables), New York (10.60%), Florida (9.76%), Texas (7.31%), and Georgia (6.08%).
- Obligor with FICO scores lower than 660 represented 4.77% of the receivables.
- Obligor with FICO scores of 760 or higher represented 55.03% of the receivables.

## Collateral Performance

The trust's loss rate for the 12-month period ended December 2022 was about half of the U.S. bankcard Credit Card Quality Index (CCQI) and has historically trended below the CCQI. The trust's yield and payment rate have historically performed strong as well, consistently trending above the CCQI. In our view, AECAMT's collateral performance will remain stable in 2023 and continue to demonstrate high payment rates from convenience usage.

## S&P Global Ratings' Assumptions

A summary of the stresses we used when assigning our preliminary rating to the class A certificates is shown in table 2.

Table 2

### S&P Global Ratings' credit rating scenarios

	Net losses(i)	Total payment rate(ii)	Yield(ii)	Purchase rate(ii)	Uncovered dilution
Base-case assumption (%)	4.75	25.00	18.00	N/A	N/A
'AAA' rating stresses (%)	30.00	12.50	11.00	3.00	1.25

(i)In our 'AAA' rating scenario, losses rise to the stressed level over 12 months. (ii)The total payment, yield, and purchase rates start at the stressed levels in the first month of our cash flow runs. N/A--Not applicable.

Our loss rate assumption is generally above the trust's current performance, and our payment rate and yield assumptions are generally below the trust's current performance. The stresses we use

are commensurate with 'AAA' level rating scenarios and are based on our criteria, "U.S. Credit Card Securitizations: Methodology And Assumptions," published Aug. 24, 2017.

## Loss Rate

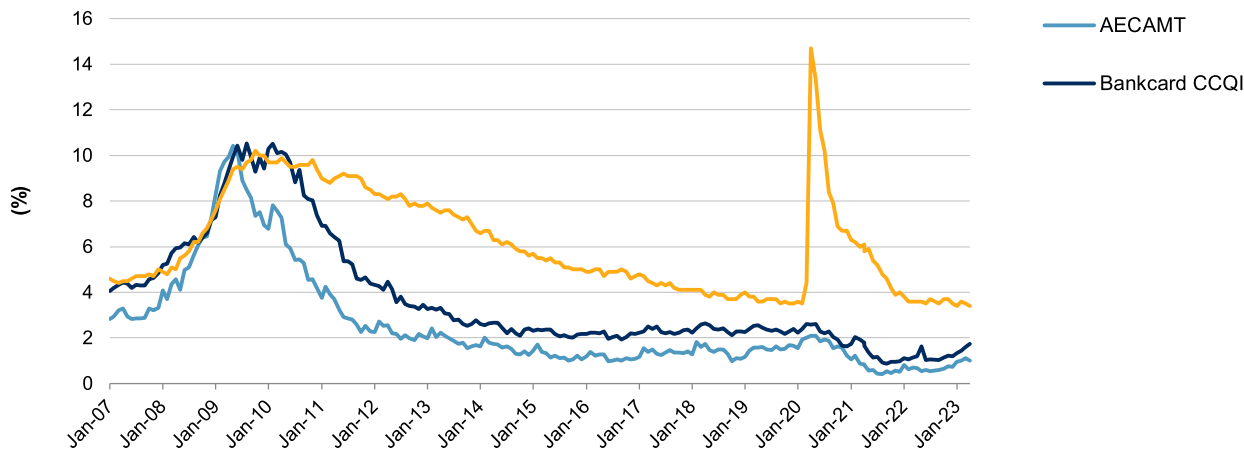
Our 4.75% base-case loss assumption for the trust is a forward-looking view that considers potential shifts in the composition of the collateral in the pool and incorporates macroeconomic variables, including S&P Global Ratings' 2023 unemployment forecast under our baseline economic scenario.

The 30.0% 'AAA' stressed annualized peak loss assumption that we use in our cash flow model for this pool is lower than the 33.0% 'AAA' peak loss we established for a benchmark pool because we believe this pool will perform better than the benchmark pool in an extreme economic scenario.

AECAMT's net loss rate has historically been the lowest among its peers and trended below the CCQI, averaging 0.65% and 1.02% as of the 12 months ended Dec. 31, 2022, and the four months ended April 30, 2023, respectively (see table 1 and chart 1). We continue to monitor the evolving economic environment and expect the master trust loss rates to remain relatively stable over the next 18-24 months based on the current pool composition.

Chart 1

### Net loss rate



CCQI--Credit card quality index.

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## Yield

Our base-case yield assumption for the pool is 18.00%. This pool's receivables have historically produced yields that are higher than our CCQI (see table 2 and chart 2). The pool's yield averaged 28.46% as of the 12 months ended Dec. 31, 2022, while the CCQI averaged 22.61% during the same period. In cash flows at the 'AAA' rating level for bank credit card pools, we generally assume yield will be compressed in the 10.00%-13.00% range by the time a trust enters rapid amortization. For this trust, our stress assumption of 11.00% at the 'AAA' rating level is 61.11% of

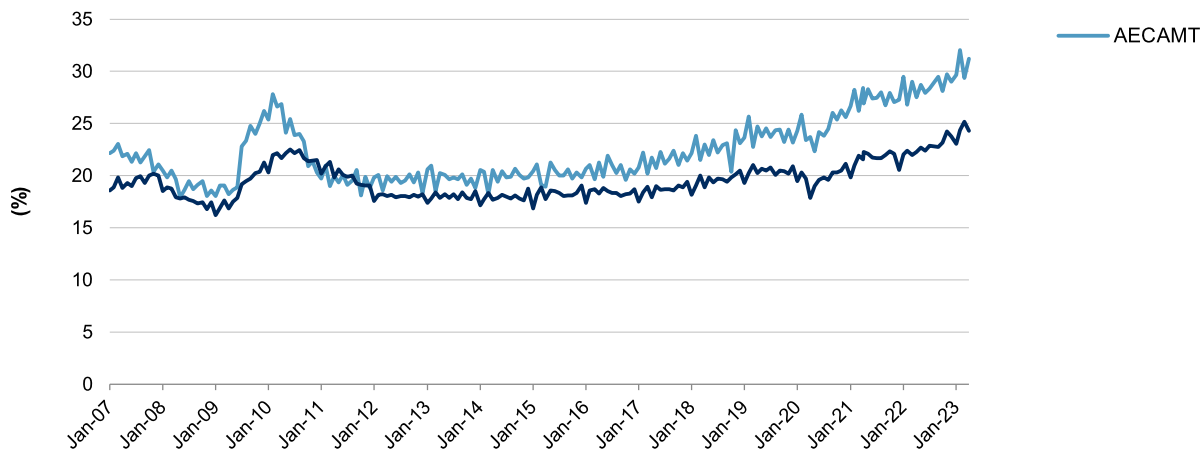
our base-case assumption of 18.00%.

The smaller haircut for this trust (relative to our example of haircut ranges listed in our criteria) reflects our assumption that, due to high credit quality, seasoned cardholders are more likely to experience smaller increases in delinquencies than nonprime accounts in a downturn. This results in less volatility in stressed yield than pools that include a high portion of nonprime accounts. 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.

This portfolio also contains spending-centric obligors and high interchange. While we do not consider interchange in this portfolio, we do consider the decreasing number of convenience users in an amortization stress scenario, which would likely increase the portfolio's yield.

Chart 2

### Annualized yield



CCQI--Credit card quality index.

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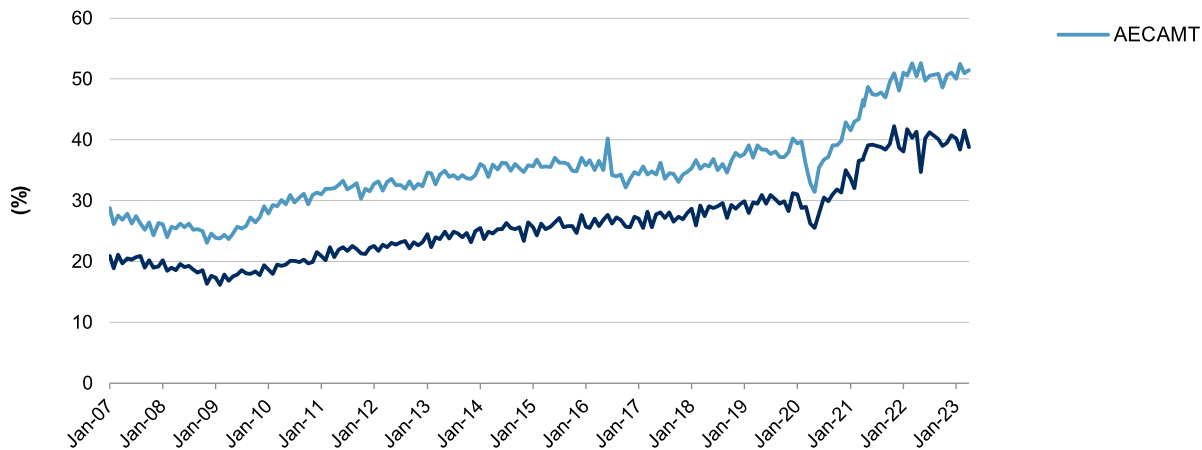
### Payment Rate

Our base-case total payment rate assumption for the master trust's pool is 25.00%. The pool's payment rate performance is consistently above its peers, averaging 50.58% and 51.25% as of the 12 months ended Dec. 31, 2022, and the four months ended April 30, 2023 (according to our CCQI) (see chart 3).

Our lower base-case assumptions relative to the trust's performance reflect our view of the company's reliance on the co-brand relationships, which attract convenience users who likely drive high payment rates. Co-branded cards are charged and paid in full each month by transactors who use the cards for rewards and points, not credit. The largest co-branding arrangement is currently with Delta Air Lines Inc. The payment rate could decline if the related program contracts are not renewed upon an amortization stress scenario. We consider the diversification of these co-branded programs a positive factor in our base-case assumption because the likelihood of losing all of these programs is less likely than a pool that relies on one relationship.

Chart 3

### Monthly payment rate



CCQI--Credit card quality index.

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## Purchase Rate

We assume a 3.00% purchase rate in our 'AAA' rating scenario. Our purchase rate assumption accounts for our credit rating on the originator relative to the rating we assigned to the certificates, the originator's ability to continue generating and transferring receivables to the trust, and the originated receivables' credit characteristics.

For AECAMT, our purchase rate assumptions consider the credit ratings assigned to TRS (A-/Stable/A-2), the servicer, and the originator, AENB (A-/Stable/A-2). We believe these entities have proven their abilities to consistently originate, manage, and service accounts and receivables throughout economic and business cycles.

## Certificate Rate

Series 2023-1 will be categorized in group I out of AECAMT. Group I includes a group of fixed-rate series that share finance charge collections pro rata, based upon the relative size of the required payments to each series within group I relative to the total required payments of all series in group I. To reflect this socialized feature, we modeled a weighted average of the expected coupon of the securities issued within group I. The expected weighted average coupon is higher than each individual series' actual coupons and is deliberately stressful, as it ensures the enhancement for each security is subject to the same credit risk of the shared finance charge collections for each priority class and captures the possible coupon composition shifts that can take place over the time continuum of issuance.

## Dilution Analysis

Dilution, which is measured as a percentage of the receivables balance, typically runs slightly higher in portfolios with higher purchase activity, such as AECAMT, than in a portfolio that has more revolving account balances. This is due to the greater proportion of more recently generated receivables, which may be vulnerable to reductions from returns.

Under the transaction's terms, the minimum seller's interest will equal at least 7.00% of the invested amount to cover noncash reductions in the principal receivables balance. In our analysis, we reviewed the trust's available historical monthly fraud and return data, as well as peer data. Based upon the available data, we believe that the 7.00% minimum seller's interest will be insufficient in our 'AAA' stress scenario to cover our dilution stress of 8.25%. Our 'AAA' stress reflects a 1.25% uncovered dilution, which is captured in our cash flow analysis.

## Sensitivity Analysis

Our rating incorporates credit stability as one of several factors that we use to determine an issuer's or an issue's creditworthiness.

Accordingly, we undertook sensitivity analysis assuming the pool's base-case loss rate would increase to our current 'BBB' stressed loss rate assumption. We believe that under a moderate ('BBB') stress scenario, all else being equal, our preliminary rating will be within the credit stability limits specified by section A.4 of the Appendix of (see "S&P Global Ratings Definitions," published Nov. 10, 2021).

## Structural Overview And Payment Priority

According to the transaction documents, the finance charge collections allocated to the series 2023-1 certificates will be deposited into a collection account to make monthly payments in the priority shown in table 3.

Table 3

### Finance charge collections payment waterfall

Priority	Payment
<b>Finance charge collections allocated to the class A certificates</b>	
1	Interest due on the class A certificates.
2	The class A certificates' portion of the servicing fee (if TRS is not the servicer).
3	The class A certificates' portion of the defaulted amount.
<b>Finance charge collections allocated to the class B certificates</b>	
1	Interest due on the class B certificates.
2	The class B certificates' portion of the servicing fee (if TRS is not the servicer).
<b>Finance charge collections allocated to the collateral interest</b>	
1	The collateral interest's portion of the servicing fee (if TRS is not the servicer).

TRS--American Express Travel Related Services Co. Inc.



Excess spread and excess finance charge collections from the series 2023-1 pool and other series in the trust will then be aggregated and applied through a second payment waterfall in the priority shown in table 4.

Table 4

**Payment waterfall (excess)**

<b>Priority</b>	<b>Payment</b>
1	Class A amounts previously due but not paid: monthly interest, additional interest, servicing fee, and investor defaults.
2	Class A investor charge-offs previously not reimbursed.
3	Class B interest not paid in the first payment waterfall.
4	Class B amounts previously due but not paid: monthly interest, additional interest, servicing fee, and investor defaults.
5	Reductions in the class B invested amount.
6	Senior interest due on the collateral interest.
7	Servicing fee owed but not paid.
8	An amount necessary to cover any defaults on the collateral interest.
9	Reductions in the collateral interest amount.
10	To the reserve account.
11	Subordinated interest due on the collateral interest.
12	Any remaining amounts will be available as excess finance charges to other series, if needed, then to the holders of the transferor certificates unless a note trust transfer has occurred. Following a note trust transfer, any remaining amounts will be distributed to the collateral interest holder.

If available finance charge collections are insufficient to pay the series 2023-1 certificates' monthly interest payments or the servicing fee, the shortfalls will be paid by reallocating amounts from the available principal collections to the extent available. Reallocated principal collections and unreimbursed investor charge-offs, if any, will reduce the series 2023-1 certificates' collateral amount.

During the revolving period, principal collections will be allocated to the series 2023-1 certificates based on the series' collateral amount. The principal collections will be paid to the transferor, which will then reinvest the amount in new receivables. During the controlled accumulation period, collected principal will be deposited into a principal funding account daily for distribution to the certificateholders on the expected final payment date. The transaction documents provide that a reserve account, which will be funded to 0.50% of the class A invested amount from the excess cash flow, will be available to cover any negative carry risk if the investment earnings on the cash that is deposited into the principal funding account are less than the amount needed to make monthly interest payments during the accumulation period.

If a payout event occurs at any time, the principal collections allocated to the series 2023-1 certificates will be immediately distributed to the certificateholders in the following priority:

- To the class A certificates until paid in full;
- To the class B certificates until paid in full; and then
- To the collateral interest until paid in full.

Payout events include:

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- The trust fails to make interest or principal payments to the certificateholders when due.
- The three-month average excess spread percentage for any monthly period is less than zero.
- The transferors breach any material representation or warranty.
- A servicer defaults.
- The transferors are unable, for any reason, to transfer receivables to the trust.
- The transferor fails to transfer the receivables into the trust to maintain both the minimum transferor's interest and the minimum principal receivables balance required by the documents.
- The trust fails to pay the series 2023-1 certificates in full on their expected principal payment dates.

## **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 Card ABS Review, Feb. 23, 2023
- Global Structured Finance 2023 Outlook, Jan. 11, 2023
- S&P Global Ratings Expects The Russia-Ukraine Conflict To Have Limited Direct Impact On Global Structured Finance, March 3, 2022

**Presale: American Express Credit Account Master Trust (Series 2023-1)**

- Global Credit Conditions Special Update, Feb. 8, 2022

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