



October 12, 2007

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

via email delivery

Re: Docket No. R-1286, Regulation Z – Proposed Rule

Dear Ms. Johnson:

Target National Bank (the “Bank”) appreciates the opportunity to submit comments on the Federal Reserve Board’s (“FRB”) proposed rule to amend Regulation Z which implements the Truth In Lending Act (“TILA”). The Bank is a CEBA credit card bank chartered in 1994. As a wholly-owned subsidiary of Target Corporation, one of the largest retailers in the United States, the Bank issues a Target® Visa® Credit Card and a private label Target Credit CardSM.

The Bank supports the FRB’s goal to improve the disclosures consumers receive in connection with consumer credit accounts. We believe the proposed amendments will provide consumers with the necessary information to make informed decisions about the use of their credit accounts. However, we would like to take this opportunity to highlight several practical issues we have identified with the proposed amendments.

Credit Card Applications and Solicitations

The new format requirement in 226.5a(a)(2)(v) states when an application is accessed in electronic form, the application disclosures must also be provided in electronic form. This format requirement presents a significant challenge for in-person solicitations and applications. We suggest an exception to the format requirement in 226.5a(a)(2)(v) for in-person solicitations and applications which would allow retailers to provide the application or solicitation electronically to consumers at the cash register and at the same time provide the application disclosures in a paper format.

When a consumer applies for a credit account at a retail location, the retailer typically provides the required application disclosures to the consumer in a paper format. While the disclosures are in a paper format, the application may be completed electronically. For example, the application may be completed by the consumer using the payment device at the cash register usually used to process credit and debit card transactions. Requiring electronic applications to be accompanied by electronic disclosures would

force the Bank to either return to paper applications or develop new technology to provide the disclosures electronically at the cash register location. Both of these options would be costly and inefficient. Additionally, we believe our current in-person application process benefits consumers by providing electronic applications and paper application disclosures. Providing disclosures in a paper format allows the consumer to retain the disclosures for future reference, and completing an electronic application provides more security for the consumer's personal information.

Account-Opening Disclosures

The proposed account-opening table requires the creditor to disclose the actual rate the consumer has qualified for and, if the rates are variable, accurate variable rates, in the table itself. Providing up-to-date information in the preprinted table will present a significant challenge when a consumer is approved for a credit account at a retail location and is able to use the account immediately. We suggest the FRB allow the account-opening table to refer to another document to provide the rate the consumer qualified for and accurate variable rate information.

Currently, when a consumer is provided with an initial disclosure document at the store, the initial disclosure document may refer the consumer to another document, such as a receipt, to obtain the actual interest rate the consumer qualified for and current variable rate information. This incorporation by reference approach allows the creditor to keep preprinted initial disclosure documents at each cash register and give the consumer current information about the rates on a separate document. We suggest the FRB allow a similar incorporation by reference approach for the account-opening table.

If the account-opening table must disclose the rate the consumer actually qualified for and current variable rates, the creditor would need to keep at each cash register a version of the account-opening table for each rate the creditor offers. Additionally, if the rates are variable, then all versions of the table may need to be updated every month to reflect accurate variable rates. For the Bank, keeping multiple account-opening tables at each cash register in more than 1,500 stores and updating all those tables each month will cost ten times more than our current cost of providing initial disclosure documents to consumers. Having multiple account-opening tables also requires the cashier to give the consumer the correct account-opening table, which will present significant compliance concerns.

Periodic Statements

A. Effective APR. We encourage the FRB to adopt its second alternative proposal for the effective APR whereby the effective APR would no longer be disclosed. We support the goal of providing adequate information to assist consumers in making informed credit decisions. However, in our experience, we find that consumers do not understand or benefit from the effective APR. Additionally, the other proposed changes to the periodic statement, such as providing a year-to-date total for fees and interest, will provide the consumer with useful, easy-to-understand information regarding the cost of credit. We believe this type of information will be more meaningful to consumers than a more detailed disclosure of the effective APR.

B. Transaction Fees. For fees related to a specific transaction (e.g. foreign currency conversion fees and cash advance fees), we find that consumers prefer to have the fee listed immediately following the applicable transaction. For example, when a purchase is made in a foreign currency, the consumer would prefer to have the foreign currency conversion fee listed directly under the purchase transaction. This approach allows the consumer to easily match the fee to the transaction that incurred the fee and provides more complete information about the cost of the foreign currency purchase.

Subsequent Disclosure Requirements

A. Advance notice of rate increases due to delinquency or default or penalty pricing. The proposed requirement in 226.9(g) to provide 45 days advance notice of a rate increase due to delinquency or default or penalty pricing will be confusing for consumers. We understand that consumers may benefit from additional disclosure of the conditions in which penalty pricing may be imposed, even though the application disclosures and the credit card account agreement both include descriptions of the circumstances in which a consumer's rates may increase. To provide this additional disclosure, we suggest the periodic statement include a disclosure reminding the consumer of the circumstances in which penalty pricing may be applied rather than providing 45 days advance notice of a rate increase. Additionally, if penalty pricing is invoked, the periodic statement could then include a disclosure describing how long the penalty rate will apply to the account.

Providing 45 days advance notice of a rate increase after the consumer has already triggered penalty pricing provides limited value to a consumer. The consumer will be put in a defensive position of either paying off the balance before the rate goes into effect or trying to transfer the balance to another credit account before the rate increases. If the consumer is more aware of the conditions that will trigger penalty pricing, the consumer may avoid the rate increase altogether. We believe a disclosure on the statement describing the events that would trigger a rate increase would educate consumers so they potentially avoid the rate increase.

Additionally, it is not practical to change rates in the middle of a billing period, and therefore creditors typically change rates on the first day of a billing period. Most billing periods are one month long. If a creditor gives the 45 day advance notice on the periodic statement, the end of the 45 day notice period is in the middle of the next billing period. The creditor would then wait until the first day of the following billing period to impose the increased rates, and the consumer would not see the increased rates until they received their statement at the end of that billing period. That would be the third periodic statement after the consumer received the advance notice of the rates increasing. This significant delay between the consumer being notified of the rate increase and the rate increase actually appearing on the consumer's statement could cause confusion for consumers.

A creditor may also reduce the rates again based on a consumer's actions, for example, if the consumer makes several on-time payments. Given the significant delay between the rate increase notification and the actual rate increase, this cure process could begin before the rate actually increases. It will be difficult for creditors to clearly describe the timing of the cure process and the conditions in which the penalty pricing would end.

B. Change-in-terms notification provided with the periodic statement. When a change-in-terms notification is included with the periodic statement, a tabular summary of certain changes on the front of the statement would be challenging and expensive. We also believe a large table on the front of the statement would distract from the other important information on the statement. We support providing consumers with a summary table on the first page of the notification or along with the notification, but we encourage the FRB to treat change-in-terms notices provided with the periodic statement the same as change-in-terms notices not provided with the periodic statement. That is, if a change-in-terms notice is provided with the periodic statement, the summary table should be provided on the first page of the notice or along with the notice but not on the first page of the statement. In lieu of the summary table on the front of the statement, we support a message on the front of the statement advising the consumer to read the enclosed change-in-terms notification.

Account Termination

We request clarification that a creditor can terminate an account that is inactive for three or more consecutive months rather than only three consecutive months.

Timing of Implementation

The changes to Regulation Z as proposed by the FRB are extensive and complex. Many of the changes will require significant changes to our systems and operational processes. We request the FRB allow for at least one year for implementation of the changes, except for the changes proposed for periodic statements. To implement the proposed changes to the periodic statements will cost a minimum of \$400,000, will require significant systems programming and involve multiple vendors. We request the FRB allow eighteen months to implement changes to the periodic statements. Additionally, the requirement to provide year-to-date totals of fees and interest on periodic statements should be implemented at the beginning of a calendar year in order to provide for accurate calculation of those year-to-date totals.

Again, the Bank supports the intent of the proposed amendments to Regulation Z to provide consumers with effective disclosures regarding credit card accounts. We appreciate the opportunity to express our concerns about the practical impacts of some of the proposed amendments, and we hope the Bank's comments provide useful information as the FRB prepares the final regulation. If there are any questions about our comments, or if we can provide further information, please contact me at (612) 307-6158.

Very truly yours,

TARGET NATIONAL BANK

By: /s/
Terry Scully
President