TARGET®

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

Re: Docket No. R-1314, Unfair or Deceptive Acts or Practices – Proposed Rule

Dear Ms. Johnson:

Target National Bank (the "Bank") appreciates the opportunity to submit comments on the Federal Reserve Board's ("Board") proposed rule to prohibit unfair or deceptive acts or practices. 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 Card℠.

The Bank supports the Board's efforts to protect consumers from abusive credit card practices. However, we would like to take this opportunity to highlight a few practical issues we have identified with the proposed rules.

<u>Time to Make a Payment</u>

The proposed rule prohibits institutions from treating a payment as late unless the consumer is provided a reasonable time to make the payment, and provides a safe harbor if the institution has reasonable procedures to mail or deliver the periodic statement at least 21 days before the payment due date. We agree that consumers should have sufficient time to receive the statement, review the statement and send a payment before the payment due date. However, we suggest a safe harbor of 19 days.

Our payment due date is 25 days after the closing date of the billing cycle. For our regular statement printing process, the 21 day safe harbor provides sufficient time for us to create the billing statement and mail it to the consumer. However, there are occasions, such as when a holiday falls on a Monday or Friday, when the 21 day timeframe would not be achievable without costly changes to our operational processes. Additionally, our experience is that it is extremely rare for a consumer to indicate that a late payment is due to not receiving the statement in a timely manner.

The United States Postal Service ("USPS") website provides the estimated delivery time for domestic First Class Mail is two to three days. With that level of service, a 19 day safe harbor would still give a consumer ample time to receive the statement, review the statement and mail a payment before the payment due date.

Given the service level provided by the USPS, and the costly operational changes to consistently meet the 21 day safe harbor, it seems a safe harbor of 19 days would not be unfair to consumers.

Allocation of Payments – Unbilled Balances

The proposed rule requires institutions to allocate any amount paid by the consumer in excess of the minimum payment among the balances in a manner that is no less beneficial to the consumer than one of three described methods. We encourage the Board to clarify that the payment allocation methods described apply only to balances shown on the consumer's statement and not to any unbilled balance that has been created between the end of the billing cycle and the payment due date.

For example, a consumer's billing statement shows a $300 purchase balance and a $100 cash advance balance. The statement is dated August 1st and has a payment due date of August 25th. The consumer takes a $50 cash advance on August 15th. The consumer sends in a payment for $400 on August 24th, which is based on the balances shown on the August 1st statement. We suggest the payment should be applied to the balances shown on the August 1st statement ($100 to the cash advance balance and $300 to the purchase balance) without regard to the $50 cash advance which has not yet appeared on a statement. We feel that allocating a portion of the payment to unbilled balances (in the example, $150 to the cash advance balance and $250 to the purchase balance, leaving $50 unpaid from the billed purchase balance) would be confusing to consumers in addition to being difficult to implement.

Application of Increased Rates to Outstanding Balances

The proposed rule prohibits creditors from applying increased periodic rates to existing balances except in limited circumstances. We are concerned this restriction will negatively impact all consumers rather then just the relatively small number of accounts that pose a higher risk.

Creditors rely on the ability to apply increased rates to existing balances as a method of effectively managing risk when a consumer exhibits risky behavior, such as paying late. If a creditor is not able increase rates on existing balances, thereby managing risk on an account basis, the creditor will need to make up for overall increased risk by having tighter risk controls for all accounts. This could lead to higher APRs, reduced availability of credit and reduced credit card benefits for all consumers.

Very truly yours,

TARGET NATIONAL BANK

By: /s/
Susan K. Smith
Secretary and General Counsel