
SEARS HOLDINGS

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June 2, 2009

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

Attn: Docket Number R-1314 and Docket Number R-1286

Re: Proposed Rule on Unfair or Deceptive Acts – Clarifications
Proposed Rule on Regulation Z Disclosure Requirements - Clarifications

Dear Ms. Johnson,

This letter is submitted on behalf of Sears Holdings Corporation (“Sears”) in response to The Federal Reserve Board (the “Agency”) publishing proposed clarifications and amendments to the final rule for Regulation AA; Docket Number R-1314, and the proposed rule amending Regulation Z; Docket Number R-1286, as published in the Federal Register on May 5, 2009. Based on the Agency’s invitation for comments, Sears would like to submit the following comments both on the proposed clarifications and on the Agency’s efforts to clarify the rules as published in the Federal Register on January 29, 2009.

Sears owns several different retail formats, including such American icons as Sears, Roebuck and Co., Kmart Corporation and Lands’ End, Inc. Sears operates over 3,500 retail store locations throughout the United States, Puerto Rico and the Virgin Islands and is dedicated to providing excellent value and service to its customers. Continuing to earn our customers’ trust and ensuring that our customers have the products that improve their lives and the financing programs to provide those products to their families is of paramount importance to Sears.

Sears appreciates and applauds the Agency’s efforts to provide clarity and consideration of financing that has been offered to consumers for many years while at the same time providing for enhanced disclosures to ensure that consumers understand the terms of the financing being offered. Sears is strongly in favor of the Agency publishing these rules in final format as soon as possible and not waiting to re-propose regulations based on the recently passed credit card legislation. First, we do not believe the clarification regulations should be significantly affected by the recently enacted legislation. Second we believe that

having clarity around deferred interest programs and how they should be presented to the customer will give clarity to the marketplace and will focus retailers and creditors on compliance instead.

Clarifications to Regulation AA.

Sears has offered “deferred financing” programs through Citibank and HSBC for several years. We strongly support the Agency’s clarifications to ensure clear disclosure, transparency and ease of use for the consumers. Offering deferred interest financing programs allows customers to make purchases, at times in emergency situations (such as a broken refrigerator), giving them the time to work out how best to pay for these major purchases without significantly disrupting their family’s finances. While some may choose to make monthly payments, others may choose to use other sources of income such as tax refunds to pay for these purchases as they deem best for their family budget.

Sears believes that customers already understand how these programs work because over 70% of our customers pay off their deferred interest promotions before they expire and thus incur no accrued interest charges. In addition, less than 2% of our customers lose the benefit of the program due to account default during the promotion period. Sears believes that its customers understand the deferred interest financing programs offered and use them effectively to help meet their financing needs.

Section .23 --Unfair Acts or Practices Regarding Allocation of Payments

The Agency specifically requested comment on whether requiring creditors to apply all payments greater than the minimum due that are received in the two billing cycles prior to the expiration date of a deferred interest promotion would be sufficient protection for consumers to enable them to avoid the imposition of accrued finance charges. Sears supports and agrees with the Agency’s proposal to have all payments greater than the minimum due applied to promotional sales in the two billing cycles prior to the expiration date for those promotions.

However, we think that consumers should be given greater flexibility in applying the payments over the minimum due that are received in the months prior to those final two months and that consumers should be able to request that those payments be applied to the promotional balances, rather than be applied according to the normal payment allocation for payments in excess of the minimum due (highest APR to lowest according to the latest legislation enacted). Given that customers who make larger ticket purchases on deferred financing plans might need to make payments over a longer period of time than the last 2 months to pay those deferred balances in full, Sears believes that affording the consumer with the opportunity to contact the creditor and request that the payment be allocated to the deferred interest promotional balances instead of to their other interest accruing balances will give consumers the greatest opportunity to pay off the deferred balance within the promotion timeframe and thus avoid the imposition of accrued interest. We propose that this option be limited to payments made in the current billing cycle only to allow creditors to properly apply those payments without affecting previous statement cycles. In addition, allowing creditors to comply with these specific consumer requests would be an exception to the otherwise applicable payment allocation hierarchy. We believe that allowing consumers this choice about how to apply their payments prior to the last 2 months of the promotion period

will enable more of them to avoid the imposition of finance charges and enable them to handle these larger ticket purchases in the manner that best suits their financial planning.

Section .23 – Agency Request For Comment About Application of Payments to Grace Periods.

The Agency also requested comment on whether the application of payment and disclosure requirements for deferred interest promotions should be applied to grace periods and excess payments over the minimum due offered by creditors who do not charge interest on the purchase balance if it is paid in full within the cycle after the purchase appears on the consumer's billing statement. Sears believes that these types of grace periods are not the same type of promotional pricing plans as are deferred interest promotions, and thus the requirements of Section __.23(b) should not be applied to these grace periods.

Section .24 -- Unfair Acts or Practices Regarding Increases in Annual Percentage Rates

The Agency requested comment on the appropriate amount of time to complete the replacement of one consumer credit card account with another in order for the replacement account to be considered a "substitution" rather than a new account. The proposal suggested 30 days but invited further comment.

Sears suggests that the appropriate amount of time to complete the replacement of one consumer credit card account with another would be 60 days, rather than 30. This extra time would provide time for delayed activity on the original account (such as goods ordered but not yet shipped) to be billed and for consumers to actually receive their new plastics and begin to use them, and provide consumers with adequate time to update account information for automatic billing charges previously set up by the consumer that billed to the original account. In addition to allowing for consumers to receive their cards and outstanding orders to clear, this would also give consumers the opportunity to see recurring charges on their old account and make arrangements for new billing instructions to avoid having these recurring charges rejected because the old accounts were shut off so quickly.

Section .24 – Agency Request for comments regarding choosing some other method of classification of balances than APR.

The agency also requested comment on whether disclosures of rates for different categories of balances should be grouped under some other classification other than APR. The final rule from January 29, 2009 required disclosure of the rates for different "categories of transactions", and used not only differing APR's but also types of transactions to determine whether something was a different category or not.

Sears believes that such distinctions are meaningless to a consumer unless there is a different APR or payment scheme that would apply to the particular category. Thus, if the APR for cash advances is the same as the APR for purchases, there is nothing to be gained by requiring separate APR disclosures for each. However, if the APR for gasoline purchases was different than the APR for other purchases, that difference is something that should be disclosed to consumers so that they more fully understand how their account works.

Regulation Z Clarifications

12 CFR 226.6 – Account Opening Disclosures. Sears applauds the Agency for trying to simplify these disclosures and provide only those that might be meaningful to consumers. Sears strongly supports the notion that if a range of rates is possible at new account opening that the consumer be provided the actual rate that will apply to their account, but that this specific disclosure be provided on a separate piece of paper while the range of rates be provided in the Schumer Box disclosure. In order to avoid clerical error where the clerk might inadvertently hand the customer the wrong disclosure, allowing the actual rate that applies to the customer's account to be on a separate piece of paper (such as a register tape that would automatically print the correct personalized information) is more consumer friendly and helps avoid disclosure mistakes.

Account Opening Disclosures. The Agency proposed requiring that the initial disclosures which are usually preprinted contain rates that were available within the previous 30 days, but provided that the forms need not be changed (to provide a new "as of" date) if the rates have not changed. This affects plans with variable rates and outside indexes the most. However, in a changing rate environment, it takes the creditors a substantial amount of time to print new disclosures, get the new disclosures to their retail partners, and then distributed to each store in retailers' chains. Sears believes that providing disclosures with an "as of" date showing actual rates that have been offered within the previous 60 days is more appropriate and allows creditors and retailers the time needed to put the newer forms in place (from layout and printing through distribution) so long as customers continue to receive their actual APR upon account opening.

12 CFR 226.7. – Periodic Statements

Sears supports the clarifications in Section 226.7 with regard to the disclosure of accrued interest and the expiration date of the promotion in the monthly statements. Our program has been making these disclosures as a standard practice for quite some time. We believe that this will further enable consumers to better manage their money and know when the promotions are about to expire which will help consumers avoid the imposition of accrued interest charges.

12 CFR 226.16. – Advertising Disclosures

Sears feels that the proposed changes to Section 226.16 regarding advertising of deferred interest plans will increase consumer awareness of how these programs work and may reduce even further the number of consumers who actually incur deferred interest charges. We applaud the ability to keep the "No Interest" tag line so long as it is coupled with "If Paid In Full" by a certain date or within a certain number of months which we think will further minimize any consumer confusion about when these balances must be paid in full to avoid the application of deferred interest.

Sears does, however, suggest that the safe harbor proposed that requires these additional disclosures to be in the same paragraph as the headline trigger term be amended to allow those disclosures to be in a separate paragraph immediately following the headline trigger term. We believe this will be less confusing and actually provide a clearer disclosure than putting everything into one long paragraph. Thus, the "No Interest No Payments If Paid In

Full Within 12 Months” (and any qualifying limitations on that offer) trigger would be followed in the immediate next paragraph by the deferred interest warning disclosures (“Interest will be charge to your account from the purchase date if qualifying purchases are not paid in full within 12 months or if you make a late payment”).

In conclusion, Sears appreciates the opportunity to comment on the proposed amendments to Regulation AA and Regulation Z. If you have any questions related to our comments, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'SPE', written in a cursive style.

Susan P. Ehrlich
Senior Vice President and General Manager
Financial Services Business

cc: William Harker
Mary Tortorice
Scott Feinstein