

Target Financial Services



July 23, 2004

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

Submitted via e-mail:
regs.comments@federalreserve.gov

**Re: Response to Notice of Study and Request for Information
Disclosure of Debit Card Fees
Docket Number OP-1196**

Target Stores (“Target”) appreciates the opportunity to submit comments on the May 18, 2004, Notice of Study and Request for Information (“Notice”) relating to the disclosure of debit card fees. The increasing use of debit cards, both PIN and signature, is an important issue for Target. We believe that the card-issuing banks should improve their disclosures, but we strongly oppose the idea of disclosure at the point of sale.

Target is an upscale discounter that provides quality merchandise at attractive prices in clean, spacious and customer-friendly stores. We operate 1,272 stores in 47 states, including 119 SuperTarget locations that are full service grocery stores.

Target began accepting PIN debit transactions in 1995. Today, we process PIN debit transactions through 10 debit networks, representing thousands of issuing banks and credit unions. Target Store sales in 2003 totaled \$40.3 billion, of which \$7.3 billion (153 million transactions) were PIN debit transactions. Our processor maintains direct connections with 5 PIN debit networks who service 99% of our PIN debit traffic.

We agree that bank statement disclosures are the best method to communicate debit card fees imposed by the account-holding institution, but we believe that current disclosure practices create customer confusion regarding who is imposing the fee – the bank or the merchant. Target’s experience, based on customer calls and complaints, is that the banks’ practice of disclosing the fee amount adjacent to Target’s name on the customer’s bank statement creates the false impression that Target is imposing the debit card fee. Banks need to clearly state that it is the bank imposing the fee, not the merchant.

Target also feels strongly that requiring debit card fee disclosures on receipts at the retail point of sale would not be practical, effective, or reasonable. Extensive systems changes would likely be involved if retailers were required to communicate with each bank that issues debit cards to obtain the information needed to disclose that particular bank’s fee when its cardholder presents the card as payment.

Programming costs would not be the only expense to the retailer. Additional information flows, system processing and messaging carry operating costs. Moreover, the notification will inevitably slow the checkout process. Speed at point of sale is a significant cost factor for a large retailer like Target. Every second has a financial impact, especially when multiplied by hundreds of thousands of transactions per day.

It is illogical and unjust to require retailers to bear the cost of disclosing fees that are imposed by the card issuer. The absurdity is compounded by the fact that the PIN debit fee is designed to steer the consumer to a form of payment which imposes even greater costs on the retailer, while exposing the consumer and the retailer to a greater risk of fraud.

We believe the real issue here is the skewed economics of the debit card industry. Target believes that banks should not impose fees for the use of PIN debit. Compared to signature debit, a PIN debit transaction is more secure, faster-processed, and less expensive for both the bank and the retailer. Banks charge fees on PIN debit transactions, as well as offering other forms of incentive, such as sweepstakes and rewards points, in order to steer customers from PIN debit to signature debit because interchange rates on signature debit are higher than on PIN debit.

The retailer bears the burden of the higher interchange fee on signature debit, and retailers are prohibited by law and by card association rules from passing that cost directly to the customer using the card. Instead, the higher interchange fee becomes a cost of doing business and is passed on to all customers, regardless of their form of payment. Banks' practice of imposing PIN debit fees and providing incentives to switch consumers from PIN debit to signature debit is not in the consumer's or the retailer's best interest.

In summary, Target believes that it is important for consumers to understand who is benefiting from debit card fees. Card-issuing banks should be required to be clear about their charges. However, the burden of that disclosure should not be borne by the retailer at the point of sale.

Thank you for the opportunity to present our views on this important aspect of our business.

Very truly yours,

TARGET STORES

By: /s/ Terrence J. Scully
Terrence J. Scully
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