GE Money

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July 18, 2008

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

Re: Docket No. R-1286

Dear Ms. Johnson:

This comment letter is submitted on behalf of GE Money Bank ("GEMB") in response to the proposed rule published by the Board of Governors of the Federal Reserve System ("Board") to revise certain open-end credit provisions of Regulation Z. GEMB is a federal savings bank located in Utah. As a major credit card issuer, GEMB partners with hundreds of retail brands to provide consumers with over 100 million private label and co-brand credit card accounts. The availability of store credit, including credit provided by GEMB as part of its private label and co-brand programs, is a critical driver of the economy because it provides increased purchasing power to consumers. Consumers also have special affinity with our retail partners and receive valuable discounts and promotions in connection with the use of private label and co-brand cards.

The Board initially published proposed amendments to Regulation Z on June 14, 2007 (the "Original Proposal"). GEMB provided comments on the Original Proposal on October 12, 2007. This submission is in response to the supplemental proposal published by the Board on May 2, 2008 (the "Supplemental Proposal"). GEMB appreciates the opportunity to provide the Board with its comments on the Original and Supplemental Proposals.

I. Summary

As noted above, GEMB commented on the Original Proposal last fall. We believe that the Original Proposal was generally a thoughtful and well-reasoned approach toward improving federally-mandated credit card disclosures. We feel the same way about the Supplemental Proposal. We are submitting this letter to reemphasize several points that we made last fall. We also are commenting for the first time on the Proposals treatment of fixed rate advertising and deferred interest offers. Here are the overall points we would like to make:

- The disclosure of the applicable APR in the account-opening table would not result in any meaningful increase in consumer understanding of account terms and would be difficult to administer from an operational and compliance perspective. We believe that a card issuer should be allowed to disclose specific APRs outside of the account-opening table, particularly when an account is opened at the point of sale.

- Strict formatting requirements for periodic disclosures would unnecessarily limit how issuers communicate with their customers and would likely be very costly for the industry. We believe that card issuers should have flexibility in presenting the disclosures required by § 226.7.

- The proposed increase in the waiting period associated with changes in terms should be 30 days instead of 45 days as proposed by the Board. If the Board retains the 45-day waiting period, the period should not apply to situations where the consumer defaults on an agreement with the card issuer, such as when the consumer does not meet the terms of a promotional offer or the consumer makes a late payment.

- To allow consumers to better understand whether a product's APR is variable, the proposed limits on advertising a rate as "fixed" should allow a card issuer to increase a consumer's rate if a consumer defaults on the credit agreement as long as possibility of a default rate is conspicuously disclosed in the advertisement.

- To highlight the most important terms of deferred interest offers to the consumer, we believe there should be greater flexibility in how to make these disclosures. The proposed disclosure requirements for deferred interest disclosures, as applied to the in-store context, would make advertisements so cumbersome that important information would be obscured.

II. Disclosure of APR in Account-Opening Table

The Original Proposal includes provisions creating an account-opening table to be provided pursuant to § 226.6. We concur with the Board that the initial disclosures required by Regulation Z could be improved, and we believe the account-opening table is a reasonable approach. There is one provision of the proposal that creates a significant issue for point-of-sale credit—specifically, the requirement to print the APR applicable to the account in the account-opening table itself, as opposed to providing it clearly and conspicuously elsewhere in the account-opening disclosures provided to the consumer. We believe that this requirement could impose significant and unnecessary costs on retailers and card issuers, especially those like GEMB that provide millions of consumers with private-label or co-branded general purpose credit card accounts at the point of sale. The requirement also could have negative impacts on the accessibility of consumer credit because issuers would likely need to adopt a single rate for their in-store channels. Each consumer would either be assigned the highest APR, or if the highest APR is not used, consumers who could not qualify for the lower APR would be denied credit. Accordingly, we urge the Board to allow issuers to provide the specific rate separately from the account-opening table, such as on a store receipt.

As we mentioned in our initial comment letter, the proposal to include the actual APR in the account-opening disclosures creates complexity in many acquisition channels, but the administrative burdens and reliability issues are compounded significantly in the context of accounts opened at the point of sale. GEMB has taken significant steps to minimize the

complexity of its regulatory compliance program at the point of sale in order to simplify the disclosures and eliminate confusion for consumers. Because we assign a particular APR based on each consumer's creditworthiness, our account-opening materials generally disclose a range of APRs. We typically provide the specific APR to the consumer upon account approval as part of a register printout, which is included with the other account-opening disclosures as part of an integrated document for purposes of compliance with § 226.6. We have found that providing disclosures in this manner minimizes the difficulty and complexity for store employees while still providing consumers with disclosures in a clear and conspicuous manner. This process ensures consumers are better informed, and as a result we rarely receive communications from consumers who are unaware of the APR on their account. If we were required to provide specific APRs in the account-opening table, we would need to send multiple sets of disclosures to thousands of locations on a regular basis, particularly if the disclosures are required to be accurate within thirty days of providing them to consumers. Store associates would also need to be trained on how to provide the correct disclosures to the consumers. We believe that requiring specific rates to be disclosed in the account-opening table would not increase consumer understanding and would lead to greater instances of consumers getting incorrect or outdated disclosures.

We also believe that the rules should allow an issuer to provide the disclosure of the specific rate in a document that is separate from the account-opening disclosures (with a reference to the specific rate in the account-opening table). We do not believe these documents need to be attached to each other. While it might seem rational to require that the documents be stapled together from a theoretical perspective, a stapling requirement would not be practical considering the consumer would be receiving the disclosures as an incident to making a purchase in a retail store.

III. Periodic Disclosures

The Original Proposal includes significant new formatting and content requirements for the periodic disclosures. We want to reiterate the comments we made in our initial comment letter on the formatting requirements. As a general matter, we do not believe that there have been significant complaints regarding periodic statements provided to consumers. To the contrary, we believe that card issuers, including GEMB, take great care to design periodic statements that are easy for consumers to read and understand. We use our periodic statement as an opportunity to communicate a variety of important information to our consumers—foremost of which is their transaction information—and we strive to ensure that our periodic statement communicates such information efficiently and effectively. Although some of the proposed requirements may not significantly impact the overall presentation of periodic statements, such as those requiring like types of transactions to be grouped in a specific manner, many of the requirements would impose a "one size fits all" approach to a consumer communication that is and should remain inherently unique to each issuer and credit program.

GEMB is concerned that the Proposal would result in overly rigid and prescriptive formatting requirements that are not necessary to inform consumers of key information in a consumer-friendly manner. We believe that the requirements may inadvertently result in less

effective periodic statements for consumers by eliminating issuers' discretion to format periodic statements to meet issuers' and consumers' specific needs and desires. We also ask the Board to consider the significant costs that issuers would incur if they were required to completely redesign periodic statements and provide them in a manner that does not optimize their layout.

IV. Changes in Terms

In our initial comment letter, we commented extensively on the proposed 45-day notice requirement of the Original Proposal. We would like to reiterate our comments with respect to the length of the notice period and applying the 45-day notice period to penalty and promotional pricing. Many card issuers, including GEMB, reserve the right to impose certain costs on consumers, and terminate promotional financing, if they engage in specific behaviors. This practice allows GEMB to impose the costs of risky behavior on the specific accounts that exhibit that behavior rather than applying more costly credit terms across all consumer accounts.

First, we believe that the 45-day notice period is too long. The notice period should be no longer than 30 days, which will provide consumers with adequate time to review the penalty pricing terms, as such terms were previously disclosed in both the application and account-opening disclosures. A 30-day period is twice as long as what current law requires.

Regardless of whether the Board adopts a 30-day or 45-day notice period, we believe that the requirement should not apply to a consumer's disqualification for a promotional APR. The Board proposes to treat promotional pricing essentially the same as a change in terms for purposes of Regulation Z disclosure requirements. But the terms for promotional pricing are typically part of the agreement with the consumer and should not be treated as a change in terms. For example, if a consumer does not meet the continuing qualification terms of a promotion (such as making minimum payments), a card issuer should be able to impose the standard rate on that account immediately. We believe such a clarification is necessary to preserve the ability for issuers to offer consumers popular promotional APRs in the future. We fear that we may not be able to offer attractive and popular promotional APRs to consumers if we do not have the ability to make prompt adjustments to the promotional terms in the face of more risky consumer behaviors.

Penalty pricing should be excluded from the notice period requirement because, like promotional pricing, penalty pricing is disclosed to the consumer when the consumer opens the account. However, if the Board decides that penalty pricing should not be excluded, we have two suggestions on how the rule should apply. Because penalty pricing is disclosed in account-opening materials, as well as the card agreement, issuers should be able to implement penalty pricing quicker than a change in terms. Accordingly, issuers should be allowed to (A) implement the penalty pricing effective in the billing period in which the last day of the notice period falls; and (B) make the disclosure of the change in pricing upon an initial event for a two-event trigger (such as after the first delinquent payment for a two-event default provision), allowing the issuer to begin the waiting period after the first incidence of risky behavior.

V. Fixed Rate Advertising

The Original Proposal includes a new provision relating to the use of the term "fixed" in advertising open-end credit. We did not comment on the "fixed" rate provision in our initial comments, but wish to do so now. Under the proposed rules, an advertisement may not refer to an APR as "fixed" or use a similar term unless the advertisement also specifies a time period that the rate will be fixed and the rate will not increase during that period. The requirement that the rate remain fixed does not contain any exceptions. We believe this restriction is too rigid. As the Board acknowledged in the Original Proposal, some creditors advertise their rates as fixed to distinguish their product features from the features of variable rate products. The term fixed is intended to show that the standard rate will not vary in accordance with an index. The Board suggested that card issuers can still refer to a rate as "unindexed," but we believe that the term "fixed" better conveys the concept that the rate is not variable and that few consumers would understand what "unindexed" means.

Additionally, we believe a card issuer should still be allowed to advertise that a standard rate is fixed and be able to raise the rate in the event that a consumer defaults on the agreement with the card issuer. We believe that any consumer confusion can be mitigated through the use of disclosures. For example, if the first page of a mailer advertises a fixed standard rate of 6.99% for 12 months on purchases, the fact that a default rate could apply could be disclosed in a footnote on the same page. We believe the benefit of offering and advertising fixed rates to consumers far exceeds the potential customer confusion. And if there is any confusion, the confusion can be mitigated with appropriate disclosures.

VI. Deferred Interest Offers

The Supplemental Proposal includes a proposed rule regarding deferred interest offers. GEMB has been making deferred interest offers, through its partners, for a number of years. These offers are very popular with our retail partners and consumers because the offers are a cost-effective way for a retailer to offer goods to consumers on attractive terms. We believe that these types of offers are particularly important in the current economic environment and should be encouraged.

In general, GEMB supports the Board's efforts to provide clear guidelines for all issuers to follow. GEMB prides itself on its use of clear and conspicuous disclosures in its deferred interest offers. For example, our policies require deferred interest offers to clearly state the deferred interest period in close proximity to the offer. The Board's proposed rule, however, also requires disclosure of the terms of the offer "in close proximity" to the first statement of the offer and in the same font of the offer. These terms are defined as:

> (i) A statement that interest will be charged from the date the consumer becomes obligated for the balance or transaction subject to the deferred interest offer if the balance or transaction is not paid in full within the deferred interest period;

(ii) A statement that interest will be charged from the date the consumer becomes obligated for the balance or transaction subject to the deferred interest offer if the account is otherwise in default; and

(iii) If the minimum monthly payments do not fully amortize the balance or transaction during the deferred interest period, a statement that making only the minimum monthly payments will not pay off the balance or transaction in time to avoid interest charges.

We believe the proposed rule requires too much information to be disclosed in close proximity to the first statement of the offer. As the Board realizes, over-disclosure can cause consumers to miss or not understand important disclosures. Of the three terms required to be disclosed in close proximity, the first – that interest will be charged from the date of purchase if the consumer does not pay the transaction in full – is the most important to the consumer. This disclosure provides information regarding the offer itself that may not be apparent from the headline. The second term – that the offer may be terminated and interest assessed from the date of purchase if the consumer is in default – is not as important to a consumer deciding whether to accept the offer because consumers do not plan on defaulting. The third term – that making minimum payments will not amortize the purchase – merely modifies the first disclosure by telling how they must pay the transaction in full. We believe that requiring the third term would dilute the effectiveness of the first two disclosures.

In addition, we believe that the requirement to disclose the terms of the offer in the same font as the offer is unnecessarily restrictive. Adequate disclosure of the terms can be accomplished even if the terms are not in the same font as the offer. Given the length of the terms and the multiple types of potential advertisements, we need more flexibility in how to make the disclosures.

As the Board may know, there is limited space on most advertisements. Including all three of these terms in the manner the Board proposes is simply not practical, will dilute the effectiveness of the disclosures, and will obscure the disclosure of the length of the deferred interest period.

For these reasons, GEMB recommends a standard where the most important term of the offer, the length of the deferred interest period, is disclosed "in close proximity" to the first statement of the offer, and the remaining terms are disclosed separately in a footnote or in a supplemental location. If the Board decides that more disclosure is required in close proximity to the first statement of the offer, we urge the Board to only require the concepts embodied in the first two terms of the proposed rule and not require the third term, the amortization statement. We also urge the Board to provide issuers and retailers flexibility in using fonts that are smaller than the font used for the offer. We believe that our proposal is consistent with the Board proposed rules on the outer envelope and banner advertisements. We agree with those rules (which allow full disclosure in the envelope contents and through a banner ad link, respectively) and believe that the same rationale for allowing flexibility in the envelope and banner ad mediums should apply to other mediums, such as in-store signage and other advertisements.

Conclusion

Again, GEMB appreciates the effort the Board and its staff have made in proposing thoughtful revisions to Regulation Z. GEMB generally supports the Board's approach to many of the key revisions. We appreciate the opportunity to provide our concerns about other portions of the Original and Supplemental Proposals, and hope the Board will consider our suggestions for improving Regulation Z for consumers and card issuers alike. Please do not hesitate to contact me if GEMB can be of further assistance in this matter.

Sincerely,

Brent Wallace
President