October 10, 2006

By E-Mail to Comments@FDIC.gov

Mr. Robert E. Feldman
Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington D.C. 20429

RE: Target Bank's Response to Request for Comment on Industrial Banks

Target Bank appreciates the opportunity to respond to the FDIC's Notice and Request for Comment regarding the ownership and regulation of industrial loan companies and industrial banks. It is our firm belief, supported by objective evidence, that industrial banks present no greater risk than traditional banks, regardless whether the bank's owner is a commercial or a financial entity, and that the absence of consolidated federal regulation of a commercial parent has no bearing on the industrial bank's competitive position in the financial services marketplace.

Target Bank, which was chartered under Utah law in 2004, is a subsidiary of Target Corporation ("Target"). The Bank is located in Salt Lake City, where it has 27 employees. Its primary line of business is the Target Business Card, a private label credit card for use in Target Stores. There are approximately 9,000 Target Business Card accounts, with outstanding receivables of about $5 million.

Target Stores offered commercial credit for a number of years in response to customer demand. Customers were primarily tax-exempt entities (such as schools) purchasing supplies and social services agencies providing clothing and household items to low-income people and the victims of fire or natural disaster. The program was limited in scope, extremely manual, and inefficient for both Target and its customers. Target Bank was formed in order to expand the business credit program into a national product with consistent terms and greater utility. In addition to the schools, not-for-profits and social service agencies who converted from the old program to the new one, Target Business Card customers include small business owners who desire a limited purpose credit card to establish a business credit rating and allow controlled purchasing power for their employees at Target Stores. The Target Business Card is a valuable service to these customers which was not available through any other financial institution and would not be available if Target did not own an industrial bank.

History has proven that industrial banks in general, and commercial-owned industrial banks in particular, pose no more risk – and in many cases, less risk – than other banks. There have been few industrial bank failures, and resulting losses were minimal. None of the failed industrial banks were owned by commercial companies. The industrial bank industry has grown in recent years because the industrial bank is an effective vehicle for innovation in providing financial services. That growth does not inherently mean that

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industrial banks present greater risk to the insurance fund or the system, nor is there any basis to believe that the current supervisory system is inadequate to manage these institutions as effectively as it has in the past. (It should also be noted that while the industrial bank industry has grown, it is still only about one percent of the total banking industry.)

Target Bank itself has no risk of loan loss. Under current regulations, all of its loans are considered to be affiliate transactions because they finance purchases at the affiliate retailer. As a result, Target is required to secure those extensions of credit. Target Bank has a security interest in a deposit held at the Bank to protect it from loss. This is a perfect example of how the circumstances of each institution determine the level of risk, not the nature of the institution or its parent. To the extent the FDIC's concern is to control risk and avoid bank failure, it makes no sense to eliminate the safest possible institution.

The effectiveness of the current regulatory structure to protect industrial banks from trouble at the parent is perhaps best illustrated by the example of Mill Creek Bank. When the Bank's commercial company owner, Conseco, itself went into bankruptcy, Mill Creek determined that it would be appropriate to close because it was losing the flow of business from the parent. The bank was able to sell its portfolio for a premium, pay all of its depositors and other creditors in full, <u>and</u> pay a substantial liquidating dividend to the Conseco bankruptcy trustee. The importance of maintaining the independence and integrity of the bank is particularly clear to Target Bank because its President (the undersigned) was president of Mill Creek Bank, and two of Target Bank's directors were directors of Mill Creek.

Consistent with their authority to regulate both the bank itself and the activities of the bank's parent which impact the bank, the FDIC and the State of Utah in approving the Target Bank charter imposed a number of conditions and requirements to protect the safety and soundness of the bank and to ensure independence from inappropriate parental influence. Among other things:

- Target was required to establish that its industrial bank would not have an adverse effect on existing institutions, would promote the public need and convenience, and had a reasonable opportunity of success.

- Target Bank was and remains subject to minimum capital requirements.

- The FDIC required that Target Corporation enter a Capital and Liquidity Maintenance Agreement to ensure that the Bank remains at all times adequately capitalized and able to meet its short and long term liquidity needs.

- A majority of Target Bank's directors are required to be independent of the parent. Bank board members are experienced in financial services and were subject to FDIC approval after background checks and review of their qualifications.

Like all insured institutions, Target Bank is subject to regular Compliance, Safety and Soundness, and Community Reinvestment Act examinations. Along with the investigation of the Bank's financial condition, a significant component of the safety and soundness examination is an in-depth review of all transactions between Target Bank and its affiliates. In addition, because Target provides information systems for the Bank, the FDIC and the State of Utah perform a Bank Information Systems examination of Target itself. In sum, the regulators have all the authority they could need and the system as currently structured is wholly adequate to guard against risk as effectively for industrial banks as it does for any other financial institution.

Target has submitted comprehensive comments on this issue. In addition to the comments set forth in this letter, Target Bank management wholly supports the views expressed by Target.

Sincerely,

Target Bank

/s/ *Shawn R. Gensch*

By: Shawn R. Gensch
President