

Ron Van Zanten
47167 S Clubhouse Rd
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July 27, 2008

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

Dear Ms Johnson and the Federal Reserve Board of Governors:

I want to thank you for the chance for me to send in my thoughts concerning the changes that are being proposed to Regulation AA.

My name is Ron Van Zanten. I have worked in the banking industry for the past 20 years. I have also been a real estate investor for the past 17 years. In both industries and in general, I have seen many economic conditions come and go, then return again! But in every instance, and over the long haul our economy has always found a new balance and allow us to continued grow. I applaud the role the Federal Reserve has played during my lifetime in safe guarding our economy and our dollar.

Recently I have become very concerned about some of the proposed changes to Regulation AA in Docket No. R-1314. I am afraid that they include changes that would be harmful to this industry and the consumers that it serves. This proposal seems to include what I see as a type of price control. If I am reading this correctly, the proposal is attempting to manage the risk based pricing on credit cards. From my experience, I feel that these type of controls will produce very undesirable results. I am outlining my points and the reasons for them below:

1. There are countless examples of price controls having a negative impact on a particular market.
 - a. Housing/rent price controls in New York City during and right after WWII encouraged commercial real estate development after the war and now since it's a finite amount of space, has caused a permanent housing shortage.
 - b. Phone regulations in the 70's. It seemed like a great idea, but it led to lower quality and encouraged a monopoly. The price was set so low, nobody could afford the investment into the market.
 - c. In 1971, President Nixon ordered price controls and appointed America's first "Czar" to enforce them, and with fewer goods being produced as a direct result of the removal of profit incentives, an energy crisis, a recession and double-digit inflation followed. Then in 1978, President Carter tried the same approach, only this time entitled "voluntary wage-price guidelines," and inflation rose again into the double digits.

Free market has always given us the best measure of the health and viability of an industry. In a free market, a shortage situation leads to a rise in price, which simultaneously reduces the amount demanded and encourages an increase in the amount supplied, until the two come into balance. Price controls prevent that rise in price from changing the behavior of suppliers and demanders, so the shortage or problem persists.

2. If this industry is not allowed to set their prices based on the market, I feel that many of the solvent mainstream banks will leave. It seems that the current pricing must be pretty close to where it needs to be. If the price of credit was too high vs. the risk, every bank would be entering the market and driving the cost down. But it seems that more banks are leaving than coming in. They would not leave if it was profitable, the price must be at a point where only the efficient and well managed firms can stay. I feel the consumers in this market must have services to use. But if the banks cannot find a way to make it work financially they will leave. This I feel will lead to the situation in bullet point number three.

3. Where are consumers with low credit scores going to do business with? In the private sector, we can force people with little or no credit to pay cash for cars, rent, and other services. But for these consumers to improve their credit, and do their business they need credit. If these price controls push the retail banks from this market the consumer's will be given credit outside of the banking system. This could cause a true predatory environment to occur.

These people need credit. There are millions of citizens in this market. They now may be forced to a market that does not have the same disclosure laws, it may not have the same management controls. And since this is outside of the banking and federally regulated space, they may not get the same benefit that good behavior would have on their credit score like it would be from a bank. I only report negative to the credit bureaus for people that pay me rent every month. I never report a positive.

4. I wonder what will happen if personal accountability is removed for the equation. We can remove the risk based pricing on Credit Cards like you are proposing. We can also remove it from Mortgage lending, and general consumer lending. Then because sub prime citizens need credit we can make banks not discriminate against people with previously poor credit when considering a new credit application. This way everybody will get the same price.

As somebody who has worked to maintain a good credit standing, I wonder what will keep people from allowing their credit rating to falter. I see no reason to continue to work towards keeping a good credit history. What other reason do they have? Its certainly easier to not pay. And if I could get the same pricing, availability, as somebody who has good credit, why bother?

And as in all instances of price controls, if we decided that our economy is suffering because people over borrowed and spent knowing that there is little personal downside, once we remove the controls we will have an overcorrection the other way! The credit may be impossible to get, even for a person that is a "prime" credit risk. This correction again will negatively impact the economy.

I believe in the free market when it comes to our economy. I do not believe in price controls for the dollar overseas, oil, telephone service, corn, soybeans, etc.. I believe that price controls mask the true issue and causes an artificial reality, a reality that requires money to maintain, making it a liability for our economy.

I believe in disclosure, I believe that all chartered banks be required to adequately disclose their terms and also allow the consumer to opt out within a reasonable time period. I think that by changing this market it may cause a further contraction of credit in our economy. Millions of people will no longer have a safe and viable place to obtain credit and rebuild their personal credit score.

I believe that people *should* have to pay for past indiscretions. I feel that if somebody's credit rating has gone down, it is because they have *wronged* another consumer or business. This should have consequences. People in the sub prime space I feel are in a sort of *probation*, there needs to be consequences for this in order for our economy to remain a great environment.

Sincerely,

Ron Van Zanten
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