From: "Peter Carlin" <carlin@alsoncapital.com> on 06/24/2008 05:35:02 PM

Subject: Regulation AA

I am writing to comment on the proposed R-1314 Changes to the Board's Unfair or Deceptive Acts and Practices Rule. Upfront disclosure – the firm where I am a portfolio manager currently owns stock in two credit card companies Discover Financial and American Express. My comment addresses only some of the proposed rules. Overall I have no problem with increased disclosure. Requiring credit card companies and banks to delineate all of their practices, rates they charge or will prospectively charge and how they arrive at those rates is completely reasonable. I have no problem with Regulation Z (Truth in Lending) or Regulation DD (Truth in Savings).

I do however have a problem with the Federal Reserve restricting the rights of private financial institutions to design and price their product, which is not a utility, nor a necessity for their customers. No one needs to borrow money on a credit card. If they do borrow money it is their responsibility to investigate the costs and terms of that money. We live in a capitalist society where individuals and businesses are responsible for their own behavior. Requiring disclosure of all terms is in the spirit of fair trade and capitalism. Credit card companies compete intensely for customers. Restricting companies from designing and pricing their products in a highly competitive industry is a form of price controls that will ultimately increase the cost and reduce the availability of credit for worthy consumers.

One of the reasons that credit has been so available to American consumers is the ability of credit card companies to dynamically adjust the terms, prices and availability of credit to consumers. Keep in mind they are lending money to people with no collateral or security whatsoever. If people inappropriately borrow money and cannot repay it the credit card company absorbs the loss. The ability to adjust price or credit availability when a person's behavior changes or when the economic environment changes or when the funding environment changes has reduced the cost of credit and raised the availability for consumers. Investors in asset backed securitizations which fund a significant portion of credit card lending as well as banks and other financial institutions that fund credit card lending count on the ability of credit card companies to dynamically adjust pricing and availability to limit losses in the event that a customer is behaving as if they will default. Without this ability which the board is attempting to restrict with the limits on "Applying Rate Increases to Existing Balances" institutions and individuals that lend money to credit card companies will charge more and lend less as the business will become more risky. Additionally credit card companies are likely to lend less and charge more to those customers most in need. This cannot possibly be the goal of the Board. It is also not clear what the Board is trying to achieve other than to impose price controls on a private industry. This practice has never succeeded in lowering costs for consumers of any product. The practice is currently disclosed and if the board is concerned that customers are not aware of the ability of credit card companies to adjust pricing the board should impose better disclosure requirements as opposed to dictating business practices to an extremely healthy, competitive industry that earns reasonable returns and provides credit to consumers that no one else is willing to provide (i.e., unsecured debt). If the purpose of the rule restricting rate increases on existing balances is to reduce the availability of credit it may achieve its purpose. Nowhere in the rules and regulations governing the Federal Reserve have I found this as a goal.

With respect to the proposals regarding Time to Make Payments, Financing of Security Deposits and Fees and Credit Card Holds I would propose the same arguments as above. There is no reason the Board should restrict the ability of private financial institutions to determine the appropriate time within which someone should pay their bill, the amount of fees to be charged for making credit available or from imposing fees when a customer exceeds his/her limits. If a customer doesn't like it, don't take the card, don't borrow money or cancel your account. The industry is highly competitive, consumers have many choices with respect to providers of credit card debt. None of the behaviors the board is trying to restrict have led to major economic problems or consumer gouging. It is expensive to borrow money as it should be. The practices are there to reduce losses, which serves to reduce pricing. I have no doubt some consumers pay what they perceive as unfair rates or penalty fees. My response to them is - go find another card or don't borrow money.

Both the comments of Chairman Bernanke and Governor Kroszner focus on greater disclosure but indicate that disclosure isn't enough. Governor Krosner says "The intent is to increase transparency and fairness in how credit card and deposit accounts operate, thereby enhancing competition and empowering consumers to better manage their accounts and avoid unnecessary costs." That statement is about informing consumers and empowering them to find the best deal for themselves and to reject terms they do not like. This is best achieved through disclosure, How can a fee or structure that is clearly disclosed to consumers be unfair? Paying a lot of money for anything is unfair. Unfortunately that's just the way life is. Sometimes in order to buy something that is valuable you have to pay a lot of money. Similarly sometimes to borrow money you have to pay a lot in fees and interest. No one has to borrow from credit card companies. If they charge too much in upfront fees, increase the price too much and begin to earn excessive returns money will flow into the business to compete away the excess returns by offering lower fees or lower prices. I don't want to pay as much as I pay for my mortgage, or my electricity, or my telephone service. But I understand that I am paying what is required to deliver the service plus a return for the people who invested capital to make the service available. If they charge me too much, someone else will come up with a competitive product or invest capital to lower my price and earn a decent return. You can ask as many people as you like if they are happy paying fees or high interest rates to their credit card companies. None will answer yes. What were the responses of the tens of millions of cardholders in the United States to the question "would you rather pay more for your credit card debt and have lower amounts or no credit available or would you rather allow the credit card companies to set their own terms which are clearly disclosed? I think the fact that the industry currently has over 300mm cards outstanding and has grown every year for the last 18 years is enough of an answer. Have you asked investors in credit card asset backed debt how they will react to these changes? As people who have studied economics you have to understand that supply and demand will ultimately win out. There is no barrier to entry in credit. Capitalism works.

Thank you for your time and attention

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