

From: "Pete Waller" <pete@fnbrockies.com> on 07/16/2008 05:15:05 PM

Subject: Regulation AA

Greetings:

Retail groups and their trade associations, particularly large national retailers, have put forth concerted efforts over the past several years to have the government regulate the interchange fees charged for the use of credit/debit card services provided primarily by banks. They have now engaged the Congress to propose a federal bureaucracy that would, in effect, institute price controls on interchange fees. I find it interesting that the retailers, who are free to sell their goods in a free market system at any price the market will bear, would so overtly seek to regulate the prices charged by another free market business entity, especially one that offers valuable service to their industry.

The retailers benefit by the use of credit/debit cards in that electronic payments are safer and faster than handling cash, the use of their funds is provided more quickly, and the risk of bounced checks is eliminated. Clearly, the retailers and consumers have benefited by the bank's bearing the costs of the issuance of credit and debit cards to consumers by incurring the costs of underwriting and issuing the cards, building the payment infrastructure, monitoring fraud, and assuming any losses. Many retailers have created their own card programs but exited the business because they have found the costs of maintaining the program to be too high.

Price controls would not help. Banks bear huge costs in facilitating our payment system. Interchange fees mitigate these costs and provide the capital to sustain the system. Others have attempted to cap interchange fees (Australia) and the consumer ultimately bore the costs.

Some merchants have complained that interchange fees are "fixed". This simply is not true. Our Bank negotiates with merchants routinely in order to establish the fees. Other banks do so as well. A Congressional mandate to fix interchange fees would be bad public policy in that any cost savings realized by the retailers would ultimately be born by the consumer.

Sincerely,

Peter Y. Waller, Chairman, President & CEO
First National Bank of the Rockies