



July 23, 2004

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

RE: Docket #OP-1195; Request for Information for Study on Prescreened Solicitations or Firm Offers of Credit or Insurance

Dear Ms. Johnson:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCU), I am responding to the Federal Reserve Board's (Board) Request for Information for Study on Prescreened Solicitations or Firm Offers of Credit or Insurance.

Section 213(e) of the Fair and Accurate Credit Transactions Act (FACT Act) requires the Board to conduct a study on the ability of consumers to avoid receiving prescreened solicitations and the potential impact that additional restrictions on prescreened solicitations would have on consumers. Pursuant to Section 213(e), the Board has requested information for this study.

Many of the credit unions commenting to NAFCU currently use prescreened solicitations to market products and services to their members. The usual products solicited by them are credit cards, insurance, auto loans, and home equity loans. The credit unions commenting to NAFCU that use prescreened solicitations have found this marketing process successful and plan to continue sending members prescreened solicitations in the future.

NAFCU believes that the current statutory mechanisms in place give consumers sufficient control over the amounts and types of prescreened solicitations they receive. Credit unions commenting to NAFCU on this study indicated that between 1 and 10% of their members have chosen to opt out of the credit unions' prescreened solicitation programs. Additionally, the majority of credit unions commenting to NAFCU indicated that they voluntarily permit consumers to opt out of their credit unions' prescreened solicitation program by directly notifying the credit union. Internal requests are generally

Ms. Jennifer Johnson

July 23, 2004

Page 2 of 3

received in a variety of methods, including by phone, fax, mail, email, and in person. Credit unions commenting indicated that, overall, about 1% of their members communicate their wish to drop out of the program directly to the credit union.

NAFCU believes that consumers benefit by receiving prescreened solicitations. Prescreened solicitations are a convenient method for consumers to learn about and take advantage of credit union services. They provide consumers with opportunities to explore financial options that they would be unaware of without the solicitation. By helping consumers to comparison shop more efficiently, the level of competition in the market increases, which in turn increases consumers' buying power.

NAFCU believes that no additional restrictions should be placed on prescreened solicitations. Prescreened solicitations are often the only way consumers are made aware of financial products and services. A consumer currently has a wide range of choices with regard to prescreened solicitations. They can choose to opt out of the solicitation programs, to ignore the solicitations, or to use the solicitations for comparison shopping. Heavier restrictions would also place a larger burden of rate shopping on the consumer, causing the consumer to lose in the long run.

NAFCU offers comments on the effects of further restrictions on prescreened solicitations in the following areas:

The Cost Consumers Pay to Obtain Credit or Insurance

NAFCU believes that additional restrictions will increase the cost of credit or insurance. Heavier restrictions will increase a financial institution's costs, and at least part of this increase will have to be passed on to consumers. Consumers may also be left unaware of special, money saving offers such as group insurance rates, and other special deals. With consumers less aware these opportunities, they will undoubtedly pay a higher cost for their financial services.

The Availability of Credit or Insurance

NAFCU believes that increased restrictions will have a minimal impact on the availability of credit or insurance. Consumers will probably consider fewer options when shopping for credit and insurance, but these products will still be readily available in the market place.

Consumers' Knowledge about New or Alternative Products and Services

NAFCU believes that an increase in restrictions will negatively impact consumers' knowledge about new or alternative products and services. Lenders and insurers will be further limited in the ways that they are able to communicate with consumers, creating the need for consumers to do more work to make the same level of informed decision that they would have made without the increased restrictions.

Ms. Jennifer Johnson

July 23, 2004

Page 3 of 3

The Ability of Lenders or Insurers to Compete with One Another

NAFCU believes that further restrictions will have a broad impact on the level of competition in the financial marketplace. Because of increased costs, smaller institutions may not be able to continue their prescreened solicitation programs. Consumers will therefore be less aware of market conditions, allowing large lenders and insurers to charge higher rates and keep more loans at these rates.

The Ability of Lenders or Insurers to Offer Credit or Insurance Products to Consumers who have been Traditionally Underserved

NAFCU believes that additional restrictions will further hinder the ability of lenders and insurers to effectively reach underserved areas that have been overlooked by large institutions in the past. The higher costs caused by additional restrictions, which in part would be passed on to consumers, would have the strongest impact in underserved communities where the level of income is typically low.

NAFCU would like to thank you for this opportunity to share its views on prescreened solicitations. Should you have any questions or require additional information please call me or Gwen Baker, NAFCU's Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 266 or gbaker@nafcu.org.

Sincerely,



Fred R. Becker, Jr.
President/CEO

FRB/mdc