July 23, 2004

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Docket No. OP-1195

Re: Study on Prescreened Solicitations or Firm Offers of Credit or Insurance

Ms. Johnson:

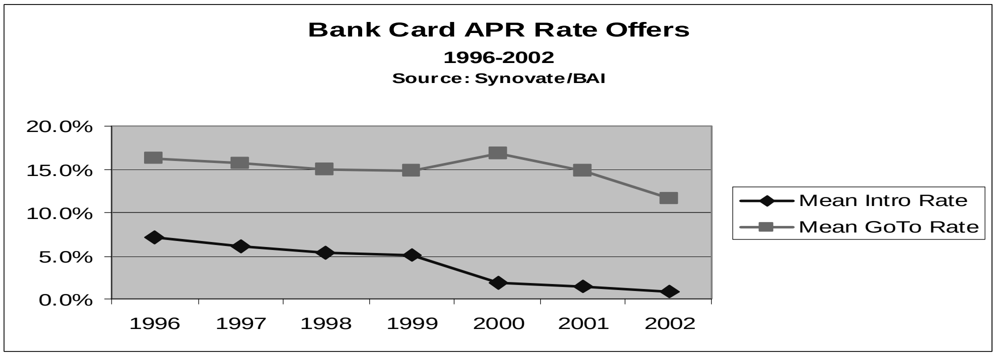
This comment letter is submitted on behalf of Providian Financial Corporation (Providian) in response to the notice of study and request for information ("Notice") by the Board of Governors of the Federal Reserve System ("FRB"), published in the Federal Register on May 24, 2004. Pursuant to the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), the Notice solicits comments generally concerning the ability of consumers to avoid receiving prescreened solicitations for credit or insurance and the potential impact on consumers of limiting the ability of lenders or insurers to provide prescreened solicitations to consumers. With over 17 billion dollars in managed receivables and approximately 11 million customers, Providian is a leading provider of credit cards and deposit products. For over 15 years, we have marketed our credit card products primarily through presecreen solicitations. We appreciate the opportunity to comment on this important matter.

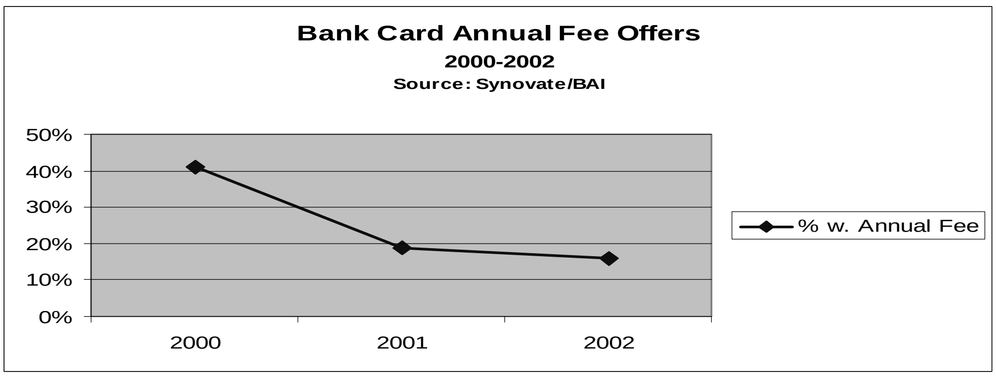
Consumers Receive Better Credit Terms Through Industry Competition and Prescreening

The data richness of our nation's credit bureau system and the economic efficiency of prescreen practices substantially stimulates competition in the consumer credit industry. According to VISA U.S.A Inc., approximately 50% (2.4 billion) of credit card offers last year were generated from prescreening. These offers are continuously improving over time, affording consumers who qualify with access to better credit terms. For example, in recent year's presecreen driven competition has eliminated most annual card fees and dramatically reduced certain interest rates for consumers. According to research conducted by Synovate, approximately 41% of bankcard offers featured an annual fee in the year 2000. However, in 2001 this number fell to 19% and in 2002 only 16% of bankcard offers required an annual fee. Credit card introductory interest rates have also decreased, from 1.82% in 2000, to 1.48% in 2001 and to .90% in 2002. The graphs offered on the following page illustrate the fact that competitive offers of credit among bank card companies enable consumers to obtain increasingly more attractive credit terms. The mean "go to" interest rate, which was 16.87% in 2000, dropped to 14.71% in 2001 and fell further in 2002 to 11.64%. The efficiencies afforded by the prescreen

1. Synovate is the market research arm of communications specialist Aegis Group. Bank card information is acquired by Synovate's Financial Services which provides marketing research, competitive intelligence and consulting services to the banking and payment industries.

process and the ability of banks to perform sophisticated analyses utilizing prescreened lists allows for better credit risk management and enhanced matching of consumers to credit offers. This leads to beneficial results for consumers -so long as they know about them- and contributes to the broad availability of credit and a healthy economy.





In addition to creditor innovation and marketing practices, most consumers' credit profiles improve with time. Our analysis of FICO scores, consistent with industry experience, shows that the score of a typical "young" consumer (4 years or less on file) increases over time, assuming bills are paid on time. For example, after one additional year on file the credit scores for most on-time payer's increase from between 5 to 32 points. After an additional five years, scores can increase from between 26 to 64 points. The same is true for consumers who begin to pay on time after a major derogatory event, defined as a bankruptcy, collections action, or foreclosure. Again, assuming they begin making timely payments, credit scores will increase from between 9 to 64 points in one year and from 29 to 95 points after 5 years.

As their FICO scores continue to increase with their lengthening good performance time in the credit file system, consumers become eligible for ever more competitive, targeted, credit offers. Higher FICO scores generally lead to prescreened offers carrying lower introductory and "go to" interest rates, as well as higher credit limits. These benefits are delivered to consumers through the prescreen process. While consumers are free to shop for favorable credit terms on their own, outside of the prescreen process, there are opportunity costs in doing so. New restrictions on the availability of prescreened offers would foreclose consumers from learning about the attractive credit terms their improved profiles would qualify them for-in the convenience of their home mailbox. Without this awareness of competitive market offers, these same consumers would remain with credit terms tailored to their historical lower credit profile and FICO score.

Further, consumer credit needs do not remain static. Periods where existing credit terms and lines are perfectly adequate for any number of consumers may be followed by periods when they are interested in making purchases on credit, and would like to do so on the most attractive possible terms. Consumers who do not receive prescreened offers reflecting the latest and best rates have a far more difficult time obtaining the most attractive deals.

Consumers Receive Fewer Unsolicited Credit Offers Because of Prescreening

Prescreening reduces the volume of credit card marketing materials sent through the US mail services. Through prescreening, financial institutions can match consumers to the appropriate credit offers that reflect a real-time evaluation of their profiles. This ability drastically reduces the amount of direct mail and dramatically contains marketing costs for the industry. Applying eligibility criteria to prospective customers in advance allows banks to avoid sending a barrage of generic solicitations otherwise mailed in the hopes of netting new customers. And, to the extent many believe that higher numbers of credit offers circulating within the postal system increase the chances for identity theft, prescreening actually reduces that threat. For the total amount of mail actually decreases when creditors are permitted to target consumers with offers that match their credit profiles. In addition, as a result of the prescreen process consumer application information is matched against a robust database of known fraudulent addresses and phone numbers maintained by the credit bureaus. This enables card issuers like Providian to avoid issuing credit to suspicious applicants and reduces the exploitation of identity theft victims.

Providian appreciates the opportunity to comment on this important matter. If you have any questions concerning these comments, or if we may otherwise be of assistance in connection with this matter, please do not hesitate to contact **Jason Lane** at **(415) 278-4993.**

Sincerely,

J. Christopher Lewis
Chief Public Policy Officer