



Capital One Financial Corporation
1680 Capital One Drive
McLean, VA 22102

May 15, 2006

Ms. Jennifer Johnson
Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

**Re: Agency Information Collection Activities: Consumer Research
Regarding Disclosures (71 Fed. Reg. 13,397, March 15, 2006)**

Dear Ms. Johnson:

Capital One Financial Corporation ("Capital One") is pleased to submit comments on the Board of Governors' ("Board") proposal to conduct consumer research for the purpose of improving disclosure statements. Capital One commends the Board for undertaking this important project.

Capital One Financial Corporation is a financial holding company whose principal subsidiaries, Capital One Bank, Capital One, F.S.B., Capital One Auto Finance, Inc., and Capital One, N.A. (formerly Hibernia National Bank), offer a broad spectrum of financial products and services to consumers, small businesses, and commercial clients. Capital One's subsidiaries collectively had \$47.8 billion in deposits and \$103.9 billion in managed loans outstanding as of March 31, 2006, and operated more than 300 retail bank branches.¹

¹ In March, Capital One announced that it has agreed to acquire North Fork Bancorporation, Inc., which operates over 300 bank branches throughout New York, New Jersey, and Connecticut and is the third-largest depository institution in the greater New York region. That acquisition is projected to close by the end of this year.

Capital One strongly endorses the Board's plan to collect information for the purpose of assessing how consumers understand and react to regulatory disclosures, and hence how those disclosures can be made more meaningful and useful to consumers. There is some tendency for disclosure requirements to be written by lawyers. The resulting requirements and model disclosure forms may be useful in giving clear guidance to financial services providers on what they must disclose and for the purpose of assessing whether they have complied – and those are important purposes – but only by studying how consumers actually interact with and use disclosures can the Board facilitate the principal purpose of the disclosures, which is to convey meaningful information to consumers that will inform their decisions with respect to financial services – as stated in the Truth in Lending Act, for example, “to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him [or her] ...”²

The consumer research tools identified by the Board -- focus groups, interviews (face to face, and by telephone), mall intercepts, and so on -- are all useful, and are all used by Capital One, and probably by other financial services providers, in designing products and marketing messages. To make those tools most effective in designing new or improved disclosures, we recommend that they be used in a staged approach:

- Phase 1 - foundational qualitative research, assessing how consumers react to and use current disclosures
- Phase 2 - field quantitative research, assessing how consumers react to different versions of possible new disclosures
- Phase 3 – communication-refinement qualitative research, refining new disclosures that the Board has crafted

We address each of these research stages in turn.

Phase 1 -- Foundational Qualitative Research

The objective of this research stage is to understand the impact that disclosures have on consumer buying decisions, and thereby to set the groundwork for developing the improved or different disclosures that are tested in stages 2 and 3.

Important questions to be answered in stage 1 include:

- What is the overall value consumers place on the disclosures that the Board is researching?
- What information do they look for in the disclosures?
- What information that they would like to have is missing?
- What is hard for them to understand?
- What is their reaction to the existing disclosures?

² Truth in Lending Act § 102(a), 15 USC § 1601(a).

- What is the impact of those disclosures on the consumer buying decision and what overall value do consumers place on them?

These questions can be answered by using a mix of focus groups and in-depth interviews.

The first part of the interviews or focus groups should be broad-based, capturing consumers' attitudes and beliefs about how they make decisions but not asking about the specific disclosures. Useful questions at this stage of the interviews could include:

- When you receive a financial service offer, where do you go to get the most important information?
- What is the *least* important information?
- How long do you spend reading the information?
- Do you talk to others about what you have read?
- Do you check other sources, such as the internet?
- What process do you go through to determine whether you will apply for the product or not?
- How do you think about the financial institution's marketing letter?
- Is the information easy or hard to read?

The second part of the interviews would focus on the disclosures currently in use. It is very important to move to this next stage, because the current disclosures and marketing packages will serve as a stimulus, aiding the consumers in giving more direct feedback and providing a tangible example for them to react to. By using this approach, it will be possible to capture the consumers' likes and dislikes, what is working for them and what is not, their level of decision-making confidence based on the information that the disclosures provide. It will be best if the disclosures are presented in the larger context of the full set of marketing materials that the consumer would see.

The output of this research would be the development of a creative brief, including new or revised disclosures, that would be used as the consumer stimulus in the next round of research. A creative agency should be directed to produce a number of alternative disclosure examples based on the foundational research findings of this phase 1. Capital One can recommend a number of such possible creative agencies. In addition, a list can be obtained from the Direct Marketing Association.

Considerations to bear in mind when conducting the phase 1 consumer research include:

- The success of the research is heavily dependent on the expertise of the researcher leading the study.
- A little interviewing goes a long way toward uncovering the needs and ideas of an entire population. Seven to ten focus groups or one-on-one in-depth interviews will uncover the vast majority of consumers' needs and concerns.

- The techniques used in this phase 1 are an efficient way to identify issues of concern to the relevant population, but not necessarily their rank-order importance.
- Financial services can be a sensitive topic for consumers to talk about. A good moderator can help consumers feel comfortable speaking candidly.

When a set of three to five unique disclosure examples have been developed, it is time to move to phase 2.

Phase 2 -- Field Quantitative Research

The purpose of this phase of research is to understand what information is most important to consumers: How do the different elements of disclosure rank in terms of importance? Are there some items in the disclosures that consumers are not interested in at all?

In executing this quantitative research there are several tools to choose from:

- Telephone surveys
- Internet surveys
- Mail surveys
- Mall intercepts
- Overnight quantitative research

We suggest using mall intercepts or overnight quantitative research (in which the consumers are brought together in a forum in which they can enter responses to questions on a numerical keypad; when all the responses are submitted, consumers have an open discussion within their group, and the statistical significance of their responses is available to researchers within a day or two). Either of these methods would allow consumers to interact with the different disclosure options presented in order to determine how effective each would be as an aid in decision-making. We recommend that the Board use questionnaires that begin with broad questions about the use of disclosure information and decision-making, in order to validate the foundational information derived from the qualitative stage (stage 1), then expose consumers to each of the possible disclosure options, asking them to rate each example on understanding, usability in making decisions, and overall effectiveness and positive or negative reaction. The output of this round of research would be a rank order of disclosure options and quantification of the effectiveness of each.

Important considerations in this phase of research include:

- The use of structured surveys and questions presupposes that the relevant responses are known and the only issue is the relative frequency and importance.
- The research often produces results that require further understanding or explanation.

- Each disclosure example used in the research must be visibly different to the consumer. The different consumer stimuli should not merely be different versions of each other or of the same base concept.

Phase 3 – Communication-Refinement Qualitative Research

The purpose of this research phase is to ensure that the translation of the information learned in phases 1 and 2 was correct. Sample marketing packages and disclosures derived from the earlier phases would be used as the consumer stimulus in this phase, which would comprise a combination of in-depth interviews followed by focus groups the same day. Questions would focus on format and layout: What, if anything, is difficult to understand? What could be done to make it easier to understand? Areas to explore could include:

- Font size and typeface
- Readability
- Layout
- Color vs. black and white
- Comprehension

Information obtained from this stage of qualitative research will enable the Board to finalize the lead prototype for the disclosure that it is developing.

Factors That Are Important to Successful Execution

Several factors are important to the success of the research. They include:

- Developing a sound screening tool for recruiting consumer participants
- Quality of the written marketing materials and disclosures. It is essential that consumers have a concrete visual stimulus to react to when providing feedback. Conceptual conversations with consumers are reliable only when discussing general attitudes and beliefs.
- Rigorous upfront planning and strong research partners.

Capital One can recommend research partners who might be used. In addition, a list of possible partners can be obtained from the Marketing Leadership Council.

Minimizing the Burden of Information Collection

The Board asks whether there are “ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology.” Two possible shortcuts suggest themselves to us.

First, instead of the mall intercepts or overnight quantitative research that we suggest for phase 2, many companies use internet surveys, which can be constructed to

include both the broad quantitative questions mentioned above and reaction to creative examples, which would be posted on the internet along with the survey. Results are usually available within a week of the survey completion. While we believe this method is feasible, it has some limitations: The internet limits the researchers' ability to gauge nonverbal reactions from consumers, and it does not allow consumers to interact with the creative stimulus, (touching and handling, turning it over) which we believe is critical to the integrity of the results.

Second, while we do not recommend this, it would be possible to truncate the research by eliminating phase 3, developing disclosures only on the basis of the foundational information and the quantitative data provided in proposed phases 1 and 2. However, eliminating phase 3 will not allow the Board to ensure that the disclosure changes made in response to phase 2 have been translated with a high degree of accuracy.

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Capital One appreciates the opportunity to comment on the proposed consumer research. If you have any questions about this matter and our comments, please call me at (703) 720-2255.

Sincerely,

/s/

Christopher T. Curtis
Associate General Counsel
Policy Affairs