



Office of the President

February 25, 2008

Federal Trade Commission/Office of the Secretary  
Room H-135 (Annex K)  
600 Pennsylvania Avenue, NW  
Washington, DC 20580

Re: Credit Report Freezes – Comment,  
Project No. P075420

Dear Sir or Madam:

Navy Federal Credit Union provides the following comments on the Federal Trade Commission's (FTC) request for information regarding the impact and effectiveness of credit report freezes in preventing identity theft. Navy Federal is the nation's largest natural person credit union with over \$34 billion in assets and 3 million members. We are committed to protecting members' information with a high level of data security and other measures to prevent identity theft. We are also very proactive in providing members with educational information to prevent and detect identity theft and to guide members on steps to take if they become victims of identity theft. Furthermore, Navy Federal has been named as one of the safest credit card issuers and also recognized for excellence in fraud prevention and resolution by Javelin Strategy & Research Group.

We commend the FTC for requesting public input for its report to the President's Identity Theft Task Force on assessing the impact and effectiveness of existing credit report freeze laws, as well as credit freeze options offered by the Consumer Reporting Agencies (CRA). Such credit freezes are initiated by consumers and restrict the CRA from releasing a credit report until consumers temporarily lift or permanently remove the freeze. Navy Federal believes credit report freezes may help prevent identity theft under certain limited situations for some consumers. However, credit report freezes would also result in inconvenience, delays and higher cost of credit for consumers. Also, if not consistently and properly administered, credit freezes could prevent consumers from obtaining timely loans from credit unions and other low cost lenders. Our responses to the questions in the request for comment are enclosed.

We appreciate the opportunity to comment on this important subject. If you have any questions concerning our comments please feel free to contact Elizabeth Salazar, Senior Policy Analyst and Compliance Officer, at (703) 206-2404.

Sincerely,

Cutler Dawson  
President/CEO

CD/es  
Enclosure

**RESPONSE TO QUESTIONS**  
**Federal Trade Commission - Impact and Effectiveness of Credit Freezes**  
Prepared by Navy Federal Credit Union  
February 25, 2008

**Topics for Comment:**

**I. General**

1. To what extent, if any, are credit freezes effective in preventing identity theft? Are there more effective alternatives to freezes for preventing identity theft?

*So far, we have not seen evidence that credit freezes prevent identity theft, especially in the cases where a false ID is used. However, we recognize that credit freezes could be beneficial in limiting the opening of new accounts as many creditors will not do so without a credit report. In the case of credit card request for line of credit increases and reissue credit freezes are less effective because a credit report may not be required to complete the request. We believe an effective tool for preventing identity theft is credit monitoring. Some CRAs and financial institutions offer credit protection services for a fee upon consumers' request. Credit protection services include monitoring and notification to consumers when their credit report is accessed.*

2. What types of identity fraud, if any, are credit freezes effective in preventing, i.e., new account fraud (thief opens new accounts in victim's name), existing account fraud (thief misuses victim's existing accounts), other?

*Our belief is that freezes could reduce ID fraud on newly established accounts, possibly preventing them from being opened in the first place. The value of the freeze to prevent ID theft on existing accounts is minimal.*

3. How do credit freezes compare to, complement, or detract from rights provided under federal law to consumers to prevent identity theft, such as fraud alerts?

*Credit freezes complement a consumer's right to a free annual credit report from each of the three credit reporting agencies, by giving the consumer the ability to take action if they find any fraudulent information on their credit report. Credit freezes are an alternative that goes above and beyond a fraud alert for consumers who do not believe a fraud alert is sufficient.*

4. Generally, under state laws consumers must place a credit freeze with each CRA separately. How well does this procedure function? Should consumers be able to place a credit freeze with each of the CRAs through a one-call system, similar to that mandated by federal law for placing fraud alerts? What would be the advantages or disadvantages of such a mechanism?

*Fraud alerts permit the consumer to contact any consumer reporting agency (CRA) in the event of fraud or compromised personal information. The credit freeze process needs to work the same way, that is, a single point of contact, and regulations should mandate that consumers not have to contact more than one CRA to freeze/unfreeze their credit. If consumers are not well informed of their rights and how the system works it would be confusing to them and more likely*

*limit them from taking a proactive action. Furthermore, allowing consumers the opportunity to initiate a credit freeze through a centralized system would have benefits for the consumer (ease of use), the credit reporting agencies (shared costs and consistency), and the creditor (centralized records with greater accuracy).*

5. Should credit freeze requests be processed through a centralized source, similar to the mechanism that exists under a federally-mandated program to provide free annual credit reports to consumers? What would be the advantages or disadvantages of such a mechanism?

*See answer to previous question.*

6. Some states limit the right to place a credit freeze to identity theft victims, or waive the placement fees for such victims or for individuals over 65. Should credit freezes be available to all consumers or only certain population groups? Should the placement fees be adjusted or waived for certain population groups?

*Only allowing identity theft victims to place credit freezes would be reactive versus proactive. All consumers should have equal rights to this service, at reasonable cost. Otherwise, this could become a profit arm for CRAs, which could deter consumers who need this protection from using the service. Placement fees could be waived for groups of unwary consumers, however, regardless of who incurs the costs associated with the administration of credit freezes the cost of credit freezes would result in higher costs of credit, both for consumers and users of credit reports.*

7. Many state laws enable a consumer to temporarily remove (lift) a credit freeze so that his/her credit report is available to a particular third party or for a specific time period. What are the costs and benefits for consumers and businesses of allowing temporary lifts?

*A temporary lift is a necessity for the freeze process to be effective. There needs to be consistency within the program so that all CRAs follow the same regulations and timing of the lift. The cost to consumers is that if the freeze is not lifted in a timely manner, credit services as well as non-financial services could be denied. Users of credit reports would see an increase in processing costs as requests with a credit freeze would require manual processing. Also, delays could ensue, potentially leading to unnecessary loan cancellations and denials and not being able to serve consumer needs. It is paramount that the temporary lift process be clearly defined for the CRAs and generally agreed upon by users.*

8. The fees charged to consumers for each of the different aspects of the credit freeze mechanism (e.g., placing, temporarily lifting, or permanently removing a freeze) vary from state to state. What fees, if any, should CRAs be allowed to charge consumers for these actions?

*It is our position that the credit freeze services should be available at a reasonable fee to consumers. Excessive fees could prevent consumers from using the service. However, a reasonable fee would balance potential abuse, i.e., too many placements and lifts.*

9. Many state laws require that CRAs place, temporarily lift, or permanently remove credit freezes within a specified period of time from the initial request, ranging from 15 minutes to several days. What is an appropriate amount of time to allow CRAs to place, temporarily lift, or permanently remove a credit freeze? Is a 15-minute temporary lift requirement operationally feasible? What are the costs and benefits to consumers and businesses of different time periods for temporary lifts?

*From a creditor perspective, this depends on the type of lending transaction. For example, credit review for a mortgage product may not be necessary until after 48-72 hours, but a telephone request for an emergency revolving credit increase would require a virtually instant lift of the freeze. A freeze effectively stops any automation built into the credit application approval process and adds manual intervention. This is more costly for both the CRA and the users of credit reports. If a quick approval at the point of application is required, it likely will not be granted meaning that the consumer may miss out on time sensitive business offers.*

10. Are there aspects of credit freeze mechanisms that encourage or hinder their use?

*First, excessive fees could hinder use of credit freezes, fees should be reasonable for all consumers. Second, the credit freeze process should be easy to manage, from both a consumer as well as a creditor perspective. The process should include an Internet friendly option requiring minimal human intervention from all stakeholders (CRA, consumer and potential creditor), thus keeping processing costs to a lowest possible level. Location, time and emergencies could both be positive and negative. If identity theft has occurred verification of the consumers personal information and/or PIN number could be useless.*

11. How do CRA-developed freeze options (CDFOs) compare or differ in practice from credit freezes mandated by state laws?

*We do not have sufficient information to make this comparison.*

12. How do credit freezes impact credit scoring or data modeling?

*We believe credit freezes do not impact credit scores or data modeling. Credit freezes should not affect credit scores because it would limit the effectiveness of freezes on existing accounts and could result in increased interest rate changes on existing accounts if the credit score decreased.*

13. What other beneficial or burdensome effects do credit freezes have on consumers, businesses, or the economy in general?

*One positive benefit is that consumers will be forced to consciously think about what their credit needs are, possibly preventing some from opening new accounts on a whim. From a business perspective, such freezes could limit a potential creditor from offering prescreened credit to those who could benefit- such as a credit card rate-reduction – therefore denying both the consumer and the creditor potential benefits. Also, consumers might encounter problems obtaining services, other than financial services, if the there is a credit freeze and not lifted or removed in a timely manner. For example, a consumer may not be able to obtain a cell phone*

*replacement before the cell company can review the consumer's credit report. Consumers may not be able to obtain utility services on time because of a credit freeze.*

## **II. Experiences of Consumers\***

14. How and from whom do consumers learn about the availability of credit freezes? What are the most effective ways to disseminate information about credit freeze availability?

*We believe that consumers learn about freezes not from the CRAs themselves, but from businesses, such as financial institutions.*

15. How and from whom do consumers obtain instructions on using freeze mechanisms (*i.e.*, placing, temporarily lifting, or permanently removing)? What are the most effective ways by which consumers can obtain instructions? What information/instructions do consumers need in order to use these mechanisms efficiently?

*Members can obtain this information from CRAs. CRAs should have information on credit freezes available to the public on their websites. CRAs should also notify consumers of their rights and options if contacted by phone or mail. Financial institutions and other users of credit reports should also make consumers aware of general information on how to contact CRAs for details on how credit freezes work.*

16. What has been the consumer experience in attempting to place, temporarily lift, or permanently remove a credit freeze? Is the system user-friendly? If not, are there specific ways to improve the system?

*We do not have member feedback to show how well the freeze process works.*

17. For what reasons, if any, have consumers permanently removed credit freezes?

*In our estimation, consumers would permanently remove themselves for convenience, so they do not have to go through the remove/add process multiple times.*

18. What mechanisms are used by CRAs to authenticate consumers seeking to place, temporarily lift, or permanently remove credit freezes (*e.g.*, PIN-based authentication)? What are the advantages and disadvantages of each such mechanism?

*Discussions with certain CRAs indicate they are considering offering a PIN-type mechanism to creditors, with specific consent by the consumer, in the event of application for credit. This mechanism would permit the potential creditor to initiate the release, thus making less burdensome to the consumer.*

19. What documentation have CRAs required for identity theft victims to place a credit freeze in those states where freezes are free for victims? What has been the identity theft victim experience in placing a freeze without charge?

*We do not have data on this.*

20. What actions have CRAs taken to inform consumers of the availability of CRA-developed freeze options, or CDOFs? To what extent are consumers aware of CDOFs?

*We believe information related to freezes has not been actively marketed to consumers. The process is basically hidden from the public, and we believe that when consumers contact their financial institutions, consumers should be directed to the appropriate CRA for details on credit freeze options.*

21. How many consumers in states without credit freeze laws or where the laws only apply to identity theft victims have placed CDOFs?

*We do not track this data. CRAs should have this data.*

22. What problems if any, have consumers experienced in placing, temporarily lifting, or removing credit freezes? For example, have CRAs placed, temporarily lifted, or permanently removed freezes for the incorrect individual or for the wrong time period?

*As of late-2007, it was our understanding that members had to contact each CRA separately to freeze their credit file. Unless this process has been streamlined to allow a single point-of-contact, it is our estimation that the process must still be somewhat of a burden on consumers.*

23. From the consumers' perspective, what are the advantages and disadvantages of federal legislation establishing a nationwide credit freeze system? What provisions should federal credit freeze legislation include?

*Just like the existing fraud alert system, federal legislation could mandate that all CRAs work in concert, allowing a consumer to contact a single CRA to freeze and release. Similarly, federal regulations could mandate pricing and timing of set ups and releases, helping to ensure a seamless process between CRA, consumer and potential creditor. Also, it would be imperative for federal regulations to be consistent with state laws and allow for federal preemption as applicable and required.*

### **III. Experiences of Users of Credit Reports**

24. How often do users of credit reports ("users"), i.e., business entities with a permissible purpose to access a consumer's credit file, encounter frozen credit reports?

*Not very often.*

25. When a credit report has been frozen, what information is provided by the CRAs to the user, i.e., the entity requesting the report? If the information provided by the CRAs to the users is not adequate or clear, in what ways can it be improved?

*Since most of our credit report requests are automated, when someone applies online or through the phone, the only way we would know is if a credit score of zero comes back. Then, the credit request is handled under a manual process to determine if a credit freeze has been applied and follow up with the applicant.*

26. What do users do when they cannot access a credit report because the consumer has placed a freeze on it? What should they do? How often do creditors extend credit without first accessing a credit report?

*We contact the credit applicant. We verify identity by authenticating them on information we have at the credit union, that they have, in fact, submitted the application for credit. If they wish to continue, we ask them to contact the CRA to have the freeze removed.*

27. What procedures have users implemented to respond to credit freezes? What costs are involved?

*Additional costs involve the time it would take to process credit applications using manual processes as opposed to automated processing.*

28. How has the existence of state credit freeze laws and/or the CDOFs affected specific industries? For example, are freezes reducing the number of credit extensions? Do they provide an early warning regarding fraudulent requests for new credit?

*We do not have evidence to fully evaluate this.*

29. What advantages and disadvantages do freezes provide to users?

*It allows the consumer to play an active role in the credit process, deciding who should be allowed to access their credit file. Consequently, the process could help to ensure credit is granted to the correct person, and only with consumer consent. In turn, this could potentially help reduce the number of identity theft cases and so reduce costs of handling fraud. However, big disadvantages could also arise from credit freezes. For example, credit report users, like credit unions, would not be able to provide loans to consumers in a timely manner if there is a credit freeze preventing access to their credit reports. Consumers would end up paying more for credit as financial institutions loan processing costs may increase when delays are created and manual intervention is required. Moreover, not only financial institutions use credit reports, utility service companies may also require a credit report check before providing service to consumers. Credit freezes could result in high levels of inconvenience and dissatisfied consumers.*

30. How has the freeze mechanism affected the way a user interacts with the consumer and/or the consumer reporting agencies?

*We have do not have experience with this.*

31. Some states require that CRAs develop procedures to enable consumers to temporarily lift the freeze nearly-instantly (e.g., within 15 minutes of receiving the request). What are the advantages and the disadvantages of the nearly-instant lift required in certain states to accommodate a specific consumer-authorized credit transaction?

*Refer to question #9 for a general response. The nearly-instant lift would help process credit requests in a timely manner.*

32. From the user's perspective, do state-mandated credit freezes or CDOFs function differently? For example, does the temporary lift mechanism operate differently in jurisdictions where only CDOFs are available?

*We do not track this information, if it is available at all.*

33. Have the CRAs implemented a mechanism for users to communicate complaints or operational issues related to freezes? If so, what feedback have the users provided to the CRAs?

*Consumers often call their creditors for assistance, who are in turn referred to the correct CRA and are then provided pertinent contact information.*

#### **IV. Experiences of Consumer Reporting Agencies**

*We do not have information about CRA experiences to respond to questions 34-48.*