

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

**EXPERIMENTAL RATE AND SERVICE
CHANGES TO IMPLEMENT NEGOTIATED
SERVICE AGREEMENT WITH
CAPITAL ONE SERVICES, INC.**

DOCKET No. MC2002-2

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
AMERICAN POSTAL WORKERS UNION, AFL-CIO
filed on November 1, 2002
(APWU/COS-T1-1-3, 5-7, 9-15, 17 and 18)**

Capital One Services, Inc hereby provides the response of witness Donald Jean to the following interrogatories of the American Postal Workers Union, AFL-CIO (APWU/COS-T1-1-3, 5-7, 9-15, 17 and 18), filed on November 1, 2002.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted

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Dated: November 12, 2002

APWU/COS-T1-1. If the proposed Negotiated Service Agreement between Capital One Services, Inc. and the United States Postal Service does not begin at the beginning of a USPS fiscal year, when will the reconciliation and adjustments referred to in paragraph III, J-5 first take place? If the reconciliation and adjustments take place during PFY2003 Q4, how will the reconciliation and adjustments be calculated? If the reconciliation and adjustments are calculated during PFY2003 Q4, how will volumes mailed before the beginning of the agreement be treated, and specifically how will the reconciliation and adjustments count volumes mailed before the beginning of the agreement toward the thresholds and the volumes used for the discounts?

ANSWER

Reconciliation and adjustments will take place in the weeks following each postal fiscal quarter during the three years of the Agreement. Volumes mailed prior to implementation of the Agreement will not be included in calculations.

APWU/COS-T1-2. The proposed Negotiated Service Agreement is between the United States Postal Service and Capital One Services, Inc. and its subsidiaries and affiliates. Please identify all of Capital One Services, Inc.'s subsidiaries and affiliates. What is the relationship between Capital One Services, Inc. and Capital One Financial Corporation? Does Capital One Services, Inc. provide services to all of Capital One Financial Corporation's subsidiaries? Please list all the Capital One Financial Corporation subsidiaries for which Capital One Services, Inc. provides services. Is there any provision in the proposed Negotiated Service Agreement or in any other document that would prevent Capital One Services, Inc. from providing mailing services to entities other than subsidiaries of Capital One Financial Corporation? Please identify and detail any such restrictions. Does Capital One Services, Inc. now provide services to any entities other than subsidiaries of Capital One Financial Corporation? Please list all the entities, other than subsidiaries of Capital One Financial Corporation, for which Capital One Services, Inc. provides services. Has Capital One Services, Inc. provided services to any entities other than subsidiaries of Capital One Financial Corporation? Please list all the entities, other than subsidiaries of Capital One Financial Corporation, for which Capital One Services, Inc. has provided services.

ANSWER

Capital One Services, Inc. is a wholly-owned subsidiary of Capital One Financial, providing services to its affiliates. The affiliates relevant to this Agreement are Capital One Bank, Capital One FSB, Capital One Auto Finance, People First LLC, and Amerifree LLC. The list of relevant affiliates may change over time. The company's understanding of the Agreement is that it is limited to mailings by company affiliates.

APWU/COS-T1-3.

- (a) Will the customer mail that is covered under this proposed Negotiated Service Agreement be generated by all the subsidiaries of Capital One Financial Corporation, including its credit card activities (from the Bank and the Savings Bank), its auto loan activities, and its other domestic consumer loan activities? Will auto loan customer mail generated for companies that have purchased auto loans from a subsidiary of Capital One Financial Corporation but are still being serviced by a subsidiary of Capital One Financial Corporation be included in this mail? Will its credit card lending activities include both household and business credit card customers of Capital One Financial Corporation subsidiaries? Please identify with specificity which customer mail is covered under this proposed Negotiated Service Agreement.
- (b) Will the solicitation mail that is covered under this proposed Negotiated Service Agreement be generated by all the subsidiaries of Capital One Financial Corporation including its credit card activities (from the Bank and the Savings Bank), its auto loan activities, and its other domestic consumer loan activities? Will its credit card lending activities include both household and business credit card customer solicitations? Please identify with specificity which solicitation mail is covered under this proposed Negotiated Service Agreement.
- (c) Please identify all of Capital One Services Inc.'s strategic partners and all strategic alliances Capital One Services Inc. has with other entities that could result in mailings covered by the proposed Negotiated Service Agreement. Does Capital One Financial Corporation or any of its other subsidiaries have any additional strategic partners or strategic alliances with other entities that could result in mailings covered by the proposed Negotiated Service Agreement? Please specify whether each partner or alliance could result in customer mail or solicitation mail or both and whether any or all of that mail would be covered by the proposed Negotiated Service Agreement.
- (d) Please identify all of Capital One Services Inc.'s products and services that could result in mailings covered by the Negotiated Service Agreement. Does Capital One Financial Corporation or any of its other subsidiaries have any additional products or services that could result in mailings covered by the proposed Negotiated Service Agreement? Please identify any other products or services that could result in mailings covered by the Negotiated Service Agreement. Please specify whether each product or service could result in customer mail or solicitation mail or both and whether any or all of that mail would be covered by the proposed Negotiated Service Agreement.

ANSWER

- (a) See response to APWU/COS-T1-2. Capital One's customer mail includes all mail relating to accounts serviced by Capital One.
- (b) See response to APWU/COS-T1-2 and 3(a).
- (c) See response to APWU/COS-T1-2.
- (d) See response to APWU/COS-T1-2. The NSA will cover all Capital One First-Class Mail, including mail relating to its lending and banking activities, and products and services relating to its accounts.

APWU/COS-T1-5. On page 5 of your testimony, you provide a Before Rates projection of Capital One's mail volume for FY2003. Were specific economic assumptions used to underlie these forecasts? If so, what specific economic assumptions were used to underlie these forecasts and how sensitive are these forecasts to changes in these economic assumptions? How sensitive are these forecasts to changes in economic conditions? Has Capital One Services, Inc., Capital One Financial Corporation or any consultants employed by either Capital One Services, Inc., Capital One Financial Corporation or any entity related to either Capital One Services, Inc. or Capital One Financial Corporation:

- (a) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percent change in Gross Domestic Product (GDP)?
- (b) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percent change in Personal Consumption Expenditures?
- (c) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percent change in Personal Income?
- (d) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percentage point change in the Unemployment rate?
- (e) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percentage point change in interest rates?

If the answer to any of (a) – (e) above is yes, please provide all estimates of those relationships and the source of those of those estimates.

ANSWER

No specific economic assumptions were used in creating the Before Rates forecasts. As with any business endeavor, Capital One's future prospects may be affected by economic conditions.

a-e. No

APWU/COS-T1-6. On page 6 of your testimony, you indicate that six to twelve percent of Capital One's First Class solicitation mail is returned as undeliverable. What percent of Capital One's First Class solicitation mail pieces were returned in FY 2000? What factors influence those return rates? Does Capital One endeavor to estimate return rates for mailing lists prior to purchasing or renting the use of them? If so, what sort of decision rules does the company use?

ANSWER

Data for return rates prior to 2001 are not available. Return rates are affected by factors such as the mobility of the addressee. The company does not forecast return rates.

APWU/COS-T1-7. Your forecast of First Class solicitation mail for FY2003 indicates that Capital One expects to mail fewer First Class solicitation pieces in the test year than it did in either FY2002 or FY2001 and that the volume will be less than 2 percent above the levels of FY2000. Do you anticipate that the lower volumes will also lower your return rates for undeliverable mail since it will allow Capital One to use only the higher quality mailing lists available to it? If not, please explain why not.

ANSWER

Capital One always seeks to use the highest-quality prospect data regardless of mail volumes. Consequently, while we would anticipate there would be fewer returns in absolute numbers, we do not forecast return rates and have no basis to expect that there would be a lower rate of return.

APWU/COS-T1-9. On page 4 of your testimony you state that Capital One expects account growth to slow somewhat, which will moderate growth in First-Class statement/letter volume. Does this statement refer only to domestic credit cards? If not, please indicate which lines of Capital One's business this statement covers. Based on the information provided in Mr. Elliott's Exhibit 2 (and his response to OCA/COS-T2-5) the customer mail generated by Capital One grew 39 percent between FY2000 and FY2001 and grew 24 percent between FY2001 and FY2002. By how much do you anticipate customer account growth to slow in FY2003 to account for your statement on page 4 that "...we expect non-solicitation mail volume, in the absence of this agreement, in fiscal 2003 to remain at approximately 2002 levels (640 million pieces)"?

ANSWER

Please see the company's 8-K and 10-Q SEC Filings. The company expects growth to be five to ten percent in 2003.

APWU/COS-T1-10. You state on page 4 of your testimony that Capital One has a target of sending 25% of statements to customers electronically by 2005. This is one factor that causes you to predict virtually flat mail volume in 2003 compared to 2002 absent the proposed Negotiated Service Agreement. Does this target apply to statements to customers of all subsidiaries of Capital One Financial Corporation? If not, to which subsidiaries of Capital One Financial Corporation does it apply? Do you anticipate that Capital One will change its target for electronic statements if the proposed Negotiated Service Agreement is approved? What percentage of Capital One's current statements are presented electronically? How much has that percentage changed during the past year? How did Capital One anticipate meeting its 25% electronic statement target by 2005 prior to the proposed Negotiated Service Agreement? How will those plans change if the Negotiated Service Agreement is approved?

ANSWER

The company's electronic statement goals apply to all Capital One subsidiaries.

The company has only recently begun its efforts to migrate toward electronic statements, and currently less than one percent of its customer statements are presented electronically. The company does not expect to modify its target based on the NSA.

APWU/COS-T1-11. How long does it currently take from the time Capital One sends out a First Class mailing until returned mail pieces from that mailing are used to make changes to the mailing lists Capital One uses? Which mailing lists does Capital One correct based on this information? How long does it currently take from the time Capital One sends out a Standard mailing until returned mail pieces from that mailing are used to make changes to the mailing lists Capital One uses? Which mailing lists does Capital One correct based on this information? Has Capital One ever sent out a Standard mailing with any of the mailer endorsements in F010.5.3 of the Domestic Mail Manual? If so, what endorsements were used and when? If Capital One no longer uses certain endorsement for Standard mailings, why did Capital One cease using those endorsements?

ANSWER

As stated in my testimony (page 6, lines 10-13), the timeline to receive and process information on physically returned mail can take weeks. Standard Mail is not physically returned.

APWU/COS-T1-12. What is the current process that Capital One follows to incorporate the information from returned mail pieces in the various types of mailing lists used by Capital One – customer lists, solicitation lists owned by Capital One, solicitation lists rented by Capital One, other lists? What is the cost to Capital One of incorporating that information per piece of returned mail? Has Capital One analyzed its returned mail pieces to determine the most common reasons for those returns? If so what are those reasons? If not, why not?

ANSWER

In certain circumstances, the company may reflect in its database that a return has occurred for a given address. The company does not calculate cost of incorporating returned mail data. The company also does not receive information regarding the reason for the return.

APWU/COS-T1-13. Under the proposed Negotiated Service Agreement between USPS and Capital One, Capital One agrees to receive electronic ACS information and to incorporate that information into its databases within 2 days. Please explain which mailing lists Capital One's updated databases will cover – customer lists, solicitation lists owned by Capital One, solicitation lists rented by Capital One, other lists? Will the information from ACS get included in both Capital One's First Class and Standard mailing lists? Will Capital One notify the third party owners of mailing lists that it has obtained the use of that there are address corrections that need to be made? Will Capital One check subsequently obtained lists for accuracy against the ACS information prior to using them?

ANSWER

The company will apply ACS data to all of its marketing mailing lists, no matter what their origin. However, the company is not responsible for third party mailing lists.

APWU/COS-T1-14. In your answer to interrogatory OCA/COS-T1-14, you make a distinction between the customer account mail that is sent out by Capital One Services, Inc. and the solicitation mail that is sent out by lettershops Capital One Services, Inc. employs. Please describe the process used by Capital One to provide its mailing lists to these lettershops including such information as timing and who has control of and responsibility for the updating of the mailing.

ANSWER

The company uses industry standard methods of transmitting data to its letter shops. Both the company and the letter shop utilize address hygiene processes prior to entering mail into the postal system.

APWU/COS-T1-15. Please confirm that the elapsed time between when the mailing list for all mailings is last checked against CASS/NCOA and the time the last piece in that mailing is placed in the USPS mailstream is 60 days or less for solicitation mail pieces and 30 days or less for customer mail pieces.

ANSWER

Confirmed.

APWU/COS-T1-17. What type of mail does Capital One produce at its Richmond and Seattle production sites? For which entities does Capital One produce mail at its Richmond and Seattle production sites? Has Capital One experienced lower returned mail rates since its Richmond plant qualified for MPTQM status? What percent of Capital One's First Class customer mail is generated from each of these plants? What percent of Capital One's First Class solicitation mail is generated from each of these plants? What percent of Capital One's Standard mail is generated at each these plants?

ANSWER

Capital One Seattle and Richmond production sites generate substantially all of the company's customer mail. These plants do not generally produce solicitation mail. Accordingly, return rates on mail generated by the company's Seattle and Richmond sites have been very low before and after MPTQM Certification.

APWU/COS-T1-18. Must a lettershop have MPTQM status before Capital One will employ it to produce a mailing?

ANSWER

No.