

# FTC FACTS for Consumers

## Prenotification Negative Option Plans



**Y**ou see the ads on TV, in magazine and newspaper inserts, and on the Internet: “5 Books for \$1,” “10 CDs for FREE,” or “4 Videos for 49¢ each.” By joining some of the clubs that are offering these deals, you may become a member of a “prenotification negative option plan.” That means you are agreeing to receive merchandise automatically unless you tell the club not to send it.

### How Prenotification Plans Work

Often, you can join a plan simply by accepting an introductory offer of some merchandise, often at a discounted price. Then, you pay full price for additional merchandise.

Joining a plan means you agree to the plan’s sales method as long as you’re a member. As a plan member, you will receive periodic announcements describing merchandise that you can buy. These announcements are important because the merchandise is sent to you automatically unless you return the form rejecting the offer within the specified time.

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Each time you receive an announcement, you have two choices:

**A.** If you want the merchandise, do nothing. It will be sent automatically. Some plans require you to pay for the merchandise when you get it. Other plans send the merchandise “on approval,” which means you can try it for a specified period. If you return the merchandise, you don’t have to pay for it.

OR

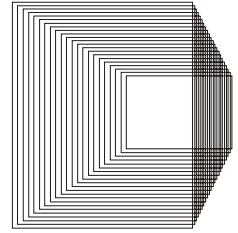
**B.** If you don’t want the merchandise, you must say so and return the rejection form included with the announcement within a specified time, usually 10 days. Make sure you follow the instructions on the form. Some plans also let you use the rejection form to order other merchandise.

## The Prenotification Negative Option Rule

The Federal Trade Commission (FTC) enforces the Prenotification Negative Option Rule. The Rule requires companies to give you information about their plans, clearly and conspicuously, in any promotional materials that consumers can use to enroll. If the sales presentation for a plan is made orally, say on the phone, the terms and conditions still must be disclosed clearly and conspicuously during the

presentation. For example, companies must tell you:

- ✓ whether there’s a minimum purchase obligation;
- ✓ how and when you can cancel your membership;
- ✓ how many announcements and rejection forms you’ll receive each year, and how often you’ll receive them;
- ✓ how to reject merchandise;
- ✓ the deadline for returning the rejection form to avoid shipment of the merchandise; and
- ✓ whether billing charges include postage and handling.



## Minimum Purchase Obligations and Canceling Memberships

Some plans require that you buy a certain amount of merchandise at the club’s regular prices. If that’s the case, the minimum purchase obligation must be disclosed clearly and conspicuously. Once you’ve satisfied the minimum purchase requirements, you can cancel your membership. If the club has no minimum purchase obligation, you can cancel your membership any time.

If you want to cancel your membership, send your request in writing. The company must cancel your membership promptly. If the company sends additional merchandise after receiving your written cancellation notice, you need to return the first item that is sent. You may consider any additional shipments as unordered merchandise and keep them as a gift.

However, to avoid dunning notices, it’s best to tell the company that you’re no longer a member each and every time you receive unordered merchandise. You can do that by sending the company a copy of your cancellation letter.

## Announcements and Rejection Forms

The company must tell you how often and how many announcements and rejection forms you'll receive each year and how often you will receive them. The company also must tell you whether billing charges for each item include postage and handling.

The rejection form comes with, or is a part of, the announcement. In some plans, the rejection form can be used to decline merchandise and to choose a different item. The announcement must give you at least 10 days to decide if you want the merchandise and mail back the form. The form includes a "return date" — the date the form must be received by the company, **or** a "mailing date" — the date you must mail the form to the company. No matter which date the company uses, you have at least 10 days to respond.

If you don't get at least 10 days, and you receive an unwanted shipment, you can return the merchandise to the company for a full credit to your account. The company must pay for the return postage.

## Bonus Merchandise

To attract new members, some companies advertise special introductory offers, like "5 Books for \$1." By law, a company must ship the merchandise within 30 days of receiving your order. If the merchandise can't be shipped within that time, the company may offer you an equivalent alternative. If you don't want the alternative, you can cancel your membership. The company must honor your cancellation request, as long as you return the introductory merchandise.



## Another Type of Clubs or Plans

Some book, CD or video clubs may involve membership in another type of plan called a "continuity plan." "Continuity plans" automatically send merchandise or provide services until you tell them to stop, without sending an announcement or a rejection form before each shipment. While these plans are **not** covered under the FTC's Prenotification Negative Option Rule, basic consumer protection principles apply: Sellers must give consumers information about the plan's terms and conditions, clearly and conspicuously, in their promotional materials.

Some continuity plans provide an "approval" period so you can check out the merchandise and decide whether to keep it and pay for it. Many programs selling collectibles, like stamps or coins, work this way. Other continuity plans require you to pay for merchandise when you receive it.

## Protect Yourself

Before you agree to any prenotification plan:

- ✓ *Read the terms and conditions* of the plan carefully so you understand the obligations of membership before you join.
- ✓ *Compare costs.* The introductory merchandise may be substantially discounted but you may be required to buy additional merchandise at the club's regular prices and to pay shipping and handling on those purchases. Do the math to compare the club's prices and the shipping charges against those of other sellers.
- ✓ *Keep copies of plan documentation* that explain the terms and conditions of the plan and the rejection forms you return to the seller. It's also a good idea to keep docu-

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mentation of the date you mailed the rejection forms.

- ✓ *Check out the seller.* Contact your local consumer protection agency or the Better Business Bureau to find out if they have any complaints on file. A record of complaints may indicate questionable practices, but a lack of complaints doesn't necessarily mean that the seller is without problems. Unscrupulous businesses or business people often change names and locations to hide complaint histories.

## Where to Complain

If you have a problem with your plan, try to resolve it with the seller first. If you're dissatisfied with the response, contact your local Better

Business Bureau or local consumer protection agency.

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit [www.ftc.gov](http://www.ftc.gov) or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.



**Federal Trade Commission**  
Bureau of Consumer Protection  
Office of Consumer and Business Education

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