NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

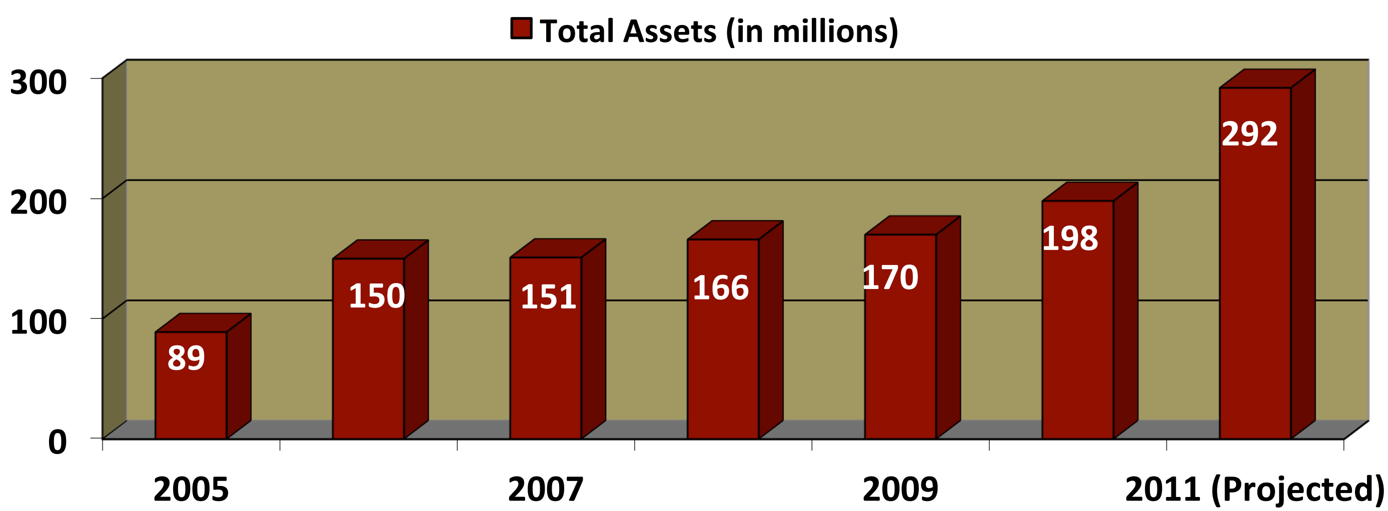
GET THE FACTS!

Capital One's Business Practices Raise Concerns about its Corporate Governance

Decision-makers and advocates need to know the critical facts about Capital One and its corporate practices.

Empire Building at its Best?

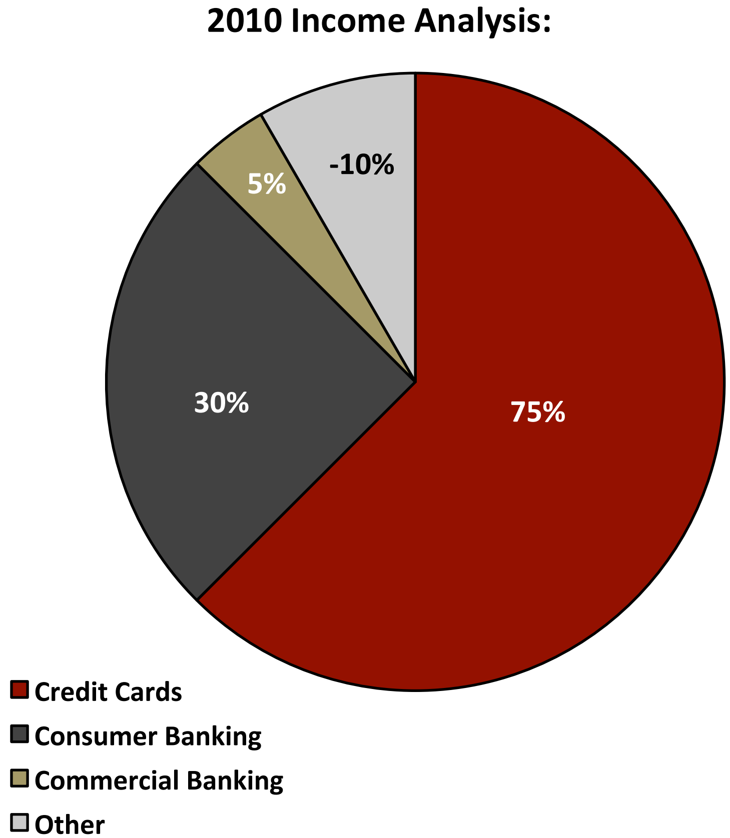
In less than 5 years, Capital One is poised to triple its asset base.

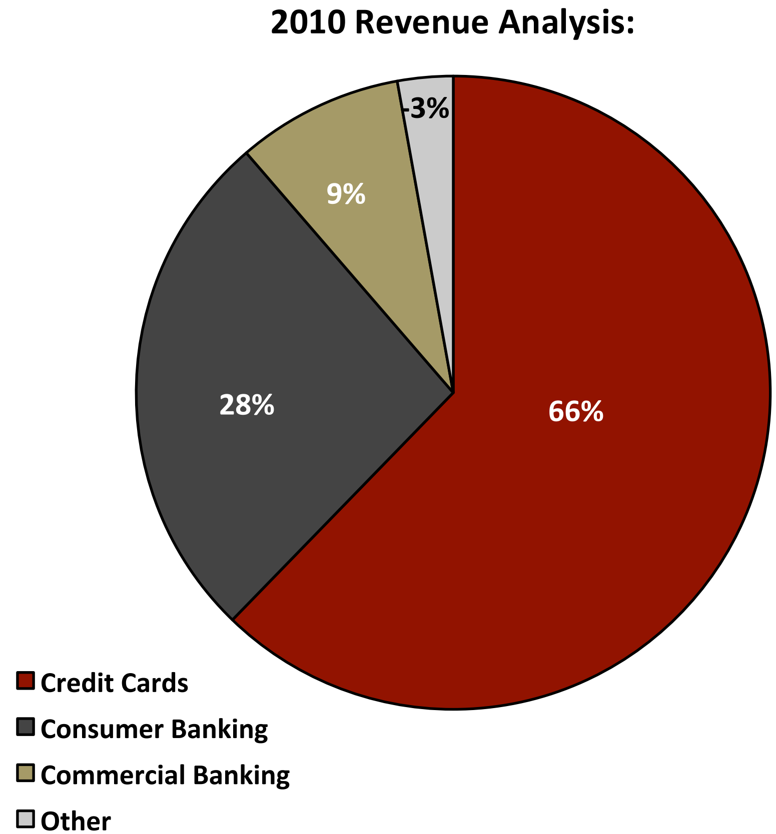


- Since Capital One became a banking institution in 2005, it has pursued an aggressive growth strategy that has been described by analysts as "empire building at its best."

The Rejection of Diversification in Favor of a High-Risk, Monoline Strategy:

75 percent of Capital One's income, and 66 percent of its revenue, comes from a single source: credit cards.

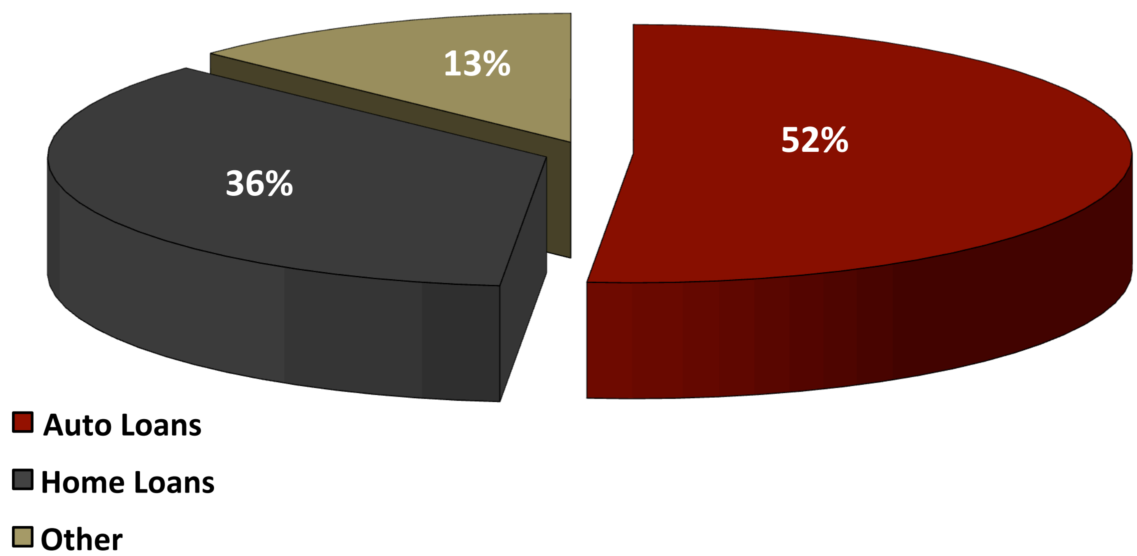




- Diversification allows a bank to reduce risk by relying on varied products for income and revenue, shielding it from downturns. Capital One, however, rejects diversification in favor of a monoline strategy. This high-risk approach—and the institutions that embraced it—were at the heart of America's last financial crisis.

Capital One's Idea of Consumer Banking?

Give the Public Subprime Auto-Loans.



- Capital One's consumer banking business segment consists of its branch-based lending and deposit gathering activities for consumers and small businesses, national deposit gathering, automobile lending, home loan lending and home loan servicing activities.

- Capital One is the largest subprime auto loan lender in the United States. Analysis of Capital One's 2010 data shows that the majority of its consumer banking activity focuses on issuing auto loans.

Capital One's Executive Compensation Structure

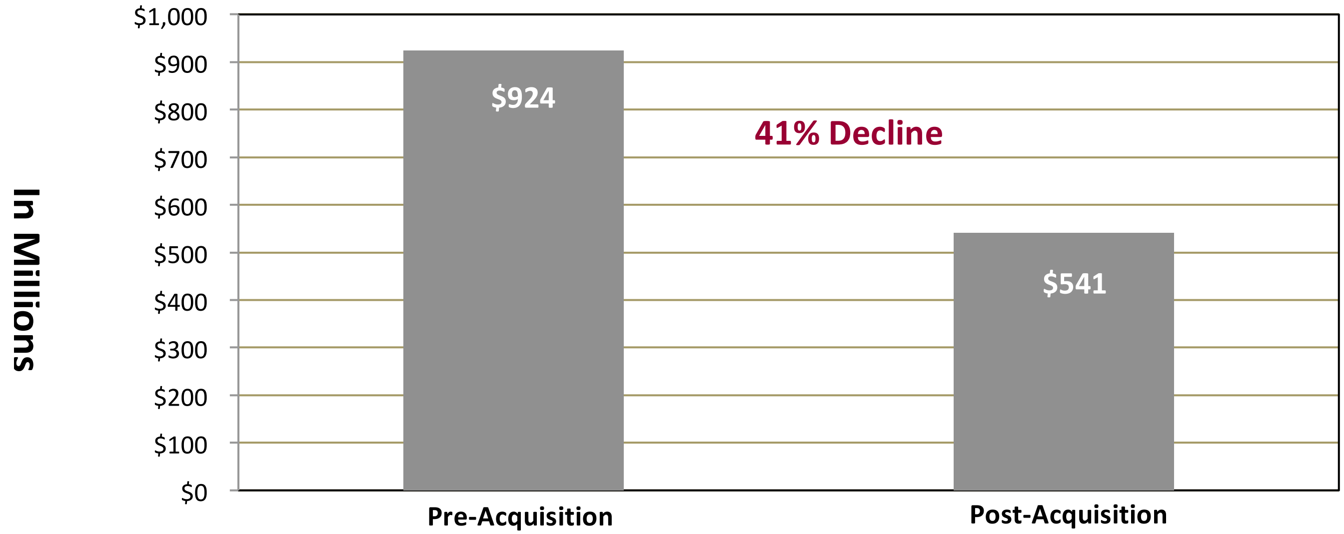
A playbook for encouraging short-term gains over long-term stability.

Executive's Name & Position	Cash Salary	Cash Bonus	Stock Awards	Option Awards	Total Equity Compensation
Richard Fairbank, Chief Executive Officer	$0	$0	$9,750,026	$6,500,009	$16,250,035
Gary L Perlin, Chief Financial Officer	$1,000,000	$0	$5,107,429	$1,101,600	$7,209,029
Lynn A. Carter, President, Banking	$1,000,000	$0	$3,712,506	$850,000	$5,562,506
Peter A. Schnall, Chief Risk Officer	$1,000,000	$0	$3,222,424	$761,600	$4,984,024
Ryan M. Schneider, President, Card	$1,000,000	$0	$3,364,826	$860,200	$5,225,026

- According to Capital One, an overall objective of their executive compensation program is to encourage risk-taking. 100% of CEO Richard Fairbank's compensation and 80% of all Named Executive Officer's compensation in 2010 was equity-based and, therefore, directly tied to the Company's stock performance.

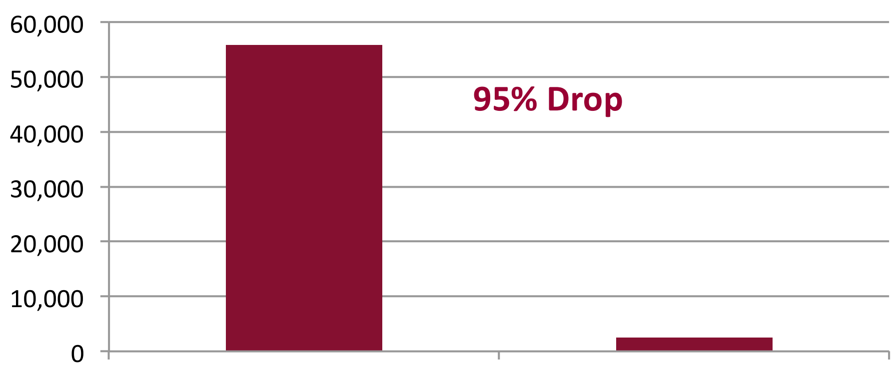
As Capital One's Assets Grow with Each Acquisition, the Corporation's Commitment to the Community Shrinks

2009 Acquisition of Chevy Chase Bank



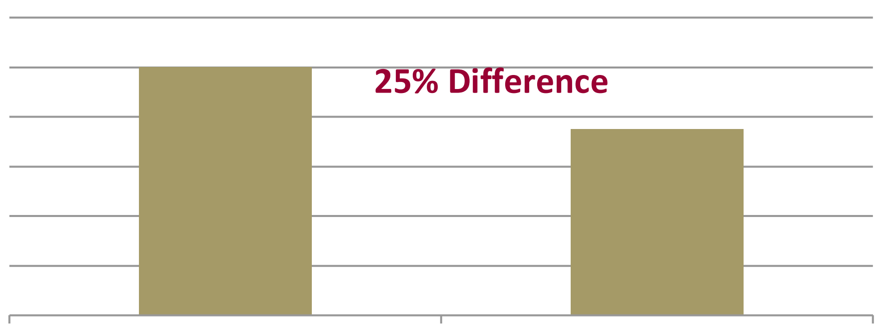
After acquiring Chevy Chase in 2009, combined community development lending plummeted by 41%.

2006 Acquisition of North Fork Bank



After acquiring North Fork in 2006, combined prime home loans collapsed by 95% over 3 years.

2005 Acquisition of Hibernia Bank



After acquiring Hibernia Bank in 2005, there was a 25% reduction in small business loans for low-income tracts.

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Capital One Has Failed to Meet the Convenience & Needs of Communities

Capital One has a poor record of meeting convenience and needs, and serving small businesses and homeowners. As a rapidly growing national bank, there is a much higher standard Capital One must meet before the acquisition of ING Direct can move forward.

Capital One Buys Banks, Reduces Lending and Services:

- After acquiring North Fork Bank in 2006, Capital One reduced prime home lending by 95 percent in three years. And Capital One reduced North Fork's home lending to Latinos from 26 percent of its loans in 2006 to just 5 percent in 2009.

- Capital One shrunk its lending to small businesses with revenues of less than $1 million. In 2006, North Fork issued 63 percent of its business loans to the smallest businesses with revenues under $1 million. By 2009, the portion plummeted to just 16 percent.

- After its acquisition of Hibernia, Capital One received a low-satisfactory on its CRA exam for services, largely because ***it had no branches in low-income areas in Houston, Dallas, New Orleans, and Baton Rouge.*** Capital One's response? Continue to serve the wealthy. From 2005-2007 it opened 37 branches in wealthy areas and just 1 in low-income neighborhoods measured by the exam.

Capital One Violates Discrimination Laws and Avoids Responsibility:

- Capital One has refused to issue government insured loans to qualified borrowers with lower credit scores, even though the loans are guaranteed. Capital One faces an active complaint with the U.S. Department of Housing and Urban Development for this discriminatory policy. After NCRC challenged the acquisition, Capital One admitted its wrongdoing in the form of a policy change that *they say will happen far after the acquisition is complete.*

- No help for homeowners. Capital One has refused to participate in the Hardest Hit Fund (HHF), which provides assistance for unemployed homeowners and the federal Home Affordable Modification Program (HAMP), subjecting them to legal challenges for their servicing practices. Is it really wise to allow them to acquire ING Direct's $41 billion mortgage portfolio?

- Capital One exploited a regulatory loophole to exclude its credit card lending from its last CRA exam by the Federal Reserve, shielding their main line of business from accountability to the public's needs and convenience.

Subprime Auto Loans and Credit Cards Don't Adequately Serve Convenience and Needs:

- Volume of credit is not equal to quality credit, and Capital One main two lines of business – auto loans and credit card loans – are of dubious quality, in product lines rife with abuse.
  - ✓ Capital One is the largest subprime auto loan lender in the United States. Analysis of Capital One's 2010 data shows that the majority of its consumer banking activity focuses on issuing auto loans.
  - ✓ 75 percent of Capital One's income, and 66 percent of its revenue, comes from credit cards, which Capital One aggressively targets to subprime borrowers. These credit cards feature high interest rates and significant penalties and fees.

Capital One and ING Serve Who They Want:

- Veterans, women and minorities need not apply. Capital One's Small Business Administration (7a) lending plummeted from $228 million nationwide in 2006 to an embarrassing $550,000 in 2010. 7(a) lending is largely targeted to women, veterans, minorities and to low-income areas.

- ING is a luxury brand with a primary focus on wealthier consumers. As an Internet bank, it largely avoids any commitment to community needs and convenience under the Community Reinvestment Act. Though it lends nationally, it is only examined for CRA purposes in Wilmington, DE (it's headquarters), where it made just 5.5 percent of its home loans to African-Americans while, all lenders, as a group, issued 11 percent in 2009.

- In a loophole that allows even national banks like Capital One to pick the geographic areas where they are assessed, a 2005 Office of Thrift Supervision CRA exam designated the Washington, DC area as the only official area that counted on the CRA exam, even though loans in the Washington DC area were just one percent of Capital One's total loans.

Do we really want to allow a credit card bank with a poor record of meeting convenience and needs to become even larger?

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Capital One's House of Cards

Capital One is one of the largest credit card companies in the world, and it is about to get bigger. A lot bigger. As Capital One grows, it has rejected real diversification in favor of a strategy that plows cheap deposits from acquired banks into its much higher risk credit card business. Regulators and consumers need to understand the facts about the danger to the financial system represented by this monoline company.

It's a Risky Business if You Can Get (All of) It

- Analysts have said the ING deal *only makes sense* for Capital One if the deposits are plowed into a higher yielding business line. Capital One plans to leverage ING deposits to buy HSBC's $30 billion credit card portfolio, making it the largest subprime credit-card issuer in the U.S. and the fourth largest credit card company in the world.

- As HSBC reduces risk -- their stated desire -- Capital One is increasing its risk exposure and market concentration, giving it 9% of the credit card market in the United States. Following the acquisitions, Capital One and the other top ten companies will control **90 percent** of the credit-card market. Any failure in a heavily concentrated sector would seriously limit the availability of this form of credit.

- Further consolidation is likely, since the industry is troubled by high default rates. Capital One's CEO Richard Fairbank has recently made it clear that Capital One will aggressively seek to buy other credit card companies: "[credit card lending] is a very profitable business for a few endgame players, but it is a very difficult business if you don't have scale." Translation? *Capital One is looking to sweep up failing credit card companies and grow a lot bigger.*

What's In Your Economy? Subprime Plastic Goes Viral

- Capital One's business strategy is to turn safe deposits into subprime risk. Sound familiar? It's a page right out of the Countrywide playbook, but with credit cards instead of mortgages. Capital One is rejecting diversification in favor of a higher risk, monoline strategy where 66% of its revenue comes from a single source: credit cards.

- Capital One sells around 75 percent of its credit card debt to Wall Street, where it is packaged into securities and sold. Sound familiar? The credit card securities market is nearly a $400 billion market and is vouchsafed by the same rating agencies who rated junk mortgage securities with gold-standard grades ("AAA"). We all know how that story ended.

- Researchers have called the credit card securitization market a "House of Cards" waiting to collapse. That could happen if card charge offs go up. Capital One's credit card charge off rates skyrocketed to 10% just over a year ago, and are still among the highest in the industry and going up again. If the economy stays poor, look to see them rise, and fast.

The Plastic Pushers Pummel Businesses and Consumers

- Capital One is annually a top spender in the industry on marketing. And they aggressively market credit cards to subprime borrowers, expanding their solicitation to this group by 300% from 2010 to early 2011. The Visigoths in their commercial are an apt metaphor. It's as if Capital One is sending them to pillage and loot neighborhood wealth with their subprime cards.

- Want a small business loan? Capital One has a solution for you: more plastic. Capital One is aggressively marketing small business credit cards, a market ripe for potential abuse because it is not subject to the Credit CARD Act of 2009; that law was passed to outlaw the very kinds of abusive terms, fees and practices Capital One was using with consumer cards.

- Because of the way credit cards are securitized, Capital One keeps any revenue they can raise by charging extra fees and raising rates on securitized cards that they service. This gives them a very strong incentive to find new ways to trick and trap consumers into paying more.

- Capital One has a notoriously poor track record on consumer protection, and has been involved in numerous lawsuits for unfair and abusive credit card practices. At least three state attorneys general have opened investigations, and West Virginia's AG filed a lawsuit in 2010. Capital One is also facing class action proceedings in Florida, Georgia, and Michigan.

- Analysts have stated that the profitability of Capital One's acquisition depends largely on its ability to sell credit cards to ING Direct's 7.5 million customers. But ING customers are in open revolt, flooding the Capital One and ING Facebook pages, news sites and consumer complaint sites with horror stories about Capital One.

Should we really let a leader in subprime credit card lending become America's next "Too-Big-to-fail" bank?

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The Capital One/ING Acquisition Poses a Systemic Risk to the Market

The Federal Reserve Board of Governors is deciding whether to approve Capital One's application to buy ING Direct. Decision makers and advocates need to know the critical facts surrounding the systemic risk posed by allowing Capital One to become the next "Too-Big-to-Fail" bank. This acquisition is:

Reckless:

- Instead of allowing the Federal Reserve to do its job, issue the rules, and give banks the oversight that Dodd-Frank intended, Capital One is trying to get away with writing their own standards for applying the systemic-risk provision.

- Under Capital One's test, systemic risk analysis is nothing more than a restatement of the weak and ineffective laws that existed before the last financial crisis. It's like Dodd-Frank doesn't exist.

Oversized:

- Less than five years ago, Capital One wasn't even in the banking business. Now, thanks to an aggressive growth strategy—described by analysts as 'empire-building at its best'—Capital One could become the 5th largest depository bank in the United States virtually overnight.

- Capital One has publicly stated that it plans to use ING deposits to buy HSBC's credit cards, making it the largest subprime credit-card issuer in the U.S. Its business strategy is to turn safe deposits into subprime risk. Sound familiar?

Connected:

- Despite its claims of being just another 'regional bank', Capital One is heavily interconnected to both the U.S. and Global financial markets:
  - ✓ In the last financial crisis, Capital One and ING needed over **$18 billion** in taxpayer-funded bailouts precisely because they were so interconnected that their failure posed a direct threat to the American and global markets. ING still owes this money to the Dutch government.
  - ✓ After this acquisition, Capital One — which will become the 4th largest issuer of credit cards in the world — and the other top ten companies will control **90 percent** of the credit-card market. Any failure in a heavily concentrated sector would seriously limit the availability of this form of credit.

- ✓ Capital One pawns off 75 percent of its credit card debt to Wall Street. Sound familiar? The credit card securities market is similar in size to the mortgage-backed securities market.

And Risky:

- Capital One's bank holding company and national association are two of the largest holders of derivative contracts in the United States.

- Because ING's deposits will be used to buy another credit-card portfolio, Capital One continues to reject diversification in favor of a high-risk monoline strategy where more than half of its revenue comes from a single source: credit-cards.

Should we really let a leader in subprime lending become America's next "Too-Big-to-fail" bank?