NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

GET THE FACTS!

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?