Testimony Of Ed Gorman
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Good morning. My name is Ed Gorman and I am the National Community Reinvestment Coalition's Chief Membership and Workforce Officer. NCRC is **committed** to protecting fair and equal access to credit, capital, and banking services for **every** American.

On behalf of our CEO, John Taylor, NCRC's Board of Directors, and our 600 member community organizations, I thank the Federal Reserve for holding public meetings. American taxpayers will be **watching** to see **if** and **how** you actually **use** the information that the public has given you.

At each of these meetings, Capital One's message to the American public has been the same. They actually expect us to **thank them** for becoming the fifth largest bank in the United States. Unfortunately for them, the American public's response has been **just…as…clear**:

Thanks, Capital One, but no thanks.

Sandra, this is **not** a tale of two cities. Not one person appearing at any of these hearings—no one outside of Capital One's spokesmen—has ever said **or even suggested** to the Federal Reserve that the public benefits from this deal outweigh the increased systemic risk. Not even those testifying on behalf of Capital One have said anything different.

These meetings **are not** about individual grants or individual partnerships. They are about a national risk that can only be offset by national benefits. Those risks are substantial. The benefits offered by Capital One are not. **You have a duty to deny Capital One's bid to buy ING Direct.**

75 percent of Capital One's net income comes from credit cards. That singular focus creates higher risk. Credit-card consumer lending peaks when times are good, but profits essentially **collapse** under the weight of economic stress when times are bad. Providian, Nextcard, Metris, and Advanta Bank are just a few examples.

Capital One suggests that it is **not** a monoline by pointing out that only a quarter of its assets are credit cards. **The point backfires:**

The fact that Capital One earns **75 percent** of its income from **25 percent** of its assets only proves that it **is**, in fact, a credit-card monoline.

It also sheds light on a fundamental weakness. Capital One's risky and subprime credit cards generate stellar earnings **3 times the size** of their asset base through predatory interest rates, questionable fees, and confusing terms.

Likewise, if **75 percent** of Capital One's assets account for **only 25 percent** of its earnings, it must mean that Capital One **does…not…know** how to make basic banking profitable.

Capital One **cannot** figure out:

- how to make a loan to a mom and pop bakery;
- how to originate a fixed-rate mortgage loan to a young family;
- **or**, unlike other banking institutions,
- how to serve the American public's **core** banking needs
  and still make a profit.

How, then, can the Federal Reserve or the public be sure that Capital One won't fail and send the bill to the American taxpayer? At the last meeting, Capital One attempted to downplay the risk from its securities activity. John Finneran said that the bank has not issued any new credit-card securities since 2009. Unfortunately for him, there's a tiny problem with the argument: It's disingenuous.

Saying that you stopped issuing new securities in 2009 just doesn't mean much when **76.4 percent** of your credit-card portfolio is already securitized. And, it **certainly** doesn't mean much when almost $39 billion dollars—or 20 percent of the current outstanding market for credit-card securities—still belongs to you.

The truth is that the **entire market** for credit-card securities came to a halt in 2009. That means Capital One's actions were a result of **external** forces, **not internal** decision making.

Nearly **one-third** of Capital One's credit-card portfolio is **subprime**. And it is the nation's **largest subprime** auto lender. If you approve this deal, you make it possible for Capital One to buy HSBC's credit card portfolio. The **subprime** number will only get bigger. Capital One **will be** the only significant subprime credit-card issuer in the United States.

Despite repeated warnings from NCRC and other consumer groups, federal regulators failed to guard against predatory subprime mortgage products. The American public is still paying for that mistake today. Ask yourself this:

Is the Federal Reserve really prepared
to turn a blind eye again
and watch a new subprime crisis unfold?

The growth of Capital One comes at a cost that American taxpayers simply **cannot** afford. Make no mistake. There is a significant systemic risk posed by this transaction.

In the face of this kind of substantial risk, what has Capital One offered as public benefits? Capital One says that a key public benefit from this acquisition is the fact that it will create jobs. The bank has promised to offer 3,600 jobs by the end of the year and another 500 jobs at ING Direct's headquarters in Delaware.

But before you count those jobs as a public benefit, it might be helpful to know the truth: Capital One has shed more than 6,200 jobs in its previous acquisitions—72 percent more jobs than it promises right now.

What was the public benefit there? Apparently, **it was also job creation**—for the people of India. That's where Capital One outsourced many of those jobs that Americans lost.

And what about these **new** jobs in Delaware? Capital One is getting $7.1 million from the state to create these positions. **That's a $14,000 per-job, taxpayer-funded subsidy.**

Is this what Capital One means by public benefit? **That the public pays for the benefit?**

Plus, Capital One has already said it intends to lay off more workers to cut $90 million from ING Direct's yearly budget. So, while the people of Delaware might be celebrating now, they should ask Florida what happens when Capital One's tax credits stop flowing. Capital One closes up shop, abandons its real estate, and ships the jobs overseas.

Capital One's job creation claims have NO credibility.

Capital One also says that the public benefits from this deal because of its recent pledge of $180 billion over the next 10 years. But nearly 60 percent, or $104 billion of this so-called commitment, is in the form of the same high-risk credit cards and subprime auto loans that Capital One already pushes.

Capital One's pledge includes absolutely **no** tools to hold it accountable. There is **no** mechanism to verify; and Capital One gives us **no** basis for trust. In fact, Capital One has already left the door open to **shrinking** the value of its pledge if there are quote "fluctuating market conditions."

When all is said and done, the only thing the public gets out of Capital One's acquisition of ING Direct is:

More credit cards.

By any measurement, that "so-called" public benefit doesn't come close to outweighing the increased risk to the American people and the American financial system.

We don't need a monoline —ripe with subprime and securitized credit card assets—to become the fifth largest bank in the United States. That is a risk America cannot afford. **Thanks, but no thanks.**

I appreciate the opportunity to speak and am happy to answer questions.