Capital One Financial Corporation
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January 25, 2005

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
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Washington, D.C. 20551
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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
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Washington, D.C. 20552
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Internal Ratings - Based Systems for Retail Credit Risk for Regulatory Capital
Attention: FRB Docket No. OP-1215
OTS Docket No. 2004-48

Dear Sir or Madam:

Capital One Financial Corporation ("Capital One"), with its subsidiaries Capital One bank and Capital One, F.S.B., is pleased to submit comments regarding the proposed supervisory guidance on the above-captioned subject issued on October 27, 2004 (the "Retail Guidance").

Capital One Financial Corporation is a bank holding company whose principal subsidiaries, Capital One Bank and Capital One, F.S.B., offer deposit and consumer lending products and Capital One Auto Finance, Inc., offers automobile and other motor vehicle financing products. Capital One's subsidiaries collectively had 48.6 million accounts and $79.9 billion in managed loans outstanding as of December 31, 2004. Capital One, a Fortune 500 company, is one of the largest providers of MasterCard and Visa credit cards in the world. Capital One Bank is a Virginia-chartered bank and a member of the Federal Reserve System, and Capital One, F.S.B., is a federally chartered savings bank.

Capital One commends the Agencies for their significant strides in developing sensible and more risk-sensitive regulatory capital guidance for retail portfolios. We particularly appreciate the Agencies' willingness to incorporate industry feedback into previous versions. We believe that the current document is an impressive achievement and that it will significantly advance banks' internal approaches to risk-based capital.

Capital One invites the Agencies' attention to the comments made by the Risk Management Association. Capital One is a participant in the RMA's Capital Working Group. The RMA's comments represent the bulk of our responses to the Retail Guidance. However, we would like to highlight one point of particular interest to Capital One regarding PD estimates.

The Retail Guidance Should Provide QRE Issuers with Additional Flexibility Regarding Dollar-Weighting for PD Estimates.

We request that the Agencies clarify that dollar-weighted PD estimates are consistent with industry practice. The Retail Guidance should not unduly restrict banks from making this choice. Allowing banks to preserve this ability would reflect the existing approach taken by Capital One and a number of other institutions and would likely have little impact on regulatory capital levels. In our case, dollar-weighting would actually result in a greater amount of regulatory capital than people-weighting would require. Paragraph 108, of the Retail Guidance states that a bank may derive its PD "based on the average expected dollar loss rate." However, that paragraph also states that the PD must be "accurate…on an account basis." Example 3 in Appendix A also suggests that people-weighting is a more appropriate method to use when estimating PDs for QRE portfolios.

Because Capital One's current systems use dollar-weighting to generate and track regulatory capital requirements, we believe that the Retail Guidance should preserve the flexibility to retain that system, particularly because the regulatory capital required as a result of dollar-weighting for Capital One would be greater than or equal to the regulatory capital required by the people-weighting approach. The costs of converting our systems to a people-weighting approach would be greater than the benefit we would gain from reduced regulatory capital. We also believe that dollar-weighting is a more effective way to manage credit risk and economic capital in business lines such as ours, and for that reason the Agencies should not discourage it in the Retail Guidance. As a consequence, we believe that the Agencies should insert language in the Retail Guidance that would permit an institution to use dollar-weighting that does not strictly conform to the account-basis requirement if the institution's primary supervisor agrees with the institution's approach. For an industry-wide perspective on this issue, please refer to paragraph 15.c of the RMA's comments.

Capital One appreciates the opportunity to comment on the Retail Guidance, and commends the Agencies for their achievements to date in designing a risk-based capital framework for retail lending. If you have any questions about this matter and our comments, please call me at (703) 720-2255.

Sincerely,

s/ Christopher T. Curtis

Christopher T. Curtis
Associate General Counsel
Policy Affairs