Capital One Financial Corporation
1680 Capital One Drive
McLean, VA 22102-3491

March 9, 2009

Neil M. Barofsky, Esq.
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
U.S. Department of Treasury
1500 Pennsylvania Avenue, N.W.
Suite 1064
Washington, D. C. 20220

Also submitted by email to: SIGTARP.response@do.treas.gov

Dear Mr. Barofsky:

Capital One Financial Corporation ("Capital One") received your letter of February 6, 2009, and is pleased to have this opportunity to provide the requested information to assist the Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") in its oversight responsibilities for auditing the Troubled Asset Relief Program ("TARP") and assessing the effectiveness of the TARP.

Capital One is a bank holding company that, as of December 31, 2008, had two principal subsidiaries – Capital One, National Association ("CONA") and Capital One Bank (USA) National Association ("COBNA") – each of which is a national bank whose primary federal regulator is the Office of the Comptroller of the Currency. Capital One's subsidiaries serve consumers, small businesses, middle-market firms, and commercial real-estate firms in New York, New Jersey, Louisiana and Texas; credit card and auto loan customers throughout the United States; and credit card customers in Canada and the UK. Capital One and its subsidiaries collectively had $109 billion in deposits and $147 billion in managed loans (i.e., inclusive of credit card and other securitizations) outstanding as of December 31, 2008. Headquartered in McLean, Virginia, Capital One's subsidiaries have over 700 branches and other locations, primarily in New York, New Jersey, Louisiana and Texas[1].

Your letter requested a **"narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional**

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[1] On February 27, 2009, Capital One completed its acquisition of Chevy Chase Bank, F.S.B. ("Chevy Chase"). Chevy Chase is a federally chartered savings bank whose primary federal regulator is the Office of Thrift Supervision. Chevy Chase is headquartered in Bethesda, Maryland and has over 200 branches throughout the greater Washington, D.C. metropolitan area. All information in this response letter, unless otherwise specifically noted, is for Capital One as of December 31, 2008.

funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that you have taken that you would not have been able to take absent the infusion of TARP funds."

The U.S. Treasury's announcement of the Capital Purchase Program ("CPP") in October 2008 came just weeks after Capital One had raised $750 million of private common equity capital on our own, without government assistance of any kind. In favorable market conditions for our stock, we were able to raise equity to further bolster our already strong capital levels. After raising that new equity in the capital markets, Capital One's Tier 1 Risk Based Capital Ratio[2] was 11.9% at September 30, 2008, well above the 6% required for bank holding companies to be considered "well capitalized". Our Tangible Common Equity ratio[3], a more stringent ratio which has historically guided our capital decisions, stood at 6.47%.

Shortly after the CPP was announced and the first nine participants identified, we were encouraged by our regulators to participate along with a second group of large banks. Although our capital ratios were well above those required by our regulators and our own, more stringent, long-term targets, after careful consideration, our management and Board of Directors agreed in October 2008 to participate in the CPP in order to support the government's goal of restoring liquidity and stability to the financial system of the United States and to avoid being viewed by the market as "too weak to be invited". On November 14, 2008, the U.S. Treasury invested $3.555 billion in Capital One and Capital One issued to the U.S. Treasury 3,555,199 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock and Warrants to purchase 12,657,960 shares of Capital One common stock at $42.13 per share. The terms governing the purchase of the Preferred Stock and Warrants are set forth in the Securities Purchase Agreement dated November 14, 2008, which we believe are the same as the terms governing the investments made by the U.S. Treasury in the other large banks at that time. Under the terms of the CPP, the only TARP program in which Capital One is currently a participant, Capital One will pay the U.S. Treasury dividends in excess of $175 million per year.

We anticipated that adding the CPP investment to our capital base could protect our lending activities in the event that a more severe economic downturn or other factors might arise that could impair our capital, and thus our ability to lend, in the future. At the time we accepted the CPP investment our lending activities were not constrained by our capital position or our liquidity position. We were lending before, and continued to lend after, receiving the CPP investment.

The CPP investment increased the capital base and cash (or liquid funds) position at the holding company level. Capital One did not segregate the CPP funds within our capital base or liquid funds. In the course of normal business operations, we use capital and liquid funds at the

[2] Tier 1 Risk-based Capital is defined by 12 CFR 225 Appendix A and reported by bank holding companies on the quarterly FR Y-9C filing.

[3] The ratio of Tangible Common Equity to Tangible Managed Assets is reported in the quarterly financial statements filed as part of our quarterly earnings announcements and included in Form 8-K filings.

holding company level to support our ongoing business activities by downstreaming capital from our holding company to our operating banks as required by market conditions or other operating agreements, and by investing excess cash as part of our comprehensive balance sheet strategy. When we downstream capital, it is inherently intermingled with other capital at the bank subsidiary to ensure that its capital base in total is sufficient to support our banking activities. When we have surplus cash at the holding company we typically invest it in deposit instruments at one of our subsidiary banks, where it is inherently intermingled with other funding sources which are used by the bank for normal banking activities, including lending and investments.

On October 31, 2008, prior to receiving the CPP investment, Capital One's holding company cash and cash equivalents stood at just over $5 billion dollars. Once Treasury completed its purchase of Capital One preferred stock, the CPP investment was added to our capital base at the holding company. The majority of funds at the holding company have been deposited with our CONA bank subsidiary. A smaller portion of funds from the holding company have been downstreamed as capital to support our banking operations. Since receipt of the $3.555 billion CPP investment in November 2008, in the normal course of business we have downstreamed $964 million of capital from the holding company to our subsidiary banks. This capital was downstreamed in two separate transactions: $700 million to COBNA in December 2008 and $264 million in capital to CONA in January 2009. We will downstream additional capital when our lending needs or other business conditions require.

The combination of increased deposit funds and downstreamed capital described above supported $9 billion in new credit extensions to consumers and businesses over the course of the fourth quarter by CONA and COBNA. As detailed in our January 30, 2009 "Intermediation Snapshot" report submitted to the U.S. Treasury, we extended $5.7 billion in new consumer credit in the fourth quarter of 2008, including more than $3.6 billion in credit to new credit card customers. For our commercial and small business customers, we extended $3.5 billion in commercial, small business, commercial real estate, middle market and specialty loans. In addition, Capital One's U.S. consumer credit card customers continued to have immediate access to over $110 billion in "open-to-buy" or unused credit lines. This readily available lending capacity is more than double the actual outstandings that those same customers have chosen to access, which at year-end 2008 stood at just under $55 billion.

In addition to supporting new credit extensions, we have also been buying mortgage-backed and consumer-asset backed securities ("MBS" and "ABS"). In the fourth quarter of 2008, we made net purchases of $5.9 billion of high quality investment securities backed by mortgage and consumer loans. In the current economic and market environment, investing in high-quality, short-duration MBS and ABS securities provides appropriate risk-adjusted returns for our shareholders, and supports the recovery and stabilization of secondary markets that are critical to consumer lending and the economy. Capital One believes that investments in MBS and ABS are in the best interests of our investors, including the U.S. Treasury, and that investments in MBS and ABS can facilitate additional consumer lending by other financial institutions by helping to stabilize the securitization markets.

While we originated billions of dollars of new loans in the fourth quarter of 2008 as described above, ending managed loan balances for the total company did not grow in the quarter, and declined modestly from the prior year. Several factors had a negative impact on ending loan balances in the fourth quarter of 2008. These factors include: rising charge-offs; normal amortization and attrition; and declining purchase volumes. Together, these factors offset loan originations in the fourth quarter, which itself was somewhat constrained by tighter underwriting standards (relative to prior years) in the midst of the economic downturn. Of particular note is that total purchase volume on our credit cards in the United States dropped more than 10% in the fourth quarter of 2008 (compared to the fourth quarter of 2007), inline with the decline in national retail sales figures in the same period. In general, the mix of purchases on our cards has mirrored the broader economy as consumers reduce their discretionary purchases.

As is well documented, economic conditions deteriorated through the fourth quarter of 2008. We feel the impact of these economic forces directly on our businesses. Perhaps the most important single point we would make is that the connection between economic activity and lending volumes is different from how it is being described in many sectors. It is not the case that financial institutions have stopped lending and that therefore the economy has moved into recession. Rather, large numbers of consumers, cautious about the future, are saving more and borrowing less, while other consumers are becoming riskier (due to un- and under-employment and lower home values) and no longer meet prudent standards to qualify for additional loans.

We continue to maintain prudent risk management standards in the face of a worsening economic environment in which consumers with strong credit are borrowing less while consumers with weak credit are becoming riskier. Under these conditions, we expect that loan balances will decline going forward even though we remain an active lender across our businesses. We will continue to use the CPP funds to support prudent, safe and sound lending and investing activities.

Your letter also requested that Capital One outline the **"specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other longer-term or deferred forms of executive compensation."**

Capital One has changed its executive compensation plans in several ways that are intended to bring them into compliance with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008 ("EESA"). Prior to issuing preferred stock and warrants to the U.S. Treasury under the CPP in November 2008, we amended all of our compensation and benefit plans to comply with these requirements, and obtained the agreement and consent to these amendments by each of our Senior Executive Officers (as defined under Interim Final Rules issued by the U.S. Treasury in October 2008). We expect to comply with the requirements of Internal Revenue Code Section 162(m)(5), which limits the tax deductibility of

compensation expenses in excess of $500,000 per year for each of our Senior Executive Officers, when we file our consolidated tax returns for 2008 and any future years in which we participate in TARP. We expect to comply with any future executive compensation requirements applicable to Capital One as a participant in the CPP, including the recent amendments to Section 111 of EESA contained in the American Recovery and Reinvestment Act of 2009, which are subject to implementing standards to be issued by the U.S. Treasury and the Securities and Exchange Commission. These new provisions may require further adjustments to our executive compensation plans.

During the course of its discussions in early 2009, the Compensation Committee of the Board of Directors reviewed with Capital One's Chief Risk Officer and Chief Financial Officer the significant risks facing Capital One, the status of Capital One's categories of risk and the performance metrics reflected in Capital One's annual operating plan. Based on this review, the Committee concluded that the compensation programs for the Chief Executive Officer (the "CEO") and the other Senior Executive Officers do not encourage unnecessary or excessive risks that threaten Capital One's value based on, among other factors, the multiple timeframes, multiple elements and multiple performance metrics involved in each program, combined with Capital One's strong enterprise risk management practices.

The Compensation Committee is also in the process of aligning Capital One's executive compensation plans to several provisions of the recent amendments to Section 111(b) of EESA, pending the issuance of implementing standards by Treasury. First, Capital One is providing its shareholders a non-binding advisory vote on executive compensation at its Annual Stockholders Meeting on April 23, 2009. Second, on February 26, 2009, the Compensation Committee adopted a new compensation plan that conforms to the compensation restrictions outlined in Section 111(b)(3)(D)(i) of EESA and reduces total compensation for potentially affected executives, other than the CEO and those executives who may comprise its Senior Executive Officers. Under the new plan, as will be required by EESA, each such executive will receive approximately two-thirds of his or her maximum compensation opportunity in salary, and one-third in an opportunity to be awarded shares of restricted stock, which will not vest during the period that the Company's obligations to the U.S. government under the CPP remain outstanding (other than with respect to warrants to purchase common stock). Third, the Committee is considering whether to adopt a similar compensation plan for those executives who may comprise its Senior Executive Officers (other than the CEO).

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We have attached to this letter, for your convenience, copies of the following recent reports filed by Capital One that provide the basis for the information included in this response:

1.) Annual Report for the year ended December 31, 2008, on Form 10-K (filed with the SEC on February 26, 2009)
2.) Quarterly Report for the quarterly period ended September 30, 2008 on Form 10-Q (filed with the SEC on November 10, 2008)

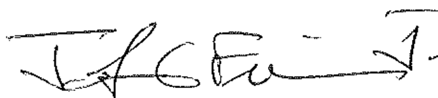
3.) Preliminary Proxy Statement with respect to Annual Stockholders Meeting scheduled on April 23, 2009 on Form PRE 14A (filed with the SEC on March 3, 2009)
4.) Current Report on Form 8-K (filed with the SEC on October 16, 2008)
5.) Current Report on Form 8-K (filed with the SEC on January 22, 2009)
6.) Treasury Department Monthly Lending and Intermediation Snapshot, for the period October 2008 through December 30, 2008 (submission date of January 30, 2009)

Finally, we acknowledge your request to segregate and preserve documents referencing our use or anticipated use of TARP funds and have taken appropriate actions to retain and preserve relevant documents.

We hope that our reply is fully responsive to your request. Please do not hesitate to contact me should you, or anyone at SIGTARP, have any questions or require additional information concerning our response.

Based on my knowledge, I certify the accuracy of all statements, representations and supporting information provided in this response.

Very truly yours,



John G. Finneran, Jr.
General Counsel and Corporate Secretary
Capital One Financial Corporation

TARP MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Capital One Financial Corporation**
Reporting month(s): Q4 2008 Submission date: **January 30, 2009**
Person to be contacted regarding this report: **Kevin Murray**

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Capital One is a "main street" bank that serves consumers and small-to-medium sized businesses locally in New York, Louisiana and Texas and that serves credit card and auto loan customers nationally, in Canada and in the UK. Capital One and its subsidiaries collectively had $109 billion in deposits and $147 billion in managed loans outstanding as of December 31, 2008. Headquartered in McLean, VA, Capital One has 738 locations, primarily in New York, New Jersey, Texas and Louisiana. Capital One offers a broad spectrum of financial products and services to consumers, small business and commercial clients.

Consumer Lending

In the fourth quarter, we extended billions of dollars in new credit to both new and existing customers across our lending businesses. For example, our consumer credit card customers have access to more than $170 billion in credit lines on their cards to use to make transactions and to finance those purchases as they choose. We continue to originate new credit card accounts through our direct mail and internet channels and opened 1 million new credit card accounts in the fourth quarter. We extended those new customers more than $3 billion in new credit line in the fourth quarter.

While we originated billions of dollars of new loans in the fourth quarter, ending loan balances for the total company did not grow in the quarter, and declined modestly from the prior year. Several factors had a negative impact on ending loan balances in the fourth quarter of 2008. These factors include: rising charge-offs; normal amortization and attrition; declining purchase volumes; and tightened underwriting in the midst of the economic downturn. Together, these factors offset loan originations in the fourth quarter. Of particular note is that total purchase volume on our US Consumer Credit Cards dropped 11% in the Fourth Quarter of 2008 and purchases per active account dropped 6%, which was roughly in-line with the decline in national retail sales

figures. In general, the mix of purchases on our cards has mirrored what we're seeing in the broader economy, with consumers reining in discretionary purchases.

As is well documented, economic deterioration accelerated during the fourth quarter and economic worsening is widely projected to continue. We must maintain prudent risk management standards in the face of a worsening economy in order to protect the U.S. taxpayers' investment in us and ensure an appropriate return. Also, we must adapt to an environment in which consumers with strong credit are borrowing less while consumers with weak credit are becoming riskier. Under these conditions, we expect that loan balances will decline going forward even though we remain an active lender across our businesses. For example, auto sales declined significantly in 2008 compared to last year due to weakened consumer confidence, tight credit and rising unemployment. New car sales dropped approximately 18% from 16.2 million in 2007 to 13.3 million in 2008. In Q4 2008, car sales dropped by over 30% compared to the previous year. Despite these headwinds, Capital One originated more than $1.4 billion in auto loans in the Fourth Quarter of 2008.

Commercial and Small Business Lending and Commercial Real Estate Lending

Growth in commercial and Industrial lending in the fourth quarter was moderated by weakening demand which has continued into the first quarter of 2009. C&I loan demand was moderately weaker for large and middle market firms. For smaller firms, loan demand was substantially weaker. The decrease in demand was attributed to decreasing needs for the financing of plant, equipment, inventory and accounts receivable.

Not withstanding deteriorating economic conditions, we continue to make new loans across a variety of industry segments as evidenced by our more than $2.5 billion in new loan commitments and renewals of existing accounts in the fourth quarter.

Despite deteriorating economic conditions, we increased our CRE portfolio modestly. The Retail asset class has softened overall as many retailers have cut back expansion plans or gone into bankruptcy. Office space is not yet showing significant deterioration in our markets, although dramatic job losses could impact this segment in 2009. We see softness in construction and development activity due to limited demand and excess supply in some markets. We are watching rents and vacancies in retail and office space closely and factoring trends into new lending decisions. In all sectors, we are

maintaining strong covenants and coverage ratios. This has translated into significant declines in new construction projects in all of our markets and cautious growth in other segments.

We continue to make new loans across a variety of industry segments, as well as lending in new markets, which contributed to the more than $900 million dollars in new commitments and renewals of existing accounts in the fourth quarter.

Finally, we would note that consistent with our strong commitment to support all sectors of our local communities, Capital One originated more than $440 million in loans and investments in Q4 2008 to support activities such as community development and affordable housing.

Investment Activity in Support of Consumer Lending

To the extent that falling loan demand limits the extension of new credit directly to our customers, we put our funds to work by purchasing high quality securities backed by consumer loans. Most often, these loans were originated to help consumers to buy homes, autos and a range of discretionary items. In the fourth quarter, we purchased $6 billion of high quality investment securities backed by mortgage and consumer loans. In the current economic and market environment, investing in high-quality, short-duration securities provides appropriate risk-adjusted returns for our shareholders, and supports the recovery and stabilization of secondary markets that are critical to consumer lending and the economy.

Capital One believes that this disciplined stance is in the best interests of both our customers and investors, including the U.S. taxpayer. Although growth in loan balances has slowed in response to rising charge-offs, run-offs in businesses we've exited and reduced consumer spending, we are actively originating billions of dollars of good loans on good terms with our consumer, commercial and small business customers.

TARP MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: Capital One Financial Corp   Submission date: January 30, 2009   Person to be contacted regarding this report: Kevin Murray

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	 NOV	 DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$7,339	$7,255	$7,204	Mortgage and Home Equity numbers are end of month figures rather than averages and include run-off portfolio inherited from GreenPoint Mortgage	**Capital One has through most of its history not been an originator of, or investor in, residential mortgage loans. GreenPoint Mortgage - a subsidiary of NorthFork Bancorp - was acquired along with NorthFork in December 2006 but its origination business was closed in August 2007. Mortgage loan balances largely reflect assets acquired from NorthFork which are currently in run-off mode**
b. Total Originations	$3	$0	$4		
(1) Refinancings	$1	$0	$0		
(2) New Home Purchases	$2	$0	$4		
2. Home Equity					
a. Average Total Loan Balance	$3,476	$3,449	$3,466	Mortgage and Home Equity numbers are end of month figures rather than averages and include run-off portfolio inherited from GreenPoint Mortgage	**Fluctuations in volume in the measured time period reflect idiosyncratic factors; there have been no changes in credit standards. We continue to originate home equity loans to our customers in our footprint.**
b. Originations (New Lines+Line Increases)	$29	$21	$22		
c. Total Used and Unused Commitments	$4,549	$4,510	$4,456		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$51,883	$52,327	$53,568	US Card reflects only consumer card volumes; All numbers reflect managed portfolio	**We tightened credit standards in the fall to reflect continued worsening in the economic outlook triggered by the events in September. The relatively high origination volume in October reflects the last bookings from earlier campaigns prior to the new standards going into effect. The increase in outstandings in December reflects holiday sales. Overall, fourth quarter loan growth in the US Card business was weaker than usual, on the heels of weak holiday spending. Despite weak economic growth, we opened 1 million new consumer credit card accounts in the quarter. We continue to originate new credit card accounts through our direct mail and internet channels.**
b. New Account Originations (Initial Line Amt)	$1,728	$983	$960		
c. Total Used and Unused Commitments	$178,170	$178,157	$178,091		
4. Other Consumer					
a. Average Total Loan Balance	$33,781	$33,363	$32,850	Other consumer non-revolving include auto loans, unsecured installment loans and other non-revolving loans secured by boats, RVs, money-market accounts, etc and $200 million of unsecured other consumer revolving lines	**We've observed greater increases in the risk of closed-end loan customers in "Boom and Bust" housing markets as compared to the risk of credit card customers in those housing markets. In response to adverse credit trends, we've had to be very disciplined in originating most closed-end loans. Auto Finance trends continue to show the impacts of broad economic worsening, falling auto sales and the impact of sharply falling used card auction prices.**
b. Originations	$794	$673	$664	For the small volume of revolving loans, the line extended is included in originations.	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$23,516	$23,722	$23,921	Small Business credit cards are included in C&I avg balance and new commitments numbers.	**Growth in the fourth quarter was moderated by weakening demand which has continued into the first quarter of 2009. Loan demand was moderately weaker for large and middle market firms. For smaller firms, loan demand was substantially weaker. The decrease in demand was attributed to decreasing needs for the financing of plant, equipment, inventory and accounts receivable. Not withstanding deteriorating economic conditions, we continue to make new loans across a variety of industry segments.**
b. Renewal of Existing Accounts	$220	$189	$167		
c. New Commitments	$514	$716	$699	Unutilized capacity of both small business cards and more broadly C&I lending is not captured anywhere on the "Snapshot."	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$17,355	$17,421	$17,439		**Despite deteriorating economic conditions, we increased our CRE portfolio modestly. The Retail asset class has softened overall as many retailers have cut back expansion plans or gone into bankruptcy. Office space is not yet showing significant deterioration in our markets, although dramatic job losses could impact this segment in '09. We see softness in construction and development activity due to limited demand and excess supply in some markets. We are watching rents and vacancies in retail and office space closely and factoring trends into new lending decisions. In all sectors, we are maintaining strong covenants and coverage ratios. This has translated into significant declines in new construction projects in all of our markets and cautious growth in other segments.**
b. Renewal of Existing Accounts	$58	$23	$102		
c. New Commitments	$132	$220	$406		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$1,832	$1,212	$1,548		**Asset Backed Securities are predominantly made up of securities backed by credit card and auto loan receivables**
b. Asset Backed Securities	$414	$285	$568		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	n/a	n/a	n/a	Secured Lending and Underwriting not applicable	
b. Average Total Debit Balances[2]	n/a	n/a	n/a	Secured Lending and Underwriting not applicable	
3. Underwriting					
a. Total Equity Underwriting	n/a	n/a	n/a	Secured Lending and Underwriting not applicable	
b. Total Debt Underwriting	n/a	n/a	n/a	Secured Lending and Underwriting not applicable	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.