



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 11, 2009

Mr. Stephen Linehan  
Executive Vice President  
and Treasurer  
Capital One Financial Corporation  
1680 Capital One Drive  
McLean, Virginia 22102

Dear Mr. Linehan:

This letter is in response to the request from Capital One Financial Corporation (“COFC”), McLean, Virginia, for an exemption from the requirements of the Board’s market risk rule for bank holding companies (the “Market Risk Rule”).<sup>1</sup>

Under the Market Risk Rule, an institution with significant exposure to market risk must maintain adequate capital to support that exposure. Absent an exemption from the Board, a bank holding company with trading activity equal to 10 percent or more of total assets or \$1 billion or more is subject to the Market Risk Rule.<sup>2</sup> The Board has authority to provide exemptions from the Market Risk Rule if it determines an institution meets such criteria as a consequence of accounting, operational, or similar considerations, and the Board deems it consistent with safe and sound banking practices.<sup>3</sup>

On June 30, 2008, COFC reclassified [REDACTED] of retained interests associated with securitization transactions (the “securitization assets”) from its other assets account to its trading account (“Trading Assets”).<sup>4</sup> As a result of this reclassification, COFC became subject to the Market Risk Rule. COFC has requested that it be permitted to continue to apply the Board’s credit risk capital rules for bank holding companies (“Credit Risk Capital Rules”) to all trading account assets.<sup>5</sup> Although COFC classifies the securitization assets as trading assets for

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<sup>1</sup> 12 CFR part 225, Appendix E.

<sup>2</sup> 12 CFR part 225, Appendix E, § 1(b)(1)(ii).

<sup>3</sup> 12 CFR part 225, Appendix E, § 1(b)(3). To date, the Board has not granted a full exemption from the Market Risk Rule.

<sup>4</sup> See 12 CFR part 225, Appendix E, § 1(a). Positions covered by the Market Risk Rule (“covered positions”) generally include all assets, liabilities, and off-balance-sheet items in a bank holding company’s trading account, and all foreign exchange and commodity positions both in and outside the trading account.

<sup>5</sup> The Credit Risk Capital Rules are found at 12 CFR part 225, Appendices A and F.

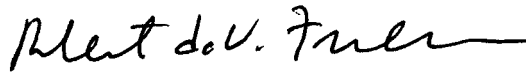
accounting purposes, COFC does not manage the securitization assets in a market risk framework, and COFC would incur substantial expense to comply with the Market Risk Rule. Moreover, the continued application of the Credit Risk Capital Rules to the securitization assets would result in a substantially higher risk-based capital requirement than would apply under the Market Risk Rule. Under the Credit Risk Capital Rules, the securitization assets receive a dollar-for-dollar capital charge.<sup>6</sup> The Board believes that a dollar-for-dollar capital charge is more appropriate for the securitization assets than the capital treatment they would receive under the Market Risk Rule.

Based on all the facts of record, including the information provided in the request for an exemption and the Federal Reserve's knowledge of COFC's other trading activities, the Board has determined that it would be consistent with safe and sound banking practices to exempt COFC from application of the Market Risk Rule. Accordingly, the Board hereby grants the requested exemption.

This determination is specifically conditioned on compliance by COFC with all the commitments and representations made to the Board in connection with the request for exemption. These commitments and representations are deemed to be conditions imposed in writing by the Board in connection with granting the request and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific facts and circumstances of COFC, including the present composition of COFC's Trading Assets. Any material change in those facts or circumstances or any failure by COFC to observe any of its commitments or representations may result in a different determination or in revocation of the exemption. In particular, if the composition of COFC's Trading Assets should change such that COFC's Trading Assets--excluding the securitization assets and any other assets that are subject to dollar-for-dollar capital requirements under the Credit Risk Capital Rules--exceed \$1 billion, this exemption will no longer apply.

Please contact David Johnston of the Federal Reserve Bank of Richmond at (410) 951-4662 if you have any questions.

Sincerely yours,



Robert deV. Frierson  
Deputy Secretary of the Board

cc: David Johnston  
Federal Reserve Bank of Richmond

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<sup>6</sup> 12 CFR part 225, Appendix A, § III.B.3.e.i.