



Capital One Financial Corporation  
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McLean, Virginia 22102

December 16, 2019

Chief Counsel's Office, Attn: Comment Processing  
Office of the Comptroller of the Currency  
400 7<sup>th</sup> Street, SW, Suite 3E-218  
Washington, DC 20219

Robert E. Feldman, Executive Secretary  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20249

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Via Electronic Delivery

**Re: Interagency Guidance on Credit Risk Review Systems, RIN 3064-ZA09**

Capital One Financial Corporation ("Capital One")<sup>1</sup> appreciates the opportunity to provide comments on the proposed revised guidance supporting an effective credit risk review system (herein, "Proposed Guidance") issued jointly by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration (collectively, the "Agencies"). We support the Agencies in their effort to update the guidance. While opportunities exist to make improvements, the proposal includes the fundamental elements of a sound credit risk review system.

Capital One has one of the nation's largest credit card and auto lending businesses with \$175.6 billion in credit card, auto, and retail banking loans, as well as, \$73.7 billion in commercial loans.<sup>2</sup> We help consumers in the United States, Canada, and the United Kingdom use credit wisely across the credit score spectrum by offering products and services to people with fair credit, rebuilding credit, or good/excellent credit. Because of our concentration in

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<sup>1</sup> Capital One Financial Corporation ([www.capitalone.com](http://www.capitalone.com)) is a financial holding company whose subsidiaries, which include Capital One, N.A., and Capital One Bank (USA), N.A., had \$257.1 billion in deposits and \$378.8 billion in total assets as of September 30, 2019. Headquartered in McLean, Virginia, Capital One offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients through a variety of channels. Capital One, N.A. has branches located primarily in New York, Louisiana, Texas, Maryland, Virginia, New Jersey and the District of Columbia. A Fortune 500 company, Capital One trades on the New York Stock Exchange under the symbol "COF" and is included in the S&P 100 index.

<sup>2</sup> As of September 30, 2019.

consumer credit, we have a particular interest in clarified expectations regarding the credit review of consumer portfolios.

We believe the Proposed Guidance reinforces the critical assurance role of an independent credit risk review function (“Credit Review”). While the Proposed Guidance includes the core elements of a sound credit risk review system, we recommend that the Agencies should adopt principles-based guidance relevant directly to consumer loan (i.e., credit card, auto and mortgage) credit risk review programs. Our specific comments and recommendations on the Proposed Guidance are discussed in detail below.

***I. The Proposed Guidance reinforces the critical assurance role of an independent Credit Review function within a bank’s overall risk management program.***

Capital One strongly agrees that final guidance should be principles-based to allow banks to customize their Credit Review depending on the institution’s size, complexity, loan types, risk profile, and risk management practices. Aside from laying out the foundational elements of a sound credit risk review program, the Agencies should not prescribe how Credit Review should operate, and the Proposed Guidance largely achieves that balance. We also agree with the fundamental principle that Credit Review is a critical and independent assurance role within a bank’s broader risk management program. As the Agencies acknowledge, the role of Credit Review has evolved to become much more than providing assurance on the Allowance for Loan and Lease Losses (“ALLL”) calculation. For example, at Capital One, the board of directors relies on our Credit Review team to provide independent and objective assurance that our credit-related risk management and governance processes are well-designed, effective and working as intended across the first and second lines of defense. Having standalone guidance ensures Credit Review’s stature and parity with the other lines of defense. Finally, we support the Agencies in reinforcing the critical importance of Credit Review’s independence by requiring the function to report directly to the board of directors, while clarifying that reporting to a committee thereof is acceptable.

***II. While the Proposed Guidance includes the core elements of a sound credit risk review system, the Agencies should adopt principles-based guidance relevant directly to consumer credit risk review.***

The core elements in the Proposed Guidance outlining an effective credit risk review system are generally appropriate. We appreciate the Agencies’ stated intent to describe a broad set of practices that may occur within multiple units to form a credit risk review system. However, while the guidance’s specific recommendations align well to a *commercial* credit risk review program, they are less relevant to a *consumer* credit risk review program. For example, sampling and performing individual file reviews of smaller loan populations are more likely to

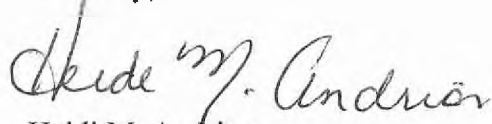
be representative of and highlight unfavorable credit quality trends for non-homogeneous wholesale credit portfolios. The sampling of small consumer loan populations (i.e., 25 credit card loans pulled from a vintage containing thousands or even millions of loans) is less meaningful in drawing assurance conclusions over large vintages of new consumer loans or total portfolios. Therefore, we recommend that the final guidance, particularly in the “Scope of Reviews” and “Depth of Transaction Reviews” sections, clarify which elements are applicable to the review of consumer portfolios.

The operational mechanics, borrower behaviors, and portfolio composition of consumer loans are very different from commercial loans. The use of analytic and/or MIS-based tools are important means for providing consumer credit review assurance over consumer lending activities and governance therein. In addition, consumer lending generally relies heavily on statistical models to perform the underwriting and credit line assignment decisions in most larger bank environments. Therefore, we recommend that the final guidance reinforces that an important assurance activity is to have assurance coverage over the appropriateness and effectiveness of credit model design, performance and governance.

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We commend the agencies for revisiting credit risk review guidance. Thank you for considering the enclosed recommendations and if you have any questions regarding the content of this letter or would like more information, please do not hesitate to contact me at [heidi.andrion@capitalone.com](mailto:heidi.andrion@capitalone.com) or (646) 836-5022.

Sincerely,

A handwritten signature in dark ink, reading "Heidi M. Andrion". The signature is fluid and cursive, with the first name "Heidi" being more prominent and the last name "Andrion" following in a similar style.

Heidi M. Andrion  
Senior Vice President, Head of Credit Review