

CAPITAL ONE FINANCIAL CORP
Form 10-Q
November 08, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

54-1719854
(I.R.S. Employer Identification No.)

1680 Capital One Drive, McLean, Virginia
(Address of Principal Executive Offices)

22102
(Zip Code)

Registrant's telephone number, including area code:
(703) 720-1000

(Not applicable)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act)
Yes No

As of October 31, 2010, there were 456,926,449 shares of the registrant’s Common Stock, par value \$.01 per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in conjunction with our unaudited condensed consolidated financial statements and related notes, and the more detailed information contained in our 2009 Annual Report on Form 10-K (“2009 Form 10-K”). This discussion contains forward-looking statements that are based upon management’s current expectations and are subject to significant uncertainties and changes in circumstances. For additional information, see “Forward-Looking Statements” below. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in this report in “Part II —Item 1A. Risk Factors” and in our 2009 Form 10-K in “Part I—Item 1A. Risk Factors.”

I. INTRODUCTION

Capital One Financial Corporation (the “Company”) is a diversified financial services company with banking and non-banking subsidiaries that market a variety of financial products and services. The Company and its subsidiaries are hereafter collectively referred to as “we”, “us” or “our.” We continue to deliver on our strategy of combining the power of national scale lending and local scale banking. Our principal subsidiaries include:

- Capital One Bank (USA), National Association (“COBNA”) which currently offers credit and debit card products, other lending products and deposit products.
- Capital One, National Association (“CONA”) which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients. On July 30, 2009, we merged Chevy Chase Bank, F.S.B. (“Chevy Chase Bank”) into CONA.

CONA and COBNA are hereafter collectively referred to as the “Banks.”

Our revenues are primarily driven by lending to consumers and commercial customers and by deposit-taking activities, which generate net interest income, and by activities that generate non-interest income, including the sale and servicing of loans and providing fee-based services to customers. Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. Our expenses primarily consist of the cost of funding our assets, our provision for loan and lease losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements, and branch operations and expansion costs), marketing expenses and income taxes. We had \$126.3 billion in total loans outstanding and \$119.2 billion in deposits as of September 30, 2010, compared with \$136.8 billion in total managed loans outstanding and \$115.8 billion in deposits as of December 31, 2009.

We prepare our consolidated financial statements using generally accepted accounting principles in the U.S. (“U.S. GAAP”). We refer to the presentation as “reported basis.” Effective January 1, 2010, we prospectively adopted two new accounting standards that resulted in the consolidation of a substantial portion of our securitization trusts. Prior to January 1, 2010, we also presented and analyzed our results on a non-GAAP “managed basis.” Our managed basis presentation assumed that loans that had been securitized and accounted for as sold in accordance with U.S. GAAP remained on our consolidated balance sheets. As a result of the adoption of the new consolidation accounting standards, our reported and managed basis presentations are generally comparable for periods beginning after January

1, 2010. We provide more information on the impact from the adoption of the new consolidation accounting standards on our reported financial statements and our non-GAAP managed basis financial results below under “Impact from Adoption of New Consolidation Accounting Standards.”

Table 1 presents selected consolidated financial data and metrics for the three and nine months ended September 30, 2010 and 2009, and as of September 30, 2010 and 2009. We present both reported and managed basis financial information for periods prior to 2010.

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Table 1: Consolidated Corporate Financial Summary and Selected Metrics

(Dollars in millions)	Three Months Ended September 30,					Nine Months Ended September 30,				
	2010	2009		Change		2010	2009(1)		Change	
	Reported	Reported	Managed	Reported	Managed	Reported	Reported	Managed	Reported M	
Income statement data:										
Net interest income	\$3,109	\$2,005	\$3,212	55 %	(3)%	\$9,434	\$5,743	\$8,919	64 %	
Non-interest income	907	1,553	1,373	(42)	(34)	2,775	3,874	3,548	(28)	
Total revenue(2)	4,016	3,558	4,585	13	(12)	12,209	9,617	12,467	27	
Provision for loan and lease losses	867	1,173	2,200	(26)	(61)	3,069	3,386	6,236	(9)	
Non-interest expense(3)	1,996	1,802	1,802	11	11	5,843	5,469	5,469	7	
Income (loss) from continuing operations before taxes	1,153	583	583	98	98	3,297	762	762	333	
Provision for income taxes	335	146	146	129	129	948	179	179	430	
Income (loss) from continuing operations, net of tax	818	437	437	87	87	2,349	583	583	303	
Loss from discontinued operations, net of tax(4)	(15)	(43)	(43)	(65)	(65)	(303)	(75)	(75)	304	
Net income	\$803	\$394	\$394	104 %	104 %	\$2,046	\$508	\$508	303 %	
Net income (loss) available to common shareholders	\$803	\$394	\$394	104 %	104 %	\$2,046	\$(56)	\$(56)	**	
Per common share data:	\$1.78	\$0.88	\$0.88	102 %	102 %	\$4.53	\$(0.13)	\$(0.13)	**	

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Basic earnings per share										
Diluted earnings per share	1.76	0.87	0.87	102	102	4.49	(0.13)	(0.13)	**	
Average balances:										
Loans held for investment	\$126,307	\$99,354	\$143,540	27 %	(12)%	\$129,565	\$101,491	\$145,311	28 %	
Investment securities	39,872	37,377	37,377	7	7	38,979	36,378	36,378	7	
Interest-bearing deposits	104,186	103,105	103,105	1	1	104,119	103,730	103,730	-	
Total deposits	118,255	115,882	115,882	2	2	118,095	115,939	115,939	2	
Other borrowings	6,483	8,553	8,553	(24)	(24)	6,932	9,205	9,205	(25)	
Selected metrics:										
Revenue margin(5)	9.31 %	9.80 %	9.87 %	(49)bps	(56)bps	9.23 %	8.79 %	8.90 %	44 bps	
Net interest margin(6)	7.21	5.52	6.91	169	30	7.13	5.25	6.37	188	
Risk-adjusted margin(7)	5.78	6.69	5.23	(91)	55	5.26	5.70	4.45	(44)	
Net charge-off rate(8)	4.82	4.54	6.00	28	(118)	5.41	4.44	5.72	97	
Return on average assets(9)	1.66	1.01	0.81	65	85	1.56	0.45	0.36	111	
Return on average equity(10)	12.93	6.72	6.72	621	621	12.78	2.92	2.92	986	
Period-end 30+ day performing delinquency rate	3.71	4.12	4.55	(41)	(84)	3.71	4.12	4.55	(41)	

**Not meaningful.

(1)Effective February 27, 2009, we acquired Chevy Chase Bank. Accordingly, our results for the first nine months of 2009 include only a partial impact from Chevy Chase Bank.

(2)The estimated uncollectible portion of billed finance charges and fees, which were not recognized as revenue, totaled \$190 million and \$517 million for the three months ended September 30, 2010 and 2009, respectively, and \$805 million and \$1.6 billion for the nine months ended September 30, 2010 and 2009, respectively.

(3)In 2009, we completed the restructuring of our operations that was initiated in 2007 to reduce expenses and improve our competitive cost position. Non-interest expense includes restructuring expenses totaling \$26 million

for the three months ended September 30, 2009, and \$87 million for the nine months ended September 30, 2009.

- (4) Discontinued operations reflect ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of Greenpoint and its wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ("GreenPoint") which we closed in 2007.
- (5) Calculated by dividing annualized revenues for the period by average earning assets for the period.
- (6) Calculated by dividing annualized net interest income for the period by average interest-earning assets.

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(7) Calculated by dividing annualized total revenues less net charge-offs for the period by average interest-earning assets.

(8) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period.

(9) Calculated by dividing annualized net income (loss) available to common stockholders for the period by average total assets.

(10) Calculated by dividing annualized net income (loss) available to common stockholders for the period by average equity.

We evaluate our financial performance and report our results through three operating segments: Credit Card, Consumer Banking and Commercial Banking.

- **Credit Card:** Consists of our domestic consumer and small business card lending, domestic small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.
- **Consumer Banking:** Consists of our branch-based lending and deposit gathering activities for consumer and small businesses, national deposit gathering, national automobile lending and consumer mortgage lending and servicing activities.
- **Commercial Banking:** Consists of our lending, deposit gathering and treasury management services to commercial real estate and middle market customers. Our Commercial Banking business results also include the results of a national portfolio of small-ticket commercial real-estate loans that are in run-off mode.

Table 2 summarizes our results by business segments for the three and nine months ended September 30, 2010 and 2009. We report our business segment results based on income from continuing operations, net of tax. In 2009, we realigned our organizational structure and business segment reporting to reflect our operating results by product type and customer segment and to integrate the operations of Chevy Chase Bank. We revised our reportable segments and the results for our segments for all periods presented to conform to the organizational and segment reporting changes.

Table 2: Business Segment Results (1)

(Dollars in millions)	Three Months Ended September 30,							
	2010				2009			
	Total Revenue (2)		Net Income (Loss)		Total Revenue (2)		Net Income (Loss)	
Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	
Credit Card	\$2,605	65 %	\$631	77 %	\$2,991	65 %	\$292	67 %
Consumer Banking	1,142	28	175	21	1,060	23	145	33
Commercial Banking	355	9	39	5	344	8	(128)	(29)
Other(3)	(86)	(2)	(27)	(3)	190	4	128	29
Total from continuing operations	\$4,016	100 %	\$818	100 %	\$4,585	100 %	\$437	100 %

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Nine Months Ended September 30,

(Dollars in millions)	2010				2009			
	Total Revenue (2)		Net Income (Loss)		Total Revenue (2)		Net Income (Loss)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	\$8,072	66 %	\$1,688	72 %	\$8,363	67 %	\$468	80 %
Consumer Banking	3,451	28	785	33	2,999	24	252	43
Commercial Banking	1,088	9	67	3	959	8	(77)	(13)
Other(3)(4)	(397)	(3)	(191)	(8)	146	1	(60)	(10)
Total from continuing operations	\$12,214	100 %	\$2,349	100 %	\$12,467	100 %	\$583	100 %

(1) See "Note 12 – Business Segments" for a reconciliation of our total business segment results to our consolidated GAAP results.

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- (2) Total revenue consists of net interest income and non-interest income. Total company revenue displayed for 2009 is based on our non-GAAP managed basis results. For more information on this measure and a reconciliation to the comparable GAAP measure, see “Exhibit 99.3— Reconciliation to GAAP Financial Measures.”
- (3) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments as well as other items as described in “Note 12 – Business Segments”.
- (4) During the first quarter of 2009, Chevy Chase Bank was included within the Other category.

II. IMPACT FROM ADOPTION OF NEW CONSOLIDATION ACCOUNTING STANDARDS

Impact on Reported Financial Information

Effective January 1, 2010, we prospectively adopted two new accounting standards that had a significant impact on our accounting for entities previously considered to be off-balance sheet arrangements. The adoption of these new accounting standards resulted in the consolidation of our credit card securitization trusts, one of our installment loan trusts and certain option-adjustable rate mortgage (“option-ARM”) loan trusts originated by Chevy Chase Bank. Prior to January 1, 2010, transfers of our credit card receivables, installment loans and certain option-adjustable rate mortgage loans to our securitization trusts were accounted for as sales and treated as off-balance sheet. At the adoption of these new accounting standards on January 1, 2010, we added to our reported consolidated balance sheet \$41.9 billion of assets, consisting primarily of credit card loan receivables underlying the consolidated securitization trusts, along with \$44.3 billion of related debt issued by these trusts to third-party investors. We also recorded an after-tax charge to retained earnings on January 1, 2010 of \$2.9 billion, reflecting the net cumulative effect of adopting these new accounting standards. This charge primarily related to the addition of \$4.3 billion to our allowance for loan and lease losses for the newly consolidated loans and the recording of \$1.6 billion in related deferred tax assets. The initial recording of these amounts on our reported balance sheet as of January 1, 2010 had no impact on our reported income. We provide additional information on the impact on our financial statements from the adoption of these new accounting standards in “Note 1—Summary of Significant Accounting Policies” and “Note 5—Variable Interest Entities and Securitizations.” We discuss the impact on our capital ratios below in “Capital.”

Although the adoption of these new accounting standards does not change the economic risk to our business, specifically our exposure to liquidity, credit and interest rate risks, the prospective adoption of these rules has a significant impact on our capital ratios and the presentation of our reported consolidated financial statements, including changes in the classification of specific consolidated statements of income line items. The most significant changes to our reported consolidated financial statements are outlined below:

Financial Statement	Accounting and Presentation Changes
Balance Sheet	Significant increase in restricted cash, securitized loans and securitized debt resulting from the consolidation of securitization trusts.
	Significant increase in the allowance for loan and lease losses resulting from the establishment of a loan loss reserve for the loans underlying the consolidated securitization trusts.

	.	Significant reduction in accounts receivable from securitizations resulting from the reversal of retained interests held in securitization trusts that have been consolidated.
Statement of Income	.	Significant increase in interest income and interest expense attributable to the securitized loans and debt underlying the consolidated securitization trusts.
	.	Changes in the amount recorded for the provision for loan and lease losses, resulting from the establishment of an allowance for loan and lease losses for the loans underlying the consolidated securitization trusts.
	.	Amounts previously recorded as servicing and securitization income are now classified in our results of operations in the same manner as the earnings on loans not held in securitization trusts.

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Financial Accounting and Presentation Changes
Statement

Statement of Cash Flows	Significant change in the amounts of cash flows from investing and financing activities.
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Beginning with the first quarter of 2010, our reported consolidated statements of income no longer reflect securitization and servicing income related to newly consolidated loans. Instead, we report interest income, net charge-offs and certain other income associated with securitized loan receivables and interest expense associated with the debt securities issued from the trust to third party investors in the same consolidated statements of income categories as loan receivables and corporate debt. Additionally, we no longer record initial gains on new securitization activity since the majority of our securitized loans will no longer receive sale accounting treatment. Because our securitization transactions are being accounted for under the new consolidation accounting rules as secured borrowings rather than asset sales, the cash flows from these transactions are presented as cash flows from financing activities rather than as cash flows from operating or investing activities. Notwithstanding this change in accounting, our securitization transactions are structured to legally isolate the receivables from the Company, and we do not expect to be able to access the assets of our securitization trusts. We do, however, continue to have the rights associated with our retained interests in the assets of these trusts.

Because we prospectively adopted the new consolidation accounting standards, our historical reported results and consolidated financial statements for periods prior to January 1, 2010 reflect our securitization trusts as off-balance sheet in accordance with the applicable accounting guidance in effect during this period. Accordingly, our reported results and consolidated financial statements subsequent to January 1, 2010 are not presented on a basis consistent with our reported results and consolidated financial statements for periods prior to January 1, 2010. This inconsistency limits the comparability of our post-January 1, 2010 reported results to our prior period reported results.

Impact on Non-GAAP Managed Financial Information

In addition to analyzing our results on a reported basis, management historically evaluated our total company and business segment results on a non-GAAP “managed” basis. Our managed presentations reflected the results from both our on-balance sheet loans and off-balance sheet loans and excluded the impact of card securitization activity. Our managed presentations assumed that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. Our managed results also reflected differences in accounting for the valuation of retained interests and the recognition of gains and losses on the sale of interest-only strips. Our managed results did not include the addition of an allowance for loan and lease losses for the loans underlying our off-balance sheet securitization trusts. Prior to January 1, 2010, we used our non-GAAP managed basis presentation to evaluate the credit performance and overall financial performance of our entire managed loan portfolio because the same underwriting standards and ongoing risk monitoring are used for both securitized loans and loans that we own. In addition, we used the managed presentation as the basis for making decisions about funding our operations and allocating resources, such as employees and capital. Because management used our managed basis presentation to evaluate our performance, we also provided this information to investors. We believed that our managed basis information was useful to investors because it portrayed the results of both on- and off-balance sheet loans that we managed, which enabled investors to understand the credit risks associated with the portfolio of loans reported on our consolidated balance sheet and our retained interests in securitized loans.

In periods prior to January 1, 2010, certain of our non-GAAP managed measures differed from the comparable reported measures. The adoption on January 1, 2010 of the new consolidation accounting standards resulted in accounting for the loans in our securitization trusts in our reported financial statements in a manner similar to how we

account for these loans on a managed basis. As a result, our reported and managed basis presentations are generally comparable for periods beginning after January 1, 2010.

We believe that investors will be able to better understand our financial results and evaluate trends in our business if our period-over-period data are reflected on a more comparable basis. Accordingly, unless otherwise noted, this MD&A compares our reported GAAP financial information as of and for the three months and nine months ended September 30, 2010 with our non-GAAP managed based financial information as of and for the three months and nine months ended September 30, 2009 and as of December 31, 2009. We provide a reconciliation of our non-GAAP managed based information for periods prior to January 1, 2010 to the most comparable reported GAAP information in “Exhibit 99.3— Reconciliation to GAAP Financial Measures.”

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III. EXECUTIVE SUMMARY AND BUSINESS
OUTLOOK

Financial Highlights

We reported net income attributable to common shareholders of \$803 million (\$1.76 per diluted share) in the third quarter of 2010, with all of our business segments contributing to earnings. In comparison, we reported net income of \$608 million (\$1.33 per diluted share) in the second quarter of 2010 and net income of \$394 million (\$0.87 per diluted share) in the third quarter of 2009. We generated net income of \$2.0 billion (\$4.49 per diluted share) in the first nine months of 2010, compared with a net loss of \$56 million (\$(0.13) per diluted share) in the first nine months of 2009. As noted above, the presentation of our results on a non-GAAP managed basis prior to January 1, 2010 assumed that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. These classification differences resulted in differences in certain revenue and expense components of our results of operations on a reported basis and our results of operations on a managed basis, although net income for both bases was the same.

The increase in our net income of \$195 million, or 32%, in the third quarter of 2010 from the second quarter of 2010 was attributable to an increase in total revenue and reduction in loss from discontinued operations, which were offset by an increase in our provision for loan and lease losses.

- Increase in total revenue: Total revenue in the third quarter of 2010 increased by \$112 million, or 3%, from the second quarter of 2010, reflecting a modest increase in net interest income and an increase in non-interest income of \$100 million due to a significant reduction in the mortgage loan repurchase provision related to continuing operations recorded in the third quarter of 2010.
- Decrease in loss from discontinued operations: The loss from discontinued operations decreased by \$189 million from the second quarter of 2010 to \$15 million in the third quarter of 2010, attributable to the absence of the prior quarter after-tax provision for mortgage loan repurchase losses of \$199 million (\$309 million pre-tax) related to discontinued operations in the third quarter of 2010 related to discontinued operations.
- Increase in provision for loan and lease losses: The favorable impact from the increase in total revenue and decrease in loss from discontinued operations was partially offset by an increase in our provision for loan and lease losses of \$144 million, driven by a smaller allowance release of \$624 million in the third quarter of 2010, compared with a release of \$1.0 billion in the second quarter of 2010. Although we reduced our allowance release, our credit quality indicators continued to show signs of improvement as a result of the slowly improving economy and actions taken by us over the past several years to improve underwriting standards and exit portfolios with unattractive credit metrics.

As a result of our earnings in the third quarter of 2010, our financial strength and capacity to absorb risk remained high. Our Tier 1 risk-based capital ratio of 11.1% as of September 30, 2010, was up 120 basis points from 9.9% at the end of the second quarter of 2010 and comfortably above the regulatory well-capitalized minimum. Our Tier 1 common equity ratio, a non-GAAP measure, increased to 8.2%, up 120 basis points from 7.0% at the end of the second quarter of 2010, and our tangible common equity to tangible managed assets ("TCE ratio"), also a non-GAAP measure, increased to 6.6%, up 50 basis points from 6.1% at the end of the second quarter of 2010. We provide a reconciliation of these non-GAAP measures to the comparable GAAP measures in the "Capital" section of this report and in "Exhibit 99.3— Reconciliation to GAAP Financial Measures."

Below are additional highlights of our performance for the third quarter and first nine months of 2010. These highlights generally are based on a comparison of our reported results for the third quarter and first nine months of

2010 to our managed results for the third quarter and first nine months of 2009. The highlights of changes in our financial condition and credit performance are generally based on our reported financial condition and credit statistics as of September 30, 2010, compared with our financial condition and credit performance on a managed basis as of December 31, 2009. We provide a more detailed discussion of our results of operation, financial condition and credit performance in “Consolidated Financial Performance,” “Consolidated Balance Sheet Analysis and Credit Performance” and “Business Segment Financial Performance.”

- **Credit Card:** Our Credit Card business generated net income of \$631 million and \$1.7 billion in the third quarter and first nine months of 2010, respectively, up from \$292 million and \$468 million in the third quarter and first nine months of 2009, respectively. The primary drivers of the improvement in our Credit Card business results were an increase in the net interest margin and a significant decrease in the provision for loan and lease losses. The increase in the net interest margin was attributable to the combined impact of higher asset yields and lower funding costs. The increase in the average yield on our credit card loan portfolio reflected the benefit of pricing changes that we implemented during 2009 and the continued benefit from rising collectability estimates due to favorable credit trends, while the decrease in our funding costs was attributable to the lower interest rate environment. The decrease in the provision for loan and lease losses was due to more favorable credit quality trends as well as a decline in outstanding loan balances. Of the \$624 million and \$2.2 billion reduction in the allowance in the third quarter and first nine months of 2010, respectively, \$569 million and \$1.8 billion, respectively, was attributable to our Credit Card business.

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- **Consumer Banking:** Our Consumer Banking business generated net income of \$175 million and \$785 million in the third quarter and first nine months of 2010, up from \$145 million and \$252 million in the third quarter and first nine months of 2009, respectively. The significant improvement in profitability in our Consumer Banking business was attributable to improved credit conditions and consumer credit performance, particularly within our auto loan portfolio, including reduced charge-offs. The decrease in charge-offs resulted in a substantial reduction in the provision for loan and lease losses and allowance releases. Our Consumer Banking business also benefited from deposit growth resulting from our continued strategy to leverage our bank outlets to attract lower cost funding sources and from improved deposit spreads, as we continue to shift the mix of our deposits to lower cost consumer savings and money market deposits from higher cost time deposits.
- **Commercial Banking:** Our Commercial Banking business generated net income of \$39 million and \$67 million in the third quarter and first nine months of 2010, compared with a net loss of \$128 million and \$77 million in the third quarter and first nine months of 2009. The improvement in results for our Commercial Banking business was attributable to the stabilization in credit performance trends since the end of 2009, resulting in a significant reduction in the provision for loan and lease losses. Strong deposit growth resulting from our continued strategy to grow deposits as a lower cost funding source, as well as improved deposit spreads resulting from repricing of higher rate deposits to lower rates in response to the overall lower interest rate environment also provided a benefit to our Commercial Banking business. While our Commercial Banking credit metrics remain elevated, the commercial real estate market has exhibited signs of continuing improvement, including increasing leasing activity, declining vacancies and re-entry of traditional commercial real estate investors and sponsors into the market, particularly in New York where we have our most significant concentration.
- **Total Loans:** Total loans held for investment decreased by \$10.5 billion, or 8%, during the first nine months of 2010 to \$126.3 billion as of September 30, 2010, from \$136.8 billion as of December 31, 2009. This decrease was primarily due to the expected run-off of installment loans in our Credit Card business and mortgage loans in our Consumer Banking business, elevated charge-offs and weak consumer demand.
- **Charge-off and Delinquency Statistics:** Although net charge-off and delinquency rates remain elevated, these rates continued to show signs of improvement in the third quarter of 2010. The net charge-off rate decreased to 4.82% in the third quarter of 2010, from 5.36% in the second quarter of 2010, and the 30+ day performing delinquency rate decreased to 3.71%, from 3.81% in the second quarter of 2010. Based on strong credit performance trends, such as the significant decline in the 30+ day performing delinquency rate from 4.73% at the end of 2009, we believe our net-charge offs peaked in the first quarter of 2010.
- **Allowance for Loan and Lease Losses:** As a result of the adoption of the new consolidation accounting guidance, we increased our allowance for loan and lease losses by \$4.3 billion to \$8.4 billion on January 1, 2010. The initial recording of this amount on our reported balance sheet as of January 1, 2010 reduced our stockholders' equity but had no impact on our reported results of operations. After taking into consideration the \$4.3 billion addition to our allowance for loan and lease losses on January 1, 2010, our allowance for loan and lease losses decreased by \$2.2 billion during the first nine months of 2010, to \$6.2 billion as of September 30, 2010. The decrease was attributable to an overall improvement in credit quality trends, as well as the decrease in loan balances. The allowance as a percentage of our total reported loans held for investment was 4.89% as of September 30, 2010, compared with 5.35% as of June 30, 2010 and 4.55% as of December 31, 2009.
- **Representation and Warranty Reserve:** We have established reserves for our mortgage loan repurchase exposure related to the sale of mortgage loans to various parties under contractual provisions that include various representations and warranties. These reserves reflect inherent losses as of each balance sheet date that we consider

to be both probable and estimable. We recorded a provision for this exposure of \$16 million in the third quarter of 2010, all of which was included in non-interest income, compared with \$404 million in the second quarter of 2010, of which \$95 million was included in non-interest income and \$309 million was included in discontinued operations. We recorded a provision of \$644 million for the first nine months of 2010, of which \$211 million was included in non-interest income and \$433 million was included in discontinued operations. The significant decrease in the mortgage loan repurchase provision in the third quarter of 2010 was attributable to refinements we made during the first and second quarters of 2010 in estimating our mortgage representation and warranty reserves, which resulted in a much higher expense for the second quarter of 2010. These refinements included extending the timeframe over which we estimate our repurchase liability, in most cases to the full life of the mortgage loans sold by our subsidiaries for groups of loans for which we believe repurchases are probable. Our representation and warranty reserves totaled \$836 million as of September 30, 2010, compared with \$238 million as of December 31, 2009.

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Business Environment and Significant Recent Developments

We continue to operate in an environment of elevated economic and regulatory uncertainty. The overall economic recovery remains modest and fragile, which has been reflected in the assumptions we have applied in our underwriting standards and in determining our allowance for loan and lease losses for several quarters. Recent labor market statistics indicate continuing stagnation. The unemployment rate continues to be persistently high, remaining close to ten percent. We also continue to see risks in the housing market, due in part to the large backlog of homes in the foreclosure process and high rate of delinquent loans, which could be exacerbated if recent disruptions in industry foreclosure practices continue. Regulatory uncertainty remains elevated with the ongoing and expected development of new regulations and regulatory organizations resulting from the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act. We provide more information on recent regulatory developments in “Supervision and Regulation.”

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Quarterly Report on Form 10-Q. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in “Item 1. Business” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2009 Form 10-K. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Forward-looking statements do not reflect (i) any change in current dividend or repurchase strategies, (ii) the effect of any acquisitions, divestitures or similar transactions or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See “Forward-Looking Statements” in this Quarterly Report on Form 10-Q and “Item 1A. Risk Factors” of our 2009 Form 10-K for factors that could materially influence our results.

Total Company Expectations

- **Total Loans:** The pace of loan balance decline has slowed, reflecting the decline in charge-offs, gradual abatement of expected portfolio run-offs and seasonal consumer spending trends. We expect loan balances to reach a bottom over the next few quarters, stabilize and begin to grow modestly in 2011. The timing and pace of expected growth will depend on broader economic trends that impact overall consumer and commercial demand. As consumer demand returns, we believe our Domestic Card business is well positioned to gain market share in the new more level playing field created by the CARD Act, due in part to recent product innovations and partnership growth opportunities, such as the expected launching of the recently announced Kohl’s Corp. private-label credit card partnership.
- **Securitization Liability:** We expect the securitized debt obligation to decline to approximately \$27 billion by the end of 2010, which represents a decrease of 44% from the balance as of January 1, 2010.
- **Earnings:** We expect our quarterly revenue margins, which remain at elevated levels, to decline, driven primarily by a decline in our Domestic Card revenue margin from the current level as the factors keeping it elevated normalize over time. We expect our marketing expenses to increase to more normal levels. Based on current trends, we believe our quarterly “pre-provision” earnings (earnings excluding our provision for loan and lease losses) will decline heading into 2011 and stabilize in 2011.

Based on the underlying credit trends we are experiencing, we believe our allowance for loan and lease losses will likely continue to decline in the near-term.

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•Capital: As permitted under the capital rules issued by banking regulators in January 2010, we elected to phase in the impact from the adoption of the new consolidation accounting standards on risk-based capital over 2010 and the first quarter of 2011. We expect our Tier 1 risk-based capital ratio and our non-GAAP Tier 1 common equity ratio to decline into the first quarter of 2011, primarily due to two factors that affect the numerator and denominator used in calculating these ratios: (i) a decrease in the numerator resulting from the disallowance of a portion of the deferred tax assets and (ii) an increase in the denominator due to the remaining phase-in during the first quarter of 2011 of risk-weighted assets resulting from the new consolidation accounting standards. The disallowance of the deferred tax asset is expected to peak in the first quarter of 2011. As we reduce our allowance for loan and lease losses and generate earnings, we expect our disallowed deferred tax asset amount will decrease and contribute to an increase in our Tier 1 capital ratios in 2011. Despite the near-term decline in our Tier 1 risk-based capital ratio, we expect our Tier 1 risk-based capital ratio will remain above well-capitalized minimum levels throughout the regulatory capital phase-in period for the new consolidation standards. Because the phase-in of the new consolidation accounting standards does not impact the TCE ratio, we expect our TCE ratio to reflect our underlying business performance and balance sheet growth.

Based on the current definitions proposed by the Basel Committee, we expect to reach the Basel III minimum common equity ratio, including the capital conservation buffer, in 2011.

Business Segment Expectations

Credit Card Business

We experienced a partial quarter impact in the third quarter of 2010 from the reduction in late fees resulting from the August 22, 2010 implementation of the Federal Reserve “reasonable and proportional” fee regulations related to the CARD Act. Although the major impacts from the Credit CARD Act and cyclical forces will be fully absorbed in the fourth quarter of 2010, our Domestic Card revenue margin remains elevated because of better than expected credit performance and lower than expected account balances with low introductory promotional interest rates due to weak consumer demand. We expect both of these factors to normalize over time, resulting in a decline in our quarterly Domestic Card revenue margin from the current level.

After the CARD Act revenue impacts are absorbed, we believe that Domestic Card revenue margin will be driven by market pricing, the competitive environment and credit performance. Purchase volume and loan growth from increased origination, portfolio acquisitions or partnerships, including the expected launch of the Kohl’s partnership in early 2011, will also affect revenue margins.

Consumer Banking Business

In our Consumer Banking business, we expect the balance of loans in our mortgage portfolio, which largely remains in a run-off mode, to continue to decline during 2010.

Commercial Banking Business

In our Commercial Banking business, nonperforming asset rates and criticized loans improved modestly for two consecutive quarters. We believe, however, that the charge-off rate for our Commercial Banking business will fluctuate over the next several quarters, consistent with typical quarterly variability in commercial banking charge-off rates.

IV. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in “Note 1—Significant Accounting Policies” of our 2009 Form 10-K.

We have identified the following accounting policies as our most critical accounting policies and estimates because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition.

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- Fair value measurement, including the assessment of other-than-temporary impairment of available-for-sale securities;
 - Representation and warranty reserve;
 - Allowance for loan and lease losses;
 - Valuation of goodwill and other intangibles;
 - Finance charge, interest and fee revenue recognition;
 - Derivative and hedge accounting; and
 - Income taxes.

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. The use of fair value to measure our financial instruments is fundamental to the preparation of our consolidated financial statements because we account for and record a significant portion of our assets and liabilities at fair value. Accordingly, we provide information below on financial instruments recorded at fair value in our consolidated balance sheets. We also discuss below refinements we made during the first nine months of 2010 in estimating our loss contingency reserves for mortgage loan repurchase claims pursuant to representation and warranty provisions. Management has discussed significant changes in the judgments or assumptions involved in applying our critical accounting policies with the Audit and Risk Committee of the Board of Directors.

Fair Value

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (also referred to as an exit price). The fair value accounting rules provide a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Each financial asset or liability is assigned to a level based on the lowest level of any input that is significant to its fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.

Level 3: Unobservable inputs.

In the determination of the classification of financial instruments in Level 2 or Level 3 of the fair value hierarchy, we consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions.

Our financial instruments recorded at fair value on a recurring basis represented approximately 21% of our total reported assets of \$196.9 billion as of September 30, 2010, compared with 26% of our total reported assets of \$169.6

billion as of December 31, 2009. Financial assets for which the fair value was determined using significant Level 3 inputs represented approximately 3% of these financial instruments (1% of total assets) as of September 30, 2010, and approximately 14% (4% of total assets) as of December 31, 2009. The decreases in the percentage of financial instruments measured at a fair value on a recurring basis and in the percentage of financial instruments measured using Level 3 inputs were primarily attributable to the increase in our assets from the adoption of the new consolidation accounting standards, as the consolidated loans are generally classified as held for investment and are therefore not measured at fair value on a recurring basis. We discuss changes in the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value and our process for corroborating these inputs, in “Note 11—Fair Value of Financial Instruments.”

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Representation and Warranty Reserve

We sell mortgage loans to various parties, including government sponsored enterprises (“GSEs”), under contractual provisions that include various representations and warranties which typically cover the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the ongoing existence of mortgage insurance, and the loan's compliance with applicable federal, state and local laws. We may be required to repurchase the mortgage loan, indemnify the investor or insurer, or reimburse the investor for credit losses incurred on the loan in the event of a material breach of contractual representations or warranties.

We have established a mortgage repurchase reserve related to various representations and warranties that reflects management’s estimate of probable losses as of each balance sheet date. We regularly evaluate our process for estimating our representation and warranty reserve and assess the adequacy of the reserve on a quarterly basis based on a combination of factors. Factors we consider in establishing the representation and warranty reserve include without limitation: identity of counterparty and the nature of the representation and warranties made to it, trends in repurchase requests, the number and amount of currently open repurchase requests, the status of any litigation arising from repurchase requests, current and future levels of estimated lifetime loan losses to the extent the losses can reasonably be determined, trends in success rates (i.e. the probability that repurchase requests lead to payments), estimated future success rates, estimated gross loss per claim, and estimated value of the underlying collateral. The reserve-setting process relies heavily on estimates, which are inherently uncertain and require the application of judgment.

During the first and second quarters of 2010, we refined our process for estimating our representation and warranty reserve due primarily to counterparty activity and our ability to extend the timeframe over which we estimate our repurchase liability, in most cases, to the full life of the mortgage loans sold by our subsidiaries for groups of loans for which we believe repurchases are probable.

Our representation and warranty mortgage repurchase reserve, which we report as a component of other liabilities in our consolidated balance sheets, totaled \$836 million as of September 30, 2010, compared with \$238 million as of December 31, 2009. We provide additional information on our representation and warranty reserves below in “Consolidated Balance Sheet Analysis and Credit Performance—Representation and Warranty Reserve” and in “Note 13—Commitments Contingencies and Guarantees.”

See our 2009 Form 10-K in “Part I—Item 7. MD&A—Critical Accounting Estimates” for an additional discussion of our critical accounting policies and estimates.

V. RECENT ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements or changes in existing accounting pronouncements may have a significant effect on our results of operations, financial condition, stockholders’ equity, capital ratios or business operations. As discussed above, effective January 1, 2010, we adopted two new accounting standards that had a significant impact on the manner in which we account for our securitization transactions, our consolidated financial statements and our capital ratios. These new accounting standards eliminated the concept of qualified special purpose entities (“QSPEs”), revised the accounting for transfers of financial assets and changed the consolidation criteria for variable interest entities (“VIEs”). Under the new accounting guidance, the determination to consolidate a VIE is based on a qualitative assessment of which party to the VIE has “power” combined with potentially significant benefits or losses, instead of the previous quantitative risks and rewards model. Consolidation is required when an entity has the power to direct matters which significantly impact the economic performance of the VIE, together with either the obligation to absorb

losses or the rights to receive benefits that could be significant to the VIE. The prospective adoption of this new accounting guidance resulted in our consolidating substantially all our existing securitization trusts that had previously been off-balance sheet and eliminated sales treatment for new transfers of loans to securitization trusts.

We provide additional information on the impact of these new accounting standards above in “Impact from Adoption of New Consolidation Accounting Standards” and in “Note 1—Summary of Significant Accounting Policies.” We also identify and discuss the impact of other significant recently issued accounting pronouncements, including those not yet adopted, in “Note 1—Summary of Significant Accounting Policies.”

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VI. OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

In the ordinary course of business, we are involved in various types of transactions with limited liability companies, partnerships or trusts that often involve special purpose entities (“SPEs”) and VIEs. Some of these arrangements are not recorded on our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the transaction, depending on the nature or structure of, and accounting required to be applied to, the arrangement. Because these arrangements involve separate legal entities that have significant limitations on their activities, they are commonly referred to as “off-balance sheet arrangements.” These arrangements may expose us to potential losses in excess of the amounts recorded in the consolidated balance sheets. Our involvement in these arrangements can take many forms, including securitization and servicing activities, the purchase or sale of mortgage-backed or other asset-backed securities in connection with our mortgage portfolio, and loans to VIEs that hold debt, equity, real estate or other assets. Under previous accounting guidance, we were not required to consolidate the majority of our securitization trusts because they were QSPEs. Accordingly, we considered these trusts to be off-balance sheet arrangements.

In June 2009, the Financial Accounting Standards Board (“FASB”) issued two new accounting standards that eliminated the concept of QSPEs, revised the accounting for transfers of financial assets and changed the consolidation criteria for VIEs. As discussed above in “Impact from Adoption of New Consolidation Accounting Standards,” these standards were effective January 1, 2010 and adopted prospectively, which resulted in the consolidation of our credit card securitization trusts, one installment loan trust and certain option-ARM loan trusts originated by Chevy Chase Bank for which we provide servicing.

Our continuing involvement in unconsolidated VIEs primarily consists of certain mortgage loan trusts and community reinvestment and development entities. The carrying amount of assets and liabilities of these unconsolidated VIEs was \$2.2 billion and \$801 million, respectively, as of September 30, 2010, and our maximum exposure to loss was \$2.3 billion. We provide a discussion of our activities related to these VIEs in “Note 5—Variable Interest Entities and Securitizations.”

VII. CONSOLIDATED FINANCIAL PERFORMANCE

The section below provides a comparative discussion of our consolidated corporate financial performance for the three and nine months ended September 30, 2010 and 2009. Following this section, we provide a discussion of our business segment results. You should read this section together with our “Executive Summary and Business Outlook” where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which includes loans held for investment and investment securities, and the interest expense on our interest-bearing liabilities, which includes interest-bearing deposits, senior and subordinated notes, securitized debt and other borrowings. We include in interest income any past due fees on loans that we deem are collectible. Our net interest margin represents the difference between the yield on our interest-earning assets and the cost of our debt, including the impact of non-interest bearing funding. Prior to the adoption of the new consolidation accounting standards on January 1, 2010, our reported net interest income did not include interest income from loans in our off-balance sheet securitization trusts or the interest expense on third-party debt issued by these securitization trusts. Beginning January 1, 2010, servicing fees, finance charges, other fees, net charge-offs and interest paid to third party investors related to consolidated securitization trusts are included in net interest income.

Table 3 below displays the major sources of our interest income and interest expense for the three and nine months ended September 30, 2010 and 2009. We present for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, the interest earned or paid and the average yield or cost during the period in Table A under “Supplemental Statistical Tables.” We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

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Table 3: Net Interest Income

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009		2010	2009 (1)	
	Reported	Reported	Managed	Reported	Reported	Managed
Interest income:						
Loans held-for-investment:						
Consumer loans(2)	\$3,148	\$1,839	\$3,369	\$9,594	\$5,509	\$9,657
Commercial loans	299	381	381	988	1,140	1,140
Total loans held for investment, including past-due fees	3,447	2,220	3,750	10,582	6,649	10,797
Investment securities	347	399	399	1,037	1,206	1,206
Other	21	83	18	60	214	51
Total interest income	3,815	2,702	4,167	11,679	8,069	12,054
Interest expense:						
Deposits	358	479	479	1,125	1,666	1,666
Securitized debt obligations	191	63	321	644	228	1,037
Senior and subordinated notes	72	74	74	211	189	189
Other borrowings	85	81	81	265	243	243
Total interest expense	706	697	955	2,245	2,326	3,135
Net interest income	\$3,109	\$2,005	\$3,212	\$9,434	\$5,743	\$8,919

(1)Effective February 27, 2009, we acquired Chevy Chase Bank. Accordingly, our results for the first nine months of 2009 include only a partial impact from Chevy Chase Bank.

(2)Interest income on credit card, auto, mortgage and retail banking loans is reflected in consumer loans. Interest income generated from small business credit cards also is included in consumer loans.

Table 4 presents the changes in our reported net interest income for the three and nine months ended September 30, 2010 from our reported net interest income for the three and nine months ended September 30, 2009, and the extent to which those changes were attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities.

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Table 4: Rate/Volume Analysis of Net Interest Income—Reported

(Dollars in millions)	Three Months Ended September 30, 2010 vs. 2009(1)			Nine Months Ended September 30, 2010 vs. 2009(1)		
	Total Variance	Variance Due to Volume	Rate Due to(2)	Total Variance	Variance Due to Volume	Rate Due to (2)
Interest income:						
Loans held-for-investment:						
Consumer loans	\$1,309	\$837	\$472	\$4,085	\$2,538	\$1,547
Commercial loans	(82)	(7)	(75)	(152)	(19)	(133)
Total loans held for investment, including past-due fees	1,227	676	551	3,933	2,079	1,854
Investment securities	(52)	25	(77)	(169)	82	(251)
Other	(62)	(18)	(44)	(154)	(6)	(148)
Total interest income	1,113	554	559	3,610	1,856	1,754
Interest expense:						
Deposits	(121)	5	(126)	(541)	7	(548)
Securitized debt obligations	128	(27)	156	416	598	(182)
Senior and subordinated notes	(2)	(7)	5	22	3	19
Other borrowings	4	(23)	27	22	(69)	91
Total interest expense	9	4	5	(81)	467	(548)
Net interest income	\$1,104	\$419	\$685	\$3,691	\$1,358	\$2,333

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) We calculate the change in interest income and interest expense separately for each item. The change in net interest income attributable to both volume and rates is allocated based on the relative dollar amount of each item.

Table 5 presents the changes in our reported net interest income for the three and nine months ended September 30, 2010 from our managed net interest income for the three and nine months ended September 30, 2009, and the extent to which those changes were attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities.

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Table 5: Rate/Volume Analysis of Net Interest Income—Reported 2010 vs. Managed 2009

(Dollars in millions)	Three Months Ended September 30, 2010 vs. 2009(1)			Nine Months Ended September 30, 2010 vs. 2009(1)		
	Total Variance	Variance Due to(2) Volume	Rate	Total Variance	Variance Due to (2) Volume	Rate
Interest income:						
Loans held-for-investment:						
Consumer loans	\$(221)	\$(521)	\$300	\$(63)	\$(1,365)	\$1,302
Commercial loans	(82)	(7)	(75)	(152)	(19)	(133)
Total loans held for investment, including past-due fees	(303)	(465)	162	(215)	(1,230)	1,015
Investment securities	(52)	25	(77)	(169)	82	(251)
Other	3	5	(2)	9	24	(15)
Total interest income	(352)	(297)	(55)	(375)	(679)	304
Interest expense:						
Deposits	(121)	5	(126)	(541)	7	(548)
Securitized debt obligations	(130)	(99)	(31)	(393)	(213)	(180)
Senior and subordinated notes	(2)	(7)	5	22	3	19
Other borrowings	4	(23)	27	22	(69)	91
Total interest expense	(249)	(93)	(156)	(890)	(220)	(670)
Net interest income	\$(103)	\$(237)	\$134	\$515	\$(513)	\$1,028

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) We calculate the change in interest income and interest expense separately for each item. The change in net interest income attributable to both volume and rates is allocated based on the relative dollar amount of each item.

Our reported net interest income of \$3.1 billion for the third quarter of 2010 decreased by 3% from managed net interest income of \$3.2 billion for the third quarter of 2009, driven by a 4% (30 basis points) expansion of our net interest margin to 7.21%, which was more than offset by a 7% decrease in our average interest-earning assets.

Our reported net interest income of \$9.4 billion for the first nine months of 2010 increased by 6% from managed net interest income of \$8.9 billion for the first nine months of 2009, driven by a 12% (76 basis points) expansion of our net interest margin to 7.13%, which was partially offset by a 6% decrease in our average interest-earning assets.

The increase in net interest margin in the third quarter and first nine months of 2010 was primarily attributable to a significant reduction in our average cost of funds. In addition, the average yield on interest-earning assets increased during the first nine months of 2010. Our cost of funds continued to benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources. Also, the overall interest rate environment, combined with our disciplined pricing, drove a decrease in our average deposit interest rates. The increase in the average yield on our interest-earning assets during the first nine months of 2010 reflected the benefit of pricing changes that we implemented during 2009, which contributed to an increase in the average yield on our loan portfolio, as well as improved credit conditions, which has allowed us to recognize a greater proportion of previously reserved uncollected finance charges into income.

The decrease in our average interest-earning assets in the third quarter and first nine months of 2010 reflected the combined impact of the run-off of our installment loan and mortgage loan portfolios, elevated charge-offs and a

decline in credit card account loan balances.

Non-Interest Income

Non-interest income consists of servicing and securitizations income, service charges and other customer-related fees, interchange income and other non-interest income. We also record the mortgage loan repurchase provision related to continuing operations in non-interest income. Prior to the adoption of the new consolidation accounting standards on January 1, 2010, our reported non-interest income included servicing fees, finance charges, other fees, net charge-offs and interest paid to third party investors related to our securitization trusts as a component of non-interest income. In addition, when we created securitization trusts, we recognized gains or losses on the transfer of loans to these trusts and recorded our initial retained interests in the trusts. Beginning January 1, 2010, unless we qualify for sale accounting under the new consolidation accounting standards, we will no longer recognize a gain or loss or record retained interests when we transfer loans into securitization trusts. The servicing fees, finance charges, other fees, net of charge-offs and interest paid to third party investors related to our consolidated securitization trusts are now reported as a component of net interest income instead of as a component of non-interest income.

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Table 6 displays the components of non-interest income for the three and nine months ended September 30, 2010 and 2009.

Table 6: Non-Interest Income

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010 Reported	2009 Reported	2009 Managed	2010 Reported	2009(1) Reported	2009(1) Managed
Non-interest income:						
Servicing and securitizations	\$ 13	\$ 721	\$ 24	\$ (3)	\$ 1,537	\$ (235)
Service charges and other customer-related fees	496	496	766	1,577	1,494	2,271
Interchange	346	123	370	991	389	1,058
Net other-than-temporary impairment	(5)	(11)	(11)	(62)	(22)	(22)
Other	57	224	224	272	476	476
Total non-interest income	\$ 907	\$ 1,553	\$ 1,373	\$ 2,775	\$ 3,874	\$ 3,548

(1) Effective February 27, 2009, we acquired Chevy Chase Bank. Accordingly, our results for the first nine months of 2009 include only a partial impact from Chevy Chase Bank.

Non-interest income of \$907 million for the third quarter of 2010 decreased by \$466 million, or 34%, from managed non-interest income of \$1.4 billion for the third quarter of 2009. Non-interest income of \$2.8 billion for the first nine months of 2010 decreased by \$773 million, or 22%, from managed non-interest income of \$3.5 billion for the third quarter of 2009.

The decrease in non-interest income in the third quarter and first nine months of 2010 was primarily attributable to a reduction in over-limit fees as result of provisions under the CARD Act, a decline in the fair value of our mortgage servicing rights due to the run-off of our mortgage portfolio, and an increase in the provision for mortgage loan repurchases.

We recorded a provision for mortgage loan repurchase exposure of \$16 million in the third quarter of 2010, all of which was included in non-interest income, and a provision of \$644 million in the first nine months of 2010, of which \$211 million was included in non-interest income. We provide additional information on representation and warranty claims in “Critical Accounting Policies and Estimates” and in “Consolidated Balance Sheet Analysis and Credit Performance—Potential Mortgage Representation and Warranty Liabilities.”

The net other-than-temporary losses of \$5 million and \$62 million recorded in the third quarter and first nine months of 2010, respectively, primarily resulted from the deterioration in the credit quality of certain non-agency mortgage-related securities due to the continued weakness in the housing market and high unemployment. We also recorded other-than-temporary impairment on certain other non-agency mortgage-related securities in the first and second quarters of 2010 because of our intent to sell the securities. We provide additional information on other-than-temporary recognized on our available-for-sale securities in “Note 3—Investment Securities.”

Provision for Loan and Lease Losses

We build our allowance for loan and lease losses through the provision for loan and lease losses. Our provision for loan and lease losses in each period is driven by charge-offs and the level of allowance for loan and lease losses that

we determine is necessary to provide for probable credit losses inherent in our loan portfolio as of each balance sheet date. Table 16 below under “Consolidated Balance Sheet Analysis—Summary of Allowance for Loan and Lease Losses” summarizes changes in our allowance for loan and lease losses and details the provision for loan and lease losses recognized in our consolidated statements of income and the charge-offs recorded against our allowance for loan and lease losses for the three and nine months ended September 30, 2010 and 2009.

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We recorded a provision for loan and lease losses of \$867 million and \$3.1 billion for the third quarter and first nine months of 2010, respectively, compared with a provision for loan and lease losses on a managed basis of \$2.2 billion and \$6.2 billion for the third quarter and first nine months of 2009, respectively. The decrease in our provision expense for loan and lease losses reflected the significant reduction in our allowance for loan and lease losses during the third quarter and first nine months of 2010, attributable to the overall continued improvement in credit performance trends.

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associated employee benefits, communications and other technology expenses, supplies and equipment and occupancy costs, and miscellaneous expenses. Marketing expenses also are included in non-interest expense. Table 7 displays the components of non-interest expense for the three and nine months ended September 30, 2010 and 2009.

Table 7: Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
(Dollars in millions)	Reported	Reported/ Managed(1)	Reported	Reported/ Managed(1)
Non-interest expense:				
Salaries and associated benefits	\$641	\$ 648	\$1,937	\$ 1,837
Marketing	250	104	650	400
Communications and data processing	178	176	512	569
Supplies and equipment	129	123	381	370
Occupancy	135	114	371	329
Restructuring expense	—	26	—	87
Other(2)	663	611	1,992	1,877
Total non-interest expense	\$1,996	\$ 1,802	\$5,843	\$ 5,469

(1)There were no differences in reported and managed non-interest expense amounts for the three and nine months ended September 30, 2009.

(2)Consists of professional services expenses, credit collection costs, fee assessments and intangible amortization expense.

Non-interest expense of \$2.0 billion for the third quarter of 2010 was up \$194 million, or 11%, from the third quarter of 2009, and non-interest expense of \$5.8 billion for the first nine months of 2010 was up \$374 million, or 7%, from the first nine months of 2009. The increase in non-interest expense in both periods was primarily attributable to higher marketing costs, legal reserves and non-income tax-related accruals.

Income Taxes

Our effective income tax rate on income from continuing operations was 29.1% in the third quarter of 2010, up from 25.0% in the third quarter of 2009, and 28.8% for the first nine months of 2010, up from 23.5% for the first nine months of 2009. The variance in our effective tax rate between periods is due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and permanent tax items. The

increase in our effective tax rate in the third quarter and first nine months of 2010 reflected the reduced relative benefit of tax-exempt income and tax credits as a result of the increase in our pre-tax earnings. We recorded a \$71 million tax benefit primarily from the settlement of certain pre-acquisition tax liabilities related to North Fork and resolution of certain tax issues before the U.S. Tax Court in the first nine months of 2010, which partially offset the increase in our effective tax rate for this period.

We provide additional information on items affecting our income taxes and effective tax rate in our 2009 Form 10-K under "Note 18—Income Taxes."

Loss from Discontinued Operations, Net of Tax

Loss from discontinued operations reflect ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of GreenPoint's wholesale mortgage banking unit, which we closed in 2007. We recorded a loss from discontinued operations, net of tax of \$15 million in the third quarter of 2010, compared with a loss of \$43 million in the third quarter of 2009. Loss from discontinued operations totaled \$303 million in the first nine months of 2010, compared with a loss of \$75 million in the first nine months of 2009.

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The significant increase in loss from discontinued operations in the first nine months of 2010 was attributable to the increase in our mortgage loan repurchase representation and warranty reserves. We recorded a provision for mortgage loan repurchase exposure of \$644 million in the first nine months of 2010, of which \$433 million was included in discontinued operations. We provide additional information on representation and warranty claims in “Critical Accounting Policies and Estimates” and in “Consolidated Balance Sheet Analysis and Credit Performance—Potential Mortgage Representation and Warranty Liabilities.”

VIII. CONSOLIDATED BALANCE SHEET ANALYSIS AND CREDIT PERFORMANCE

Total assets of \$196.9 billion as of September 30, 2010, after taking into consideration the \$41.9 billion of assets added to our balance sheet on January 1, 2010 as a result of the adoption of the new consolidation standards, decreased by \$14.6 billion, or 9%, during the first nine months of 2010. Total liabilities of \$170.9 billion as of September 30, 2010, after taking into consideration the \$44.3 billion of securitization debt added to our balance sheet on January 1, 2010 as a result of the adoption of the new consolidation standards, decreased by \$16.5 billion, or 12%, during the first nine months of 2010. Our stockholders’ equity, after taking into account the cumulative effect after-tax charge of \$2.9 billion to retained earnings on January 1, 2010 from the adoption of the new consolidation accounting standards, increased by \$2.4 billion during the first nine months of 2010, to \$26.1 billion as of September 30, 2010. The increase in stockholders’ equity was primarily attributable to our net income of \$2.0 billion for the first nine months of 2010.

Following is a discussion of material changes, excluding the impact from our January 1, 2010 adoption of the new consolidation accounting standards, in the major components of our assets and liabilities during the first nine months of 2010.

Investment Securities

Our investment securities portfolio, which had a fair value of \$39.9 billion and \$38.9 billion, as of September 30, 2010 and December 31, 2009, respectively, consists of the following: U.S. Treasury and U.S. agency debt obligations; agency and non-agency mortgage related securities; other asset-backed securities collateralized primarily by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans, equipment loans and home equity lines of credit; municipal securities; and limited Community Reinvestment Act (“CRA”) equity securities. Our investment securities portfolio continues to be heavily concentrated in securities that generally have lower credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and government sponsored enterprises or agencies. Our investments in U.S. Treasury and agency securities, based on fair value, represented approximately 69% of our total investment securities portfolio as of September 30, 2010, compared with 75% as of December 31, 2009.

All of our investment securities were classified as available for sale as of September 30, 2010 and reported in our consolidated balance sheet at fair value. Table 8 presents, for the major categories of our investment securities, the amortized cost and fair value as of September 30, 2010 and December 31, 2009.

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Table 8: Investment Securities

(Dollars in millions)	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:				
U.S. Treasury debt obligations	\$ 374	\$ 390	\$ 379	\$ 392
U.S. Agency debt obligations(1)	351	368	455	477
Collateralized mortgage obligations (“CMO”):				
Agency(2)	11,845	12,231	8,174	8,300
Non-agency	1,182	1,084	1,608	1,338
Total CMOs	13,027	13,315	9,782	9,638
Mortgage-backed securities (“MBS”):				
Agency(2)	14,278	14,755	19,429	19,858
Non-agency	794	734	1,011	826
Total MBS	15,072	15,489	20,440	20,684
Asset-backed securities(3)	9,821	9,916	7,043	7,192
Other securities(4)	394	448	440	447
Total securities available for sale	\$ 39,039	\$ 39,926	\$ 38,539	\$ 38,830
Securities held to maturity:				
Total securities held to maturity	\$ —	\$ —	\$ 80 (5)	\$ 80 (5)

(1) Consists of debt securities issued by Fannie Mae and Freddie Mac with amortized costs of \$350 million and \$454 million, as of September 30, 2010 and December 31, 2009, respectively, and fair values of \$367 million and \$476 million, as of September 30, 2010 and December 31, 2009, respectively.

(2) Consists of mortgage-related securities issued by Fannie Mae and Freddie Mac with amortized cost of \$16.0 billion and \$8.0 billion, respectively, and fair value of \$16.5 billion and \$8.3 billion, respectively, as of September 30, 2010. Our Fannie Mae, Freddie Mac and Ginnie Mae investments exceeded 10% of stockholders' equity as of September 30, 2010.

(3) Consists of securities collateralized by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans, equipment loans and home equity lines of credit. The distribution among these asset types was approximately 79.3% credit card loans, 5.8% auto loans, 7.6% student loans, 5.1% auto dealer floor plan inventory loans, 2.0% equipment loans and 0.2% home equity lines of credit as of September 30, 2010. In comparison, the distribution was approximately 76.3% credit card loans, 14.0% auto loans, 6.9% student loans, 1.7% auto dealer floor plan inventory loans, 0.8% equipment loans and 0.3% home equity lines of credit as of December 31, 2009. Approximately 90.7% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of September 30, 2010, compared with 84.2% as of December 31, 2009.

(4) Consists of municipal securities and equity investments, primarily related to CRA activities.

(5) Consists of negative amortization mortgage-backed securities.

Unrealized gains and losses on our available-for-sale securities are recorded net of tax as a component of accumulated other comprehensive income (“AOCI”). We had gross unrealized gains of \$1.1 billion and gross unrealized losses of \$179 million on available-for sale securities as of September 30, 2010, compared with gross unrealized gains of \$840 million and gross unrealized losses of \$549 million as of December 31, 2009. The increase in gross unrealized gains

and decrease in gross unrealized losses in the first nine months of 2010 was primarily driven by a tightening of credit spreads, attributable to the improvement in credit performance and increased liquidity, and lower interest rates. Of the \$179 million gross unrealized losses as of September 30, 2010, \$167 million related to securities that had been in a loss position for more than 12 months.

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment based on a number of criteria, including the extent and duration of the decline in value, the severity and duration of the impairment, recent events specific to the issuer and/or industry to which the issuer belongs, the payment structure of the security, external credit ratings and the failure of the issuer to make scheduled interest or principal payments, the value of underlying collateral, our intent and ability to hold the security and current market conditions.

Other-than-temporary impairment is recognized in earnings if one of the following conditions exists: (1) a decision to sell the security has been made; (2) it is more likely than not that we will be required to sell the security before the impairment is recovered; or (3) the amortized cost basis is not expected to be recovered. If, however, we have not made a decision to sell the security and we do not expect that we will be required to sell prior to recovery of the amortized cost basis, only the credit component of other-than-temporary impairment is recognized in earnings. The noncredit component is recorded in other comprehensive income ("OCI"). The credit component is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted based on the original yield, while the noncredit component is the remaining difference between the security's fair value and amortized cost.

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We recognized net OTTI on debt securities of \$5 million and \$62 million in the third quarter and first nine months of 2010, respectively, due in part to deterioration in the credit performance of certain securities resulting from the continued weakness in the housing market and high unemployment and our decision to sell certain other securities before recovery of the impairment amount.

We provide additional information on our available-for-sale securities in “Note 3—Investment Securities.”

Total Loans

Total loans that we manage consist of held-for-investment loans recorded on our balance sheet and loans held in our securitization trusts. Prior to our January 1, 2010 adoption of the new consolidation standards, a portion of our managed loans were accounted for as off-balance sheet. Loans underlying our securitization trusts are now reported on our consolidated balance sheets in restricted loans for securitization investors. Table 9 presents the composition of our total loan portfolio, by business segments, as of September 30, 2010 and December 31, 2009.

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Table 9: Loan Portfolio Composition

(Dollars in millions)	September 30, 2010		December 31, 2009				
	Reported On-Balance Sheet	% of Total Loans	Reported On-Balance Sheet	Off-Balance Sheet	Total Managed	% of Total Loans	
Credit Card business:							
Credit card loans:							
Domestic credit card loans	\$49,324	39	% \$13,374	\$39,827	\$53,201	39	%
International credit card loans	7,473	6	2,229	5,951	8,180	6	
Total credit card loans	56,797	45	15,603	45,778	61,381	45	
Installment loans:							
Domestic installment loans	4,515	4	6,693	406	7,099	5	
International installment loans	14	—	44	—	44	—	
Total installment loans	4,529	4	6,737	406	7,143	5	
Total credit card	61,326	49	22,340	46,184	68,524	50	
Consumer Banking business:							
Automobile	17,643	14	18,186	—	18,186	13	
Mortgage	12,763	10	14,893	—	14,893	11	
Other retail	4,591	4	5,135	—	5,135	4	
Total consumer banking	34,997	28	38,214	—	38,214	28	
Total consumer(1)	96,323	77	60,554	46,184	106,738	78	
Commercial Banking business:							
Commercial and multifamily							
real estate(2)	13,383	11	13,843	—	13,843	10	
Middle market	10,456	8	10,062	—	10,062	7	
Specialty lending	3,813	3	3,555	—	3,555	3	
Total commercial lending	27,652	22	27,460	—	27,460	20	
Small-ticket commercial real							
estate	1,890	1	2,153	—	2,153	2	
Total commercial banking	29,542	23	29,613	—	29,613	22	
Other:							
Other loans	469	—	452	—	452	—	
Total	\$126,334	100	% \$90,619	\$46,184	\$136,803	100	%

(1) Consumer loans consist of all of the loans in our Credit Card and Consumer Banking businesses.

(2) Includes construction and land development loans totaling \$2.7 billion and \$2.5 billion as of September 30, 2010 and December 31, 2009, respectively.

Our total reported loans declined by \$10.5 billion, or 8%, during the first nine months of 2010 to \$126.3 billion as of September 30, 2010, from managed loans of \$136.8 billion as of December 31, 2009. The decline was primarily due to the run-off of loans in businesses that we either exited or repositioned early in the economic recession, elevated charge-offs and weak consumer demand. The run-offs are related to installment loans included in our Credit Card business, mortgage loans in our Consumer Banking business and small-ticket commercial real estate loans in our Commercial Banking business. Additionally, the decline was attributable to the sale of a portion of the small-ticket commercial real estate loan portfolio in the third quarter of 2010. The decline was partially offset by the acquisition of the \$807 million legacy Sony Card portfolio in the third quarter of 2010.

Credit Performance

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Key metrics that we track and use in evaluating the credit quality of our loan portfolio include delinquency rates, nonperforming assets, charge-off rates and loans classified as criticized. High unemployment, the decline in home prices and continued weak economic conditions have adversely affected the ability of consumers and businesses to meet their debt obligations, which has contributed to elevated rates of delinquencies, nonperforming loans and charge-offs. We present information in the section below on the credit performance of our loan portfolio, including the key metrics that we use in tracking changes in the credit quality of our loan portfolio.

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Delinquency Rates

We consider the entire balance of an account to be delinquent if the minimum contractually required payment is not received by the due date. Table 10 below compares 30+ day performing loan delinquency rates, by loan category, as of September 30, 2010, December 31, 2009 and September 30, 2009. This table excludes delinquent loans classified as nonperforming, except for nonperforming delinquent automobile loans 90 days or more past due. The delinquency rates presented are calculated, by loan category, based on our total loan portfolio. Our total loan portfolio consists of loans recorded on our balance sheet, which includes loans acquired from Chevy Chase Bank, and loans held in our securitization trusts, which we previously referred to as our “managed” loan portfolio. Loans acquired from Chevy Chase Bank were recorded at fair value at acquisition. Because the fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, we do not report these loans as delinquent unless they do not perform in accordance with our expectations as of the purchase date.

Table 10: 30+ Day Performing Delinquencies(1)

(Dollars in millions)	September 30, 2010		December 31, 2009		September 30, 2009	
	Amount	Rate	Amount	Rate	Amount	Rate
Credit Card business:						
Domestic credit card and installment	\$ 2,437	4.53%	\$ 3,487	5.78%	\$ 3,331	5.38%
International credit card and installment	437	5.84	539	6.55	562	6.63
Total credit card	2,874	4.69	4,026	5.88	3,893	5.53
Consumer Banking business:						
Automobile(1)	1,403	7.95	1,824	10.03	1,837	9.52
Mortgage(2)	88	0.69	188	1.26	182	1.17
Retail banking(2)	50	1.08	63	1.23	65	1.26
Total consumer banking(2)	1,541	4.40	2,075	5.43	2,084	5.19
Commercial Banking business:						
Commercial and multifamily						
real estate	110	0.82	84	0.61	149	1.06
Middle market	13	0.13	46	0.46	32	0.32
Specialty lending	36	0.96	60	1.69	71	2.09
Small-ticket commercial real estate	88	4.65	121	5.59	128	5.32
Total commercial banking(2)	247	0.84	311	1.05	380	1.27
Other:						
Other loans	24	5.10	53	11.60	60	9.10
Total	\$ 4,686	3.71%	\$ 6,465	4.73%	\$ 6,417	4.55%

(1)Excludes delinquent loans classified as nonperforming, except for nonperforming delinquent automobile loans 90 days or more past on nonaccrual status. Nonperforming delinquent auto loans 90 days or more past due on nonaccrual status included in this table totaled \$93 million, \$143 million and \$145 million as of September 30, 2010, December 31, 2009 and September 30, 2009, respectively.

(2)The 30+ day performing delinquency rates, excluding the impact of loans acquired from Chevy Chase Bank, for mortgage, retail banking, total consumer banking, commercial and multifamily real estate, middle market, and total

commercial banking were 1.15%, 1.12%, 5.18%, 0.84%, 0.13% and 0.85%, respectively, as of September 30, 2010, compared with 2.18%, 1.30%, 6.56%, 0.63%, 0.47% and 1.08%, respectively, as of December 31, 2009.

Delinquency rates for all loan categories, except commercial and multifamily real estate, showed signs of improvement during the first nine months of 2010, reflecting positive trends in credit conditions. In addition, expected seasonal trends and the diminishing initial adverse impact from the pricing changes we made during 2009 contributed to a reduction in the delinquency rate for domestic credit cards.

Table 11 presents an aging of 30+ day performing delinquent loans included in the above table. All loans presented in Table 11 were on accrual status as of the reported date except for automobile loans in our Consumer Banking business that were 90+ days delinquent.

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Table 11: Aging of 30+ Day Performing Delinquent Loans(1)

(Dollars in millions)	September 30, 2010		December 31, 2009		September 30, 2009		
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	
Total loan portfolio	\$126,334	100.00	% \$136,803	100.00	% \$140,990	100.00	%
Delinquency status:							
30 – 59 days	\$1,985	1.57	% \$2,623	1.92	% \$2,703	1.92	
60 – 89 days	1,120	0.89	1,576	1.15	1,677	1.19	
90 – 119 days	683	0.54	1,038	0.76	992	0.70	
120 – 149 days	492	0.39	660	0.48	575	0.41	
150 + days	406	0.32	568	0.42	470	0.33	
Total	\$4,686	3.71	% \$6,465	4.73	% \$6,417	4.55	%
Geographic region:							
Domestic	\$4,249	3.58	% \$5,926	4.61	% \$5,855	4.42	%
International	437	5.84	539	6.55	562	6.63	
Total	\$4,686	3.71	% \$6,465	4.73	% \$6,417	4.55	%
90+ day performing delinquent loans(2)	\$1,581	1.25	% \$2,266	1.66	% \$2,037	1.44	%

(1)Excludes delinquent loans classified as nonperforming, except for nonperforming delinquent automobile loans 90 days or more past due on nonaccrual status. Nonperforming delinquent auto loans 90 days or more past due on nonaccrual status included in this table totaled \$93 million, \$143 million and \$145 million as of September 30, 2010, December 31, 2009 and September 30, 2009, respectively.

(2)Includes credit card loans that continue to accrue finance charges and fees until charged-off at 180 days. The amounts reported for credit card loans are net of billed finance charges and fees that we do not expect to collect. Credit card loans 90 days or greater past due which continue to accrue interest totaled \$1.4 billion, \$1.9 billion and \$1.8 billion as of September 30, 2010, December 31, 2009 and September 30, 2009, respectively. The reserve for billed credit card finance charges and fees considered uncollectible totaled \$190 million, \$490 million and \$517 million as of September 30, 2010, December 31, 2009 and September 30, 2009, respectively.

Table 12 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of September 30, 2010 and December 31, 2009. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by The Federal Financial Institutions Examination Council (“FFIEC”), we continue to accrue interest on credit card loans through the date of charge-off, typically in the period the account becomes 180 days past due. While credit card loans remain on accrual status until the loan is charged-off, we establish a reserve for finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

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Table 12: 90+ Days Delinquent Loans Accruing Interest

(Dollars in millions)	September 30, 2010		December 31, 2009	
	Amount	% of Total Loans	Amount	% of Total Loans
Loan category:				
Credit card	\$1,438	1.14 %	\$640	0.71 %
Consumer	8	0.01	8	0.01
Commercial	42	0.03	11	0.01
Total	\$1,488	1.18 %	\$659	0.73 %
Geographic region:				
Domestic	\$1,286	1.02 %	\$589	0.65 %
International	202	0.16	70	0.08
Total	\$1,488	1.18 %	\$659	0.73 %

Nonperforming Assets

We generally classify loans as nonperforming and place them on nonaccrual status when we believe the collectability of interest and principal is not reasonably assured. When a loan is placed on nonaccrual status, any interest income accrued but uncollected is reversed. Thereafter, interest income is recognized only upon receipt of cash payments. Our policies for classifying loans, by loan category, as nonperforming are as follows:

- **Credit card loans:** As permitted by regulatory guidance issued by FFIEC, our policy is generally to exempt credit card loans from being classified as nonperforming as these loans are generally charged off in the period the account becomes 180 days past due. We continue to accrue finance charges and fees on credit card loans until the account is charged-off. However, we reduce the carrying amount of credit card loan balances by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue.
- **Consumer loans:** We classify consumer loans as nonperforming at the earlier of the date when we determine that the collectability of interest or principal on the loan is not reasonably assured or when the loan is 90 days past due for automobile and mortgage loans and 120 days past due for other non-credit card consumer loans.
- **Commercial loans:** We classify commercial loans as nonperforming at the earlier of the date we determine that the collectability of interest or principal on the loan is not reasonably assured or the loan is 90 days past due.
- **Modified loans and troubled debt restructurings (“TDRs”):** We initially classify modified loans, including TDRs, as nonperforming unless the borrower has demonstrated performance under the previous terms and the underwriting process indicates that the borrower has the capacity to continue to perform under the restructured terms. Otherwise, the modified loan is classified as nonperforming and placed on nonaccrual status until the borrower demonstrates a sustained period of performance over several payment cycles, generally six months of consecutive payments, under the modified terms of the loan.
- **Loans acquired from Chevy Chase Bank:** Loans that we acquired from Chevy Chase Bank were recorded at fair value at acquisition. Accordingly, we do not classify loans acquired from Chevy Chase Bank as nonperforming unless they do not perform in accordance with our expectations as of the purchase date.

Table 13 presents comparative information on nonperforming loans, by loan category, as of September 30, 2010 and December 31, 2009, and the ratio of nonperforming loans to our total loans. Nonperforming loans held for sale are excluded from nonperforming loans, as they are recorded at lower of cost or fair value.

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Table 13: Nonperforming Loans and Other Nonperforming Assets(1)(2)

(Dollars in millions)	September 30, 2010		December 31, 2009	
	Amount	% of Total HFI Loans	Amount	% of Total HFI Loans
Nonperforming loans held for investment:				
Consumer Banking business:				
Automobile	\$93	0.53 %	\$143	0.79 %
Mortgage	494	3.87	323	2.17
Other retail	84	1.83	87	1.69
Total consumer banking	671	1.92	553	1.45
Commercial Banking business:				
Commercial and multifamily real estate	308	2.30	429	3.10
Middle market	136	1.30	104	1.03
Specialty lending	60	1.57	74	2.08
Total commercial lending	504	1.82	607	2.21
Small-ticket commercial real estate	30	1.59	95	4.41
Total commercial banking	534	1.81	702	2.37
Other:				
Other loans	62	13.22	34	7.52
Total nonperforming loans held for investment(3)	\$1,267	1.00 %	\$1,289	0.94 %
Other nonperforming assets:				
Foreclosed property(4)	\$299	0.24 %	\$234	0.17 %
Reposessed assets	19	0.01	24	0.02
Total other nonperforming assets	318	0.25	258	0.19
Total nonperforming assets	\$1,585	1.25 %	\$1,547	1.13 %

(1) The ratio of nonperforming loans as a percentage of total loans held for investment are calculated based on the nonperforming loans in each loan category divided by the total outstanding unpaid principal balance of loans held for investment in each loan category. The denominator used in calculating the nonperforming asset ratios consists of total loans held for investment and other nonperforming assets.

(2) Our calculation of nonperforming loan and asset ratios includes the impact of loans acquired from Chevy Chase Bank. However, we do not report loans acquired from Chevy Chase Bank as nonperforming unless they do not perform in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. The nonperforming loan ratios, excluding the impact of loans acquired from Chevy Chase Bank, for commercial and multifamily real estate, middle market, total commercial banking, mortgages, retail banking, total consumer banking, and total nonperforming loans held for investment were 2.34%, 1.35%, 1.84%, 6.47%, 1.90%, 2.26% and 1.05%, respectively, as of September 30, 2010, compared with 3.18%, 1.07%, 2.43%, 3.75%, 1.78%, 1.75%, and 0.99%, respectively, as of December 31, 2009. The nonperforming asset ratio, excluding loans acquired from Chevy Chase Bank, was 1.32% and 1.19% as of September 30, 2010 and December 31, 2009, respectively.

(3) Nonperforming loans as a percentage of loans held for investment, excluding credit card loans from the denominator, was 1.95% and 1.89% as of September 30, 2010 and December 31, 2009, respectively.

(4) Includes \$195 million of foreclosed properties related to loans acquired from Chevy Chase Bank.

The increase in our nonperforming loan ratio to 1.00% as of September 30, 2010, from 0.94% as of December 31, 2009 was primarily attributable to our mortgage and other loan portfolios. The weak economy, decline in property values and high unemployment continued to have an adverse impact on our commercial and mortgage loan portfolios.

Total nonperforming loans included TDRs totaling \$72 million and \$20 million as of September 30, 2010 and December 31, 2009, respectively.

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Net Charge-Offs

Our net charge-offs consist of the unpaid principal balance of loans that are charged off net of recoveries of principal amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from net charge-offs. Costs incurred to recover charged-off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off time frame for loans, which varies based on the loan type, is presented below.

- **Credit card loans:** We generally charge-off credit card loans when the account is 180 days past due from the statement cycle date. Credit card loans in bankruptcy are charged-off within 30 days of notification. Credit card loans of deceased account holders are charged-off within 60 days of receipt of notification.
- **Consumer loans:** We generally charge-off consumer loans at the earlier of the date when the account is a specified number of days past due or upon repossession of the underlying collateral. Our charge-off time frame is 180 days for mortgage loans and 120 days for auto and other non-credit card consumer loans. We calculate the charge-off amount for mortgage loans based on the difference between our recorded investment in the loan and the fair value of the underlying property and estimated selling costs as of the date of the charge-off. We update our home value estimates on a regular basis and recognize additional charge-offs for declines in home values below our initial fair value and selling cost estimate at the date mortgage loans are charged-off. Consumer loans in bankruptcy, except for auto and mortgage loans, generally are charged-off within 30 days of receipt of notification from the bankruptcy court. Auto and mortgage loans in bankruptcy that are 60 days past due are charged-off within 60 days of receipt of notification. Consumer loans of deceased account holders are charged-off within 60 days of receipt of notification.
- **Commercial loans:** We charge-off commercial loans in the period we determine that the unpaid principal loan amounts are uncollectible.
- **Loans acquired from Chevy Chase Bank:** Loans that we acquired from Chevy Chase Bank were recorded at fair value, including those considered to be credit impaired at the date of purchase. The fair value at acquisition took into consideration estimated credit losses over the life of the loans. Therefore, our net charge-offs exclude losses related to the Chevy Chase Bank acquired loans unless these loans perform worse than originally expected.

Table 14 presents our net charge-off amounts and rates, by business segment, for the three and nine months ended September 30, 2010 and 2009. We provide additional information on the amount of charge-offs by loan category below in Table 16: Summary of Allowance for Loan and Lease Losses.

Table 14: Net Charge-Offs(1)

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010		2009		2010		2009	
	Amount	Rate(2)	Amount	Rate(2)	Amount	Rate(2)	Amount	Rate(2)
Credit card	\$1,251	8.16 %	\$1,724	9.59 %	\$4,407	9.30 %	\$5,042	9.02 %
Consumer banking(3)(4)	157	1.79	276	2.69	483	1.77	815	2.71
Commercial banking(3)(4)	93	1.27	107	1.42	284	1.28	216	0.96
Other	21	17.63	48	28.53	83	21.20	160	(5) 12.42
Total company	\$1,522	4.82 %	\$2,155	6.00 %	\$5,257	5.41 %	\$6,233	5.72 %
	\$126,307		\$143,540		\$129,565		\$145,311	

Average loans held
for investment(6)

- (1) Net charge-offs reflect charge-offs, net of recoveries, related to our total loan portfolio, which we previously referred to as our “managed” loan portfolio. The total loan portfolio includes loans recorded on our balance sheet and loans held in our securitization trusts.
- (2) Calculated for each loan category by dividing annualized net charge-offs for the period divided by average loans held for investment during the period.
- (3) Excludes losses on the purchased credit-impaired loans acquired from Chevy Chase Bank unless they do not perform in accordance with our expectations as of the purchase date.
- (4) The average loans held for investment used in calculating net charge-off rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition. Our total net charge-off rate, excluding the impact of acquired Chevy Chase Bank loans, was 5.06% and 6.36% for the three months ended September 30, 2010 and 2009, respectively, and 5.7% and 5.91% for the nine months ended September 30, 2010 and 2009, respectively.

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- (5) During the first quarter of 2009, loans acquired from Chevy Chase Bank were included in the “Other” category.
- (6) The average balances of the acquired Chevy Chase Bank loan portfolio, which are included in the total average loans held for investment used in calculating the net charge-off rates, were \$6.0 billion and \$8.0 billion for the three months ended September 30, 2010 and 2009, respectively, and \$6.5 billion and \$5.5 billion for the nine months ended September 30, 2010 and 2009 respectively.

The overall decrease in net charge-offs in the third quarter and first nine months of 2010 from the third quarter and first nine months of 2009 reflects the ongoing improvement in credit performance since the end of 2009, as well as declining loan balances.

Loan Modifications and Restructurings

As part of our customer retention efforts, we may modify loans for certain borrowers who have demonstrated performance under the previous terms. As part of our loss mitigation efforts, we may make certain other loan modifications, which include providing short-term (three to twelve months) or long-term (greater than twelve months) modifications to a borrower experiencing financial difficulty to improve long-term loan performance and collectability. Our modifications typically result in a reduction in the borrower’s initial monthly principal and interest payment through an extension of the loan term, a reduction in the interest rate or a combination of both. In some cases, we may curtail the amount of principal owed by the borrower. A TDR is a form of loan modification in which an economic concession is granted to a borrower experiencing financial difficulty. Our loan modifications may result in our receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the terms of the loan.

Table 15 provides a summary of the unpaid principal balance of restructured and modified loans, all of which are considered TDRs, as of September 30, 2010 and December 31, 2009. Table 15 excludes acquired loans from Chevy Chase Bank that were restructured prior to acquisition because the fair value of these loans recorded at acquisition reflected the terms of the loans that existed as of the purchase date and included an estimate of credit losses expected to be realized over the remaining lives of the loans.

Table 15: Loan Modifications and Restructurings(1)

(Dollars in millions)	September 30, 2010	December 31, 2009
Modified and restructured loans:		
Credit card(2)	\$ 800	\$ 678
Mortgage	40	10
Commercial and multifamily real estate	128	41
Other	0	4
Total	\$ 968	\$ 733
Status of modified and restructured loans:		
Performing	\$ 896	\$ 713
Nonperforming	72	20
Total	\$ 968	\$ 733

- (1) Reflects modifications and restructuring of loans in our total loan portfolio, which we previously referred to as our “managed” loan portfolio. The total loan portfolio includes loans recorded on our balance sheet and loans held in our securitization trusts. Certain prior period amounts have been reclassified to conform to the current period

presentation.

(2) Amount reported reflects the total outstanding customer balance.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is not reasonably assured that we will be able to collect all principal and interest amounts due from the borrower in accordance with the contractual terms of the loan. A loan that has been modified in a TDR is generally considered to be impaired until maturity, regardless of whether the borrower performs under the modified terms. Accordingly, impaired loans generally include all TDRs and other loans that we individually evaluate for impairment, primarily nonperforming criticized commercial loans. Impaired loans exclude smaller balance homogeneous consumer loans that we collectively evaluate to measure an impairment allowance. Impaired loans also exclude loans acquired from Chevy Chase Bank because these loans were recorded at fair value upon acquisition and nonperforming loans held for sale because these loans are recorded at lower of cost or fair value.

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Impaired loans, including TDRs, totaled \$1.5 billion as of September 30, 2010, compared with \$1.0 billion as of December 31, 2009. TDRs accounted for \$968 million and \$733 million of impaired loans as of September 30, 2010 and December 31, 2009, respectively. We provide additional information on our impaired loans, including the allowance established for these loans, in “Note 4— Loans Held for Investment and Allowance for Loan and Lease Losses.”

Purchased Credit-Impaired Loans

Purchased credit-impaired loans decreased to \$4.3 billion as of September 30, 2010, from \$5.3 billion as of December 31, 2009. Our portfolio of purchased credit-impaired loans consists of loans acquired in the Chevy Chase Bank transaction, which were recorded at fair value at the date of acquisition. The fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans. Therefore, no allowance for loan and lease losses was recorded for these loans as of the acquisition date. We do not report these loans as delinquent or nonperforming or include net charge-offs as long as they continue to perform in accordance with our expectations as of the date of acquisition. However, we regularly update the amount of expected principal and interest to be collected from these loans. If we determine that it is probable that the amount of expected cash flows for these loans is less than our recorded investment, we would recognize impairment through our provision for loan and lease losses. Overall, the credit performance of these loans has been in line with or, in some instances, better than we originally expected at the acquisition date. As a result, we reclassified \$214 million from the nonaccretable difference to accretable yield during the first nine months of 2010. This increase in accretable yield will be recognized over the remaining life of these loans. We provide additional information on the loans acquired from Chevy Chase Bank in “Note 4— Loans Held for Investment and Allowance for Loan and Lease Losses.”

Allowance for Loan and Lease Losses

Our allowance for loan and lease losses provides for probable credit losses inherent in our loan portfolio as of each balance sheet date. We build our allowance for loan and lease loss reserves through the provision for loan and lease losses for credit losses that we believe have been incurred and will eventually be reflected over time in our charge-offs. When we determine that a loan is uncollectible, we record the charge-off against our allowance for loan and lease losses.

We have an established process, using analytical tools, benchmarks and management judgment, to determine our allowance for loan and lease losses. We calculate the allowance for loan and lease losses by estimating probable losses separately for segments of our loan portfolio with similar risk characteristics. We describe the methodologies and policies for determining our allowance for loan and lease losses for each of our loan portfolio segments in our 2009 Form 10-K in “Part I—Item 7. MD&A—Critical Accounting Estimates.” Although we examine a variety of externally available data, as well as our internal loan performance data, the process for determining our allowance for loan and lease losses is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions. Accordingly, we have identified our estimation of our allowance for loan and lease losses as a critical accounting policy.

We generally review and assess our allowance methodologies and adequacy of the allowance for loan and lease losses on a quarterly basis. Our assessment involves evaluating many factors including, but not limited to, recent trends in delinquencies and charge-offs, risk ratings, the impact of bankruptcy filings, deceased and recovered amounts, the value of collateral underlying secured loans, account seasoning, changes in our credit evaluation, underwriting and collection management policies, seasonality, general economic conditions, changes in the legal and regulatory environment and uncertainties in forecasting and modeling techniques used in estimating our allowance for loan and lease losses. Key factors that have a significant impact on our allowance for loan and lease losses include assumptions about unemployment rates, home prices, and the valuation of commercial properties, consumer real estate, and automobiles.

Table 16, which displays changes in our allowance for loan and lease losses for the three months and nine months ended September 30, 2010 and 2009, details, by loan type, the provision for credit losses recognized in our consolidated statements of income each period and the charge-offs recorded against our allowance for loan and lease losses.

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Table 16: Summary of Reported Allowance for Loan and Lease Losses

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Balance at beginning of period, as reported	\$6,799	\$4,482	\$4,127	\$4,524
Impact from January 1, 2010 adoption of new consolidation accounting standards	—	—	4,317	(1)
Balance at beginning of period, as adjusted	\$6,799	\$4,482	\$8,444	\$4,524
Provision for loan and lease losses	867	1,173	3,069	3,386
Charge-offs:				
Credit Card business:				
Domestic credit card and installment	(1,381)	(573)	(4,793)	(2,036)
International credit card and installment	(182)	(246)	(591)	(540)
Total credit card	(1,563)	(819)	(5,384)	(2,576)
Consumer Banking business:				
Automobile	(166)	(274)	(508)	(841)
Mortgage	(14)	(29)	(68)	(59)
Retail banking	(32)	(38)	(97)	(117)
Total consumer banking	(212)	(341)	(673)	(1,017)
Commercial Banking business:				
Commercial and multifamily real estate	(60)	(48)	(162)	(101)
Middle market	(17)	(14)	(62)	(33)
Specialty lending	(8)	(15)	(26)	(32)
Total commercial lending	(85)	(77)	(250)	(166)
Small-ticket commercial real estate	(17)	(33)	(63)	(56)
Total commercial banking	(102)	(110)	(313)	(222)
Other loans	(23)	(49)	(89)	(161)
Total charge-offs	(1,900)	(1,319)	(6,459)	(3,976)
Recoveries:				
Credit Card business:				
Domestic credit card and installment	269	74	853	291
International credit card and installment	43	48	123	93
Total credit card	312	122	976	384
Consumer Banking business:				
Automobile	48	59	168	183
Mortgage	1	1	3	2
Retail banking	6	5	19	17
Total consumer banking	55	65	190	202
Commercial Banking business:				
Commercial and multifamily real estate	—	—	13	—
Middle market	6	—	10	2
Specialty lending	3	2	4	2
Total commercial lending	9	2	27	4
Small-ticket commercial real estate	—	1	2	1
Total commercial banking	9	3	29	5
Other loans	2	1	6	2
Total recoveries	378	191	1,201	593
Net charge-offs	(1,522)	(1,128)	(5,258)	(3,383)

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Impact from acquisitions, sales and other changes	31	(14)	(80)(2)	(14)
Balance at end of period	\$6,175	\$4,513		\$6,175		\$4,513	

(1) Includes an adjustment of \$53 million made in the second quarter of 2010 for the impact as of January 1, 2010 of impairment on consolidated loans accounted for as TDRs.

(2) Includes a reduction in our allowance for loan and lease losses of \$73 million during the first quarter of 2010 attributable to the sale of certain interest-only option-ARM bonds and the deconsolidation of the related securitization trusts related to Chevy Chase Bank in the first quarter of 2010.

Table 17 presents an allocation of our allowance for loan and lease losses by loan categories as of September 30, 2010 and December 31, 2009.

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Table 17: Allocation of the Reported Allowance for Loan and Lease Losses

(Dollars in millions)	September 30, 2010		December 31, 2009	
	Amount	% of Total Loans(1)	Amount	% of Total Loans(1)
Credit Card:				
Domestic credit card and installment	\$ 4,043	7.51%	\$ 1,927	9.60%
International credit card and installment	497	6.64	199	8.75
Total credit card	4,540	7.40	2,126	9.52
Consumer Banking:				
Automobile	361	2.05	665	3.66
Mortgage	93	0.72	175	1.18
Retail banking	204	4.47	236	4.60
Total consumer banking	658	1.88	1,076	2.82
Commercial Banking:				
Commercial and multifamily real estate	538	4.02	471	3.40
Middle market	180	1.72	131	1.30
Specialty lending	96	2.52	90	2.54
Total commercial lending	814	2.94	692	2.52
Small-ticket commercial real estate	77	4.07	93	4.34
Total commercial banking	891	3.02	785	2.65
Other loans	86	18.34	140	30.91
Total	\$ 6,175	4.89%	\$ 4,127	4.55%
Total allowance for loan and lease losses as a percentage of:				
Period-end loans	\$ 126,334	4.89%	\$ 90,619	4.55%
Nonperforming loans(2)	1,267	487.37	1,289	320.17
Allowance for loan and lease losses, by loan category, as a percentage of:				
Credit card (30 + day performing delinquent loans)	\$ 2,874	157.97%	\$ 1,308	162.54%
Consumer banking (30 + day performing delinquent loans)	1,541	42.70	2,075	51.86
Commercial banking (nonperforming loans)	534	166.85	702	111.82

(1) Calculated based on the allowance for loan and lease losses attributable to each loan category divided by the outstanding balance of loans within the specified loan category.

(2) As permitted by regulatory guidance issued by the FFEIC, our policy is generally not to classify credit card loans as nonperforming. We accrue interest on credit card loans through the date of charge-off, typically in the period that the loan becomes 180 days past due. The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance related to our credit card loans, was 129.04% as of September 30, 2010 and 155.33% as of December 31, 2009.

As a result of our prospective adoption on January 1, 2010 of the new consolidation accounting standards, we added to our consolidated balance sheet \$41.9 billion of assets and \$4.3 billion of related allowance for loan and lease losses, consisting primarily of credit card loan receivables underlying our consolidated securitization trusts. Our allowance for loan and lease losses, after taking into consideration the \$4.3 billion addition from the January 1, 2010 adoption of the new consolidation accounting standards and subsequent related adjustments, decreased by \$2.1 billion during the first nine months of 2010 to \$6.2 billion. The reduction in our allowance reflected the continued improvement in

credit performance trends across our portfolios as a result of the slowly improving economy coupled with actions we have taken over the past several years to tighten our underwriting standards and exit certain portfolios. While we reduced the amount of our allowance for loan and lease losses in the first nine months of 2010, our allowance as a percentage of our total loan portfolio increased to 4.89% as of September 30, 2010, from 4.55% as of December 31, 2009.

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Deposits

Our deposits have become our largest source of funding for our operations and asset growth. Total deposits increased by \$3.4 billion, or 3%, in first nine months of 2010, to \$119.2 billion as of September 30, 2010. The increase in deposits was primarily driven by increases of \$6.6 billion, and \$3.7 billion, savings accounts and money market deposits, which was partially offset by a decrease of \$7.3 billion in other consumer time deposits and \$1.2 billion in certificate of deposits of \$100,000 or more, reflecting our shift to more relationship driven, lower cost liquid savings and transaction accounts. We provide additional information on deposits, including the composition of our deposits, average outstanding balances, interest expense and yields, below in “Liquidity and Funding.”

Senior and Subordinated Notes and Other Borrowings

Senior and subordinated notes and other borrowings decreased to \$14.8— billion as of September 30, 2010, from \$17.1 billion as of December 31, 2009. The decrease was primarily attributable to a reduction in Federal Home Loan Bank (“FHLB”) advances. Because of the decrease in our loan portfolio and the increase in deposits during the first nine months of 2010, our funding needs were lower and we reduced our level of borrowings. We provide additional information on our borrowings in “Note 8—Deposits and Borrowings.”

Securitized Debt Obligations

Borrowings owed to securitization investors, after taking into consideration the addition of \$44.3 billion of debt issued to third-party investors by securitization trusts that we were required to consolidate on January 1, 2010, as a result of the adoption of the new consolidation accounting standards, decreased by \$18.8 billion during the first nine months to \$29.5 billion as of September 30, 2010, from \$48.3 billion as of January 1, 2010. This decrease was attributable to pay downs and charge-offs of the loans underlying the securitization trusts and maturities.

Potential Mortgage Representation & Warranty Liabilities

In recent years, we acquired three subsidiaries that originated residential mortgage loans and sold them to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home Loans, which was acquired in February 2005; GreenPoint Mortgage Funding, Inc. (“GreenPoint”), which was acquired in December 2006 as part of the North Fork acquisition; and Chevy Chase Bank, which was acquired in February 2009 and subsequently merged into CONA.

In connection with their sales of mortgage loans, the subsidiaries entered into agreements containing varying representations and warranties about, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan’s compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the ongoing existence of mortgage insurance, and the loan’s compliance with applicable federal, state and local laws. The representations and warranties do not address the credit performance of the mortgage loans, but that performance often influences whether a claim for breach of representation and warranty will be asserted and has an effect on the amount of any loss in the event of a breach of a representation or warranty.

Each of these subsidiaries may be required to repurchase mortgage loans in the event of certain breaches of these representations and warranties. In the event of a repurchase, the subsidiary is typically required to pay the then unpaid principal balance of the loan together with interest and certain expenses (including, in certain cases, legal costs incurred by the purchaser and/or others). The subsidiary then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The subsidiary is exposed to any losses on the repurchased loans after giving effect to any recoveries on the collateral. In some instances, rather than repurchase the loans, a subsidiary may agree to make a cash payment to make an investor whole on losses or to settle repurchase claims. In addition, our subsidiaries may be

required to indemnify certain purchasers and others against losses they incur as a result of certain breaches of representations and warranties. In some cases, the amount of such losses could exceed the repurchase amount of the related loans.

These subsidiaries, in total, originated and sold to non-affiliates approximately \$111 billion original principal balance of mortgage loans between 2005 and 2008, which are the relevant years (or “vintages”) with respect to which our subsidiaries have received the vast majority of the repurchase requests and other related claims. We believe a significant amount of the original principal balance of these mortgage loans remains outstanding, and we believe significant credit losses have been and will in the future be incurred with respect to these mortgage loans.

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The following table sets forth the original principal balance of mortgage loan originations by year for three general categories of purchasers of mortgage loans:

Table 18: Original Principal Balance of Mortgage Loans Originated and Sold to Third Parties

(Dollars in billions)	2005	2006	2007	2008	Total
Government sponsored enterprises (“GSEs”)(1)	\$ 3	\$ 3	\$ 4	\$ 1	11
Insured securitizations	9	8	1	0	18
Uninsured securitizations and other whole loan sales	33	30	16	3	82
Total	\$ 45	\$ 41	\$ 21	\$ 4	111

(1)GSEs include Fannie Mae and Freddie Mac.

Of the total original principal balance amount, approximately \$11 billion was sold to either Fannie Mae or Freddie Mac (the “GSEs”), and approximately \$13 billion was sold to purchasers who placed the loans into private-label securitizations supported by financial guaranty bond insurers that have made repurchase requests relating to those securitizations (“Active Insured Securitizations”). Another \$5 billion was sold to purchasers who placed the loans into private-label securitizations supported by financial guaranty bond insurers where the bond insurer is not currently making repurchase requests on those securitizations (“Inactive Insured Securitizations”). Insured securitizations often allow the bond insurer to act independently of the investors. Bond insurers typically have indemnity agreements directly with both the mortgage originators and the securitizers, and they often have super-majority rights within the trust documentation that allow them to direct trustees to pursue mortgage repurchase requests without coordination with other investors.

Because we do not service most of the loans we sold to others, we do not have complete information about the current ownership of the remaining \$82 billion in original principal balance of mortgage loans. We have determined from third-party databases that about half of these mortgage loans are currently held by private-label publicly issued securitizations not supported by bond insurance. In contrast to these insured securitizations, investors in uninsured securitizations often face a number of legal and logistical hurdles before they can direct a securitization trustee to pursue mortgage repurchases, including the need to coordinate with a certain percentage of investors holding the securities and to indemnify the trustee for any litigation it undertakes. We have seen very few repurchase requests from uninsured securitizations in the past 12 months. The portion of the remaining \$82 billion in mortgage loans that are not within private-label publicly issued securitizations are likely either in privately placed securitizations or continue to be held by purchasers as whole loans. We have received very few repurchase requests from claimants holding whole loans or from investors in privately placed securitizations in the past 12 months.

As of September 30, 2010, the subsidiaries had open repurchase requests relating to approximately \$1.6 billion original principal balance of mortgage loans (up from \$1.4 billion as of June 30, 2010, and from \$1.0 billion as of December 31, 2009). Over the last year, the vast majority of repurchase claims received and, as discussed below, almost all of our \$836 million reserves, relate to the \$24 billion of original principal balance of mortgage loans originally sold to the GSEs or to Active Insured Securitizations. Currently, repurchase demands predominantly relate to the 2006 and 2007 vintages. We have received relatively few repurchase requests from the 2008 and 2009 vintages, mostly because GreenPoint ceased originating mortgages in August 2007.

We have established representation and warranty reserves for losses that we consider to be both probable and reasonably estimable associated with the mortgage loans sold by each subsidiary, including both litigation and

non-litigation liabilities. These reserves are reported in our consolidated balance sheets as a component of other liabilities. The reserve-setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for repurchase losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by Chevy Chase Bank and Capital One Home Loans and as a component of discontinued operations for loans originated and sold by GreenPoint. In establishing the representation and warranty reserves, we consider a variety of factors depending on the category of purchaser. These factors include, without limitation: identity of counterparty and the nature of the representations and warranties made to it, trends in repurchase requests, the number and amount of currently open repurchase requests, the status of any litigation arising from repurchase requests, current and future levels of estimated lifetime loan losses to the extent the losses can reasonably be determined, trends in success rates (i.e., the probability that repurchase requests lead to payments), estimated future success rates, estimated gross loss per claim and estimated value of the underlying collateral.

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The aggregate reserves for all three subsidiaries was \$836 million as of September 30, 2010, compared with \$853 million as of June 30, 2010 and \$238 million as of December 31, 2009. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of \$16 million and \$644 million in the third quarter and first nine months of 2010, respectively. During the third quarter of 2010, we had settlements of repurchase requests totaling \$33 million that were charged against the reserve. The table below summarizes changes in our representation and warranty reserves for the three and nine months ended September 30, 2010 and 2009.

Table 19: Changes in Representation and Warranty Reserves

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Representation and warranty repurchase reserve, beginning of period(1)	\$853	\$162	\$238	\$140
Provision for repurchase losses(2)	16	91	644	(3) 134
Net realized losses	(33)	(47)	(46)	(68)
Representation and warranty repurchase reserve, end of period(1)	\$836	\$206	\$836	\$206

(1) Reported in our consolidated balance sheets as a component of other liabilities.

(2) The portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of non-interest income totaled \$16 million and \$211 million for the three and nine months ended September 30, 2010, respectively, and \$8 million and \$25 million for the three and nine months ended September 30, 2009, respectively. The portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of discontinued operations totaled \$433 million, pre-tax, for the nine months ended September 30, 2010, and \$83 million and \$109 million, pre-tax, for the three and nine months ended September 30, 2009, respectively. There was no portion of the provision for mortgage repurchase claims recorded in discontinued operations for the three months ended September 30, 2010.

(3) Includes increases to the representation and warranty reserves in the first and second quarter of 2010 due primarily to counterparty activity and our ability to extend the timeframe over which we estimate our repurchase liability in most cases to the full life of the mortgage loans sold by our subsidiaries for groups of loans for which we believe repurchases are probable.

As indicated in the table below, almost all of the reserves relate to the \$11 billion in original principal balance of mortgage loans sold directly to the GSEs and to the \$13 billion in mortgage loans sold by others into Active Insured Securitizations. We have not established significant reserves with respect to the Inactive Insured Securitizations or the remaining \$82 billion original principal balance of mortgage loans, other than a very small amount attributable to actual repurchase requests, because we limit our reserves to probable and reasonably estimable outcomes and we have received very few repurchase requests from this group during the past 12 months.

Table 20: Allocation of Representation and Warranty Reserves

(Dollars in millions, except for loans sold)	September 30, 2010	
	Loans Sold 2005 to 2008(1)	Reserve Liability

GSEs and Active Insured Securitizations	\$ 24	\$ 814
Inactive Insured Securitizations and others	87	22
Total	\$ 111	\$ 836

(1) Reflects, in billions, the total original principal balance of mortgage loans originated by us and sold to third party investors between 2005 and 2008.

There is some risk that Inactive Insured Securitizations become Active Insured Securitizations and that some percentage of currently inactive investors with respect to the remaining \$82 billion in mortgage loans clear the various legal and logistical hurdles necessary to pursue repurchase requests or otherwise become active. If this risk were to become probable and reasonably estimable, we would establish reserves at that time. Although we have no reason to believe the loan loss performance of the Inactive Insured Securitizations or the \$82 billion in other mortgage loans will be materially different from the loan loss performance of the \$24 billion in mortgage loans sold to the GSEs and Active Insured Securitizations, at this time, we have no basis to predict reliably how many, if any, of the owners of or investors in the \$82 billion of mortgage loans will pursue repurchase requests or whether the Inactive Insured Securitizations will become active. Moreover, it is uncertain whether the other reserve factors that would apply to any new claims brought by inactive investors would be the same as the reserve factors that are currently applicable to the GSEs or to the reserve factors that are currently applicable to the Active Insured Securitizations. Until we have a meaningful repurchase experience with respect to these inactive categories, we believe it is not possible to determine the probability of or reasonably estimate this exposure.

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The adequacy of the reserves and the ultimate amount of losses incurred by us or one of our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests (including the extent, if any, to which Inactive Insured Securitizations and other currently inactive investors ultimately assert claims), the actual success rates of claimants, developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices).

Due to these and other uncertainties and the lack of predictive measures to guide the range of litigation outcomes or the number of future claims that might arise, we do not believe a meaningful range of reasonably possible loss (as defined by the relevant accounting literature) in excess of the aggregate reserve can be determined as of September 30, 2010. In addition, we cannot reasonably estimate the total amount of losses that will actually be incurred as a result of each subsidiary's repurchase and indemnification obligations, and there can be no assurance that our current reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations.

More details about certain amounts included within the reserves follow:

GreenPoint is a defendant in a lawsuit wherein plaintiffs allege GreenPoint is obligated to repurchase an entire portfolio of approximately 30,000 mortgage loans with an aggregate original principal balance of \$1.8 billion based on alleged breaches of representations and warranties relating to a limited sampling of loans in the portfolio (the "U.S. Bank Litigation" — see discussion within the Litigation section below). Alternatively, plaintiffs allege in the U.S. Bank Litigation that GreenPoint is obligated to repurchase individual loans contained within the 30,000 mortgage loan portfolio where GreenPoint has allegedly breached representations and warranties (the "Loan-by-Loan theory"). Similarly, GreenPoint is a defendant in a lawsuit that may ultimately allege GreenPoint is obligated to indemnify DB Structured Products, Inc. with respect to losses on an entire portfolio of approximately 6,200 mortgage loans with aggregate original principal balance of \$353 million (the "DBSP Litigation" — see discussion within the Litigation section below). In addition, GreenPoint has received requests for indemnification in connection with a number of lawsuits in which GreenPoint is not a party, including both representation and warranty litigation and securities fraud class actions for which GreenPoint was identified as the mortgage loan originator of some of the underlying mortgage loans.

With respect to litigation where plaintiffs allege either that a Capital One subsidiary or an alleged third-party indemnitee of a Capital One subsidiary is obligated to repurchase entire portfolios, our reserves are limited to what we consider to be the probable and reasonably estimable losses associated with a loan-by-loan approach to representation and warranty claims. The reserves do not include amounts for the portfolio-wide repurchase claim at issue in either the U.S. Bank litigation or the DBSP Litigation, nor do they include amounts for the indemnification requests received with respect to securities fraud class actions because none of these exposures, if any, is currently considered to be both probable and reasonably estimable. In the event GreenPoint is obligated to repurchase all mortgage loans under the portfolio-wide repurchase claims in the U.S. Bank Litigation and DBSP Litigation, GreenPoint could possibly incur the current and future economic losses inherent in the portfolios' associated securitization trusts.

Also see representation and warranty liabilities and litigation claims in "Note 13—Commitments, Contingencies and Guarantees."

IX. BUSINESS SEGMENT FINANCIAL PERFORMANCE

Our principal operations are currently organized into three major business segments, which are defined based on the products and services provided, or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments.

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain managed balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment.

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We refer to the business segment results derived from our internal management accounting and reporting process as our “managed” presentation, which differs in some cases from our reported results prepared based on GAAP. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the managed basis presentation of our business segment results may not be comparable to similar information provided by other financial service companies. In addition, our individual business segment results should not be used as a substitute for comparable results determined in accordance with GAAP. We provide additional information on our business segments, including the basis of presentation, business segment reporting methodologies, and a reconciliation of our total business segment results to our reported consolidated results in “Note 12—Business Segments.”

We summarize our business segment results for the three and nine months ended September 30, 2010 and 2009 in the tables below and provide a comparative discussion of these results. We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. In 2009, we realigned our organizational structure and business segment reporting to reflect our operating results by product type and customer segment and to integrate the operations of Chevy Chase Bank. Prior period amounts have been recast to conform to the current period presentation.

Credit Card Business

Table 21 summarizes the financial results of our Credit Card business, which is comprised of Domestic Card and International Card operations, and displays selected key metrics for the periods indicated. In conjunction with our Sony Card partnership, we acquired the \$807 million legacy Sony Card portfolio on September 1, 2010. The acquisition did not have a material impact on the results of our Credit Card business in the third quarter of 2010.

Table 21: Credit Card Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
Selected income statement data:						
Net interest income	\$1,934	\$2,024	(4)%	\$6,024	\$5,513	9 %
Non-interest income	671	967	(31)	2,048	2,850	(28)
Total revenue	2,605	2,991	(13)	8,072	8,363	(3)
Provision for loan and lease losses	660	1,644	(60)	2,600	4,847	(46)
Non-interest expense	978	897	9	2,894	2,796	4
Income before income taxes	967	450	115	2,578	720	258
Provision for income taxes	336	158	113	890	252	253
Net income	\$631	\$292	116 %	\$1,688	\$468	261 %
Selected metrics:						
Average loans held for investment	\$61,391	\$71,908	(15)%	\$63,314	\$74,535	(15)%
Average yield on loans held for investment	14.27 %	13.75 %	52 bps	14.48 %	12.50 %	198 bps
Revenue margin(1)	16.97	16.64	33	17.00	14.96	204
Net charge-off rate(2)	8.16	9.59	(143)	9.30	9.02	28
Purchase volume(3)	\$27,039	\$25,982	4 %	\$77,533	\$75,203	3 %

	September 30, 2010	December 31, 2009	Change
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Selected period-end data:

Loans held for investment(4)	\$ 61,326		\$ 68,524	(11)%
30+ day performing delinquency rate(4)	4.69	%	5.88	%	(119)bps

(1)Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period.

(2)Net charge-off rate is calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period.

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(3) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

(4) The statistics for the third quarter of 2010 and as of September 30, 2010 reflect the impact of the acquisition of the legacy portfolio associated with the Sony Card partnership announced on September 15, 2010, which resulted in increases of \$731 million in loans held for investment and \$35 million in 30+ day performing delinquencies as of September 30, 2010. The legacy Sony Card portfolio did not have a significant impact on other selected metrics or balances for the third quarter and first nine months of 2010.

Net income generated by our Credit Card business of \$631 million and \$1.7 billion for the third quarter and first nine months of 2010, respectively, represented an increase of \$339 million and \$1.2 billion over the third quarter and first nine months of 2009, respectively. Key factors contributing to the significant improvement in the results of our Credit Card business for the third quarter and first nine months of 2010, compared with the third quarter and first nine months of 2009 included the following:

- **Net Interest Income:** Our Credit Card business experienced a decrease in net interest income of \$90 million, or 4%, in the third quarter of 2010 from the third quarter of 2009, which was primarily attributable to a reduction in late payment fees resulting from recently enacted Federal Reserve guidelines regarding reasonable fees, which became effective in August 2010 and lower loan balances. Despite the decrease in net interest income in the third quarter of 2010, net interest income increased by \$511 million, or 9%, for the first nine months of 2010, primarily attributable to higher asset yields that more than offset a decline in average loans held for investment. The increase in the average yield on our credit card loan portfolio reflected the benefit of pricing changes that were implemented during 2009 and a reduction in the level of loans with low introductory promotional rates due to lower loan origination volumes. Net interest income also reflected the benefit of a net increase in previously suppressed billed finance charges and fees recognized in income, attributable to improving credit trends.
- **Non-Interest Income:** Non-interest income decreased by \$296 million, or 31%, in the third quarter of 2010 and by \$802 million, or 28%, in the first nine months of 2010 from the same prior year periods. The decrease in both periods was due to a reduction in overlimit fee revenue resulting from the February 22, 2010 implementation of CARD Act regulations and a reduction in customer accounts.
- **Provision for Loan and Lease Losses:** The significant reduction in the provision for loan and lease losses in the third quarter and first nine months of 2010 was attributable to continued improvement in credit performance trends, due in part to the slowly improving economic conditions and successful loss mitigation strategies, as well as lower period-end loans. As a result, we released \$569 million and \$1.8 billion in the third quarter and first nine months of 2010, respectively, from the allowance for loan and lease losses related to our Credit Card business.
- **Non-Interest Expense:** Non-interest expense increased by \$81 million, or 9%, in the third quarter of 2010 and by \$98 million, or 4% in the first nine months of 2010 from the same prior year periods. These increases reflect the impact of an increase in marketing expenses, which have been partially offset by a decrease in operating expenses due to the reduction in customer accounts and targeted cost savings across our Card businesses. As the economy gradually improved, we increased our marketing expenses during 2010 from suppressed levels to attract and support new business volume through a variety of channels.
- **Total Loans:** Period-end loans held for investment in the Credit Card business declined by \$7.2 billion, or 11%, during the first nine months of 2010 to \$61.3 billion as of September 30, 2010, from \$68.5 billion as of December 31, 2009. Approximately \$2.2 billion of the decrease was due to the run-off of installment loans in our Domestic Card division. The remaining decrease, which was partially offset by the addition of the legacy Sony Card portfolio, was attributable to elevated charge-offs, weak consumer demand, and the significantly lower levels of marketing expenditures in 2009 in response to the economic environment.

- Charge-off and Delinquency Statistics: Although net charge-off and delinquency rates remain elevated, these rates continued to show signs of improvement in the third quarter of 2010. The net charge-off rate, after increasing from 9.59% in the third quarter of 2009 to a peak of 10.29% in the first quarter of 2010, decreased to 8.16% in the third quarter of 2010. The 30+ day performing delinquency rate decreased to 4.69% as of September 30, 2010, from 4.94% as of June 30, 2010 and 5.88% as of December 31, 2009. Based on strong credit performance trends, such as the significant decline in the 30+ day performing delinquency rate from 5.88% at the end of 2009, we believe net charge-offs for our Credit Card business peaked in the first quarter of 2010.

Table 21.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated. Domestic Card accounted for 87% of total revenues for our Credit Card business in both the third quarter and first nine months of 2010, compared with 89% of total revenues in both the third quarter and first nine months of 2009. Net income attributable to Domestic Card represented 86% and 83% of total net income for our Credit Card business for the third quarter and first nine months of 2010, respectively, compared with 99% and 98% of net income for the third quarter and first nine months of 2009, respectively.

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Table 21.1: Domestic Card Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010(4)	2009	Change	2010(4)	2009	Change
Selected income statement data:						
Net interest income	\$1,691	\$1,797	(6)%	\$5,291	\$4,888	8 %
Non-interest income	575	856	(33)	1,753	2,534	(31)
Total revenue	2,266	2,653	(15)	7,044	7,422	(5)
Provision for loan and lease losses	577	1,437	(60)	2,348	4,296	(45)
Non-interest expense	844	770	10	2,522	2,423	4
Income before income taxes	845	446	89	2,174	703	209
Provision for income taxes	301	156	93	775	246	215
Net income	\$544	\$290	88 %	\$1,399	\$457	206 %
Selected metrics:						
Average loans held for investment	\$54,049	\$63,299	(15)%	\$55,788	\$66,095	(16)%
Average yield on loans held for investment	13.95 %	13.74 %	21 bps	14.25 %	12.41 %	185 bps
Revenue margin(1)	16.77	16.76	1	16.84	14.97	187
Net charge-off rate(2)	8.23	9.64	(141)	9.43	9.07	36
Purchase volume(3)	\$24,858	\$23,761	5 %	\$71,359	\$68,974	3 %
Selected period-end data:						
Loans held for investment				September 30, 2010	December 31, 2009	% Change
				\$ 53,839	\$ 60,300	(11)%
30+ day performing delinquency rate				4.53 %	5.78 %	(125)bps

(1)Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period.

(2)Net charge-off rate is calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period.

(3)Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

(4)The statistics for the third quarter and the first nine months of 2010 and as of September 30, 2010 reflect the impact of the acquisition of the legacy portfolio associated with the Sony Card partnership announced on September 15, 2010, which resulted in increases of \$731 million in loans held for investment and \$35 million in 30+ day performing delinquencies as of September 30, 2010. The legacy Sony Card portfolio did not have a significant impact on other selected metrics or balances for the third quarter and first nine months of 2010.

Net income for Domestic Card of \$544 million and \$1.4 billion in the third quarter and first nine months of 2010, respectively, represented an increase of \$254 million and \$944 million over the third quarter and first nine months of 2009, respectively. Because Domestic Card currently accounts for the substantial majority of our Credit Card

business, the key factors driving the results for this division are similar to the key factors affecting our total Credit Card business. These factors include a decline in total revenue due in part to lower loan balances and a reduction in overlimit and other penalty fees; a significant reduction in the provision for loan and lease losses, as we continued to reduce our allowance for loan and lease losses in 2010 due to continued improvement in credit performance trends; and an increase in non-interest expense attributable to higher marketing expenditures.

Table 21.2 summarizes the financial results for International Card and displays selected key metrics for the periods indicated. International Card accounted for 13% of total revenues generated by our Credit Card business for both the third quarter and first nine months of 2010, compared with 11% of total revenues for both the third quarter and first nine months of 2009. Net income attributable to International Card represented 14% and 17% of total net income for our Credit Card business for the third quarter and first nine months of 2010, respectively, compared with 1% and 2% of net income for the third quarter and first nine months of 2009, respectively.

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Table 21.2: International Card Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
Selected income statement data:						
Net interest income	\$243	\$227	7 %	\$733	\$625	17 %
Non-interest income	96	111	(14)	295	316	(7)
Total revenue	339	338	**	1,028	941	9
Provision for loan and lease losses	83	207	(60)	252	551	(54)
Non-interest expense	134	127	6	372	373	**
Income before income taxes	122	4	2950	404	17	2276
Provision for income taxes	35	2	1650	115	6	1817
Net income	\$87	\$2	4250 %	\$289	\$11	2527 %
Selected metrics:						
Average loans held for investment	\$7,342	\$8,609	(15)%	\$7,526	\$8,441	(11)%
Average yield on loans held for investment	16.62 %	13.80 %	282 bps	16.16 %	13.22 %	294 bps
Revenue margin(1)	18.47	15.70	277	18.21	14.86	333
Net charge-off rate(2)	7.60	9.19	(159)	8.28	8.60	(32)
Purchase volume(3)	\$2,181	\$2,221	(2)%	\$6,174	\$6,229	(1)%
				September 30, 2010	December 31, 2009	Change
Selected period-end data:						
Loans held for investment				\$ 7,487	\$ 8,224	(9)%
30+ day performing delinquency rate				5.84 %	6.55 %	(71)bps

**Change is less than one percent.

(1)Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period.

(2)Net charge-off rate is calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period.

(3)Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

Net income for International Card of \$87 million and \$289 million in the third quarter and first nine months of 2010, respectively, represented an increase of \$85 million and \$278 million over the third quarter and first nine months of 2009, respectively. Total revenues for International Card in the third quarter and first nine months of 2010 were relatively flat compared with the same prior year periods. Increases in average asset yields stemming from pricing changes we implemented during 2009, as well as a reduced percentage of loans with low introductory promotional rates, were offset by a decline in loan balances attributable to the reduced level of marketing efforts in 2009. The most significant driver of the improvement in results for our International Card division was the lower level of the

provision for loan and lease losses in third quarter and first nine months 2010, attributable to the reduction in our allowance for loan and lease losses due to continued improvement in credit performance trends resulting from gradually improving economic conditions in the United Kingdom and Canada and successful loss mitigation strategies.

We provide information on the outlook for our Credit Card business above under “Executive Summary and Business Outlook.”

Consumer Banking Business

Table 22 summarizes the financial results of our Consumer Banking business and displays selected key metrics for the periods indicated.

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Table 22: Consumer Banking Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
Selected income statement data:						
Net interest income	\$ 946	\$ 848	12 %	\$ 2,777	\$ 2,397	16 %
Non-interest income	196	212	(8)	674	602	12
Total revenue	1,142	1,060	8	3,451	2,999	15
Provision (benefit) for loan and lease losses						
	114	156	(27)	52	626	(92)
Non-interest expense						
	757	681	11	2,180	1,985	10
Income before income taxes						
	271	223	22	1,219	388	214
Provision for income taxes						
	96	78	23	434	136	219
Net income	\$ 175	\$ 145	21 %	\$ 785	\$ 252	212 %
Selected metrics:						
Average loans held for investment:						
Automobile	\$ 17,397	\$ 19,636	(11)%	\$ 17,479	\$ 20,349	(14)%
Mortgage	13,024	15,925	(18)	14,002	14,202	(1)
Retail banking	4,669	5,515	(15)	4,840	5,580	(13)
Total consumer banking	\$ 35,090	\$ 41,076	(15)%	\$ 36,321	\$ 40,131	(9)%
Average yield on loans held for investment						
	9.28 %	8.89 %	39 bps	9.07 %	8.98 %	9 bps
Average deposits						
	\$ 78,224	\$ 73,284	7 %	\$ 76,818	\$ 70,150	10 %
Average deposit interest rate						
	1.18 %	1.58 %	(40)bps	1.21 %	1.78 %	(58)bps
Core deposit intangible amortization						
	\$ 36	\$ 46	(22)%	\$ 110	\$ 129	(15)%
Net charge-off rate(1)						
	1.79 %	2.69 %	(90)bps	1.77 %	2.71 %	(94)bps
Automobile loan originations						
	\$ 2,439	\$ 1,513	61 %	\$ 5,547	\$ 4,318	28 %
September 30, 2010						
December 31, 2009						
Change						
Selected period-end data:						
Loans held for investment:						
Automobile				\$ 17,643	\$ 18,186	(3)%
Mortgage				12,763	14,893	(14)
Retail banking				4,591	5,135	(11)

Total consumer banking	\$	34,997	\$	38,214	(8)%
Nonperforming loans as a percentage of loans held for investment(2)		1.92%		1.45%	47bps
Nonperforming asset rate(2)		2.11		1.60	51
30+ day performing delinquency rate(3)		4.40		5.43	(103)
Period-end deposits	\$	79,506	\$	74,145	7%
Period-end loans serviced for others		20,298		30,283	(33)%

- (1) The average loans held for investment used in calculating net charge-off rates includes the impact of the loans acquired as part of the Chevy Chase Bank acquisition. The net charge-off rates, excluding loans acquired from Chevy Chase Bank from the denominator, was 2.11% and 3.28% for the three months ended September 30, 2010 and 2009, respectively, and 2.10% and 3.18% for the nine months ended September 30, 2010 and 2009, respectively.
- (2) Our calculation of nonperforming loan and asset ratios include the impact of loans acquired from Chevy Chase Bank. However, we do not report loans acquired from Chevy Chase Bank as nonperforming unless they do not perform in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. The nonperforming loan ratios, excluding the impact of loans acquired from Chevy Chase Bank, was 2.26% as of September 30, 2010 and 1.75% as of December 31, 2009. Nonperforming assets consist of nonperforming loans and real-estate owned ("REO"). The nonperforming asset rate is calculated by dividing nonperforming assets as of the end of the period by period-end loans held for investment and REO. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank, was 2.49% as of September 30, 2010 and 1.93% as of December 31, 2009.
- (3) The 30+ day performing delinquency rate, excluding Chevy Chase Bank loans from the denominator, was 5.19% as of September 30, 2010 and 6.56% as of December 31, 2009.

Net income generated by our Consumer Banking business of \$175 million and \$785 million for the third quarter and first nine months of 2010, respectively, represented an increase of \$30 million and \$533 million over the third quarter and first nine months of 2009. Key factors contributing to the significant improvement in the results of our Consumer Banking business for the third quarter and first nine months of 2010, compared with the third quarter and first nine months of 2009 included the following:

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- **Net Interest Income:** Our Consumer Banking business experienced an increase in net interest income of \$98 million, or 12%, in the third quarter of 2010 and an increase of \$380 million, or 16%, in the first nine months of 2010 from the same prior year periods. The primary drivers of the increase in net interest income were improved loan margins, primarily resulting from higher pricing for new auto loan originations; deposit growth resulting from our continued strategy to leverage our bank outlets to attract lower cost funding sources; and improved deposit spreads due to the shift in the mix of our deposits to lower cost consumer savings and money market deposits from higher cost time deposits. In addition, as a result of the overall low interest rate environment, we made targeted pricing changes and repriced higher interest rate deposit accounts to lower rates. The favorable impact from these factors more than offset the decline in average loans held for investment resulting from the continued expected run-off of mortgage loans and reduced auto loan originations in 2009.
- **Non-Interest Income:** Non-interest income decreased by \$16 million, or 8%, in the third quarter of 2010 from the third quarter of 2009, which was primarily attributable to a reduction in overdraft charges due to recently implemented overdraft policy changes under Regulation E. Non-interest income increased by \$72 million, or 12%, in the first nine months of 2010. The increase was primarily attributable to a gain of \$128 million recorded in the first quarter of 2010 related to the deconsolidation of certain option-adjustable rate mortgage trusts that were consolidated on January 1, 2010 as a result of our adoption of the new consolidation accounting standards.
- **Provision for Loan and Lease Losses:** The significant reduction in the provision for loan and lease losses in the third quarter and first nine months of 2010 was attributable to continued improvement in credit performance trends, due in part to the slowly improving economic conditions and higher credit quality of our most recent auto loan vintages, as well as lower period-end loans. As a result, we reduced the allowance for loan and lease losses for our Consumer Banking business by \$44 million and \$418 million in the third quarter and first nine months of 2010, respectively.
- **Non-Interest Expense:** Non-interest expense increased by \$76 million, or 11%, in the third quarter of 2010 and by \$195 million, or 10% in the first nine months of 2010 from the same prior year periods. These increases were attributable to infrastructure costs in the third quarter and first nine months of 2010 to attract and support new business volume.
- **Total Loans:** Period-end loans held for investment in the Consumer Banking business declined by \$3.2 billion, or 8%, during the first nine months of 2010 to \$35.0 billion as of September 30, 2010, from \$38.2 billion as of December 31, 2009, primarily due to the run-off of mortgage loans as well as lower auto loans.
- **Deposits:** Period-end deposits in the Consumer Banking business increased by \$5.4 billion, or 7%, during the first nine months of 2010 to \$79.5 billion as of September 30, 2010, from \$74.1 billion as of December 31, 2009, reflecting the impact of our strategy to replace maturing higher cost wholesale deposit funding sources with lower cost funding sources and our increased retail marketing efforts to attract new business to meet this objective.
- **Charge-off and Delinquency Statistics:** The net charge-off and delinquency rates for the Consumer Banking business, which improved during the first six months of 2010 as a result of the improved economic environment and a tightening of our underwriting standards on new loan originations, remained relatively stable in the third quarter of 2010. Although the net charge-off rate increased to 1.79% in the third quarter of 2010, from 1.47% in the second quarter of 2010 due to expected seasonal trends in our auto business, the net charge-off rates of 1.79% and 1.77% for the third quarter and first nine months of 2010, respectively, are significantly down from the net charge-off rates of 2.69% and 2.71% for the third quarter and first nine months of 2009, respectively. The 30+ day performing delinquency rate, which increased to 4.40% as of September 30, 2010 from 4.15% as of June 30, 2010 due to the expected seasonal increase in delinquent auto loans, has declined from a rate of 5.43% as of December 31, 2009.

We provide information on the outlook for our Consumer Banking business above under “Executive Summary and Business Outlook.”

Commercial Banking Business

Table 23 summarizes the financial results of our Commercial Banking business and displays selected key metrics for the periods indicated.

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Table 23: Commercial Banking Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Change	2010	2009	Change
Selected income statement data:						
Net interest income	\$325	\$301	8 %	\$956	\$826	16 %
Non-interest income	30	43	(30)	132	133	(1)
Total revenue	355	344	3	1,088	959	13
Provision (benefit) for loan and lease losses	95	375	(75)	395	615	(36)
Non-interest expense	199	166	20	589	463	27
Income before income taxes	61	(197)	131	104	(119)	187
Provision for income taxes	22	(69)	132	37	(42)	188
Net income	\$39	\$(128)	130 %	\$67	\$(77)	187 %
Selected metrics:						
Average loans held for investment:						
Commercial and multifamily real estate	\$13,411	\$13,938	(4)%	\$13,556	\$13,834	(2)%
Middle market	10,352	9,911	4	10,317	10,114	2
Specialty lending	3,715	3,753	(1)	3,660	3,578	2
Total commercial lending	27,478	27,602	**	27,533	27,526	**
Small-ticket commercial real estate	1,957	2,471	(21)	2,030	2,537	(20)
Total commercial banking	\$29,435	\$30,073	(2)%	\$29,563	\$30,063	(2)%
Average yield on loans held for investment						
	5.13 %	5.06 %	7 bps	5.03 %	5.00 %	3 bps
Average deposits						
	\$21,899	\$17,761	23 %	\$21,976	\$16,949	30 %
Average deposit interest rate						
	0.67 %	0.75 %	(8)bps	0.71 %	0.83 %	(12)bps
Core deposit intangible amortization						
	\$14	\$10	40 %	\$42	\$29	45 %
Net charge-off rate(1)						
	1.27 %	1.42 %	(15)bps	1.28 %	0.96 %	32 bps

	September 30, 2010	December 31, 2009	Change
Selected period-end data:			
Loans held for investment:			
Commercial and multifamily real estate	\$ 13,383	\$ 13,843	(3)%
Middle market	10,456	10,062	4
Specialty lending	3,813	3,555	7
Total commercial lending	27,652	27,460	1 %
Small-ticket commercial real estate	1,890	2,153	(12)
Total commercial banking	\$ 29,542	\$ 29,613	**
Nonperforming loans as a percentage of loans held for investment(2)			
	1.81 %	2.37 %	(56)bps

Nonperforming asset rate(2)	1.94	2.52	(58)
Period-end deposits	\$ 22,100	\$ 20,480	8	%

**Change is less than one percent.

- (1) The average loans held for investment used in calculating net charge-off rates includes the impact of the loans acquired as part of the Chevy Chase Bank acquisition. The net charge-off rates, excluding loans acquired from Chevy Chase Bank from the denominator, was 1.30% and 1.46% for the three months ended September 30, 2010 and 2009, respectively, and 1.32% and 0.98% for the nine months ended September 30, 2010 and 2009, respectively.
- (2) Our calculation of nonperforming loan and asset ratios include the impact of loans acquired from Chevy Chase Bank. However, we do not report loans acquired from Chevy Chase Bank as nonperforming unless they do not perform in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. The nonperforming loan ratios, excluding the impact of loans acquired from Chevy Chase Bank, was 1.84% as of September 30, 2010 and 2.43% as of December 31, 2009. Nonperforming assets consist of nonperforming loans and real-estate owned ("REO"). The nonperforming asset rate is calculated by dividing nonperforming assets as of the end of the period by period-end loans held for investment and REO. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank, was 1.98% as of September 30, 2010 and 2.62% as of December 31, 2009.

The net income generated by our Commercial Banking business of \$39 million and \$67 million for the third quarter and first nine months of 2010, respectively, represented increases of \$167 million and \$144 million for the third quarter and first nine months of 2009, respectively. Key factors affecting the results of our Commercial Banking business for the third quarter and first nine months of 2010, compared with the third quarter and first nine months of 2009 included the following.

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- **Net Interest Income:** Our Commercial Banking business experienced an increase in net interest income of \$24 million, or 8%, in the third quarter of 2010 and an increase of \$130 million, or 16%, in the first nine months of 2010 from the same prior year periods. The primary drivers of the increase in net interest income were strong deposit growth resulting from our continued strategy to leverage our bank outlets to attract lower cost funding sources, improved deposit spreads resulting from repricing of higher rate deposits to lower rates in response to the overall lower interest rate environment, and higher average loan yields driven by wider spreads on new originations.
- **Non-Interest Income:** Non-interest income decreased by \$13 million, or 30%, in the third quarter of 2010 and by \$1 million in the first nine months of 2010 from the same prior year periods. The decrease was primarily attributable to a loss of \$18 million in the third quarter of 2010 on the disposition of a legacy portfolio totaling \$87 million of small-ticket commercial real estate loans. This loss was partially offset by growth in fees in the middle market segment.
- **Provision for Loan and Lease Losses:** The significant reduction in the provision for loan and lease losses in the third quarter and first nine months of 2010 was attributable to the recent stabilization in credit performance trends since the end of 2009, due in part to the slowly improving economic conditions.
- **Non-Interest Expense:** Non-interest expense increased by \$33 million, or 20%, in the third quarter of 2010 and by \$126 million, or 27% in the first nine months of 2010 from the same prior year periods. The increase was attributable to higher loan workout expenses and losses related to the write-down of REO, combined with increases in core deposit intangible amortization expense, integration costs related to the Chevy Chase Bank acquisition and corporate overhead costs.
- **Total Loans:** Period-end loans held for investment in the Commercial Banking business declined by \$71 million, or less than one percent, during the first nine months of 2010 to \$29.5 billion as of September 30, 2010, due to the disposition of the small-ticket commercial loan portfolio, which we reclassified to loans held-for-sale from loans held-for-investment in the third quarter of 2010.
- **Deposits:** Period-end deposits in the Commercial Banking business increased by \$1.6 billion, or 8%, during the first nine months of 2010 to \$22.1 billion as of September 30, 2010, driven by our increased efforts to attract lower cost funding sources.
- **Charge-off and Nonperforming Loan Statistics:** Credit metrics in our Commercial Banking business remained elevated but have significantly improved since the end of 2009 as a result of the improved economic environment. The net charge-off rate was 1.27% in the third quarter of 2010, down from 2.91% in the fourth quarter of 2009. The nonperforming loan rate declined to 1.81% as of September 30, 2010, from 2.37% as of December 31, 2009.

We provide information on the outlook for our Commercial Banking business above under “Executive Summary and Business Outlook.”

X. LIQUIDITY AND FUNDING

Liquidity risk is the risk that future financial obligations are not met or future asset growth cannot occur because of an inability to obtain funds at a reasonable price within a reasonable time. We manage liquidity risk to ensure that we can fund asset and loan growth, debt and deposit maturities and withdrawals, and payment of other corporate obligations under both normal operating conditions and under unpredictable adverse circumstances, such as the financial market disruptions that began in 2007 and continued to adversely impact the global economy and financial services industry

throughout 2008 and into 2009. We provide information on our liquidity management framework and practices in “Part II—Item 7. MD&A—Liquidity and Funding” of our 2009 Form 10-K.

Liquidity

We have established liquidity guidelines that are intended to ensure that we have sufficient asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. Our guidelines include maintaining an adequate liquidity reserve to cover our potential funding requirements and diversified funding sources to avoid over-dependence on volatile, less reliable funding markets. Our liquidity reserves consist of cash and cash equivalents, unencumbered available-for-sale securities and undrawn committed securitization borrowing facilities. Table 24 below presents the composition of our liquidity reserves as of September 30, 2010 and December 31, 2009. Our liquidity reserves decreased by \$150 million during the first nine months of 2010, to \$38.4 billion as of September 30, 2010.

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Table 24: Liquidity Reserves

	September 30, 2010	December 31, 2009
(Dollars in millions)		
Cash and cash equivalents	\$4,942	\$8,685
Securities available for sale(1)	39,926	38,830
Less: Pledged available for sale securities	(9,677)	(11,883)
Unencumbered available-for-sale securities	30,249	26,947
Undrawn committed securitization borrowing facilities	3,204	2,913
Total liquidity reserves	\$38,395	\$38,545

(1) The weighted average life of our available-for-sale securities was approximately 3.6 and 4.9 years as of September 30, 2010 and December 31, 2009, respectively.

Funding

Our funding objective is to establish an appropriate maturity profile using a cost-effective mix of both short-term and long-term funds. We use a variety of funding sources, including deposits, loan securitizations, debt and equity securities, securitization borrowing facilities and FHLB advances.

Deposits

Our deposits provide a stable and relatively low cost of funds and have become our largest source of funding. We have expanded our opportunities for deposit growth through direct and indirect marketing channels, our existing branch network and branch expansion. These channels offer a broad set of deposit products that include demand deposits, money market deposits, negotiable order of withdrawal (“NOW”) accounts, savings accounts and certificates of deposit. Table 25 presents the composition of our deposits by type as of September 30, 2010 and December 31, 2009. Total deposits increased by \$3.4 billion, or 3%, in the first nine months of 2010, to \$119.2 billion as of September 30, 2010.

Table 25: Deposits

	September 30, 2010	December 31, 2009
(Dollars in millions)		
Non-interest bearing	\$14,471	\$13,439
NOW accounts	12,987	12,077
Savings accounts	23,593	17,019
Money market deposit accounts	41,792	38,094
Other consumer time deposits	18,129	25,456
Total core deposits	110,972	106,085
Public fund certificates of deposit \$100,000 or more	219	579
Certificates of deposit \$100,000 or more	7,067	8,248
Foreign time deposits	954	897
Total deposits	\$119,212	\$115,809

Of our total deposits, approximately \$954 million and \$897 million were held in foreign banking offices as of September 30, 2010 and December 31, 2009, respectively. Large domestic denomination certificates of deposits of \$100,000 or more represented \$7.3 billion and \$8.8 billion of our total deposits as of September 30, 2010 and December 31, 2009, respectively. Our funding and liquidity strategy takes into consideration the scheduled maturities of large denomination time deposits. Of the \$7.3 billion in large domestic denomination certificates of deposit as of September 30, 2010, \$1.3 billion is scheduled to mature within the next three months; \$2.0 billion is scheduled to mature between three and 12 months and \$4.0 billion is scheduled to mature over 12 months. Based on past activity, we expect to retain a portion of these deposits as they mature.

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We have brokered deposits, which we obtained through the use of third-party intermediaries, that are included above in Table 25 in money market deposit accounts and other consumer time deposits. The Federal Deposit Insurance Corporation Improvement Act of 1991 limits the use of brokered deposits to “well-capitalized” insured depository institutions and, with a waiver from the Federal Deposit Insurance Corporation, to “adequately capitalized” institutions. COBNA and CONA were “well-capitalized,” as defined under the federal banking regulatory guidelines, as of September 30, 2010, and therefore permitted to maintain brokered deposits. Our brokered deposits totaled \$15.9 billion, or 13% of total deposits, as of September 30, 2010. Brokered deposits totaled \$18.8 billion, or 16% of total deposits, as of December 31, 2009. Based on our historical access to the brokered deposit market, we expect to replace maturing brokered deposits with new brokered deposits or direct deposits and branch deposits. If our brokered deposits do not renew at maturity, we would expect to use our liquidity reserves or alternative sources of funding to meet our liquidity needs.

Other Funding Sources

We also access the capital markets to meet our funding needs through loan securitization transactions and the issuance of senior and subordinated debt. In addition, we utilize advances from the FHLB that are secured by our investment securities, residential mortgage loan portfolio, multifamily loans, commercial real-estate loans and home equity lines of credit for our funding needs.

We have committed loan securitization conduit lines of \$4.3 billion, of which \$1.1 billion was outstanding as of September 30, 2010. Senior and subordinated notes and other borrowings, including FHLB advances, totaled \$14.8 billion as of September 30, 2010, down from \$17.1 billion as of December 31, 2009. The \$2.3 billion decrease was primarily attributable to a reduction in FHLB advances. Our FHLB membership is secured by our investment in FHLB stock, which totaled \$278 million as of September 30, 2010. We did not issue any senior or subordinated debt during the first nine months of 2010.

We are eligible or may be eligible to participate in U.S. Government programs designed to support financial institutions and increase access to credit markets. We evaluate these programs and determine, based on the costs and benefits of each program, whether to participate. For example, the Federal Reserve’s Discount Window allows eligible institutions to borrow funds from the Federal Reserve, typically on a short-term basis, to meet temporary liquidity needs. Borrowers must post collateral, which can be made up of securities or consumer or commercial loans. We did not borrow funds from the Discount Window during the first nine months of 2010.

Borrowing Capacity

As of September 30, 2010, we had an effective shelf registration statement filed with the U.S. Securities & Exchange Commission (“SEC”) under which, from time to time, we may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares representing preferred stock, common stock, warrants, trust preferred securities, junior subordinated debt securities, guarantees of trust preferred securities and certain back-up obligations, purchase contracts and units. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell. Under SEC rules, the shelf registration statement, which we filed in May 2009, expires three years after filing. We did not issue any debt securities, preferred stock, common stock or other securities under the shelf registration statement in the first nine months of 2010.

In addition to issuance capacity under the shelf registration statement, we have access to other borrowing programs. Table 26 summarizes our borrowing capacity as of September 30, 2010 under the Global Bank Note Program, FHLB Advances, and securitization conduits.

Table 26: Borrowing Capacity

(Dollars or dollar equivalents in millions)	Effective/ Issue Date	Capacity(1)	Outstanding	Availability(1)	Final Maturity(2)
Senior and Subordinated Global Bank Note Program(3)	06/05	\$2,630	\$ 830	\$ 1,800	—
FHLB Advances (4)	—	9,748	1,396	8,352	—
Committed Securitization Conduits(5)	—	4,261	1,057	3,204	11/11

(1) All funding sources are non-revolving. Funding availability under all other sources is subject to market conditions. Capacity is the maximum amount that can be borrowed. Availability is the amount that can still be borrowed against the facility.

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- (2) Maturity date refers to the date the facility terminates, where applicable.
- (3) The Global Bank Note Program gives COBNA the ability to issue senior and subordinated notes with maturities of 30 days or more. COBNA last issued notes under the program in 2004.
- (4) The ability to draw down funding is based on membership status, and the amount is dependent upon the Banks' ability to post collateral.
- (5) Securitization committed capacity was established at various dates, with the last termination being in November 2011.

XI. MARKET RISK
MANAGEMENT

Market risk generally represents the risk that our earnings and/or economic value of equity may be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with our operations and activities, including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. Market conditions that may change from time to time, thereby exposing us to market risk, include changes in interest and currency exchange rates, credit spreads and price fluctuation or changes in value due to changes in market perception or actual credit quality of issuers.

Interest rate risk, which represents exposure to instruments whose values vary with the level or volatility of interest rates, is our most significant market risk exposure. Banks are inevitably exposed to interest rate risk due to the repricing and maturity mismatches of their assets and liabilities, as well as the need to invest most of their equity in financial assets. We manage our asset/liability risk position and exposure to market risk in accordance with prescribed risk management policies and limits established by our Asset Liability Management Committee and approved by our Board of Directors.

The use of interest rate derivatives is one of the primary tools we use in managing interest rate risk. We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts totaled \$49.1 billion as of September 30, 2010, compared with \$59.2 billion as of December 31, 2009. See "Note 9—Derivative Instruments and Hedging Activities" for additional information on our derivatives activity.

We consider the impact on both earnings and economic value of equity in measuring and managing our market risk. We use generally accepted, industry-standard market risk measurement techniques and analysis to measure the impact of changes in interest rates or foreign exchange rates on earnings and economic value of equity, including scenario analysis, stress testing and various interest rate sensitivity simulations. The measurement of the impact on our current earnings includes the impact on our net interest income and the valuation of our mortgage servicing rights (net of hedges) as a result of movements in interest rates. Under our current asset/liability management policy, we seek to limit the potential decrease in our projected earnings resulting from a gradual plus or minus 200 basis point change to forward rates to less than 5% over the next 12 months. Our current asset/liability management policy also includes limiting the adverse change in the economic value of our equity due to an instantaneous parallel interest rate shock to spot rates of plus or minus 200 basis points to less than 12%.

The federal funds rate remained at a target range of zero to 0.25% throughout the first nine months of 2010. Given the level of short-term rates as of September 30, 2010 and December 31, 2009, a scenario where interest rates would decline by 200 basis points is not plausible and we therefore revised our customary declining interest rate scenario of 200 basis points to a 50 basis point decrease. Table 27 compares the estimated impact on net interest income and the economic value of equity of our selected hypothetical interest rate scenarios as of September 30, 2010 and December 31, 2009. All changes in income and value are measured as percentage changes from the projected net interest income and economic value of our equity at the base interest rate scenario.

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Table 27: Interest Rate Sensitivity Analysis

	September 30, 2010		December 31, 2009	
Impact to projected base-line net interest income:				
+ 200 basis points(1)	0.5	%	(0.4)%
- 50 basis points(1)	(0.7)	(0.1)
Impact to economic value of equity:				
+ 200 basis points(2)	(0.4)%	(3.2)%
- 50 basis points(2)	(0.8)	0.3	

(1) These sensitivities include our net interest income and mortgage servicing rights valuation change (net of hedges). For net interest income, the rate scenarios are based on a hypothetical gradual increase in interest rates of 200 basis points and a hypothetical gradual decrease of 50 basis points to forward rates over the next 9 months. For the mortgage servicing rights valuation change (net of hedges), the rate scenarios are based on a hypothetical instantaneous parallel rate shock of plus 200 basis points and minus 50 basis points to spot rates.

(2) Based on a hypothetical instantaneous parallel shift in the level of interest rates of plus 200 basis points and minus 50 basis points to spot rates.

Our earnings sensitivity and economic value of equity measurements are based on our existing assets and liabilities, including our derivatives, and do not incorporate business growth assumptions or projected funding mix changes. The interest rate risk models that we use in deriving these measures incorporates contractual information, internally-developed assumptions and proprietary modeling methodologies, which project borrower and deposit behavior patterns in certain interest rate environments. Other market inputs, such as interest rates, market prices and interest rate volatility, are also critical components of our interest rate risk measures. We regularly evaluate, update and enhance these assumptions, models and analytical tools as we believe appropriate to reflect our best assessment of the market environment and the expected behavior patterns of our existing assets and liabilities.

There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The above sensitivity analyses contemplate only certain movements in interest rates and are performed at a particular point in time based on the existing balance sheet, and do not incorporate other factors that may have a significant effect, most notably future business activities and strategic actions that management may take to manage interest rate risk. Actual earnings and economic value of equity could differ from the above sensitivity analyses.

We provide additional information on our market risk exposure and interest risk management process in our 2009 Form 10-K under “Part II—Item 7. MD&A—Market Risk Management.”

XII. CAPITAL

Capital Standards and Prompt Corrective Action

Banks and bank holding companies currently are required to maintain a Tier 1 risk-based capital ratio of 4% and a Total risk-based capital ratio of 8% to meet adequately capitalized regulatory requirements under Basel I. A “well-capitalized” institution must generally maintain capital ratios 200 bps higher than the minimum guidelines. The risk-based capital rules have been further supplemented by a Tier 1 leverage ratio, defined as Tier 1 capital divided by quarterly average total assets, after certain adjustments. The Tier 1 leverage ratio guidelines provide for a minimum

leverage ratio of 3% for banks that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating. Banks not meeting these criteria are required to maintain a leverage ratio of 4% to meet “adequately capitalized” regulatory requirements. All banks are required to maintain a leverage ratio of 5% to meet “well capitalized” regulatory requirements. There is no “well capitalized” Tier 1 leverage ratio requirement for bank holding companies..

In addition to disclosing our regulatory capital ratios, we also disclose Tier 1 common equity and TCE ratios, which are non-GAAP measures widely used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. There is no mandated minimum or “well capitalized” standard for Tier 1 common equity; instead the risk-based capital rules state voting common stockholders’ equity should be the dominant element within Tier 1 common equity. Management reviews our Tier 1 common equity and TCE ratios, along with other measures of capital, as part of its financial analyses and discloses these non-GAAP capital measures because of current interest in such information on the part of market participants. Please see "Financial Highlights" under "Executive Summary and Business Outlook" for more information on our TCE ratio. Table 28 provides the details of the calculation of our capital ratios, including a reconciliation of the total stockholders’ equity reported in our consolidated balance sheets to Tier 1 common equity.

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Table 28: Risk-Based Capital Components

(Dollars in millions)	September 30, 2010	December 31, 2009
Total stockholders' equity	\$ 26,061	\$ 26,589
Less: Net unrealized (gains) losses on available-for sale-securities recorded in AOCI(1)	(580)	(200)
Net (gains) losses on cash flow hedges recorded in AOCI(1)	79	92
Disallowed goodwill and other intangible assets	(13,993)	(14,125)
Disallowed deferred tax assets	(1,324)	—
Other	(2)	(9)
Tier 1 common equity	\$ 10,241	\$ 12,347
Plus: Tier 1 restricted core capital items(2)	3,636	3,642
Tier 1 capital	\$ 13,877	\$ 15,989
Plus: Long-term debt qualifying as Tier 2 capital	2,827	3,018
Qualifying allowance for loan and lease losses	3,726	1,581
Other Tier 2 components	24	4
Tier 2 capital	6,577	4,603
Total risk-based capital	\$ 20,454	\$ 20,592
Risk-weighted assets(3)	\$ 124,726	\$ 116,309

(1) Amounts presented are net of tax.

(2) Consists primarily of trust preferred securities.

(3) Under regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

Table 29 provides a comparison of our capital ratios as of September 30, 2010 and December 31, 2009. As of September 30, 2010, COBNA and CONA exceeded minimum regulatory requirements and, therefore, were considered "well-capitalized" under applicable capital adequacy guidelines. As of September 30, 2010, the Company also exceeded minimum capital requirements and was considered "well-capitalized" under Federal Reserve capital standards for bank holding companies. For purposes of applying the prompt corrective action provisions under the Federal Deposit Insurance Corporation Act of 1991, each of the Banks met the requirements for a "well capitalized" institution.

Table 29: Capital Ratios(1)

(Dollars in millions)	September 30, 2010				December 31, 2009			
	Capital Ratio	Minimum Capital Adequacy	Well Capitalized		Capital Ratio	Minimum Capital Adequacy	Well Capitalized	
Capital One Financial Corp:								
(2)								
Tier 1 common equity(3)	8.21	%	N/A	N/A	10.62	%	N/A	N/A
Tier 1 risk-based capital(4)	11.13		4.00	%	N/A	%	13.75	4.00
								%
								N/A
								%

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Total risk-based capital(5)	16.40	8.00	N/A	17.70	8.00	N/A
Tier 1 leverage(6)	7.68	4.00	N/A	10.28	4.00	N/A
Capital One Bank (USA)						
N.A.						
Tier 1 risk-based capital	12.88	% 4.00	% 6.00	% 18.27	% 4.00	% 6.00
Total risk-based capital	23.53	8.00	10.00	26.40	8.00	10.00
Tier 1 leverage	7.48	4.00	5.00	13.03	4.00	5.00
Capital One, N.A.						
Tier 1 risk-based capital	10.94	% 4.00	% 6.00	% 10.22	% 4.00	% 6.00
Total risk-based capital	12.23	8.00	10.00	11.46	8.00	10.00
Tier 1 leverage	8.08	4.00	5.00	7.42	4.00	5.00

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- (1) Effective January 1, 2010, we are no longer required to apply the subprime capital provisions to credit card loans with a credit score equal to or greater than 660. Accordingly, we no longer disclose these ratios. See our 2009 Form 10-K under “Part II—Item 7. MD&A—Capital” for these ratios as of December 31, 2009.
- (2) The regulatory framework for prompt corrective action does not apply to Capital One Financial Corp. because it is a bank holding company.
- (3) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets.
- (4) Calculated based on Tier 1 capital divided by risk-weighted assets.
- (5) Calculated based on Total risk-based capital divided by risk-weighted assets.
- (6) Calculated based on Tier 1 capital divided by divided by quarterly average total assets, after certain adjustments.

The January 1, 2010 adoption of the new consolidation accounting standards resulted in our consolidating a substantial portion of our securitization trusts and establishing an allowance for loan and lease losses for the assets underlying these trusts, which reduced retained earnings and our Tier 1 risk-based capital ratio. In January 2010, banking regulators issued regulatory capital rules related to the impact of the new consolidation accounting standards. Under these rules, we are required to hold additional capital for the assets we consolidated. The capital rules also provided for an optional phase-in of the impact from the adoption of the new consolidation accounting standards, including a two-quarter implementation delay followed by a two-quarter partial implementation of the effect on regulatory capital ratios.

We elected the phase-in option, which required us to phase-in 50% of consolidated assets in the third quarter of 2010 for purposes of determining risk-weighted assets. However, the phase-in impact was effectively accelerated over the first three quarters of 2010 due to pay downs of outstanding securitization debt. We will phase in the impact of the remaining consolidated assets on risk-weighted assets by the end of the first quarter of 2011.

Under the Dodd-Frank Act, many trust preferred securities will cease to qualify for Tier 1 capital, subject to a three year phase-out period expected to begin in 2013. See “Supervision and Regulation” for more information.

Dividend Policy

The declaration and payment of dividends to Capital One’s stockholders, as well as the amount thereof, are subject to the discretion of the our Board of Directors and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Regulatory restrictions exist that limit the ability of our banks to transfer funds to us. As of September 30, 2010, funds available for dividend payments from COBNA and CONA were \$803 billion and zero, respectively. The funds of COBNA are available for payment as dividends to us without prior approval of the OCC while a dividend payment by CONA would require prior approval of the OCC. Additionally, applicable provisions that may be contained in our borrowing agreements or the borrowing agreements of our subsidiaries may limit our subsidiaries’ ability to pay dividends to us or our ability to pay dividends to our stockholders. There can be no assurance that we will declare and pay any dividends.

We provide additional information on capital in our 2009 Form 10-K in “Part II—Item 7. MD&A—Capital” and in the Basel III section in “Part I—Item 2. MD&A—Supervision and Regulation” in this report.

XIV. SUPERVISION AND REGULATION

New Regulations of Consumer Lending Activities

The compliance date for the last implementing rule for the CARD Act occurred on August 22, 2010. These provisions require the amount of any penalty fee or charge to be “reasonable and proportional to the omission or violation” and require issuers to review interest rates increased since January 1, 2009, for possible reductions on a rolling six-month basis. Issuers are now limited to charging penalty fee amounts that do not exceed the dollar amount of the violation. Penalty fee amounts also may not exceed an amount justified on a cost basis or permissible under the safe harbor (\$25 for initial violations and \$35 for any repeat violations within a six-month period). For all rates increased on or after January 1, 2009, every six months issuers must consider changes in either the factors used to increase the rate or the current factors used to determine rates. However, the first two reviews of rates increased on or after January 1, 2009, and before February 21, 2010, for reasons other than those specific to a customer may only consider the current factors used to determine rates. If a decrease is merited on such bases, it must take effect no later than 45 days from completion of the review; a decrease by a specific amount or a return to the original rate is not required, although reviews of individual accounts must continue until rates on the accounts are returned to a level at or below the interest rate in effect before the increase in rate of individual accounts..

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Basel III

In December 2009, the Basel Committee on Banking Supervision (the “Basel Committee”) released proposals for additional capital and liquidity requirements, which have been clarified and amended in recent pronouncements. In September 2010, the Basel Committee announced a package of reforms that included detailed capital ratios and capital conservation buffers, subject to transition periods through 2018. How U.S. banking regulations will be modified to reflect these international standards remains unclear, particularly given the forthcoming capital and other prudential requirement regulations under the Dodd-Frank Act and the current Prompt Corrective Action framework. We expect, however, that minimum capital requirements for the Company and other institutions will increase as a result of recent Basel and related activity. We will continue to monitor regulators’ implementation of the new rules with respect to the institutions that are subject to it and assess the potential impact to us.

Overdraft Protection

On November 12, 2009, The Federal Reserve amended Regulation E to limit the ability to assess overdraft fees for paying ATM and one-time debit card transactions that overdraw a consumer’s account, unless the consumer opts into such payment of overdrafts. The new rule does not apply to overdraft services with respect to checks, ACH transactions or recurring debit card transactions, or to the payment of overdrafts pursuant to a line of credit or a service that transfers funds from another account. We are required to provide to customers written notice describing our overdraft service, fees imposed and other information, and to provide customers with a reasonable opportunity to opt into the service. Before we may assess fees for paying discretionary overdrafts, a customer must affirmatively opt in, which could negatively impact our deposit business revenue. The new rule was effective for all new accounts opened on or after July 1, 2010, and on August 15, 2010, it became effective for accounts opened prior to July 1, 2010.

Legislation

Preamble

The information contained in this section is current as of October 21, 2010.

Financial Regulatory Reform

Throughout 2009 and 2010, Congress and the Administration have been focused on Financial Regulatory Reform, and on July 21, 2010, the President signed into law the Dodd-Frank Act. The legislation overhauls the financial regulatory structure both structurally and as it relates to requirements on financial institutions.

A new Financial Stability Oversight Council (the “Council”) will monitor emerging risks to financial stability, recommend heightened prudential standards for large, interconnected financial companies and require certain non-bank financial companies to be supervised by the Federal Reserve Board (the “FRB”) if their activities are determined to pose a risk to financial stability. Additionally, beginning two years after enactment, the new Office of Financial Research (the “OFR”), whose function will be to support the Council by collecting data, performing research and developing tools for risk measurement and monitoring, will levy new assessments on systemically important companies. These assessments will provide funding for the OFR and the Council and cover certain implementation expenses incurred by the FDIC related to its new liquidation authority.

As part of the “Financial Stability” title of the Dodd-Frank Act, language was adopted that disallows trust preferred securities (“TPS”) from counting as Tier 1 capital at the holding company level (those entities under \$15 billion in assets are grandfathered). A three-year phase-in period beginning on January 1, 2013, was included for TPS previously

issued by bank holding companies not eligible for the grandfather provision.

New liquidation authority is also granted that may be used to liquidate a financial company if the Secretary of the U.S. Department of the Treasury, in consultation with the President, based on the recommendation of the FRB and another federal agency, determines that doing so is necessary to mitigate serious adverse effects on U.S. financial stability. Upon such a determination, the FDIC would be appointed receiver and must liquidate the company in a way that mitigates significant risks to financial stability and minimizes moral hazard. The costs of a liquidation under these new resolution provisions would be borne by shareholders and unsecured creditors and then, if necessary, by risk-based assessments on large financial companies.

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Other additional assessments and costs are also created under the law. The FDIC is directed to impose deposit insurance assessments based on total assets rather than total deposits, as well as making permanent the increase of deposit insurance to \$250,000 and providing for full insurance of non-interest bearing transaction accounts beginning December 31, 2010, for two years. The FRB is also directed to collect fees from systemically important companies to cover the costs associated with its supervisory and regulatory responsibilities with respect to such companies. The law also provides the Office of the Comptroller of the Currency (the “OCC”) with new authority to impose assessments, fees and charges to carry out the OCC’s responsibilities.

The Dodd-Frank Act also imposes new prudential regulation on depository institutions and their holding companies. The law imposes new, more stringent standards and requirements with respect to (1) bank and nonbank acquisitions and mergers, (2) financial holding companies engaged in “financial activities,” (3) affiliate transactions and (4) proprietary trading, among other provisions. Additionally, provisions related to securitizations prohibit conflicts of interest relating to securitizations and generally require securitizers to retain a 5% economic interest in the credit risk of assets sold through the issuance of asset-backed securitization, with an exemption for traditionally underwritten residential mortgage loans.

The Dodd-Frank Act also creates a new independent agency, the Consumer Financial Protection Bureau (the “CFPB”), that is housed within the Federal Reserve. The CFPB will become the primary regulator for consumer statutes. The OCC will continue to determine whether specific state laws are preempted under the National Bank Act under the existing standard as set forth in the Supreme Court decision in the *Barnett Bank of Marion County, N.A. v. Nelson*. However, its determinations must be on a case-by-case basis, and courts reviewing the OCC's determinations will now independently consider the appropriateness of the determination rather than deferring to the OCC. The law also addresses a number of specific consumer protection provisions, including Federal Reserve rules required on debit and certain prepaid product interchange fees that must be “reasonable and proportional” to the costs incurred by the issuer for the transaction. Additionally, the interchange provision addresses the network rules and provides that retailer discrimination by issuer is prohibited, that the minimum transaction amount to be set by the retailer cannot exceed \$10 and that maximum transaction amounts may be set by the Federal government and institutions of higher education.

The Dodd-Frank Act addresses mortgage lending and makes significant changes to the origination and servicing of dwelling-secured loans. The law creates a variety of new consumer protections, including limitations on the manner by which loan originators may be compensated so as to avoid steering borrowers to more expensive loans, an obligation on the part of lenders to assess and verify a borrower’s “ability to repay” a residential mortgage loan and a lower threshold for “high-cost” loans that are subject to even greater restrictions. The bill also strengthens appraiser independence and requires greater monitoring of all real estate valuation methods.

In addition to the provisions enumerated above, the Dodd-Frank Act also includes provisions related to corporate governance and executive compensation, derivatives, payment clearing and hedge fund and private equity managers, among others, and establishes a new Federal Insurance Office under the Department of the Treasury.

Proposed TARP Assessment

In January 2010, the President announced additional proposals that would impact financial institutions. The first proposal would levy a new tax on institutions within the financial sector to recoup the benefits certain institutions have received under government assistance programs, including TARP. The annual fee would be assessed at a rate of 15 basis points of “covered liabilities” (excluding Tier 1 capital, FDIC-assessed deposits and insurance policy reserves) for financial firms with more than \$50 billion in consolidated assets. While various fees were contemplated during the Conference Committee debate on the Dodd-Frank Act to address TARP-specific taxes, none were ultimately included. To date, Congress has not put forth legislation on this issue.

Credit Card

In May 2009, the President signed the CARD Act into law. Certain provisions of this legislation became effective in August 2009 and February 2010, and other provisions became effective on August 22, 2010. For further information on the CARD Act, see “New Regulations of Consumer Lending Activities” above as well as in our 2009 Form 10-K under “Part I—Item 1. Business—Supervision and Regulation.”

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As discussed above, the Dodd-Frank Act requires the FRB to issue rules that debit and certain prepaid product interchange fees be “reasonable and proportional” to the cost incurred by the issuer for the transaction. Additionally, provisions addressing the network rules were included that provide that retailer discrimination by issuer is prohibited, that the minimum transaction amount to be set by the retailer cannot exceed \$10 and that maximum transaction amounts may be set by the Federal government and institutions of higher education.

Other legislation around the regulation of interchange fees has also been introduced in the U.S. House and the U.S. Senate. House Judiciary Chairman John Conyers (D-MI) and Congressman Bill Shuster (R-PA) have introduced legislation in the U.S. House, and Senator Dick Durbin (D-IL) has introduced legislation in the U.S. Senate, that provides an antitrust exemption to allow merchants to collectively bargain with the networks and the banks regarding the rates (including merchant discount) and terms (including rules) for payment card acceptance. The Senate bill also includes a three judge panel that would determine the rates and terms if an agreement is not reached under the antitrust exemption. This legislation is under the jurisdiction of the Judiciary Committees. The House Judiciary Committee held a hearing on the legislation on April 28, 2010. In addition, Congressman Peter Welch (D-VT) has also introduced a bill that attempts to change many of the fundamental rules of the networks and focuses on, among other issues, honoring all cards, minimum/maximum transaction amounts and premium card pricing. To date, a companion bill has not been introduced in the Senate. A legislative hearing was held on October 8, 2009 in the House Financial Services Committee. No further action on these bills is currently scheduled.

We expect that attempts to regulate interchange fees will continue at the state level as well.

Please see “Compliance With New and Existing Laws and Regulations May Increase Our Costs, Reduce Our Revenue, Limit Our Ability To Pursue Business Opportunities, And Increase Compliance Challenges” under “Part I—Item 1A. Risk Factors” in our 2009 Form 10-K for a discussion of the risks posed to the Company as a result of the current legislative environment.

Regulation of International Business by Non—U.S. Authorities

COBNA is subject to regulation in foreign jurisdictions where it currently operates. In the United Kingdom, COBNA operates through the U.K. Bank, which was established in 2000.

During 2010, the U.K. Government announced plans to change the structure of financial regulation by the end of 2012. As part of this change, the Financial Services Authority (the “FSA”) will cease to exist in its current form. The Government will create a new Prudential Regulatory Authority (the “PRA”), responsible for the day-to-day prudential supervision of financial institutions, and a new Financial Policy Committee (the “FPC”), which will look across the economy at the macroeconomic and financial issues that may threaten stability and address the risks it identifies. In addition, a new Consumer Protection and Markets Authority will also be established, responsible for the conduct of all financial services firms. A “shadow” structure is expected to be built during 2011 in preparation for the changes while the Government consults on detailed proposals.

Following a review of the credit card industry by the U.K. Government, the industry and U.K. Government announced a joint commitment to a package of measures that will be incorporated into the U.K.’s Lending Code by the end of 2010. The key measures include allocating customer payments to higher rate balances first; setting minimum payments on new customer accounts to cover at least interest, fees, charges and 1% of the principal balance; creating the option for customers to opt out of unsolicited credit limit increases and to request reductions in their credit line; providing additional communication over re-pricing of existing debt and allowing customers to opt out of the increase and pay down their balance at the existing rate; and providing annual electronic statements to customers regarding the cost to use a credit card over the year. It is still under discussion as to when this final standard regarding annual statements will be implemented, but we expect that it will be after 2010.

The U.K. Government has also passed the Financial Services Act 2010 which restricts the issuance of unsolicited credit card checks. The commencement date has not yet been confirmed, but it means credit card issuers would not be able to issue credit card checks unless requested by a cardholder, and each request would be limited to up to three checks.

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Following the passing of the Consumer Credit Directive (the “CCD”) in May 2008 by the European Commission (the “EC”), the U.K. consumer credit regime, including the laws and regulations with respect to the marketing of consumer credit products and the design of and disclosure in consumer credit agreements, is due to change significantly. The CCD is also introducing new regulations that require certain information be provided to consumers before a credit agreement is entered into and that provide explicit requirements designed to ensure that any such consumer is creditworthy. The new law enacted in the U.K. to implement the CCD will become fully effective on February 1, 2011, but lenders could voluntarily comply with the legislation, with the exception of the new advertising rules, starting April 30, 2010.

The Office of Fair Trading (the “OFT”) is investigating Visa and MasterCard’s current methods of setting interchange fees applicable to U.K. domestic transactions. Cross-border interchange fees are also coming under scrutiny from the EC, which in December 2007 issued a decision notice stating that MasterCard’s interchange fees applicable to cross border transactions are in breach of European Competition Law. MasterCard has appealed this decision. A similar decision is expected in relation to Visa’s cross border interchange fees. The timing of any final resolution of the matter the EC or the OFT is uncertain.

Following a referral by the OFT, the Competition Commission (the “CC”) launched a market investigation into the supply of Payment Protection Insurance (“PPI”) in the U.K. PPI on mortgages, credit cards, unsecured loans (personal loans, motor loans and hire purchase) and secured loans is included. The CC published its final report on remedies on January 29, 2009, which included point of sale changes and the introduction of an annual PPI statement to customers. At the end of 2009, Barclays Bank successfully challenged the remedies package at the Competition Appeals Tribunal, and the CC was required to revisit its proposals. The new provisional remedies package was delivered in May 2010 and still includes the point of sale prohibition. The final report on remedies is expected in October 2010, which will be followed by a draft Order setting out the detail of the remedies and then a further consultation period during which the U.K. Bank will be able to assess the impact of the proposed new remedies. We expect that the remedies will not be implemented until 2011.

New rules on PPI complaints handling and redress, some of which have retrospective effect, were published by the FSA during August 2010 and will come into force in December 2010. The British Bankers Association has issued judicial review proceedings to challenge the validity of the new rules. The implementation of the new rules and the outcome of judicial review proceedings may have a material effect on the U.K. Bank’s PPI complaints activity.

XV. ENTERPRISE RISK MANAGEMENT

Our business activities expose us to eight major categories of risks: liquidity risk, credit risk, reputational risk, market risk, strategic risk, operational risk, compliance risk and legal risk. Our risk management framework is intended to identify, assess and mitigate risks that affect or have the potential to affect our business in order to target financial returns commensurate with our risk appetite and to avoid excessive risk-taking. We follow four key risk management principles:

1. Individual businesses take and manage risk in pursuit of strategic, financial and other business objectives.
2. Independent risk management organizations support individual businesses by providing risk management tools and policies and by aggregating risks; in some cases, risks are managed centrally.
- 3.

The Board of Directors and senior management review our aggregate risk position, establish the risk appetite and work with management to ensure conformance to policy and adherence to our adopted mitigation strategy.

4. We employ a top risk identification system to maintain the appropriate focus on the risks and issues that may have the most impact and to identify emerging risks of consequence.

We provide additional information on our enterprise risk management framework and activities in our 2009 Form 10-K in “Part I—Item 1. Business—Enterprise Risk Management.”

XVI. FORWARD-LOOKING STATEMENTS

From time to time, we have made and will make forward-looking statements, including those that discuss, among other things, strategies, goals, outlook or other non-historical matters; projections, revenues, income, returns, accruals for claims in litigation and for other claims against us; earnings per share or other financial measures for us; future financial and operating results; our plans, objectives, expectations and intentions; and the assumptions that underlie these matters. To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995. Numerous factors could cause our actual results to differ materially from those described in such forward-looking statements, including, among other things:

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- general economic and business conditions in the U.S., the U.K., or our local markets, including conditions affecting employment levels, interest rates, consumer income and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;
- an increase or decrease in credit losses (including increases due to a worsening of general economic conditions in the credit environment);
- financial, legal, regulatory (including the impact of the Dodd-Frank Act and the regulations to be promulgated thereunder), tax or accounting changes or actions, including with respect to any litigation matter involving us;
- increases or decreases in interest rates;
- the success of our marketing efforts in attracting and retaining customers;
- our ability to access the capital markets at attractive rates and terms to capitalize and fund our operations and future growth;
- with respect to financial and other products, increases or decreases in our aggregate loan balances and/or the number of customers and the growth rate and composition thereof, including increases or decreases resulting from factors such as shifting product mix, amount of actual marketing expenses we incur and attrition of loan balances;
- the level of future repurchase or indemnification requests we may receive, the actual future performance of loans relating to such requests, the success rates of claimants against us, any developments in litigation and the actual recoveries we may make on any collateral relating to claims against us;
- the amount and rate of deposit growth;
- our ability to control costs;
- changes in the reputation of or expectations regarding the financial services industry and/or us with respect to practices, products or financial condition;
- any significant disruption in our operations or technology platform;
- our ability to maintain a compliance infrastructure suitable for our size and complexity;
- the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;
- our ability to execute on our strategic and operational plans;
- any significant disruption of, or loss of public confidence in, the United States Mail service affecting our response rates and consumer payments;
- our ability to recruit and retain experienced personnel to assist in the management and operations of new products and services;
- changes in the labor and employment markets;

- the risk that cost savings and any other synergies from our acquisitions may not be fully realized or may take longer to realize than expected;
- disruptions from our acquisitions negatively impacting our ability to maintain relationships with customers, employees or suppliers;
- competition from providers of products and services that compete with our businesses; and
- other risk factors listed from time to time in reports that we file with the SEC, including, but not limited to, our 2009 Form 10-K.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this report, see the risk factors in “Part II —Item 1A. Risk Factors” in this report and our Form 10-Q for the quarters ended June 30, 2010, and March 31, 2010, and also in our 2009 Form 10-K in “Part I—Item 1A. Risk Factors.”

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XVII. SUPPLEMENTAL STATISTICAL TABLES

TABLE A—STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

Table A presents average balance sheet data and an analysis of net interest income, net interest spread (the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities) and net interest margin for the three and nine months ended September 30, 2010 and 2009.

(Dollars in millions)	Three Months Ended September 30,								
	2010			2009(1)			Managed Interest		
	Average Balance	Reported Interest Income/Expense(2)	Yield/Rate	Average Balance	Reported Interest Income/Expense(2)	Yield/Rate	Average Balance	Income/Expense(2)	Yield/Rate
Assets:									
Interest-earning assets:									
Consumer loans:(3)									
Domestic	\$ 89,530	\$ 2,846	12.72 %	\$ 66,836	\$ 1,755	10.50 %	\$ 104,858	\$ 3,072	11.72 %
International	7,342	302	16.45	2,445	84	13.74	8,609	297	13.80
Total consumer loans	96,872	3,148	13.00	69,281	1,839	10.62	\$ 113,467	3,369	11.88
Commercial loans	29,435	299	4.06	30,073	381	5.07	30,073	381	5.07
Total loans held for investment	126,307	3,447	10.92	99,354	2,220	8.94	\$ 143,540	3,750	10.45
Investment securities	39,872	347	3.48	37,377	399	4.27	37,377	399	4.27
Other interest-earning assets:									
Domestic	5,793	20	1.38	7,258	78	4.30	4,310	18	1.67
International	501	1	0.80	1,291	5	1.55	647	0	0
Total other	6,294	21	1.33	8,549	83	3.88	\$ 4,957	18	1.45
Total interest-earning assets(4)	\$ 172,473	\$ 3,815	8.85 %	\$ 145,280	\$ 2,702	7.44 %	\$ 185,874	\$ 4,167	8.97 %
Cash and due from banks(4)	2,012			4,652			4,652		
Allowance for loan and lease losses(4)	(6,803)			(4,486)			(4,486)		
Premises and equipment, net(4)	2,709			2,807			2,807		
Other assets	26,194			25,178			25,810		
	13			38			38		

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Total assets from discontinued operations

Total assets	\$ 196,598			\$ 173,469			\$ 214,695		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	\$ 104,186	\$ 358	1.37 %	\$ 102,760	\$ 477	1.86 %	\$ 102,760	\$ 477	1.86 %
International(5)	-	-	-	345	2	2.32	345	2	2.32
Total deposits	104,186	358	1.37	103,105	479	1.86	103,105	479	1.86
Securitized debt:									
Domestic	25,928	159	2.45	4,928	63	5.11	40,123	285	2.84
International	4,822	32	2.65	—	—	—	6,056	36	2.38
Total securitized debt	30,750	191	2.48	4,928	63	5.11	46,179	321	2.78
Senior and subordinated notes	8,677	72	3.32	9,554	74	3.10	9,554	74	3.10
Other borrowings:									
Domestic	4,753	82	6.90	6,894	77	4.47	6,894	77	4.47
International	1,730	3	0.69	1,659	4	0.96	1,659	4	0.96
Total other borrowings	6,483	85	5.24	8,553	81	3.79	8,553	81	3.79
Total interest-bearing liabilities(4)	\$ 150,096	\$ 706	1.88 %	\$ 126,140	\$ 697	2.21 %	\$ 167,391	\$ 955	2.28 %
Non-interest bearing deposits(4)	14,069			12,777			12,777		
Other liabilities(4)	6,508			8,429			8,404		
Total liabilities from discontinued operations	618			120			120		
Total liabilities	171,291			147,466			188,692		
Stockholders' equity(6)	25,307			26,003			26,003		
Total liabilities and stockholders' equity	\$ 196,598			\$ 173,469			\$ 214,695		
Net interest income/spread		\$ 3,109	6.97 %		\$ 2,005	5.23 %		\$ 3,212	6.69 %
Interest income to average earning assets			8.85 %			7.44 %			8.97 %
Interest expense to average			1.64			1.92			2.06

earning assets

Net interest
margin

7.21 %

5.52 %

6.91 %

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- (1) Certain prior period amounts have been reclassified to conform to the current period presentation.
- (2) Past due fees included in interest income totaled approximately \$249 million for the three months ended September 30, 2010, and \$166 million and \$364 million on a reported basis and managed basis, respectively, for the three months ended September 30, 2009.
- (3) Interest income on credit card, auto, mortgage and retail banking loans is reflected in consumer loans. Interest income generated from small business credit cards also is included in consumer loans.
- (4) Based on continuing operations.
- (5) The U.K. deposit business, which was included in international deposits, was sold during the third quarter of 2009.
- (6) Includes a reduction of \$2.9 billion recorded on January 1, 2010, in conjunction with the adoption of the new consolidation accounting guidance.

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(Dollars in millions)	Nine Months Ended September 30,								
	2010			2009(1)			Managed		
	Average	Reported	Yield/	Average	Reported	Yield/	Average	Interest	Yield/
	Balance	Interest	Rate	Balance	Interest	Rate	Balance	Income/	Rate
		Expense(2)			Expense(2)			Expense(2)	
Assets:									
Interest-earning assets:									
Consumer loans:(3)									
Domestic	\$ 92,476	\$ 8,691	12.53 %	\$ 68,743	\$ 5,252	10.19 %	\$ 106,807	\$ 8,821	11.01 %
International	7,526	903	16.00	2,685	257	12.76	8,441	836	13.21
Total consumer loans	100,002	9,594	12.79	71,428	5,509	10.28	115,248	9,657	11.17
Commercial loans									
	29,563	988	4.46	30,063	1,140	5.06	30,063	1,140	5.06
Total loans held for investment	129,565	10,582	10.89	101,491	6,649	8.74	145,311	10,797	9.91
Investment securities	38,979	1,037	3.55	36,378	1,206	4.42	36,378	1,206	4.42
Other interest-earning assets:									
Domestic	7,202	58	1.07	6,950	197	3.78	4,380	49	1.49
International	572	2	0.47	1,040	17	2.18	601	2	0.44
Total other	7,774	60	1.03	7,990	214	3.57	4,981	51	1.37
Total interest-earning assets(4)	\$ 176,317	\$ 11,679	8.83 %	\$ 145,859	\$ 8,069	7.38 %	\$ 186,670	\$ 12,054	8.61 %
Cash and due from banks(4)	2,212			3,521			3,521		
Allowance for loan and lease losses(4)	(7,623)			(4,456)			(4,456)		
Premises and equipment, net(4)	2,719			2,705			2,705		
Other assets	27,284			24,609			25,023		
Total assets from discontinued operations	22			24			24		
Total assets	\$ 200,931			\$ 172,262			\$ 213,487		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	\$ 104,119	\$ 1,125	1.44 %	\$ 102,739	\$ 1,643	2.13 %	\$ 102,739	\$ 1,643	2.13 %

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International(5)	-	-	-	991	23	3.09	991	23	3.09
Total deposits	104,119	1,125	1.44	103,730	1,666	2.14	103,730	1,666	2.14
Securitized debt:									
Domestic	31,275	548	2.34	5,943	228	5.12	41,564	922	2.96
International	5,092	96	2.51	—	—	—	5,652	115	2.71
Total securitized debt	36,367	644	2.36	5,943	228	5.12	47,216	1,037	2.93
Senior and subordinated notes	8,731	211	3.22	8,556	189	2.95	8,556	189	2.95
Other borrowings:									
Domestic	5,283	256	6.46	7,859	236	4.00	7,859	236	4.00
International	1,649	9	0.73	1,346	7	0.69	1,346	7	0.69
Total other borrowings	6,932	265	5.10	9,205	243	3.52	9,205	243	3.52
Total interest-bearing liabilities(4)	\$ 156,149	\$ 2,245	1.92 %	\$ 127,434	\$ 2,326	2.43 %	\$ 168,707	\$ 3,135	2.48 %
Non-interest bearing deposits(4)	13,976			12,209			12,209		
Other liabilities(4)	5,909			5,843			5,795		
Total liabilities from discontinued operations	399			137			137		
Total liabilities	176,433			145,623			186,848		
Stockholders' equity(6)	24,498			26,639			26,639		
Total liabilities and stockholders' equity	\$ 200,931			\$ 172,262			\$ 213,487		
Net interest income/spread		\$ 9,434	6.91 %		\$ 5,743	4.95 %		\$ 8,919	6.13 %
Interest income to average earning assets			8.83 %			7.38 %			8.61 %
Interest expense to average earning assets			1.70			2.13			2.24
Net interest margin			7.13 %			5.25 %			6.37 %

(1) Certain prior period amounts have been reclassified to conform to the current period presentation. Effective February 27, 2009, we acquired Chevy Chase Bank. Accordingly, our results for the first nine months of 2009 include only a partial impact from Chevy Chase Bank.

(2)

Past due fees included in interest income totaled approximately \$893 million for the nine months ended September 30, 2010, and \$498 million and \$1.1 billion on a reported basis and managed basis, respectively, for the nine months ended September 30, 2009.

- (3) Interest income on credit card, auto, mortgage and retail banking loans is reflected in consumer loans. Interest income generated from small business credit cards also is included in consumer loans.
- (4) Based on continuing operations.
- (5) The U.K. deposit business, which was included in international deposits, was sold during the third quarter of 2009.
- (6) Includes a reduction of \$2.9 billion recorded in January 1, 2010, in conjunction with the adoption of the new consolidation accounting guidance.

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PART I—Financial information

Item 1. Financial Statements

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in millions, except per share-related data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Interest income:				
Loans held for investment, including past-due fees	\$3,447	\$2,220	\$10,582	\$6,649
Investment securities	347	399	1,037	1,206
Other	21	83	60	214
Total interest income	3,815	2,702	11,679	8,069
Interest expense:				
Deposits	358	479	1,125	1,666
Securitized debt obligations	191	63	644	228
Senior and subordinated notes	72	74	211	189
Other borrowings	85	81	265	243
Total interest expense	706	697	2,245	2,326
Net interest income	3,109	2,005	9,434	5,743
Provision for loan and lease losses	867	1,173	3,069	3,386
Net interest income after provision for loan and lease losses	2,242	832	6,365	2,357
Non-interest income:				
Servicing and securitizations	13	721	(3)	1,537
Service charges and other customer-related fees	496	496	1,577	1,494
Interchange fees	346	123	991	389
Net other-than-temporary impairment losses recognized in earnings(1)	(5)	(11)	(62)	(22)
Other	57	224	272	476
Total non-interest income	907	1,553	2,775	3,874
Non-interest expense:				
Salaries and associate benefits	641	648	1,937	1,837
Marketing	250	104	650	400
Communications and data processing	178	176	512	569
Supplies and equipment	129	123	381	370
Occupancy	135	114	371	329
Restructuring expense(2)	0	26	0	87
Other	663	611	1,992	1,877
Total non-interest expense	1,996	1,802	5,843	5,469
Income from continuing operations before income taxes	1,153	583	3,297	762
Income tax provision	335	146	948	179
Income from continuing operations, net of tax	818	437	2,349	583
Loss from discontinued operations, net of tax	(15)	(43)	(303)	(75)
Net income	\$803	\$394	\$2,046	\$508
Net income (loss) available to common shareholders	\$803	\$394	\$2,046	\$(56)
Basic earnings per common share:				
Income from continuing operations	\$1.81	\$0.97	\$5.19	\$0.04

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Loss from discontinued operations	(0.03)	(0.09)	(0.66)	(0.18)
Net income (loss) per basic common share	\$1.78	\$0.88	\$4.53	\$(0.13)
Diluted earnings per common share:				
Income from continuing operations	\$1.79	\$0.96	\$5.15	\$0.04
Loss from discontinued operations	(0.03)	(0.09)	(0.66)	(0.18)
Net income (loss) per diluted common share	\$1.76	\$0.87	\$4.49	(0.13)
Dividends paid per common share	\$0.05	\$0.05	\$0.15	\$0.48

(1) Total other-than-temporary losses on securities were \$39 million and \$68 million for the three months ended September 30, 2010 and 2009, respectively, and \$102 million and \$227 million for the nine months ended September 30, 2010 and 2009, respectively. The non-credit component of these losses recorded in OCI was \$34 million and \$57 million for the three months ended September 30, 2010 and 2009, respectively, and \$40 million and \$205 million for the nine months ended September 30, 2010 and 2009, respectively.

(2) In 2009, we completed the restructuring of operations that was initiated in 2007 to reduce expenses and improve our competitive cost position.

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2010	December 31, 2009
(Dollars in millions, except per share data)		
Assets:		
Cash and due from banks	\$2,015	\$3,100
Interest-bearing deposits with banks	2,391	5,043
Federal funds sold and repurchase agreements	536	542
Cash and cash equivalents	4,942	8,685
Restricted cash for securitization investors	2,686	501
Investment in securities:		
Available for sale, at fair value	39,926	38,830
Held to maturity, at amortized cost	0	80
Total investment in securities	39,926	38,910
Loans held for investment:		
Unsecuritized loans held for investment, at amortized cost	74,719	75,097
Restricted loans for securitization investors	51,615	15,522
Total loans held for investment	126,334	90,619
Less: Allowance for loan and lease losses	(6,175)	(4,127)
Net loans held for investment	120,159	86,492
Loans held for sale, at lower-of-cost-or-fair value	197	268
Accounts receivable from securitizations	127	7,128
Premises and equipment, net	2,722	2,736
Interest receivable	1,025	936
Goodwill	13,593	13,596
Other	11,556	10,394
Total assets	\$196,933	\$169,646
Liabilities:		
Interest payable	\$464	\$509
Customer deposits	119,212	115,809
Securitized debt obligations	29,504	3,954
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	947	1,140
Senior and subordinated notes	9,083	9,045
Other borrowings	4,799	6,875
Total other debt	14,829	17,060
Other liabilities	6,863	5,725
Total liabilities	170,872	143,057
Stockholders' equity:		
Common stock, par value \$.01 per share; authorized 1,000,000,000 shares; 504,658,282 and 502,394,396 issued as of September 30, 2010 and December 31, 2009, respectively	5	5
Paid-in capital, net	19,059	18,955
Retained earnings	9,730	10,726
Accumulated other comprehensive income	469	83
Less: Treasury stock, at cost; 47,773,195 and 47,224,200 shares as of September 30, 2010 and December 31, 2009 respectively	(3,202)	(3,180)
Total stockholders' equity	26,061	26,589

Total liabilities and stockholders' equity	\$196,933	\$169,646
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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in millions, except per share-related data)	Common Stock		Preferred Stock	Paid-In Capital, Net	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount						
Balance, December 31, 2009	502,394,396	\$5	\$0	\$18,955	\$10,726	\$ 83	\$(3,180)	\$ 26,589
Cumulative effect from January 1, 2010 adoption of new consolidation accounting standards, net of taxes					(2,957)	(16)		(2,973)
Cumulative effect from July 1, 2010 adoption of new embedded credit derivatives accounting standard, net of taxes					(16)			(16)
Comprehensive income:								
Net income					2,046			2,046
Other comprehensive income (loss), net of tax:								
Unrealized gains on securities, net of taxes of \$178 million						355		355
Other-than-temporary impairment not recognized in earnings on securities, net of taxes of \$24 million						40		40
Defined benefit pension plans						(1)		(1)
Foreign currency translation adjustments						(9)		(9)
Unrealized gains in cash flow hedging instruments, net of taxes of \$9 million						17		17
Other comprehensive income (loss)						402		402
Comprehensive income (loss)								2,448
					(69)			(69)

Cash dividends—common stock \$0.15 per share									
Purchases of treasury stock							(22)	(22)	
Issuances of common stock and restricted stock, net of forfeitures	1,727,412			22				22	
Exercise of stock options and tax benefits of exercises and restricted stock vesting	536,474			6				6	
Compensation expense for restricted stock awards and stock options				76				76	
Balance, September 30, 2010	504,658,282	\$5	\$0	\$19,059	\$9,730	\$ 469	\$(3,202)	\$ 26,061	

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in millions, except per share-related data)	Common Stock		Preferred Stock	Paid-In Capital, Net	Retained Earnings	Accumulated Other Comprehensive Income		Total Stockholders' Equity
	Shares	Amount				Treasury Stock	(Loss)	
Balance, December 31, 2008	438,434,235	\$4	\$3,096	\$17,278	\$10,621	\$ (1,221)	\$(3,166)	\$ 26,612
Comprehensive income:								
Net income					508			508
Other comprehensive income (loss), net of tax:								
Unrealized gains on securities, net of taxes of \$544 million							1,026	1,026
Defined benefit pension plans							(3)	(3)
Foreign currency translation adjustments							178	178
Unrealized gains in cash flow hedging instruments, net of taxes of \$52 million							77	77
Other comprehensive income							1,278	1,278
Comprehensive income								1,786
Cash dividends—common stock \$0.48 per share						(191)		(191)
Cash dividends—preferred stock 5% per annum			(23)		(82)			(105)
Purchases of treasury stock							(6)	(6)
Issuances of common stock and restricted stock, net of forfeitures	61,009,827	1		1,528				1,529
Exercise of stock options and tax benefits of exercises and restricted stock vesting	92,917			1				1

Accretion of preferred stock discount				34		(34)		0
Redemption of preferred stock				(3,107)		(448)		(3,555)
Compensation expense for restricted stock awards and stock options					89			89
Issuance of common stock for acquisition	2,560,601	0		31				31
Allocation of ESOP shares				1				1
Balance, September 30, 2009	502,097,500	\$5	\$0	\$18,928	\$10,374	\$ 57	\$(3,172)	\$ 26,192

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	Nine Months Ended September 30,	
	2010	2009
Operating activities:		
Income from continuing operations, net of tax	\$2,349	\$583
Loss from discontinued operations, net of tax	(303)	(75)
Net income	2,046	508
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan and lease losses	3,069	3,386
Depreciation and amortization, net	422	585
Net gains on sales of securities available for sale	(134)	(217)
Net gains on deconsolidation	(177)	0
Loans held for sale:		
Transfers in and originations	(400)	(459)
Losses on sales	(25)	0
Proceeds from sales	516	617
Stock plan compensation expense	117	102
Changes in assets and liabilities, net of effects from purchase of companies acquired and the effect of new accounting standards:		
Increase in interest receivable	(92)	(83)
(Increase) decrease in accounts receivable from securitizations(1)	17	(823)
Decrease in other assets(1)	1,473	1,040
Decrease in interest payable	(45)	(93)
Increase (decrease) in other liabilities(1)	1,215	(1,722)
Net cash provided by operating activities attributable to discontinued operations	18	40
Net cash provided by operating activities	8,020	2,881
Investing activities:		
Increase in restricted cash for securitization investors(1)	1,312	180
Purchases of securities available for sale	(20,561)	(22,369)
Proceeds from paydowns and maturities of securities available for sale	8,710	7,711
Proceeds from sales of securities available for sale	11,483	10,978
Proceeds from securitizations of loans	0	8,816
Proceeds from sale of interest-only bonds	57	0
Net decrease in loans held for investment(1)	3,974	445
Principal recoveries of loans previously charged off	1,201	593
Additions of premises and equipment	(225)	(214)
Net cash provided by companies acquired	0	778
Net cash provided by (used in) investing activities attributable to discontinued operations	(1)	1
Net cash provided by investing activities	5,950	6,919
Financing activities:		
Net increase (decrease) in deposits	3,403	(7,675)
Net decrease in other borrowings(1)	(20,518)	(4,749)
Maturities of senior notes	(516)	(1,447)
Redemptions of acquired company debt and noncontrolling interest	0	(465)
Issuance of senior and subordinated notes and junior subordinated debentures	0	3,500
Purchases of treasury stock	(22)	(6)

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Dividends paid on common stock	(69)	(191)
Dividends paid on preferred stock	0	(105)
Net proceeds from issuances of common stock	22	1,530
Net payments from redemption of preferred stock and warrants	0	(3,555)
Proceeds from share-based payment activities	6	1
Net cash used in financing activities attributable to discontinued operations	(19)	(3)
Net cash used in financing activities	(17,713)	(13,165)
Net decrease in cash and cash equivalents	(3,743)	(3,365)
Cash and cash equivalents at beginning of the period	8,685	7,492
Cash and cash equivalents at end of the period	\$4,942	\$4,127
Supplemental cash flow information:		
Non-cash items:		
Cumulative effect from adoption of new consolidation accounting standards	\$2,973	\$0

(1) Excludes the initial impact of adoption of the new consolidation standards on January 1, 2010.

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED STATEMENTS (UNAUDITED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Business

Capital One Financial Corporation (the “Company”) is a diversified financial services company with banking and non-banking subsidiaries that market a variety of financial products and services. The Company and its subsidiaries are hereafter collectively referred to as the “we”, “us” or “our.” We continue to deliver on our strategy of combining the power of national scale lending and local scale banking. Our principal subsidiaries include:

- Capital One Bank (USA), National Association (“COBNA”) which currently offers credit and debit card products, other lending products and deposit products.
- Capital One, National Association (“CONA”) which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients. On July 30, 2009, we merged Chevy Chase Bank, F.S.B. (“Chevy Chase Bank”) into CONA.

CONA and COBNA are hereafter collectively referred to as the “Banks.”

Our revenues are primarily driven by lending to consumers and commercial customers and by deposit-taking activities, which generate net interest income, and by activities that generate non-interest income, including the sale and servicing of loans and providing fee-based services to customers. Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. Our expenses primarily consist of the cost of funding our assets, our provision for loan and lease losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements, and branch operations and expansion costs), marketing expenses and income taxes.

On February 27, 2009, we acquired Chevy Chase Bank, F.S.B. (“Chevy Chase Bank”) for \$476 million, consisting of cash of \$445 million and the issuance of 3 million shares of common stock valued at \$31 million. On July 30, 2009, we merged Chevy Chase Bank with and into CONA.

We evaluate our financial performance and report our results through three operating segments: Credit Card, Consumer Banking and Commercial Banking.

- Credit Card: Consists of our domestic consumer and small business card lending, domestic small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.
- Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumer and small businesses, national deposit gathering, national automobile lending and consumer mortgage lending and servicing activities.
- Commercial Banking: Consists of our lending, deposit gathering and treasury management services to commercial real estate and middle market customers. Our Commercial Banking business results also include the results of a national portfolio of small-ticket commercial real-estate loans that are in run-off mode.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Accordingly, certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but is not required for interim reporting purposes, has been condensed or omitted. These consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the U.S. Securities and Exchange Commission (“2009 Form 10-K”).

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The preparation of these consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. While management makes its best judgment, actual results could differ from these estimates. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation, of the interim period consolidated financial statements have been made. Results for any interim period, however, are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of the company, our wholly owned subsidiaries and other entities in which we have a controlling financial interest. Investments in entities where we have the ability to exercise significant influence over the operations of the investee are accounted for using the equity method of accounting. This includes interests in variable interest entities (“VIEs”) where we are not the primary beneficiary. Investments not meeting the criteria for equity method accounting are accounted for using the cost method of accounting. Investments in unconsolidated entities are included in other assets, and our share of income or loss is recorded in other non-interest income. All significant intercompany balances and transactions have been eliminated.

Certain prior period amounts have been revised to conform to current presentation. All amounts in the following notes, excluding per share data, are presented in millions unless noted otherwise.

Recent Accounting Pronouncements

In July 2010, the FASB issued new accounting guidance that requires additional disclosures about an entity’s allowance for credit losses and the credit quality of its loan portfolio. The additional disclosures include a rollforward of the allowance for credit losses on a disaggregated basis and more information, by type of receivable, on credit quality indicators including aging and troubled debt restructurings (“TDRs”) as well as significant purchases and sales. This guidance is effective for our interim and annual reporting periods ending after December 15, 2010, except for certain disclosures related to activity occurring during a reporting period which will be effective for interim and annual reporting periods beginning after December 15, 2010.

In April 2010, the FASB issued new accounting guidance on loan modifications inside a pool of loans accounted for as a single asset. This new guidance states that loans acquired with deteriorated credit quality, which are accounted for within pools, and are modified will not trigger the removal of those loans from the pool even if the modification of those loans would otherwise be considered a TDR. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This guidance allows an entity to make a one-time election to terminate its accounting for loans as a pool and is effective for our first fiscal quarter ending on or after July 15, 2010, and is to be applied prospectively. The adoption of this guidance did not have an impact on our accounting or disclosures regarding our acquired loan portfolio.

In March 2010, the FASB issued new accounting guidance on embedded credit derivatives. This new accounting guidance clarifies the scope exception for embedded credit derivatives and defines which embedded credit derivatives are required to be evaluated for bifurcation and separate accounting. The guidance is effective on the first day of the first fiscal quarter beginning after June 15, 2010. In the third quarter, we recorded a cumulative effect adjustment to beginning retained earnings of \$16 million, \$11 million net of taxes, related to the adoption of this accounting guidance.

Significant Accounting Policies

Except for accounting policies that have been modified or recently adopted as described below, there have been no significant changes to our accounting policies as disclosed in the 2009 Form 10-K.

Special Purpose Entities and Variable Interest Entities

In June 2009, the FASB issued new guidance on Accounting for Transfers of Financial Assets and Consolidations which was effective for periods starting as of January 1, 2010.

The new accounting consolidation guidance, which removed the concept of a Qualified Special Purpose Entity (“QSPE”), resulted in the consolidation of our credit card trusts, one installment loan trust and certain mortgage trusts. We were considered to be the primary beneficiary of these trusts due to the combination of power over the activities that most significantly impact the economic performance of the trusts through the right to service the securitized loans and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the trusts through its retained interests. The assets and liabilities of the credit card and installment loan trusts were consolidated on our balance sheet at their carrying values and the assets and liabilities of the mortgage trusts were consolidated at their unpaid principal balances using the practicable expedient provisions permitted upon adoption.

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The table below reflects the impact of the adoption of this guidance on our January 1, 2010 consolidated balance sheet.

(Dollars in millions)	December 31, 2009	VIE Consolidation Impact	January 1, 2010
Assets:			
Cash and cash equivalents	\$ 8,685	\$ 3,998	\$ 12,683
Loans held for investment	90,619	47,565	138,184
Less: Allowance for loan and lease losses	(4,127)	(4,264)(1)	(8,391)
Net loans held for investment	86,492	43,301	129,793
Accounts receivable from securitizations	7,629	(7,463)	166
Other assets	66,840	2,029	68,869
Total assets	\$ 169,646	\$ 41,865	\$ 211,511
Liabilities:			
Securitized debt obligations	\$ 3,954	\$ 44,346	\$ 48,300
Other liabilities	139,103	458	139,561
Total liabilities	143,057	44,804	187,861
Total stockholders' equity	26,589	(2,939)(1)	23,650
Total liabilities and stockholders' equity	\$ 169,646	\$ 41,865	\$ 211,511

(1) In the second quarter of 2010, an adjustment of \$53 million was made to increase the allowance for loan and lease losses for the impact of impairment on consolidated loans accounted for as troubled debt restructurings, and a related \$34 million, net of taxes, was recorded as a reduction to stockholders' equity. These adjustments are not reflected in the above table.

The following provides more detail of the financial impacts of adoption:

- Consolidation of \$47.6 billion in securitized loan receivables and \$44.3 billion in related debt securities issued from the trusts to third party investors. Included in the total loan receivables is \$1.5 billion of mortgage loan securitizations related to the Chevy Chase Bank acquisition which had not been included in our historical managed financial statements. Also included in total loan receivables are \$2.6 billion of retained interests, previously classified as accounts receivable from securitizations.
- Reclassification of \$0.7 billion of net finance charge and fee receivables from accounts receivable from securitizations to loans held for investment.
- Reclassification of \$4.0 billion in accounts receivable from securitization to cash restricted for securitization investors.
- Recording a \$4.3 billion allowance for loan and lease losses for the newly consolidated loan receivables. Previously, the losses inherent in the off-balance sheet loans were captured as a reduction in the valuation of retained residual interests.
- Recording derivative assets of \$0.3 billion and derivative liabilities of \$0.5 billion, representing the fair value of interest rate swaps and foreign currency derivatives entered into by the trusts.

- Recording net deferred tax assets of \$1.6 billion, largely related to establishing an allowance for loan and lease losses on the newly consolidated loan receivables.

After the adoption of the new consolidation guidance, the Consolidated Statements of Income no longer reflects securitization and servicing income related to the consolidated securitized loans receivable, but instead reports interest income, provision expense and certain other income associated with securitized loan receivables and interest expense associated with the debt securities issued from the trusts to third party investors. Amounts are recorded in the same categories as non-securitized loan receivables and corporate debt. Additionally, we treat securitized loans as secured borrowings and no longer record initial gains on new securitization activity unless the transfer qualifies for sale accounting and achieves deconsolidation under the new guidance.

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On January 21, 2010, the OCC and the Federal Reserve announced a final rule regarding capital requirements related to the adoption of new consolidation guidance which requires additional capital in relation to our consolidated assets and any associated creation of loan loss reserves to be held. The rule allows for two quarter deferral in implementing the capital requirements with a phase out of the deferral beginning in the third quarter of 2010 and ending in the first quarter of 2011. We are utilizing this available deferral and the capital ratios reflect this treatment.

We recorded a \$2.9 billion cumulative effect adjustment in stockholders' equity from adoption of the new consolidation accounting standards. The table below summarizes the impact on certain of our regulatory capital ratios related to the adoption of new standards on January 1, 2010:

	January 1, 2010		December 31, 2009		Difference
Tier 1 risk-based capital	9.93	%	13.75	%	(3.82)%
Total risk-based capital	17.58	%	17.70	%	(0.12)%
Tier 1 leverage	5.84	%	10.28	%	(4.44)%

NOTE 2—DISCONTINUED OPERATIONS

Shutdown of Mortgage Origination Operations of Wholesale Mortgage Banking Unit

In the third quarter of 2007, we closed the mortgage origination operations for GreenPoint and its wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ("GreenPoint"). GreenPoint was acquired by us in December 2006 as part of the North Fork acquisition. The results of the mortgage origination operations of GreenPoint have been accounted for as a discontinued operation and have been removed from the results of continuing operations for the three months and nine months ended September 30, 2010 and 2009. We have no significant continuing involvement in the operations of the originate and sell business of GreenPoint.

The loss from discontinued operations includes an expense of zero and \$433 million, for the three months and nine months ended September 30, 2010, respectively, and an expense of \$83 million and \$109 million, for the three months and nine months ended September 30, 2009, respectively, recorded in non-interest expense, primarily for representations and warranties provided on loans previously sold to third parties by GreenPoint's mortgage origination operation.

The following is summarized financial information for discontinued operations related to the closure of our wholesale mortgage banking unit:

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Net interest income (expense)	\$0	\$0	\$(1)	\$(1)
Non-interest income (expense)	(23)	(67)	(468)	(115)
Income tax benefit	(8)	(24)	(166)	(41)
Loss from discontinued operations, net of taxes	\$(15)	\$(43)	\$(303)	\$(75)

The mortgage origination operations of our wholesale mortgage banking unit had assets of \$5 million and \$24 million as of September 30, 2010 and December 31, 2009, respectively, consisting of mortgage loans held for sale and other related assets and liabilities of \$597 million and \$229 million as of September 30, 2010 and December 31, 2009

consisting primarily of obligations for representations and warranties that we provided on loans previously sold to third parties.

NOTE 3—INVESTMENT
SECURITIES

Our investment securities portfolio, which had a fair value of \$39.9 billion and \$38.9 billion, as of September 30, 2010 and December 31, 2009, respectively, consists of U.S. Treasury and U.S. agency debt obligations; agency and non-agency mortgage related securities; other asset-backed securities collateralized primarily by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans, equipment loans, and home equity lines of credit; municipal securities and limited Community Reinvestment Act (“CRA”) equity securities. Our investment securities portfolio continues to be heavily concentrated in securities that generally have lower credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and government sponsored enterprises or agencies. Our investments in U.S. Treasury and agency securities, based on fair value, represented approximately 69% of our total investment securities portfolio as of September 30, 2010, compared with 75% as of December 31, 2009.

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Securities Amortized Cost and Fair Value

All of our investment securities were classified as available-for-sale as of September 30, 2010, and reported in our consolidated balance sheet at fair value. The following tables present the amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized (losses), by major security type, for our investment securities as of September 30, 2010 and December 31, 2009. The gross unrealized gains (losses) related to our available-for-sale securities are recorded, net of tax, as a component of accumulated other comprehensive income (“AOCI”). We had negative amortization mortgage related securities related to retained securitizations that were classified as held to maturity as of December 31, 2009. We did not have any securities classified as trading as of the periods presented.

(Dollars in millions)	Amortized Cost	Total Gross Unrealized Gains	September 30, 2010		Total Gross Unrealized Losses	Fair Value
			Gross Unrealized Losses- OTTI(1)	Gross Unrealized Losses- Other(2)		
Securities available for sale:						
U.S. Treasury debt obligations	\$374	\$16	\$0	\$0	\$0	\$390
U.S. Agency debt obligations(3)	351	17	0	0	0	368
Collateralized mortgage obligations (“CMOs”):						
Agency(4)	11,845	388	0	(2)	(2)	12,231
Non-agency	1,182	0	(70)	(28)	(98)	1,084
Total CMOs	13,027	388	(70)	(30)	(100)	13,315
Mortgage-backed securities (“MBS”):						
Agency(4)	14,278	488	0	(11)	(11)	14,755
Non-agency	794	2	(46)	(16)	(62)	734
Total MBS	15,072	490	(46)	(27)	(73)	15,489
Asset-backed securities(5)	9,821	98	0	(3)	(3)	9,916
Other(6)	394	57	0	(3)	(3)	448
Total securities available for sale	\$39,039	\$1,066	\$(116)	\$(63)	\$(179)	\$39,926
Securities held to maturity:						
Total securities held to maturity(7)	\$0	\$0	\$0	\$0	\$0	\$0

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(Dollars in millions)	December 31, 2009						Fair Value
	Amortized Cost	Total Gross Unrealized Gains	Gross Unrealized Losses- OTTI(1)	Gross Unrealized Losses- Other(2)	Total Gross Unrealized Losses		
Securities available for sale:							
U.S. Treasury debt obligations	\$ 379	\$ 13	\$ 0	\$ 0	\$ 0	\$ 392	
U.S. Agency debt obligations(3)	455	22	0	0	0	477	
Collateralized mortgage obligations ("CMOs"):							
Agency(4)	8,174	173	0	(47)	(47)	8,300	
Non-agency	1,608	0	(96)	(174)	(270)	1,338	
Total CMOs	9,782	173	(96)	(221)	(317)	9,638	
Mortgage-backed securities ("MBS"):							
Agency(4)	19,429	466	0	(37)	(37)	19,858	
Non-agency	1,011	0	(85)	(100)	(185)	826	
Total MBS	20,440	466	(85)	(137)	(222)	20,684	
Asset-backed securities(5)	7,043	154	0	(5)	(5)	7,192	
Other(6)	440	12	0	(5)	(5)	447	
Total securities available for sale	\$ 38,539	\$ 840	\$ (181)	\$ (368)	\$ (549)	\$ 38,830	
Securities held to maturity:							
Total securities held to maturity(7)	\$ 80	\$ 0	\$ 0	\$ 0	\$ 0	\$ 80	

(1) Represents the amount of cumulative non-credit OTTI losses recorded in AOCI on securities that also had credit impairments. These losses are included in total gross unrealized losses.

(2) Represents the amount of cumulative gross unrealized losses on securities for which we have not recognized OTTI impairment.

(3) Consists of debt securities issued by Fannie Mae and Freddie Mac with amortized costs of \$350 million and \$454 million, as of September 30, 2010 and December 31, 2009, respectively, and fair values of \$367 million and \$476 million, as of September 30, 2010 and December 31, 2009, respectively.

(4) Consists of mortgage-related securities issued by Fannie Mae and Freddie Mac with amortized costs of \$16.0 billion and \$8.0 billion, respectively, and fair values of \$16.5 billion and \$8.3 billion, respectively, as of September 30, 2010. The book value of the Fannie Mae investment and Freddie Mac investments exceeded 10% of our stockholders' equity as of September 30, 2010.

(5) Consists of securities collateralized by credit card loans, auto loans, auto dealer floor plan inventory loans, equipment loans, and home equity lines of credit. The distribution among these asset types was approximately 79.3% credit card loans, 5.8% auto loans, 7.6% student loans, 5.1% auto dealer floor plan inventory loans, 2.0% equipment loans, and 0.2% home equity lines of credit as of September 30, 2010. In comparison, the distribution was approximately 76.3% credit card loans, 14.0% auto loans, 6.9% student loans, 1.7% auto dealer floor plan inventory loans, 0.8% equipment loans and 0.3% home equity lines of credit as of December 31, 2009. Approximately 90.7% of the securities in our asset-backed security portfolio were rated AAA or its

equivalent as of September 30, 2010, compared with 84.2% as of December 31, 2009.

(6) Consists of municipal securities and equity investments, primarily related to CRA activities.

(7) Consists of negative amortization mortgage-backed securities.

The fair value of our investment securities portfolio increased to \$39.9 billion as of September 30, 2010, from \$38.9 billion as of December 31, 2009. This increase was primarily driven by a tightening of credit spreads, attributable to the improvement in credit performance and increased liquidity, and lower interest rates during the first nine months of 2010, which resulted in unrealized gains on our agency securities and a reduction in the unrealized losses on our non-agency securities.

Securities Available for Sale in a Gross Unrealized Loss Position

The table below provides, by major security type, information about our available-for-sale securities in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2010 and December 31, 2009.

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(Dollars in millions)	Less than 12 Months		September 30, 2010 12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale:						
U.S. Treasury debt obligations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
U.S. Agency debt obligations(1)	0	0	0	0	0	0
CMOs:						
Agency(2)	103	0	478	(2)	581	(2)
Non-agency	0	0	1,056	(98)	1,056	(98)
Total CMOs	103	0	1,534	(100)	1,637	(100)
MBS:						
Agency(2)	2,304	(10)	196	(1)	2,500	(11)
Non-agency	0	0	649	(62)	649	(62)
Total MBS	2,304	(10)	845	(63)	3,149	(73)
Asset-backed securities	298	(1)	35	(2)	333	(3)
Other	63	(1)	82	(2)	145	(3)
Total securities available for sale in a gross unrealized loss position	\$ 2,768	\$ (12)	\$ 2,496	\$ (167)	\$ 5,264	\$ (179)

(Dollars in millions)	Less than 12 Months		December 31, 2009 12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale:						
U.S. Treasury debt obligations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
U.S. Agency debt obligations(1)	27	0	0	0	27	0
CMOs:						
Agency(2)	2,188	(38)	689	(9)	2,877	(47)
Non-agency	3	(1)	1,313	(269)	1,316	(270)
Total CMOs	2,191	(39)	2,002	(278)	4,193	(317)
MBS:						
Agency(2)	2,520	(30)	325	(7)	2,845	(37)
Non-agency	0	0	810	(185)	810	(185)
Total MBS	2,520	(30)	1,135	(192)	3,655	(222)
Asset-backed securities	490	(1)	56	(4)	546	(5)
Other	30	0	115	(5)	145	(5)
Total securities available for sale in a gross unrealized loss position	\$ 5,258	\$ (70)	\$ 3,308	\$ (479)	\$ 8,566	\$ (549)

(1) Consists of debt securities issued by Fannie Mae and Freddie Mac.

(2) Consists of mortgage-related securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

The gross unrealized losses on our available-for-sale securities of \$179 million as of September 30, 2010 relate to approximately 247 individual securities. Our investments in non-agency CMOs, non-agency residential MBS and asset-backed securities accounted for \$163 million, or 91.1% of total gross unrealized losses as of September 30, 2010. Of the \$179 million gross unrealized losses as of September 30, 2010, \$167 million related to securities that had been in a loss position for more than 12 months. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary. Based on our assessments, we have recorded other-than-temporary impairment (“OTTI”) for a portion of our non-agency CMO, non-agency residential MBS and asset-backed securities, which is discussed in more detail later in this footnote.

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Maturities and Yields of Securities Available for Sale

The following table summarizes the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of September 30, 2010.

(Dollars in millions)	September 30, 2010	
	Amortized Cost	Fair Value
Due in 1 year or less	\$ 3,307	\$ 3,335
Due after 1 year through 5 years	6,449	6,542
Due after 5 years through 10 years	1,164	1,194
Due after 10 years(1)	28,119	28,855
Total	\$ 39,039	\$ 39,926

(1) Investments with no stated maturities, which consist of equity securities, are included with contractual maturities due after 10 years.

Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented above. The table below summarizes, by major security type, the expected maturities and the weighted average yields of our investment securities as of September 30, 2010. Actual calls or prepayment rates may differ from our estimates, which may cause the actual maturities of our investment securities to differ from the expected maturities presented below.

(Dollars in millions)	September 30, 2010									
	Due in 1 Year or Less		Due > 1 Year through 5 Years		Due > 5 Years through 10 Years		Due > 10 Years		Total	
Fair value of securities available for sale:	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield
U.S. Treasury debt obligations	\$262	1.56 %	\$128	4.27 %	\$0	0 %	\$0	0 %	\$390	2.45 %
U.S. Agency debt obligations(1)	187	4.60	181	4.52	0	0	0	0	368	4.56
CMOs:										
Agency(2)	1,516	5.43	9,596	4.47	1,096	4.27	23	4.64	12,231	4.57
Non-agency	392	5.87	685	5.47	3	5.14	4	6.58	1,084	5.62
Total CMOs	1,908	5.52	10,281	4.53	1,099	4.28	27	4.96	13,315	4.65
MBS:										
Agency(2)	106	5.23	9,787	4.88	4,848	4.17	14	4.14	14,755	4.65
Non-agency	31	5.88	703	5.95	0	0	0	0	734	5.95
Total MBS	137	5.38	10,490	4.95	4,848	4.17	14	4.14	15,489	4.71
Asset-backed securities	2,227	3.17	7,145	2.82	544	3.22	0	0	9,916	2.92
Other	116	2.77	116	4.21	48	4.53	168	0.60	448	3.60
	\$4,837	4.12 %	\$28,341	4.25 %	\$6,539	4.11 %	\$209	1.40 %	\$39,926	4.20 %

Total securities
available for sale

(1) Consists of debt securities issued by Fannie Mae and Freddie Mac.

(2) Consists of mortgage-related securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

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Credit Ratings

Approximately 93% and 90% of our total investment securities portfolio was rated AAA or its equivalent as of September 30, 2010 and December 31, 2009, respectively, while approximately 5% were below investment grade as of September 30, 2010 and December 31, 2009. All of our agency securities were rated AAA as of September 30, 2010 and December 31, 2009. The table below presents information on the credit ratings of our non-agency CMOs, non-agency MBS and asset-backed securities, which account for the substantial majority of the unrealized losses related to our investment securities portfolio as of September 30, 2010 and December 31, 2009.

	September 30, 2010				December 31, 2009				
	% of Investment Securities Portfolio(1)	AAA	Other Investment Grade	Below Investment Grade or Not Rated	% of Investment Securities Portfolio(1)	AAA	Other Investment Grade	Below Investment Grade or Not Rated	
Non-agency CMOs	3%	1%	11%	88%	4%	2%	24%	74%	
Non-agency MBS	2	0	6	94	3	4	7	89	
Asset-backed securities	25	90	10	0	18	84	16	0	

(1) Calculated based on the amortized cost of the major security type presented divided by the amortized cost of our total investment securities portfolio as of the end of each period.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position at least quarterly, and more often as market conditions require, to assess whether the impairment is other-than-temporary. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we consider a number of qualitative and quantitative criteria in our assessment, including the extent and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings and the failure of the issuer to make scheduled interest or principal payments; the value of underlying collateral, and current market conditions.

Effective April 1, 2009, we adopted new accounting guidance that changed our method for assessing, measuring and recognizing OTTI. Under this guidance, if we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in earnings. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in other comprehensive income ("OCI"). We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected future cash flows, discounted based on the purchase yield. The non-credit component represents the difference between the security's fair value and the present value of expected future cash flows. Prior to the adoption of this new accounting guidance, the entire unrealized loss amount related to a security that was determined to be other-than-temporarily impaired was recognized in earnings. We provide additional information on this change in accounting and our assessment of OTTI in our 2009 Form 10-K under "Note 1—Significant Accounting Policies."

The following table summarizes other-than-temporary impairment losses on debt securities recognized in earnings during the three and nine months ended September 30, 2010 and 2009.

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Total OTTI losses	\$ 39	\$ 68	\$ 102	\$ 227
Less: Non-credit component of OTTI losses recorded in OCI	(34)	(57)	(40)	(205)
Net OTTI losses recognized in earnings	\$ 5	\$ 11	\$ 62	\$ 22

As indicated in the table above, for the three and nine month periods ended September 30, 2010, we recorded \$5 million and \$62 million of credit related OTTI losses in earnings. The cumulative non-credit related portion of OTTI on these securities recorded in AOCI totaled \$116 million as of September 30, 2010. We estimate the portion of loss attributable to credit using a discounted cash flow model, and we estimate the expected cash flows from the underlying collateral using industry-standard third party modeling tools. These tools take into consideration security specific delinquencies, product specific delinquency roll rates and expected severities. Key assumptions used in estimating the expected cash flows include default rates, loss severity and prepayment rates. Assumptions used can vary widely from loan to loan and are influenced by factors such as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type.

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We believe the remaining gross unrealized losses related to all other securities of \$63 million as of September 30, 2010 are attributable to issuer specific credit spreads and changes in market interest rates and asset spreads, and therefore, we do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

The table below presents activity for the three and nine months ended September 30, 2010 and 2009 related to credit losses on debt securities recognized in earnings for which a portion of the OTTI, the non-credit component, was recorded in AOCI.

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Beginning balance of credit losses	\$45	\$11	\$32	\$0
Additions for the credit component of OTTI on debt securities for which OTTI losses were not previously recognized	3	8	7	19
Additions for the credit component of OTTI on debt securities for which OTTI losses were previously recognized	2	3	20	3
Reductions for securities for which the non-credit component previously recorded in AOCI comprehensive income was recognized in earnings because of our intent to sell the securities(1)	0	0	(9)	0
Ending balance of credit losses	\$50	\$22	\$50	\$22

(1) We recognized \$0 million and \$35 million of OTTI losses on securities for which no portion of the OTTI losses remained in AOCI for the three and nine months ended September 30, 2010, respectively.

AOCI, Net of Taxes, Related to Securities Available for Sale

The table below presents the changes in AOCI, net of taxes, related to our available-for-sale securities. The net unrealized holding gains (losses) represent the fair value adjustments recorded on available-for-sale securities, net of tax during the period. The net reclassification adjustment for net realized losses (gains) represent the amount of those fair value adjustments, net of tax, that were recognized in earnings due to the sale of an available-for-sale security or the recognition of an impairment loss.

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Beginning balance AOCI related to securities available for sale, net of tax(1)	\$ 674	\$ (203)	\$ 186	\$ (725)
Net unrealized holding gains (losses), net of tax(2)	(73)	362	436	898
Net realized losses (gains) reclassified from AOCI into earnings, net of tax(3)	(15)	73	(36)	59
Ending balance AOCI related to securities available for sale, net of tax	\$ 586	\$ 232	\$ 586	\$ 232

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- (1) Net of tax benefit (expense) of \$(350) million and \$86 million for the three months ended September 30, 2010 and 2009, respectively, and \$(105) million and \$384 million for the nine months ended September 30, 2010 and 2009, respectively.
 - (2) Net of tax benefit (expense) of \$41 million and \$(181) million for the three months ended September 30, 2010 and 2009, respectively, and \$(214) million and \$(483) million for the nine months ended September 30, 2010 and 2009, respectively.
 - (3) Net of tax (benefit) expense of \$8 million and \$(36) million for the three months ended September 30, 2010 and 2009, respectively, and \$18 million and \$(32) million for the nine months ended September 30, 2010 and 2009, respectively.

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Realized Gains and Losses on Securities Available for Sale

The following table presents the gross realized gains and losses on the sale and call of available-for-sale securities recognized in earnings for the three and nine months ended September 30, 2010 and 2009. The gross realized investment losses presented below exclude credit losses recognized in earnings attributable to OTTI. We also present the proceeds from the sale of available-for-sale investment securities for the periods presented.

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Gross realized investment gains	\$ 27	\$ 158	\$ 135	\$ 230
Gross realized investment losses	(1)	(12)	(1)	(13)
Net realized gains (losses)	\$ 26	\$ 146	\$ 134	\$ 217
Total proceeds from sales	\$ 2,417	\$ 7,921	\$ 11,478	\$ 10,978

Securities Pledged

As part of our liquidity management strategy, we pledge securities to secure borrowings from the Federal Home Loan Bank ("FHLB") and the Federal Reserve Bank. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We had securities pledged with a fair value of \$9.7 billion and \$11.9 billion as of September 30, 2010 and December 31, 2009, respectively. We did not have any securities pledged where the secured party had the right to sell or repledge the collateral as of these dates.

NOTE 4—LOANS HELD FOR INVESTMENT AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Loan Portfolio Composition

The table below presents the composition of our held-for investment loan portfolio, which includes loans restricted for securitization investors, as of September 30, 2010 and December 31, 2009. Loans restricted for securitization investors totaled \$51.6 billion and \$15.5 billion as of September 30, 2010 and December 31, 2009, respectively.

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(Dollars in millions)	September 30, 2010 December 31, 2009	
Credit Card business:		
Domestic credit card loans	\$ 49,324	\$ 13,374
International credit card loans	7,473	2,229
Total credit card loans	56,797	15,603
Domestic installment loans	4,515	6,693
International installment loans	14	44
Total installment loans	4,529	6,737
Total credit card	61,326	22,340
Consumer Banking business:		
Automobile	17,643	18,186
Mortgage	12,763	14,893