

Testimony of John G. Finneran, Jr., General Counsel, Capital One Financial Corporation before the United States Senate Committee on Banking, Housing and Urban Affairs  
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Chairman Dodd, Ranking Member Shelby and Members of the Committee, good morning. My name is John Finneran and I am the General Counsel of Capital One Financial Corporation. Thank you for this opportunity to address the Committee. Capital One is the 11<sup>th</sup> largest diversified financial institution in the country and the 5<sup>th</sup> largest issuer of credit cards.

Today, the credit card is among the most popular forms of payment in America. It is valued by consumers and merchants alike for its convenience, efficiency and security.

As the GAO noted in their recent report on this topic, the past decade has seen substantial change in the availability and pricing of credit cards. A little over a quarter century ago, less than a third of American consumers were able to obtain credit cards. Today, 75% have cards. As recently as the early 1990s, everyone paid the same high interest rate and annual membership fee regardless of their risk profile. Today, as the GAO found, interest rates have come down significantly for the majority of consumers and most pay no annual fees. At the same time, pricing for risk has become more targeted. Those consumers who exhibit riskier behavior typically pay higher rates than those who do not, or may be charged fees for paying late or going over their credit limits. Consumers who choose to pay in full each month, as more than half of all credit card holders do, pay no interest.

Importantly, the GAO also found that, during this period of time, industry profits remained stable, suggesting that changes in credit card pricing have indeed reflected changes in how the industry prices for risk.

The benefits of more discrete, targeted and accurate pricing for credit cards have come at some cost – increased complexity. For this reason, Capital One has submitted to the Federal Reserve a proposal that would significantly revise the disclosures required in the Schumer Box to make it easier for consumers to both better understand the terms of any particular offer and to compare one product to another. A copy of Capital One's unique proposal is included in my written testimony.

While we await these changes, Capital One has implemented a comprehensive set of new disclosures, written in plain English, which go substantially beyond the legal requirements of the Schumer Box. These include a food-label style disclosure and a customer Q&A that present our policies in simple terms. These disclosures are included in our marketing materials.

The increased complexity of card products has also brought rising criticism of the industry in recent years. Capital One continuously reviews and makes changes to its practices in light of changing customer preferences. One area of change is in repricing, where Capital One has simplified and strictly limited the circumstances in which we may increase a customer's interest rate if they default on the terms of their credit card agreement.

I want to be clear that we do not do any form of "universal default." This has been our long-standing policy. We will not reprice a customer if they pay late on another account with us or any other lender, or because their credit score goes down for any reason. In addition, Capital One will not reprice customers if they go over their limit or bounce a check. There is only one circumstance in which a customer might be subject to default repricing – if they pay us more than 3 days

late twice in a 12 month period. We clearly disclose all of these policies in our marketing materials, and provide customers with a prominent warning on their statement after their first late payment.

The decision to reprice someone is not automatic. For many customers, Capital One often chooses not to do so. If we do reprice someone for paying late twice, we will let them earn back their prior rate by paying us on time for twelve consecutive months. This process is automatic.

While introductory or “teaser” rates can provide substantial benefits to cardholders, they also have come under criticism if they are subject to repricing during the introductory period. Capital One has adopted strict policies regarding their marketing and treatment. Capital One does not reprice introductory rates for any reason, even for repeated late payments. The specific period for which these rates will be in effect is fully disclosed multiple times in our marketing materials. We also disclose the long-term rate that will take effect if and when the introductory rate expires.

Similarly, another practice that may cause customer confusion is double-cycle billing. Capital One has never used double-cycle billing.

The overwhelming majority of Capital One’s customers use their accounts responsibly and enjoy the many benefits this form of payment offers. It is in everyone’s interest for us to provide only the amount of credit our customers can handle. Unfortunately, at times, some of our customers have difficulty managing their credit. Capital One looks for early indications that a particular customer may be experiencing challenges. For example, any customer who pays us only the minimum for three consecutive months receives a notice on their statement that emphasizes the consequences of this practice and encourages them to pay down their balance more quickly. Capital One also provides them with a web address where they can use our online calculator to see for them themselves the

cost of paying only the minimum, as well as the benefits of paying additional principal.

In conclusion, as our industry has changed, so have we. Capital One is continuously adapting its practices and policies to keep up with consumer demand, the rigors of competition and the standards of sound banking. Capital One has over 30 million credit card customers, the vast majority of whom have a good experience with our product. When they don't, we regard that as a failure and seek to find out why. In a highly competitive market, we must continuously strive to improve our products and services if we are to attract and retain the best customers.

Thank you and I look forward to answering any questions you may have.