

CAPITAL ONE FINANCIAL CORP
Form 10-Q
August 09, 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 June 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

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(§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 July 31, 2010, there were 456,773,296 shares of the registrant’s Common Stock, par value \$.01 per share, outstanding.

TABLE OF CONTENTS

PART I—Financial Information		1
Item 1.	<u>Financial Statements</u>	57
	<u>Consolidated Statements of Income</u>	57
	<u>Consolidated Balance Sheets</u>	58
	<u>Consolidated Statements of Changes in Stockholders' Equity</u>	59
	<u>Consolidated Statements of Cash Flows</u>	60
	<u>Notes to Consolidated Financial Statements</u>	61
	Note 1 — <u>Summary of Significant Accounting Policies</u>	61
	Note 2 — <u>Loans Acquired in a Transfer</u>	64
	Note 3 — <u>Discontinued Operations</u>	65
	Note 4 — <u>Business Segments</u>	66
	Note 5 — <u>Investment Securities</u>	68
	Note 6 — <u>Loans Held for Investment, Allowance for Loan and Lease Losses and Unfunded Lending Commitments, Loan Modifications and Restructurings</u>	75
	Note 7 — <u>Fair Value of Financial Instruments</u>	78
	Note 8 — <u>Goodwill and Other Intangible Assets</u>	86
	Note 9 — <u>Deposits and Borrowings</u>	88
	Note 10 — <u>Shareholders' Equity and Earnings Per Common Share</u>	89
	Note 11 — <u>Mortgage Servicing Rights</u>	91
	Note 12 — <u>Derivative Instruments and Hedging Activities</u>	92
	Note 13 — <u>Securitizations</u>	97
	Note 14 — <u>Commitments, Contingencies and Guarantees</u>	107
	Note 15 — <u>Other Variable Interest Entities</u>	111
	Note 16 — <u>Subsequent Events</u>	112
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	1
	I. <u>Introduction</u>	1
	II. <u>Impact from Adoption of New Consolidation Accounting Standards</u>	4
	III. <u>Executive Summary and Business Outlook</u>	6
	IV. <u>Critical Accounting Policies and Estimates</u>	9
	V. <u>Recent Accounting Pronouncements</u>	11
	VI. <u>Off-Balance Sheet Arrangements and Variable Interest Entities</u>	12
	VII. <u>Consolidated Financial Performance</u>	12
	VIII. <u>Consolidated Balance Sheet Analysis and Credit Performance</u>	16
	IX. <u>Business Segment Financial Performance</u>	27
	X. <u>Liquidity and Funding</u>	36
	XI. <u>Market Risk Management</u>	39
	XII. <u>Capital</u>	40
	XIV. <u>Supervision and Regulation</u>	42
	XV. <u>Enterprise Risk Management</u>	45
	XVI. <u>Forward-Looking Statements</u>	46
	XVII. <u>Supplemental Statistical Tables</u>	48
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	57
Item 4.	<u>Controls and Procedures</u>	57

<u>PART II—Other Information</u>	114
Item 1. <u>Legal Proceedings</u>	114
Item 1A. <u>Risk Factors</u>	114
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	114
Item 3. <u>Defaults upon Senior Securities</u>	115
Item 5. <u>Other Information</u>	115
Item 6. <u>Exhibits</u>	115

Table of Contents

INDEX OF MD&A TABLES AND SUPPLEMENTAL TABLES

Table	Description	Page
—	MD&A Tables:	
1	Consolidated Corporate Financial Summary and Selected Metrics	2
2	Business Segment Results	3
3	Net Interest Income	12
4	Non-Interest Income	13
5	Non-Interest Expense	12
6	Securities Available for Sale	13
7	Loan Portfolio Composition	14
8	30+ Day Performing Delinquencies	15
9	Nonperforming Loans	16
10	Net Charge-Offs	17
11	Loan Modifications and Restructurings	17
12	Summary of Allowance for Loan and Lease Losses	19
13	Allocation of the Allowance for Loan and Lease Losses	20
14	Credit Card Business Results	23
15	Commercial Banking Business Results	26
16	Consumer Banking Business Results	27
17	Liquidity Reserves	30
18	Deposits	30
19	Borrowing Capacity	32
20	Interest Rate Sensitivity Analysis	34
21	Capital Ratios	35
—	Supplemental Statistical Tables:	
A	Statements of Average Balances, Income and Expense, Yields and Rates	42
B	Interest Variance Analysis	44
C	Managed Loan Portfolio	45
D	Composition of Reported Loan Portfolio	47
E	Delinquencies	47
F	Net Charge-Offs	48
G	Nonperforming Assets	48

Table of Contents

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 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.

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 \$127.1 billion in total loans outstanding and \$117.3 billion in deposits as of June 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 six months ended June 30, 2010 and 2009, and as of June 30, 2010 and December 31, 2009. We present both reported and managed basis financial information for periods prior to 2010.

1

Table of Contents

Table 1: Consolidated Corporate Financial Summary and Selected Metrics

	Three Months Ended June 30,						Six Months Ended June 30,					
	2010	2009		% Change		2010	2009(1)		% Change			
(Dollars in millions)	Reported	Reported	Managed	Reported	Managed	Reported	Reported	Managed	Reported	Managed		
Income statement data:												
Net interest income	\$3,097	\$1,945	\$2,957	59 %	5 %	\$6,325	\$3,738	\$5,707	69 %	11 %		
Non-interest income	807	1,232	1,190	(35)	(32)	1,868	2,322	2,175	(20)	(14)		
Total revenue(2)	3,904	3,177	4,147	23	(6)	8,193	6,060	7,882	35	4		
Provision for loan and lease losses	723	934	1,904	(23)	(62)	2,201	2,213	4,036	(1)	(46)		
Restructuring expenses(3)	—	43	43	(100)	(100)	—	61	61	(100)	(100)		
Other non-interest expense	2,000	1,879	1,879	6	6	3,847	3,606	3,606	7	7		
Income (loss) from continuing operations before taxes	1,181	321	321	268	268	2,145	180	180	1,092	1,092		
Provision for income taxes	369	92	92	301	301	613	34	34	1,703	1,703		
Income (loss) from continuing operations, net of tax	812	229	229	255	255	1,532	146	146	949	949		
Loss from discontinued operations, net of tax(4)	(204)	(6)	(6)	**	**	(288)	(31)	(31)	**	**		
Net income	\$608	\$223	\$223	173 %	173 %	\$1,244	\$115	\$115	982 %	982 %		
Net income (loss) available to common shareholders	\$608	\$(277)	\$(277)	319 %	319 %	\$1,244	\$(449)	\$(449)	377 %	377 %		
Per common share data:												

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Basic earnings per share	\$1.34	\$(0.66)	\$(0.66)	303 %	303 %	\$2.75	\$(1.11)	\$(1.11)	347 %	347 %
Diluted earnings per share	1.33	(0.66)	(0.66)	302	302	2.73	(1.11)	(1.11)	346	346
Average balances:										
Loans held for investment	\$128,203	\$104,682	\$148,013	23 %	(13)%	\$131,222	\$104,016	\$147,649	26 %	(11)%