

June 17, 2009

Research Update:

**Capital One Financial Corp.
Downgraded To 'BBB' From 'BBB+';
Outlook Negative**

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Research Update:

Capital One Financial Corp. Downgraded To 'BBB' From 'BBB+'; Outlook Negative

Overview

- We believe Capital One's earnings and capital may continue to weaken because of mounting credit losses during the next two years.
- We have downgraded Capital One Financial Corp. and its subsidiaries.
- Future credit losses could exceed our base-case expectations in our stress tests given the weakening credit environment and Capital One's concentration in credit card lending.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services lowered its long-term counterparty credit rating on Capital One Financial Corp. to 'BBB' from 'BBB+' and its long-term counterparty credit rating on Capital One Bank (USA) N.A., the bank subsidiary, to 'BBB+' from 'A-'. The 'A-2' short-term rating on the bank is affirmed. Ratings on other related subsidiaries also were lowered. The outlook is negative. The ratings were removed from CreditWatch Negative, where they were placed May 4, 2009.

Rationale

This rating action reflects our expectation that mounting credit losses during the next two years will materially weaken Capital One's earnings and capital as per our current stress assumptions. This would suggest common equity capital erosion relative to the counterparty credit rating level, although we expect the tangible common equity-to-risk-weighted assets ratio to remain slightly above our minimal threshold of 4% for an investment-grade ratio at fiscal 2010. We have considered the company's recent common equity raise of \$1.5 billion and the rapidity with which managed assets are declining, thereby reducing the need for capital.

We have also considered the pace at which credit quality is deteriorating. We do not expect it to stabilize in 2009, reflecting our projections of further increases in net charge-offs in Capital One's core U.S. and international credit card portfolios in particular. We have considered the acquisition of Chevy Chase and potential credit losses associated with the transaction in our estimated losses for Capital One.

Helping to mitigate what otherwise would be more severe erosion in credit quality, in our opinion, are such factors as Capital One's improved diversification of earnings, assets, and core deposits by the broadening of business lines; the substantial market position that Capital One commands in the credit card space; and historically strong earnings and capital levels.

Outlook

The negative outlook reflects our view that future credit losses could exceed our expectations given the weakening credit environment and Capital One's concentration in credit card lending, which could cause us to lower the rating further. Legislative risk and the impact of new operating limitations on the U.S. card business are also risks for the near to intermediate terms.

Related Research

- "Credit Stress Testing For Financial Institutions," April 29, 2009
- "Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Capital One Financial Corp. Counterparty Credit Rating	BBB/Negative/--	BBB+/Watch Neg/--
Capital One, N.A. Certificate Of Deposit Local Currency	BBB+/A-2	A-/Watch Neg/A-2
Chevy Chase Bank, FSB Counterparty Credit Rating	BBB+/Negative/--	A-/Watch Neg/--
Capital One Financial Corp. Senior Unsecured	BBB	BBB+/Watch Neg
Subordinated	BBB-	BBB/Watch Neg
Capital One Bank (USA) N.A. Senior Unsecured	BBB+	A-/Watch Neg
Subordinated	BBB	BBB+/Watch Neg
Capital One Capital II Capital One Capital III Greenpoint Capital Trust I North Fork Capital Trust I North Fork Capital Trust II Preferred Stock (1 issue)	BB	BB+/Watch Neg
Capital One Capital IV Junior Subordinated	BB	BB+/Watch Neg
Chevy Chase Bank, FSB Preferred Stock	BB+	BBB-/Watch Neg

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Chevy Chase Preferred Capital Corp. Preferred Stock	BB+	BBB-/Watch Neg
Downgraded; CreditWatch/Outlook Action	To	From
Capital One Bank (USA) N.A. Capital One, N.A. Counterparty Credit Rating	BBB+/Negative/A-2	A-/Watch Neg/A-2

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