



THE FEDERAL RESERVE BANK OF RICHMOND

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November 4, 2024

Richard Kim, Esq.
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Sent via EZFile

Dear Mr. Kim:

The following additional information request relates to (1) the application filed by Capital One Financial Corporation (“Capital One”), the parent of Capital One, National Association, both of McLean, Virginia, to acquire 100 percent of Discover Financial Services (“Discover”), Riverwoods, Illinois, and thereby indirectly acquire Discover Bank, Greenwood, Delaware, pursuant to section 3 of the Bank Holding Company Act of 1956¹ (“BHC Act”), and (2) the notice filed by Capital One to indirectly acquire DFS Services LLC, Riverwoods, Illinois; Discover Financial Services (Canada), Inc., Vancouver, British Columbia, Canada; PULSE Network LLC, Houston, Texas; and Diners Club International Ltd., Riverwoods, Illinois, pursuant to sections 4(c)(8) and 4(j) of the BHC Act.² Please provide responses to each of the following questions, including in the Confidential Annex. Supporting documentation should be provided, as appropriate.

To the extent the information requested below is not yet available, provide a date by which the requested information is expected to be made available to the Board of Governors of the Federal Reserve System (“Board”).

1. Exhibit 1 of Capital One’s Additional Information Response dated April 11, 2024, notes that Capital One intends to rely on 12 CFR 225.28(b)(1) as authority to retain the voting shares of Discover Home Loans, Inc. (“DHL Inc.”) after consummation of the proposal. Exhibit C of Capital One’s Additional Information Response dated June 14, 2024, notes that DHL Inc. continues to support loan repurchase requests, respond to quality assurance audits, and creates reports of repurchase activity. Confirm, if such is the case, that Capital One continues to intend to rely on section 4(c)(8) of the BHC Act to retain the voting shares of DHL Inc. after consummation of the proposal. Alternatively, clarify the authority under section 4 of the BHC Act that Capital One would use to retain these shares.

¹ 12 U.S.C. § 1842.

² 12 U.S.C. § 1843(c)(8) and (j).

2. The Board has received comments objecting to the proposal. To the extent not discussed in the Supplemental Information that Capital One submitted on August 7, 2024 (“Supplemental Information”), please provide information that is responsive to the following comments:
 - a. Several commenters contend that Discover’s status as a major issuer and owner of a debit payment network may give Capital One the ability and incentive to raise payment card transaction fees post-merger. Respond to these contentions. In your response, discuss the applicability of Regulation II’s exemptions; whether Capital One plans to increase the transaction fees on Discover’s networks; an explanation of the factors that would influence future potential increases in fees; how the acquisition of the Discover network would allow specific costs to be lowered and product and services improved, specifically as it relates to interest rates and fees; and any planned positive impacts on customers, merchants, and small businesses.
 - b. Several commenters allege that there are customer service differences between Discover and Capital One. Specifically, commenters allege that Discover provides better customer service than Capital One and that the combined organization would not have sufficient incentives to maintain Discover’s current customer service standards. Clarify whether Capital One has conducted a review to identify differences in the customer service programs of Capital One and Discover, and whether Capital One has plans to incorporate aspects of Discover’s approach into the merged institution’s customer service program.
 - c. Some commenters express concerns regarding the proposal’s potential impact on communities, consumers, merchants, and small businesses, particularly belonging to LMI and minority communities. Respond to these concerns.
 - d. One commenter alleges that the combined institution would have a weakness that may impact the institution’s future prospects: asset concentration in credit card loans, as well as other consumer lending products similarly sensitive to economic stress such as auto loans, which the commenter alleged could leave the combined firm vulnerable to an economic downturn. Respond to this comment.
 - e. One commenter expresses several money laundering and national security concerns. These concerns include whether Capital One possesses the administrative capacity and scale to comply with Office of Foreign Assets Control (“OFAC”) and anti-money-laundering regulations, in view of the proposed acquisition of a global banking network; and whether Capital One has a satisfactory record of compliance with OFAC. Respond to this comment.

3. For credit card transactions on Capital One-issued credit cards, provide the average fee per transaction and fee as a percentage of average transaction value that the merchant (or its acquirer) was required to pay to Capital One in 2022 and 2023 on the:
 - a. Mastercard network; and
 - b. Visa network.
4. For credit card transactions on Capital One-issued credit cards, provide the average network fee per transaction and network fee as a percentage of average transaction value that (i) Mastercard received and (ii) Visa received in 2022 and 2023. If known, describe how the network fees that Capital One paid compare to those paid by other banks.
5. If known, provide the number of credit card issuers that issued credit cards on the Discover network in 2022 and 2023. If known, for 2022 and 2023, provide the percentage (by total number of transactions and dollar volume) of credit card transactions over the Discover network that these credit card issuers represent.
6. Provide the percentage of Capital One's credit card business that Capital One expects to move from the Visa and Mastercard networks to the Discover network during the next one to three years. Provide the average fee per transaction and fee as a percentage of average transaction value that Capital One expects to receive from merchants (or their acquirers) on credit card transactions that are moved to the Discover network.
7. For debit card transactions on Capital One-issued debit cards, provide the average network fee per transaction and network fee as a percentage of average transaction value that (i) Mastercard received and (ii) Visa received in 2022 and 2023. Describe how the network fees that Capital One paid compare to those paid by other banks.

Provide your response via EZ-File #111944 within eight business days. Any information for which confidential treatment is desired should be so labeled and separately bound in accordance with section 261.17 of the Board's Rules Regarding Availability of Information. The public portion of any response should be so designated. The Board will make the public portion of this request and the public portion of any response available on the Board's website, so that it is readily accessible to the commenters and to other interested parties.³ Please also send a copy of your response to the Office of the Comptroller of the Currency Senior Licensing Analyst Patricia Roberts at patricia.roberts@occ.treas.gov, the Federal Deposit Insurance Corporation Senior Case Manager Jeffrey Ralston at jralston@fdic.gov, and the Delaware Office of the State Bank Commissioner Senior Deputy Commissioner Lisa Collison at lisa.collison@delaware.gov.

³ See <https://www.federalreserve.gov/foia/capital-one-discover-application-materials.htm>.

If you have any questions, please contact Katherine Eike of this Reserve Bank, via email at kathy.eike@rich.frb.org.

Sincerely,
E-SIGNED by Brent Hassell
on 2024-11-04 20:31:15 GMT

Brent Hassell
Assistant Vice President

cc: Board of Governors of the Federal Reserve System
Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Delaware Office of the State Bank Commissioner