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The Strange Case of the Look-Alike Credit Cards

Double-check what's in your wallet. Credit One is taking on Capital One to win subprime borrowers.

By Jennifer Surane

First National Bank of Marin was a small Las Vegas lender with an image problem. Federal investigators accused it of issuing credit cards to strapped consumers, then piling on so many fees and obligations that some new clients couldn't buy a sandwich without hitting their credit limit. But by 2006, it had settled the claims and was ready to expand. It changed its name to Credit One Bank and adopted a new logo, placing the company's signature swoosh above its name, arcing leftward from the letter O.

▲ SOURCE: CREDIT ONE BANK

If that looks familiar, there's a good reason. In 2008, credit-card titan Capital One Financial Corp. unveiled an almost identical insignia, adding a swoosh that arced leftward from the letter O.

▲ SOURCE: CAPITAL ONE FINANCIAL CORP.

And so began the improbable story of how one of the top U.S. card lenders—admired in the industry for its innovative marketing—gave an accidental advertising boost to a then-obscure rival. That company would soon take off, reshaping the competitive landscape for subprime lending to U.S. consumers.

To outsiders, it looked like a classic branding trick: an underdog trying to mimic the look of an established company, hoping new customers wouldn't notice. Except Credit One had adopted the logo first. "We had already invested heavily in the rebranding, and then their thing popped up," says Sam Dommer <https://www.bloomberg.com/research/stocks/private/person.asp?personId=782189&privcapId=782164> , Credit One's longtime chief marketing officer. "It would have been easier for them to change, but I think they were far down the road with their investment." A Capital One spokesman declined to comment.

As the twin logos first emerged, lawyers on both sides bristled, according to people with knowledge of the situation. The companies let it be. In the years that followed, Capital One poured more than $13 billion into marketing, flooding televisions with its quirky "What's in Your Wallet?" commercials, sponsoring music festivals and athletics, and stuffing mailboxes with enticements. Its business soared. And so did Credit One's.

Nowadays, if you tarnish your FICO score and need an all-purpose credit card, chances are good that you'll sign up with one of those two companies. By the end of last year, Capital One had issued more than 32 million cards to consumers with FICO scores below 660, according to data from the Nilson Report, an industry publication, and Capital One filings. Credit One, which largely caters to subprime borrowers, has issued 9.7 million, according to Nilson.

Subprime is such a big part of American lending that even among all types of issuers of Visa- and Mastercard-branded cards, Credit One now ranks ninth—up from 25th place in 2005. This year, J.D. Power and Associates decided the company is big enough to include in an annual customer-satisfaction ranking for the industry. It came in last.

Credit One attributes its growth to a data-driven approach to identifying and luring new customers. It also helped that many banks pulled back from subprime lending after the 2008 financial crisis, opening the way for a more aggressive pitch to win market share. So how important was a mere logo? Marketing consultants say the Vegas company hit the jackpot.

“Capital One has spent years building up a very powerful brand image behind that identity,” says Allen Adamson, founder of Brand Simple Consulting. “I suspect a majority of their customers are unclear that they’re not one and the same company.” The similar looks sometimes befuddle consumers, who vent online about mix-ups. “I called Capital One and they told me I didn’t have an account with them and to look at the card,” one person wrote on consumeraffairs.com <https://www.consumeraffairs.com/credit_cards/credit_one.html> , a consumer complaint website where dozens of Credit One users have said they thought they were signing up with the bigger lender.

Credit One is taking some steps to differentiate itself. Last year, it unveiled the Credit One Nascar credit card—its first nationwide co-branding deal. In November, it became the main sponsor for driver Kyle Larson, one of the sport’s rising young stars. The company is also moving out of its longtime home, a low-profile building tucked between Las Vegas’s main airport and Interstate 215. This month, it’s opening a new 152,000-square-foot headquarters eight miles to the west, with sweeping views of the Red Rock Canyon mountains. The new offices take cues from Silicon Valley, with conference tables resembling ping pong tables.

The building also will house the company’s data center, one of the largest in the Southwest. Credit One says it pores over information on its cardholders and their transactions to identify new groups of people likely to respond to its ads and pay their bills. Several times a week, it applies those models to Experian Plc’s database of 220 million U.S. consumers, scoring potential customers. Then the mailers go out. “When we engage in a direct-mail campaign or any kind of marketing initiative, we’re not crossing our fingers, hoping it works,” Dommer says. “All these are based on statistical certainties.”

Last year, Credit One’s outstanding credit-card loans jumped 29 percent to $4.8 billion, making it the fastest-growing card provider among the nation’s 15 largest, according to the Nilson Report <https://www.nilsonreport.com/publication_special_report.php> . Because the company is privately owned, it isn’t required to report how much it earns, and regulatory documents provide only a partial picture. A filing to the Federal Reserve, for example, shows it generated $427 million in income from fees including servicing and credit-protection charges during this year’s first nine months. It is hard to compare this with what the company earns on interest: The form lists only $1.2 million in interest income because the firm holds many loans outside its banking unit. A spokeswoman did not elaborate.

Credit One is owned by Sherman Financial Group, which also runs one of the largest consumer-debt buyers in the country. When Credit One borrowers don’t pay their balances, the company sells those obligations at discounted prices to Sherman and other debt collectors.

The company has a history of getting into trouble over fees. Once owned by car dealer Kjell Qvale, Bank of Marin moved from California to Vegas in the late 1990s. In 2001, to settle an investigation by the U.S. Office of the Comptroller of the Currency, the company promised to set aside $4 million to repay customers who cancelled their cards after realizing fees and a security deposit would leave them with little or no credit to make purchases. In 2004, it agreed to set aside $10 million for allegedly encouraging people to charge security deposits to new cards, leaving some with less than $3 in available credit. In both cases, the bank didn't admit wrongdoing.

Consumers still hate the lender's fees, often citing them in forums. Others grumble about waiting on hold, only to reach customer-service agents who aren't prepared to help resolve issues. While fees can vary among cards, one of the company's Platinum Visa cards comes with an annual membership fee of $75 for the first year, billed upfront, even on cards that come with credit limits of a couple hundred dollars. On some cards, the company offers no grace period, meaning that as soon as a purchase posts to a cardholder's account, it begins accruing interest.

Jim Miller, senior director of the banking practice at J.D. Power, says Credit One's poor showing in this year's survey wasn't a surprise, given that it works with people at the bottom of the credit spectrum. He says lenders in that market charge heftier fees and rates to offset potential losses. "Customers are less satisfied when they pay interest and don't accrue much in rewards," no matter who the issuer is, Miller says. "So if you have more of those customers in your portfolio, you would tend to have lower satisfaction." And the fees and rates that Credit One charges aren't "really unusual in the subprime category for an unsecured card," says Beverly Harzog, a consumer advocate who's written a book on paying off credit-card balances. "This is pretty much what you need to expect."

Dommer says Credit One's own surveys show it has above-average net-promoter scores—a measure of how willing clients are to recommend its products to other people. The company also points to reviews of its mobile app, which outrank those of American Express Co., the leader of this year's J.D. Power rankings. Credit One is dedicated to improving, Dommer says. Whenever clients point out a problem, managers take note, meet, and figure out how to prevent it from happening again. "Your card-member relationship is everything," he says. "And if we screw that up, then we're in big trouble."