The Case of the Look-Alike Credit Cards

● Credit One is taking on Capital One to win subprime borrowers

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. (See right.) In 2008, credit card titan Capital One Financial Corp. unveiled an almost identical insignia, adding a swoosh near the O.

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, 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. Its business soared. And so did Credit One's.

Today, 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. This year, J.D. Power & Associates decided the company is big enough to include in a 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. 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, a consumer complaint website.

Credit One is taking some steps to differentiate itself. Last year, it unveiled the Credit One Nascar credit card. In November, it became the main sponsor for driver Kyle Larson, one of the sport's rising young stars. This month, it's opening a new 152,000-square-foot headquarters, which 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. 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 ▶

● Credit One had the swoosh first

the fastest-growing card provider among the nation's 15 largest, according to the Nilson Report. 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. In 2001, to settle an investigation by the U.S. Office of the Comptroller of the Currency, it promised to set aside $4 million to repay customers who canceled 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." 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.

Dommer says Credit One's own surveys show it has above-average scores on a measure of how willing clients are to recommend its products. The company also points to reviews of its mobile app, which are better than those for the app 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 cardmember relationship is everything," he says. "And if we screw that up, then we're in big trouble." —*Jenny Surane*

THE BOTTOM LINE Credit One has come out of nowhere to become a big player in subprime credit card lending. A lucky coincidence in logos may have helped.