Capital one financial corporation

Business

As of April 2005, It possessed sufficient liquidity ($21 billion) and capital ($9. 2 billion)4 to enable its famous brand to expand into new markets and seize the right opportunities for profitable growth. Although the company's acquisition of Hibernia in March 2005 provided it an opportunity to enter the fast-developing Texas markets of Houston and Dallas, it might face staff competition from other large credit companies, such as Citreous and J. P.

Morgan. Is is Capital One Financial Corporation is a diversified bank holding company, with a 2005 market value of $18. 92 billion.

It provides a gamut of financial services through Its mall subsidiaries-Capital One Bank, Capital One FSP. B.

(which offers consumer and commercial lending and consumer deposit products), and capital one Auto Finance Inc (COIF). From a small local bankcard issuer in 1995, the company has transformed itself into one of the largest financial institutions in the United States by continually introducing a steady stream of products. It features one of the most recognized brands in the Industry, which it leverages along with its strategies of direct marketing, risk analysis, and Information technology to grow and diversify into other genuineness.

Ranked 20th In the Fortune 500 list In 2005, 2 the company has been gradually transforming itself from a credit card company to an institution that provides banking and other financial services to consumers. By January 2005, it was the 31st largest deposit institution in the United States with $25. 6 billions in interest- bearing deposits.

Capital One has been on the path of diversification from the late 1 sass and has made three acquisitions between 2004 and 2005: Onyx Acceptance Corporation, smartness, and Hibernia National Bank. It has also acquired a home equity roughage company In ten

Capital One is the fifth largest credit card provider in the United States and one of the largest issuers of Mastered and Visa credit cards. It was founded as a wholly owned subsidiary of Virginia-based Signet Bank when Richard D. Fairbanks, CEO and chairman of Capital One, was invited by the bank to head its bankcard division. It began its operations in 1953, the same year Mastered International was formed. Fairbanks and the former vice chairman of Capital One, Engel Morris, realized that traditional banks offered loans without focusing on the customers-like analyzing their risk characteristics.

They decided that by using technology and data mining techniques in the decision- making process of providing credit, the bank could charge the appropriate interest rates more accurately and earn greater profits. In 1994, Capital One was spun off from Signet as a public credit card company and established itself in McLean, Virginia. It had an initial public offering of 7, 125, 000 shares of common stock in the United States and Canada, at a price of $16 per share, 6 which was managed by J. P. Morgan Securities Inn.

Goldman, Cash ; Co. And Barney Inn. It is a part of the S 500 index, and also trades on the New York Stock Exchange with the symbol COIF ? This case was written by Summits And, under the direction of Summit Kumar Chuddar, CIVIC Business School Case Development Centre. It is intended to be :;: used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from 25 published sources. 2005, CIVIC Business School Case Development Centre.

No part of this publication may be copied, stored, transmitted, reproduced, or distributed in any form or medium whatsoever without the permission of the copyright owner. Between 1994 and 2004, the company grew at an annual compound rate of 29 percent/ both in terms of its PEPS and the number of customers. In 2004, its earnings were $1. 5 billion, and the PEPS was at $6. 21. 8 At the end of 2004, the company and its subsidiaries held 48.

6 million accounts and $79. 9 billions in managed loans outstanding, which grew by 12 percent ($8. 6 billion) over the previous year (see Exhibit 1).

It had 17, 760 employees in March 2005. The bank offers 7, prevarications of its Mastered and Visa cards, each one is customized to appeal to different customer preferences and needs by combining product features such as different backgrounds and colors, along with varied annual percentage rates, credit limits, fees, and rewards programs. Capital One’s pricing strategy is based on the risk level of its customers.

It offers platinum and gold cards to its preferred customers with excellent credit history and a wide range of secured and unsecured cards to customers with limited or poor credit history.

The company also provides a range of consumer products like auto financing, mortgage services, credit insurance, and home-equity loans.

Customizations of credit cards at Capital One are made with the support of its Information-Based Strategy (BIBS), which uses sophisticated data-mining techniques to match its credit cards (its combination of interest rates, fees, rewards, and other conditions) with targeted customers based on their credit scores, credit uses, Ana toner parameters.

BIBS Is ten Tucson AT one AT ten world's largest oatcakes, information systems, a well-trained team of analysts and statisticians, and advanced scoring models. The company's decision-making process is made efficient by bringing together marketing, credit, risk, and information technology.

It selects its most profitable customers and the appropriate rate by using the rigorous testing of econometric and time series models. The credit ratings of customers is based on the Fair Isaac Corporation (PICO) scores, which are used to predict payment risk by looking at several variables, including credit history.

The BIBS system uses PICO scores to divide its customers into three groups of super-prime (with excellent credit history), prime (average credit history), and sub-prime (with poor or very little credit history). Through the use of BIBS, the company has been able to locate a group of dents who were not included in the mailing lists of other credit card companies because these students, mostly unemployed and little or no credit histories, were considered high risk.

Capital One's strategy of sending credit card applications, which were tailored to the needs of these students, proved effective, as 70 percent of the applications were filled and mailed back, thus creating a new market for the company. BIBS has also helped Capital One avoid customers who do not pay interest charges on loans.

The charge-off rate (for bad debt) of Capital One is the industry's lowest, and for 2004 was at 4. 37 percent, compared to 5. 2 percent in the previous year. II Capital One's SGF segment offers a portfolio of diverse products to both domestic and international consumers.

In the domestic market, the SGF segment includes installment lending, health care finance, mortgage lending services, and small business lending services.

SGF has been on a growth curve and in 2004, it accounted for 27 percent of Capital One's total managed loans, which are comprised of reported loans and off-balance sheet securities loans. It also accounts for 14 percent of its earnings. Its international portfolio primarily consists of credit card business in the United Kingdom and Canada, valued at $8. 2 billion and $2. 4 billion, 12 respectively.

Capital One is the United Kingdom's seventh largest credit card issuer, and among the top ten of the same in Canada.

In January 2005, the company completed the formalities to acquire a British equity brokerage firm called Huffs Group to strengthen its position in the United Kingdom. Although Capital One had holdings in France and South Africa, it exited these markets due to lack of growth opportunities. Capital One generated strong earnings and loan growth again in 2004, as it has each year since its initial public offering ten years ago.