

Deal for lender, Ally's latest try at credit cards, would diversify its revenue streams

Article

The news: Ally Financial is making a new attempt at [being a credit-card player](#) through its \$750 million acquisition of Fair Square Financial (FSF).

More on this: The deal, expected to wrap up in Q1 2022, will give Ally **around 658,000** cardholders and loan balances worth a combined **\$763 million**.

- Ally noted that FSF, founded in 2016, has digital roots—and that the deal will give it a presence in a credit-card market that's worth **\$1 trillion**.
- The bank also pointed out how FSF has a history of fast growth, with compound annual rates of **66%** for customer growth and **74%** for loan balances.

The tie-up with FSF is Ally's second attempt at entering credit cards through M&A. The digital-only bank **tried to buy CardWorks** in a deal valued at about **\$2.65 billion**. That deal, announced in February 2020, was **dropped** in June 2020 due to economic upheaval caused by the coronavirus pandemic.

Ally used to offer its own cashback credit card—in collaboration with **TD Bank**—but started winding it down in 2019, per Bloomberg.

The big takeaway: Credit cards would diversify Ally's product lineup and give it a new way to cross-sell products to FSF's customers and to its own.

The FSF acquisition will give Ally a **fifth revenue source**:

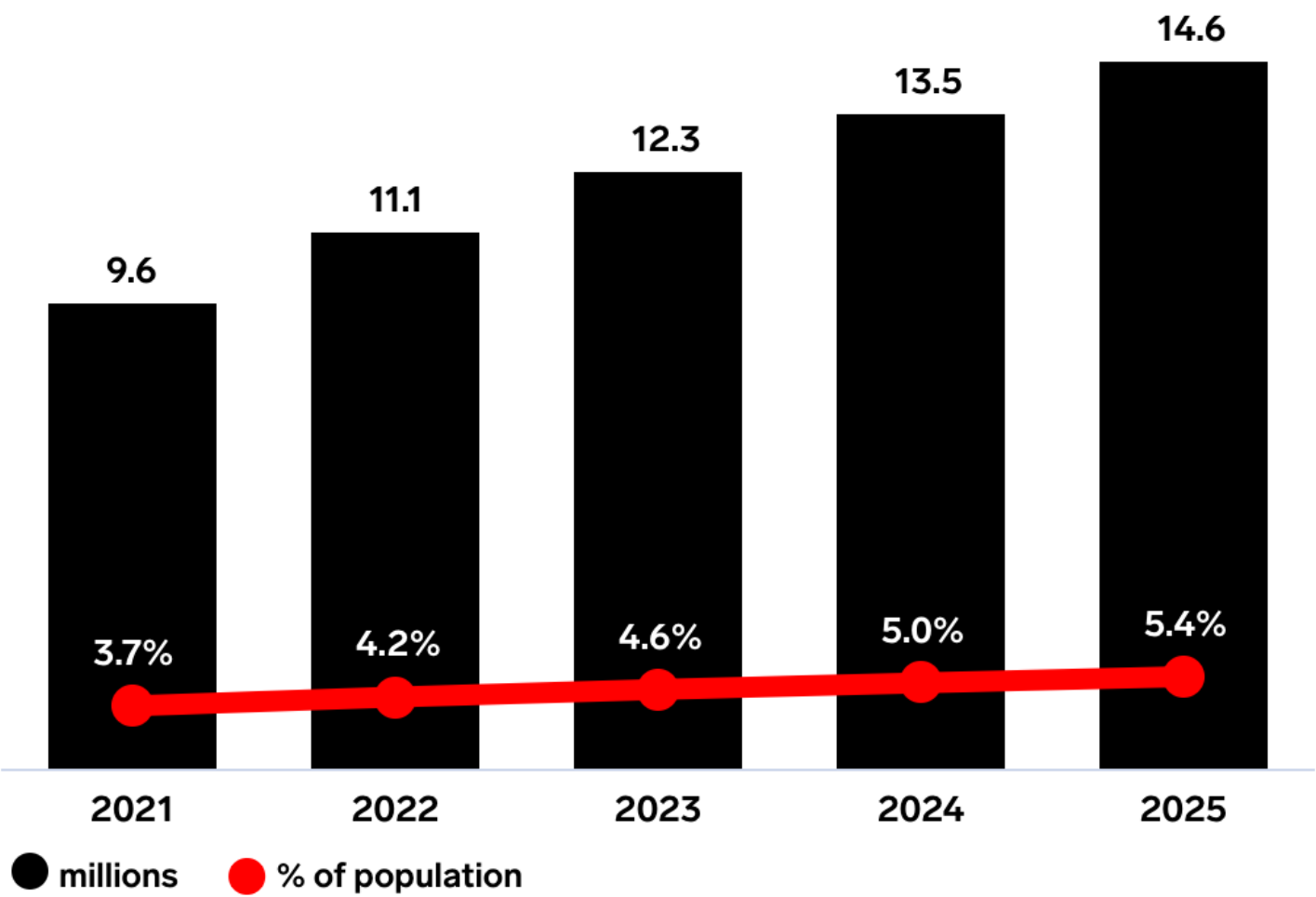
- The bank relies a lot on its auto finance segment—its roots **go back to 1919** when it was founded for this purpose as a unit of **General Motors**. Overall, auto finance made up **almost 91%** of its Q3 2021 pre-tax income from continuing operations.
- Meanwhile, Ally's **other revenue sources** are mortgage finance, corporate finance, and insurance.

A credit-card arm helps Ally replace overdraft-fee income it lost after it decided in June 2021 to **permanently drop** the charges for depositors. The bank will also be able to market credit cards to its account holders and borrowers for its other lending lines—and vice versa for its incoming cardholders next year.

To learn about how Ally may use its FSF tie-up to target cardholders, read what our Payments & Commerce team has to say.

Direct Bank Account Holders and Penetration

US, 2021-2025



Source: eMarketer, May 2021

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