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NEW HORIZONS IN CREDIT CARD BANKING

Remarks By

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by

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In the summer of 1968, the Federal Reserve Board published a comprehensive assessment of bank credit cards. Since then, the expansion of bank credit card programs has continued at a rapid pace. Even so, some features of credit card banking that were of concern during the period prior to the System study are still attracting considerable attention, not only in the nation's press, but also among members of Congress and within Government regulatory agencies.

The System Task Force that was established by the Federal Reserve Board in the Spring of 1967 -- and whose report was released just over a year ago -- explored quite thoroughly the implications of the growth of bank credit cards for consumers, merchants, the banking system, bank supervision, and the management of monetary policy. I was the Board member most closely identified with that study.

We have just completed a review of the bank credit card situation to determine whether recent developments warrant any change in the earlier assessment. This review has included an analysis of recent trends in credit card banking, a survey by the Federal Reserve Banks of the mailing procedures used in the launching of new credit card plans and an analysis of bank

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examination reports over the last year to determine the extent to which State member banks are following the guidelines on credit card operations suggested by the Board as a result of our earlier study. Our review has also had the benefit of the preliminary results of the Federal Reserve Board's Survey of Consumer Awareness of Credit Costs. The BankAmericard and Interbank organizations provided recent information relating to their respective plans.

On the basis of this review, it appears that developments in credit card banking in recent months do not call for a change in the basic conclusion of our earlier study: that credit card programs are legitimate and useful services provided by banks to their consumer and merchant customers. Furthermore, there appears to be no reason to change the Board's position that the System has adequate supervisory powers governing the development of bank credit card programs and does not see any necessity for special legislation to limit or control bank credit cards.

At the present time, however, the principal questions regarding bank practices in issuing credit cards are virtually the same as they were two years ago. There is still considerable concern that the mailing of unsolicited credit cards imposes a burden upon consumers who have to destroy or return unwanted cards. Also, there is the fear that some consumers may have their credit standing jeopardized as a result of misuse of cards lost or stolen in the mails, or at least might be subject to litigation to prove their lack of liability for such misuse. Credit cards are also being blamed for encouraging some consumers to overextend their use of credit, thus contributing to personal bankruptcies. It has been alleged that credit cards are adding to inflationary pressures.

In the last few months, it has become even more clear that two large, nation-wide systems are playing a dominant role in credit card banking. So far, this development is posing no problems in terms of competition, but the trend may raise a range of questions of public policy in the future.

Before examining these issues in more detail it might be helpful to provide perspective by highlighting recent trends in bank credit card programs.

Recent Trends in Credit Card Banking

On June 30 of this year, 699 banks were offering credit card plans, and they had $1.7 billion of credit outstanding. (See Table 1, attached). Thus, in the first six months of 1969, the number of banks with credit card plans rose by 189 (37 per cent) and the amount outstanding climbed by $393 million (30 per cent). In addition to these nearly seven hundred banks with credit balances outstanding under credit card programs, several thousand agency banks were participating in credit card plans but did not hold receivables.

The share of total credit card balances held by each class of bank has changed little during the last two years. National banks continue to hold more than three-quarters of the total while another one-sixth is held by Federal Reserve State member banks. Although the amount of credit outstanding at nonmember banks under credit card plans remains small, the number of such banks with credit card plans has been increasing more rapidly than for any other class of bank. At the end of last June, these banks represented more than one-third of all credit card banks.

Large banks (those with deposits of $1 billion and over) held more than two-fifths of the total amount outstanding on credit card plans at the end of 1968, about the same proportion as in September 1967 (when the Federal Reserve Board began to collect data on such plans). However, these banks have not kept pace with the small and medium-sized institutions going into the credit card field -- dropping from 9 per cent of the total number to 5 per cent in the 15-month period. Banks with total deposits of less than $25 million have shown a faster rate of entry than other size groups. Yet, although they represented more than two-fifths of all credit card banks, they held less than two per cent of total receivables at the end of last year. Most of the outstanding indebtedness on credit cards continues to be in the hands of banks in the $100 million and over deposit class. Many of these banks had plans in operation before the Fall of 1967.

These trends are charted on the basis of information obtained every six months from the Call Reports submitted by all insured banks. In addition, monthly data on bank credit cards have been collected since the beginning of 1968. This series has been published as part of the Board's monthly report on consumer credit since June 1968. An examination of the monthly data also shows a steady increase in the amount of credit outstanding as well as considerable fluctuation of a seasonal nature in monthly extensions and repayments. (Table 2). However, much longer experience will be necessary before seasonal adjustment factors can be derived and applied to these figures. Another limitation of the reported totals is a slight degree of understatement because of the lag in obtaining reports from additional banks that are continually entering the credit card field. We expect to overcome this difficulty before the end of 1969 by shifting to a sampling basis for obtaining monthly reports.

Regional Growth Patterns

The western section of the country continues to be the principal center of credit card banking, but this technique of consumer financing is spreading rapidly in other regions of the country. (Table 3.) At the end of last December, 115 both member and non-member banks in the San Francisco Federal Reserve District had $531 million of receivables outstanding under credit cards, representing over one-fifth of all the banks with such plans and two-fifths of the total credit. Second place was held by the Chicago District which had $182 million in outstandings. The New York District was fairly close behind with $155 million. The next two in order were the banks in Atlanta and Richmond, with $100 million and $93 million, respectively, in outstandings.

The slower growth in bank credit cards in the Northeast Districts through 1968 partly reflected the relatively greater popularity of check-credit plans. At the end of last year, about $800 million was outstanding under check-credit plans -- of which well over two-fifths was concentrated in the Boston, New York and Philadelphia Federal Reserve Districts. In contrast, banks in these same Districts accounted for less than one-fifth of the amount of credit outstanding under bank credit cards at the end of 1968. From the monthly consumer credit series, it appears that check-credit rose by one-fifth in the first seven months of 1969, while the amount outstanding under bank credit cards rose by over one-third. During the last 18 months, the share of check-credit in the total shrank from two-fifths to one-third. The relative positions of the two types of bank credit plans may shift further in favor of credit cards over coming months -- reflecting the recent adoption of the credit card form by several major New York banks which previously offered only check-credit plans.

The regional pattern of growth in bank credit card plans is shown in the results of the survey made by the Federal Reserve Banks in August of this year. (Table 4.) Between the end of June 1968, and the end of August 1969, the number of banks offering credit plans rose by 68 per cent. The increase was sharpest in the Richmond District (346 per cent), followed by Atlanta (192 per cent), Kansas City (120 per cent), and Cleveland (100 per cent), New York (82 per cent), and Dallas (76 per cent). The pace of expansion was slow in other Districts -- including no expansion at all in the number of banks offering bank credit cards in the Philadelphia District. In some Districts (San Francisco and Chicago, for example), the initial efforts to launch bank credit cards had been made earlier.

Distribution of Bank Credit Cards

Banks have found that the most effective way to develop customers for a new credit card plan is to mail a large number of unsolicited cards. This procedure resolves simultaneously the problem of having enough merchants signed to the bank's plan to make the card useful to consumers and of having sufficient people obtain the card to make forming the plan attractive to merchants. Competitive situations appear to rule out the alternative method of depending on applications to be returned before cards are mailed.

Yet, the use of unsolicited mailings has become one of the principal sources of controversy surrounding the advent of credit card banking. The practice involves some financial risks to the issuing banks and some inconvenience to the small percentage of potential customers who do not want to receive such cards. The substantial financial losses experienced by a number of Midwest banks a few years ago when they launched credit card plans on the basis of unsolicited (and in some cases unscreened) mailings led banks to take special steps to protect themselves against theft of cards during the process of distribution. They have also taken measures to minimize losses to customers through misuse of cards once they have been accepted. However, there has been no fundamental revision in the technique of distributing bank credit cards: the use of unsolicited mailings remains the basic method.

The Federal Reserve Board has been highly conscious of the problems involved in unsolicited mailing of bank credit cards. For this reason, in the summer of 1968, the Board expanded the check list of questions used in the examination of State member banks; examiners were instructed "to make sure that banks realize the importance of developing initial mailing lists from their own records and carefully screening them before use." The same quidelines applied to State member banks are also applied to national banks through the examination procedures. The Office of the Comptroller of the Currency was the first Federal bank supervisory agency to use a separate credit card section in its examination report, and it has instructed its examiners to see that the national banks use prudent procedures in connection with unsolicited mailings.

At the Federal Reserve Board, we have made an assessment of the extent to which State member banks are following the suggested guidelines with respect to credit card plans. On the whole, these banks seem to have exercised prudence in credit card management. This conclusion is derived from a review of reports of examination for 65 State member banks with credit card plans.1/

While unsolicited mailings were found to have been the principal means of distributing cards, no significant problems were uncovered --

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1/ As of June 30, 1968, there were 64 State member banks with credit card plans. On last December 30, the number was 65, and it was 93 on June 30, 1969. Since State member banks are examined once each year, the reports on 65 banks provide almost complete coverage since the guidelines were recommended in the late summer of 1968.

certainly none of the magnitude of the difficulties surrounding the Chicago episode of late 1966 and early 1967. Nine of the 65 banks mailed cards on an unsolicited basis without obtaining adequate credit information on potential customers.

Other unsatisfactory features drawing comments of examiners are as follows:

Problem	Number of banks
Lack of control over unissued cards	1
Ineffective collection policies and practices	3
Inadequate procedures for reclaiming credit cards when accounts became delinquent	2
No preprinted expiration dates*	2
Lack of control on customers exceeding limits	4
Customers not informed of credit-card limits	1
Slow processing of items	3

In each of these instances, the unsatisfactory features noted by Federal Reserve bank examiners were corrected by management where problems existed. Specifically, in the nine cases involving lack of adequate credit information, practices were changed promptly, and such information is now obtained before cards are granted.

An even sharper view of bank credit card distribution practices is provided by the results of the survey undertaken by the Federal Reserve Banks in August this year. The survey covered the practices followed by Federal Reserve member banks which began bank credit card plans between June 30, 1968, and the end of August 1969. The results are summarized in

*Plans were effective in the 1950's, and no problems have been encountered.

Table 5. Several conslusions can be drawn from the information submitted. Unsolicited mailing of cards is used more often than not in starting new plans; but in some Federal Reserve Districts, an application-type system is also used frequently. In most cases, mailing lists are compiled from present customers of the banks, and these are screened before cards are mailed. In three Districts (Cleveland, Richmond, and Atlanta), a few banks were reported to have used outside sources (such as directory services, credit bureaus or credit rating firms) in adding to their mailing lists -- which were composed primarily of their own customers. In one case (in the Kansas City District), a bank was reported to have used unsolicited mailing of cards to launch its credit card plan -- including the use of names obtained outside the bank -- without screening the lists prior to mailing cards to potential customers. Moreover, in that case, reportedly no credit check is made of the accounts until such time as the accounts became active.

Where information was available from the Federal Reserve Bank survey, it indicated that pre-mailers were generally used, as recommended in the Federal Reserve guidelines. These pre-mailers advise the customer that a card is being sent unless the customer indicates to the bank that he wishes his name removed from the list. In this way the customer is able to refuse a card before it is sent. The pre-mailer also helps reduce the prospect of fraud by alerting the customer to expect the card and also informs the bank of changes in addresses. During a single week this summer, for example, more than 2 million bank credit cards were mailed in New York when a new plan was adopted by a group of three major banks. The fact that these cards had been preceded by pre-mailers undoubtedly contributed to holding reported losses or thefts of cards during this mailing to 250 cases.

On the other hand, the pre-mailer still puts the burden on the potential card recipient to take a positive step to stop the card's arrival if he does not want it. This is one of the remaining sources of complaint voiced by consumers. An even more serious complaint stems from the sending of cards via registered mail in a few instances. So far only a handful of banks have adopted this practice -- mainly because they consider it to be too costly to the bank. (One bank is reported to have spent an average of 80 cents per mailing to distribute its cards by registered mail.) However, in my personal opinion, the really important objection to the use of registered mail in the distribution of unsolicited credit cards is the burden placed on consumers. Since registered mail must be accepted by a responsible person at the address indicated, in many cases this means that the potential card holder must make a special effort to pick up the letter at his post office. Not infrequently this means taking time off from work (many times without pay), incurring transportation costs and other inconveniences. Consequently, the actual cost to potential card holders may be substantially greater than that borne by the sending bank. Since the main objective of employing the registered mail technique is to minimize the exposure of banks to financial losses associated with the distribution of its own card through unsolicited mailings, I personally feel that the shifting of any part of this cost to potential consumers is entirely unwarranted.

Aside from the above reservations, it appears that precautions banks have taken recently to avoid potential problems with credit card mailings are being helpful. In the summer of 1968, the Board decided, after reviewing the results of the System Task Group Study, that there was no need to ban unsolicited mailings. That position has not changed.

Earlier this month, the Federal Trade Commission held hearings on a pending regulation that would forbid the mailing of credit cards without the written request or written consent of the recipient. Such mailings would be designated as unfair trade practices and unfair competition. Banks would not be covered by this prohibition since the Federal Trade Commission lacks jurisdiction over the banking system. If the Federal Trade Commission decides to adopt this regulation, legislation to prohibit the unsolicited mailing of bank credit cards undoubtedly would be pushed.

The Board's position has been and continues to be that (while the unsolicited mailing of credit cards by banks has involved some problems) there have not been any developments thus far that appear to make Federal legislation necessary. With respect to the effect of unsolicited distributions of credit cards upon competition, the Board has concluded that the prohibition of this method of issuance of cards would seriously hamper banks in launching credit card plans, thus giving those banks already in the field a protected position that would discourage competition. On October 9, 1968, I testified on behalf of the Board before the Subcommittee on Financial Institutions of the Senate Banking and Currency Committee. In my statement, I said:

> "Banks have found that the most effective way of starting a new credit-card plan is to mail a large number of unsolicited cards. This is necessary to resolve simultaneously the problem of having enough stores signed to the bank's plan to make the card useful to consumers and of having sufficient people using the card to make forming the plan attractive to merchants. Reliance on the alternative method of depending upon application returns entails considerable delays in reaching a profitable volume of business, delays which may be unacceptable when trying to compete with other banks' plans."

I still believe that the opportunity to distribute credit cards via unsolicited mailings should not be closed off. I believe it is to the country's advantage to keep the competitive channels open for the thousands of banks that have yet to enter the credit card field. On the other hand, several further steps need to be taken to minimize the remaining burdens on consumers.

Customer Liability for Fraud Losses

The most critical remaining problem involves customer liability for fraud losses if he fails to receive a card. It should be recognized that this is not entirely a problem of unsolicited mailing -- the same problem could arise for requested cards and renewals of existing cards. In addition, cards can be and sometimes are fraudulently used after the customer accepts the card.

With regard to the first type of fraud -- the unauthorized use of cards stolen before they are received or accepted by the proper person -- we know that most banks do not attempt to collect from the intended recipient. If there are banks which do, at least the Board is not aware of them. Moreover, it seems evident that they would have legal difficulties. In addition, the trend is for states to pass laws specifically exempting from liability the customer who has not accepted or begun to use an unsolicited card.

In the case of misuse of cards stolen or lost after being accepted by the cardholder, it is generally true that the customer has no liability for fraud losses after the bank has been informed that the card is lost or stolen. As for the liability of the cardholder prior to informing the bank, there is much more variation in banks' policies. Some banks seek to collect in these cases from the customer for all losses occurring before the bank is notified. Others do not attempt to collect, even where the customer does not report the loss or theft of the card. Still other banks (and some State statutes) specify an upper limit on the dollar liability of the customer.

The majority of banks apparently follow the practice of absorbing losses, but do not reveal that policy to their customers for fear they might be unduly careless in their handling of the card. This is often true even where the bank informs the customer that his liability is limited to $50 or $100. These announced limits are primarily designed to make the customer take care in the handling of the card and to stimulate prompt reporting of lost or stolen cards. Thus, actual policy is often much more lenient than announced policy.

I would like to see all banks inform their customers of their potential liability. It is possible to do this in the literature accompanying the card, and a number of banks have developed statements which achieve this objective in a simple, straightforward manner. At a minimum, announcements mailed by banks should reassure customers that they are not responsible for cards stolen before they are received. Such announcements should specify what a customer's maximum liability is after acceptance of the card. Of course, whether a bank actually attempts to collect infrequently, if at all, is a decision for management. But uncertainty on the part of the customer as to the potential liability while not as susceptible to advance determination, is in rather the same category as uncertainty about true interest rates. In any event, failure to disclose the terms of liability are no longer tolerable standards of business conduct for card issuers.

The question of legislation has arisen on this issue, and it may be helpful to restate the comments I made last October on behalf of the Board before the Subcommittee on Financial Institutions of the Senate Committee on Banking and Currency. The Board felt as a matter of principle (1) that the entire burden of loss arising from cards stolen before being received by the customer should rest entirely on the issuer and (2) after acceptance, the customer could become liable for losses before the bank is informed, but the liability on the customer should be limited. The issuer is in a much better position to bear losses and control them. In any event, the customer should be clearly informed of his liability.

The Board believes that some legislation may be required to clarify the liability question and to achieve uniformity of treatment. If appropriate legislation is enacted with respect to customer liability, the major problem associated with unsolicited mailing will be solved. To be effective and equitable, such legislation should apply to other credit cards, including travel and entertainment cards, gasoline company cards and so on, as well as to bank credit cards. The legislation might be at either the State or

Federal level. It is not self-evident that a Federal law is needed -- although it may be. In states such as Illinois which have laws on this subject, the legislation has apparently had no adverse effects on the banks' operations while helping clarify the position of the cardholder.

Ownership of Bank Credit Cards

It has been evident for quite some time that the vast majority of consumers accept bank credit cards once they are received -- although they may acquire them through unsolicited mailings. Moreover, a sizable proportion of those receiving such cards actually use them. In contrast, very few potential bank customers seem prepared to initiate applications for such cards.

To learn more about the extent of bank credit card ownership, a question was included on the questionnaire used in the Federal Reserve Board's Survey of Consumer Awareness of Credit Costs conducted in June of this year. This Survey, covering 5,150 households, was undertaken mainly to provide a benchmark measure of consumer knowledge before the Truth in Lending Law went into effect on July 1, 1969. Questions were designed primarily to find out the extent to which consumers now know about the finance charges and interest rates on their various types of consumer credit transactions. The interviewing was completed about July 1, but processing of the complete results will not be finished for a month or so. In the meantime, preliminary data on the ownership of bank credit cards by education and income were developed on the basis of a random subsample of 1,025 of the 5,150 responses in the Survey.* The results are shown in Table 6.

These findings are by no means surprising. About one-quarter of the total respondents had a bank credit card. This proportion increased steadily as the level of income and education rose. While only one-sixth of respondents with grade school educations had bank credit cards, the proportion was 26 per cent for high school graduates and 32 per cent for college graduates. Among those with post graduate college experience, 48 per cent had a bank credit card.

With respect to personal income, the same trend is evident. Only 7 per cent of respondents with incomes under $3,000 reported having such a card. In the income range $5,000 - 7,999, only about one-fifth of the households reported having a bank credit card. In the range $10,000 - 14,999, the proportion was 31 per cent. For those with incomes over $15,000 the ratio reached 44 per cent.

Again, this new evidence on the ownership of bank credit cards reinforces the conclusions reached earlier: the American public taken as a whole has accepted the credit card as a useful innovation in banking.

Use Patterns and Economic Impact of Bank Credit Cards

It is becoming increasingly evident that credit extended through

* Sampling experts involved in the Survey have given assurance that the proportions shown for this subsample probably will not be very much different from those shown by the entire sample.

bank credit cards is being used as a substitute for some other forms of credit. However, there is no evidence suggesting that the total amount of bank credit extended to consumers has accelerated because of the spreading use of cards.

Credit card banks were transacting a somewhat larger proportion of their consumer instalment business through credit cards at the end of 1968 than a year earlier. At the end of last year, about one-tenth of their instalment credit was on credit cards, compared with slightly less than one-twelfth at the close of the preceding year. Nearly all of the credit card receivables continue to arise from retail sales. In spite of the fact that many plans offer cash advances, such transactions now account for less than one-sixth of all credit card loan volume and appear to be declining in relative importance so far this year. (See Table 7.)

Consumer instalment credit has increased in recent months, but not as a proportion of total bank loans. During the last two years of rapid credit card growth, consumer instalment credit has accounted for only one-seventh of the banks' total loan portfolio and credit card receivables for less than one per cent. (See Table 8.) In spite of the marked increase in credit card outstandings, total holdings are still too small relative to both consumer borrowing and total bank borrowing to be of great significance in the recent expansion.

It appears that the increased use of bank credit cards has lessened to some extent consumers' reliance on other types of credit card plans. However, because of the aggregate nature (and seasonal variablity) of data, it is difficult to pinpoint the degree of substitution that is taking place. Nevertheless, the available statistics do seem to point in this direction. (See Table 9.) During the 18 months ending June 30 of this year, the amount outstanding under bank credit cards more than doubled, rising from $800 million to $1.7 billion. In contrast, consumer outlays financed by travel and entertainment cards registered no growth at all. On a year-to-year basis (which partly eliminates seasonal factors), department store revolving credit outstanding under credit card plans rose by about $200 million through the end of last June. Retail charge accounts rose by $600 million between December 1967, and December 1968, but in the twelve months ending last June, the increase was only $300 million. The year-to-year increase in the amount outstanding under oil company credit cards was also about $200 million.

Thus far, there is no conclusive evidence that credit cards have tended to raise prices. While the retailer is faced with an extra cost in the form of the merchant discount each time a credit card purchase is made, it does not follow that there is a net increase in costs or that the purchase would have been made without a card. To the extent credit cards replace high-cost merchant-operated credit plans, they reduce costs; and to the extent they attract customers who wish to buy on credit, they generate increased sales which may offset any increases in costs.

Thus, although the evidence is admittedly not conclusive, it does suggest that credit cards have not had -- and at present magnitudes are not likely to have -- any noticeable impact on general price levels.

There is also the question of whether individual consumers might get deeply into debt because of easy credit extended through these plans. Again it is difficult to point to a quantitative conclusion. The average line of credit extended under credit card plans is in the neighborhood of $350. This is not so high as to be a cause in itself of a customer incurring excessive indebtedness. In addition, the credit standards aim at middle-income consumers who by and large can afford to contract debt within the applicable limits. This is indicated also by the preliminary tabulation from the Board's Survey of Consumer Awareness of Credit Costs mentioned above. While about one-fourth of the consumers covered by this Survey reported having a bank credit card, nearly one-half had incomes over $10,000, and only about one-tenth had incomes of less than $5,000.

Finally, there is no evidence that the use of credit cards is contributing substantially to inflationary pressures. Only a small part of the growth in consumer credit in recent months can be attributed to the expansion of bank credit card plans.

<u>Evolving Structure of Credit Card Banking: Implications for Public Policy</u>

The Federal Reserve's study of bank credit cards published last year concluded that there was no reason to believe that the most widely-used systems raised any serious questions under the antitrust laws. At that time, the Department of Justice had initiated actions in a few cases (involving potentially adverse effects on competition or requirements that merchants limit their participation to one bank's plan). But, in general, there was no suggestion that serious antitrust problems were on the horizon. The same conclusion seems warranted today.

However, as the two national interchange systems for bank credit cards continue to grow, the implications for antitrust policy may become more important. As of last June 30, commercial banks which were members of these two systems (BankAmericard and Interbank) held a total of $1.5 billion of credit card outstandings (Table 10). This was 90 per cent of the total outstandings of $1.7 billion on that date.

While the details differ somewhat between the two systems, the scope of their activities is reasonably comparable. While Interbank has enrolled a somewhat greater number of card-issuing banks, BankAmericard (at least as of last June) seems to have enlisted a somewhat greater proportion of the large banks. This is suggested by the fact that the amount of outstanding credit averaged $3.6 million for banks in the BankAmericard system, compared with $1.8 million for those in the Interbank system. The number of agency banks (those which offer a credit card but do not carry receivables on their own books) in the two systems was fairly close -- 2,900 for BankAmericard and 2,550 for Interbank. BankAmericard member banks had 22.9 million cardholder accounts, and Interbank members had 20.5 million. The two systems had about the same number of merchant members (450,000). The amount of outstanding credit totaled $660 million for BankAmericard member banks and $900 million for those in Interbank. The average amount outstanding per active account was virtually identical for banks associated with the two organizations -- $185 for BankAmericard and $180 for Interbank.

It may be that the BankAmericard and Interbank systems soon will have even more banks signed up. As this occurs, which seems likely from the antitrust law standpoint, it would be important that the two systems continue to remain open for new banks to join.

The mere fact that the two interchange systems are attracting more and more banks is not the critical question under present Federal antitrust statutes, but rather how the interchange groups exercise the power acquired, as it were, through "bigness It may be recalled that the Associated Press (which also runs an interchange system) had antitrust troubles in the 1940's. These did not arise just because it was the news-gathering agency for more than 1,200 subscribing member newspapers, but because of unreasonable restrictions on admissions of new members and other anticompetitive restrictions (such as exclusive dealing arrangements) binding on the subscribing newspapers.

A question that thus far has been more theoretical than practical is whether nonbank institutions should be able to join bank credit card systems. The two major systems currently do not have non-bank members.

During the preparation of the Federal Reserve's bank credit card study in 1967-68, the matter of "nonbank entry" was discussed, but it was not pressed. However, if small, nonbank credit cards find it difficult to meet the competition of bank cards in the future, the question of nonbank entry into nationwide interchange systems may take on some importance.

Whether credit card operations, especially those under BankAmericard and Interbank, ought to be likened to public utilities has occurred to some observers. Whether this is a proper comparison remains open. To begin with, in some respects the regulation of banking today is much like public utility regulation, except for rate regulation. Aside from usury and similar statutes, the permissible interest charges on loans are not regulated. In addition, there appears to be no legal obligation for card-issuing banks to serve all applicants for service in the sense that such an obligation has developed in the public utility field for water companies, telephone companies, and the like. Banks that have issued credit cards -- including banks in national card interchange systems -- are individual competitive units. The sale of credit may be an indispensable service, but at present it is not monopolized, although we may be moving in the direction of fewer banking institutions. The credit card device, plus computers, may move us faster on that course than in earlier periods, however.

While views on the matter may differ, as indicated above, some might feel that the development and growth of credit card interchange arrangements suggest the advisability of utility-type regulation. For example, interstate bank credit card interchange systems might be made expressly permissible but only under a Federal licensing procedure. The practices of any such system, including those of the card-issuing banks, would be subject to regulatory standards prescribed by the Federal licensing authority, which might be responsible also for prescribing maximum permissible finance charges for card holders and maximum permissible discounts on other costs for merchants and other concerns participating in a card with an interchange arrangement. Regulatory standards could be devised to assure, among other things, the entry of new banks and acceptance of new cardholders on equitable, nondiscriminatory bases.

The theory -- and reality -- of such an approach, of course, would depend on whether the bank credit card interchange arrangements were approaching monopoly proportions. In this posture, the tendency for uniform practices would seem to increase, as might the likelihood of operating techniques not conducive to the public interest. Credit being virtually an indispensable service, and the advantages of interchange arrangements being what they are to the banks, their cardholders, and participating businesses, at least some of the basic features for the application of a utility-type control would seem to be present.

As will be noted, such an approach as outlined generally above ignores the gas and oil cards, the T and E cards, and other cards issued by nonbanks. It will be a long time, if ever, before these cards are displaced by bank cards. In the meantime, the Utility-type control limited to bank card interchange systems might seem unfair and opposed on this ground.

Briefly, however, it seems fair to conclude that, for the time being, and so long as BankAmericard and Interbank operate as they do now, it is unlikely that any antitrust issues will be raised. But, if either of those two systems -- or any other bank credit card plan, for that matter -- should initiate restrictive, anticompetitive arrangements, the antitrust laws could be expected to be invoked. An example of such a restriction would be that used one time by a bank which prohibited any merchant that signed up with that bank's card from signing up also with another credit card issuer. This practice was stopped by a consent decree following an antitrust challenge by the Department of Justice.

Finally, the key lesson is that banking institutions (or any other group) possessing substantial market power must be especially alert not to act oppressively or unreasonably. So far, the existing interchange systems for bank credit cards seem to be meeting this standard of responsible behavior.

Table 1.

Credit Card Plans by Class of Bank

(Amounts in millions of dollars)

	All banks		National banks		State member banks		Nonmember banks	
	Number having plans	Amount outstanding	Number having plans	Amount outstanding	Number having plans	Amount outstanding	Number having plans	Amount outstanding
September 30, 1967 1/	197	633	119	496	34	100	44	37
December 30, 1967 2/	390	828	187	636	50	145	153	47
June 30, 1968 2/	416	953	219	731	64	170	133	52
December 31, 1968 2/	510	1,312	272	1,019	65	210	173	83
June 30, 1969 2/	699	1,705	359	1,317	93	275	247	113

1/ Federal Reserve study, Bank Credit-Card and Check-Credit Plans, July 1968.
2/ Federal Deposit Insurance Corporation, Report of Call.

Table 2.

Bank Credit-Card and Check-Credit Plans, 1968 1/
(Amounts in millions of dollars)

	Outstandings end of month		Extended during month		Repaid during month	
	Credit card	Check credit	Credit card	Check credit	Credit card	Check credit
January	815	531	147	85	139	71
February	817	543	120	78	118	66
March	822	549	125	76	120	70
April	859	570	158	95	121	74
May	878	586	152	97	133	81
June	914	600	155	93	119	79
July	945	622	172	103	141	81
August	983	644	175	103	137	81
September	1,024	665	176	105	135	84
October	1,066	687	195	111	153	89
November	1,111	694	188	98	143	91
December	1,265	739	318	134	164	89
1969						
January	1,292	762	228	125	201	102
February	1,321	769	190	113	161	106
March	1,341	782	219	120	199	107
April	1,457	814	270	147	154	115
May	1,541	834	277	137	193	117
June	1,631	859	299	138	209	113
July	1,700	880	319	135	250	114

1/ Data for reporting banks representing approximately 95 per cent of the dollar volume of bank credit-card and check-credit outstandings.

Table 3.

Bank Credit Card Plans by Federal Reserve District
All Commercial Banks
(Amounts in millions of dollars)

Federal Reserve District	September 30, 1967		December 31, 1967		June 30, 1968		December 31, 1968	
	Number offering plan	Amount outstanding	Number offering plan	Amount outstanding	Number offering plan	Amount outstanding	Number offering plan	Amount outstanding
Boston	14	21.8	16	27.9	20	36.9	21	57.5
New York	16	64.8	23	109.5	27	120.4	20	155.3
Philadelphia	6	12.3	10	11.2	12	14.0	9	25.4
Cleveland	6	26.9	14	31.2	26	36.1	48	63.7
Richmond	5	28.2	13	38.9	15	47.4	28	92.7
Atlanta	20	30.6	43	40.0	39	48.9	53	99.5
Chicago	35	126.2	86	153.2	92	153.0	107	181.6
St. Louis	10	12.3	36	22.2	39	26.2	57	52.8
Minneapolis	5	.1	25	1.8	24	1.4	11	1.0
Kansas City	6	6.4	19	10.2	15	12.3	19	32.5
Dallas	7	8.1	22	12.4	21	21.0	22	18.9
San Francisco	67	295.3	83	369.9	86	435.3	115	530.6
All districts	197	633.0	390	828.4	416	952.9	510	1,311.5

Table 4. Growth of Bank Credit Card Plans in Selected Federal Reserve Districts (Number of Banks)

Federal Reserve District 1/	Banks with Plans June 30, 1968	Banks Starting Plans July 1968 - August 1969	Percentage Increase Since June 1968
1. Boston	20	6	30
2. New York	27	22	82
3. Philadelphia	12	0	0
4. Cleveland	26	26	100
5. Richmond	15	52	346
6. Atlanta	39	75	192
7. Chicago	92	5	5
10. Kansas City	15	18	120
11. Dallas	21	16	76
12. San Francisco	86	21	24
Total: Selected Districts	353	241	68

1/ Information on new bank credit card plans started in the St. Louis (8) and Minneapolis (9) Districts was incomplete and could not be used in this tabulation.

Table 5.

Bank Practices in the Distribution of Credit Cards, By Federal Reserve District

Federal Reserve District 1/	Number of Banks Starting Plans, July, 1968-August, 1969	Use of Unsolicited Mailing	Use of Outside Lists	Use of Pre-mailers
1. Boston	6	All	None	All
2. New York	22	Virtually all	None	Most
3. Philadelphia	0	--	--	--
4. Cleveland	26	Most	Few	Most
5. Richmond	52	Virtually all	Few	Most
6. Atlanta	75	Most	Few	N.A.
7. Chicago	5	All	None	N.A.
10. Kansas City	18	Most	One	N.A.
11. Dallas	16	Most	None	Most
12. San Francisco	21	Some	None	Some

1/ Information on new bank credit card plans started in the St. Louis (8) and Minneapolis (9) Districts was incomplete and could not be used in this tabulation.

N.A. Not Available

Table 6.

Ownership of Bank Credit Cards,

June, 1969

Selected Household Characteristics	Households in Subsample		Has Bank Credit Card		Does Not Have Bank Credit Card	
	Number	Per Cent	Number	Per Cent	Number	Per Cent
Total Responses*	1,025	100.0	258	25.2	767	74.8
<u>Education Level</u>						
Grade school or less	177	100.0	29	16.4	148	83.6
Some high school	224	100.0	42	18.8	182	81.2
Graduated high school	312	100.0	81	26.0	231	74.0
Some college	142	100.0	43	30.3	99	69.7
Graduated college	104	100.0	33	31.7	71	68.3
Post-graduate college	60	100.0	29	48.3	31	51.7
<u>Income Level</u>						
Less than $3,000	128	100.0	9	7.0	119	93.0
$3,000 - 4,999	122	100.0	22	18.0	100	82.0
$5,000 - 7,999	244	100.0	48	19.7	196	80.3
$8,000 - 9,999	170	100.0	50	29.4	120	70.6
$10,000 - 14,999	179	100.0	56	31.3	123	68.7
Over $15,000	124	100.0	55	44.4	69	55.6

Source: Preliminary results from Federal Reserve Board Survey of Consumer Awareness of Credit Costs.

*Note: Sum of the rows does not add to total row due to "no answers" to some of the specific questions.

Table 7. Credit Extended on Credit Card Plans 1/
(Amounts in millions of dollars)

	1968				1969			
	Credit extended			Cash advances as percentage of total	Credit extended			Cash advances as percentage of total
	Total	Retail purchases	Cash advances		Total	Retail purchases	Cash advances	
Jan.	147	123	24	16	228	195	33	14
Feb.	120	97	23	19	190	157	33	17
Mar.	125	102	23	18	219	181	38	17
Apr.	158	127	31	20	270	220	50	19
May	152	126	26	17	277	235	42	15
June	155	126	29	19	299	254	45	15
July	172	139	33	19	319	269	50	16
Aug.	175	141	34	19				
Sept.	176	145	31	18				
Oct.	195	163	32	16				
Nov.	188	159	29	15				
Dec.	318	275	43	14				
	2,081	1,723	358	17				

1/ Data for reporting banks which represent approximately 95 per cent of the dollar volume of bank credit-card outstandings.

Table 8.

Commercial Bank Loans Outstanding - All Commercial Banks

End of month	Billions of dollars				Percentage of total loans		
	Total loans, net 1/	Total consumer credit	Consumer instalment credit	Credit card credit	Total consumer credit	Consumer instalment credit	Credit card credit
September 1967	224.8	39.7	32.4	.6	17.6	14.4	0.3
December 1967	235.2	40.0	32.7	.8	17.0	13.9	0.3
June 1968	243.2	42.1	34.6	1.0	17.3	14.2	0.4
December 1968	262.6	44.9	37.0	1.3	17.1	14.1	0.5
June 1969	273.5	46.9	38.9	1.7	17.1	14.2	0.6

1/ Including valuation reserves.

Table 9.

Credit Card Plans
(Amount outstanding - In billions of dollars)

Type of Credit	December 31, 1967	June 30, 1968	December 31, 1968	June 30, 1969
Bank credit cards 1/	.8	1.0	1.3	1.7
Oil companies 2/	1.0	1.1	1.2	1.3
Department store revolving credit	3.5	3.6	3.7	3.8
Retail charge accounts	r 5.9	5.3	6.5	5.6
Travel and entertainment cards 2/	.1	.1	.1	.1
All other 3/	r .2	.2	.2	.2
All types	11.5	11.3	13.0	12.7

r - revised
1/ Excludes check credit plans.
2/ Consumer portion only.
3/ Including large independent credit card firms and revolving credit accounts of nondepartment stores.

Table 10.

Credit Card Activities of Selected Interchange Systems

June 30, 1969

Type of Activity	BankAmericard	Interbank
Number of card-issuing banks	185	500
Number of agency banks	2,900	2,550
Number of merchant cardholder accounts	22.9 mil.	20.5 mil.
Number of merchant members	450,000	450,000
Amount of outstanding credit	$660 mil.	$900 mil.
Average amount outstanding per active account	$185	$180