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BANK CREDIT CARDS
The Record of Innovation and Growth

A Paper By

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The financial innovation represented by the bank credit card is still fostering significant changes in commercial bank lending practices -- although the subject is much less a topic of heated public debate than it was a few years ago. Reflecting the growing competition generated by the spreading use of bank credit cards, all except a few of the largest banks in the country have found it advantageous to offer the service in some form. Simultaneously -- and also reflecting the same factors -- banks increasingly are being linked in a nation-wide network through participation in one of the national credit card systems.

The credit card has been thoroughly accepted by a substantial part of the public as an appropriate instrument of bank lending. On the other hand, the bank credit card still has not overcome completely the unfortunate legacy inherited from a few years ago when a number of banks made serious errors (and suffered sizable losses) in the initial

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distribution of cards. Nevertheless, this type of credit has become firmly established, and it will undoubtedly play an expanding role in bank lending to consumers in the years ahead.

For these reasons, it might be helpful to pause from time to time to chart credit card trends and to assess their economic significance. Moreover, in view of the recently adopted Federal legislative and regulatory restrictions affecting bank credit cards, the present appears to be a good time to appraise the banks' response to the changes. For the latter purpose, the Federal Reserve Banks were asked to make an informal canvass in their respective districts to get an indication of member banks' reactions. The results of that canvass are summarized in the closing section of these remarks.

From an analysis of recent trends in bank credit card lending, several conclusions stand out:

- In the last year, the rate of growth of credit outstanding under bank credit cards slowed appreciably. This slower pace partly reflected the moderation in economic activity in 1970 and the slower expansion of consumer credit in general. However, it also reflects maturing of the bank credit card network.
- Loss rates under bank credit cards rose somewhat in 1970. Overall loss rates appear to be considerably higher than on consumer loans generally, but the significance of the difference is diminished when the start-up costs for banks newly entering the business are taken into account. Yet, in the long run, the greatly reduced personal contact involved in bank card lending suggests that the relatively higher losses associated with the latter might

be expected to persist. Although bank credit card outstandings have been growing rapidly during the last several years, they still accounted for only 7 per cent of total instalment credit -- and for about 6 per cent of all consumer credit -- at commercial banks at the end of 1970.

- Bank credit card business continues to be heavily concentrated among member banks of the Federal Reserve System. Among these, national banks are still dominant. However, State member banks are also relatively much more important than insured nonmember banks. The largest banks remain principal suppliers of consumer credit via bank cards, but their share is declining appreciably. The geography of bank credit cards has changed noticeably in the last year or so. While the Far West continues to have the largest amount of such credit outstanding, growth has been particularly rapid in the Northeast and in parts of the Midwest. Banks providing funds via credit cards are primarily institutions in metropolitan areas. However, the availability of bank credit card service is much wider -- because of the network of agency banks.
- National bank credit card systems have become even more firmly established. Over the last year or so, credit outstanding under the two major systems expanded somewhat more rapidly than total bank card credit.
- The ownership of bank credit cards continues to expand rapidly, but the growth is mainly among families with higher incomes and higher levels of education. In the last year or so, awareness of credit costs has increased substantially among bank credit card holders. A major part of the gain undoubtedly can be attributed to the effects of the truth-in-lending legislation which became effective in mid-1969.
- To an increasing extent, bank credit cards are being used as a substitute for other types of

revolving credit. Between 1967 and 1970, bank credit cards accounted for one-half of the growth of such credit -- although bank cards accounted for only 7 per cent of the total outstanding at the end of 1967.

The canvass of banks' responses to recent legislative and regulatory restrictions affecting bank credit cards yielded several conclusions:

- No instances were reported in which a commercial bank has issued an unsolicited credit card since the practice was banned in late October 1970.
- Only a few banks apparently have assessed card-holders under the \$50 limitation on liability for lost cards. Instead, as a general policy, commercial banks are reported to be absorbing the \$50 liability to minimize operating costs or to avoid an adverse public relations situation.
- In general, among the banks which already had credit cards outstanding, the legislative and regulatory changes seem to have caused little -- if any -- modification in lending practices of commercial banks.

We can now turn to the body of the analysis.

Recent Growth Trends

At the end of 1970, about \$3.7 billion of credit was outstanding under bank credit cards. This was a gain of just over two-fifths from the end of the previous year. This growth expanded somewhat the relative importance of bank credit cards as a means of bank lending to consumers, but their overall impact remained fairly modest. At the end of last year, bank credit card outstandings represented

only 7 per cent of total instalment credit and about 6 per cent of all consumer credit at commercial banks. At the end of 1967, the proportions were 2.5 per cent and 2.0 per cent, respectively.

Some of the principal changes in credit card plans of Federal Reserve member banks during the last year can be traced in Table 1, attached.⁽¹⁾ As of December, 1970, 869 Federal Reserve member banks had credit card plans in operation. Of this number, 689 were national banks, and 180 were State member banks. A year earlier, 773 member banks had such plans, of which 618 were national banks and 155 were State members. In 1970, the number of Federal Reserve member banks with credit card plans rose by 12-1/2 per cent; for national banks, the rise was 11-1/2 per cent, and for State members it was 16 per cent.

During 1970, a small increase (less than 2 per cent) occurred in the number of unexpired credit cards. A decrease in the number of cards at national banks offset most of the increase at State member banks.⁽²⁾

(1) These statistics were obtained from preliminary tabulations of data from the supplement to the Call Report for December 31, 1970. Data were collected only for Federal Reserve member banks. The Federal Deposit Insurance Corporation did not distribute the supplement to insured non-member banks due to lack of time. The preliminary figures are subject to minor modification when the final data are available, since editing during regular tabulation will probably uncover random errors in bank reports.

(2) The reason for the decrease is not clear. However, some industry observers believe that new Federal Government regulations restricting re-issue of credit cards may have been a factor.

Use of credit cards increased for all member banks during 1970. The number of active accounts (those with outstanding balances) rose by one-fifth, and represented 35 per cent of the total number of cards at the end of 1970, compared with 29 per cent a year earlier.

In the aggregate, Federal Reserve member banks had \$3.4 billion outstanding under bank credit cards at the end of 1970, an increase of \$1.0 billion, or two-fifths, over the level at the end of 1969. In both years, member banks accounted for about the same proportion (92 per cent) of total bank card credit. Among member banks as a group, the average balance outstanding rose by about \$25 to \$207. The increase was particularly striking at State member banks, where it amounted to \$42 compared with \$20 at national banks. This gain not only brought the average balance at State member banks abreast of the average at national banks but moved the former slightly ahead of the latter. To some extent, this development reflects the adoption of credit cards by several large State member banks last year as well as the further maturing of plans launched the year before.

Losses arising from consumer loans extended under bank credit cards rose somewhat in 1970. For all member banks, net charge-offs as a percentage of year-end outstandings climbed to 3.39 per cent, compared with 2.38 per cent at the close of 1969. Reported loss ratios continued to be substantially higher at national banks (3.72 per cent) than at State members (2.17 per cent). In 1969, the loss ratios were 2.49 per cent and 1.97 per cent, respectively. The year-to-year rise

in the loss ratios for Federal Reserve member banks (in percentage points) were; all members, 1.01; national banks, 1.23; and State members, 0.20. To some extent, the higher loss ratios for national banks can be traced to differences in accounting procedures. National banks are required to charge off their delinquent accounts after six billings without receiving a payment. In contrast, only 18 per cent of the State member banks reported using the 90-day period at the end of 1970. (See Table 2.) Most of them (over three-fifths) charged off delinquencies after 120 to 180 days.

In assessing banks' loss experience with credit cards, a standard of comparison is required. For this purpose, their experiences with other types of bank loans to consumers can be used. Figures collected by the American Bankers Association indicate that, in recent years, net losses on banks' consumer instalment credit have been in the range of 0.25 -- to 0.50 per cent of outstandings. For personal loans in 1969, the loss rates were in the neighborhood of 0.80 per cent. Thus, overall loss rates on bank credit card loans appear to be considerably higher than on consumer loans generally. However, the significance of the difference is diminished when the start-up costs for banks newly entering the business are taken into account. Beyond this factor, the more impersonal nature of bank card lending (involving little direct personal contact for particular credit extensions once the card has been issued) suggests that a somewhat higher loss ratio for bank credit cards might be expected to persist, although it should decline from the present level as card systems become more firmly established.

Bank credit card plans have continued to eclipse check credit plans as a mode of commercial bank lending to consumers. At the end of June, 1970 (the latest date for which check credit data are available), bank credit cards accounted for almost three-fourths (72 per cent) of the total credit outstanding under the two types of plans, and check credit for just over one-fourth (28 per cent). Almost three years earlier (September 1967), more than two-fifths (43 per cent) were outstanding under check-related plans.

Moreover, banks with check credit plans have been falling behind relatively year-by-year. This pattern is clear whether growth is calculated in terms of the number of banks offering the two types of plans or by the amount of outstandings. It is also clear whether changes are measured from December-to-December or from June-to June.⁽³⁾ Consumers may well find credit cards to be more convenient than check credit. In addition, the banks' needs for high volume in credit card operations in order to hold down the cost of handling each transaction, plus the potentially greater return, have led to forceful merchandizing of credit card plans.

(3) The respective growth rates in over-lapping 12 month periods were:

<u>Period</u>	<u>Bank Credit Cards</u>		<u>Check Credit Plans</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
	<u>of Banks</u>	<u>Outstanding</u>	<u>of Banks</u>	<u>Outstanding</u>
		(Percentage Growth)		
Dec. 67-Dec. 68	31	58	33	53
June 68-June 69	68	79	26	54
Dec. 68-Dec. 69	137	101	16	35
June 69-June 70	94	79	12	19

However, the expansion of bank credit cards also slowed somewhat last year. At least two factors have a bearing on this development. To some extent, the slower growth reflected the maturing of the bank credit card network, since most areas of the country have now been covered. But the slower pace also can be traced partially to the moderation in economic activity in 1970 and the slower expansion of consumer credit in general.

Structure of Credit Card Banking

As indicated above, Federal Reserve member banks have virtually all of the loans outstanding under bank credit cards. As of June 30, 1970, they held \$2,765 million of such credit, representing 91 per cent of the total of \$3,048 million then outstanding. (See Table 4.) The remainder (\$283 million) was held by insured nonmember banks. By the end of last year, member bank loans of this type had risen to \$3.4 billion, and the total was estimated at \$3.7 billion. Thus, credit card loans outstanding at nonmember banks were in the neighborhood of \$300 million at the end of 1970. However, the distribution between the two groups of institutions was essentially unchanged.

National banks constituted about one-half of all banks with credit card receivables as of June 30, 1970, but they held nearly three-quarters of total outstandings. Both of these shares have declined over the last three years; at the end of September, 1967, national banks were three-fifths of all banks offering such credit, and they accounted for four-fifths of the total receivables.

This relative decline in national banks' share of the bank card business was caused by the entry of a number of large State-chartered banks and the rapid expansion of their activity in the last few years.

At the end of June last year, 170 State member banks reported having credit card plans, and loans outstanding amounted to \$559 million. Thus, State member banks represented 12-1/2 per cent of the number of banks offering such plans, and they accounted for just over 18 per cent of the total credit outstanding. During the previous three years, their share of the credit card business rose slightly. The 510 non-member banks with credit card plans in mid-1970 constituted nearly two-fifths of all banks offering such plans, but they held only 9 per cent of the total receivables.

As a group, the average national bank and the average State member bank are much larger than the nonmember counterparts. This same disparity in size is evident in the case of credit card volume. For example, at the end of June, 1970, the average amount of loans per bank outstanding under credit card plans was \$2,249 thousand for all commercial banks offering such plans. For national and State member banks combined, the average was \$3,272 thousand, and for nonmember banks it was \$555 thousand. Thus, credit card outstandings at the average national or State member bank were nearly six times the level at the typical nonmember bank engaged in the business.

When banks offering credit cards are classified by size alone, the extent to which such loans are still concentrated in the largest institutions is made even more clear. The distribution by size of banks is shown in Table 5. At the end of June, 1970, banks in the \$1 billion and over deposit class held just over two-fifths of card credit outstanding; in September, 1967, this class of banks held nearly two-thirds of the total. The decline in the relative importance of the very large banks resulted from expanded credit card activity of the ~~smaller~~ banks. It did not represent shifts in total consumer credit holdings.

Geography of Credit Card Banking

As mentioned above, the geography of credit card banking has changed noticeably in the last year or so. While the Far West continues to have the largest amount of such credit outstanding, growth has been particularly rapid in the Northeast and in parts of the Mid-West.

As shown in Table 6, the Twelfth Federal Reserve district -- which led other areas in expansion of card activity in the early 1960's -- continued to report the largest credit card holdings in June, 1970. However, as banks in other areas have been catching up, its share of the total declined sharply. For instance, banks in the Far West accounted for just under one-half of total credit card receivables in September, 1967. By the end of 1968, the proportion had decreased to

two-fifths, and by mid-1970, it had fallen further to slightly less than one-quarter. Simultaneously, gains in other parts of the country were substantial in both absolute and relative terms. But within the last year or so, card holdings have been growing most rapidly in the Eastern part of the nation -- especially in New England -- and in part of the Mid-West.

Banks providing funds via credit cards are primarily institutions in large metropolitan areas. However, the availability of bank credit card service is much wider -- because of the network of agency banks. For the purpose of collecting statistics relating to banking, 230 Standard Metropolitan Statistical Areas (SMSA's) are used in the 50 States. Of these 230 SMSA's, 188 included banks holding credit card receivables at the end of June, 1970. In addition, 557 banks with credit card outstandings fell outside these SMSA's, but they held only 5 per cent of the total bank card credit. Again, however, the network of bank credit card coverage is much wider than even these figures would suggest because of the remaining SMSA's, as well as other areas not included in SMSA's, that were served by agent banks not holding credit card receivables.

Expansion of National Credit Card Systems

Nationwide credit card systems have become even more firmly established. Over the last year or so, credit outstandings under the two major systems (Bank Americard and Interbank) expanded somewhat

more rapidly than total bank card credit. The number of participating banks (while rising less rapidly than the amount of outstandings) also registered a sizable increase.

At the end of 1970, as shown in Table 7, there were 9,111 banks participating in the two systems. Of this number, 1,427 (or 16 per cent) were card-issuing banks (that is, carrying the receivables on their own books); the remaining 7,684 banks acted as agents for card issuing institutions and usually did not hold outstandings themselves. In the year and a half ending last December, the total number of banks in the nation-wide bank card systems rose by nearly 50 per cent. The greatest growth was concentrated in the card-issuing banks -- which increased by 108 per cent, compared with 41 per cent for agency banks.

At the end of last year, 1,137 thousand merchants were members of the national bank credit card systems, compared with 900 thousand in June, 1969. The growth of one-quarter in the number of participating merchants over this period lagged considerably behind the expansion in the proportion of card issuing-banks -- and even behind the rise in the number of agency banks. The reason for the lag is not readily explained, but it may reflect the fact that many of the merchant-candidates had already been recruited into one bank credit card plan at the time a new plan was introduced. The merchant may join the second plan as well. If this happens, the number of banks with plans would rise more rapidly than the number of separately-identified merchants. Moreover, newly entering small banks in small communities would be unable to sign up many merchants.

The number of cardholder accounts recorded with banks in the national card systems climbed by 10 per cent between June, 1969, and December, 1970 -- from 43.4 million to 47.6 million. Over the same period, the number of active accounts (those with outstanding balances) rose from 8.6 million to 15.3 million -- a gain of nearly four-fifths. Moreover, active cards as a proportion of the number of cards outstanding also rose sharply -- from one-fifth to one-third, a proportion about in line with that for Federal Reserve member banks mentioned above. The fact that the number of active accounts rose much faster than the number of cards outstanding suggests that many new bank cardholders find the card a convenient means of making payments. The average amount of credit outstanding per active customer account rose by over one-quarter -- from \$182 to \$232 -- from mid-1969 to the end of last year. The latter figure is substantially larger than the average for all commercial banks which were members of the Federal Reserve System.

The total amount of credit outstanding at banks in the national card systems rose from \$1.6 billion to \$3.6 billion in the 1-1/2 years ending in December, 1970. This growth was somewhat faster than that registered by total bank card receivables (a gain of 127 per cent vs. 118 per cent). As a consequence, the share of the national systems in the total rose from 92 per cent to 96 per cent.

The rapid development of the nation-wide bank credit card systems and the continued expansion of the network of agency banks --

at the same time that the number of card-issuing banks is also growing rapidly -- all suggest that the public at large finds the bank credit card an appealing feature of bank lending techniques. The outlook is for a further widening -- and deepening -- of the nation-wide systems in coming years.

Ownership of Bank Credit Cards

The growing use of bank credit cards by consumers is shown graphically in the results of the Surveys of Consumer Awareness of Credit Costs conducted by the Federal Reserve Board in mid-1969 and in the Fall of 1970. The earlier Survey found that just over one-quarter of all respondents had a bank card. In last fall's Survey, slightly more than a year later, the proportion had risen to above 30 per cent. (See Table 8.)

Ownership of bank credit cards increased among respondents at all education levels. However, the growth continued to be concentrated among families with better-than-average education. In 1969, only 17 per cent of families whose head had not graduated from high school had bank credit cards, and this proportion did not grow by the second Survey. On the other hand, among high school graduates, the proportion with bank cards increased between the Surveys from 27 per cent to 30 per cent. For those with some college education, the rise was from 36 per cent to 44 per cent.

Ownership of bank credit cards also increased between the Surveys in all income brackets -- except the lowest (that is among

those families with incomes of less than \$5,000 per year). In 1969, card ownership ranged from 13 per cent for respondents with incomes of less than \$5,000 to 38 per cent for those with incomes of \$10,000 and over. Fifteen months later, the proportion of bank card holders had increased for the upper income families, but it had dropped slightly for those in the lowest income group.

In the last year or so, awareness of credit costs has increased substantially among bank credit card holders. This conclusion is also supported by the results of the Surveys of Consumer Awareness of Credit Costs. (See Table 9.) In the Surveys, respondents owning bank credit cards were asked to indicate the approximate annual rate of interest that was applicable to balances outstanding under the card arrangement. From the first to the second Survey, the proportion of respondents answering "don't know" dropped noticeably -- from over one-half to about one-quarter of all those responding to the question. This same pattern is evident when respondents are classified by either education or income.

Moreover, the responses given in the second Survey were much closer to the actual interest rates written into typical bank credit card plans. For example, in 1969, about one-third of those answering the question placed the annual rate in the range of 9-18 per cent; in 1970, about two-thirds of the respondents indicated this range. Also, as expected, the higher the level of income or education, the greater appeared to be the awareness of credit costs exhibited by owners of bank credit cards.

Although it would be difficult to demonstrate, one might conclude that a major part of the increased awareness of credit costs should be attributed to the effects of the truth-in-lending legislation which became effective in mid-1969. It would be both interesting and instructive to test the validity of this impression in and future Surveys.

Changing Pattern of Credit Card Use

To a considerable extent, bank credit cards are being used as substitutes for other types of revolving credit. This tendency is suggested strongly by the trends in several types of revolving credit plans over the last three years. In Table 10, the amounts outstanding are shown separately for bank credit cards, oil company cards,⁽⁴⁾ department store revolving credit, retail charge accounts, and travel and entertainment cards.⁽⁴⁾ Changes in these levels between 1967 and 1970 are shown in Table 11.

At the end of last December, the total of such revolving credit outstanding amounted to \$17.3 billion, compared with \$11.5 billion in December, 1967. Of these totals, \$3.7 billion and \$0.8 billion, respectively, represented bank card receivables. During the three-year period, bank cards accounted for one-half of the growth of such credit -- although they constituted only 7 per cent of the total outstanding at the end of 1967. This expansion raised the share of bank cards to one-fifth.

(4) Consumer portion only.

At the end of 1967, the volume of bank credit card receivables was about equal to that for oil company cards -- but substantially below the outstandings at department stores and in retail charge accounts. By the end of 1970, the amount under bank credit cards was double the amount for oil companies' cards, and the banks had closed a sizable part of the gap by which they lagged department stores and other retail outlets.

In terms of relative shares, only banks and oil companies improved their positions over the three-year period. All other categories of revolving credit declined relatively. Among those categories with substantial amounts of credit outstanding, the largest proportionate loss was experienced by retail charge accounts -- whose share dropped from one-half to two-fifths. The share of department stores decreased from 30 per cent to 27 per cent. The latter outlets apparently were able to maintain their position somewhat better than other retail stores because these typically very large units have generally abstained from joining bank credit card plans. Moreover, many of them operate their own credit systems which may sometimes be quite profitable -- as well as providing them with a readily available advertising medium through the mailing of monthly statements.

A number of oil companies have recently shifted their credit plans to a deferred payment basis. Some of them have also linked their cards with a variety of other uses, including travel facilities (such as motels), merchandise items, and insurance. Both of these moves have made oil company cards a stronger competitive factor.

On the other hand, the traditional travel and entertainment cards have shown no absolute growth in the last few years (measured by receivables outstanding),⁽⁵⁾ and their relative position has weakened considerably. Again, a good part of their decline can be traced to the impact of competition from bank credit cards.

Another perspective on the growing competitiveness of bank credit cards is provided by the Surveys of Consumer Awareness of Credit Costs mentioned above. In these Surveys, data were also collected on the extent to which consumers had charge purchase arrangements with department stores, gasoline companies or other retail stores. The results are shown in Table 12.

These figures show a small -- but persistent -- decrease in the frequency of such revolving credit arrangements reported between the two Surveys. The pattern holds for all classes of respondents -- whether they are grouped by education, income, or age of family head. In trying to explain this striking development, one should take note of the different economic environment at the time of the two Surveys. Because of the higher levels of unemployment prevailing in the Fall of 1970 compared with the situation in the Summer of 1969, one might expect a smaller proportion of respondents to report revolving credit arrangements. On the other hand, as shown above, a larger proportion of the same respondents reported owning a bank credit card at the time of the second Survey than at the time of the earlier canvass. When

(5) Actually, there was a small growth of 15 per cent which does not show in Table 11 because of rounding.

the two pieces of evidence are viewed together -- and reinforced by the information on receivables outstanding under the different types of credit plans -- it seems clear that bank credit cards are substituting increasingly for other forms of consumer credit arrangements.

Bank Response to Recent Legislative and Regulatory Changes

In the preparation of these remarks, an effort was made to appraise the way banks have adjusted to recent legislative and regulatory changes affecting bank credit cards. It may be recalled that the Consumer Credit Protection Act was amended on October 26, 1970, and the Federal Reserve Board made implementing changes in its Regulation Z (Truth-in-Lending) effective January 25 of this year.

Among other changes, the legislation prohibited the issuance of unsolicited credit cards after October 26, 1970, and it limited the liability of credit cardholders for unauthorized use of their cards to a maximum of \$50 beginning January 25, 1971. This liability exists when:

- The card has been "accepted" (requested, used, etc.).
- The cardholder has been notified of his potential liability (which the issuer may set at no more than \$50).
- The unauthorized use occurs before the issuer has been notified of loss or theft.
- The cardholder has been supplied with a pre-addressed, stamped form to facilitate notification.
- No liability exists for unauthorized use of a credit card issued after January 24, 1971, and after January 24, 1972, for all cards no matter when issued, unless the issuer has included on the card some means of user identification such as a signature or finger print.

To obtain an appreciation for the response of commercial banks to these changes, the Federal Reserve Banks were asked to make an informal canvass of member banks in their respective districts. To guide the inquiry, the officers in charge of bank supervision in each Reserve Bank were asked several questions:

- Have any instances come to your attention where banks have issued credit cards on an unsolicited basis after October 26, 1970?
- Do you know of any instances where a bank has attempted to assess the \$50 liability limit against a credit card user?
- Do you know whether banks are disregarding the \$50 liability of persons for unauthorized use and absorbing the total loss in the event of unauthorized use?

In posing the questions, it was stressed that a formal survey was not required. Rather, the Federal Reserve Banks were requested to give their assessment of the banks' responses to the legislative and regulatory changes affecting bank credit cards. It was noted, however, that the Reserve Banks might feel it desirable to contact a few banks in their district -- especially the large institutions with a sizable amount of credit card receivables -- in order to answer the questions.

In making the informal canvass, each Reserve Bank did contact a few banks active in the credit card business -- the number ranging from one or two in one district with only a handful of such banks to

as many as seven in a district where banks place a heavy emphasis on credit cards. In the aggregate, between 40 and 50 banks with a sizable share of the total credit card loans outstanding to consumers were contacted by Reserve Banks.

The results of the informal canvass in each Federal Reserve district can be summarized briefly:

Boston District

No instances of unsolicited, mass mailings were noted. All cards issued since October 26, 1970, have been in response to a request for an application, renewal or substitution for an existing card.

Among the few banks contacted, none were using the \$50 limit on liability to cardholders for unauthorized use of cards. Instead all banks were absorbing the total loss because of public relations and other competitive reasons.

When solicited cards are mailed (in the case of renewals or substitutions), they are always sent by registered mail. Banks indicated that, in their opinion, legislation was needed to stop unfavorable results of unsolicited mailings.

New York District

No unsolicited mailings were reported.

Among the few banks surveyed, no instances were found where a bank has attempted to assess the \$50 liability limit for unauthorized use of cards. Banks generally are absorbing total losses in event of such use.

Only one bank among those contacted is sending a pre-printed notification form to customers as required by the amendment to Regulation Z if the customer liability provision is to be applied.

Recent legislative and regulatory changes have not caused any radical modifications in the operating policies of the large banks with significant amounts of credit card receivables.

Philadelphia District

No unsolicited mailings were reported.

None of the banks have attempted to assess the \$50 liability for unauthorized use of cards.

Most banks surveyed are disregarding the liability option and are absorbing total losses arising from unauthorized card use.

Cleveland District

No unsolicited cards have been issued. By October 26, 1970, practically all of the large banks had credit card programs well under way and had no plans for another mass solicitation. In most instances, banks had sufficient work with active accounts and had more or less abandoned follow-up programs for cardholders not using their cards. Smaller banks generally follow the practices of the large institutions. Among the few banks contacted, none were assessing the \$50 liability limit. Credit card volume was said to prevent attempts to make such an assessment in isolated cases of unauthorized use. However, the banks would do so in case of an obvious abuse.

At least one bank was prepared to advertise the fact that it was absorbing the loss. After obtaining affidavit from cardholder, efforts would be concentrated on locating and prosecuting offenders.

Bank using a picture for identification had no experience with the practice. Others had little experience.

Richmond District

No banks are issuing unsolicited credit cards.

Several banks were surveyed, and none have assessed a customer for unauthorized use under the \$50 liability limitation. Banks are disregarding the \$50 liability provision and are absorbing total loss.

In the future, several banks may attempt to make an assessment of liability if circumstances warrant it. For public relations and other reasons, this has not been done as yet.

It appears to be the consensus among banks that attempting to assess the loss will probably not be worth the cost in the long run.

Atlanta District

There has been no further issuance of unsolicited credit cards.

In a few instances, where a bank could prove collusion -- the \$50 liability limit has been assessed against a credit card user. Most banks with deposits in excess of \$50 million are disregarding the \$50 liability. If the cardholder appears to have acted in good faith, loss is absorbed by card-issuing bank.

Banks with deposits under \$50 million usually are operating credit card plans as an agent for a larger card issuer and generally have no assessment authority over the card user.

Chicago District

No reports of unsolicited mailings were received.

In a few cases, the \$50 liability limit was assessed by banks against "uncooperative" cardholders who waited too long to report the loss of the cards.

St. Louis District

No unsolicited mailings were reported.

No banks have assessed the \$50 liability limit for improper use of a card. Each bank contacted is disregarding the liability provision and is absorbing the total loss in the event of unauthorized use.

Banks are alert to possible fraud in connection with reported loss or unauthorized use of cards.

Minneapolis District

There have been no reports of unsolicited mailings.

One or two banks were contacted. No banks have the \$50 liability provision. Banks are disregarding the \$50 liability of card owners and are absorbing the whole loss.

Kansas City District

There was no report of unsolicited credit cards being issued.

The questions were reviewed with five of the largest banks in the district. No instances were reported of banks having attempted to assess the \$50 liability against card users. Banks are disregarding the \$50 liability option and are absorbing the total loss in the event of unauthorized use of a credit card.

Dallas District

No issuance of unsolicited cards were reported.

There has been no instance where a bank has attempted to assess the \$50 liability against a cardholder. Even before the October 26, 1970, legislation, it was unusual for banks to press cardholders under the contractual provision regarding liability for unauthorized use.

Banks appear to be disregarding the provision for \$50 liability and are absorbing total loss -- except that part which is recoverable from the wrongdoer. Again, this generally continues the policy which existed prior to October, 1970.

In general, little has been done to formulate a policy for operating under the \$50 rule of the October 26 legislation. Typically, the legislation has not resulted in any change in banks' operations with respect to unauthorized use of credit cards.

San Francisco District

No unsolicited mailings were reported.

No efforts are being made to assess the \$50 liability limit. As a general policy, the seven largest banks in the district that were contacted are absorbing the total loss from unauthorized card use.

In conclusion, the above results of the informal inquiry as to banks' responses to the recent statutory and regulatory changes provide the following picture: No instances were reported in which a commercial bank has issued an unsolicited credit card since the practice was banned in late October 1970. Only a few banks apparently have assessed cardholders under the \$50 limitation on liability for lost cards. Instead, as a general policy, commercial banks are reported to be absorbing the \$50 liability to minimize operating costs or to avoid an adverse public relations situation. In general, among the banks which already had credit cards outstanding, the legislative and regulatory changes seem to have caused little -- if any -- modification in lending practices of commercial banks.

Table 1.

Credit Card Plans of Federal Reserve Member Banks

	All Member Banks		National Banks		State Member Banks	
	Dec. 31, 1969	Dec. 31, 1970	Dec. 31, 1969	Dec. 31, 1970	Dec. 31, 1969	Dec. 31, 1970
Number of banks with plans	773	869	618	689	155	180
Number of unexpired credit cards (000)	46,157	46,965	37,328	36,872	8,829	10,093
Accounts with outstanding balances:						
Number (000)	13,362	16,441	10,526	13,030	2,836	3,411
Amount (\$000)	2,429,559	3,399,561	1,959,465	2,689,160	470,094	710,401
Average Balance (\$)	182	207	186	206	166	208
Net Charge-offs during year (\$000)	57,939	115,549	48,694	100,104	9,245	15,445
Charge-offs as % of end-of-year outstandings	2.38	3.39	2.49	3.72	1.97	2.17
Accounts with balances outstanding as a per cent of total number of credit cards	29	35	28	35	32	34

Source: Special supplement to December 31, 1970 Report of Call. Figures preliminary.
Data not collected from non-member banks.

Table 2.

Credit Card Plans: Charge-off Practices of State Member Banks

<u>Days delinquent at charge-off</u>	<u>Number of banks reporting</u>	<u>Percentage of total</u>
90	32	18
120	40	22
121-150	27	15
151-180	45	25
181-210	8	4
211-365	2	1
Not specified	<u>26</u> 180	<u>15</u> 100

Source: Supplement to December 31, 1970 Report of Call.
Figures preliminary.

Table 3. Credit Card and Check Credit Plans: Commercial Banks
(Amounts in millions of dollars)

	Credit card plans		Check credit plans	
	Number having plans	Amount outstanding	Number having plans	Amount outstanding
September 30, 1967 ^{1/}	197	633	599	483
December 30, 1967 ^{2/}	390	828	732	522
June 30, 1968 ^{2/}	416	953	840	646
December 31, 1968 ^{2/}	510	1,312	975	798
June 30, 1969 ^{2/}	699	1,705	1,061	993
December 31, 1969 ^{2/}	1,207	2,639	1,128	1,081
June 30, 1970 ^{2/}	1,355	3,048	1,186	1,180

^{1/}Federal Reserve study, Bank Credit-Card and Check-Credit Plans, July 1968.

^{2/}Federal Deposit Insurance Corporation, Report of Call, June, 1930.

Table 4.

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
December 31, 1969 ^{2/}	1,207	2,639	618	1,960	155	470	434	209
June 30, 1970 ^{2/}	1,355	3,048	675	2,206	170	559	510	283

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

Table 5.

Credit Card Plans by Size of Bank

(Amounts in millions of dollars)

Size of Bank (Total deposits, in millions of dollars)	September 30, 1967 ^{1/}		December 31, 1968 ^{3/}		December 31, 1969 ^{3/}		June 30, 1970 ^{3/}	
	Number	Amount Outstanding	Number	Amount Outstanding	Number	Amount Outstanding	Number	Amount Outstanding
Under 5	2	<u>2/</u>	29	1.2	56	1.2	86	2.9
5-10	25	1.1	58	2.6	157	7.7	176	9.7
10-25	34	7.8	123	15.7	331	42.2	376	59.1
25-50	27	5.6	80	22.0	227	75.3	246	113.3
50-100	26	17.8	67	48.5	153	134.2	170	170.7
100-500	52	104.5	109	267.5	209	709.2	226	854.1
500-1,000	13	91.2	19	152.7	41	460.8	43	565.5
1,000 and over	18	404.9	25	801.3	33	1,208.1	32	1,273.0
All size groups	197	\$633.0	510	\$1,311.5	1,207	\$2,638.7	1,355	\$3,048.3

^{1/} Federal Reserve Study, Bank Credit-Card and Check-Credit Plans, July 1968.^{2/} Less than \$50,000.^{3/} Federal Deposit Insurance Corporation, Report of Call.

Table 6.

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

Federal Reserve District	Sept. 30, 1967 ^{1/}		Dec. 31, 1967 ^{2/}		June 30, 1968 ^{2/}		Dec. 31, 1968 ^{2/}		June 30, 1969 ^{2/}		Dec. 31, 1969 ^{2/}		June 30, 1970 ^{2/}	
	No. with plans	Amount outstanding	No. with plans	Amount outstanding	No. with plans	Amount outstanding	No. with plans	Amount outstanding	No. with plans	Amount outstanding	No. with plans	Amount outstanding	No. with plans	Amount outstanding
Boston	14	21.8	16	27.9	20	36.9	21	57.5	29	74.3	155	133.4	163	186.9
New York	16	64.8	23	109.5	27	120.4	20	155.3	35	270.5	60	438.1	76	521.9
Philadelphia	6	12.3	10	11.2	12	14.0	9	25.4	9	22.3	12	26.4	26	41.0
Cleveland	6	26.9	14	31.2	26	36.1	48	63.7	71	83.1	186	176.1	222	233.9
Richmond	5	28.2	13	38.9	15	47.4	28	92.7	70	160.2	75	319.0	75	362.2
Atlanta	20	30.6	43	40.0	39	48.9	53	99.5	111	163.2	243	301.4	267	362.8
Chicago	35	126.2	86	153.2	92	153.0	107	181.6	124	189.6	152	246.6	168	267.6
St. Louis	10	12.3	36	22.2	39	26.2	57	52.8	62	66.5	69	91.6	74	99.9
Minneapolis	5	.1	25	1.8	24	1.4	11	1.0	8	3.7	11	7.3	15	8.6
Kansas City	6	6.4	19	10.2	15	12.3	19	32.5	32	58.1	75	123.8	90	141.3
Dallas	7	8.1	22	12.4	21	21.0	22	18.9	26	36.6	37	81.5	43	106.2
San Francisco	67	295.3	83	369.9	86	435.3	115	530.6	122	576.9	132	693.5	136	716.0
All districts	197	633.0	390	828.4	416	952.9	510	1311.5	699	1705.0	1207	2638.7	1355	3048.3

^{1/} Federal Reserve Study, Bank Credit-Card and Check-Credit Plans, July 1968.

^{2/} Federal Deposit Insurance Corporation, Report of Call.

Table 7.

National Credit Card Systems*

	June 30, 1969	Dec. 31, 1970	Percentage increase
Number of card-issuing banks	685	1,427	108
Number of agency banks	5,450	7,684	41
Number of merchant members	900,000	1,137,000	26
Number of cardholder accounts	43.4 mil.	47.6 mil.	10
Number of active accounts	8.6 mil.	15.3 mil.	78
Per cent of total accounts	20	32	
Amount of outstanding credit	\$1,560 mil.	\$3,550 mil.	127
Average amount outstanding per active account	\$182	\$232	27

*BankAmericard and Interbank System.

Table 8.

Ownership of Bank Credit Cards
June 1969 and September 1970

Selected Household Characteristics	Number of house-holds in subsample		Number having bank credit card		Number not having bank credit card		Percentage having bank credit card		Percentage not having bank credit card	
	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970
Total responses*	5,137	3,033	1,324	918	3,813	2,110	25.8	30.3	74.2	69.7
<u>Education level:</u>										
Some high school or less	2,053	1,045	355	187	1,698	858	17.3	17.9	82.7	82.1
High school graduates	1,548	978	422	293	1,126	685	27.3	30.0	72.7	70.0
Some college <u>1/</u>	1,494	988	540	435	954	553	36.1	44.0	63.9	56.0
<u>Income level:</u>										
Less than \$5,000	1,259	616	165	78	1,094	538	13.1	12.7	86.9	87.3
\$5,000-7,999	1,180	631	252	142	928	489	21.4	22.5	78.6	77.5
\$8,000-9,999	856	506	246	154	610	352	28.7	30.4	71.3	69.6
\$10,000 and over	1,623	1,182	610	523	1,013	659	37.6	44.2	62.4	55.8
<u>Age level:</u>										
Under 35	1,382	914	328	275	1,054	639	23.7	30.1	76.3	69.9
35-49	1,540	992	458	319	1,082	671	29.7	32.2	70.3	67.6
50 or older	2,198	1,117	535	321	1,663	793	24.3	28.7	75.7	71.0

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

* Note: The sum of the education, income, or age classes does not agree with the total since not all respondents indicated education, income, or age level.

1/ Includes college graduates and those having higher education.

Table 9.

Consumer Awareness of Bank Credit Card Costs

	Total <u>1/</u>		EDUCATION					
			Some High School or Less		Graduated High School		Some College	
	1969	1970	1969	1970	1969	1970	1969	1970
Number reporting ownership of a bank credit card <u>2/</u>	1,324	918	355	187	422	293	540	435
Number answering interest rate question	1,226	651	314	95	387	212	519	344
Percentage Rate Distribution of Those Answering Interest Rate Question								
Interest Rate (Per cent) <u>3/</u>								
8 or less	11.5	5.9	11.5	8.4	11.9	7.0	12.7	4.3
9-18	32.1	66.2	20.1	41.1	25.8	55.7	42.8	79.7
Over 18	1.1	0.9	1.6	2.1	1.3	1.0	0.8	0.6
Don't know	55.3	27.0	66.8	48.4	61.0	36.3	43.7	15.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Sum of the number of households reporting by education does not equal total since not all respondents indicated education level.

2/ As of June 1969 for 1969 Survey and September 1970 for 1970 Survey.

3/ Rounded to nearest whole percentage.

Table 9. (Cont'd.)

Consumer Awareness of Bank Credit Card Costs

	INCOME							
	Under \$5,000		\$5,000-\$7,999		\$8,000-\$9,999		\$10,000 and over	
	1969	1970	1969	1970	1969	1970	1969	1970
Number reporting ownership of a bank credit card <u>1/</u>	162	78	252	142	246	154	597	523
Number answering interest rate question	141	32	227	96	228	113	568	404
Percentage Rate Distribution of Those Answering Interest Rate Question								
Interest Rate (Per Cent) <u>2/</u>								
8 or less	9.2	9.4	11.1	11.5	10.5	5.3	12.0	4.2
9-18	13.5	62.5	28.5	54.2	31.1	59.3	40.1	71.5
Over 18	0.7	0.0	1.3	1.0	1.3	0.9	1.2	1.0
Don't know	76.6	28.1	59.1	33.3	57.1	34.5	46.7	23.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ As of June 1969 for 1969 survey and September 1970 for 1970 survey.2/ Rounded to nearest whole percentage.

Table 10.

Revolving Credit Plans
(Amount outstanding - in billions of dollars)

Type of credit	Dec. 31, 1967	June 30, 1968	Dec. 31, 1968	June 30, 1969	Dec. 31, 1969	June 30, 1970	Dec. 31, 1970
Bank credit cards ^{1/}	0.8	1.0	1.3	1.7	2.6	3.0	(e) 3.7
Oil companies ^{2/}	1.0	1.1	1.2	1.3	1.5	1.6	1.8
Department store revolving credit	3.5	3.6	3.7	3.8	4.2	4.0	4.6
Retail charge accounts	5.9	5.3	6.5	5.6	6.7	5.8	6.9
Travel and entertainment cards ^{2/}	0.1	0.1	0.1	0.1	0.1	0.1	0.1
All other ^{3/}	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
All types	11.5	11.3	13.0	12.7	15.3	14.7	17.3

(e) Partially estimated.

^{1/} Excludes check credit plans.

^{2/} Consumer portion only.

^{3/} Including large independent credit card firms and revolving credit accounts of nondepartment stores.

SOURCE: Consumer Credit and Finances Section
Board of Governors of the Federal Reserve System

Table 11. Growth of Revolving Credit Plans, December 31, 1967 - December 31, 1970
(Amount Outstanding in billions of dollars)

<u>Type of Credit</u>	<u>Amount Outstanding</u>		<u>Percentage Distribution of Outstandings</u>		<u>Growth: 1967-1970</u>		
	<u>Dec. 31, 1967</u>	<u>Dec. 31, 1970</u>	<u>Dec. 31, 1967</u>	<u>Dec. 31, 1970</u>	<u>Amount</u>	<u>Per Cent</u>	<u>Share of Growth</u>
Bank Credit Cards (1)	0.8	3.7 ^(e)	7.0	21.4	2.9	362.5	50.0
Oil Companies (2)	1.0	1.8	8.7	10.4	0.8	80.0	13.8
Department store revolving credit	3.5	4.6	30.4	26.6	1.1	31.4	19.0
Retail charge accounts	5.9	6.9	51.3	39.9	1.0	16.9	17.2
Travel and entertainment cards (2)	0.1	0.1	0.9	0.6	---	---	---
All others (3)	0.2	0.2	1.7	1.1	---	---	---
All types	11.5	17.3	100.0	100.0	5.8	50.4	100.0

(e) Partially estimated.

(1) Excludes check credit plans.

(2) Consumer portion only.

(3) Including large independent credit card firms and revolving credit accounts of nondepartment stores.

Source: Calculated from Table 4.

Table 12.

Charge Purchase Arrangements with Department Stores,
Gasoline Companies or Other Retail Stores
June 1969 and September 1970

Selected Household Characteristics	Number of house- holds in subsample		Number having charge accounts		Number not having charge accounts		Percentage having charge accounts		Percentage not having charge accounts	
	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970
Total responses*	5,144	3,044	3,259	1,875	1,885	1,169	63.4	61.6	36.6	38.4
<u>Education level:</u>										
Some high school or less	2,057	1,049	987	449	1,070	600	48.0	42.8	52.0	57.2
High school graduates	1,550	982	1,041	634	509	348	67.2	64.6	32.8	35.4
Some college <u>1/</u>	1,496	996	1,217	788	279	208	81.4	79.1	18.6	20.9
<u>Income level:</u>										
Less than \$5,000	1,261	616	510	207	751	409	40.4	33.6	59.6	66.4
\$5,000-7,999	1,184	636	722	339	462	297	61.0	53.3	39.0	46.7
\$8,000-9,999	857	508	578	339	279	169	67.4	66.7	32.6	33.3
\$10,000 and over	1,624	1,192	1,332	953	292	239	82.0	79.9	18.0	20.1
<u>Age level:</u>										
Under 35	1,383	920	925	593	458	327	66.9	64.5	33.1	35.5
35-49	1,542	995	1,090	668	452	327	70.7	67.1	29.3	32.9
50 or older	2,203	1,119	1,239	611	964	508	56.2	54.6	43.8	45.4

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

* Note: The sum of the education, income or age classes does not agree with the total since not all respondents indicated education, income or age level.

1/ Includes college graduates and those having higher education.