

FEDERAL RESERVE BANK  
OF NEW YORK

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System Study of Bank Credit-Card and Check-Credit Plans

To All Member Banks, and Others Concerned,  
in the Second Federal Reserve District:

The following statement was released for publication in morning newspapers, August 2, by the Board of Governors of the Federal Reserve System:

A special staff study by a Federal Reserve System task group concludes that credit-card and check-credit plans are natural extensions of the traditional credit-granting functions of commercial banks and require no new Federal supervisory legislation at this time.

The report, entitled "Bank Credit-Card and Check-Credit Plans: A Federal Reserve System Report," was made public today by the System's Board of Governors.

The product of an intensive research project, launched by the Board in March 1967 as one phase of its continuing interest in credit developments in all fields, the 211-page report presents:

- A comprehensive assembly of information on the nature of the various credit-card and check-credit plans currently in use by banks.
- An assessment of the implications of bank activities in this area for bank competition, bank supervision, and the banking structure.
- A compilation of data on the amount of this type of credit in relation to the total volume of consumer credit.
- An evaluation of the impact that further expansion of bank-credit cards is likely to have on the financing of consumer expenditures by various grantors of consumer credit.

The System task group that prepared the report was comprised of 15 members of the staffs of the Board of Governors and the Federal Reserve Banks of Cleveland, New York, San Francisco, Boston, Atlanta, and Chicago, under the chairmanship of J. Howard Craven. Throughout the period of the study, the task group worked closely with Governor Andrew F. Brimmer, who served as the Board's liaison with the group. Copies of the report will be furnished by the Board to other Federal and State bank supervisory agencies.

In letters transmitting copies of the report to the Chairmen of the Banking and Currency Committees of the Congress, the Board expressed belief that present supervisory powers are sufficient to deal with any unsound practices that may arise in the bank credit-card and check-credit fields.

Moreover, the Board said, it has taken a number of steps in its examination processes to assure reasonable practices by State member banks in such areas as mass mailings of credit cards, further obviating the need for legislative action.

"In particular," the letters said, "the Board considers use of purchased or unscreened lists for initial mailing of credit cards objectionable; personnel of the examination departments of the Reserve Banks will be checking to make sure that banks realize the importance of developing initial mailing lists from their own records and carefully screening them before use."

With respect to limits on the total amount of credit available through credit-card and check-credit plans, the Board declared that "specific credit limits should be established and revealed to credit-card customers."

"A question is being added to the examination report for State member banks to determine whether customers are told their credit limits and if not, why not," the Board added.

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Figures on volume of credit extended, repaid, and outstanding under the plans are now being collected on a monthly basis at the suggestion of the task group and will shortly be published for the first time with the Board's monthly report on consumer credit.

The task group's report said that bank-credit cards have had little impact thus far on consumer spending habits or consumer attitudes toward debt, comprise only a minor part of total consumer credit, and have had little or no impact on prices paid by consumers at retail stores.

By the end of last September, the group found, there were 197 bank credit-card plans operating across the nation with outstanding credit of \$633 million among more than 5 million active accounts.

At the same time, 599 check-credit plans were in operation with outstanding credit of \$483 million spread over almost 800,000 active accounts. Of the approximately 800 credit-card and check-credit plans in existence last September, more than half were formed since the beginning of 1966, the report said.

The report said check-credit plans—which always function through a checking account and involve no link with a merchant—pose fewer operating problems than credit cards. Check-credit plans permit a customer, through pre-arrangement with his bank, to overdraw his checking account by a specified amount or to issue special checks through his bank and repay his account by the month.

For banks offering credit-card service, the tie with the retailer involving discounting of sales slips, the monthly billing of credit-card holders, the potential for misuse of cards, and specialized processing requirements have meant new operating and control procedures, the report said.

Credit-card losses during the first six months of 1967 equaled 1.97 per cent of the volume of credit outstanding at the end of September, while the rate for check-credit was 0.23 per cent.

Losses under these operations were greatest in their earlier years when banks were gaining experience, the report added, but the delinquency rate compares favorably with other types of consumer instalment credit.

Credit-card and check-credit programs are operated mainly by large banks but the report cited a definite role for the small-to-medium-sized banks in this field. Recent innovations in the organization of credit-card plans provide expanded opportunities for entry by small banks, the report added.

In many areas, a small bank has the alternative of joining a plan offered by a larger bank or a group of banks, the report said.

It noted that of the 197 banks reporting credit-card plans in the September 1967 survey, almost one third had deposits of less than \$25 million and one fourth had deposits between \$25 million and \$100 million.

Some 216 banks with deposits less than \$25 million operated either credit-card or check-credit plans or both last September.

The report pointed out that mass mailing of cards to potential subscribers has posed some problems in the past but banks now seem to be exhibiting considerable caution in distributing cards.

In concluding that legislation forbidding the unsolicited mailing of credit cards "would seem unnecessary and undesirable," the report said that, "despite some dangers, mass mailing seems to be the most effective way of generating within the period the volume of business necessary for a successful credit-card operation."

Indeed, the report continued, such legislation might well erect a barrier to the entry of new banks into the credit-card field.

The task group said the System's current examination practices are sufficient to insure that the banks involved follow reasonable credit practices and develop effective controls to prevent excessive losses from the plans.

The report indicated that credit-card and check-credit plans should have little, if any, impact on general credit conditions in the near future.

Printed copies of the report will be available later and obtainable for \$1.00 from Publications Services, Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

When printed copies of the report become available, we will send them to our member banks.

ALFRED HAYES,  
*President.*