

At 6219

A Federal Reserve System Report



**BANK
CREDIT-CARD
AND
CHECK-CREDIT
PLANS**



A Federal Reserve System Report

To the Member Bank Addressed:

For your information, as
indicated in our Circular No.
6195, dated August 1, 1968.

Federal Reserve Bank
of New York

CARD CREDIT

July 1968

Board of Governors ■ The Federal Reserve System

A Federal Reserve System Report

BANK
CREDIT-CARD
AND
CHECK-CREDIT
PLANS

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Board of Governors of the Federal Reserve System

PREFACE

The System Task Group on Bank Credit-Card and Check-Credit Plans was formed as an *ad hoc* committee of the System Research Advisory Committee with the objective of reporting upon and assessing recent developments in this credit area. An announcement in the March 1967 issue of the *Federal Reserve Bulletin* formally described the reasons for the Task Group's establishment and set forth its objectives:

The Board of Governors of the Federal Reserve System announced on March 1, 1967, that the System is undertaking a study of recent developments in the bank credit card and check credit field as one phase of its continuing interest in credit developments. Because of the rapid spread of a variety of credit card and check credit plans among banks in all parts of the country, this type of credit is becoming one of the most important and dynamic components of consumer credit. As such, the emergence of this type of credit may have a significant impact on developments in the consumer credit area, both in extending the scope of expenditures made on credit and in affecting the pattern of consumer spending and saving.

The study will assemble information on the nature of the various credit card and check credit plans now in use by banks; assess the implications of bank activities in this area for bank competition, bank supervision, and the banking structure; compile data on the amount of this type of credit in relation to the total volume of consumer credit; and evaluate the impact that its further expansion may have on the financing of consumer expenditures and on consumer savings. The information is being gathered and analyzed by a System task group made up of members of the research staffs of the Federal Reserve Banks and the Board of Governors. Results will be published in aggregate form following completion of the study.

The details of the credit-card and check-credit picture continue to change rapidly, and some of the findings may require modification in the light of these developments. Nevertheless, the basic objectives of this study have been reached.

Throughout the course of this study, the work of the Task Group has been oriented toward the broader economic aspects of credit-card and check-credit developments as they relate to the consumer, the structure of retailing, commercial banking, and the public interest in general.

This report is based to a large extent on information collected by the Task Group directly from the banks involved. At the time the Task Group was formed, there was little information available—especially of a statistical nature—on credit-card and check-credit plans. To provide this information, the Task Group suggested inclusion of a memo item on the Call Report of Condition requested in the spring of 1967. Similar requests were made for subsequent call dates.

To supplement this information, the Task Group conducted a number of personal interviews with officials of banks offering credit-card and check-credit plans, and in

December 1967 it conducted a special survey of all banks that reported credit-card or check-credit plans on the October 1967 Call Report. The Task Group also examined related credit-card plans offered by oil companies, department stores, and nonbank credit-card companies. Finally, to insure the continued availability of current information, it assisted in the revision of the System's current collection of consumer credit data to cover bank credit-card and check-credit plans.

Members of the Task Group and their affiliation with the System were as follows:

	Federal Reserve Bank of—
Margret Beekel	Cleveland
Jack Cox (until year-end 1967)	New York
J. Howard Craven (Chairman)	San Francisco
Jared Hazleton	Boston
Irwin Jennings (examination consultant)	San Francisco
Robert Johnston	San Francisco
Patrick Kildoye	New York
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Karl Scheld	Chicago
Walter Scott (legal consultant)	San Francisco
Joel Sarfati (secretary)	Board of Governors
Tynan Smith	Board of Governors
Orville Thompson	Board of Governors
Ralph Young (until mid-year 1967)	Board of Governors

Special counsel was provided unstintingly by Governor Andrew F. Brimmer, who has served throughout the period of this study as the Board of Governor's liaison with the Task Group.

The Task Group is grateful, as well, to the many other individuals throughout the Federal Reserve System who gave generously of their time and effort to assist in this work. In particular, the Committee on Current Reporting Series provided invaluable help in the preparation of surveys for the collection of data. Appreciation by the Task Group is also extended to the numerous individuals outside the Federal Reserve System, especially in the banking industry and the credit field generally, whose cooperation was an essential ingredient to this study.

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INTRODUCTION

Both bank credit-card and check-credit plans involve the extension to an individual of a pre-arranged line of credit available upon demand. However, credit-card and check-credit plans are not identical. Check-credit plans link the extension of the line of credit to a checking account without formal arrangement with a merchant. Bank credit cards, which are not tied directly to a checking account, involve a three-party arrangement among cardholder, bank, and merchant. In brief, credit-card operations involve the issuance to consumers of embossed

plastic cards that are used when the cardholder makes charge purchases at stores belonging to the card plan. The card-issuing bank bills the consumer, who then has the option of repaying within a prescribed period at no additional cost, or on longer terms subject to a service charge.

The contents of the Task Group's report are summarized in Chapter 1. Chapter 2 provides an overview of the detailed operations of the various types of plans and of their historical development. The implications of bank credit-card and check-credit plans for bank opera-

	Credit-card plans	Check-credit plans
Banks offering a plan (number)	197	599
Merchants participating (number)	390,805	Not applicable
Accounts:		
Total (number, in millions)	14.4	1.1
Active (number, in millions)	5.1	0.8
Active relative to total (per cent)	35	69
Credit lines:		
Average size (dollars)	355	997
Total authorized by banks (millions of dollars)	5,113	1,140
Credit extended during September 1967 (millions of dollars)	125	73
Credit outstanding, September 30, 1967:		
Total amount (millions of dollars)	633	483
Total per active account (dollars)	124	610
Total relative to authorized lines (per cent)	12	42
Loss ratios (charge-offs January-June 1967 as percentage of September 30, 1967 outstandings)	1.97	0.23
Delinquency rates (per cent, based on dollar volume of accounts delinquent 30-89 days)	1.99	0.97

SUMMARY

1

1. The development of bank credit-card and check-credit plans has recently been one of the most publicized aspects of commercial banking. These plans not only have become widespread within a short period of time but also have evolved in a wide variety of forms in adapting to differing environments and opportunities. These banking services are still expanding rapidly, and prospects for continued change in form are undiminished.

2. Of the two general categories, the credit card is now the more important in terms of credit volume, although more banks offer check-credit plans. In September 1967, 197 banks extended \$125 million through credit-card plans while 599 banks extended \$73 million in check credit.

3. The credit card tends to be a high-volume operation. For example, 23 per cent of the banks offering credit cards had a volume of more than \$500,000 in September 1967, but only 4 per cent of the banks with check-credit plans reached that level. In fact, two-thirds of the check-credit plans had a volume of less than \$25,000.

4. Credit-card plans have exhibited a more rapid rate of growth in recent years than have check-credit plans. Of all plans surveyed in September 1967, only one-third of the credit-card plans had been started before 1966, whereas over half of the check-credit plans were already in operation at the beginning of that year.

5. Despite the rapid spread of bank credit-card and check-credit plans, their importance must not be exaggerated either in the area of consumer credit or in that of commercial banking activity generally. At the end of 1967, total amounts outstanding under credit-card and

check-credit plans were only 1.5 per cent of consumer instalment credit provided from all sources and only 3.5 per cent of consumer instalment credit held by commercial banks. Indeed, if one restricts the comparison to just those banks offering such plans, their outstandings under the plans are still only 6 per cent of their instalment credit. Relative to total bank assets, credit-card and check-credit outstandings are less than 1 per cent. Thus far, at least, credit-card and check-credit plans are still minor elements in both consumer credit and commercial banking.

6. Credit-card plans show considerable variation in scope, ranging from one-bank, locally oriented plans through regional plans linking many banks to national interchange systems. Many of the bank credit-card plans have been expanded from their original local retail emphasis by adding travel and entertainment features and cash-advance privileges, to name two of the more important recent options.

7. The variety of organizational formats of credit-card plans now provides a wide choice for the individual bank that wants to "offer" a card plan—the operational burdens ranging from minimal to full responsibility for all aspects of a plan. Check-credit plans exhibit a similar variety of forms. Some plans use special checks for special accounts, whereas others are formal overdraft arrangements tied to existing checking accounts and using regular checks.

8. Credit-card and check-credit plans are natural extensions of the traditional credit-granting functions of commercial banks. The basic legal authority of banks to establish such plans seems generally to have been conceded,

although some States have enacted specific authorizations and related provisions. The law in various respects is unsettled. Some proposals may require examination in the light of the Federal antitrust laws and State usury and related laws. Bank credit-card and similar plans are covered under the recently-enacted Federal statute relating to truth in lending.

9. Credit cards pose greater problems for bank operations than do check-credit plans. As the latter operate through checking accounts and do not normally involve a link with merchants, operational problems are similar to those faced in banks' conventional activities. Credit-card operations, on the other hand, are more complicated because of the tie with the merchant involving the discounting of his sales slips, the monthly billing of credit-card holders, the potential misuse of cards, and the specialized processing requirements.

Although control over the use of cards is the major operating difficulty of credit-card plans, banks have instituted methods for reducing the misuse of cards. Nearly all of the banks studied had established credit limits on the cards issued. Customers are usually required to sign their cards and are informed of their credit limits. Purchases of more than specified amounts require bank approval. Misuse of cards has also been controlled by periodic renewal of cards, by speeding up sales-slip clearings, and by computer inspection of accounts for over-limit purchases, unusual activity, and delinquencies.

10. Losses sustained under credit-card plans do not appear to be excessive. For the first 6 months of 1967 banks reported total charge-offs (including those attributable to fraud) equal to 1.97 per cent of amounts outstanding in September 1967. Check-credit charge-offs over the same period amounted to 0.23 per cent of outstandings. Furthermore, the level of losses under card plans is probably exaggerated by the heavy losses of the many banks that began their plans in this period. The average loss ratio for mature credit-card plans is lower than for new plans; for plans

started in 1955 or earlier, the ratio was only 1.03 per cent.

11. Recent entrants into the credit-card field have profited from the experiences of other banks and, in particular, have developed more efficient techniques for minimizing risks associated with mass mailings of unsolicited cards. Mass mailing is not the same as indiscriminate promotion, and banks nowadays seem to be exhibiting considerable caution in the distribution of their credit cards. For example, the cards are typically sent only to persons meeting specified credit standards. Despite some dangers, mass mailing seems to be the most effective way of generating within the period the volume of business that is necessary for a successful credit-card operation. For these reasons, legislation forbidding the unsolicited mailing of credit cards would seem unnecessary and undesirable. Indeed, one of the more serious consequences of such legislation might well be to erect a barrier against the entry of new banks into the credit-card field. Admittedly, unsolicited cards are a nuisance to some recipients, but the problem is not large over-all, and as a general rule the liability of the unwilling receiver is readily protected. Banks are increasingly recognizing their responsibility to minimize this problem.

12. Credit-card and check-credit programs are operated most often by large banks, but there is a definite role for the small-to-medium-sized bank in this field. Check-credit plans, in particular, are readily instituted by small banks, and recent innovations in the organization of credit-card plans provide expanded opportunities for entry by the small bank. The small bank does not have to face the problems of starting a credit-card plan on its own. In many areas it has the alternative of joining a plan offered by a larger bank or a group of banks. Under such circumstances it can act merely as an agent to service merchants, or alternatively, as a participating bank that shares in varying degrees in the revolving credit provided to its own customers. The tendency is for large banks to open their plans to at least agency participation. It should be

noted, however, that the agency arrangement allows the large bank to tap the other bank's consumer credit market. On balance, credit-card and check-credit plans have not had a significantly adverse effect on the size-structure of banking.

13. Credit outstanding under credit-card and check-credit plans, though likely to increase gradually over time as a share of total consumer credit, is not expected to exert any significant influence on consumer attitudes toward debt. There remain important credit categories such as automobile finance and home-improvement loans — which together account for about half of total instalment credit—that have not as yet proved suitable for the credit-card approach. As the plans grow, however, some changes should be discernible in the composition of sources of lending. Banks are likely to gain gradually at the expense of some classes of finance companies and retailers, despite the present reluctance of major retail chains to accept bank-credit plans.

14. Bank credit cards have had little impact thus far on consumer spending habits and on the prices consumers pay for goods and services, and any future influence is likely to be gradual. There is no indication of overborrowing in general, and it is to the interest of banks to administer their credit-card programs to keep overborrowing to a minimum.

15. Credit-card and check-credit operations, like other recent banking innovations, have some futuristic elements that are suggestive of a "cashless and checkless society." But for the moment, at least, credit cards generate

more rather than less paper for banks to process. The need to reduce the burden of handling this paper should stimulate the development of technologies that might also be applied to an instant-payment mechanism.

16. Current examination procedures appear to be sufficient to insure that banks follow reasonable credit practices and develop effective controls to prevent excessive losses. Losses experienced to date—although heavy in some cases during the start-up period and sometimes weighted by the effects of unusual instances of fraud—have not been a threat to individual banks, and the basic soundness of credit cards and check credit is demonstrated by the successful plans of many banks. Federal bank supervisors, it appears, believe that current powers and procedures are sufficient to keep proper control over the operations of individual banks, but they plan to continue watching developments closely to insure sound banking practices in this area.

17. For the near future, credit-card and check-credit plans will have little, if any, impact on general credit conditions. At present levels and rates of growth, these plans are not large enough to have any noticeable effect.

18. In view of the rapid changes still taking place in this field, the Federal Reserve System should continue to collect on a regular basis statistics on the volume of credit-card and check-credit plans and should review these data systematically in order to keep abreast of developments and to remain alert to new implications of these plans for the various public interests.

HISTORY AND CHARACTERISTICS OF PLANS

2

HISTORICAL DEVELOPMENT

At the start of the twentieth century a few hotels began to issue credit cards to their regular patrons, and as early as 1914 large department stores and gasoline-station chains were issuing cards. In those days credit cards had three basic functions: (1) They were often prestige items issued only to valued customers. (2) They were more convenient to use than cash. And (3) they provided some degree of safety. During World War II the use of credit cards virtually disappeared because of Government restraints on consumer spending and credit. After wartime restrictions were lifted, many that had previously issued cards reinstated their plans, and in 1947 railroads and airlines began to issue their own travel cards. In 1949 the Diners Club was established to sell credit cards that were designed for use in restaurants; later that plan was extended to cover general travel and entertainment purchases. The Diners Club card was followed in a short time by similar arrangements through American Express and Carte Blanche.

Bank participation in charge-card credit plans came rather late in the game. The Franklin National Bank in Franklin Square, New York, started the first of the current bank credit cards in August 1951, but its program did not achieve full-scale operation until April 1952. In the next 2 years almost 100 banks—primarily small ones—entered the credit-card field in the belief that profits would be very substantial, but about half of them discontinued the service in a short time.

The extraordinary profits did not materialize and, in fact, losses were prevalent, due to the

unexpectedly high cost of starting a credit-card program and the long time usually required to overcome the initial losses incurred. Aside from the need for additional equipment, the banks had to hire extra personnel and make large outlays for advertising. These expenses, when taken together with a lack of experience in this form of lending, proved too much of an obstacle for many banks to overcome; therefore many dropped out. Of the nearly 200 banks with credit-card balances outstanding in September 1967, only 27 had started their card plans before 1958; many of these banks are located in the New York and Chicago Federal Reserve Districts.

Check-credit plans have developed independently of bank credit cards. The first one was introduced in 1955 by the First National Bank of Boston. Two years later there were still fewer than 20 banks, many of them small or moderate in deposit size, offering this form of consumer credit. This early interest in check credit was due at least in part to a desire to find an alternative to credit cards that was less costly to operate.

A major stimulus to bank credit cards came in 1958 and 1959. By that time a number of banks had become convinced that credit cards could be profitable. The Bank of America introduced its program in 1958, and toward the end of the year Chase Manhattan Bank began credit-card operations. Several other large banks followed quickly, and by the end of 1959 more than 40 banks had entered the field, many of them in New York and on the West Coast. After that there was a rapid increase in the number of banks offering either credit cards or check-credit plans. Indeed, of the nearly 800 plans reported at the end of

September 1967, 235 were first established during the 2-year period 1958–59.

But as it turned out, the two largest banks ran into difficulty with their credit cards not long after the programs were initiated. Chase Manhattan appears to have been discouraged by inability to generate sufficient volume, and in January 1962 it sold its credit-card business. The reluctance of the large department and specialty stores in New York City to give up their well-established credit offices contributed to Chase's difficulties. The Bank of America also encountered difficulties in the early phases of its program. Evidently these experiences discouraged many smaller banks from entering the field.

Bank interest has been renewed in all types of revolving credit plans in the past few years. Between 1961 and 1965, only a handful of plans came into existence, but in the summer of 1965 the two largest banks in Pittsburgh—Mellon and Pittsburgh National—introduced their credit-card programs. (Both had had check-credit plans for several years.) Within a short time, reports in trade papers indicated that bankers were again becoming interested in credit-card programs. In contrast to the situations in 1953 and 1959 many recent entries have made use of feasibility studies—conducted by the banks themselves or by outside marketing research organizations—to uncover problems and determine profit potential.

Until recently, bank credit-card programs were primarily local retail plans. Within the last 2 years, however, many practices have been introduced that have resulted in the spread of the cards beyond their former geographic limits. The Bank of America and two firms offering travel and entertainment cards—American Express and Carte Blanche—have been offering their programs to other banks for a fee. Bankers have been bombarded with ideas and proposals relating to card programs that would be national in scope. Banks in various regions have grouped together to study or introduce interregional plans. Some banks, such as the principals in the Midwest Bank Card program, have increased the cover-

age of their programs by signing correspondents on an agency basis. And various banking groups have agreed to interchange their cards, that is, to honor cards in the other's trade area. One example is the Interbank group.

Agent banks have a limited role; they sign up local merchants under a card plan and forward the sales drafts of these merchants to the principal bank, the one operating the plan. The principal bank is usually responsible for issuing cards to consumers, for operating the central accounting system, and for carrying any revolving credit that is generated. In some areas, however, agent banks do share in the revolving credit and, less frequently, issue cards in their own name through the principal bank.

Partly because of the trend toward national coverage, a large number of banks adopted credit-card plans or some form of check credit in the 2-year period 1966–67. In fact, slightly more than half of the 800 plans in operation at the end of September 1967 had been started in the previous 21 months. Of the plans started in 1966–67, 129 were credit-card and 277 were check-credit plans. This jump in check-credit plans brought the total number of banks having these programs to almost 600. Meanwhile, credit-card banking was showing a parallel rate of growth, with the total reaching nearly 200. If agent banks also were considered, the actual number involved with credit-card plans would be raised by more than a thousand. The distribution of these plans by years in which they were started is shown in Table 1.

By September 1967 the volume of outstanding credit under both plans combined passed the \$1 billion level. Credit cards accounted for \$633 million of the total with more than 5 million active accounts. Check-credit plans—of which almost 800,000 were active—accounted for \$483 million.

To summarize, the banking industry has experienced three periods of credit-card and check-credit growth. During the 2 years 1952 and 1953 almost 100 banks across the nation, primarily smaller banks, began to offer credit-

Table 1

NUMBER OF BANKS OFFERING ONE OR MORE CREDIT-CARD AND CHECK-CREDIT PLANS, SEPTEMBER 30, 1967
By Year Plan Was Started

Year started	Credit-card plans		Check-credit plans	
	New entries	Cumulative total	New entries	Cumulative total
1955 or earlier.....	27	27	13	13
1956-57.....	.....	27	13	26
1958-59.....	31	58	204	230
1960-61.....	3	61	32	262
1962-63.....	2	63	21	283
1964-65.....	5	68	39	322
1966-67.....	129	197	277	599

NOTE.—Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.

card services. At the end of the decade the second wave of interest in credit cards swept the industry, leading not only to the entrance of some of the country's largest banks for the first time, but also to the strong emergence of check-credit plans. Current interest has induced almost all of the very large banks in the country to offer either credit cards or check credit, or both, and a number of the plans have crossed State and regional boundaries for the first time.

GEOGRAPHIC COVERAGE

To explain the variations in coverage among Federal Reserve districts, allowance must be made for the actual organization of each plan, for a single plan can be limited to one city or it can be a statewide system. Typically, statewide or regional plans are most common where branch banking is permitted, but they have also been organized in unit-banking States when banks have formed associations and have signed agents to obtain local outlets.

Credit cards effectively blanket the entire San Francisco District. With the exception of Alaska, which has one localized plan, there are statewide systems operated either by large branch banks or by an association of banks in each of the other eight States in the Twelfth District (Arizona, California, Hawaii, Idaho,

Nevada, Oregon, Utah, and Washington have such systems). Statewide systems similarly dominate the Chicago District (Illinois, Indiana, Michigan, and Wisconsin—the exception is Iowa where no banks operate card plans). Statewide plans also operate in or are planned for Colorado, Tennessee, Georgia, North Carolina, South Carolina, Virginia, and Connecticut. Important regional systems—less than statewide—cover large parts of the following States: New York, Massachusetts, Pennsylvania, Ohio, Maryland, Kentucky, and Arkansas. Furthermore, in many of the above States, plans operate in neighboring States through agent banks.

In every one of the States having either statewide or regional plans operational or planned, at least one bank is linked to some interchange system that reaches across State boundaries. A major interchange system, Midwest Bank Card, operates in the Chicago District in the States of Illinois, Indiana, and Michigan; in New England two systems link Connecticut and Massachusetts. The two national interchange plans are BankAmericard and Interbank Card Association. These two systems have similar coverage in the West and in the Northeast, with the major difference as of early 1968 being the greater strength of BankAmericard in the South. But important markets remain open. By the spring of 1968 neither national interchange system had signed up banks in New York City, Chicago, or Florida, although both were continuing to expand in other areas.

Independent credit-card plans—that is, those limited to a single bank, with no agency, franchise, association, or interchange connections—vary from large statewide operations to a single-town plan. The largest statewide independent plans are in Georgia and Michigan, and large independent plans operate in the New York City area. Alabama and New Jersey have several medium-sized independent banks offering credit cards. Texas has the largest number of independent bank plans of any State, but most of these plans are small. In Florida, only small independent plans have

been operating. Generally, only in the South are small or medium-sized independent plans present in any number.

The distinction between independent status and membership in an interchange arrangement should not be taken to imply anything more than the geographic coverage of a particular plan. The distinction does not reflect differences in the size of the banks involved because small banks can, and do, belong to major interchange systems; on the other hand, an independent plan may be operated by a large bank.

In summary, credit-card plans are either in operation or are planned in most of the country west of the Rockies and east of the Mississippi. As Table 2 indicates, the biggest gaps are in the center—that is, in States between the Rockies and the Mississippi; plans in the Dallas, Kansas City, and Minneapolis Federal Reserve Districts are relatively sparse. There has been a marked trend toward plans with wider geographic coverage. Of the 41 largest card plans, more than 30 represent multibank plans, with either regional or national coverage through ties with other banks.

Check-credit plans follow a geographic

pattern somewhat similar to that of credit cards, but there are some noticeable differences. In terms of numbers of banks and levels of credit outstanding, check credit is relatively most important in the Northeast. Although the San Francisco District has the greatest dollar volume of check credit outstanding, this amount is less than half of its credit-card total, and the number of banks in that District offering check credit is smaller than the number offering credit cards.

A similar position with respect to outstanding balances exists in the Chicago District, and if agent banks were considered, the number of banks involved with credit cards would also be greater than the number offering check credit. The number of banks offering these plans in the Chicago District is large because unit banking is predominant there.

Only in the New York, Boston, and Philadelphia Districts are check-credit outstandings high enough relative to credit-card balances to suggest that local banks have promoted with success check credit as a substitute for credit cards. In the St. Louis and Cleveland Districts the relative differences are so small that it is really not possible to say that either plan is

Table 2

**NUMBER OF BANKS OFFERING CREDIT-CARD AND CHECK-CREDIT PLANS,
SEPTEMBER 30, 1967**

By Year Plan Was Started and by Federal Reserve District

Year started	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	Total
Credit-card plans													
1955 or earlier..	1	6	2	..	2	2	8	2	..	1	2	1	27
1956-57 .....	..	..	..	..	..	..	..	..	..	..	..	..	..
1958-59	2	7	1	1	1	11	3	1	..	..	1	3	31
1960-61 .....	..	..	..	..	..	1	..	1	1	..	..	..	3
1962-63 .....	..	..	..	..	..	1	..	..	..	1	..	..	2
1964-65	1	..	..	2	..	..	1	..	..	..	..	1	5
1966-67	10	3	3	3	2	5	23	6	4	4	4	62	129
Total	14	16	6	6	5	20	35	10	5	6	7	67	197
Check-credit plans													
1955 or earlier..	1	1	1	..	..	..	1	..	4	4	1	..	13
1956-57	2	1	..	..	..	1	2	2	2	2	1	..	13
1958-59	19	28	23	17	10	18	35	20	5	9	7	13	204
1960-61	2	3	3	..	7	2	2	3	2	4	3	1	32
1962-63	3	..	1	2	2	..	6	3	1	2	1	..	21
1964-65	2	6	..	2	2	5	11	4	..	2	1	4	39
1966-67	28	30	9	11	9	43	54	9	25	18	14	27	277
Total	57	69	37	32	30	69	111	41	39	41	28	45	599

NOTE.—Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.

avored. But in the San Francisco, Chicago, Richmond, and Atlanta Districts credit cards are predominant. The remaining three Districts—Dallas, Kansas City, and Minneapolis—are not notable for any type, for in each of these Districts amounts outstanding were less than \$10 million for each type, as is shown in Table 3 below.

Table 3

BALANCES OUTSTANDING ON BANK CREDIT-CARD AND CHECK-CREDIT PLANS, SEPTEMBER 30, 1967

By Federal Reserve District

(In millions of dollars)

Federal Reserve district	Credit-card plans	Check-credit plans
Boston.....	21.8	57.3
New York.....	64.8	98.0
Philadelphia.....	12.3	60.6
Cleveland.....	26.9	32.0
Richmond.....	28.2	17.2
Atlanta.....	30.6	22.2
Chicago.....	126.2	53.4
St. Louis.....	12.3	11.5
Minneapolis.....	.1	5.6
Kansas City.....	6.4	9.4
Dallas.....	8.1	4.5
San Francisco.....	295.3	111.5
All districts.....	633.0	483.2

If plans announced since September 1967 were included, the above conclusions would be modified by shifting the St. Louis and Kansas City Districts relatively more toward credit cards. Nevertheless, on the whole, the geographic pattern of credit cards tends to be repeated in the pattern of check credit, except that the relative emphasis is stronger for check credit in the Northeast.

MAJOR TYPES OF PLANS

A wide variety of credit-card and check-credit services are being offered through commercial banks. Many are still in a formative or transitional stage, but certain common characteristics have developed. Following is an overall description of the plans, as of September 30, 1967, based on details reported by banks

covered in the Federal Reserve System's special survey.

Bank Credit Cards

Bank credit cards are used chiefly as a means of charging retail purchases. The card plays the dual role of providing evidence to the merchant that the bank has granted a line of credit to the customer and of being a convenient, accurate means of imprinting sales drafts. A credit-card plan requires a direct connection with retail merchants who agree to accept the use of the cards for charging the purchases of goods and services. The merchant must open an account with the bank, if he does not have one. The merchant may deposit his sales slips either with the card-issuing bank or with one of its agents. In either case he receives immediate credit (less a discount) in his own account. Thus, the bank in effect takes over the financing of the merchant's accounts receivable. At the end of September 1967, almost 400,000 merchants were honoring bank credit cards. Nearly half were in the San Francisco and a fifth in the Chicago District.

Credit cards are issued to consumers, who may or may not be depositors of the issuing bank. There is no charge for the card itself. Generally, the larger banks have introduced their cards by an unsolicited—but not indiscriminate—mailing of cards and/or applications to selected individuals. The individuals usually have been selected on the basis of their deposit or loan relationship with the card-issuing bank. Normally, bank credit-card plans require the owner's signature on the card. Under many plans the cards expire automatically within a given period, usually 1 year.

At the issuance of a credit card, the cardholder is usually assigned a credit line, constituting the maximum amount of credit the bank will extend through the card. Only one bank with a large plan reported issuing cards with credit lines as low as \$50; \$100 was much more frequently reported as the smallest credit line assigned by the bank. According to the September 1967 survey, only a small proportion of the banks with the largest card plans

reported that they had set no maximum limits on the size of the credit line they might possibly assign to one or another of their cardholders. Occasionally, in those plans in which the bank's general policy ceiling on credit lines is relatively low, the issuing bank may allow a cardholder to exceed his stated credit line for a short time. The ceiling averaged \$355 for those banks that set a limit on the size of credit lines.

The bank credit card entitles the holder to charge purchases at retailers who have signed with the plan. The bank bills the cardholder monthly, but the cardholder has the option of repaying the full balance within a specified grace period—usually 30 days—without any service charge. If he does not pay in full within the grace period, his account is placed on a revolving-credit basis. Most card-issuing banks require a minimum repayment—for example, \$10 a month.

Service charges on the unpaid balances reported in the special survey ranged from $\frac{3}{4}$ to $1\frac{1}{2}$ per cent per month. Of the 197 banks reporting credit-card outstandings in September 1967, 156 were charging $1\frac{1}{2}$ per cent per month. Three-fifths of the banks offering cash advances with their credit cards had an effective monthly service charge of $1\frac{1}{2}$ per cent on such advances, although many banks charged only 1 per cent. It should be noted, however, that there is greater variability in the charges for cash advances. Three-fifths of the reporting banks computed their service charges on the balances of their credit-card customers after allowing for returns and payments, while a fourth of the banks used opening balances, and the remainder used other bases for computation. Charging on the opening balance, it should be noted, raises the actual credit cost to the customer.

Most banks set floor limits on retail purchases, limiting the size of an individual transaction that can be made without the merchant obtaining specific approval by the card-issuing bank. A commonly reported floor limit on retail merchandise was \$50, although the limit seems to vary by type of store and/or location.

Floor limits on services range higher, reaching as high as \$500 for airline tickets, for example.

The merchant is charged a discount on his sales slips by the bank. The discounts vary widely, from as low as one-half of 1 per cent of sales-slip volume to as high as 8 per cent, with an average of about $3\frac{1}{2}$ per cent. In contrast, discounts on sales of airline tickets are much lower, averaging about $1\frac{1}{2}$ per cent.

A common addition to bank credit cards is the cash-advance feature. Almost \$25 million of the total dollar volume of \$125 million of credit extended through credit-card plans in September 1967 represented cash advances. In a few cases, banks have consolidated the processing of all their small personal loans through the credit-card operation. Others offer overdraft privileges to their customers. That is, in the event of an overdraft in a customer's checking account, the bank automatically makes a cash advance and adds the amount of the advance to the credit-card bill. Banks are also varying their repayment schedules to match the practices of some businesses in offering 60- and 90-day interest-free grace periods.

The total number of credit-card accounts is very large—exceeding 14 million at reporting banks in September 1967—and the actual number of cards is still higher because of duplicate cards inadvertently issued to the same family or even to the same individual. Only 35 per cent of the accounts were considered active. As might be expected, the mature plans showed a higher proportion of active accounts.

Approved credit lines for all cardholders totaled approximately \$5 billion (three-fifths of this was at banks with more than \$1 billion in deposits), but this figure represents a ceiling that is well above actual usage. To illustrate, total outstandings on September 30, 1967, equaled only 12 per cent of total credit lines. The largest credit line granted to any individual cardholder in each of the largest banks averaged about \$3,500, but the most frequently approved line was closer to \$350.

Banks extended about \$125 million through

credit-card plans in September 1967, with \$117 million accounted for by banks with deposits of \$100 million or more. Four-fifths of the credit involved retail purchases; the remaining one-fifth represented cash advances. A few of the plans make no provision for cash advances. This was true, for example, of plans that had not been developed by the banks but rather had been purchased from retail credit organizations.

Check Credit

Check-credit plans are basically a form of instalment credit connected with a bank checking account. In their variety of forms, check-credit plans combine elements of cashiers' checks, travelers checks, overdraft banking, and "check-guarantee" programs.

Essentially, two general types of check credit can be distinguished. First, there are those plans relying on the individual's regular checking account and using his ordinary checks, but providing a prearranged automatic line of credit that is activated the moment the individual's account is overdrawn, thereby permitting the honoring of checks—up to his authorized line—that would otherwise be returned to the sender. These plans are often called overdraft accounts. In some plans the bank covers with a loan that is exactly the amount of the overdraft; in others, the bank credits the account with loans in \$50 or \$100 increments.

Overdraft plans often permit the customer to borrow as a separate credit transaction without having to overdraw his account. The loans are then repaid on a revolving basis, sometimes being liquidated as ordinary deposits are made to the account or, in most plans, requiring more formal, separate loan repayments to the bank. In addition some banks offer overdraft privileges to their customers through their credit-card plans; these will be discussed under credit cards, not check credit. In September 1967, 274 banks reported offering overdraft plans of one sort or another; most of these were of fairly recent origin—having been started in the 2-year period 1966–67.

The so-called "check-guarantee" card—which is not a credit card—is another device that is sometimes tied to an overdraft account. Essentially, for purposes of cashing checks, it identifies the customer and indicates that the bank will honor the check. Thus, the value of ordinary checking accounts is enhanced by broadening the acceptability of the check. These cards usually bear an identification number, an expiration date, and the customer's signature. In general, no direct relationship between the merchant and the bank is required. The actual risk to the bank is small since the customer's credit standing was verified when the card was issued. This guarantee feature is often used to increase the competitive attractiveness of the bank's overdraft plans. But not all "guarantee" cards require overdraft arrangements. Some banks issue them as a service to preferred customers without requiring any formal overdraft application. Such cases, of course, do not constitute either a credit-card or a check-credit plan.

The second type of check credit involves plans in which a prearranged line of credit is activated by employing a special checking account and special checks provided by the bank. This is the more prevalent type of check credit; 410 of the 599 banks offering check-credit plans in September 1967 provided these separate checking accounts and special checks. These checks may have special designs, or they may be identical in format with regular checks except for the encoded number of the check-credit account. Sometimes their use also involves the presentation of an identification card by the check-user at the time he makes a purchase. Such a card, like the check-guarantee card, is not a bank "credit card" since it is not used to imprint a sales slip as a means of payment in lieu of check or cash.

Checks with special designs indicating the bank's guarantee approach the nature of a cashier's check except that they are signed by the customer, instead of by a bank officer, and they activate credit instead of drawing on a previous cash payment. In some cases the special checks are pre-denominated and in that

event compare closely with travelers checks. Again, aside from the practice of having travelers checks presigned, there is this difference—namely, that the funds against which travelers checks are drawn have previously been deposited in cash by the traveler in a special clearing fund, whereas in the case of check credit these funds are either automatically borrowed from the bank at the time a check is presented for payment, or—in the case combining overdraft banking and pre-denominated checks—they remain in the customer's regular checking account. As the customer writes checks on his check-credit balance, he draws down his credit line. Repayments to the check-credit account replenish the line, thus providing credit on a revolving basis.

Unlike the case of credit cards, the customer participating in check credit must have a checking account with the bank offering the service. It is not necessary that he have a regular checking account since special check credit is operated through separate accounts. On the other hand, overdraft plans do require that the customer have a demand deposit account or that he open such an account.

The connection with the retail merchant is generally not found in check-credit plans. In fact, check-credit services are not limited to use in stores that have entered into special agreements with the issuing bank. In contrast to credit cards, however, check-credit plans are more localized, in that interbank ties are not so well developed. Although two check-credit plans have some national coverage, neither has developed a very large dollar volume. In fact, check-credit plans seem to appeal particularly to small and medium-sized banks, in part because such plans are less expensive than credit-card plans in terms of advertising and maintenance costs. About half of the nearly 600 banks with check-credit plans had total deposits of \$10 million to \$100 million in September 1967.

Check-credit plans also are more flexible than credit-card plans, in that they frequently can be adapted for specific uses of an individ-

ual bank. That is, a bank may inaugurate a check-credit plan reserved for its largest depositors only, or a bank may institute more than one check-credit plan, each being designed for a different group of depositors. The free credit given customers under credit cards (between the purchase date and the expiration of the grace period) generally is not present in check-credit plans. Moreover, check-credit plans are made available only upon application and after bank approval, thus placing these credit lines under the close control of the offering bank.

Compared with credit-card plans, the different method of customer selection under check-credit plans has resulted in higher dollar figures for individual accounts and fewer such accounts, but for all banks with such plans, the dollar aggregates are lower. Maximum credit lines authorized under check credit generally are larger than those for credit cards; indeed, at many of the largest banks offering both types of plans in September 1967, the check-credit maximum line was more than twice as large as the credit-card maximum for an individual account. The size of the credit line most frequently approved for check credit by the larger banks, \$1,100, was three to four times as great as for credit cards, and the average approved line, \$997, nearly three times as large. Moreover, the activity of check-credit plans—69 per cent of total accounts were classified as active—was virtually double the activity ratio for credit cards. In September 1967 the average amount of credit outstanding per active account was \$610 for check credit compared with \$124 for credit cards, while the amount outstanding relative to total approved credit lines was 42 per cent for check credit against 12 per cent for credit cards.

Nevertheless, the selectivity exercised by banks on check-credit customers has been so high that only 1.1 million accounts existed on September 30, 1967, in contrast with 14.4 million accounts under credit-card plans. Consequently, despite the fact that three times as many banks offer check-credit plans as offer credit cards, and despite the relatively intense individual activity of check-credit plans, the

aggregate results for check credit are overshadowed by those of credit cards. Total outstanding balances under check-credit plans often are smaller than credit-card balances when both types of plans are offered by the same bank. Moreover, for the United States as a whole the volume of credit issued during September 1967 under check-credit plans was not quite \$73 million, compared with \$125 million extended through credit cards, and total check-credit outstanding at the end of the month amounted to \$483 million, well below the \$633 million in bank credit-card outstandings.

Perhaps because check-credit lines tend to be extended to preferred customers, the banks' charges against unpaid balances were smaller than the comparable credit-card charges. Generally, the service charges range from $\frac{3}{4}$ per cent to $1\frac{1}{2}$ per cent, with a very large majority of the banks charging 1 per cent per month. About half of the banks computed charges on the basis of average outstanding balances.

Travel-Oriented Cards

The travel-oriented cards issued by American Express, Diners Club, and Carte Blanche should not be confused with bank credit cards. They are issued and administered by nonbank corporations. Some banks it is true have been associated with certain aspects of these cards, such as extending revolving credit to holders of these cards; and this has probably led to the confusion with bank credit cards. While travel-oriented cards operate in a fashion similar to bank credit cards on the merchant level, their emphasis is different. They provide national and international coverage for charge purchases for transportation, hotel accommodation, and dining to meet the needs of businessmen and tourists. For this reason they are often called travel and entertainment or T&E cards, even though they can be used for other kinds of purchases.

There are more important differences on the customer side of T&E operations. These plans not only charge an annual fee but also apply certain credit standards more strictly than do the banks—a minimum of \$10,000 in annual income is usually required. As a result they are

able to have much higher credit limits. With certain exceptions, the customer is supposed to pay his bill within the specified grace period. So the major source of revenue for these plans is not—as is true for bank plans—from revolving-credit charges, but from the annual membership fee and merchant discounts (which tend to be somewhat higher than those now charged by banks). Customers are allowed to pay for air and sea travel fares with deferred payments and are charged interest on the unpaid balance. T&E plans allow maximum extension of credit varying from 12 to 24 months. Revolving credit is also available when arrangements are made with banks participating in a joint plan with the credit-card companies. The revolving-credit portion is a relatively small part of T&E business.

These joint plans are not set up in such a way that banks become involved with transactions at the merchant level; rather they allow the cardholder to tap the banks' credit resources for revolving credit and cash advances. Under these joint arrangements, the banks sign up customers with the appropriate credit status (they are issued a card if they do not already have one), and the bank offers the cardholder a line of credit. This line is activated only when the customer indicates to the company on his monthly bill that he wishes to repay on a revolving-credit basis. Cash advances may be obtained upon request at the bank.

American Express' plan is called Executive Credit, and the minimum credit line is \$2,000. The cardholder also has the privilege of buying travelers checks and of cashing personal checks at any American Express office. Carte Blanche offers its Bankers Club cardholders a minimum credit line of \$1,000 and the privilege of buying travelers checks or cashing personal checks at the offices of participating banks.

In October 1967 banks held just \$16 million in T&E credit compared with \$640 million in bank credit-card plans. Since cardholders may obtain extended payment anyway without signing up with a bank and since customers who meet the strict credit requirements are also less likely to borrow on an extended basis, it is not surprising that the resulting volume of credit is

low. Banks participate in these joint plans more as a customer service than for the credit generated.

Other Nonbank Credit Cards

This section examines the credit-card plans offered by major airlines, oil companies, department stores, and specialized companies.

Airline Credit Cards

The Universal Air Travel Plan (UATP) is a cooperative venture in the credit-card field in which all major airlines in the world participate. It is the oldest credit card in the airline industry. Presently 46 airlines issue UATP cards, and 138 airlines honor them. The UATP card is designed primarily for the use of businessmen, and about 111,000 companies have UATP accounts. Issuance of several cards to a subscribing company is common, and in late 1967 there were more than 1.5 million cards outstanding. The total volume of credit-card extensions during 1967 was more than \$1 billion. All cards issued by airlines participating in the UATP look alike, except that the cardholder's identification number has a two-letter prefix that indicates the airline originating the card.

In order to open a UATP account, a deposit of \$425 is required, but this single deposit may cover as many cards as a company may desire. Interest is paid on the deposit, but it is computed in such a way that the more the card is used, the less interest the cardholder will receive on his deposit.

UATP cards are available in two colors. The green card is used for travel internationally, and the red card is limited to travel on the North American continent. There are also cards designated "P", "K", "Q", and "X". The "P" card may be used to purchase transportation for the cardholder only. With a "K" card one may buy tickets for himself or members of his firm who do not have their own cards. With a "Q" card one may obtain credit for anyone at all, including members of his own family. "X" cards are extra-privilege cards and enable the holder to charge land accommodations as part of an air tour, plus certain surface transportation in con-

nection with air transportation. While UATP cards are used primarily for air travel, they may also be used at a number of hotels, motels, and restaurants throughout the world.

All UATP member airlines honor the cards of other member airlines, and each airline bills its cardholders for all trips charged on its card, including flights made on other airlines participating in the UATP. Thus, the cardholder receives only one monthly bill, which is payable within 10 days. There is no centralized accounting system for these cards, but there is a clearing arrangement whereby the member airlines periodically clear their interline UATP charges in a manner similar to bank clearings.

In addition to participating in the UATP, a few airlines offer their own private credit cards, which are completely separate from the UATP. "On-line" cards are geared primarily for the consumer market and thus have many of the characteristics of other consumer credit cards. Unlike the UATP cards, these private cards must be ticketed by the airline issuing the card, and at least a portion of each trip charged must be taken on this airline. Another point of difference is that revolving credit is an integral part of these private cards. Cardholders are given the option of remitting the entire balance within 25 days or paying the charge in instalments.

Oil Company Credit Cards

Practically all the major oil companies, and quite a few lesser-known companies, have some type of credit-card program. Typically, these credit cards are of the standard form, in that payment is due upon receipt of the bill. Very recently, however, a few oil companies initiated revolving-credit plans that permit the cardholder to pay all of his balance or to pay as little as 10 per cent of his statement balance each month, if he so desires. These plans have revolving-credit charges similar to those used by the banks.

There are no cardholder fees for oil cards. According to industry figures, there were about 70 million active oil company credit cards in existence in 1967.

Oil company cards may be used for a variety of purposes, but the major charges on these

cards are for gas, tires, batteries, and accessories. Quite a few oil companies permit cardholders to charge larger purchases on an extended payment basis. This differs somewhat from a revolving account, however, and is analogous to consumer loans made by commercial banks. While there are no standard charges for extended payments throughout the industry, cardholders typically are not charged for very short periods, such as 3 months or less.

Many petroleum companies have agreements among themselves to honor others' cards in certain areas. This is done primarily to extend the geographical coverage of the cards. These exchange agreements are usually entered into by companies that do not serve the same geographical areas. The exchanges may be either bilateral or unilateral—that is, there may be a mutual exchange, or only one of the companies may accept the card of the other.

Over the past few years many of the major oil companies have been extending the services available through their cards, by signing up hotels, motels, restaurants, and other types of businesses to honor their cards. Oil company cards are thus becoming, to some extent at least, directly competitive with the major T&E cards, since both are trying to establish relationships with the same kinds of companies. The discount rates they charge also appear competitive with those of American Express, Diners Club, and Carte Blanche. Typically, the rates charged are about 4 per cent.

The major impetus behind this drive seems to be a desire on the part of the oil companies to provide their cardholders with a wider variety of services, so that dormant accounts will be re-opened and larger charges will be made for gas and related expenses. Oil companies are anxious to generate greater use of their cards, for they have found that the average credit-card purchase at gas stations is nearly \$5 whereas the average cash sale is less than \$3. It has also been suggested that holders of credit cards are more willing to have minor repairs made and that they have the oil changed more frequently, for example, than cash customers.

Charge-offs for oil company cards usually run

about one-half of 1 per cent. Some companies, however, have experienced losses of as high as 2 per cent, part of which have been ascribed to unsolicited mailings.

Department Store Credit Cards

Department stores have been involved in credit cards for many years; an examination of the credit plans of such national chains as J. C. Penney, Montgomery Ward, and Sears Roebuck will probably provide an adequate view of the characteristics of credit cards offered by department stores in general.

The J. C. Penney credit plan has been in existence since 1958, and in 1967 it had about 12 million credit-card accounts that could be considered active. Credit sales make up about 38 per cent of the company's total sales. In 1967 Penney had 1,700 stores from which its credit sales arise, and in the same year more than \$1 billion was billed through its credit operation. Of this total, about 90 per cent represented credit advanced with Penney's charge card. To handle this large volume of paper, Penney has set up 11 regional credit offices that are fully equipped with third-generation computers and deal only with the credit operations of the company. All of Penney's credit accounting operations are handled in these centers; there are no credit departments in the retail stores.

Recording of credit transactions at the store level is by means of a cash-register imprinting of punch cards. These cards are forwarded to the appropriate regional credit office where they are processed directly into the computerized system.

Periodically, the regional credit office provides stores with authorization lists for approving sales in amounts above established floor limits. These limits vary with season and geographic areas. All accounts are on a monthly billing cycle, and beginning balances that are not paid within 30 days incur a monthly service charge of 1½ per cent or less as required by certain State regulations. Instalment payments are on a schedule of approximately one-tenth of the balance up to \$500. Amounts in excess of \$500 are due in 30 days.

Bad debt losses, net of recoveries, as a per-

centage of credit sales averaged less than 1 per cent in the last five fiscal years.

Montgomery Ward's "Charge-all" credit-card plan, introduced during 1963, had about 6.5 million active cardholders by 1967, of which about 4 million were billed in any given month. "Charge-all" cardholders may use this optional-feature plan as a 30-day, no-service-charge account or take up to 24 months to pay with a monthly service charge of 1½ per cent of the opening balance.

The Sears Roebuck plan does not appear to differ to any considerable extent from the essential features of the J. C. Penney or Montgomery Ward cards. The card incorporates a 30-day charge account with a 10-month revolving credit account. Sears charges 1½ per cent of the unpaid balance at the beginning of each month. In addition to being the largest factor in the retail market, Sears is also the largest holder of department store receivables. For the year 1967, Sears' sales were \$7.9 billion, with credit sales accounting for 57 per cent of the total; 31 per cent was granted by way of the Sears charge card, and 26 per cent through Sears extended payment plan, which is primarily designed for higher priced goods. As of

January 31, 1968, Sears had 8.7 million active revolving accounts—active being defined as an account with a balance outstanding during the month.

Other Retail Credit Cards

In some areas there are specialized companies issuing credit cards that allow charge purchases of goods at local small and medium-sized retail businesses. As in bank plans, the companies' revenues come from merchant discounts and interest on revolving credit. There is no membership fee. The card is issued only upon application. The cardholder has the option of paying his bills on revolving credit and being charged interest on the unpaid balance or paying in full within a specified grace period and avoiding any charges. Basically these retail credit-card systems are like the early bank cards in that they are designed for local retail use and seldom have the transportation or other features now offered by many bank cards. They are merchant-oriented in that they offer to others a charge-account service competitive with those of department and specialty stores. In a number of cases, the local plan has been purchased by a commercial bank to serve as a foundation for a bank credit-card plan.

IMPLICATIONS FOR BANK OPERATIONS

3

Bank credit-card and check-credit plans are important innovations in banking services. However, the impact of these plans on bank performance, organization, and operation is likely to be far less significant than frequently implied in the trade and in the public press. Bank credit plans are only one of a number of banking innovations in recent years, and the development of these services has significant implications for only a few of the many facets of commercial banking activity.

Bank credit-card and check-credit plans are an outgrowth of increased commercial bank interest in the expansion of banking services. This interest has been stimulated both by changes in the orientation of bank management and by increased competitive pressures. Commercial banks have become more aware of their business opportunities and have become more interested in obtaining additional growth, diversifying their customer orientation, and increasing their profits by making additions to or modifications in their banking services. Banks have also been under increased competitive pressures from other banks and other financial institutions and have tended to become more aggressive in an attempt to retain, reassert, or expand their position in the financial community.

While the desire to expand banking services is the major underlying factor in banks' decisions to adopt credit plans, a number of other considerations—such as cost, image, and technology—are important in the decision process. Both the absolute and relative importance of these factors vary from bank to bank—depending upon management objectives, the potential markets to be served, and existing or expected competition.

SELECTION OF A PLAN

Credit Cards

Credit-card plans are considered by banks to have obvious marketing advantages. Bankers contend that credit cards allow them to offer a new service to existing customers, to provide a means of penetrating new consumer and merchant markets, and to increase the opportunities for promoting other bank services. In particular, many large wholesale banks, in recent years, have decided that a major bank should also provide a full line of services to consumers and retailers. The credit card is a means of attaining this objective. Other banks, already heavily involved in such lending, have become convinced that the credit card has distinct advantages in expanding their markets.

On the retail market level, the credit card opens up a new relationship between the bank and the retail merchant. Prior to the credit card, the bulk of a bank's business with a merchant had been in financing sales of big-ticket items; financing of a merchant's accounts receivable had been largely on an indirect basis. By switching to direct lending to the merchant's customers, the bank can offer at least the same services to the merchant as before and, in many cases, can increase the financial services available.

With a credit card a bank not only improves its prospects for retaining merchant customers but also has an opportunity to attract new customers. A merchant agreeing to accept the bank's credit card must have a demand deposit account with the bank in order to handle the clearing of its sales slips. If he doesn't already have such an account, he must open one. In such instances this requirement is a major source of new accounts and new uses of other

services: Small businesses are often unwilling to carry multiple bank accounts and therefore shift all their banking to the credit-card bank. In any event, there is an opportunity for increased marketing of other bank services to both old and new retail customers. To date efforts to sell other services appear to be restricted largely to banks that have offered a credit card for some years, but these marketing efforts are likely to be imitated by other banks as their credit plans mature.

Most banks argue that credit cards provide similar opportunities for penetrating the consumer markets; that is, a card-issuing bank can offer a service not previously available, is in a better position to attract new consumer business, and has an avenue for selling other bank services to both new and existing customers. The charge-account feature of the bank credit card represents a new type of service for banks, and it is contended that this service is very attractive to consumers largely on the basis of convenience. The revolving-credit aspect of the bank credit card is akin to traditional installment lending activities and as such is considered to be a natural addition to the bank's range of financial services. Banks have found this feature to be highly salable to consumers on the grounds of ease in handling uneven expenditure patterns and of borrowing for emergencies. From the bank's standpoint, the revolving-credit aspect becomes attractive because it provides an opportunity to handle small consumer loans more efficiently and profitably through the cash-advance privilege, in addition to the basic retail credit function.

One of the more important advantages of the credit card to some bankers is the opportunity it provides to tap new consumer markets. No prior banking relationship is necessary, a feature especially important to banks in unit-banking or limited-branching States. Area markets otherwise closed to these banks can be more easily penetrated. Also, exposure of the bank and its services can be increased to merchants and consumers throughout a broad area. At the least, the bank issuing credit cards expands its share of consumer credit in the area.

The possibilities of extending the consumer market for other bank services has been a relevant consideration for a number of banks. For example, in one bank involved in a credit-card plan for more than 10 years, an analysis was made of holders of credit cards who were not customers of the bank prior to opening a credit-card account. Seventy-three per cent of these customers made use of other services in the bank, a clear indication that credit-card banking can create other benefits and income sources.

The bankwide marketing advantages of the credit card should not be discounted as a factor in the decision process. The improved identification of the bank in the minds of its customers has been a consideration in some cases. Many banks have become sensitive about their image, and credit cards, at least in some areas of the country, have provided an opportunity to establish or reassert a reputation for innovation.

The rapid increase in the number of banks adopting credit-card plans in the mid-1960's has been viewed by some observers as a reckless rush into credit cards as a result of increasing interbank competition. Commercial banks have been aware of the changing relationship among consumers, merchants, and banks, and undoubtedly some felt that if they did not enter the market by way of a credit card they might be foreclosed by the competition from entering at a later date. Many were concerned that their current hold on consumers and merchants might be eroded by the competition. Despite the pressures of competition for precipitate entry into this field, the Task Group found no evidence of inadequate consideration of the likely costs and the potential profits involved.

An additional reason for entry into the credit-card field has been the desire of banks to keep abreast of developments that may ultimately lead to the establishment of an electronic money-transfer system. This factor does not appear to have been an overriding consideration for any bank, but it has played a role in the decision process. For most banks the factor is rationalized in terms of competitive pressures. Banks do not want to be at a competitive dis-

advantage when the electronic payments mechanism is established.

In the final analysis, the decision to enter the credit-card field depends to a large extent upon the bank's assessment of the profit potential of this service. Not all commercial banks have weighed the potential profits equally. Some have contended that profits are the major motivation for entry, while others—with different corporate objectives—have suggested that it is only necessary to break even on this service. Only a few banks have indicated that they would start credit-card plans even if they lost money on the operation itself, but they also indicated that they would do it only if the credit card were really a major step in the development of bank technology. The relevant point is that the bank must be convinced that the credit card will be profitable either directly or indirectly. Even if the credit card were not profitable directly, a bank could become involved in the activity. The necessary condition is that the costs involved must be offset by benefits received, such as developing the experience necessary to keep in step with changes in banking or to offset potentially debilitating inroads by competitors.

While it is difficult to obtain estimates of profitability, since there are many variations in accounting procedures among banks, the data available to the Task Group indicate that credit cards can be profitable. After an initial start-up period, credit-card plans normally produce yields that are comparable to, if not above, those of other instalment lending operations in the bank. To the extent that card-issuing banks are also able to increase the sales of other bank services by way of the credit card, the true profitability picture is even more appealing.

The relative importance of the several reasons for entry varies not only among banks at any moment but over time as well. From the outset, the chief attractions of the credit card have been the opportunities it provided for obtaining new merchant accounts, for attracting new consumer accounts, for selling other bank services, and for lending on revolving credit. During the first phase of credit-card develop-

ment, in the early 1950's, of all the various factors considered, the merchant potential made the strongest relative appeal. During the second stage of development, in the late 1950's, the same set of factors was considered, but at that time the desire to attract new consumers appears to have been given greater weight in the decision process than the desire to attract new merchant accounts. The developments of the mid-1960's are, of course, the most relevant of all for an understanding of the current situation. Although the same reasons were still given most weight by banks in recent decisions to start credit-card operations, the relative importance of profit prospects and of competitive pressures for entry have increased.

In the early 1950's bank revenue from credit cards was dependent largely on the merchant discount, since the common practice of the banks involved in such plans was to extend credit to customers only on a 30-day basis. The concept of a line of credit to holders of credit cards had not yet been developed. By the late 1950's, however, many merchants had adopted revolving-credit plans, and major banks in the credit-card business began to impose service charges on balances outstanding after the specified grace period. This change meant a greater revenue potential from the credit-card operation. Not only could customers be offered a line of credit to cover their charge purchases, but also ordinary small instalment loans could be processed through the credit-card operation.

Nevertheless, in their early stages, these developments were not clear enough to be widely convincing, and most banks, if they considered it at all, chose to shun this innovation. Prior to the mid-1960's many banks thought that local markets were not ready for bank credit cards. Other banks were simply conservative, and they felt that the credit card was a departure from the traditional banking business and not a true banking function. But the common view, which argued against getting involved in the credit-card business, was that bank credit-card plans were not profitable. Banks were aware that there had been failures. They knew that operating problems were sizable, and that introducing

a credit-card plan was both costly and time-consuming. It was also clear that some type of mechanical equipment was needed to handle efficiently the paper associated with credit-card activity. Many banks did not install computers until the early 1960's, and conversion priority was given to such high-volume applications as demand deposit accounting.

However, by the mid-1960's the environment had changed markedly. Evidence became available that bank credit cards could be profitable. In some instances plans after 2 or 3 years had begun to break even and had produced profits to the bank that were comparable to, if not above, those of normal customer lending operations. Furthermore, by that time credit cards had grown in acceptability on the part of both merchants and customers. The wide distribution of credit cards for gasoline, travel, and entertainment and for purchases at department stores and other retail establishments had made the cards generally acceptable. Many banks had acquired the computer facilities and the skills to use them effectively for handling large volumes of accounts and transactions. A body of experience had been built up, and particular requirements for success were becoming known. Expertise could be purchased through either consultants or licensing arrangements. Finally, concern about increased competition from other banks and financial institutions led more banks to view the credit card as a means of maintaining their consumer market position.

Check Credit

Check-credit plans do not have the retail link common to credit cards. Consequently the reasons for initiating check-credit plans are largely a subset of the considerations involved in adopting credit cards. Like credit cards, check credit is a device for expanding the financial services available to consumers. Total business of old customers may be increased, and new customers may be attracted to the bank. But check credit does not offer a similar set of advantages in the merchant area. Usually the merchant is not aware that the individual is purchasing goods on a credit arrangement; he cannot identify any sales increase as being attributable to the bank's

offering of the financial service (except where check-guarantee cards or specially designed check forms are used), and the merchant cannot promote his sales by identifying this credit source.

On the other hand, a unique advantage of check credit is that it is not limited to use in stores that have entered into special agreements with the bank, as is the case with credit cards. The customer may purchase in any store that will accept his check.

Check-credit plans are loan-oriented rather than transaction-oriented. Because of its orientation check credit does not compete in a direct way with the charge-account facilities of retail establishments nor with the charge aspects of the bank credit card. Although the consumer may use the check-credit service wherever his check is accepted, some customers may not want to write checks for small amounts in order to make purchases. Unlike either the bank credit card or the merchant charge account, there is no extra element of "float" involved; the customer's account is charged the moment the check is cleared.

In many instances check credit may be the most appropriate means of expanding financial services to consumers. Check credit can be offered at lower service charges than revolving credit under a credit card and is, therefore, more readily marketed as a device for handling purchases of big ticket items or to cover emergency borrowing. The System's survey confirmed that check-credit interest charges are lower—typically 1 per cent monthly compared with 1½ per cent for credit cards.

In large measure, the reasons for adopting check credit rather than credit cards depend upon the over-all goals and longer-range plans of the bank. There is little question that many banks are interested in check credit because they are trying to find a less costly means of providing lines of credit to consumers than the credit card provides. As to establishing a link with the retail merchant, it is possible that some banks would not find the absence of such a link to be a serious disadvantage.

Check credit also appeals to bankers who

view a credit-card program as an inappropriate adaptation of traditional commercial banking practices. Further, some bankers feel more comfortable with check-credit plans since they can be operated successfully with more rigid and restricted controls over credit extensions than can credit cards. These banks, in adopting check credit in lieu of a credit-card program, not only save the cost of soliciting merchants but also avoid some of the problems of fraud and loss of cards.

However, the two approaches are not incompatible. Some banks use check credit as a supplement to the credit card in order to provide creditworthy customers with lines of credit for larger financial needs.

In general, check credit provides the bank with an opportunity of increasing financial services with a minimal investment. Start-up costs and promotional and operating expenses are significantly smaller with check credit than with credit cards.

Some banks have concluded that, in relation to their corporate objectives and long-range plans, overdraft banking is the most appropriate means of providing for an expansion of consumer services. In the past 2 years, more banks have chosen this form of check credit than have chosen plans relying on special accounts. Overdraft banking is a dramatic way of offering a combination of small loans, the convenience of protection against returned checks, and checking-account services. In consequence, the bank is able to sell demand deposit services more effectively.

In common with the credit card, overdraft banking makes it possible to handle small loans at a profit. By lending small amounts automatically through overdrafts on checking accounts or utilizing overdraft lines of credit for direct lending, the bank eliminates the necessity of reviewing and evaluating each loan application. Conventionally handled, individually generated loans can entail sizable acquisition costs, but by utilizing a revolving line of credit, it is possible to spread the acquisition cost over a large volume of lending.

In the view of some banks, overdraft banking

provides greater opportunity for flexibility and growth than do either special check-credit accounts or credit cards. The overdraft privilege directly enhances the appeal of the basic checking-account service. For the more conservative, it minimizes the deviation from accustomed practice and yet eliminates the embarrassment of returned checks; for the less tradition-minded customer, it is replete with connotations of progressive banking. It is also the view of some of the banks that many other innovations can be accomplished more easily by way of an overdraft tied to the basic checking account than through other means. For example, the overdraft account provides the flexibility in a person's checking account that may ultimately provide for greater acceptance by the customer of automatically billed payment plans, which in turn, would reduce check processing.

The decision to utilize an overdraft approach may be the result, in part, of the competitive situation in which the bank finds itself. The overdraft provides a noncard bank with an alternative in markets in which the bank credit card has already been exploited. The overdraft service can be used—furnishing a revolving line of credit at the same time it provides a better checking-account service. In many areas banks have provided overdraft-account customers with check-guarantee cards to further enhance the attractiveness of the basic checking account. Thus in many respects, overdraft banking offers the same benefits to consumers that a credit card would offer. But in addition, like a special check-credit plan, it permits the use of credit at many places that the bank charge card has not penetrated.

PROBLEMS OF IMPLEMENTATION

The decision to initiate a credit service is not made without reference to the operating problems and considerations associated with each type of plan. However, for purposes of evaluating bank credit-card and check-credit plans, it is helpful to separate the basic decision process, treated in the previous section, from the more specific operating considerations. The objective

of this section is to identify the general operating problems confronting the bank in introducing a credit plan. Although common solutions are enumerated, evaluation of these solutions is not possible. The policies, organizations, and objectives of individual banks determine the relative merits of the approaches taken.

Credit Cards

Types of Affiliation

An important decision facing a bank that has decided to offer a credit card is the type of affiliation that should be undertaken. The bank may become involved in a credit-card program in one of several ways: (1) by starting its own credit-card plan, (2) by entering a licensing or franchise arrangement with another commercial bank that operates a plan, or, in some instances, (3) by becoming a so-called participating or associate member of another bank's plan, or (4) by becoming an agent of another bank that offers a credit-card plan. Each type of affiliation has its advantages and disadvantages, and again the ultimate decision is based

primarily on the individual bank's situation. The characteristics of these affiliations are shown in Table 4.

Affiliation with a nonbank, travel and entertainment card is not, strictly speaking, a means of offering a credit-card plan. From the bank's side, the T&E plan operates more like check credit. The bank has no merchant contacts. The customer is not tied to the bank when using his card unless he decides to repay his purchases on revolving credit, which differs from check credit only in that it is initiated by use of a nonbank credit card rather than a check.

The franchised credit-card option allows the bank to appeal to a mass market with its own credit card. The major advantage of the licensing arrangement is that the bank obtains a substantial amount of assistance on credit-card planning, marketing, processing, and promotion at a cost less than that which would otherwise be required if a bank were to set up its own credit card. The major disadvantages of a franchise affiliation are the partial loss of bank identification and of some degree of freedom,

Table 4

CHARACTERISTICS OF VARIOUS TYPES OF CREDIT-CARD AFFILIATION

Type of affiliation	Operating responsibilities of bank				Interchange arrangements			
	Signs and services merchants	Sets credit standards for cardholders and issues cards	Carries revolving credit of cardholders and is responsible for any losses	Operates basic accounting system for plan	Interchanges with other cardplans	Agrees to use specified card design	Pays fees to other banks or to an association	Receives technical assistance
Bank operating full card system								
1. Independent bank:								
(a) No interchange	Yes	Yes	Yes	Yes	No	No, can choose own design	No	No
(b) Membership in interchange system or association	Yes	Yes	Yes	Usually	Yes	Varies—sometimes, specified design with space for bank's name	Varies	Varies
2. Licensee bank	Yes	Yes	Yes	Usually	Yes	Specified design with space for own bank's name	Yes	Yes
Bank with limited responsibilities under a principal bank								
3. "Associate" bank (sometimes called licensee)	Yes	Yes	Yes	Principal bank operates system for fee	Yes	Specified design with space for own bank's name	Yes	Yes
4. "Participating" agent bank	Yes	No, can recommend issue to own customers	Shares some fraction	No	} Determined by principal bank			
5. "Simple" agent bank	Yes			No				

and the necessity to accept and handle sales slips generated by holders of credit cards of other, conceivably competing, banks. The decision to use a franchise service will be dependent, in part, on the bank's technical capabilities, on its long-range goals and plans—in particular the view that it wishes to represent to the community—and on the state of competition in the markets that the bank wishes to serve. In effect, the franchise arrangement is a means of buying expertise and interchange privileges, which can be nationwide in scope.

The bank that is affiliated as an agent with another card-issuing bank has the advantage of providing a credit-card service without having to assume the responsibilities of starting its own card. The basic cardholder connection remains with the bank issuing the card rather than with the agent bank. The decision to become an agent for another bank's card appears to have been made most frequently in markets where banks have felt that they could not afford their own credit card but where they were concerned that competition from other banks might result in a loss of customers. There are obviously few possibilities of selling additional services to consumers under such an arrangement. However, the agent bank retains the ties with the merchants and may be able to use the credit-card contact to offer other services to the merchant. It receives a portion of the merchant discount to cover processing costs on sales slips deposited with the bank and may, in some instances, share in the revolving credits generated by its cardholder customers. In general, the direct return to the agent bank is nominal.

However, there are alternatives between simple agency status and full operation of a plan. A "participating" agent shares in a portion of the revolving credit of its customers. A bank with "associate" status not only carries the revolving credit but also can issue a card bearing its own name. The associate bank receives many of the advantages and bears only part of the costs of full independent sponsorship. This is, therefore, an attractive choice for medium-sized banks. The principal bank provides the centralized computer and accounting facilities in return for a fee based on the associate's opera-

tions and greater geographic coverage for its own plan.

Independent banks can form an association that assumes certain operating responsibilities, such as central accounting and advertising, and administers the interchange system for the cards. For instance, the Western States Bankcard Association performs these functions for banks offering individual card plans in four western States under the Master Charge name. In other cases, the association may only look after the arrangements for interchange and some advertising.

Cardholder and Merchant Solicitation

The decision to introduce a credit-card plan forces bank management to face several related problems. The bank must attract a wide enough range of merchants into the program to make it worthwhile for individuals to accept and use the bank's credit card; simultaneously, it must attract a large enough group of cardholders to make it worthwhile for merchants to become associated with the plan.

(i) Cardholders. Insofar as cardholder solicitation is concerned, the bank has a number of decisions to make, including: How many cardholders are necessary to make the plan a success? What criteria should be used to define an acceptable cardholder? How should the potential customers be selected for the initial distribution of cards?

Bank credit-card plans require volume if the service is to generate a profit for the bank. The minimum number of cardholder accounts required cannot be readily established since it is dependent upon such factors as the extent to which the cards are used by the customers, the amounts of credit balances outstanding, the form and extent of advertising required, and the processing procedures utilized by the bank. Successful plans have been introduced with as few as 10,000 to 15,000 credit cards outstanding. Smaller plans can be profitable if a large proportion of the accounts are active, if merchant discounts are not eroded, and if processing can be handled without substantial additions or modifications in the bank's processing facilities. For smaller plans it also appears that

lack of local competition is an important factor for success.

In general, mature credit-card plans have been able to penetrate 30 to 60 per cent of the households in an area. Although there is some variation among areas, the marketing studies conducted by banks indicate that the population served by larger-scale plans usually represents a large urban-suburban group. The average preferred customer is married, is between the ages of 24 and 45 years, lives in a relatively high growth area of the community, and has an income of \$6,000 to \$15,000 a year.

A number of methods may be used to get the cards into the hands of those most likely to use them. In the plans started in the early and late 1950's, merchants' conversion of their own customers' accounts was frequently utilized. The names of the potential cardholders were provided by the merchants who agreed to have their accounts-receivable function taken over by the bank. The satisfactory accounts were, in effect, purchased by the bank while poor credit risks were refused cards. This experience was not entirely successful. In some cases the merchants tended to keep the best accounts on their own books and gave the banks the poorer accounts. In other cases banks found that the lack of negative information on the accounts obtained from the merchant was not always a satisfactory guide to acceptable credit-card risks.

Instead of using merchant conversion, some banks have issued their cards on a basis of selection involving the prior detailed credit appraisal of each potential cardholder. Under this technique, the bank will not issue a card unless it has received a signed application from the potential customer. This method has the advantage of achieving a higher percentage of users than any other technique. It is further argued that the closer control on cardholders provided by this selective approach to card distribution reduces the bank's exposure to loan fraud losses. The major disadvantage of this approach is that such a considerable period of time is needed to build up sufficient cardholder accounts for profitable operation that success may be precluded.

Where credit plans need a high volume of sales and of credit outstandings to cover high operating expenses, the mass issuance of cards appeals to the bank. In many cases in which mass mailing has been used, an acceptable credit risk has been defined as an individual on whom no negative information is developed. When large numbers of cards are being issued, however, it is both very difficult and very expensive to check the credit rating of every name to which an unsolicited card is sent. Under such circumstances, the source of the list of names becomes very important. Most commonly, in past practice, lists were made up of customers on the rolls of the bank or on the rolls of agent banks. Cards were sent to individuals having personal checking accounts with satisfactory balances and no record of checks drawn against insufficient funds; to staff members and officers of the bank itself; to passbook savings customers who had received a minimal \$10-\$20 in interest during the past year; to mortgagors whose property was within specified areas and who had a satisfactory record of meeting their obligations; to direct-consumer-loan customers unless, for example, their accounts were 30 days past due; and to consumer credit customers whose closed accounts had been repaid within the past few years and who had had a satisfactory credit rating. Such internally generated lists (that is, those generated from the bank's own records) are most reliable, and names can be cross-checked to avoid duplicate mailings and minimize customer irritation. Lists of potential cardholders purchased from outside sources have proven to be less reliable.

The type of card distribution used is dependent largely upon the competitive situation confronting the bank. When there is a need to obtain the widest possible coverage of the potential credit-card market, a mass mailing may be the most feasible solution. Only a small percentage of individuals receiving unsolicited cards—less than 1 per cent in specific cases examined—returned them or otherwise objected to this method of distribution. In contrast, those banks that tried solicitation of personal applications as a basis for issuing credit cards were disappointed in the response. In

1966, for example, Marine Midland experimented in different areas with unsolicited mailings and with a campaign of solicitation. In the latter case, the results of 33,357 promotional mailings were 221 applications for charge cards. When the bank sent out 731 charge cards directly, without solicitation, the usage within a short period was 19 per cent and the retention of such cards exceeded 99 per cent.

If mass issue is not used by the bank, it may be used by a more aggressive competitor who is thus able to command greater customer loyalty and higher earnings through the larger number of cards distributed. Mass mailings or unsolicited mailings need not imply, however, an indiscriminate mailing of the cards. All of the banks utilizing mass mailings have undertaken some screening of the customer list. These banks utilized mass mailings with the realization that there could be some problems and some losses during the initial stages as a result of this method of distribution. However, as a matter of business judgment, they found this procedure to be the most effective means of obtaining cardholder accounts.

(ii) Merchants. With respect to merchant membership, several major considerations arise, including: How many merchants must be signed up? What procedures should be used for selecting suitable merchants? What means should be used to determine the most appropriate schedule of merchant discounts?

While the largest possible number of merchant participants is desired in order to insure that the cards are utilized by the cardholders, the business orientation of some merchants makes them less suitable for participation in the plans. Rapid check-out establishments, such as small discount stores or newsstands, and low-profit-margin supermarkets are not generally considered to have much potential for the credit card. Some establishments are simply of such a small size that solicitation and maintenance of the accounts may not be economical. Although it would be desirable to include major department stores and specialty shops with their own cards in the merchant base, it may not be possible for the bank to convince these businesses to use the bank card.

A further consideration in approaching merchants for participation in a credit-card service is, of course, the discount that will be required on sales slips generated by the merchant. To a significant extent this discount is determined by the extent of competition in the area in which the card is to be operated. In areas with nonexistent or relatively low levels of competition, discounts tend to approach 5 per cent of the dollar volume of the transactions. On the other hand, where competition is strong, the typical rate of discount tends to fall to 2.5 per cent. Within the market area, further variation in the discount rate is possible as a result of a difference in (1) type of merchant and (2) size of merchant's sales. In general, certain types of sales, such as airline tickets, are given lower rates of discount than other types of merchandise or service. Similarly, department store and other high-volume activities that generate sizable sales transactions are normally given a lower rate than those of smaller establishments. As a general rule, merchants are not allowed to levy any special charge whatsoever for the customer's use of a credit card.

Cost of Implementation

The costs of introducing a credit card vary greatly from bank to bank depending upon the type of credit-card service chosen, bank management's schedule for penetration of the relative markets; the size and composition of the market; the availability of appropriate personnel and equipment within the bank; and the type and the extent of competition.

Start-up costs are as difficult to determine as profitability because of variations in accounting practices. To obtain some estimate of these costs the Task Group contacted a small number of banks and asked for their estimates of start-up costs—defined as allocated overhead or general expenses, operating expenses, promotional and advertising costs, and other expense items but not including equipment outlays, cost of funds, or fraud or credit losses. The start-up costs for the banks contacted averaged 2 per cent of total bank operating expenses. The usual bank experience with credit cards has been that current revenues will match current

expenses of the plan after approximately 1½ to 2½ years of operation. Initial start-up costs are generally recovered in 3 to 4 years.

The least costly method of entering the credit-card business is also the most limited—the agency status. Both merchants and cardholders must be solicited by the bank. The major cost is incurred in obtaining merchant participation since contact with the merchant is required. With respect to cardholders, lists of the bank's customers are normally supplied to the card-issuing bank, and no further solicitation of the potential cardholders is necessary.

A more costly type of credit-card installation is that using a franchise service. The initial license or franchise fee covers most of the basic developmental costs including processing-systems development and marketing plans. However, the bank bears the full cost of soliciting and contacting prospective merchants and cardholders, and the promotional costs to the bank are determined, to a large extent, by the posture the bank wishes to assume.

The most costly type of operation is one in which the bank decides to issue its own credit cards. Feasibility studies, determination of system specifications, development of over-all marketing plans, development and use of promotional kits, advertising expenses, basic electronic-data-processing-equipment (EDP) expenses, personnel requirements, writing and testing of EDP and manual systems—all of these can be extremely costly. The full burden of merchant and cardholder solicitation, of course, must also rest with the card-issuing bank. If the bank joins with others to form a credit-card association, merchandising and certain other costs per bank may be reduced.

Problems of Interchange

In making its decision to adopt and implement a credit-card plan, the bank must also consider the policy it wishes to take with regard to the interchange privileges associated with the card.

The interchange question has been answered if a bank enters the business by way of a

franchise. Under the franchise arrangement the bank agrees to handle sales slips generated by its merchants even though the cardholder may be associated with another bank in the same franchise system. In turn, the bank's cardholders can utilize their cards whenever the franchise card is acceptable, and banks under the same franchise system in other market areas are required to remit sales slips generated by the bank's cardholders. Thus the usefulness of the card to the customer is increased, and more volume may be generated.

The bank operating its credit-card plan through a joint credit-card association, such as the Western State Bankcard Association, has obviously adopted a policy of interchange. Cardholders from any of the association's member banks may use their cards at signed merchants in the other banks' territories.

Some banks issuing their own cards are not interested in interchange privilege. They feel that the credit control they have over their customers is improved if the card cannot be used over wide areas, that the costs of credit authorization over long distances are too great, that their exposure to fraud and other losses is increased because of delays in clearing sales slips, and that they may have increased competition from other banks in their home territories.

Some other banks, nevertheless, are interested in interchange privileges, and such arrangements, on either a regional or a national basis, usually require the individual banks to use cards with a compatible design—that is, cards that can be easily identified as acceptable by merchants participating through any bank in the interchange system. The same opportunities are thereby provided for national interchange as those that exist under the franchise system, and increased opportunities are available for regional interchange in many areas. Under the compatible card system, each sponsoring bank (and its participating correspondents, if any) is at liberty to select the persons to whom it issues credit cards, to determine the limits on the credit extended, and to set its own service-charge schedule. Each bank in the sys-

tem may enroll merchants and establish its own discount rate structure in dealing with the merchants. The merchant, in turn, is at liberty to deal with any bank in the interchange system.

Compatibility has different implications for competition among banks, depending on whether a particular card program is widely scattered throughout the country or operates in a single geographic area. Where the banks are widely scattered, the opportunities for direct competition are minimal and the purpose of interchange is to expand the geographic scope of acceptability for the individual bank's credit card. In a close regional system, however, the banks are in direct competition with one another. A multiplicity of cards without compatibility would probably cause confusion in the minds of both cardholders and merchants. With a compatible system it is likely that competition, instead of leading to chaos, will lead to wider use of the credit-card service by both the merchant and the consumer.

General acceptability of the card appears to be a common goal of many of the banks involved in the credit-card business. They envisage the day when their card may be used throughout the country. Others view this development with disfavor—preferring to maintain the protected position they now hold in their own market. However, if local competition appears, an individual bank has a better chance of surviving in the credit-card business if it offers a compatible card.

Check Credit

The bank that introduces a check-credit or overdraft plan encounters far fewer problems of implementing the service than does a bank that offers a credit card. There are two major reasons for the greater ease of introduction. First, introduction can occur gradually; and secondly, processing procedures are similar to those already established for other bank services.

Neither special check-credit nor overdraft plans require mass or rapid solicitation of customers. Since these services are not retailer-

oriented, it is not necessary to become involved in the problems of achieving more or less simultaneously the large number of merchant participants needed to attract cardholders and in turn the large number of cardholders needed to attract merchant participation. Creditworthy customers can be investigated and added gradually under check-credit or overdraft plans.

The ability to build these plans slowly is also related to the method of processing required for these services. Both use the check as a basic vehicle for loan extension. The procedures for handling checks are already well developed in most banks and usually require little modification to accommodate check-credit or overdraft banking.

STAFFING CONSIDERATIONS

A decision to offer one or more of the varieties of check-credit would not pose the same kind of staffing problems as would a decision to undertake a credit-card program. As has been mentioned previously, the operations of check-credit are very much akin to those of traditional banking, and personnel well versed in credit analysis and accounting, for example, might with a minimum amount of additional training administer an overdraft plan or a program utilizing special accounts and special checks.

Not so with credit cards. This type of program is essentially one in which the banker is taking his product to the market, rather than waiting for the market to come to him. Although there is some "selling" in most aspects of modern American banking, a study by Donald M. T. Gibson indicates that the merchandising effort required to make a success of a credit-card venture is far greater than the traditional banker is normally called upon to exercise. And the conduct of a credit-card operation requires some personnel whose interests and/or experience in marketing are sufficient to assure that this vital element in the card program is handled with timely initiative and a sensitivity to the merchandising problems.

PROFIT AND LOSS EXPERIENCE

One of the most frequently expressed concerns about credit cards is the potential for loss to the banks involved. Several types of loss may be identified: (1) General operating losses on the credit-card program; (2) fraud losses; and (3) credit losses. The latter two are considered together in the body of this report because adequate data are not available to permit accurate separation.

General Profitability

The view that credit-card operations may not be profitable to banks had its origin in the events of the early and late 1950's. A number of credit-card plans were launched without success during this period, and these failures were widely publicized. The unfavorable experience of some large banks led many to conclude that if large banks could not develop a profitable credit-card operation neither could smaller banks. Nevertheless, despite the impression given by this adverse publicity, the fact remains that many of the plans started in the 1950's were successful. Sixty-eight banks that started credit-card plans prior to 1960 were still operating such plans at the time of the Task Group's 1967 survey. These plans would not have remained in existence if they had not been profitable either directly or indirectly.

By the mid-1960's evidence had accumulated to indicate that bank credit-card plans could be profitable. The favorable experience of one very large bank, the Bank of America, was widely publicized. At the same time many smaller banks began to publicize their experiences, frequently stating that credit-card operations provided one of the highest yields in their banks, if not the highest yield on invested funds in any bank activity. To a significant extent, the tremendous growth of bank credit cards in the last few years attests to the profitability of credit-card plans. The claims of the banks with experience in credit-card activities were substantiated in the extensive review and examination made by those banks

interested in the possibilities of providing check-credit services.

While bank credit-card operations can be profitable, not all such operations are necessarily so. As in any commercial activity, the success of the credit-card plan depends importantly upon the market, which is variable in both place and time. A market that has received one credit card well may receive another quite differently, and the net result in any particular case cannot be forecast except by analysis of the specific situation. Under the pressures of increased competition, some change in the relative profitability of credit-card activities can be expected. In some markets, increased competition has been accompanied by increased profits to all competitors, as their merchandising efforts have been mutually reinforcing.

Credit Losses

The data collected by the Task Group provided the first general statistics on losses experienced by credit-card and check-credit plans. The results show that credit-card plans can involve relatively heavy losses compared with check-credit plans and with other forms of consumer lending. But they also show that many plans operate with quite low loss ratios, so heavy losses should not be regarded as an inherent feature of bank credit-card programs. Some important qualifications must be noted: The data gathered in the 1967 survey covered the month of September during which several important plans were just starting, and potential losses, if any, were not known; on the other hand, write-offs were collected for the first half of 1967, a period when a major plan was getting into operation and was having to write off unexpectedly heavy losses. In consequence, extreme values were gathered on both sides of the loss spectrum for credit-card plans.

The mass-market orientation of bank credit cards and the lower risk inherent in check credit are apparent in the charge-off experience of banks offering these services. For the nation as a whole, as Table 5 shows, charge-offs amounted to 1.97 per cent of the outstandings. The charge-off experience for credit cards is

Table 5

LOSSES AND LOSS RATIOS ON BANK CREDIT-CARD AND CHECK-CREDIT PLANS:
Charge-Offs During January-June 1967 Relative to Amounts Outstanding on September 30, 1967

Federal Reserve district	Credit-card plans			Check-credit plans		
	Thousands of dollars		Loss ratios (per cent)	Thousands of dollars		Loss ratios (per cent)
	Charge-offs Jan. 1—June 30, 1967	Amounts outstanding Sept. 1967		Charge-offs Jan. 1—June 30, 1967	Amounts outstanding Sept. 1967	
Boston.....	263	21,800	1.21	229	57,300	.31
New York.....	332	64,800	.51	135	98,000	.14
Philadelphia...	135	12,300	1.01	110	60,600	.18
Cleveland.....	403	26,900	1.41	30	32,000	.09
Richmond.....	204	28,200	.72	32	17,200	.19
Atlanta.....	193	30,600	.63	51	22,200	.23
Chicago.....	7,233	126,200	5.73	104	53,400	.10
St. Louis.....	16	12,300	.13	36	11,500	.31
Minneapolis...	.....	100	.....	3	5,600	.05
Kansas City...	58	6,400	.91	12	9,400	.13
Dallas.....	151	8,100	1.86	6	4,500	.13
San Francisco..	3,495	295,300	1.18	381	111,500	.34
All districts..	12,483	633,000	1.97	1,129	483,200	.23

significantly above that for check credit. Charge-offs on check credit amounted to less than one-quarter of 1 per cent during the period. As the table indicates, the loss ratio was particularly heavy in the Chicago District. Elimination of this District would reduce the national average loss ratio to 1.04 per cent, or by almost half.

If credit-card plans are classified by the year started, as in Table 6, it is apparent that banks with the most recent plans had the heaviest losses. Plans initiated in 1966 and 1967 had an average loss ratio of 3.25 per cent and accounted for more than three-fifths of total charge-offs. However, as of early 1968, none of the banks that had started plans during the 2-year period 1966-67 had abandoned them due to heavy losses. Generally speaking, the longer a plan has been established, the lower its average loss ratio tends to be. In brief, with experience and time, banks find ways to reduce losses and to eliminate bad accounts.

Deposit size at first glance seems to be relevant in determining a bank's loss ratio (Table 7). Banks with \$1,000 million or more in deposits had a loss ratio averaging 2.42 per cent, and those with deposits between \$500 million

and \$1,000 million averaged 1.64 per cent. Smaller banks had average ratios between 0.96 and 0.36 per cent. But these results really reflect the impact of the year started rather than deposit size. For example, 12 out of the 18 banks with deposits of \$1,000 million or more started their plans in the 2 years 1966 and 1967 as did 10 out of 13 banks in the \$500 million-\$1,000 million deposit size group. For check-credit banks, deposit size and the loss ratios exhibited no regular pattern; in fact, the highest ratio was for banks with deposits between \$10 million and \$25 million.

Table 8, which compares delinquency rates on credit cards and check-credit plans with such rates on other kinds of regular consumer instalment loans of banks, shows that banks experience somewhat greater difficulty in collecting credit-card balances due than they do in collecting other consumer loan balances. But the difference is not excessive, especially when some allowance is made for the heavy concentration, in the period surveyed, of credit plans that were relatively new and thus somewhat more prone to collection problems. Credit cards actually have a better record than one

category of instalment loans—those on home appliances—and this is the category that is closest to the kinds of transactions typically made through credit cards. Not unexpectedly, check-credit plans had delinquency rates uniformly more favorable than those for credit

Table 6

BANK CREDIT-CARD LOSSES AND LOSS RATIOS
By Year Plan Was Started

Year started	Thousands of dollars		Loss ratio (per cent)
	Charge-offs, Jan. 1–June 30, 1967	Amount outstanding on plan Sept. 30, 1967	
1955 and earlier.....	563	54,600	1.03
1956–57.....			
1958–59.....	3,392	289,200	1.17
1960–61.....	4	2,100	.19
1962–63.....	5	400	1.25
1964–65.....	629	44,100	1.43
1966–67.....	7,890	242,400	3.25
Total.....	12,483	633,000	1.97
Total excluding 1966-67.....	4,593	390,000	1.18

NOTE.—Where a span of years is indicated, it covers 2 full years—for example, 1956–57 means 1956 and 1957.

cards, district by district, and better than those for regular instalment loans on a national basis.

In summary, the losses sustained in credit-card operations are greatest in the early years of a plan when a bank is gaining operational experience and culling bad risks from its ac-

Table 7

LOSS RATIOS ON BANK CREDIT-CARD AND CHECK-CREDIT PLANS
By Size of Bank

(In per cent)

Size of bank (total deposits, in millions of dollars)	Credit-card plans	Check-credit plans
Under 5.....	....	....
5–10.....	.36	.13
10–25.....	.47	.42
25–50.....	.43	.26
50–100.....	.96	.21
100–500.....	.92	.18
500–1,000.....	1.64	.26
1,000 and over.....	2.42	.24
Average, all size groups.....	1.97	.23

counts. Delinquency rates in Districts such as San Francisco and New York where major systems have been operating for some years compare very favorably with those of consumer instalment credit. Heavy losses appear to be a phenomenon of the first years of a plan and not an inherent shortcoming of credit cards. The knowledge derived from the experience of banks in the Chicago District has been applied to reduce losses on later plans—for example, recent plans in New York City and California seem to have avoided excessive losses—so there is reason to expect better performance in the future. Check credit remains a lower-risk system than credit cards, although the differential between the two plans may be narrowing. The point to be emphasized is that well-run credit cards do not expose banks to unreasonable losses and can be a sound operation for a bank.

Table 8

DELINQUENCY RATES ON CONSUMER LOANS AT COMMERCIAL BANKS
SEPTEMBER 30, 1967

(In per cent)

A. National Rates by Type of Loan

Type of loan	Rate
Credit cards.....	1.99
Check credit.....	.97
Regular instalment loans.....	1.45
Personal loans.....	1.48
Home appliance loans.....	2.19
Automobile loans.....	1.24

B. Credit-Card and Check-Credit Rates by Federal Reserve District

Federal Reserve district	Credit-card plans	Check-credit plans
Boston.....	2.18	1.52
New York.....	1.59	1.28
Philadelphia.....	3.38	0.75
Cleveland.....	3.57	0.31
Richmond.....	2.18	0.32
Atlanta.....	2.32	1.48
Chicago.....	3.69	1.00
St. Louis.....	3.81	0.64
Minneapolis.....	2.54	0.82
Kansas City.....	3.17	1.88
Dallas.....	1.42	1.01
San Francisco.....	1.56	0.71
Average, all districts.....	1.99	.97

NOTE.—Instalment data are from American Bankers Association and relate to August 1967. Rates are for accounts delinquent 30–89 days.

EFFECTS ON BANKING STRUCTURE

4

As of early 1968 fewer than 10 per cent of the nation's banks were offering credit cards and check-credit plans, and the volume of outstandings under such plans was relatively small compared with total consumer credit outstanding. From this it would appear that the effects of such plans on banking structure have been minor.

However, experience with these plans has been too short to indicate whether banks' use of these devices has resulted in persistent or substantial detriment to their competitors. The latent competitive power of these innovations is considerable, and the recent growth and acceptance of these plans—particularly in the last few years—raise several important questions regarding their potential impact on the banking structure. The focus of these questions is on the credit card itself.

A. Timing Considerations

1. Is the credit card per se a "natural monopoly" so that adoption of a plan by one bank pre-empts the credit-card field within that market territory?

2. Does an early start in a credit-card plan provide such an initial advantage that competitors entering the field can never catch up?

3. How much more difficult is entry of a new bank into a given market territory if an existing bank in that market has a credit-card operation?

B. Size Considerations

4. Can small banks, as well as large banks, successfully undertake credit-card operations?

5. Are economies of scale in credit-card

operations so important that small banks with such plans are likely to be driven out of that business by the entrance of a large bank-credit-card plan?

6. What alternatives, if any, does a small bank have in meeting the competition of a large credit-card operation?

C. Geographical Considerations

7. Are banks that offer credit-card plans able to expand their effective market area at the expense of banks without such plans?

8. Are credit-card interchange or affiliation systems so important to the efficient operation of the credit card per se that interbank links will be required for survival of the individual plan?

9. Is the credit-card interchange or affiliation system a "natural monopoly" or "oligopoly" (such that only one or, at most, a handful of these systems in the nation could operate with high efficiency), thus giving rise to substantial market power by existing systems over banks that are, as yet, unaffiliated?

Definitive answers to these questions cannot yet be provided, not even with respect to plans that have been in operation for some time. Even more important is the fact that these plans are evolving rapidly; future developments and modifications in the types of plans offered as well as in consumer demands and attitudes toward these new payments devices will, in the final analysis, play the decisive role. However, evidence developed by the Task Group can provide some partial answers regarding the banking-structure implications of credit-card plans as they now operate.

TIMING CONSIDERATIONS: EFFECT OF CREDIT CARDS ON SUBSEQUENT ENTRY

Some concern has been expressed that early entry into the credit-card field will give such advantages to the pioneer bank as to constitute a barrier to banks that try to enter later. The presumption is that the pioneer bank may sign up such a high percentage of local customers for its plan that the remaining market would be insufficient to support a competitive plan in the same locality. In particular, it is sometimes feared that the minimum size of credit-card operation required for profitability would preclude more than one credit card in any market, and thus create a "natural monopoly."

In the credit-card field, as in other lines of endeavor, there are both advantages and disadvantages to a head start. A pioneer bears more risk than those who follow and who are thus able not only to learn from the pioneer's mistakes but also to adopt later technology in their initial organization. In compensation for this extra risk, the pioneer stands to reap the temporary monopoly benefits that accompany progressive steps in economic development. This is not to say, however, that there are either permanent advantages or dominant "natural monopolistic" elements in bank credit cards. In fact, neither of these is reflected in the credit-card experience to date.

1. As detailed in the following section, some profitable credit-card operations are very small indeed, and all or nearly all banking markets embrace many times the actual minimum number of merchants and cardholders.

2. In practice, both merchants and cardholders rather frequently affiliate with more than one credit-card plan where available, and any attempt by a bank to sign up one or the other or both on an exclusive basis would be subject to antitrust inquiry. (See Chapter 5.) One investigation of multiple bank-card holdings revealed that about one-third of the cardholders carried more than one bank credit card. Furthermore, the multiple card insignia on merchants' doors or windows in areas covered

by more than one plan testify to the lack of pre-emptive power over the merchants by the pioneer bank. Indeed, much of the difficulty of selling merchants on the idea of honoring a bank credit card has already been borne by the banks that have entered the local credit-card field at an earlier date. Under present fluid conditions, a new credit-card operation is not frozen out by previously established plans.

3. Franchise arrangements are not exclusive; they have been extended to more than one bank competing in the same market area.

4. Interchange associations, which could assist a bank in meeting credit-card competition in its local market area, are open-end, and banks continue to join well-established associations.

5. Empirically, there are no known cases in which any credit-card plan has completely driven out all other credit cards. In this field, banks are in competition with nonbank cards, as well as with other bank cards, and despite some banks' alleged goal of substituting a single general-purpose card for many single-purpose cards, there is no evidence that the average number of credit cards carried by consumers has been reduced. Although a new card may be somewhat less useful than the previous card received, there appear to be no absolute limits on the number of cards achieving acceptability.

6. The recent comparative rush of banks into credit cards, even in areas previously serviced by such plans, does not seem to indicate any extraordinary barriers to entry.

The early offering of a credit card not only fails to prevent later entry of competitive credit cards but also fails to assure the pioneer of continued dominance of the field. Experience over the last decade and a half has shown that newcomers with sufficient resources and imagination are able to catch up with, and even surpass in credit-card activity, banks already in the business. This has not necessarily been at the expense of the pioneer, however. In many localities the entrance of a new credit card has expanded the total market for these services to the advantage of both the older and the newer plans.

SIZE CONSIDERATIONS: EFFECTS OF CREDIT CARDS ON SMALL BANKS

Ability of Small Banks to Operate Profitable Credit-Card Systems With or Without Competition from Larger Bank Plans

Another of the major concerns about the growth of credit cards is that the competitive position of smaller banks will be adversely affected. It is sometimes assumed that credit-card plans are limited largely to the bigger banks because of heavy start-up costs and the consequent need to generate a large volume of business. If this were true and if credit cards were to become an important device for attracting new business, then the smaller banks, being unable to enter this field, would be at a competitive disadvantage, possibly a very serious one. The actual situation, however, does not confirm this fear.

Evidence from the Task Group's survey indicates that, although the proportion of banks that are offering credit-card services is larger for large banks than for small ones, a significant number of small banks are participating in this field. Of the 197 banks reporting such plans in the September 1967 survey, nearly one-third had deposits of less than \$25 million, and one-fourth had deposits of between \$25 million and \$100 million. Two banks with deposits of less than \$5 million were operating credit-card plans in 1967, as were 25 other banks with deposits of less than \$10 million. The distribution of credit-card plans by size of bank is shown in Table 9.

The experience of the 1950's clearly demonstrates that success in the credit-card field is not necessarily a function of bank size. The exit of some large banks from this type of banking service has been well publicized, whereas the success of a number of small bank plans has gone virtually unnoticed. A dozen small banks have been operating credit-card plans for more than a decade.

Members of the Task Group interviewed the officials of several banks with deposits of less

than \$25 million that operate their own credit-card plans. The characteristics of these plans were similar to the typical credit-card operation at large banks. The plans at these small banks ranged in size from 230 holders of credit cards and 60 merchants to 40,000 holders of credit cards and 850 merchants. Consequently, there were large differences in the types of equipment used and in the initial costs. The time required to recover the initial investment at these small banks ranged from less than 1 year to about 5 years. For the most part these bankers were very enthusiastic about their operations and considered their plans profitable.

Table 9

NUMBER OF BANKS OFFERING CREDIT-CARD AND/OR CHECK-CREDIT PLANS, SEPTEMBER 30, 1967
By Type of Plan Offered and Size of Bank

Type of plan offered	Size of bank (total deposits, in millions of dollars)			Total
	Under 25	25-100	100 or more	
Only credit cards	54	41	35	130
Only check credit	155	199	178	532
Both types	7	12	48	67
All types	216	252	261	729

Without doubt the success of the plans of some small banks has been related to the lack of direct competition from other banks. As the competitive environment changes, smaller banks considering entry into this field might be hampered in offering their own credit-card plans in competition with plans already operating in their markets. Similarly, the entry of competitive plans might adversely affect small bank credit-card operations that are currently successful. Nevertheless, experience has demonstrated that plans of relatively small banks can thrive in the shadow of competition from large banks. The advantages of large-scale operations with credit cards—such as the support of sizable advertising campaigns and machine processing—have not yet proved essential to credit-card profitability.

Substitutes for Independent Credit Cards

One reason for concern about the impact of large banks' credit-card operations is the implied assumption that the small bank has no defense open to it except to start its own independent operation. But to assume this is to ignore the widening range of partial substitutes actually available to a small bank—or even to a large bank for that matter—such as (1) becoming an agent or an associate of some principal bank operating a plan, (2) taking a franchise, or (3) joining an association of credit-card banks. Not all of these alternatives existed 2 years ago, and further variations may evolve in the future.

Considerable savings in time and money are possible through various potential affiliations. However, the profitability of these affiliations is also variable, as is the degree of "substitution" that such shared plans would provide as alternatives to a fully independent operation. The most common of these solutions for a smaller bank is to enter into one of the various agency arrangements open in most parts of the country. As a result of the ease of acquiring agency status and the advantages such status provides, more banks are agents than are principals in any kind of bank revolving-credit plan. According to the October 1967 Report of Condition, more than 1,000 banks were participating in agency-type plans. Most of them were smaller banks. Approximately three-fourths had less than \$25 million in total deposits.

In some cases, small banks competing with large banks have taken advantage of the potentialities of agency status to sign up as agents of two competing card systems. This gives them the advantage, in signing up merchants, of offering two types of card plans for a single account.

Intermediate advantages—some relating to costs—are to be found in an associate status or in becoming a licensee of a large credit-card bank. The advantages and disadvantages of these various affiliations were described in Chapter 3. Suffice it to say that the options available to small banks desirous of participat-

ing in the credit-card movement are broad indeed (though not all are available in any particular area), and increasing numbers of banks are taking advantage of the opportunities that are available.

In any consideration of the "substitutes" that are available for an independently run credit-card plan, check-credit plans should not be neglected, although they too cannot precisely replace the credit card. A number of large and sophisticated banks that have weighed the two types of revolving-credit programs have preferred check credit. More than two-thirds of the largest banks with revolving-credit plans offer check credit exclusively, and nearly three-quarters of the small banks. The fact that nearly a tenth of all the banks that offer revolving credit have chosen to operate the two types of plans simultaneously confirms the lack of complete substitutability of one type of plan for another, even among the small banks.

Nevertheless, most banks moving into check credit have done so at least in part so as to be able to offer their customers what they believed was a less costly but adequate substitute for a credit card. Not only can the cost involved in various check-credit plans be much lower than for full credit-card plans, but also, with check-credit plans, banks can be more selective with respect to risks and can avoid considerable bookkeeping and data-processing responsibilities. Consequently, check-credit plans may be well suited to smaller banks seeking a reasonably competitive device for extending revolving credit to their customers. Another alternative is affiliation with a nonbank credit-card plan.

GEOGRAPHIC CONSIDERATIONS: IMPACT ON MARKET AREAS

A bank may effectively expand the market area it serves by embarking on a credit-card program and administering the program to that end. The probable effect would be: (1) Stimulation of banking-by-mail, including the granting of personal loans by this means; (2) expansion of the number of correspondent relationships (and the normal accompanying banking

business) by offering other banks some appealing form of participation in the credit-card plan; and (3) utilization of participating banks' affiliation with the credit-card plan to enlarge both deposit and lending relationships with holders of credit cards and merchants in the participating banks' territories.

The prospects of banking-by-mail are increased when a bank is willing to arrange small personal loans by this procedure. Moreover, the advent of the credit card and its streamlined credit-granting facilities has greatly increased the potential for granting credit by mail. If credit cards and similarly operated plans become commonly used, a bank located some distance away may become almost as convenient as a nearby bank for obtaining personal credit. Once a local customer has obtained a prearranged credit line, he can pay by check or some other means. Such a potential for broadening a bank's service area without enlisting the help of other banks is greatest for a city bank (in a nonbranching State) desiring to operate in the suburbs.

The help of a local suburban bank, however, would make the city bank's job of soliciting both cardholders and merchants in the suburbs much easier and more effective. The principal credit-card banks that arrange to have suburban agencies usually find that participating and agent banks do earn the shares of the business allocated to them. Without the cooperation of local suburban banks—indeed, against their likely opposition—the development of banking-by-mail from suburbia to the central city would probably be advanced little, if at all, by the city bank's introduction of the credit card.

Unless the suburban bank provides some kind of a plan, some of the local business will tend to move elsewhere. The widening sign-up campaigns of the city credit-card bank will make some incursions, or if the local suburban bank chooses to affiliate as an agent or participant (card-issuing) bank, at least some service that was previously infeasible will be generated from a distance.

Agent or participant status in a credit-card

plan can be profitable to the local bank, as the growth in resulting bank services more than offsets the loss of local credit to the principal bank in the city. This possibility of profit, as well as the defensive aspect, helps major city banks in their efforts to extend their correspondent networks. Some large banks have used their credit-card plans to attract new correspondents; banks becoming agents also have to open correspondent accounts. Moreover, the scope of existing correspondent relationships is sometimes enlarged by the addition of credit-card services. An alternative selected by some local banks that are unable or unwilling to offer a card plan of their own is to offer the plan of a larger correspondent.

The traditional competitive aspects of correspondent banking are not changed by the advent of the credit card, but the specific pattern of correspondent relationships may be. A bank that is aggressive in pushing its credit-card plan in remote areas stands to gain normal correspondent business as well as credit-card business from such affiliates. At the same time, of course, it must exercise care against the loss of other correspondents who think that their business is threatened by the new credit-card arrangements with competitors.

Credit-card affiliation and interchange, limited as they are to a small segment of a bank's operations, provide only partial substitutes for *de novo* branching and merger. Where these traditional methods of geographical expansion are feasible, the existence of a credit-card service augments the total potential gain from the new office just as any other new service would. The feasibility of getting approval for a new branch or for a merger depends on non-economic factors as well, and the possibility of interchange or other credit-card affiliation may relieve some of the pressure for geographic expansion by these older and more sweeping methods.

Interchange and affiliation systems—regional, national, and international—grew rapidly in 1966 and 1967 and can be expected to grow further as credit-card plans develop more generally in the banking industry. Despite

certain systemwide advantages with regard to overhead expenses, affiliation with an interchange system is not essential to the success of a credit-card plan as such. Outside the issuing bank's immediate market territory, "travel and entertainment" features of a bank credit-card widely accepted through interchange arrangements are significant only for a very limited number of holders of credit cards. Otherwise, the volume of remote interchange business is likely to remain relatively small for some years to come.

Thus, aside from changes in the payments mechanism—a separate consideration treated in Chapter 8—there would appear to be no "natural monopoly" in the credit-card interchange system, per se. If present trends continue, even the further development of national interchange systems is not likely to result in the exclusion of a small credit-card bank from membership, let alone preclude its survival as an independent credit-card operator. Nor, for the most part, under existing law, would the limited number of credit-card plans that are likely to be operated in any given banking market be noticeably more restrictive than the present arrangements with respect to other banking services. With these new services being brought into local banking markets, such markets are more likely to feel a thrust of competition rather than of restraint in the immediate future.



Evidence suggests that credit-card and related plans have not, as yet, had any significant impact on banking structure and competition. The future promises more changes, but probably not drastic ones.

The early introduction of a credit-card plan has not served as a barrier to later entry of

other banks into the same market. Indeed, in some respects, entry is made easier by banks that have gone before. Credit-card operations, as such, do not reflect the characteristics of a "natural monopoly."

Despite the assumption that smaller banks have only limited ability to offer independent credit-card plans in direct competition with those of larger banks because of high initial costs, many small banks do operate their own credit-card programs. Moreover, effective alternatives are or will continue to be open to many, if not all, small banks that are interested in providing their customers with revolving credit. Check credit, nonbank plans, and correspondent or agency-type arrangements accounted for a majority of the plans being offered in early 1968. Even if these plans are not perfect substitutes for the retail-type credit card, they are similar to such cards in several respects, and when coupled with the locational advantages offered by the small bank in its own market area, they may be fairly effective substitutes.

Small banks may be able to compete by offering another bank's plan as an agent. As a general rule the larger plans do offer agency status, and this option is open to small banks. The advantages to the issuing and receiving banks would suggest that future growth of credit cards will continue to emphasize the use of agent banks.

It is still too early to assess the full impact of the development of bank credit cards on the banking structure. The important objective of the bank supervisory authorities in this area is to see that the avenues of competition are kept open in order to maximize the benefits of this new banking service to the public. It is especially important that such new services do not become a vehicle for reducing competition.

BANK SUPERVISION AND LEGAL ASPECTS

5

BANK SUPERVISION

The recent upsurge of banking interest in credit-card programs and the rapid growth in the number of banks entering this field, either as direct or franchised issuers of credit cards or as agents for a larger bank, without doubt created a need for additional supervisory procedures and controls. Check-credit plans, on the other hand, did not require special attention since they are not radically different from other kinds of consumer lending already regulated by existing methods.

In April 1967 the Comptroller of the Currency expanded his reports of examination to include information on credit-card and check-credit plans. Similar information was requested by the Federal Reserve System in its examination reports beginning with October 1967 and by the Federal Deposit Insurance Corporation beginning with March 1968. This information has been helpful in determining the scope and procedures of the plans used by banks.

One reason for these steps is that bank credit cards were recognized as presenting a potentially serious problem in credit control. Once the cards have been issued, the cardholder has virtually automatic access to credit purchases at a large number of businesses and, under many plans, to cash advances at the bank. In principle, a bank is exposed to potentially large and sudden demands for credit. Attention must be given to assessing the potential credit demands arising from a bank's credit-card program and its ability to meet these demands. In addition, a bank entering this field faces start-up costs of unusual magnitude and possibly heavy losses from fraud.

Fortunately, neither serious credit-control

problems nor major and unexpected increases in demand for credit have appeared. In the case of credit cards, the utilization ratio of authorized lines has been quite low; in September 1967 it averaged 12 per cent for all credit-card banks (Table 10). Since the credit-card program generates but a small part of a bank's over-all loan portfolio, the problem of excess credit demands has not arisen, nor is it likely to in the near future. (For check-credit plans, the utilization ratio is higher, 42 per cent of lines, but the total of authorized lines is smaller and is more easily controlled.) As for fraud losses, it appears that the issuance and subsequent control of credit cards has, by and large, been handled in an intelligent manner. Write-offs have not been excessive—1.97 per cent for the first half of 1967 relative to outstandings as of September 30. (For check-credit plans, the equivalent figure was 0.23 per cent, thereby confirming the lower degree of control problems inherent in those plans.)

In looking at the problem of examining banks entering or engaged in credit-card programs, supervisors are most interested in assuring that banks set up and implement (1) reasonable controls over the issuance of cards, (2) reasonable credit limits for customers, and (3) firm collection policies to minimize credit losses through fraud and delinquency. Banks also will need to observe applicable legal restrictions and standards of fair practice. Start-up costs should be carefully estimated and controlled. In addition the bank should make a projection of operating earnings prior to a decision to enter this field. In particular, banks must take special precautions against fraud, which is potentially greater than in other operations.

Developments in the credit-card field have

Table 10

IMPORTANCE OF CREDIT-CARD AND CHECK-CREDIT PLANS IN TOTAL CONSUMER LOAN PORTFOLIOS OF BANKS OFFERING SUCH PLANS, SEPTEMBER 30, 1967
By Federal Reserve District

Federal Reserve district	Banks with credit-card plans					Banks with check-credit plans				
	Total consumer loan portfolio (millions of dollars)	Credit-card plans				Total consumer loan portfolio (millions of dollars)	Check-credit plans			
		Amounts (millions of dollars)		Amounts outstanding as percentage of—			Amounts (millions of dollars)		Amounts outstanding as percentage of—	
		Total lines	Outstanding	Consumer loan portfolio	Total lines		Total lines	Outstanding	Consumer loan portfolio	Total lines
Boston.....	381.9	230.1	21.8	5.71	9.47	866.4	110.8	57.3	6.61	51.73
New York.....	1,316.4	543.2	64.8	4.92	11.93	3,042.1	264.4	98.0	3.22	37.07
Philadelphia.....	184.6	78.1	12.3	6.66	15.71	1,220.3	111.2	60.6	4.97	54.47
Cleveland.....	431.3	283.7	26.9	6.24	9.48	983.3	67.2	32.0	3.25	47.65
Richmond.....	406.0	219.6	28.2	6.95	12.85	852.0	57.1	17.2	2.02	30.08
Atlanta.....	312.6	214.4	30.6	9.79	14.27	795.8	54.3	22.2	2.79	40.84
Chicago.....	1,048.6	1,358.9	126.5	12.04	9.29	1,930.4	102.8	53.4	2.77	51.97
St. Louis.....	202.5	100.5	12.3	6.07	12.26	621.3	26.4	11.5	1.85	43.68
Minneapolis.....	7.9	2.4	.1	1.27	3.61	358.6	15.1	5.6	1.56	36.97
Kansas City.....	58.4	74.4	6.4	10.96	8.66	383.8	26.1	9.4	2.45	36.03
Dallas.....	59.3	78.5	8.1	13.66	10.29	356.1	14.0	4.5	1.26	32.34
San Francisco.....	3,694.1	1,929.0	295.3	7.99	15.31	3,005.4	291.4	111.5	3.71	38.27
All districts.....	8,103.5	5,112.7	633.0	7.81	12.38	14,415.5	1,140.7	483.2	3.35	42.36

NOTE.—Since a number of banks have both credit-card and check-credit plans, there is some double counting in these figures.

been watched closely by supervisory authorities. On the whole, bank procedures are not subject to significant criticism by supervisors at this time.

A diversified group of banks has been active in operating credit-card plans for a number of years and with a good deal of success. These successful plans have been the basis for much of the nationwide expansion of credit cards. Among these, many smaller banks have found that the credit-card program is both desirable and profitable. On the other hand, some banks have not been successful with such plans and they have discontinued the plans without encountering any serious consequences for their capital.

Vice presidents in charge of examinations at the 12 Reserve Banks were asked to comment on their experience with bank credit-card plans in their districts: In California, improved mass-mailing techniques were evident in the launching of the "Master Charge" card. Some 80 banks under a program developed by four major banks launched their plan in July 1967 with a mass-

mailing of cards and a minimum of confusion. Although the inevitable element of abuse has been present, fraud and credit losses to date have not been excessive. Even in the Chicago District, where the mass distribution of cards by several large banks resulted in heavy credit and fraud losses and adverse publicity on a national scale, it was reported that start-up costs and losses in the credit-card field sustained by banks in that District have been fairly large in dollar amount but that the effect on the net earnings of those large banks has been small. Although probably not yet on a profitable basis, the banks now seem to have the operation under control and have already sustained the major costs.

In the New York area, a remarkably small aggregated loss has been absorbed by the banks issuing cards, and few problems are expected to arise there as long as normal lending practices are followed.

Over-all, the supervisory procedures appear to be adequate to control development in the credit-card area without additional legislation.

The capability of management, not legislation, will be the principal determining factor in the success of credit-card plans, as is true of any lending program. Banks not yet in the field have been able to appraise the problems arising from mass issuance and/or inadequate controls and should now have a better idea of start-up costs and of sound control procedures than banks entering the field a year or so ago. Examiners also have become better oriented to proper supervisory controls. A comparison of recent examination reports with initial reports made in 1967 indicates a more comprehensive degree of supervision is now being exercised.

LEGAL ASPECTS

The legal problems that may arise in connection with the issuance and use of bank credit-card and check-credit plans are numerous. Therefore, banks proposing to establish and operate, or to participate in, any such plan would be well advised to consult counsel in order that possible legal difficulties may be taken fully into account. By so doing they may avoid costly adjustments or serious obstacles to the successful operation of the plan.

Various legal questions are discussed briefly below under three general headings. The first concerns itself with the basic corporation authority of banks to operate such plans; the second relates to supervisory authority over bank credit cards and check-credit plans; the third involves restrictions or limitations to which such plans may be subject, depending on the circumstance and the jurisdiction. (Material cited in the footnotes to this part of the report is set forth on page 46.

Authority to Operate Credit-Card or Check-Credit Plans

At the outset it would seem appropriate to observe that credit-card activity by banks can be analogized, although imperfectly, to two well-established banking practices, both of which clearly fall within the powers possessed by banks to make loans, receive deposits, and discount notes: (1) letters of credit and (2) accounts-receivable financing. Moreover, the offering of credit-card services by banks is a

means to accomplish the most fundamental of banking functions—that is, the financing of commercial transactions.

Like letters of credit, bank credit-card transactions are essentially three-party transactions involving two independent contracts, one between the bank customer and the bank and the other between the merchant and the bank. The bank customer has agreed to pay the bank without regard to any dispute between him and the merchant. Similarly, the bank has agreed to pay the merchant upon compliance with specified conditions, although the bank may be unable to obtain reimbursement from its customer. As stated in *Davenport*, "Bank Credit Cards and the Uniform Commercial Code:"¹

Both situations have the common denominator of a loan of credit or reputation by a bank to a customer who is a buyer of goods or services from a merchant, who accepts the bank's credit in substitution of the buyer's.

The similarities to accounts-receivable financing are also instructive. Simply stated, the credit card is merely another device by which a merchant may arrange with a bank to assign customers' credit accounts in order to obtain immediate payment. In such situations, however, the customer's relationship with the bank normally does not antedate the arrangement between merchant and bank. The merchant's risks in extending credit to the customer are not of necessity eliminated by such arrangements, whereas such risks are more or less non-existent in cases where credit cards are employed.

Whether a particular bank has the basic legal authority to operate a credit-card or check-credit plan depends, of course, on the applicable law, Federal or State. In so far as national banks are concerned, the Comptroller of the Currency has expressed the position that national banks may have bank credit-card or check-credit plans.²

As to State banks that are members of the Federal Reserve System, there is no provision of Federal banking law making reference to bank credit cards or check-credit plans, and it seems clear that the authority of State member banks to operate such plans is not barred by

the Federal banking statutes. The Federal Reserve Act³ provides that, except where inconsistent therewith, State member banks shall retain their full charter and statutory rights under State law. Thus, a determination as to whether a credit-card or check-credit plan of a State member bank is within its corporate authority would be governed by the laws of the State in which the bank operates, together with any interpretations thereof by the appropriate governmental authorities.

Some State laws grant power to banks in general terms to operate bank credit-card and check-credit plans; others do so in more specific terms. Recently, several States seem to have adopted the latter approach. Legislative and administrative sanction is perhaps to be implied in the various States where criminal statutes have been enacted to deal with credit-card misuse, for example, and in cases where the establishment of bank credit-card systems has received the approval of State banking authorities. Dicta by the U.S. Supreme Court in *United States v. Philadelphia National Bank*⁴ included among principal banking products: "various types of credit, for example: unsecured personal and business loans, mortgage loans, loans secured by securities or accounts receivable, automobile installment and consumer goods installment loans, tuition financing, bank credit cards, revolving credit funds."

The Task Group is unaware of any instances in which a bank credit-card or check-credit plan has been challenged by a bank supervisory agency, either Federal or State, or by litigation in the courts as being *ultra vires* or beyond the basic corporate authority of any bank. This, together with the fact that such plans were introduced in the early 1950's, suggests that the power of banks to engage in this kind of credit operation has been generally conceded.⁵

Supervisory Authority

The credit-granting function of banks, however implemented, is always subject to supervisory considerations. Thus, in extending funds to borrowers through the use of credit-card or similar media, State member banks would be

expected by the Board to pursue the same sound lending policies and practices as are applicable to other forms of credit extension. In extreme cases, the appropriate Federal bank supervisory agency would have as a corrective device the "cease-and-desist" orders issued under the Financial Institutions Supervisory Act of 1966⁶ to restrain "unsafe or unsound practices." Thus, if bank examination reveals deficiencies in procedures relating to credit cards—inadequate checking of credit-worthiness of holders of credit cards, ineffective collection, failure to reclaim delinquent cards, and so forth—the examiner would call the situation to the attention of the bank's manager and request correction. In serious situations, the Board (or other appropriate Federal supervisory agency) has authority to institute administrative proceedings looking toward an order requiring the bank to cease and desist the particular practice. A temporary order, effective immediately upon service, could be issued to the bank if the practice is likely to cause insolvency, for example, or otherwise to seriously prejudice the interests of the depositors. In other situations, the order could be issued only after completion of formal proceedings including a hearing under the Administrative Procedure Act.⁷ Under the Financial Institutions Supervisory Act the Federal bank supervisory agencies also may issue orders to restrain violations of law.

Section 9 of the Federal Reserve Act authorizes the Board, after a hearing, to terminate a State bank's membership in the System for failure to comply with the provisions of the Act or the regulations of the Board issued pursuant thereto, including such conditions of membership as the Board may prescribe pursuant to the Act. In its Regulation H—Membership of State Banking Institutions in the Federal Reserve System⁸—the Board prescribes two standard conditions for membership in the Federal Reserve System for State banks. One condition is that the bank shall maintain adequate capital and surplus. The other condition requires that each State member bank shall conduct its business with due regard to the

safety of its deposits. It also provides that, except with the permission of the Board, the bank shall not permit or cause any changes to be made in the general character of its business or in the scope of its corporate powers. These provisions probably would not be regarded by the Board as affecting the operation of a bank credit-card or check-credit plan unless the case were exceptional. Such a case might arise, for example, if the service grew to such an extent as to become more than a reasonable incident to the bank's normal operations (in which case the Board's permission would have to be sought under its standard condition of membership), or if the bank should offer the service in a manner inconsistent with safety and soundness (in which event there would be a violation of the standard condition of membership).

Existing law does not authorize the Board to prescribe regulations governing the terms and other features of credit cards or similar credit media, as opposed to the case-by-case approach involved in bank examination, cease-and-desist proceedings, or any proceedings for forfeiture of membership, as discussed above. The Board, of course, has specific, limited regulatory authority with respect to the disclosure and advertising of credit costs under the recently enacted Federal truth-in-lending law, as is noted later.

The determination of questions of consumer liability relative to bank credit cards is a matter for the courts in the light of any relevant statute and is not within the Board's jurisdiction. Practices obviously inequitable with respect to holders of credit cards might be the subject of supervisory criticism, however, as are unsafe or unsound practices otherwise in the establishment, implementation, or operation of the credit-card plan.

Various Legal Restrictions and Limitations

Aside from the matter of the basic corporate authority of a bank to establish a credit-card or check-credit plan and the supervisory considerations just discussed, questions may arise concerning compliance with various legal re-

strictions or limitations that may affect the operation of such a plan.

Usury Laws

State usury statutes are examples of such restrictions that may affect the operation of bank credit-card or check-credit plans. The service or finance charges to the holder of a credit card under such plans range from $\frac{3}{4}$ of 1 per cent to $1\frac{1}{2}$ per cent per month. Although the effective annual rate of finance charge will vary—depending on such matters as the “grace” period, other relevant provisions of a particular plan, and the customer's rate of repayment—these monthly rates would be equivalent to nominal annual rates of 9 to 18 per cent. Some check-credit plans have fixed charges or fees depending, for example, on the number of checks used by the customer. Whether the finance or service charges or fees under a particular credit-card or check-credit plan are subject to State usury or other applicable laws placing ceilings on charges for credit by banks would depend, of course, on the law of the particular State.

That problems might arise in this connection is indicated, for example, by the situation that arose in Oregon in 1967. The State Attorney General challenged two banks on the grounds that their finance charges of $1\frac{1}{2}$ per cent per month under their credit-card plans exceeded the maximum permissible per annum rate allowed on bank loans under Oregon law. The two Oregon national banks concerned conformed to the State Attorney General's opinion.⁹

Some States have amended their statutes so that credit-card, check-credit, or similar plans are not restricted by their general usury or other rate-ceiling statutes. This has occurred recently, for example, in Ohio, Virginia, and a few other States.¹⁰ In some other States the so-called “contract” rate in the usury statutes or provisions of related statutes permit a maximum rate deemed by banks to be adequate for credit-card and similar plans.

Antitrust Laws

Some credit-card systems may raise questions as to whether their effect may be sub-

stantially to lessen competition, unduly to restrain trade, or to constitute monopolistic activities within the meaning of the Federal antitrust laws. However, credit-card or check-credit plans, as such, are not necessarily to be criticized from an antitrust standpoint. Nevertheless, some recent experiences of banks may be instructive.

In 1965 a suit was instituted by the Department of Justice against the First National City Bank, New York, to enjoin as a violation of Section 7 of the Clayton Act the acquisition by that bank of Carte Blanche Credit Corporation on the grounds that such a transaction would eliminate potential competition between the bank and Hilton Credit Corporation in the field of general-purpose credit cards.¹¹ However, the subsequent arrangement for sale by the bank of Carte Blanche assured dismissal of the Justice Department's action.¹²

The Department of Justice also instituted a suit under the Sherman Act against Bank of Virginia, Richmond, Virginia, in which it was charged that requirements that merchants participating in the bank's credit-card plan not participate in any other regional credit-card service was illegal. The elimination of the requirement was a subject of a consent decree entered in the case last year.¹³

The interest of the Department of Justice was indicated also by a report in the *American Banker* for March 21, 1967, which showed that the Department had given informal clearance to the operation of a common credit-card plan of several banks in California through a non-stock, nonprofit organization then known as California (now Western States) Bankcard Association.

These cases, as well as other situations,¹⁴ indicate that banks ought not to ignore the anti-trust implications of their credit-card and check-credit practices. Banks that have set up joint plans or licensing plans have been careful, for example, to offer membership or franchises to other banks on a nonexclusive basis.

Truth in Lending

Bank credit-card, check-credit, and similar plans may be subject to laws concerning dis-

closure of credit terms that have been enacted by some States. As a form of open-end or revolving credit, such plans are covered under the Federal Truth in Lending Act, Title I of the Consumer Credit Protection Act, approved May 29, 1968.¹⁵ The promulgation under the Act of the substantive regulations (to become effective July 1, 1969) is the responsibility of the Board of Governors. The 1968 Act specifically includes among its enforcement provisions the Financial Institutions Supervisory Act of 1966.

Bank Service Corporation Act

The Bank Service Corporation Act, the administration of which is divided among the Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, depending upon whether the banks involved are State member, national, or nonmember insured, was enacted to authorize the investment by member banks in "bank service corporations" organized to provide "bank services" for banks.¹⁶ The legislative history makes it clear that under the Act banks—particularly smaller banks—would be able "to make use of modern automated equipment by means of stock ownership in a jointly owned service corporation."¹⁷

Credit-card plans that necessitate data processing and also involve sponsorship by more than one bank can raise questions under the Act if the arrangement or organizations providing the "bank services" involve stock ownership by banks. This, however, may be unlikely since such arrangements or organizations may be set up without the need for stock-type ownership, as for example the Western States Bankcard Association.

The situation most frequently encountered under the Act probably will arise in connection with Section 5, which conditions the performance of "bank services"—whether by a "bank service corporation" or other organization or entity—for Federally supervised banks upon the furnishing of assurances that the performance thereof will be the subject of regulation and examination by the appropriate Federal supervisory agency. This is confirmed by the

recent interpretation of the Board of Governors that Section 5 of the Act requires the filing of assurances with it relating to regulation and examination as specified in its Regulation S¹⁸ by State member banks and the related service organization through which the necessary informational, bookkeeping, statistical, and similar functions under the banks' credit-card plan were to be performed.¹⁹

Bank Holding Company Questions

Among other legal questions that might arise in this connection is whether a registered bank holding company might establish a subsidiary to operate or assist in the operation of a credit-card plan, consonant with the provisions of the Bank Holding Company Act of 1956.²⁰ The answer depends, of course, on the circumstances of the specific case—such as whether the operation is for the holding company's own subsidiary banks or for those banks and also nonsubsidiary banks, and in each case on how the operations are to be performed.

Lost or Stolen Credit Cards: Civil and Criminal Remedies

Among the many potential questions concerning the use and operation of credit cards and similar plans that can be authoritatively answered only by the courts is the question of liability in the case of the unauthorized use of credit cards. The problem of lost or stolen cards (the receipt of which may have been unsolicited) is especially complicated in the light of provisions of some card plans that endeavor to specify the rules of liability between the issuing bank and the customer. The law in this relatively new field is still in a formative state.²¹ There appear to be no reported court cases involving bank cards.

Some States may enact statutes bearing on the matter. Reference might be made particularly to the recent decision of a New York court that the owner of a credit card was not liable in a suit by the card issuer to recover for substantial purchases made over a 30-day period by one who stole the card where the card owner was unaware of the theft and, there-

fore, unable to give notice of the theft to the issuer, notwithstanding a provision in the contract between the issuer and the cardowner, as allowed by New York statute, that the cardowner would pay for all purchases made by anyone presenting the card until the issuer was notified of the theft or loss of the card.²²

It would appear that more than 40 States have statutes specifically making it a crime to use credit cards improperly or to engage in various disallowed activities with regard to credit cards. Virginia, for example, is one of the more recent States to enact comprehensive legislation covering this matter.²³ However, even where there are no statutes specifically dealing with the matter, the general criminal law would, of course, be of some use in the prosecution of any offenses that involve credit cards.

Under recent court decisions, credit-card fraud cases involving the use of the mail present no difficulties in prosecutions under the Federal Mail Fraud statute.²⁴ On the other hand, the National Stolen Property Act²⁵ has proven to be of dubious efficacy in dealing with credit-card cases. In *Beam v. United States*,²⁶ the most recent reported decision involving that statute, the Court concluded that—

. . . It may well be that theft of credit cards and their transportation and fraudulent use in interstate commerce requires a prohibition. If so, it is a proper subject for Congressional consideration.

Out-of-State Activities

Problems can arise in situations where banks located in one State make their credit-card services available to customers located in other States. Nonetheless, banks have historically made loans to customers in other States, and thus State banking laws probably will not stand in the way of credit-card transactions of this sort. In these cases it is of primary importance that the site of the transaction is the home State, the place where the loan originates and where payments are made. In cases where a bank in one State makes its credit-card service available in another State by franchising local

banks to provide these services, local banking laws should be examined to determine whether correspondent relationships of this sort are permissible. The practice is presently widespread and apparently acceptable in most States.

LEGAL CITATIONS FOR CHAPTER 5

¹ 1 Val. U.L. Rev. 218 (1967).

² Comptroller's Manual, paragraphs 7015, 7376, and 7378.

³ Section 9; 12 U.S.C. 330.

⁴ 374 U.S. 321 (1963), note on page 326. See also Jerry B. South, "Credit Cards: A Primer," 23 *Bus. Law.* 327 (January 1968).

⁵ Davenport, *op. cit.* 218, 238.

⁶ 12 U.S.C. 1818.

⁷ 5 U.S.C. 554.

⁸ 12 CFR 208.7.

⁹ Oregon A.G.O. #6520, Mar. 9, 1967; *American Banker*, Mar. 14, 1967, p. 1; *Economic Review*, Federal Reserve Bank of Cleveland, April 1967, pp. 27-35.

¹⁰ Page's Ohio Revised Code, Anno., 1967 Curr. Serv., Title II, Section 1107.26(B) and Section 1107.27, effective Jan. 1, 1968; and Code of Virginia, Section 6.1-361, effective June 28, 1968. See also New York Banking Law Section 108 and Personal Property Law Section 413; and Act of May 30, 1968, to amend Section 8-233, Code of South Carolina (1962).

¹¹ *United States v. First National City Bank, et al.*, U.S. Dist. Ct., Southern District of New York, Civ. No. 65-3963, filed Dec. 30, 1965.

¹² *American Banker*, Feb. 20, 1968.

¹³ *United States v. Bank of Virginia*, Civ. No. 4959; 5 CCH Trade Regulation Rep. paragraph 45,066 (case 1916).

¹⁴ *New York Times*, Mar. 21, 1967; *American Banker*, Feb. 26, 1968.

¹⁵ Public Law 90-321.

¹⁶ 12 U.S.C. 1865.

¹⁷ S. Rept. No. 2105, Sept. 18, 1962, p. 1.

¹⁸ 12 CFR 219.

¹⁹ *Federal Reserve Bulletin*, November 1967, p. 1912.

²⁰ 12 U.S.C. 1843(c)(1)(C), 1843(c)(8).

²¹ For example, see *Washington and Lee Law Review*, vol. 23, "The Liability of the Cardholder For Unauthorized Purchases," pp. 125-32 (1966); 16 *DePaul Law Review*, "Credit Cards—A Survey of the Bank Card Revolution and Applicability of the Uniform Commercial Code," pp. 389 *et seq.* (1967); 19 *Vanderbilt Law Review*, "Private Legislation and the Duty To Read—Business Run by IBM Machine, the Law of Contracts and Credit Cards," pp. 1051 *et seq.* (1966); and the *Yale Law Journal*, June 1968, pp. 1418-31, "Credit Cards: Distributing Fraud Losses."

²² *Allied Stores of New York, Inc., etc. v. Funderburke*, 277 N.Y. Supp. 2d 8 (1967).

²³ Va. Code, 18.1-119.4 *et seq.*, approved Apr. 4, 1968.

²⁴ 12 U.S. 1341. See, for example, *Adams v. United States*, 312 F. 2d 137 (Fifth Circuit, 1963), and *Kloian v. United States*, 349 F. 2d 291 (Fifth Circuit, 1965); cert. den. 384 U.S. 913 (1966).

²⁵ 18 U.S.C. 2314.

²⁶ 364 F. 2d 756 (Sixth Circuit, 1966).

IMPLICATIONS FOR THE CONSUMER-CREDIT AND RETAIL MARKETS

6

CREDIT-MARKET SETTING

Bank credit cards and check-credit plans belong to two families of credit. First, they are part of the larger family of general bank credit. Of this family two major divisions are the ones most directly affected by developments in the area of bank credit-card and check-credit plans. These are the traditional varieties of loans (1) to consumers and (2) to retail merchants. Less directly, these new credit devices relate to all the other financial activities of the banks in the sense that expansion of consumer credit in a given context of monetary policy will be at the expense of other borrowers. (The wider implications of credit cards for banks are addressed elsewhere, particularly in Chapters 3, 4, and 8.)

Second, bank credit cards and check-credit plans are a part of the larger family of general consumer financing. While their nearest kin are some of the other forms of consumer credit cards, they also are basically a form of general instalment credit, along with some of the lending instrumentalities of retailers, sales finance companies, consumer finance companies, and credit unions, among others. Like credit cards and check-credit plans, some of the other important categories of bank lending are part of consumer financing—in particular, the traditional forms of bank instalment lending. Beyond these instalment lending groups, of course, are the noninstalment forms, the single-payment loans, service credit, and charge accounts. It is the impact of credit cards on this extended family of consumer credit generally that is the subject of this chapter.

The magnitudes of bank credit-card and check-credit outstandings and those of selected other categories of credit at the end of Decem-

ber 1967 are presented in Table 11. The small volumes of these new programs relative to bank lending activity are evident from the data presented—ranging from 3.8 per cent of all commercial bank consumer instalment credit to three-tenths of 1 per cent of total loans (adjusted) and investments of all banks. Credit cards and check-credit plans together accounted for only 1.3 per cent of total consumer credit outstanding. If one considers only “plastic credit,” the category in which other types of credit cards and certain revolving credits are included as indicated in Table 12, amounts outstanding on bank credit cards accounted for

Table 11

CREDIT OUTSTANDING ON BANK CREDIT-CARD AND CHECK-CREDIT PLANS COMPARED WITH OTHER SELECTED FORMS OF CREDIT, DECEMBER 31, 1967

Item	Credit outstanding (in billions of dollars)	Relation to credit outstanding (in per cent)	
		Bank credit-card plans	Bank credit-card and check-credit plans
Commercial banks:			
Credit-card plans.....	.8	100.0	162.5
Credit-card and check-credit.....	1.3	61.5	100.0
Commercial banks:			
Total loans (adjusted).....	236.0	.4	.6
All consumer credit.....	41.1	1.9	3.2
All consumer instalment credit.....	34.0	2.4	3.8
All banks:			
Total loans (adjusted).....	287.5	.3	.5
Total loans (adjusted) and investments.....	424.1	.2	.3
Miscellaneous totals:			
“Plastic credit” ¹	12.0	6.7	10.8
Personal instalment loans.....	21.7	3.7	6.0
Instalment credit.....	77.9	1.0	1.7
Consumer credit.....	99.2	.8	1.3

¹ For components, see Table 12.

only 6.7 per cent of the total. Check credit is properly excluded here. And even if the comparison is limited to the consumer loan portfolios of banks that offer one or the other type of plan, credit cards account for only 7.8 per cent, while check-credit outstanding accounts for about 3.5 per cent. (Such data for these plans, by Federal Reserve district, are presented in Table 10 on page 40.) No public policy consideration relative to credit cards and check-credit plans can properly neglect the other nine-tenths or so of the industry to which these plans belong.

Table 12
"PLASTIC CREDIT" OUTSTANDING,
DECEMBER 31, 1967

Type of credit	Billions of dollars
Bank credit cards ¹ . . . . .	.8
Oil companies ²	1.0
Department store revolving credit	3.5
Retail charge accounts	6.5
Travel and entertainment cards ² . . . . .	.1
All other ³ . . . . .	.1
All types	12.0

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

Consumer credit as a whole has grown rapidly in the postwar period independently of bank credit-card and check-credit plans. It nearly quadrupled between 1945 and 1950, before the first wave of bank credit cards had been launched. Consumer credit had doubled again by the time the second credit-card wave occurred in the late 1950's. Between 1960 and 1965 such credit outstanding increased by more than \$30 billion, and in 1966 and 1967 it rose by nearly another \$12 billion to produce a total of \$99.2 billion at the end of 1967.

An important reason for this growth in consumer credit is the increasing affluence of the American family, which has made it possible for the family to allocate a larger share of its

expanding income to goods and services that are beyond the category of basic necessities and that lend themselves to credit financing. In recognition of this development, both financial institutions and retailers have adopted new and more flexible credit plans—largely of the revolving type, of which credit cards and check credit are merely recent additional varieties. Important outgrowths of these more general innovations have been (1) the extension of instalment credit to the financing of soft goods and services, (2) the substitution of credit financing for cash in many small purchases, and (3) the partial supplanting of some conventional forms of credit, particularly charge-account credit at retail stores. Retail outlets still hold more than a fifth of all consumer indebtedness, but this is a sharply diminished share from earlier years. In 1960, retailers held a quarter of total consumer credit; in 1950, over a third; and in 1945, well over a half.

Since 1950 total consumer credit holdings by financial institutions have grown more rapidly than holdings by retailers and also more rapidly than total instalment credit, per se. Of equal interest, perhaps, are the growth patterns exhibited by commercial banks' holdings of consumer credit relative to those of other financial institutions. Between 1945 and 1955, commercial bank holdings of consumer paper rose less rapidly than did the consumer loans of nonbank financial institutions, and the bank share in the financial institutions' total dropped from 56 per cent in 1945 to 48 per cent in 1955, as can be seen in Table 13. Over the following decade, however, encompassing the first big wave of check credit and the second wave of bank credit-card plans, bank consumer lending rose slightly faster than did nonbank consumer lending; the downslide in the bank's share was thereby reversed. By 1965 banks had increased their share of consumer paper held by all financial institutions to more than half, and the banks' share has continued upward since that date. In 1967, despite the poor showing of all financial institutions relative to nonfinancial holders of consumer paper, commercial banks outpaced both groups.

Table 13

**POTENTIAL MARKETS FOR CREDIT CARDS:
Distribution of Consumer Credit by Financial and Nonfinancial Holders,
December 31 of Selected Years**

Type of institution and type of credit	1945	1955		1965		1966		1967	
	Amount out- standing	Amount out- standing	Percent- age change, 1945-55	Amount out- standing	Percent- age change, 1955-65	Amount out- standing	Percent- age change, 1965-66	Amount out- standing	Percent- age change, 1966-67
Financial institutions									
Instalment credit	1,776	24,398	1,273.7	60,273	147.0	65,565	8.8	68,273	4.1
Single-payment loans	746	3,002	302.4	7,682	155.9	7,844	2.1	8,267	5.4
Total	2,522	27,400	986.4	67,955	148.0	73,409	8.0	76,540	4.3
Commercial banks:									
Amount	1,419	13,236	832.7	35,760	170.2	38,869	8.7	41,056	5.6
Percentage of financial insti- tutions total	56.3	48.3		52.6		52.9		53.6	
Retail outlets									
Instalment credit	686	4,508	557.1	8,292	83.9	9,091	9.6	9,673	6.4
Charge accounts	1,612	4,795	147.5	6,746	40.7	7,144	5.9	7,595	6.3
Service credit	845	2,127	151.7	4,891	129.9	5,142	5.1	5,420	5.4
Total:									
Amount	3,143	11,430	263.6	19,929	74.4	21,377	6.8	22,688	6.1
Percentage of total consumer credit	55.5	29.4		22.7		22.6		22.9	
Total consumer credit	5,665	38,830	585.4	87,884	126.3	94,786	7.9	99,228	4.7
Memoranda:									
Total instalment consumer credit	2,462	28,906	1,074.0	68,565	137.2	74,656	8.9	77,946	4.4
Total noninstalment consumer credit	3,203	9,924	209.8	19,319	94.6	20,130	4.2	21,282	5.7

The following sections of this chapter analyze the likely future roles of credit-card and check-credit plans in various markets for consumer credit. The first discusses the markets of the major financial institutions; the second discusses the impact of credit cards and check-credit plans on the retail firms themselves.

PROSPECTIVE DEVELOPMENTS IN CONSUMER CREDIT HELD BY FINANCIAL INSTITUTIONS

Commercial Banks

At the end of 1967 commercial banks held \$41 billion of consumer credit, or a little over half of the total outstanding. These banks not only provide credit through direct loans to consumers and through purchases of instalment paper but also make a substantial indirect contribution through loans to other credit grantors—which is an addition to the above totals.

Banks hold nearly three-fifths of automobile

credit outstanding. They are also prominent in the financing of appliances, television sets, and other home goods; their holdings of such credit represent more than a quarter of the total of this kind of credit outstanding. One-third of the personal loans and two-thirds of all repair and modernization loans are in consumer portfolios of banks. Finally, commercial banks hold more than 85 per cent of the volume of single-payment loans to consumers. The totals in these categories for various years since 1945 are shown in Table 14, which details the commercial bank shares of selected categories of consumer credit traditionally held by financial institutions but also shared with other lenders.

At first glance, it might appear that the \$40 billion of consumer credit outstanding in existing commercial bank lending operations is in the process of being shifted to bank credit-card and check-credit programs. Indeed, this might be an eventuality if these plans were to evolve

Table 14

CHANGING IMPORTANCE OF COMMERCIAL BANKS IN SELECTED CATEGORIES OF CONSUMER CREDIT TRADITIONALLY HELD BY FINANCIAL INSTITUTIONS

(In billions of dollars, unless otherwise indicated)

Year	Holdings of all lenders	Commercial banks		Holdings of all lenders	Commercial banks	
		Holdings	Percentage of all lenders		Holdings	Percentage of all lenders
Automobile loans				Total instalment credit		
1945.	0.5	0.2	45.9	2.5	0.7	30.3
1950.	6.1	2.5	40.7	14.7	5.8	39.4
1955.	13.5	5.3	39.4	28.9	10.6	36.7
1960.	17.7	8.1	46.0	42.8	16.7	38.9
1961.	17.2	8.3	47.9	43.5	17.0	39.1
1962.	19.5	9.6	49.3	48.0	19.0	39.6
1963.	22.4	11.5	51.2	54.2	22.0	40.7
1964.	25.2	13.4	53.3	60.5	25.1	41.4
1965.	28.8	16.0	55.6	68.6	29.2	42.5
1966.	31.0	17.5	56.6	74.7	32.2	43.1
1967.	31.2	18.0	57.6	77.9	34.0	43.6
Other consumer goods paper				Single-payment loans		
1945.	0.8	0.1	14.0	0.7	0.7	90.3
1950.	4.8	1.5	30.3	1.8	1.6	86.5
1955.	7.6	2.0	26.7	3.0	2.6	87.8
1960.	11.5	2.8	23.9	4.5	3.9	86.2
1961.	11.9	2.8	23.3	5.1	4.4	85.9
1962.	12.6	2.8	22.4	5.5	4.7	86.0
1963.	13.9	3.2	23.2	6.1	5.2	85.1
1964.	15.6	3.7	23.5	7.0	6.0	85.6
1965.	17.7	4.3	24.1	7.7	6.6	85.7
1966.	19.8	5.1	25.7	7.8	6.7	85.6
1967.	21.3	5.8	27.2	8.3	7.1	85.4
Repair and modernization loans				Total consumer credit		
1945.	0.2	0.1	60.4	3.2	1.4	44.2
1950.	1.0	0.8	82.1	16.5	7.4	44.6
1955.	1.7	1.3	79.0	31.9	13.2	41.5
1960.	3.1	2.2	70.1	47.3	20.6	43.4
1961.	3.2	2.2	68.9	48.7	21.4	44.0
1962.	3.2	2.3	69.7	53.5	23.7	44.3
1963.	3.4	2.4	69.8	60.3	27.2	45.2
1964.	3.5	2.5	69.6	67.5	31.0	46.0
1965.	3.7	2.5	69.2	76.2	35.8	46.9
1966.	3.8	2.6	68.4	82.5	38.9	47.1
1967.	3.7	2.5	67.6	86.2	41.1	47.6
Personal loans						
1945.	1.0	0.3	30.9			
1950.	2.8	1.0	36.9			
1955.	6.1	1.9	31.3			
1960.	10.5	3.6	34.1			
1961.	11.3	3.8	33.7			
1962.	12.6	4.3	33.9			
1963.	14.5	5.0	34.2			
1964.	16.2	5.5	34.2			
1965.	18.4	6.3	34.5			
1966.	20.1	7.0	34.6			
1967.	21.7	7.7	35.5			

in such a way that the banking community would adopt one or more of these forms and move all its consumer credit into the new accounts. At present, however, bank credit-card plans are

not well adapted to use with big-ticket items, which constitute a large part of the total.

Automobile credit accounts for 44 per cent of total consumer credit extended by banks, and the bank share of this business is growing year by year. The bulk of this paper—some three-fifths, or about \$11.5 billion of it—is purchased from automobile dealers, with encumbrance on the automobile and sometimes with recourse to the dealer himself. The remaining \$6.5 billion represents auto loans made directly by banks; as a rule these too encumber the title. Such legalities would be difficult to encompass in either a credit-card or a check-credit operation. Of course, the procedures on title could be waived if the borrower's uncollateralized credit limits were large enough to cover such a purchase, but this is the unusual case. Unless and until the average line of credit granted on credit cards can be expanded about ten-fold—a remote possibility—there is probably little prospect for credit-card growth in the area of auto instalment credit.

A similar conclusion holds for repair and home modernization loans. The bank share of this business, though high, is a gradually declining one. The trend might be reversed if these loans could be put on a credit-card basis, but here too the size of the repair loan usually exceeds the typical line of credit permitted by bank credit cards.

In the "other consumer goods" category many loans—such as for major appliances—are also likely to be outside the usual credit-card limits, but available statistics do not allow easy identification of the amounts involved. Recently some banks have begun to adapt their credit-card plans to cover larger-than-usual purchases, either by setting up separate accounts for specific purchases or by providing special terms for those transactions.

On the other hand, it does seem likely that small personal loans will be replaced to some extent either by check credit or by cash advances under credit-card plans. In fact, some of the larger banks have shifted personal loans of under \$500 to the credit-card department. Large loans though will continue to be made

on a closed-end basis, for the bank will need up-to-date information on the creditworthiness of the borrower before lending any substantial sum not backed by collateral.

A number of the bank loans now made to consumers on a single-payment basis might be handled by credit cards or check credit. Most of this borrowing is for such short-term purposes as meeting premiums on life insurance or tax deadlines.

In sum, it would appear that 25 to 30 per cent of the consumer lending now performed by commercial banks is amenable to early transfer to credit-card and check-credit programs. These potential shifts, taken together with the financing already done by bank credit cards and check credit, suggest strongly that the programs are unlikely to fade as they did in earlier periods and, indeed, are likely to account for a growing portion of the total consumer credit portfolio at banks.

Sales Finance Companies

Sales finance companies hold more than one-fifth of total instalment credit. In recent years these companies have seen their share of the auto business decline sharply, but they have compensated to some extent by diversifying into business loans and into the financing of consumer spending for boats, mobile homes, travel, and education. In 1967 the distribution of the total instalment credit holdings of sales finance companies was: automobile paper, \$9.0 billion—more than 50 per cent of the whole; other consumer goods paper, \$5.0 billion, or 30 per cent; repair and modernization loans, \$0.1 billion—less than 1 per cent; and personal loans, \$2.8 billion, or about 17 per cent.

Prospective shifts of the auto and home improvement financing done by sales finance companies are, of course, subject to the same limitations described earlier for commercial banks. But in the case of personal loans and small-ticket consumer goods credit, prospects do exist for increased use of credit-card and check-credit plans. Moreover, credit-card financing might displace some of the accounts-receivable financing currently being extended by subsidiaries of

sales finance companies. Altogether, the immediate impact of credit-card and check-credit plans on the business of sales finance companies is likely to be spotty.

Credit Unions

Credit unions continue to improve their position as suppliers of consumer credit in the United States. In 1967 they were the only holder group that increased its penetration in every major type of instalment credit. In the past decade, credit unions have almost doubled their share of instalment credit and now account for more than \$9 billion, or about 12 per cent, of the total outstanding.

Although many of the loans that credit unions make are of a size and nature that could be handled by credit cards, little of this business is likely to be shifted to credit cards.

Consumer Finance Companies

Consumer finance companies have most of their assets in the form of personal loans, and they continue to rank second only to commercial banks in their share of this market. In recent years personal loans have constituted between 85 and 90 per cent of the portfolios of consumer finance companies. Over the past decade these companies have accounted for nearly one-tenth of all instalment credit.

Some of these holdings of personal loans by consumer finance companies might be considered potentially competitive with credit cards and check-credit plans. To a substantial degree, however, such small-loan credit tends to carry a relatively higher risk than banks ordinarily accommodate, and thus the potential for growth of bank credit cards and check-credit plans in this particular area is not great.

Other Financial Institutions

Close to \$2 billion of consumer credit is held by other financial institutions—including industrial loan companies, mutual savings banks, and savings and loan associations, among others. Although personal loans are a significant part of the portfolios of this group, many such loans have a particular institutional

appeal that would tend to insulate them from credit cards or check credit. For instance, savings and loan associations' "loans to stockholders against their share account in the association" are more in the nature of the customers' use of their own credit balances rather than the incurring of debt. Moreover, a very large part of the total credit extended by these institutions consists of home repair and modernization loans, most of which—for reasons already stated—fall outside the scope of credit cards.

Outlook

Among financial institutions, the principal area for possible substitution of bank credit cards and check-credit plans might well be the commercial banks themselves. For example, outside of the banks there is almost \$15 billion of "other consumer goods paper," a modest portion of which represents financing of smaller-ticket items that conceivably could come within the scope of the credit card. This would be true especially if the cardholder found it advantageous to use the automatic revolving-credit feature of the card in lieu of entering into a separate closed-end contract for each purchase. Moreover, for items of somewhat larger value, check-credit plans are particularly useful, having been designed to finance infrequent but relatively large purchases.

However, when account is taken of the tendencies of check-credit plans to limit severely the number of customers to whom this privilege is provided, when the differential credit risks involved are considered, and when the special "membership" appeals are given due consideration, the nonbank financial areas would seem to provide limited potential for penetration by bank credit-card and check-credit plans.

CREDIT-CARD POTENTIAL IN MARKETS NOW SERVED BY RETAIL OUTLETS AND SERVICE ESTABLISHMENTS

Retailers originate the bulk of all instalment contracts, but they typically sell most of these contracts to banks and sales finance companies.

At present, retailers hold about 12 per cent of all consumer instalment receivables, \$9.7 billion worth, of which \$9.2 billion represents "other consumer goods paper." In addition, they hold \$5.4 billion of service credit and \$7.6 billion of charge-account credit, for a total consumer lending volume of \$22.7 billion. Details of such credit outstanding at retail outlets in recent years are given in Table 15.

Service credit reflects in part consumer debt outstanding to hospitals, doctors, dentists, and other professional practitioners. Some of these professional groups are already enlisted in special financial plans established by commercial banks, but certain of them, in time, might be folded into a comprehensive credit-card or check-credit plan. Another part of service credit consists of consumers' public utility bills, which are more readily approached through the automatic prepayment plans with which a number of banks are experimenting. Prepayment plans would not exclude the use of revolving credit by the customer, and the overdraft system, in particular, would seem to fit in with such automatic payments. A third part of service credit represents indebtedness for an extensive assortment of personal services, including dry cleaning, recreation, and education. For reasons of convenience, many of these expenditures lend themselves to credit-card financing.

There are distinct possibilities that 30-day, charge-account credit will be gradually supplanted by more flexible revolving-credit plans. The amount outstanding in this category at the end of 1967 was \$7.6 billion, with about 75 per cent of it held either by retail establishments other than department stores and mail-order houses, or by the so-called T&E card firms. If an extensive system of bank credit cards develops, a sizable proportion of this charge-account debt could be handled by banks, although some of it could simply shift to department store or other credit cards already in existence.

A different situation exists with respect to the \$9.7 billion of instalment credit held by retail outlets. Some 55 per cent of such credit is held by department stores and mail-order houses, and since these businesses have been

Table 15

**CONSUMER LENDING BY RETAIL OUTLETS
IN SELECTED POSTWAR YEARS
By Type of Loan**

(Amounts outstanding at year-end, in millions of dollars)

Year	Total consumer credit	Noninstalment loans						
		Total	Charge accounts				Service station and other retail card accts.	Service credit
			Total	Dept. stores and mail- order houses	Other retail outlets			
1945.....	3,143	2,457	1,612	290	1,322	.....	845
1950.....	7,845	4,947	3,367	650	2,641	76	1,580	
1955.....	11,430	6,922	4,795	862	3,717	216	2,127	
1960.....	14,304	8,689	5,329	941	3,952	436	3,360	
1961.....	14,610	9,015	5,324	948	3,907	469	3,691	
1962.....	15,926	9,674	5,684	927	4,252	505	3,990	
1963.....	16,939	10,186	5,871	895	4,456	520	4,315	
1964.....	18,347	10,940	6,300	909	4,756	635	4,640	
1965.....	19,929	11,637	6,746	968	5,055	723	4,891	
1966.....	21,377	12,286	7,144	6,270	874	1,054	5,142	
1967.....	22,688	13,015	7,595	6,541			5,420	
Instalment loans								
Year	Total	Auto- mobile paper	Other consumer goods paper				Other outlets	
			Total	Dept. stores and mail- order houses	Furni- ture stores	Appli- ance stores		
1945.....	686	28	658	131	240	17	270	
1950.....	2,898	287	2,611	746	827	267	771	
1955.....	4,508	487	4,021	1,511	1,044	365	1,101	
1960.....	5,615	359	5,256	2,414	1,107	333	1,402	
1961.....	5,595	342	5,253	2,421	1,058	293	1,481	
1962.....	6,252	345	5,907	3,013	1,073	294	1,527	
1963.....	6,753	328	6,425	3,427	1,086	287	1,625	
1964.....	7,407	370	7,037	3,922	1,152	286	1,677	
1965.....	8,292	447	7,845	4,488	1,235	302	1,820	
1966.....	9,091	490	8,601	n.a.	n.a.	n.a.	n.a.	
1967.....	9,673	506	9,167	n.a.	n.a.	n.a.	n.a.	

n.a. Not available.

quite resistant to signing under bank plans, it is not clear whether and how much of the business might shift to the bank plans.

In general, the greatest potential for bank credit cards lies in those areas currently dominated by small to medium-sized businesses; various studies have shown that these are the kinds of businesses that most typically are signed to bank credit-card plans. Perhaps this is because these smaller retailers are most in need of competitive devices for building sales volume. For a small retailer, the ability to sell

goods on credit may well be the particular device that will increase the drawing power of his store. Over-all, as a result of these plans, there may be some shift in the mix of buying on retail credit in favor of the smaller merchant.

Even stores that already have credit facilities may find it to their advantage to participate in a credit-card plan. Such a credit facility allows the retailer to reduce the amount of working capital he requires for use in financing accounts receivable and also tends to reduce or eliminate the retailer's credit losses. It is difficult to

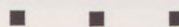
obtain good data on the cost of running a retail credit operation, but students of the problem have variously estimated that the cost to a typical merchant of running his own credit department ranges between 5 and 6 per cent of sales, perhaps a little more. In addition, a smaller retailer must be concerned with the fact that he normally experiences a higher risk in granting consumer credit since he cannot spread his credit over a large number of customers and may be confined to serving customers in a small area. With credit-card systems allowing the merchant to eliminate his risk and providing for discounts in the 3 to 4 per cent range, some stores that now maintain their own credit facilities are likely to re-evaluate the cost of this service.

Some low-margin retailers, such as supermarkets, have been discouraged from signing up with bank credit-card plans by the merchant discount, which their slim mark-up cannot sustain and which the customary rules of credit-card operations prevent being passed on directly to the consumers. Yet, in a few plans, banks have signed supermarkets by allowing them to charge a fee for credit-card purchases. Admittedly, this practice is not widespread nor would it seem to have much potential unless there is a change in the current buying habits of consumers.

The large department stores offer a different set of reasons for their unwillingness to join bank credit-card plans. First, they indicate that customer loyalty to the store might suffer. The bond between a customer and a store is allegedly strengthened by the store's own credit card. Second, some argue that they would lose an important marketing tool if they did not use their own card, for the customer's monthly statement serves as a means of reaching the customer with promotional literature that can be enclosed with the bill, and the list of credit customers provides an accurate mailing list for other direct mail advertising. A third reason given is that the joining up with bank credit cards eliminates credit flexibility. Currently, a department store can tailor its credit plan to serve the needs of the specific customers to

whom it appeals. It can accept lower credit standards than banks can risk with their general-purpose cards, and it can offer a variety of repayment plans to suit the requirements of its customers. This ability to be flexible, it is argued, would be lost by participation in a bank credit plan. Finally, some companies claim that their plans are efficiently operated and are therefore a source of profits. These attitudes might be altered to the extent that customers insist on carrying a single general-purpose card for all their credit transactions.

While most major oil companies continue to have their own cards—indeed, some have begun to broaden their card coverage to travel-related businesses—there has been some recent tendency for these companies to accept bank credit cards. There are two reasons for this. First, many oil companies operate their cards primarily as a merchandising device and not to obtain revenue from revolving credit. Consequently, their attachment to their plans is not so strong as that of the national retail chains and department stores. Second, the degree of consumer loyalty is less; in spite of their advertising, oil companies are selling basically the same product. Should customers get into the habit of carrying one general-purpose card, the oil companies could no longer expect to limit credit customers to their own card.



The introduction and growth of bank credit cards and check-credit plans will have a definite impact in the area of consumer credit. By offering these services, the banking community almost certainly will acquire a larger proportion of the consumer credit business; and this will be in addition to a share that has been increasing steadily in recent years. This does not imply, however, that other lenders will be eliminated. First, some extensions of credit will be for larger amounts than the card limits can accommodate. Second, other institutions may be situated or constituted in such a fashion as to be able to accept different risk

levels and risk dispersions. Third, banks have no inherent advantage over specialized institutions that can be expected to compete vigorously for their share of the consumer credit market.

Some changes in the structure of retailing may accompany the expansion of bank credit-card plans. Smaller retailers should be able to improve their competitive position by offering

revolving credit through bank plans to match the plans of the larger retailers.

In the final analysis, of course, it is the consumer who stands to benefit most from the heightened competition arising out of bank cards. Not only will credit be made available to him in more imaginative ways, but also the cost of such credit will tend to lessen as competition increases.

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IMPLICATIONS FOR THE CONSUMER

7

WHO USES CREDIT CARDS?

Consumer credit is a middle-income phenomenon. High-income people may use charge accounts but rarely any other kind of consumer credit. The lowest-income groups, as well, seldom use credit—whether from volition or because of the unwillingness of lenders to advance them money. They are even less likely to use revolving-credit accounts, charge accounts, and gasoline credit cards, even though these devices provide free credit for short periods of time. Perhaps the principal reason that low-income people may not desire to use charge accounts and gas credit cards is the increased financial difficulty that seems to arise when one more bill of unknown size comes in each month. As for gasoline cards, it may also be noted that lower-income families take fewer vacations and fewer long trips than upper-income groups do. Regardless of the reasons, the fact of disproportionately less use of credit by lower-income groups is well substantiated. Studies made by the Survey Research Center at the University of Michigan show that it is only at incomes above \$7,500 that as many as a third of the people use gasoline credit cards, and above \$10,000 that more than half do.

The characteristics of users of bank credit cards have been investigated by Dr. Harlan Patterson of Michigan State University in his study of bank credit-card activity. The data relate to the summer of 1961 and are based on a relatively small sample, so they must be qualified. But it is interesting to note that almost a third of the cardholder respondents in his survey reported incomes in the \$5,000 to \$7,000 range. The second most important group in the distribution—accounting for 27

per cent of the total—had incomes ranging from \$7,000 to \$10,000. As might be expected, only 3 per cent of active cardholders had incomes of less than \$4,000, and less than 2 per cent had incomes of more than \$25,000. Thus, the holding of credit cards by high-income families is roughly in proportion to their number in the population while that of low-income families is disproportionately low. Of all consumers, the middle-income group—where the representation among cardholders is twice as high as among all families—is most likely to be affected by credit-card developments.

ADVANTAGES AND DISADVANTAGES OF BANK CREDIT CARDS FOR CONSUMERS

There has been much discussion—and much disagreement—about the advantages of bank credit-card plans insofar as the consumer is concerned. What is it that motivates consumers to use these plans as a substitute for other forms of credit or even as a substitute for cash purchases? Bank credit cards, of course, are but the latest in a long line of cards and thus the way has been paved for their acceptance by the consumer. But beyond that, some of the advantages more commonly advanced include:

1. The single application for credit conveniently spares the customer the bother of multiple form-filling when his card can be used in a number of separate stores where he might wish to make purchases.
2. One “all-purpose” card may conveniently replace a multitude of special-purpose credit cards in his wallet.
3. The single monthly statement received

by the customer enables him to see at a glance all his card purchases for the month and to simplify his budget process.

4. The cash-advance feature of a credit card enables the customer to handle unexpected contingencies without destroying his budget and making an unwanted dip into savings, and without excessive formalities.

5. Bank credit cards permit some economizing on the amount of cash carried.

6. Payment of bills is simplified since the cardholder needs to write only one check to pay for many purchases. This may also reduce service charges on his checking account.

These advantages reflect the mechanics of credit cards and therefore are basically descriptive of how the cards work. As such, they do not require detailed analysis. The growth of credit cards confirms the existence of these convenience features, although the value of each feature remains a matter to be determined by the individual consumer.

On the other hand, several alleged disadvantages of credit cards to consumers need to be considered:

1. Cash customers have to bear the added costs created by other customers' use of credit cards, as prices rise to cover higher handling expenses, including the merchant discount.

2. Credit cards lead consumers to buy more than they would if they had to pay by cash or check.

3. Credit cards lead consumers not only into debt, but into overindebtedness as well, with an attendant rise in consumer delinquencies and even bankruptcies.

Does the Use of Credit Cards Increase Merchants' Costs, Raise Prices, and Discriminate Against the Cash Customer?

One objection to the use of bank credit cards is that the process of handling credit-card transactions, including the discount levied by the banks on the merchants' sales tickets, consti-

tutes an added cost that will have to be absorbed through an increase in prices to all buyers, both cash and credit. From this some have concluded that cash buyers will be paying part of the additional costs involved in credit-card purchases.

The Task Group concludes otherwise. Over the next few years at least—and possibly over the longer run as well—bank credit cards are likely to have little or no direct effect on the prices at the stores where they are used. (The more general question of the effect of credit cards on inflation is discussed in Chapter 8.)

In the first place, to the extent that bank credit cards substitute for credit operations already in existence, the merchant will usually find the credit-card discount no more, and ordinarily substantially less, than the costs he now incurs in extending retail credit. He will be relieved of the bookkeeping expense and the losses involved in his own retail credit operations and will have a reduction in his working capital requirements. These advantages may more than offset the discount imposed by bank credit cards. Consequently, for such a retail merchant, the substitution of a bank credit-card plan for his own credit operation would not necessarily result in any increase in operating costs and would likely reduce them. In either case, the acceptance of bank credit cards would exert no upward pressure on costs.

In the second place, for any kind of merchant, any increase in sales volume as a result of the use of the card would broaden the distribution of overhead expenses, thus tending to reduce per-unit fixed costs.

In the third place, as long as the merchant receives some margin of profit on the credit-card sale, after deducting the bank discount, no upward price pressure arises directly from the use of the card.

Of course, upward pressure on prices would arise from any massive shift of cash customers to the use of the credit card if there were no offsetting increase in the volume of transactions. The evidence available to the Task Group suggests, however, that even in the areas of heaviest use, credit cards account for a

minor share of the business of individual retail merchants, thus minimizing (1) the likelihood that such a shift would represent a significant part of total sales, and (2) the likelihood that the adverse impact on average profit margins would be sufficiently discernible, especially after allowances for expanded volume, to cause an increase in prices. Indeed, what little evidence there is suggests that credit cards have tended to reduce the costs to small merchants, instead of increasing them, and there is no evidence that they have pressed merchants in general to raise prices.

Even the longer-run implications of credit cards do not necessarily lead to a price-increasing effect. If use of credit cards should expand to the virtual exclusion of cash and checks, then any discount at all would constitute an increased cost to merchants. The relevant comparison, however, would then be not with the present cash- and check-payment systems but with whatever alternative system might develop in the absence of credit cards. Should the alternative system be one relying heavily on credit, then the merchants would not necessarily be worse off if they had to pay the discounts against credit-card sales slips.

Perhaps the major point to be kept in mind is that the current competitive situation in a community will be the most important determinant of prices. Those stores that do offer credit, whether through their own facilities or through outside credit arrangements, will want to have a price policy that is competitive with other stores in the same market area. Moreover, the recent trend has been for banks to lower their discounts, and competitive pressures should keep this trend from being reversed. With lower bank discounts, the possibility of higher prices is further reduced. All in all, credit cards should have little influence on retail prices and therefore on the cash customer.

It is not price increases per se that reflect discrimination against a cash customer, but only those price increases resulting from credit-card operations. If downward price pressures

result from these operations, as the scanty evidence suggests, then the cash customer too is a beneficiary.

Do Bank Credit Cards Lead Consumers to Buy More than They Would if They Had to Pay by Cash or Check?

It is true that, as a result of the use of credit-card plans, some individuals may find—to their consternation and possible embarrassment—that they are overspending. As credit cards substitute for other means of payment, the traditional signals warning the spender that he is approaching a budget limit are no longer operable—that is, depletion of money from his pocket or exhaustion of the balance on his checkbook stub no longer sounds an alarm. An occasional overdrawn is not necessarily calamitous, however, and the person who finds himself too often spending more than he had counted on has only to adopt a tighter book-keeping system or cease using his credit card in order to escape the problem altogether.

This type of financial oversight is not a necessary result of the use of credit cards, however. (It is quite possible in principle, though perhaps rare in practice, to keep a running tally of one's sales slips and to keep in view the total sum that one's budget would permit being spent in this way.) Nor is the incidence of this problem known. The problem would tend to arise only for those individuals for whom credit-card use had become a customary and substantial substitute for cash and check purchases—probably not yet a significant proportion of those using cards, let alone of those holding them.

The less convenient current accounting that tends to accompany credit-card use can be a nuisance, but it is not, in itself, a serious problem either for the individual or for society. As cardholders gain experience with this relatively new credit device, it is to be expected that they will learn to manage it to suit their needs just as they have learned to manage other forms of consumer credit.

Do Bank Credit Cards Lead Consumers into Debt, with Serious Results for the Individual and Society in General?

The existence of credit cards eases the movement into debt by making the acquisition of debt (1) convenient (through automatic lending when the bill is unpaid), (2) less painful (through revolving credit), and (3) more acceptable (through widespread use and general social approval of such plans).

Despite the fact that credit cards permit (and may even encourage some) individuals to overdraw their funds, these plans do not necessarily lead one into formal debt—that is, debt extended beyond the due date billed. Many cardholders find it a convenience to use the card when shopping and to remit upon being billed without incurring any extended obligation. Many of the others who use the automatic credit privilege do not become debtors as a result of credit-card use, of course, but transfer their former debt-incurrence habits from credit operations at retail stores (or elsewhere) to credit-card operations at banks.

Still others who incur their first consumer debt through the use of one of these plans would have incurred debt through more customary credit devices had credit cards not been available. Indeed, in the aggregate, there is no evidence of any mounting incidence of consumer indebtedness since the recent burst of credit-card and check-credit plans; the proportion of the population owing instalment debt has remained fairly constant at around 50 per cent in recent years. Thus, information so far available does not indicate any significant amount of overdrawing in these accounts.

There is no special aspect of credit cards that may make their users, individually, more prone to *overborrow*. Indeed, the reverse is true. Credit lines established by commercial banks serve as a protection both for the bank and for the cardholder, and it is in the interests of both to avoid delinquency and bankruptcy. The potential for increased borrowings by large numbers of consumers under credit-card

plans is limited by the same practices that the banks introduced to protect themselves against excessive borrowing by individuals under previous credit programs.

In general, cards are issued only to customers meeting specified standards, and these are applied even to the original mass-issue. In addition to the problem of fraud, where the banks have instituted special procedures to identify and pick up quickly the so-called “hot cards,” credit controls are set to insure that customers do not build up excessive indebtedness. Generally, credit limits are set on the low side—typically \$300 to \$400—until a record justifying higher limits is established. Furthermore, once a customer reaches his credit limit, he can no longer use his card without the bank’s permission. A credit card does not, therefore, give unlimited access to credit. However, credit cards do raise the over-borrowing potential by bringing credit within the easy reach of more individuals, among whom a considerable number could find that even the modest beginning credit limits were excessive relative to their means while others would tend to abuse whatever credits were available.

The incidence of overborrowing on credit cards has not yet become significant. The available evidence on established card plans indicates delinquency and loss rates not far out of line with experience in other kinds of consumer credit operations, and it supports the conclusion that banks are exercising due care and are not encouraging excessive borrowing. Similarly, in the aggregate, the ratio of repayments on instalment indebtedness to disposable personal income stopped rising—at least temporarily—in 1965. Thus, in the period when the bank credit-card and check-credit plans have shown their most rapid expansion, there has been no marked change in the relative indebtedness of consumers.

Overborrowing, to the extent that it does occur, is indeed serious for the individuals involved. Credit-card programs require continual vigilance to keep down abuse of all kinds. Fortunately, it is in the interests of banks, in administering their programs, to keep overborrowing to a minimum.

IMPLICATIONS FOR MONETARY POLICY AND INFLATION

The potential for instantly available loans through bank credit cards and overdraft plans increases the liquidity of the public the moment the cards are received or the overdraft arrangements are made. This tends to reduce the demand for money itself. The use of credit cards and overdraft plans converts that original spending potential into actual expenditures and new demand deposits.

Of course, credit cards and check-credit plans are, in part, substitutes for different credit arrangements that would otherwise be made or used. Moreover, the adjustments of the economy—including, importantly, the banking system—to these developments may tend to offset their initial effects to some degree. Nevertheless, since the gross expansions are larger than any offsetting factors, some net expansion of expenditures, credit outstanding, and the money supply may be expected as a result of the advent of these new banking instruments.

This does not mean that credit cards pose an inflationary danger. Just as they tend to be benign on the cost side, so has their impact been modest in expanding aggregate demand. To be sure, credit cards could facilitate unexpected increases in expenditures, but this prospect is insignificant compared with the potential activation of time deposits. The total volume of credit-card lines authorized by banks as of September 1967 was \$5.1 billion and only \$0.6 billion of this was being utilized. Thus, about \$4.5 billion of potential credit expansion was implicit in the total lines at that

time. This compares with \$237.5 billion of time deposits in all banks.

Although a simultaneous attempt on the part of all holders of credit cards to utilize all their credit lines at once—an unlikely possibility—could pose problems for the commercial banks and for borrowers in general, it would not necessarily result in a problem of massively larger expenditures in the economy as a whole. During inflationary periods, monetary policy tends to reduce the availability of reserves to commercial banks. With few excess reserves available, commercial banks would be faced with the necessity of reducing still further their loans to other customers as credit-card customers expanded the use of their lines. The real meaning of the lines of credit, therefore, is the preferred position that holders of credit cards might have in the credit-rationing queue; the net addition to the spending stream stemming from cardholders' expenditures would not even approach the gross volume of those expenditures. When all sectors are considered, total spending might not rise despite increased lending to consumers via bank credit cards.

Since banks are likely to find that the lines of credit embodied in these plans cannot be easily modified, the principal burden of adjustment to monetary restriction is likely to be borne by other parts of banks' portfolios. But consumer credit is a sector of the economy that is not so sensitive as some to monetary restrictions, and an inability or unwillingness of consumer lenders—in this case banks—to restrain their lending does not represent a major change from the present situation.

There are, however, several factors limiting

the inflationary impact of bank lending via credit cards. First, some of the credit extended under bank credit-card plans will continue to replace existing credit. For instance, many merchants signing up under bank credit-card plans are using the bank plans as a substitute for their own existing credit extensions. In addition to this kind of substitution, the cash advances provided under both credit-card and check-credit plans are frequently used in place of small personal loans. And such displacement should continue.

Second, as an individual increases the normal percentage utilization of his credit line, the latent potential expenditure from his credit card will be drawn down. And if cardholders use their credit lines to the maximum, the additional credit can be injected only once for a particular card. In order to keep his credit expanding, a cardholder would have to continue acquiring additional credit cards. But this is not realistic nor possible. Many cardholders have treated this type of credit primarily as a convenience, rather than as a means of increasing their total indebtedness. Even where cardholders elect to buy on a revolving-credit basis, they must still pay off in installments—and such payments inhibit maintenance of a sustained abnormal rate of consumption.

While the entrance of additional commercial banks into the credit-card field will probably contribute to the expansion in consumer credit, the growth rate is not likely to exceed the pace that has existed during much of the period since World War II. The rate of growth of retail charge accounts and revolving credit—the segment that will be most influenced by bank credit cards—has been quite modest, increasing from 1.8 per cent to 2 per cent of disposable personal income over the last 10 years. These changes are primarily a reflection of gradual shifts in the payments habits of consumers. The entry of banks into this field should not be expected to generate any major and sudden alteration in consumers' habits.

The potential consequences of bank credit cards for inflation and monetary policy do not appear to be very significant at the moment.

IMPLICATIONS FOR THE CLEARING MECHANISM

Bank credit cards are not on the direct path of development of an instant-payments mechanism. Some features of the card operation—such as customer identification, embodiment of data for automatic transfer (through the imprinter to the sales slip), and displacement of some of the customary means of payment—are suggestive of a checkless society and may well be utilized in the coming transition of the payments mechanism. However, other promising features that might currently be found in some credit-card systems—such as the suitable use of computer files for credit referencing—are incidental to such plans rather than inherent elements, while various essential elements of the money mechanism of the future are not part of credit-card operations at all, but will evolve from other sources, particularly communication and computer technology.

Moreover, even such a likely contribution as the use of the plastic card to activate the transfer of information or to identify the customer may well be displaced by auditory or visual techniques. Most important to an appreciation of the disparities of the two lines of development is the fact that the credit-card system generates more rather than less paper for the clearing system to handle; in this respect, it is moving in a direction opposite from that of instant payments.

Finally, credit cards are essentially credit devices, with payments features incidental. In contrast, an instant-payments mechanism will undoubtedly bring various credit developments along with it as it evolves, but conceptually these are supplemental rather than inherent features. It would be a mistake, therefore, to confuse today's credit-card reality with the instant-payments vision of tomorrow and to attribute to credit cards either the problem or the promises of an instant-payments society.

Nevertheless, credit-card programs are likely to contribute to the "less-check" society in an important, though indirect, way—namely, through reaction to the paper volume they tend

to generate. If this reaction develops, it will require changes in consumer habits, merchant practices, and the institutional arrangements at commercial banks, as well as in the Federal Reserve System.

Use of bank credit cards should tend to reduce the number of checks cleared by the banking system. (It is likely that, on the average for the month, the settlement of transactions on one credit-card account replaces more than one check that would otherwise have been used for merchant payment.) But if every sales draft were counted as the equivalent of one check in calculating the volume of paper that passes through the payments mechanism, bank credit cards have augmented the paper work burden to the extent that a sales slip replaces cash in a retail transaction.

With respect to Federal Reserve clearings, the use by banks of the System's clearing facilities for settlement of sales drafts between banks would cause a net increase in such clearing transactions too, as a result of the use of bank credit cards. This possibility exists now that American Bankers Association numbers can be and have been allotted to credit-card organizations. At the moment, the additional burden is virtually nonexistent, and it is likely to remain relatively small for some time, since most credit-card purchases originate locally or through outside clearing systems organized by interchange plans and, therefore, would not be cleared through the Federal Reserve System. But in the more distant future, as more banks adopt credit cards and enter interchange agreements permitting cardholders to use their cards

at distances remote from the location of the card-issuing bank, and as the use of the card away from home grows, more pressure can be expected to arise for clearance of sales drafts through System facilities. Although outside clearing arrangements are expected to evolve along with this need, these developments are of interest to the Federal Reserve.

At the same time, increased volume of credit-card paper would reinforce pressures on the banking system for technological improvements in their payments machinery. (To a lesser degree, check-credit plans may also generate more paper for the banking system, since they encourage the use of checks in lieu of cash.) The result should be to encourage the development of new means of handling paper or, better still, replacing it. "On-line" communication links between banks and stores are already being tested on a limited basis for feasibility of transmitting payments data electronically, rather than by paper, but their general adoption is not yet economically feasible. Another element in "on-line" systems is the need for identification of customers. This is also a requirement for credit-card plans, and the development of improved methods of identification for use in credit-card plans would also remove one barrier in the way of adopting "on-line" systems.

In conclusion, the prospective growth of bank credit cards and the accompanying technological advances make it desirable for the System to keep abreast of developments in this area and be prepared to exercise leadership to fulfill the Federal Reserve System's responsibilities in the areas of credit and payments.

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APPENDICES

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APPENDIX A

SELECTED CREDIT-CARD PLANS OF SMALL BANKS

The growing use of credit cards and check-credit plans raises a number of questions concerning their possible impact on banking structure and competition. If their use continues to spread, banks unable or unwilling to undertake such operations could be at a competitive disadvantage.

Because of the heavy start-up and operating costs of a credit-card operation, the major question concerning the impact of such plans on banking structure is whether small banks can compete with larger ones. Closely related to this question is whether lower-cost alternatives, such as check-credit or an association-card plan, provide an effective avenue for small banks to compete.

The experience of the 1950's has shown that success in the credit-card field is not entirely a function of size. The success of some very large banks in this field has been well publicized. Not so well publicized has been the success of a number of plans set up by small banks. This appendix reports on the features of a selected group of these small-scale plans. The general characteristics of the seven banks operating these plans are shown in Table A-1. The details of plans are summarized in Table A-2.

With two exceptions, the banks had total deposits on December 31, 1966, of less than \$25 million. The years in which the plans were started ranged from 1953 to 1962. Thus, in each case, the surveyed banks started their credit-card operations well before the latest spurt of activity in this field. Without exception, the 7 banks were the only ones in their respective market areas that were offering a credit-

Table A-1

CHARACTERISTICS OF SELECTED SMALL BANKS OPERATING CREDIT-CARD PLANS

Bank identification	Total deposits ¹ December 1966 (In millions of dollars)	Population of city ¹ (In thousands)
A.....	20	600
B.....	10	10
C.....	20	15
D.....	150	60
E.....	10	250
F.....	30	50
G.....	5	30

¹ Figures are approximate.

card plan. This no doubt reflects the limited size of the market areas served. Populations of the cities in which the banks are located range from about 10,000 to more than 600,000.

1. Features of Credit Cards of Small Banks

The specific features of the plans of this selected group of small banks are similar to those of most credit-card operations. The sales slips from participating merchants are discounted at rates of from 3 to 6 per cent, depending on the volume of merchant business accepted. While the average discount was not specifically asked for, interviews suggest that it would be close to the top of this range. Two bankers reported that, while they had sliding-scale arrangements for discounting merchants' sales tickets, even the largest participating business very seldom would reach the necessary volume for a rebate.

Customer charges and floor limits were found to be approximately the same as for other plans. Five of the seven banks charge 1 per cent per month on the unpaid balance, and two charge

Table A-2

FEATURES OF SELECTED SMALL BANK CREDIT-CARD PLANS

Bank identification	Year plan started	Cards issued (number)			Merchants signed (number)		Specific features of plan			Costs and profitability status of plan		
		Initial	Current (9/67)	Currently active (9/67)	Initial	Current (9/67)	Merchant discount (per cent)	Customer charge (per cent per month)	Floor limit (dollars)	Costs of starting (dollars)	Time needed to recover costs (months)	Current status
A.	1960	10,000	40,000	20,000	300	850	3-6	1.5	25	n.a.	n.a.	Not profitable
B.	1962	1,080	230	60	14	11	n.a.	1.0	None	1,000	Immediately	Profitable
C.	1959	8,000	12,000	6,000	100	145	3-6	1.5	(¹)	50,000	42	Profitable
D.	1959	15,000	25,000	10,000	104	440	3-6	1.0	25	80,249	69	Profitable
E.	1959	2,000	4,500	1,500	120	200	6	1.0	None	n.a.	12	Profitable
F.	1953	3,600	5,000	3,300	120	300	4-5	1.0	25	n.a.	18	Profitable
G.	1954	1,500	6,000	3,000	175	256	4-5	1.0	25	n.a.	30	Profitable

n.a. Not available.

¹ Varies by type of merchant.

1½ per cent. One of those charging 1½ per cent included credit life insurance. The most common floor limit was \$25. However, two banks reported no floor limits, and one established varying limits depending on the nature of the merchant's business. Several bankers also mentioned entry charges and monthly imprinter charges.

2. Customer and Merchant Participation

The credit-card operations included in the survey ranged in size from 230 cardholders and 11 participating merchants to 40,000 cardholders and 850 merchants. Almost all the banks sent cards to their established customers when their plan was started and then made use of other mailing lists. With only one exception, the number of current holders of credit cards for the various plans is larger than when the plans were started. Another measure of the growth of most of these plans is that the number of cards in active use at the time of the survey was close to the total number initially issued. The number of active cards is not the only measure of success, however. One bank reported a successful operation with only 60 active cards.

It became clear during the survey that bankers define activity of their credit cards in various ways. Some consider as an active account one that has an outstanding balance; others, an

account with at least one billing during the latest 90-day period; and still others, one that was billed at least once during the year. It was surprising to find that, despite these various definitions, the number of active accounts was generally around 45 to 50 per cent of all outstanding cards.

Again despite various definitions, the number of merchants currently participating in each plan is larger than when the respective plan started. In most cases, the plans are operating with less than 400 merchants. The largest plan, in terms of cardholders and merchants, has 850 participating merchants.

One disappointing aspect often mentioned was the inability to attract additional business through participating merchants. Although merchants were required to maintain an account with the bank, very few broke their relationships with other banks. In many cases, they merely maintained the required account there, and they continued to bank, for the most part, where they had previously.

3. Costs and Profitability

Six of the seven banks reported a profitable operation. The exception—the largest of those surveyed in terms of both cardholders and participating merchants—reported that its credit-card operations were too small to justify being put on a computer but too large to be handled adequately by other means. Indications from

the other bankers suggested that even after several years their plans were not highly profitable. Most, however, were pleased and enthusiastic about their operations.

An attempt was made to determine how long a period was required to recover costs. This period ranged from an immediate recovery to 69 months. The smallest plan started with an outlay of only \$1,000 using a single card-file. This bank reported an immediate recovery of costs! The time required for recovering costs at the other banks, all of which used billing or accounting equipment, varied directly with the number of cardholders.

4. Observations and Evaluation

While the seven small banks had generally successful plans, bank officials were either reluctant or unable to discuss the problems facing small banks in this field today and the alternatives available to them. A few comments are worth mentioning, however.

According to several bankers, the small bank in an isolated community faces no apparent difficulty in operating a credit-card plan. Most of these communities have a high affinity for keeping their dollars at home. Small banks in such localized areas are shielded somewhat from outside competition, but if pressures be-

come strong, local banks can and will offer the desired services. It was the opinion of several of these bankers that small banks, if considering entrance into the field, should do so with their own credit-card plan and not with a check-credit plan or as an agent of another bank.

The major problem in the small communities, according to the observations of several bankers, is the reluctance of merchants to participate in a bank plan. And if in the community there is a large retail outlet with its own credit card, a small bank would find it difficult to start a small-scale plan of its own.

As indicated earlier, this part of the survey was limited, in that only seven banks were included. At best, therefore, it provides only a tentative appraisal of the operations of successful credit-card plans of small banks. It was found that the success of many of these plans is attributable to the complete absence of direct competition from other plans. Also, that the features of the various card plans were not significantly different from well-known major plans. However, very little information was obtained about the costs of starting and operating the surveyed plans. One conclusion that can be inferred from the survey is that small banks in isolated areas are probably not precluded from offering their own credit-card plans.

MASS MAILING OF UNSOLICITED CREDIT CARDS AND ISSUE BY APPLICATION ONLY

Section 1 below describes the experience of banks in Chicago with their mass issue of credit cards, and Section 2 describes the practices instituted by other banks that reflected lessons learned in Chicago. Section 3 reports on the experience of Marine Midland Trust Company of New York in its attempt to obtain cardholders by soliciting applications.

1. Chicago Experience with Mass Mailing

Public officials, bankers, and the press have frequently made unfavorable comments on the mass mailings of unsolicited credit cards by Chicago banks in late 1966. Because of the concern expressed by such groups, the Task Group felt that it was important to direct special attention to developments in the Chicago area. Of particular interest were the circumstances underlying the issuance of credit cards by Chicago banks, the steps taken to modify distribution policies once the difficulties became apparent, and the effects of the experience on the banks and the public.

Once the decision to introduce credit cards was made, the nature of bank competition in the Chicago area and the unit-banking structure of the State provided the banks with forceful arguments for using mass issuance as a method of distribution. However, there were difficulties associated with such mass issuance. The banks responded rapidly to these difficulties, and the burden of the unfavorable results fell on them, not on the general public. As a result of its investigation, the Task Group has concluded that

although the method of distribution had detrimental effects upon the earnings of the banks involved—and perhaps on the image of the banking community—the results were not so serious as has sometimes been contended. Viewing the experience from hindsight, however, the Task Group feels that some modification in distribution and marketing efforts would have averted many of the unfavorable aspects of the mass issuance.

With very few exceptions banks elsewhere that have entered the credit-card field have also sent out unsolicited cards. What made the situation different in Chicago was that five banks entered the credit-card field at the same time. Prior to these developments in Chicago, most plans had been introduced and operated without significant competition in the same market.

Experience with bank credit-card plans has demonstrated the need for volume if the service is to generate a profit. In attempting to develop volume, a bank must attract a wide range of merchants to make it worthwhile for individuals to accept and use the bank card. At the same time the bank must attract a large enough group of cardholders to make it worthwhile for merchants to become associated with the plan. The conversion of merchants' accounts receivable commonly used by banks starting plans in the mid-1950's would not be sufficient to provide the volume required. Evidence provided to the Task Group by a bank that had tested the results of mailing cards on both a solicited and an unsolicited basis indicates that bank dependence upon application alone will not provide the required volume. Even in retrospect, it appears that unsolicited mailing was the only logical course to pursue if a large merchant- and cardholder-base were to be developed in Chicago.

The unit-banking structure in Illinois and the highly competitive nature of banking in Chicago were important reasons for using unsolicited mailings in that area and at the same time were the cause of some of the difficulties associated with the mass mailings of credit cards. The large unit banks in Chicago—operating, as they do, in a non-branch-banking State—did not have the merchant or individual customer contacts necessary to build a large merchant- and cardholder-base. One of the reasons for entry into the credit-card field had been to expand their retail market. Since credit cards, unlike overdraft banking, do not require a prior customer relation, the bank credit-card field provided entry into a market that in the opinion of some had been closed by the restrictions on branching. In order to tap this market, unsolicited card mailings were considered essential.

In the Chicago area many individuals are not familiar with the services that banks provide. Many, in fact, consider currency exchanges and savings and loan associations as their “banks.” Under such circumstances the introduction of the cards by the banks was considered to be a departure from normal, and it produced some unfavorable reactions and complaints that were given wide audience by the press.

The problems of mass mailings were further compounded in Chicago by the highly competitive environment among banks. Several banks in that area were interested in expanding their portion of the retail market and had been studying the possibility of introducing credit-card plans. The first to issue cards was likely to capture a large share of the market. But none of the participants was willing to concede the market to others. Mass issuance of cards by each bank was required in order to assure that its competitors would not command greater customer loyalty and higher earnings through a larger number of cards.

One result of this competitive atmosphere was that some individuals received credit cards from more than one bank. This was unavoidable since by law the banks could not arrange for an allocation of customers to eliminate this duplication. Furthermore, because of branch-

ing restrictions, individual banks relied on correspondent arrangements to penetrate other geographical areas. Lists of good bank customers were sent by correspondent banks to the card-issuing banks, and credit cards were then distributed to those individuals. The card-issuing banks did not always feel that cross-checking of names and addresses could be justified on economic grounds. And even where it was undertaken, duplication crept in because of differences in spelling of names or in addresses.

In spite of some reports appearing in the press, it is clear that the mailing of unsolicited cards in Chicago was not an indiscriminate mailing of such cards. Most of the names were obtained from the customer rolls of the bank or its correspondent. Selection standards were based as a general rule on the size of the account and on a satisfactory credit rating experience. Some names were obtained from lists purchased from credit bureaus. All such names were screened for negative information.

The Task Group is aware that an unfortunate public relations problem did result from the use of bank customer lists. Besides duplication because of failure to cross-check names or because of differences in the spelling of names or in addresses, some cards were mailed to children and others who should not have received them. However, bank records do not normally contain information such as the age of the account holder, and the banks were aware that there would be some errors of this type. But as a matter of business judgment, the banks felt that the benefits to be gained in using these lists offset the risk involved.

Although a great deal has been made of the “blanketing” of the Chicago area with credit cards, the evidence available does not appear to indicate any substantial displeasure on the part of the public. For example, the three largest card-issuing banks in the Chicago area have attempted without success to trace rumors of excessive multiplicity of cards. For periods in early 1967, for which records are available, the banks reported that protests and returned cards amounted to only about two-tenths of 1 per cent of the cards mailed.

For the most part, the difficulties associated with the mass mailings affected the banks rather than the public. Some of the published reports apparently failed to distinguish between the fraudulent use of the cards and the problems associated with granting credit to unqualified borrowers. The major problem for the banks was fraud and not misuse. The credit card is designed for a mass market, and the banks expected to reach potential borrowers who had not used bank services before. They also expected that the initial credit-card experience would show larger losses than those on consumer instalment loans. As noted earlier, the mailings were selective—not random—and were designed to reach those most likely and able to use a credit-card service. The experience with credit misuse was somewhat greater than expected but still within a range acceptable to the banks.

It was the fraud experience that was unexpected. The dumping of millions of credit cards in a market was too much of a temptation. Security procedures were not carefully developed. Cards were placed in a postal system already heavily burdened with Christmas mail and staffed by large numbers of temporary workers. Criminal groups systematically picked up cards in multifamily housing units and apartment houses. In isolated cases, participating merchants cooperated with improper cardholders to bill large quantities of merchandise until the card appeared on the “hot card list” and then turned in the card and split the “hot card” reward with the improper holder.

The Chicago banks moved vigorously to meet the problems created by fraudulent use of bank credit cards. Merchants involved in improper billings were dropped from the plan. Credit authorization levels were changed frequently and in some cases lowered to zero to catch fraudulent use as soon as possible. Banks called each cardholder after the first use of the card—ostensibly to thank him for using the card, but actually to confirm that the proper individual had used the card. Data-processing procedures were modified to flag multiple use of a card in a single day. The clearing of sales slips was

speeded up to provide early checks on account status. Three of the major banks called in all cards and reissued cards only to those individuals who applied or who had been using their cards properly. Registered mail was substituted for regular mail, and security procedures for transmittal to post offices and for mailing were tightened. Arrangements with plastics manufacturers were reviewed, and internal audit procedures for card imprinting were tightened.

Figures on fraud losses in the Chicago area are still incomplete because recoveries continue. Harold Taylor has estimated total losses at a minimum of \$6 million.¹ Information available to the Task Group indicates that this estimate is high. While the losses were substantial, there was no indication that the safety or soundness of the banks was impaired in any way. The fraud loss represented less than one-half of 1 per cent of the total capital of the banks involved. The losses were charged off as expenses as they occurred. They were not large enough to require the banks to itemize them in the “other expense” category of their earnings statement; on this basis the losses may be considered as not being excessive. Finally, it should be noted that the reserves for bad debt accounts of the banks were three to four times larger than the amounts of credit outstanding on their charge cards.

Thus, the banks' losses were low in terms of earnings and were not of sufficient magnitude to justify supervisory concern. But in terms of public image the banks did appear to suffer some loss although, as noted earlier, this is virtually impossible to document. Given the size of the institutions involved, it is difficult to argue that any “loss of image” that may have occurred was debilitating.

Finally, the impact on the public was moderate. As far as is known, no individual was held responsible for charges made by persons not authorized to use his card. Until the individual accepted the card by signing or using it, the bank was held liable. While he may have been concerned initially about his liability, this concern now appears to be a thing of the past.

¹ See Harold Taylor, “The Chicago Bank Credit Card Fiasco,” *Bankers Magazine*, vol. 151, no. 1 (Winter 1968), p. 49.

2. Other Experience with Mass Mailing

Banks have profited from the Chicago experience. Several banks that subsequently used a mass mailing approach for an initial solicitation examined their files of consumer credit borrowers and checking-account depositors to determine who should be given the opportunity to receive a card. Branch managers provided assistance in culling the list of checking-account customers. A greater effort was made to avoid the issuance of duplicate cards.

Recent entrants have been careful in selecting the manufacturer of the card and have tried to choose the manufacturer that appeared to take the tightest security precautions. In at least one instance, security at the embossing firm was judged to be insufficient, and the bank decided to put one of its own men on the premises at all times. When the time came for the final mailing of the cards, representatives of the banks worked closely with the post office. They grouped the cards by geographical areas and staggered the mailings so that the mailings would not coincide with the receipt of social security and other such checks, which are very theft-prone. The banks have tried by various means to reduce fraud to as low a level as possible. However, there have still been some instances of organized theft.

3. Experience of Marine Midland Trust Company of New York with Solicitation of Applications for Credit Cards

The experience reported by the Marine Midland Trust Company in soliciting applications from customers is probably indicative of the problems any issuer would have in distributing cards solely on a request basis. During 1966 Marine Midland conducted a series of promotional campaigns designed to solicit charge-card applications from potential customers. These promotions were coordinated with the opening of a new shopping plaza, local sales, the opening of new stores, and so forth. The bank also sent large numbers of self-mailer

applications to selected groups of prospective customers that had been referred to the bank by local retail merchants or that were good customers of the bank in other types of credit.

Marine Midland has operated an active charge-card program since 1958. This charge card is usable at a large number of retail outlets in western New York, and the local population is well-conditioned to the use of the card. Notwithstanding these factors, which should have added to the success of the solicitation, the bank concluded that its campaign to obtain applications was singularly unsuccessful.

The bank also made a distribution of charge cards on a selective basis to customers in a secondary city area in western New York without having received any written request. A study by the bank based on a control group of 731 charge-card recipients indicated that 139, or about 19 per cent of them, were *active* within a 60- to 90-day period after the distribution. And less than 1 per cent of the persons receiving cards returned them.

In the examples in the tabulation below, Marine Midland received only 221 applications for charge cards from 33,357 promotional mailings, a return of only about seven-tenths of 1 per cent. When the bank sent charge cards directly, the usage *within* a short period was 19 per cent, and the retention of such cards exceeded 99 per cent.

Marine Midland concluded that the selective mailing of charge cards without written request represents not only a more satisfactory marketing method but actually the *only* feasible economic method for operating and promoting this type of business.

Type of promotion	Number of applications		Approximate percentage returned
	Distributed	Returned	
New plaza.....	8,218	107	1.30
Customers of affiliated merchant:			
1.....	5,000	43	.86
2.....	5,000	7	.14
Special sale.....	12,500	18	.14
Friends and relatives of cardholders.....	2,139	42	1.96
Satisfactory bank time-plan customers.....	500	4	.80
Total.....	33,357	221	.66

**SUMMARY DESCRIPTION OF
LARGEST BANK CREDIT-CARD
AND CHECK-CREDIT PLANS**

APPENDIX C

The following table contains a summary of 62 banks operating credit-card and check-credit plans with balances of more than \$3 million outstanding as of September 30, 1967. The banks are listed alphabetically by State

and by the city in which their headquarters are located within each State. The number in parentheses after the bank's name and location indicates the national ranking of the bank in terms of balances outstanding on these plans.

Name and location of bank	Name of plan	Total deposits (millions of dollars)	Year and month begun
Birmingham Trust National Bank Birmingham, Ala. (60)	Charge Plan	266	5-59
First National Bank of Arizona Phoenix, Ariz. (25)	Credit Reserve	604	12-65
	Amer. Ex. Exec. Credit		3-67
Valley National Bank of Arizona Phoenix, Ariz. (9)	Interbank Card	1,028	7-65
	Loan Checking Account		6-59
Security First National Bank Los Angeles, Calif. (2)	Ready Reservaccount	4,842	2-65
United California Bank Los Angeles, Calif. (16)	Mastercharge (Interbank)	3,316	7-67
	Balance Plus		5-66
	Amer. Ex. Exec. Credit		7-66
Bank of America NT & SA San Francisco, Calif. (1)	BankAmericard	15,453	9-58
Crocker-Citizens Natl. Bank San Francisco, Calif. (6)	Mastercharge (Interbank)	3,648	7-67
	Checkway Credit		4-59
	Amer. Ex. Exec. Credit		10-66
Wells Fargo Bank San Francisco, Calif. (22)	Mastercharge (Interbank)	3,894	7-67
	Automatic Credit Account		3-67
	Amer. Ex. Exec. Credit		10-66
First Natl. Bank of San Jose San Jose, Calif. (44)	First Natl. Credit Card	156	6-53
	American Express		10-66
Colorado National Bank Denver, Colo. (61)	BankAmericard	241	5-67

Name and location of bank	Name of plan	Total deposits (millions of dollars)	Year and month begun
Denver U.S. National Bank Denver, Colo. (58)	Charge Account for Cash	409	10-59
	Ready Reverse Amer. Ex. Exec. Credit		5-67
Connecticut National Bank Bridgeport, Conn. (38)	Charge Account Plan	781	6-66
	CNB Check Credit		9-55
Connecticut Bank & Trust Hartford, Conn. (35)	Connecticut Charge Card	743	8-66
	Instant Money		3-59
Hartford National Bank & Trust Hartford, Conn. (37)	Charge Account Plan	781	6-66
	Check-Credit		4-59
Bank of Delaware Wilmington, Del. (50)	Charge-Credit	197	5-67
	Check-Credit		5-59
	Amer. Ex. Exec. Credit		1-67
Citizens & Southern Natl. Bank Atlanta, Ga. (17)	Charge Account Service	944	4-59
First National Bank Atlanta, Ga. (32)	Check-Credit	723	3-59
	Bancardchek		10-66
Bank of Hawaii Honolulu, Hawaii (30)	Charge Plan & BankAmericard	430	4-59
	Cash Credit Plan		7-59
Continental Illinois Natl. Bank Chicago, Ill. (4)	Midwest Bank Card	4,297	11-66
	Check-Credit		6-59
First National Bank Chicago, Ill. (11)	Midwest Bank Card	4,011	11-66
Harris Trust & Savings Bank Chicago, Ill. (15)	Midwest Bank Card	1,409	11-66
	Line-O-Credit		5-59
Pullman Bank and Trust Company Chicago, Ill. (42)	Midwest Bank Card	134	11-66
Citizens Bank & Trust Park Ridge, Ill. (39)	United Security Account	115	4-61
American Fletcher National Bank Indianapolis, Ind. (19)	Midwest Bank Card	644	5-66
	Check-Credit		10-58
First Natl. Bank of Louisville Louisville, Ky. (45)	Master Charge	345	5-67
	First Check-Credit		2-59
Maryland National Bank Baltimore, Md. (57)	Charge-It of Maryland National Bank	792	5-67
First National Bank Boston, Mass. (8)	First Check-Credit	2,471	2-55
National Shawmut Bank Boston, Mass. (24)	Check-Loan, Supercheck, and Amer. Ex. Exec. Credit	728	7-59 1-67

Name and location of bank	Name of plan	Total deposits (millions of dollars)	Year and month begun
State Street Bank and Trust Co. Boston, Mass. (51)	BankAmericard Revolving Credit	810	11-66 7-67
Manufacturers Natl. Bank of Detroit Detroit, Mich. (52)	ManuMatic Revolving Credit Amer. Ex. Exec. Credit Unicheck	1,541	3-59 n.a.
Old Kent Bank and Trust Company Grand Rapids, Mich. (55)	OK Charge Bancardchek Check Credit	474	2-67 4-66 5-59
Michigan National Bank Lansing, Mich. (20)	Michigan Bankard	954	3-66
Security Bank & Trust Company Lincoln Park, Mich. (28)	Security Charge Account	192	3-53
Trenton Trust Company Trenton, N.J. (48)	Quick Charge Check	134	3-59
Manufacturers & Traders Trust Buffalo, N.Y. (34)	Revolving Loan & RB Amer. Ex. Exec. Credit	767	1-59 4-67
Marine Midland of W. N.Y. Buffalo, N.Y. (7)	Interbank Card	1,181	2-59
Franklin National Bank Mineola, N.Y. (14)	Franklin Charge Plan Steady-Credit Amer. Ex. Exec. Credit	2,083	8-51 5-59 1-67
Bankers Trust Company New York, N.Y. (54)	Advance Checking Advance Credit Plan Amer. Ex. Exec. Credit	4,644	10-67 4-59 2-67
Chase Manhattan Bank, N.A. New York, N.Y. (62)	Cash Reserve Checking Account	11,436	3-67
Chemical Bank New York Trust New York, N.Y. (29)	Check Credit Amer. Ex. Exec. Credit	6,084	6-58 1-67
First National City Bank New York, N.Y. (3)	FNC Charge Service Ready Credit, Checking Plus, Bankers Club	10,575	8-67 2-59 4-67
Marine Midland Trust Rochester, N.Y. (31)	Interbank Card Custom-Credit	377	2-59 11-60
National Bank of North America West Hempstead, N.Y. (53)	Check Credit Cash Reserve	1,302	7-59 10-66
First Union National Bank Charlotte, N.C. (26)	1st Union Charge Plan	652	7-59
North Carolina National Bank Greensboro, N.C. (33)	BankAmericard Ready Credit	896	4-67 5-59
Wachovia Bank and Trust Company Winston-Salem, N.C. (43)	Ready ReservAccount	1,090	2-67

Name and location of bank	Name of plan	Total deposits (millions of dollars)	Year and month begun
City National Bank and Trust Co. of Columbus, Ohio (59)	BankAmericard	309	12-66
First National Bank of Oregon Portland, Oreg. (36)	BankAmericard Ready Credit	1,409	10-66 ?
U.S. National Bank of Oregon Portland, Oreg. (47)	BankAmericard Automatic Cash Transfer	1,310	11-66 9-67
The Fidelity Bank Philadelphia, Pa. (23)	Cash-matic	990	6-59
First Pennsylvania Banking & Trust Philadelphia, Pa. (13)	Ready Money	1,670	1-59
Girard Trust Bank Philadelphia, Pa. (49)	Ready Credit	1,190	9-55
Philadelphia National Bank Philadelphia, Pa. (21)	BankAmericard Ready Cash	1,456	11-66 6-59
Mellon National Bank & Trust Pittsburgh, Pa. (12)	Interbank Card Check Credit	3,009	11-65 6-59
Pittsburgh National Bank Pittsburgh, Pa. (5)	Interbank Card Check Credit	1,327	8-65 2-59
Western Pennsylvania Natl. Bank Pittsburgh, Pa. (56)	Check Credit	616	7-64
First Natl. Bank of Memphis Memphis, Tenn. (46)	BankAmericard Ready Credit	568	4-67 3-59
Preston State Bank Dallas, Tex. (41)	Presto Charge	59	2-53
Bank of Virginia Richmond, Va. (27)	Interbank Card	265	2-53
Natl. Bank of Commerce of Seattle Seattle, Wash. (40)	BankAmericard	910	11-66
Seattle-First National Bank Seattle, Wash. (10)	Interbank Card Ready Credit	1,507	6-66 10-59
First Wisconsin National Bank Milwaukee, Wis. (18)	Interbank Card Check Credit	916	3-66 2-59

The following tables contain additional material gathered by the Special Survey of Bank Credit Cards and Check-Credit Plans taken in December 1967. This survey covered operating data as of September 30, 1967, and for the first

half of 1967. All banks that reported having extended consumer credit through either credit cards or check-credit plans on the October 1967 Report of Condition were included in the survey.

Table D-1

CREDIT OUTSTANDING UNDER BANK CREDIT-CARD AND CHECK-CREDIT PLANS, SEPTEMBER 30, 1967
By Federal Reserve District

(Average per active account, in dollars)

Federal Reserve district	Credit-card plans	Check-credit plans	Weighted average
Boston.....	103	683	268
New York.....	117	662	232
Philadelphia.....	136	716	417
Cleveland.....	143	786	257
Richmond.....	72	508	106
Atlanta.....	58	642	95
Chicago.....	112	668	149
St. Louis.....	77	384	126
Minneapolis.....	30	568	435
Kansas City.....	81	457	158
Dallas.....	73	379	102
San Francisco.....	178	520	217
All districts.....	124	610	190

NOTE.—Averages compiled by dividing total credit outstanding under plans by total active accounts.

Table D-2

COMPONENTS OF BANK CREDIT-CARD PLANS, SEPTEMBER 30, 1967
By Federal Reserve District

Federal Reserve district	Number of—		
	Accounts	Merchants signed	Accounts per merchant
Boston.....	670,800	17,893	37
New York.....	1,369,000	35,519	39
Philadelphia.....	250,100	5,986	42
Cleveland.....	565,200	14,469	39
Richmond.....	678,400	10,078	67
Atlanta.....	696,800	9,234	75
Chicago.....	4,268,800	84,295	51
St. Louis.....	305,100	7,992	38
Minneapolis.....	8,700	220	40
Kansas City.....	249,600	9,054	28
Dallas.....	259,500	4,841	54
San Francisco.....	5,071,500	191,224	27
All districts.....	14,393,600	390,805	37

Table D-3

**ACTIVITY OF BANK CREDIT-CARD AND CHECK-CREDIT PLANS,
SEPTEMBER 30, 1967
By Federal Reserve District**

(Number of accounts)

Federal Reserve district	Credit-card plans			Check-credit plans		
	Total (in thousands)	Active accounts		Total (in thousands)	Active accounts	
		In thousands	As percentage of total		In thousands	As percentage of total
Boston.....	671	211	31.5	100	84	84.2
New York.....	1,369	554	40.4	210	148	70.6
Philadelphia.....	250	90	36.0	109	85	77.7
Cleveland.....	565	188	33.2	50	41	81.1
Richmond.....	678	393	57.9	52	34	65.5
Atlanta.....	699	523	75.0	50	35	69.6
Chicago.....	4,269	1,123	26.3	103	80	77.6
St. Louis.....	305	160	52.3	33	30	90.7
Minneapolis.....	9	3	37.9	15	10	65.3
Kansas City.....	250	80	32.0	38	21	53.7
Dallas.....	260	111	42.9	20	12	59.9
San Francisco.....	5,072	1,659	32.7	366	214	58.6
All districts.....	14,394	5,095	35.3	1,144	792	69.2

Note.—Figures may not add to totals because of rounding.

Table D-4

**VOLUME OF CREDIT EXTENDED DURING
SEPTEMBER 1967 UNDER CREDIT-CARD
AND CHECK-CREDIT PLANS
By Federal Reserve District**

(In thousands of dollars)

Federal Reserve district	Credit-card plans			Check-credit plans, total extensions
	Total extensions	Retail sales	Cash advances	
Boston.....	4,759	3,799	960	5,843
New York.....	16,608	12,179	4,429	14,837
Philadelphia.....	2,172	1,541	631	5,978
Cleveland.....	3,316	2,017	1,299	2,780
Richmond.....	5,137	4,334	803	2,625
Atlanta.....	5,646	4,659	987	3,330
Chicago.....	22,352	20,023	2,329	8,944
St. Louis.....	2,539	2,293	246	1,394
Minneapolis.....	18	12	6	742
Kansas City.....	1,909	1,772	137	1,469
Dallas.....	2,167	2,153	14	683
San Francisco..	58,634	45,775	12,859	24,118
All districts..	125,257	100,557	24,700	72,743

Table D-5

**NUMBER OF BANKS WITH CREDIT-CARD PLANS
DURING SEPTEMBER 1967
By Federal Reserve District and by Size of Cash
Advance Relative to Total Credit Extended**

Federal Reserve district	Cash advance as a percentage of total credit extended						Total number
	Less than 5	5-10	10-15	15-20	20-25	25 and over	
Boston.....	..	1	2	..	3	8	14
New York.....	1	4	2	1	2	4	14
Philadelphia.....	..	..	..	..	..	3	3
Cleveland.....	..	..	1	..	..	5	6
Richmond.....	..	..	1	1	..	1	3
Atlanta.....	1	1	2	3	1	3	11
Chicago.....	2	3	11	4	3	6	29
St. Louis.....	..	..	1	1	1	..	3
Minneapolis.....	..	..	..	..	..	3	3
Kansas City.....	..	1	1	..	1	..	3
Dallas.....	..	..	..	..	..	1	1
San Francisco..	..	4	7	8	17	26	62
All districts...	4	14	28	18	28	60	152

Table D-6

NUMBER OF BANKS OFFERING CREDIT-CARD AND CHECK-CREDIT PLANS, SEPTEMBER 30, 1967
By Federal Reserve District and Amount of Credit Outstanding

Federal Reserve district	Credit outstanding (thousands of dollars)								Total
	Under 25	25-50	50-100	100-250	250-500	500-1,000	1,000-10,000	10,000 and over	
Credit-card plans									
Boston.....	1	1	1	1	1	2	7	..	14
New York.....	..	..	..	..	2	4	8	2	16
Philadelphia.....	..	..	..	1	1	2	2	..	6
Cleveland.....	1	..	..	1	..	..	3	1	6
Richmond.....	..	..	..	1	..	..	2	2	5
Atlanta.....	..	2	2	2	4	3	6	1	20
Chicago.....	5	2	1	4	8	3	8	4	35
St. Louis.....	1	..	2	1	..	2	4	..	10
Minneapolis.....	4	..	1	..	..	..	..	..	5
Kansas City.....	2	1	..	..	..	..	3	..	6
Dallas.....	2	..	1	2	..	..	2	..	7
San Francisco.....	21	10	6	7	7	1	11	4	67
All districts.....	37	16	14	20	23	17	56	14	197
Check-credit plans									
Boston.....	10	9	8	11	8	5	4	2	57
New York.....	11	8	5	12	10	7	14	2	69
Philadelphia.....	5	3	6	4	4	6	7	2	37
Cleveland.....	9	5	4	5	2	3	3	1	32
Richmond.....	6	6	3	4	2	3	5	..	30
Atlanta.....	25	6	11	7	12	4	4	..	69
Chicago.....	43	13	13	12	8	8	14	..	111
St. Louis.....	11	5	10	5	4	1	5	..	41
Minneapolis.....	20	7	7	2	..	..	3	..	39
Kansas City.....	12	4	5	13	3	2	2	..	41
Dallas.....	7	3	8	5	4	..	1	..	28
San Francisco.....	16	6	2	4	4	2	7	..	45
All districts.....	175	75	82	85	61	41	69	11	599

Table D-7

NUMBER OF BANKS WITH SERVICE CHARGES UNDER CHECK-CREDIT PLANS, SEPTEMBER 30, 1967
By Federal Reserve District and Size of Monthly Charge

Federal Reserve district	Service charge (per cent)						Total number
	Less than 1.0	1.0	1.25	1.5	More than 1.5	No answer	
Boston.....	..	52	1	3	1	..	57
New York.....	..	68	..	1	..	..	69
Philadelphia.....	..	32	..	..	..	5	37
Cleveland.....	2	23	3	2	..	2	32
Richmond.....	..	29	..	1	..	..	30
Atlanta.....	14	52	..	2	..	1	69
Chicago.....	2	98	1	2	1	7	111
St. Louis.....	6	33	..	1	..	1	41
Minneapolis.....	11	25	..	1	..	2	39
Kansas City.....	3	24	1	9	3	1	41
Dallas.....	8	15	1	3	..	1	28
San Francisco.....	1	25	9	10	..	..	45
All districts.....	47	476	16	35	5	20	599

Table D-8

**ACTIVITY OF BANK CREDIT-CARD ACCOUNTS, SEPTEMBER 30, 1967
By Year Plan Was Started**

(Number of accounts)

Year started	Total (in thousands)	Active	
		In thousands	As percentage of total
1955 or earlier...	1,293	751	58.1
1956-57.....	.....	.....	.....
1958-59.....	3,116	1,907	61.2
1960-61.....	60	28	47.0
1962-63.....	9	3	29.7
1964-65.....	743	321	43.2
1966-67.....	9,172	2,085	22.7
Total.....	14,394	5,095	35.3

NOTE.—Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.
Figures may not add to totals because of rounding.

Table D-9

**CREDIT OUTSTANDING ON BANK CREDIT-CARD PLANS, SEPTEMBER 30, 1967
By Year Plan Was Started**

Year started	Total lines (in millions of dollars)	Amounts outstanding—	
		In millions of dollars	As percentage of total
1955 or earlier..	404	55	13.5
1956-57.....	.....	.....	.....
1958-59.....	1,232	289	23.5
1960-61.....	13	2	15.9
1962-63.....	1	(1)	28.6
1964-65.....	304	44	14.5
1966-67.....	3,158	242	7.7
Total.....	5,113	633	12.4

¹ Less than \$500,000.

NOTE.—Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.
Figures may not add to totals because of rounding.

Table D-10

**NUMBER OF BANKS WITH CREDIT-CARD PLANS,
SEPTEMBER 30, 1967
By Federal Reserve District and Size of Monthly Charge**

Federal Reserve district	Service charge (per cent) on outstanding credit				Total number	Service charge (per cent) on outstanding credit					Total number
	Less than 1.0	1.0	1.25	1.5		Less than 1.0	1.0	1.25	1.5	More than 1.5	
	On retail purchases					On cash advances					
Boston.....	..	..	..	14	14	..	..	..	14	..	14
New York.....	..	2	..	14	16	..	11	..	3	..	14
Philadelphia.....	..	3	2	1	6	..	3	..	..	..	3
Cleveland.....	..	1	2	3	6	..	6	..	..	..	6
Richmond.....	..	2	..	3	5	..	1	..	2	..	3
Atlanta.....	..	5	..	15	20	..	..	..	11	..	11
Chicago.....	..	4	5	26	35	..	15	5	12	..	32
St. Louis.....	2	1	..	7	10	..	..	..	4	..	4
Minneapolis.....	..	..	4	1	5	..	..	4	1	..	5
Kansas City.....	..	..	..	6	6	..	..	..	3	..	3
Dallas.....	..	..	1	6	7	..	..	..	1	..	1
San Francisco.....	..	4	3	60	67	3	3	3	51	6	66
All districts.....	2	22	17	156	197	3	39	12	102	6	162

Table D-11

**NUMBER OF BANKS WITH CREDIT-CARD PLANS
By Year Plan Was Started and Percentage of Total
Credit Lines in Use on September 30, 1967**

Year started	Percentage of lines in use						Total number
	Less than 5	5-10	10-15	15-20	20-25	25 and over	
1955 or earlier.....	2	3	4	8	2	8	27
1956-57.....	..	..	..	..	..	..	..
1958-59.....	2	3	5	9	4	8	31
1960-61.....	..	..	2	..	1	..	3
1962-63.....	..	..	..	..	..	2	2
1964-65.....	..	1	2	..	1	1	5
1966-67.....	52	41	16	7	4	9	129
Total.....	56	48	29	24	12	28	197

NOTE.—Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.

Table D-12

**NUMBER OF BANKS OFFERING
CHECK-CREDIT PLANS,
SEPTEMBER 30, 1967
By Year Plan Was Started and
Type of Plan**

Year started	Check credit	Over-draft	Total number
1955 or earlier...	12	4	16
1956-57.....	10	4	14
1958-59.....	186	52	238
1960-61.....	28	8	36
1962-63.....	16	9	25
1964-65.....	37	6	42
1966-67.....	121	191	312
Total.....	410	274	684

NOTE.—Check-credit plans make use of special checks, whereas overdraft plans employ regular checking accounts.

Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.

Table D-13

**NUMBER OF BANKS OFFERING CREDIT-CARD
AND CHECK-CREDIT PLANS
By Year Plan Was Started and by Amount of Plan
Outstanding on September 30, 1967**

Year started	Amount outstanding (in thousands of dollars)								Total
	Under 25	25-50	50-100	100-250	250-500	500-1,000	1,000-10,000	10,000 and over	
Credit-card plans									
1955 or earlier.....	..	..	1	2	6	4	13	1	27
1956-57.....	..	..	..	..	..	..	..	..	..
1958-59.....	1	1	2	1	5	6	11	4	31
1960-61.....	..	..	1	..	1	..	..	..	3
1962-63.....	..	1	..	..	..	..	1	..	2
1964-65.....	..	..	..	..	..	..	2	..	5
1966-67.....	36	14	9	17	11	6	29	7	129
Total.....	37	16	14	20	23	17	56	14	197
Check-credit plans									
1955 or earlier.....	2	1	2	..	1	1	15	1	13
1956-57.....	1	2	3	2	4	1	..	..	13
1958-59.....	28	20	26	35	25	22	41	7	204
1960-61.....	6	4	4	5	5	4	4	..	32
1962-63.....	8	1	5	4	..	1	2	..	21
1964-65.....	8	3	6	10	5	2	3	2	39
1966-67.....	122	44	36	29	21	10	14	1	277
Total.....	175	75	82	85	61	41	69	11	599

NOTE.—Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.

Table D-14

NUMBER OF BANKS WITH CREDIT-CARD AND CHECK-CREDIT PLANS, SEPTEMBER 30, 1967
By Size of Bank and Type of Plan

Size of bank (total deposits, in millions of dollars)	Banks with—			Total number
	Credit cards only	Check credit only	Both	
Under 5.....	2	18	..	20
5-10.....	22	36	3	61
10-25.....	30	101	4	135
25-50.....	22	110	5	137
50-100.....	19	89	7	115
100-500.....	27	136	25	188
500-1,000.....	4	24	9	37
1,000 and over.....	4	18	14	36
All size groups....	130	532	67	729

Table D-15

NUMBER OF BANKS OFFERING CREDIT-CARD AND CHECK-CREDIT PLANS, SEPTEMBER 30, 1967
By Size of Bank and Year Plan Was Started

Size of bank (total deposits, in millions of dollars)	1955 or earlier	1956-57	1958-59	1960-61	1962-63	1964-65	1966-67	Total number
Credit-card plans								
Under 5.....	..	..	..	..	..	..	2	2
5-10.....	1	..	1	..	..	1	22	25
10-25.....	1	..	4	3	2	..	24	34
25-50.....	6	..	5	..	..	..	16	27
50-100.....	4	..	6	..	..	1	15	26
100-500.....	13	..	11	..	..	..	28	52
500-1,000.....	1	..	2	..	..	..	10	13
1,000 and over.....	1	..	2	..	..	3	12	18
All size groups..	27	..	31	3	2	5	129	197
Check-credit plans								
Under 5.....	..	1	..	..	..	2	15	18
5-10.....	..	1	..	4	5	5	24	39
10-25.....	1	3	19	6	6	7	63	105
25-50.....	1	2	43	4	3	11	51	115
50-100.....	2	1	37	4	3	6	43	96
100-500.....	5	5	71	12	4	4	60	161
500-1,000.....	1	..	16	2	..	2	12	33
1,000 and over.....	3	..	18	..	..	2	9	32
All size groups..	13	13	204	32	21	39	277	599

NOTE.—Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.

Table D-16

ACTIVITY OF BANK CREDIT-CARD AND CHECK-CREDIT PLANS, SEPTEMBER 30, 1967

By Size of Bank

(Number of accounts)

Size of bank (total deposits, in millions of dollars)	Credit-card plans			Check-credit plans		
	Total (in thousands)	Active accounts		Total (in thousands)	Active accounts	
		In thousands	As per- centage of total		In thousands	As per- centage of total
Under 5.....	2	(1)	15.0	2	1	87.5
5-10.....	35	13	37.6	4	3	65.0
10-25.....	229	83	36.2	17	11	60.9
25-50.....	162	74	45.6	25	17	67.5
50-100.....	489	285	58.4	44	33	74.4
100-500.....	2,863	1,295	45.2	210	148	70.1
500-1,000.....	2,587	951	36.8	240	175	73.1
1,000 and over...	8,028	2,394	29.8	603	405	67.2
All size groups.	14,394	5,095	35.3	1,144	792	69.2

¹ Less than 500.

NOTE.—Figures may not add to totals because of rounding.

Table D-17

CREDIT OUTSTANDING ON BANK CREDIT-CARD AND CHECK-CREDIT PLANS, SEPTEMBER 30, 1967

By Size of Bank

Size of bank (total deposits, in millions of dollars)	Credit-card plans			Check-credit plans		
	Total lines (in millions of dollars)	Amounts outstanding		Total lines (in millions of dollars)	Amounts outstanding	
		In millions of dollars	As per- centage of total		In millions of dollars	As per- centage of total
Under 5.....	.1	(1)	(2)	1.7	.8	47.06
5-10.....	10.2	1.1	10.78	5.8	1.5	25.86
10-25.....	73.2	7.8	10.66	15.0	4.8	32.00
25-50.....	39.0	5.6	14.36	27.4	9.1	33.21
50-100.....	182.9	17.8	9.73	50.6	19.2	37.94
100-500.....	956.1	104.5	10.93	218.4	93.2	42.67
500-1,000.....	827.6	91.2	11.02	220.4	101.8	46.19
1,000 and over...	3,023.5	404.9	13.30	601.5	253.0	42.06
All size groups.	5,112.7	633.0	12.38	1,140.7	483.2	42.36

¹ Less than \$50,000.

² Not significant.

Table D-18

**DELINQUENCY RATES ON BANK CREDIT-CARD PLANS,
SEPTEMBER 30, 1967**

(Number of banks)

Characteristic	Delinquency rate (per cent)						Total number
	Less than 1.0	1.0-1.9	2.0-2.9	3.0-3.9	4.0-4.9	5.0 and over	
Year plan started:							
1955 or earlier.....	5	8	..	4	3	5	25
1956-57.....	..	..	..	..	..	..	..
1958-59.....	4	8	7	2	2	4	27
1960-61.....	..	1	..	..	1	..	2
1962-63.....	..	..	1	1	..	..	2
1964-65.....	1	..	1	1	..	2	5
1966-67.....	15	19	16	11	8	25	94
Total.....	25	35	26	19	13	37	155
Federal Reserve district:							
Boston.....	1	2	3	3	1	1	11
New York.....	1	10	1	..	1	2	15
Philadelphia.....	1	..	1	2	2	..	6
Cleveland.....	..	1	1	..	1	..	3
Richmond.....	1	1	1	1	..	..	4
Atlanta.....	2	1	4	2	4	3	16
Chicago.....	2	7	4	4	2	15	34
St. Louis.....	1	2	2	..	..	5	10
Minneapolis.....	1	..	1	..	1	..	3
Kansas City.....	..	1	1	1	..	2	5
Dallas.....	1	..	..	..	1	1	3
San Francisco.....	14	10	7	6	1	7	45
All districts.....	25	35	26	19	13	37	155
Size of bank (total deposits in millions of dollars):							
Under 5.....	..	1	..	..	..	..	1
5-10.....	3	2	1	1	..	5	12
10-25.....	3	4	8	3	..	9	27
25-50.....	7	3	3	..	5	6	24
50-100.....	3	4	1	3	2	5	18
100-500.....	9	13	7	7	4	7	47
500-1,000.....	..	3	5	2	..	2	12
1,000 and over.....	..	5	1	3	2	3	14
Total, all size groups.....	25	35	26	19	13	37	155

NOTE.—Rates are those on accounts delinquent 30 to 89 days, divided by number of active accounts.

Where a span of years is indicated, it covers 2 full years—for example, 1956-57 means 1956 and 1957.

Table D-19

LOSSES AND LOSS RATIOS ON BANK CREDIT-CARD AND CHECK-CREDIT PLANS:

Charge-offs During January-June 1967 Relative to Amounts Outstanding, September 30, 1967

Size of bank (total deposits, in millions of dollars)	Credit-card plans			Check-credit plans		
	Thousands of dollars		Loss ratios (per cent)	Thousands of dollars		Loss ratios (per cent)
	Charge- offs	Amounts outstanding		Charge- offs	Amounts outstanding	
Under 5.....	.....	(1)	....	.....	800	...
5-10.....	4	1,100	.36	2	1,500	.13
10-25.....	37	7,800	.47	20	4,800	.42
25-50.....	24	5,600	.43	24	9,100	.26
50-100.....	171	17,800	.96	40	19,200	.21
100-500.....	961	104,500	.92	166	93,200	.18
500-1,000.....	1,495	91,200	1.64	268	101,800	.26
1,000 and over...	9,791	404,900	2.42	609	253,000	.24
All size groups.	12,483	633,000	1.97	1,129	483,200	.23

¹ Less than \$50,000.

REPORTING FORMS RELATING TO CREDIT CARDS AND CHECK CREDIT

APPENDIX E

Following are samples of forms that have been or are being used to collect information from commercial banks concerning their credit-card and check-credit operations. First is the form used in the Task Group's Special Survey of Bank Credit-Card and Check-Credit Plans, taken in December 1967, covering the operating data as of September 30, 1967, and for the first half of 1967. Next are samples of the

forms used by the Comptroller of the Currency, the Federal Reserve System, and the Federal Deposit Insurance Corporation for the examination of banks with credit-card and check-credit plans. Finally, there are samples of the Federal Reserve System forms for the continued reporting by banks of data on their credit-card and check-credit plans for the System's series on consumer credit.

II. RETAIL-TYPE CREDIT CARDS:

If your bank offers a retail-type credit card, please fill out the following information (deduct all credit vouchers for refunds):

			CARD II	
Please report A and B in thou- sands of dollars	A.	Total dollar volume of sales and cash advances during September 1967.	\$ _____ 10-15	
		Of the total, specify the amount involving:		
		1. Retail purchases.	\$ _____ 16-21	
		2. Cash advances	\$ _____ 22-27	
	B.	Balances outstanding at end of September 1967	\$ _____ 28-33	
		Of the total, specify the amount involving:		
		1. Retail purchases.	\$ _____ 34-39	
		2. Cash advances	\$ _____ 40-45	
	C.	Cardholder accounts: (Consider all multi-card accounts as one)		
		1. Total number of accounts at end of September 1967 _____	46-52	
	2. Number of statements mailed during September 1967 _____	53-59		
	3. Number of accounts considered active. _____	60-66		
	4. How does your bank define active accounts? _____	67-68		
	5. <u>Is customer's signature required on credit card</u> itself.	Yes <input type="checkbox"/> (1) No <input type="checkbox"/> (0) 69		
	D.	Credit limits on cardholder accounts:	CARD III	
		1. Minimum credit line offered	\$ _____ 10-14	
		2. Maximum credit line offered	\$ _____ 15-19	
		3. Most frequent credit line offered	\$ _____ 20-24	
		4. Total amount of approved credit lines (thou. of \$) \$ _____	25-30	
		5. Floor limit on retail purchases*.	\$ _____ 31-33	
		6. Floor limit on cash advances*	\$ _____ 34-36	
	E.	Charges and fees: (To one decimal, e.g., 2.5%)		
		1. Merchants discounts:		
		a. Range of discount rates (excl. airlines): . . lowest _____%	37-38	
		highest _____%	39-40	
		b. Most typical rate of discount (excl. airlines). _____%	41-42	
		c. Most typical rate of discount -- airlines _____%	43-44	
		2. Monthly service charge on unpaid balances:		
		a. Retail purchases. _____%	45-46	
		b. Cash advances _____%	47-48	
		c. Charge computed on:		
		Opening balance <input type="checkbox"/> (1)		
		Average balance <input type="checkbox"/> (2)	49	
		Closing balance <input type="checkbox"/> (3)		
		Other <input type="checkbox"/> (4)		
	F.	Number of merchants signed up for credit card plan. . . _____	50-54	
	G.	Amount of gross charge-offs on credit card accounts during:		
		1. January 1, 1967, through June 30, 1967.	\$ _____ 55-58	
		2. Calendar year 1966 (report only if plan in operation during <u>entire</u> year)	\$ _____ 59-62	
	H.	Number of accounts delinquent as of September 30, 1967:		
		1. 30-89 days. _____	63-66	
		2. 90 days and over. _____	67-70	

* If either limit varies please explain on back of form.

II. RETAIL-TYPE CREDIT CARDS (continued)

I. What is your bank's charge-off policy on delinquent accounts?

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III. CHECK-CREDIT AND OTHER REVOLVING CREDIT PLANS:

If your bank offers a check-credit or other revolving plan, please fill out the following information:

		Yes	No	CARD IV
A.	Does your plan involve:			
	1. The use of special checks	<input type="checkbox"/> (1)	<input type="checkbox"/> (0)	10
	2. A tie-in with regular checking acc't	<input type="checkbox"/> (1)	<input type="checkbox"/> (0)	11
	3. Some other arrangement*			12
	4. The issuance of identification cards	<input type="checkbox"/> (1)	<input type="checkbox"/> (0)	13
	a. If yes, is customer signature required on card	<input type="checkbox"/> (1)	<input type="checkbox"/> (0)	14
<u>Thou-</u>	B. Total volume of credit extended during Sept. 1967. . . \$ _____			15-21
<u>sands</u>				
<u>of</u>	C. Balances outstanding at end of September 1967. . . . \$ _____			22-28
<u>dollars</u>				
	D. Accounts:			
	1. Total number of accounts at end of September 1967 _____			29-35
	2. Number of statements mailed during September 1967 _____			36-42
	3. Number of accounts considered active _____			43-49
	4. How does your bank define active accounts? _____			50-51
	E. Credit limits on accounts:			
	1. Minimum credit line offered. \$ _____			52-54
	2. Maximum credit line offered. \$ _____			55-60
	3. Most frequent credit line offered. \$ _____			61-66
	4. Total amount of approved credit lines (thou. of \$) \$ _____			67-72
	F. Monthly service charge on unpaid balances (e.g., 1.5%). %			CARD V 10-11
	Charge computed on			
		Opening balance <input type="checkbox"/> (1)		
		Average balance <input type="checkbox"/> (2)		12
		Closing balance <input type="checkbox"/> (3)		
		Other <input type="checkbox"/> (4)		
<u>Thou-</u>	G. Amount of gross charge-offs:			
<u>sands</u>	1. January 1, 1967, through June 30, 1967 \$ _____			13-16
<u>of</u>	2. Calendar year 1966 (report only if plan in operation during entire year). \$ _____			17-20
<u>dollars</u>				
	H. Number of accounts delinquent as of September 30, 1967:			
	1. 30-89 days _____			21-24
	2. 90 days and over _____			25-28
	I. What is your bank's charge-off policy on delinquent accounts?			29

* If additional space needed use back of form.

Charter No. _____

CREDIT CARD PROGRAM

1. Volume

- (a) No. of credit cards outstanding _____
- (b) No. of active credit card accounts _____
- (c) No. of merchants under plan _____
- (d) Aggregate dollar volume outstanding _____
- Total delinquencies (_____ % of outstandings) _____
- Delinquent six zero billings or more (loss estimated at this exam. _____)

2. Describe the type of credit card program.

3. If system is operated through a licensing arrangement with another bank or financial institution, give the name of the licensor and terms of the license agreement.

4. Are new credit cards written with an expiration date?

5. Does the bank obtain credit information on applicants before granting the credit cards?

6. What are the maximum credit limits under the program?

7. What are the repayment requirements?

8. What is the monthly rate charged the card-holder?

9. Describe the bank's collection policies including the retrieving of credit cards.

10. What are the prevailing discount terms to the merchant?

11. Does the bank check the responsibility of all participating merchants?

12. Are the participating merchants required to obtain prior approval on credit card transactions over a certain dollar amount?

13. What is the bank's charge-off policy on delinquent accounts?

14. Give the amount of net charge-offs on all credit card accounts during the last two calendar years.

19_____ \$_____ 19_____ \$_____

15. Summarize any major deficiencies regarding policies and practices of the bank's credit card program.

CHECK-CREDIT, OVERDRAFT, AND OTHER REVOLVING-CREDIT PLANS
NOT OPERATED AS PART OF A CREDIT CARD PLAN

1. (a) Direct Credit Programs:
Number of Accounts _____ Number of Active Accounts _____ \$ _____
- (b) Checking Account Supplement Programs:
Number of Accounts _____ Number of Active Accounts _____ \$ _____
- Total Outstanding Revolving Credit \$ _____
- (c) Total Delinquencies (_____ % Outstanding) \$ _____
- (d) Delinquent six zero billings or more (loss estimated at this examination \$ _____) \$ _____

2. How are the accounts carried in the general ledger?

3. Briefly describe the plans offered, including any provision for the guaranty of checks. Comment on credit standards.

4. What are the maximum credit lines available?

5. What are the monthly rates charged for the programs?

6. What are the repayment requirements?

7. Do the plans have an expiration date? Under what circumstances will the bank demand payment?

8. Does the bank's system reflect delinquencies and the static use of the maximum credit immediately?

9. Describe the bank's collection policies, including collection of demanded balances.

10. What is the bank's charge-off policy on delinquent accounts?

11. Give net amount of charge-offs on these programs during the last two years.

19..... \$ 19..... \$

12. Summarize any major deficiencies regarding policies and practices of the revolving check credit program.

CREDIT CARD AND CHECK CREDIT PLANS

1. Briefly describe the nature and type or types of (1) credit card or check credit plans operated by the bank, (2) credit card plans with which the bank is affiliated and acts as licensee or agent, and (3) credit card plans of an association of banks in which the bank participates. Indicate name of plans, date each plan was placed in operation, and, where applicable, include terms of any licensing arrangements, number of cards distributed or accounts approved, number of active cards or accounts, number of merchants participating, total unpaid balance of receivables or billings acquired for each type of plan offered.

2. Describe any credit card interchange system in which the bank participates and indicate terms of the interchange agreement.

3. Indicate the trend in the total volume of receivables or billings since inception of each of the plans offered and state the bank's estimate of the maximum volume it expects to attain.

4. Does the bank obtain adequate credit information on individual customers before granting credit cards or approving check credit? If so, what are the limits?

5. What are the maximum credit limits under each plan?

6. Describe the repayment requirements of each plan.

7. Are participating merchants required to obtain prior approval on credit card transactions over a stated amount? If so, what are the limits?

8. (a) What are the rates charged cardholders and check credit accounts?
(b) State the initial fee charged the participating merchants, the discount rate for sales drafts, and rebate terms, if any.

9. (a) State the bank's charge-off policy on delinquent accounts and indicate the number and total amount of delinquent accounts.

PAST DUE
(000 omitted)

Accounts	30-89 days		90 days or more		Total		Per Cent of Total Outstanding		Estimated Losses	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Credit cards										
Check credit										

(b) State the amount of net losses during the past three calendar years:

19..... \$..... 19..... \$..... 19..... \$.....

10. Describe any unsatisfactory features of the operation of the plans offered, other than those discussed above, such as lack of control over unissued credit cards, ineffective collection policies and practices, inadequate procedures for reclaiming credit cards when accounts become delinquent, lack of preprinted expiration dates on credit cards, failure to investigate merchants before they are enrolled in the plan, lack of provisions which limit the amount for which a check in a check credit plan can be drawn, and any other deficiencies in policies or practices.

Examined Close of Business _____

INSTALMENT CREDIT QUESTIONNAIRE (3)

Number _____

7. Credit cards:

- (a) Name of charge plan _____ . Date services offered by subject bank _____
Bank's own plan () ; Franchise plan () .
- (b) Trade area serviced _____ . Number of credit card plans presenting significant competition operating in the bank's normal trade area: Offered by banks _____ ; By others _____ .
- (c) Approximate number of outlets _____ ; Card holders _____ ; Active card holders _____ ; Accounts settled during interest free period _____ .
- (d) Features included in credit card plan: Cash advance privilege () ; Check cashing () ; Overdraft privilege () ; Travel and entertainment () ; Revolving credit () ; Other () explain.
- (e) Record of credit cards and related records of credit extensions are kept on own computer () ; Off-premises computer service () ; Other () explain.
- (f) Are cards issued without formal application? _____ If answer is yes, describe basis for distribution.
- (g) What limitations are imposed on issuance of cards with respect to annual income, net worth, maximum credit for each account, or other conditions?
- (h) What credit checks are made?
- (i) What is the expiration period of cards?
- (j) What limits are in effect at outlets and what system is used to check transactions above these limits?
- (k) What method is employed to prevent the use of lost, stolen or cancelled cards?
- (l) What provision has been made for control of unissued cards?
- (m) If bank's own plan and start-up costs have not been recovered, state approximate amount expended and date expected to be recovered.
- (n) If not bank's own plan, state franchise cost _____ ; Annual renewal charges _____ ; Other costs of maintaining plan _____ (explain).
- (o) If not bank's own plan, what revenues accrue to the bank and on what basis are they computed?
- (p) Average percentage of discount charged participating retailers _____ ;
Maximum _____ ; minimum _____ .
- (q) What is the monthly interest rate to consumer?
- (r) What monthly payment is required (1/10, 1/20, etc.)?

Examined Close of Business _____

INSTALMENT CREDIT QUESTIONNAIRE (4)

Number _____

7. Credit cards: (Continued)

(s) What is the charge-off policy?

(t) Comparative report of average quarterly balances outstanding and net charge-offs for the past three calendar years:

	19____	19____	19____
Average balance	_____	_____	_____
Net charged off (or recovered)	_____	_____	_____
Net charge-offs to average balance	_____ %	_____ %	_____ %

(u) Does the bank carry special insurance to cover losses resulting from misuse of credit cards?
sponsoring organization absorb or share such losses?

If a franchise plan, does the

(v) Other comments:

8. Comments:

Code No. _____

Form F.R. 571 (Rev. Dec. 1967)

Month of _____

Form approved

Budget Bureau No. 055R-0022

Return to Federal Reserve Bank of _____ by _____

COMMERCIAL AND INDUSTRIAL BANK REPORT OF CONSUMER CREDIT

Type of loan	Number of loans made during month	Volume of loans made during month	Net amount outstanding at end of month *
1. Loans to purchase private passenger automobiles on instalment basis.		\$	\$
a. Purchased paper			
(1) New cars			XXX
(2) Used cars			XXX
b. Direct loans			
(1) New cars			XXX
(2) Used cars			XXX
2. Credit cards and related plans			
a. Credit cards			
(1) Cash advances			XXX
(2) Retail purchases			XXX
b. Check credit and revolving credit plans			
3. Loans to purchase other retail consumer goods on instalment basis (include purchased paper)			
4. Instalment loans to repair and modernize residential property			
5. Other instalment loans for household, family and other personal expenditures..			
6. Total (items 1 through 5)			
7. Single-payment loans for household, family and other personal expenditures (actual or estimated figure)		XXX	

*Items are equivalent to items 6(a) - (f) of Schedule A in call reports of condition minus deposits accumulated to repay loans.

INSTRUCTIONS FOR PREPARING CONSUMER CREDIT REPORT

Include in this report all loans classified in Call Reports of Condition, under Schedule A, Item 6, "Loans to individuals for household, family and other personal expenditures (exclude commercial, industrial and other business loans, loans to farmers, and loans secured by real estate)."

Under the appropriate subheadings should be included demand loans, instalment loans, and single-payment time loans, regardless of size or maturity and regardless of whether the loans are made by the personal loan department or any other department of the bank.

Instructions continued on reverse side

INSTRUCTIONS (Continued)

1. LOANS TO PURCHASE PRIVATE PASSENGER AUTOMOBILES ON INSTALMENT BASIS. (INCLUDE PURCHASED PAPER). Include in this item the unpaid balance of instalment loans to individuals, both direct loans and purchased paper, arising from the retail sale of new or used private passenger automobiles. Do not include "floor plan" loans or other wholesale financing, loans secured by commercial vehicles, taxicabs, and farm equipment, or other loans for business or professional purposes or loans to farmers.
2. CREDIT CARDS AND RELATED PLANS. Include all credit arising from bank credit cards, travel oriented credit card and check credit/special overdraft plans. Include only that portion which your bank carries on its own books as consumer loans even if accounting and billing are done by a correspondent bank or the accounting center of a plan administered by others. Exclude all regular overdrafts on checking accounts not associated with a check credit or revolving credit operation.
 - 2.a. Include credit arising from retail (charge account) credit card plans actually carried on your books and outstanding at the end of the month. Also include cash advances extended through these retail credit card plans.
 - 2.b. Include instalment loans arising from bank check credit or other bank revolving credit (including travel oriented) plans to individuals, not operated as part of a credit card plan.
3. LOANS TO PURCHASE OTHER RETAIL CONSUMER GOODS ON INSTALMENT OR REVOLVING CREDIT BASIS (INCLUDE PURCHASED PAPER). Include in this item the unpaid balance of instalment loans to individuals, both direct loans and purchased paper, arising from the retail sale of household appliances, furniture, clothing, jewelry, mobile homes, trailers, boats, etc., i.e., goods other than automobiles, whether or not the purchased item is used as collateral. Do not include credit arising from retail (charge account) credit card plans or cash advances extended through these plans; this should be reported against item 2 above. Do not include "floor plan" loans or other wholesale financing, loans for business or professional purposes, or loans to farmers.
4. INSTALMENT LOANS TO REPAIR AND MODERNIZE RESIDENTIAL PROPERTY. Include in this item the unpaid balance of instalment loans to individuals, both direct loans and purchased paper, made to finance alterations and improvements to existing completed residential properties, unless such loans are secured by real estate, in which case they should not be included on this report. Include so-called "Class 1" loans insured under Title I of the National Housing Act, as well as any other instalment loans to finance alterations and improvements to existing completed properties which are used as the residence of the borrower or members of his family, not secured by real estate. Do not include loans for business or professional purposes, loans to farmers, so-called "Classes 2, 3, and Section 8' Title I" loans or any other loans for financing new construction, or real estate mortgage loans insured under Titles II, VI, and VIII of the National Housing Act.
5. OTHER INSTALMENT LOANS FOR HOUSEHOLD, FAMILY, AND OTHER PERSONAL EXPENDITURES. Include in this item the unpaid balance of all secured and unsecured loans, regardless of size, which: (1) are made for household, family, and other personal expenditures; (2) are by their terms repayable in instalments; and (3) do not arise from the retail sale of automobiles, household appliances, etc., or the repair and modernization of properties. The proceeds of personal instalment loans are ordinarily used for consolidation of debts, medical attention, vacations, taxes, general personal and family expenditures, etc., and are sometimes secured by life insurance policies, chattel mortgages, or other collateral. Include personal instalment loans, if any, purchased from other financing institutions. Do not include credit to individuals arising from so-called bank check credit/special overdraft plans or other bank revolving credit plans; this should be reported against item 2 above. Do not include loans for business or professional purposes, loans to farmers, loans for the purpose of purchasing or carrying securities or for other investment purposes, and real estate loans.
7. SINGLE-PAYMENT LOANS FOR HOUSEHOLD, FAMILY, AND OTHER PERSONAL EXPENDITURES. Include in this item the unpaid balance of all secured and unsecured loans made by the personal loan department or any other department of the bank which: (1) are made for household, family and other personal expenditures; and (2) are by their terms repayable in full on demand or at maturity. Single-payment loans to be reported against this item may be similar in purpose to any of the five classes of instalment or revolving credit to be reported against items 1 through 5, the distinction being that item 7 represents demand loans and single-payment time loans, whereas items 1 through 5 represent instalment or revolving credit. Do not include loans for business or professional purposes, loans to farmers, loans for the purpose of purchasing or carrying securities or for other investment purposes, and real estate loans.

Code No. _____

Form F. R. 571b
Form approved
Budget Bureau No. 055R-0022

Month of _____

Return to Federal Reserve Bank of _____ by _____

MONTHLY REPORT OF BANK CREDIT CARD AND RELATED CREDIT PLANS

Type of loan	Volume of loans made during month	Net amount outstanding at end of month*
1. Credit cards	\$ _____	\$ _____
a. Cash advances		XXX
b. Retail purchases		XXX
2. Check credit and revolving credit plans		
3. Total		

*Items are equivalent to items 6 (b) of Schedule A in call reports of condition minus deposits accumulated to repay loans.

INSTRUCTIONS FOR PREPARING MONTHLY REPORT

CREDIT CARDS AND RELATED PLANS. Include all credit arising from bank credit cards, travel oriented credit card and check credit/special overdraft plans. Include only that portion which your bank carries on its own books as consumer loans even if accounting and billing are done by a correspondent bank or the accounting center of a plan administered by others. Exclude all regular overdrafts on checking accounts not associated with a check credit or revolving credit operation.

1. CREDIT CARDS. Include credit arising from retail (charge account) credit card plans actually carried on your books and outstanding at the end of the month. Also include cash advances extended through these retail credit card plans.
2. CHECK CREDIT AND REVOLVING CREDIT PLANS. Include instalment loans arising from bank check credit or other bank revolving credit (including travel oriented) plans to individuals, not operated as a part of a credit card plan.

Name of officer authorized to sign report

Title of officer