

FEDERAL RESERVE BANK OF RICHMOND

# MONTHLY REVIEW

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# Federal Regulation of Bank Holding

In last month's issue, Part I of this article reviewed the provisions of the Banking Act of 1933 which were applicable to bank holding companies and traced the subsequent several decades of controversy over bank holding company expansion and operations which culminated in the Bank Holding Company Act of 1956. In this concluding part the principal provisions of the Act and some of the more important recent trends in bank holding company growth are discussed.

**The Bank Holding Company Act of 1956** Following hearings extending over several years into the need for further Federal regulation of bank holding companies, the Senate Banking and Currency Committee concluded in 1955 that "legislation in the bank holding company field will be adequate if it applies to any company controlling two or more banks." This was contrary to the long standing position of the Board of Governors of the Federal Reserve System that such legislation should cover companies controlling only a single bank as well. In the course of hearings earlier that year the Board had stated:

In one respect we believe that the definition in this bill would not be adequate to effectuate 1 of the 2 main objectives of the legislation. It would not apply to a company which controls only one bank and would not, therefore, require such a company to divest itself of its nonbanking interests. Yet, it seems clear that the potential abuses resulting from combination under single control of both banking and nonbanking interests could easily exist in a case in which only one bank is involved. In fact, if the one controlled bank were a large bank, the holding company's interests in extensive nonbanking businesses might very well lead to abuses even more serious than if the company controlled two or more very small banks. For these reasons, the Board would continue to urge that, whatever the percentage test may be, the definition should be related to control of a single bank.

Nevertheless, as finally enacted the Bank Holding Company Act of 1956 excluded one-bank holding companies from regulation. The Senate report commented:

Your committee did not deem it necessary to include within the scope of this bill any company which manages or controls no more than a single bank. It is possible to conjure up visions of monopolistic control of banking in a given area through ownership of a single bank with many and widespread branches. However, in the opinion of your committee, no present danger of such control through the bank holding company device threatens to a degree sufficient to warrant inclusion of such a company within the scope of this bill. Should legislation of that nature prove desirable in the future, the Congress is free to act upon a showing of need for such a law.

Accordingly, the coverage of the statute was limited to corporations, business trusts, associations, or similar organizations owning or controlling 25% or more of the voting shares of each of two or more banks, or controlling in any manner the election of a majority of the directors of each of two or more banks, or acting as trustee for shareholders or members who control 25% or more of the voting shares of each of two or more banks. Excluded under the definition were cases where two or more banks are owned by individuals, by partnerships, or by the trustees of a testamentary trust. Later, however, in 1966, the definition was broadened to include long-term trusts exercising the specified degree of control over two or more banks.

All companies meeting the statutory definition at the time the statute was enacted and all new bank holding companies formed thereafter were required to register with the Board of Governors and disclose various types of information as prescribed by the Board.

# Companies—II

Three principal types of activities were regulated: (1) the formation and registration of holding companies, and acquisitions of banks by registered companies; (2) the types of permissible nonbanking businesses authorized for registered companies, with the requirement of divestiture for unauthorized activities; and (3) financial and other relationships between registered companies and their subsidiaries.

**New Companies and Bank Acquisitions** Identical factors must be considered by the Board of Governors in every application to form a new holding company and, in the case of existing companies, to acquire the stock or substantially all of the assets of an additional bank. From 1956 until the extensive 1966 amendments, these factors were: (1) the financial history and condition of the company or companies and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the areas concerned; and (5) whether or not the effect of the acquisition or merger or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

For the most part, no problems arose in applying the first three. Increasingly, however, the Board encountered difficulty with the fourth and fifth factors. As it pointed out to the Senate Banking and Currency Committee in 1958, "the major problem has been the difficulty of balancing considerations affecting competition and the public interest under the fifth factor and those affecting convenience and needs under the fourth."

Fundamentally, the problem was one of reconciling

public utility-type standards relating to "the convenience, needs, and welfare" of the affected communities with antitrust-type factors involving competition and banking concentration, and it grew more intense with enactment of the Bank Merger Act of 1960, pursuant to which approval of proposed bank mergers or consolidations was made dependent upon factors similar to those embodied in the Holding Company Act.

After a lengthy and abrasive legislative battle, both the Bank Merger Act and the Bank Holding Company Act were amended in 1966 to provide uniform standards for judging both proposed mergers or consolidations on the one hand, and proposed holding company formations and acquisitions on the other. The former criteria were replaced with substantially identical language in the amended Bank Merger and Bank Holding Company Acts. The latter Act, as amended, now provides that:

The Board shall not approve—

(1) Any acquisition or merger or consolidation under [the Bank Holding Company Act] which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States, or

(2) Any other proposed acquisition or merger or consolidation under [the Bank Holding Company Act] whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds that the anti-competitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

The amended statute also provides that "in every case, the Board shall take into consideration the financial and managerial resources and future prospects of the company or companies and banks concerned, and the convenience and needs of the community to be served."

**Divestiture of Unrelated Businesses** A major premise of bank holding company regulation is that registered companies should not be permitted to engage in businesses other than banking, bank-related activities, and the management of banks. Therefore, Section 4(a) provides that, except as authorized by the Act, no registered holding company shall "acquire direct or indirect ownership or control of any voting shares of any company which is not a bank," or, after two years from the date it becomes a bank holding company, retain direct or indirect ownership or control of any voting shares of any

company which is not a bank or a bank holding company. It also provides that no registered company shall engage in any business other than that of banking, or of managing or controlling banks, or of furnishing services to or performing services for any bank of which it owns 25% or more of the voting shares.

There are, however, exceptions to this general principle. Section 4(c)(1) of the statute specifically authorizes bank holding companies to acquire and own voting shares of any company engaged solely in: (1) holding or operating properties used wholly or substantially by any banking subsidiary of a bank holding company in the operations of the banking subsidiary, or acquired for its future use; (2) conducting a safe-deposit business; (3) furnishing services to or performing services for the parent bank holding company and its other subsidiaries; and (4) liquidating assets acquired from the parent bank holding company and its banking subsidiaries.

Nine additional exemptions from Section 4(c) permit registered companies to own shares in companies engaged in certain other types of nonbanking activities under specified conditions, including shares which are of the kinds and amounts eligible for investment by national banks, shares of any company which do not include more than 5% of the outstanding voting shares of such company, and shares of any company if all of its activities are of a financial, fiduciary, or insurance nature, provided the Board of Governors determines such activities to be so closely related to the business of banking as to be a proper incident thereto and as to make it unnecessary for the prohibitions of the Act to apply in order to carry out the Act's purposes.

#### **Registered Companies and Their Subsidiaries**

Section 6 of the Bank Holding Company Act as enacted in 1956 entirely prohibited any subsidiary bank from investing any of its funds in, or from making any loan, discount, or extension of credit to, its parent bank holding company or any other subsidiary of the holding company, with certain limited exceptions. Other limitations and prohibitions were also placed on dealings among the holding company, its bank subsidiaries, and other subsidiaries. The net effect was to make it difficult for registered holding companies to perform one of their principal functions, the facilitation of loan participations and other joint credit transactions. At times after 1956 it was easier for correspondent banks to take joint action than for bank subsidiaries of a holding company to do so.

Even before the original act was passed, the Board

of Governors opposed these absolute prohibitions and instead advocated flexible safeguards limiting loans and investments by bank subsidiaries in the parent company and its other subsidiaries to specified percentages of the capital and surplus of the lending or investing bank, along the lines of the restrictions on lending to or investing in affiliates which had been imposed on member banks of the Federal Reserve System by the Banking Act of 1933. To this end, the Board subsequently recommended to Congress the repeal of Section 6 and its replacement with provisions applying Section 23A of the Federal Reserve Act, relating to loans and other dealings between member banks and their affiliates, to every *nonmember bank* insured by the Federal Deposit Insurance Corporation in the same manner and to the same extent as if it were a *member bank*.

The Board's proposed amendments were adopted verbatim by Congress in 1966, and at that time it repealed Section 6. All or substantially all banks owned by bank holding companies are insured by the Federal Deposit Insurance Corporation. As a consequence, under present law no insured bank subsidiary of a holding company may lend to or invest in the parent holding company or any other single affiliate an amount in excess of 10% of the capital and surplus of the lending or investing bank, or in the case of all such affiliates taken together, in an amount in excess of 20% of the bank's capital and surplus. Again, however, these limitations do not apply to certain specified types of affiliates or to certain specified types of stocks, bonds, debentures, and other obligations.

**Acquisitions Across State Lines** In addition to the three types of regulation described above, the Act contains one absolute prohibition. Section 3(d) forbids approval by the Board of Governors of any application which would permit any bank holding company or any subsidiary to acquire any voting shares of, or interest in, or substantially all of the assets of, any additional bank located outside of the state in which the operations of the holding company's banking subsidiaries were principally engaged as of July 1, 1966 (or the date on which the company became a bank holding company, whichever is later) unless the acquisition of shares or assets of a state bank by an out-of-state holding company is, in the words of the Act, "specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication."

The effect of this provision is to confine further bank acquisitions by holding companies in existence

at the time the Act became effective to the states in which the total deposits of their banking subsidiaries are largest, and to limit acquisitions and operations by holding companies approved after that date to a single state.

**Registered Bank Holding Company Growth, 1958-1968** As shown by the accompanying table, during the nine-year period from December 31, 1958 through December 31, 1967, the number of registered holding companies increased from 49 to 74, the number of banks owned by such companies grew from 418 to 603, and aggregate deposits controlled by them more than tripled, from just under \$16.0 billion to \$49.8 billion. However, the fastest growth has occurred since 1964. Indeed, in the first six months of the current year nine new holding companies with 22 banks having aggregate deposits of almost \$1.7 billion were approved by the Board of Governors.

**One-Bank Holding Companies** According to a recent edition of the *Bank Stock Quarterly*, "no development in recent years has stirred banks and their stockholders as has the . . . 'one-bank' holding company. This vehicle enables banks to expand their financial services and to enter new fields." The *Quarterly* listed 34 banks, with aggregate deposits of almost \$56 billion, which have formed or announced intentions to form one-bank holding companies, including the nation's largest and second largest banks, Bank of America National Trust & Savings Association, and First National City Bank, New York. In comparison, as noted above, total deposits for all registered bank holding companies at the end of 1967 were only \$49.8 billion.

But these new, bank-centered one-bank holding

companies are only a fraction of the total number of unregulated companies owning the stock of a single bank. On September 23, 1968, *The American Banker* reported that "about 650" one-bank holding companies had been invited to meet in Chicago "to discuss some of their problems." A week later the same publication reported that "representatives of about 200 one-bank holding companies voted Saturday to set up their own trade association and to resist any attempt to restrict their nonbanking activities." It was also reported that the new organization, to be known as the "Association of Corporate Owners of One Bank," is considering establishment of its own lobbying operation in Washington.

The dramatically swift spread of the one-bank holding company idea has not gone unnoticed by the bank supervisory agencies or by Congress. Testifying before the House Banking and Currency Committee on September 25, Chairman William McC. Martin of the Board of Governors of the Federal Reserve System stated:

I assume that there is wide agreement that banks should be allowed some latitude to meet their customers' constantly changing needs. The Board continues to believe, however, that this movement, growing more apparent each day, has its reasonable limits, unless appropriate financial services are to become merely the incidental rather than principal character of banking. I feel obliged, therefore, to point out to your Committee that this could happen if banks are allowed to establish one-bank holding companies in order to move further and further into other fields. We believe that the recent trend toward the establishment of such companies by banks underscores the need for a re-examination of the Bank Holding Company Act. The Board is currently studying this important question which has so many ramifications, not only for banking but for the basic structure of our economy.

*William F. Upshaw*

# Fifth District Ports SOUTH CAROLINA



□ The vitality of South Carolina's economy hinges to an ever-increasing degree on the State's three modern, well-equipped ports. A major attraction for new industry, the seaports save the 1,224 local firms using shipping facilities at least \$5 million annually in inland freight rates. □ The largest port is at Charleston, located on the Ashley-Cooper River Bay. Serving as a center of world commerce for nearly three centuries, Charleston in the past 26 years has advanced from a ranking of 65th among U. S. ports to 13th based on value of foreign trade handled. Over 100 shipping lines call at the port, 50 on a regular basis. Charleston recently has moved from primarily "bulk cargo" (coal, lumber, etc.) into high value "general cargo" (textiles, machinery, manufactured products, etc.), which is the bread and butter of any port. In recent years Charleston has emerged as the number one wool and cotton import center in the nation. Its marginal rather than finger, piers and its proximity to the open sea make it ideally suited for containerized shipping. □ Charleston is situated approximately halfway between South Carolina's other two deepwater terminals, Georgetown and Port Royal. Both opened in the late 1950's after dredging operations and other harbor improvements were completed. Georgetown is 60 miles north of Charleston and is the Palmetto State's second largest port. Lumber and oil are its major export commodities. Port Royal, at Beaufort, is 50 miles south of Charleston. Since May 1968 all of Port Royal's dock facilities have been leased to the Port Royal Clay Company. □ In the fiscal year ended June 30, 1968, many port records were set in South Carolina. Cargo tonnage handled rose to 2,258,047 tons with 1,393 ships calling. Charleston accounted for the greatest part with 1,778,212 tons and 1,294 ships; Georgetown handled 431,621 tons and 81 ships; and Port Royal, in two months of operations under the Port Royal Clay Company, moved 1,384 tons of clay with two ships calling. The Charleston Customs District collected a record amount of \$37,406,681, and grain exports at Charleston advanced to 491,647 tons. In the 1967 calendar year, foreign commerce at all South Carolina ports reached a new high of \$478.5 million. □ According to the University of South Carolina's Bureau of Business and Economic Research: ". . . the market potential for South Carolina's ports is \$4 billion in foreign trade a year, ten times their present actual business of about \$400 million a year."

# The Food Stamp Program

The Food Stamp Program was instituted as a means of supplementing the food budgets of low income families who might otherwise suffer from inadequate diets. The program was never intended as a general income supplement; rather it was based on the idea that qualifying families would spend their normal food budget to buy stamps of a greater value. Use of the stamps is limited by law to purchases of food items.

**How the Program Works** The amount of food stamps received by a qualifying family is equal to that assumed necessary to purchase, in the family's locale, a nutritionally adequate low-cost diet. For example, in Baltimore, Maryland, a family of six with an income per month of \$120-129.99 could spend \$56 on \$102 worth of food stamps, thus receiving \$46 in bonus purchasing power. In general, the higher the income, the more the family pays for the stamps and the smaller the bonus purchasing power. The guidelines for eligibility are family size and income.

The Consumer and Marketing Service of the U. S. Department of Agriculture administers the program, but state and local authorities are closely involved in its implementation. Local offices decide what families are eligible to participate and handle the day-to-day operations.

Many of these offices provide educational services to teach recipients how to use the coupons wisely. Some hold consumer food economics classes that cover such topics as budgeting, nutrition, and meal planning. Other offices may provide shopping guides, suggested menus, or even simple recipes. The educational effort is geared to teaching the shopper how to provide the best diet with a minimum outlay.

When the Food Stamp Program comes to an area, it is usually preceded by an extensive advertising campaign to explain it to prospective users. While the ordinary advertising media are frequently employed, the program may also be discussed in schools in the hope that children will pass the information on to their parents. In addition, signs may be displayed in public areas. Poster-making contests for children have become a popular method of advertisement.

In addition to the broad public educational pro-

gram, instructional sessions are held with local retail grocers who wish to be authorized by the USDA to participate. Similarly, since the stamps are cleared through the banking system, local commercial banks are advised of the program's characteristics.

**History of the Program** Proposals for the establishment of food stamp plans were not uncommon in the depression-ridden 1930's. In fact, there was a food stamp program in operation between 1939 and 1943, but it was subsequently suspended when wartime conditions sharply reduced unemployment.

Then in 1961 under Congressional authorization the USDA launched a pilot program in eight areas scattered across the country. Encouraged with its success, the USDA in 1962 extended the program to cover a total of 33 areas. In the following year, it extended it to embrace a total of 40 counties and three cities.

The Food Stamp Act of August 1964 placed the pilot programs on a permanent basis and added 47 localities. At that time the program covered 90 areas in 40 states and the District of Columbia. Since 1964 the program has been expanded until it now includes over 1,200 localities in all but seven states. The Food Stamp Act of 1964 authorizes expansion to any area or locality which desires to participate. Today some 2.6 million individuals receive food stamp assistance.

Since 1964, numerous changes have been made in the details of the program, all tending to liberalize and broaden its coverage. Persons in the lowest income category now need only 50 cents per month to purchase stamps sufficient to provide adequate nutrition, with a maximum cost of \$3 per family regardless of the number of members. Families that cannot afford even this token amount, are often provided the stamps by the county free of charge. Then, too, in order to make the initial purchase easier, the price charged for the first month's supply of stamps has been cut in half. This measure is directed partly at helping recipients switch from a credit to a cash basis of expenditures, and partly at helping them to start using food stamps. Moreover, "program aides" are now being hired from the poor com-

munities they are to serve. These aides are trained in the operations of the program and then sent out to instruct qualifying families.

#### **Food Stamps vs. Direct Commodity Distribution**

In some measure, the present Food Stamp Program grew out of, and was designed to remedy deficiencies in, the USDA's District Commodity Distribution Program. The latter program is an earlier food assistance plan dating from the 1930's and centering around surplus commodities acquired by the Commodity Credit Corporation under the agricultural price support program. Under the USDA's Direct Commodity Distribution arrangements, food assistance is provided directly to needy families out of these agricultural surpluses.

Critics of direct distribution noted that as a device for insuring minimum dietary standards among needy families, the program suffered from important shortcomings. It was pointed out, for example, that the kinds of food that were distributed were necessarily limited. Moreover, it was noted that the program failed to take advantage of the highly efficient distributive machinery of the marketplace, but rather required a cumbersome and expensive administrative apparatus. Since food stamps are used to purchase most food items at ordinary retail food stores, they avoid the disadvantage of limited variety and also make full use of commercial markets. Proponents of the Food Stamp Program also argue that, by comparison with direct distribution, the food stamp approach is less grating on individual pride and that it preserves some degree of personal responsibility for family food budgets.

Eventually the USDA's Direct Distribution Program will be phased out and replaced entirely by food stamps. At present it is against regulations for both programs to operate simultaneously in a given area. Counties participating in the Direct Distribution Program must first drop this program before instituting food stamps. Sometimes the Direct Distribution Program is a preface to food stamps, though an area may move directly into the Food Stamp Program.

**The Food Stamp Coupon** Food stamp coupons are issued in two denominations, 50 cents and \$2. The smaller denomination is orange in color and the larger is blue. They are liabilities of the U. S. Treasury Department and are protected by the same laws as the nation's currency. They are produced by the Bureau of Engraving and Printing with the same effort and skill that go into the production of currency. The paper used is similar to that used for postage stamps.

**Regulations on the Use of Coupons** Food coupons may be used, in the same way as cash, to purchase most food items in any licensed food store. They may not be used to purchase nonfood items, such as paper products, cigarettes, or alcoholic beverages, nor can they be exchanged for any item clearly labeled as imported or any meats or meat products that the grocer knows are imported. In this connection the burden of compliance lies both with the grocer and the food stamp customer. Moreover, the stamps cannot be used to pay charge accounts. They can, however, be used to cover excise or sales taxes on eligible items.



Retailers participating in the program must also follow fairly closely specified rules. The USDA issues to each participating retailer a numbered Authorization Card, which must be kept on the retailer's premises. The number on the Authorization Card must appear as a part of the retailer's endorsement when stamps are presented for redemption. The retailer must also display at all times the USDA Official Food List, which enumerates the kinds of items the stamps may be exchanged for.

The grocer cannot give cash for change in food stamp transactions. He will ordinarily save several 50-cent coupons for change purposes. If the amount of change due is less than 50 cents, he will issue a credit slip for the exact amount.

The coupons are issued in books, on the back of which each recipient is required, at the time and place of receipt, to affix his signature. Participating grocers are cautioned to check for signatures before removing coupons. They are also cautioned not to accept loose \$2 coupons in payment of purchases.

The coupons may be distributed directly by local welfare departments, who also administer the program, or distribution can be handled through commercial banks, with local banks bidding competitively on the amount they will charge to handle the distribution. Distributing banks, of course, have no control over who receives the stamps. This is still determined by the welfare or other state organization administering the program.

**Coupon Redemption** Food stamps must be used by the purchaser to buy food and cannot be bought and sold as a negotiable instrument. When they are received in a retail establishment, the retailer may present them for redemption through his commercial bank or he may use them to pay his wholesale grocer

bill. In the latter case, the wholesale grocer will then deposit the stamps with his commercial bank for redemption. Ordinarily the retailer will deposit his food stamp receipts along with his cash receipts with his banker.

Any commercial bank can accept a properly endorsed coupon. No further certification is required by the USDA. The banking community treats the stamps as cash except that they cannot count them as vault cash when computing reserves.

Commercial banks forward the coupons, bound in bundles of 100 of like denominations, directly to their Federal Reserve Bank. At the Reserve Banks, immediate credit is given for the face amount although adjustments may later be made as the coupons are counted and checked for genuineness. In the case of member banks, the face amount is credited to the account of the sending bank. With nonmember banks, the amount may be credited to the account of a correspondent bank or, at the option of the sending bank, payment may be made by cashier's check.

Canceled food coupons are not returned to the USDA. In the Fifth District, the Baltimore and Charlotte Branches incinerate them. At the Richmond Office, the stamps are destroyed by maceration. This is done under the supervision of a team not otherwise involved in the functioning of the Food Stamp Program. Destruction generally occurs either on the day of receipt or no later than the day after. When this is accomplished, the Reserve Bank, acting as fiscal agent of the Treasury, charges the USDA through a U. S. Treasury account kept for the purpose.

For the months of April, May, and June of this year, a monthly average of 3,479,032 coupons were redeemed in the Fifth District. The Richmond Office handled a monthly average of 2,122,666, compared with 1,052,239 at Baltimore and only 304,127 at Charlotte.

**The Program in the Fifth District** All Fifth District states participate to some extent in the Food Stamp Program. Participation is heaviest in West Virginia and the District of Columbia, both of which have 100% coverage. In terms of the fraction of the population receiving food stamps, both West Virginia and the District of Columbia run far ahead of other Fifth District states. At the other extreme among Fifth District states, Virginia has coverage in only three counties and four cities. Data on participation by Fifth District states is shown in the two tables.

*Charlotte B. Carmichael*

## THE CREDIT CARD BOOM

Since the inception of bank credit-card and check-credit plans in the early 1950's their growth has been characterized by periods of concentrated expansion. By far the most rapid growth has occurred in the period since 1966. The first flurry of credit-card activity occurred in 1952 and 1953 when some 100 banks, mostly small ones, instituted plans. Many of these banks, however, failed to realize the profit which had been expected, with the result that many plans were discontinued. Nevertheless, by the start of 1956 there were 27 banks offering credit-card plans. The next burst of interest came in 1958 and 1959 when some of the large banks in the country entered the field for the first time with the conviction that they could overcome the high initial costs of new plans. At the same time, check-credit plans began to emerge in force as a less costly alternative. In the recent burst of activity most of the large banks have undertaken one or both types of credit. Furthermore, during the recent period, the local character of most earlier plans has been replaced by broader, national coverage.

The first experience in the Fifth District with bank credit cards occurred in 1953 when two banks undertook credit-card programs. During the 1958-1959 period one additional District bank adopted a credit-card plan and ten banks instituted check-credit arrangements. The fullest impact of the most recent expansion has been felt in the District in 1967 and

1968. During 1967 two more banks undertook credit-card programs and the number of check-credit plans reached 28. At the same time a nonbank credit card, American Express—Executive Credit, was started in seven Fifth District banks. On December 30, 1967 credit outstanding for all bank credit-card and related plans in the Fifth District reached \$57.3 million. This is not the full story, however, for the greatest growth has occurred since December of last year.

**Bank Credit Cards** Bank credit cards are a means of charging retail purchases through an agreement among the issuing bank, participating merchants, and individual cardholders. On June 29, 1968 nine Fifth District banks reported credit-card plans with \$47.2 million of outstanding credit, an increase of more than 26% from December 1967 to June. From December of last year to the present the number of District banks with credit-card programs has grown from five banks to ten banks and one holding company with nine affiliates. Only two of the plans are local bank plans while the rest are associated with nationwide credit-card systems.

The nationwide systems, which emerged in the past two years, feature interchange privileges, by which participating merchants across the country honor all cards of banks in the system. From January through October of this year, 51 District banks announced

plans for, or put into operation, credit-card programs associated with a national system. One of the nationwide systems, BankAmericard, is honored in 36 states, and has 8.2 million cardholders, and over 200,000 participating merchants. Banks licensed to participate in this plan can, in turn, enroll agency banks to distribute cards in their areas. Licensee banks, however, are the only banks which carry outstanding credit on their books.

The other nationwide system is Interbank Card, Inc. Interbank Card is honored by 185,000 outlets in 26 states, and is held by nearly 9.7 million cardholders. Banks belonging to the association may operate local plans under their own name and join Interbank for the interchange privilege. To identify member banks, the Interbank symbol (i) appears on the credit card. Four District banks use the Interbank Card. Two of these have incorporated the card with their local plan.

The other two District banks affiliated with Interbank Card use it in conjunction with Master Charge Card, which was developed by the Western States Bankcard Association. A former private credit-card organization recently acquired by a Fifth District bank is also being converted to this program. Another bank and an association of 37 banks in Virginia, North Carolina, and South Carolina will begin operation of Master Charge in early 1969.

**Check-Credit And Other Plans** A check-credit plan requires only a two-party agreement, bank and customer. Credit is extended by permitting overdrafts on regular checking accounts or through writing checks on a special account. Both plans allow for predetermined amounts of credit and permit the loan to be repaid on a revolving credit basis.

A bank can also extend credit to a customer through the use of a nonbank credit card, such as American Express or Carte Blanche. Under this agreement the cardholder can obtain credit on a revolving basis. He can also receive cash advances upon request from the bank. These cards are used for travel and entertainment expenses as well as for retail purchases, and are honored in this country and abroad. The nonbank credit card offered in the Fifth District is American Express—Executive Credit.

Outstandings of check-credit and other plans for 35 Fifth District banks amounted to \$19.8 million in December 1967. As of June 30, 1968, 18 additional banks were operating these programs. The major portion of this growth can be attributed to the entrance of a holding company and its affiliates into the check-credit field. In June the outstanding credit under these 53 plans reached \$27.5 million. Since June two other plans have been announced, a check-credit and an American Express program.

**Total Credit** As the number of new credit-card and related plans has mushroomed and existing plans have grown in size, the volume of credit outstanding under such programs has also grown. As seen in the accompanying table, such credit outstanding at Fifth District banks in June totaled nearly \$75 million. This represented a 30.5% increase over the previous six months. Although the percentage growth in that period was larger for check-credit and other plans, the absolute increase in credit-card financing was some \$2 million larger. At the end of June, credit-card financing accounted for 63% of bank credit extended through credit cards and related plans.

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