A STUDY OF CHARGE ACCOUNT BANKING AND ITS FINANCIAL PERFORMANCE

Thesis for the Degree of Ph. D.

MICHIGAN STATE UNIVERSITY

Harlan R. Patterson

1963

This is to certify that the

thesis entitled

A STUDY OF CHARGE ACCOUNT BANKING AND ITS
FINANCIAL PERFORMANCE

presented by

Harlan R. Patterson

has been accepted towards fulfillment
of the requirements for

Ph.D. degree in Finance

Robert W. Johnson
Major professor

Date May 3, 1963

O-169

ABSTRACT

A STUDY OF CHARGE ACCOUNT BANKING AND ITS FINANCIAL PERFORMANCE

by Harlan R. Patterson

The first successful bank charge plan was established in this country in late-1951. The growth of charge account banking since that time has been highly erratic. More than 200 commercial banks have tried charge account banking; some found it to their liking, others discontinued their charge account operation soon after its inception.

The focus of attention in this study is on two of the least understood (and yet most vital) facets of charge account banking--namely, the markets which bank plans serve and the financial performance of bank charge plans. The objectives of this study are twofold:

a. to identify and analyze the two basic markets which a bank plan serves--i.e., credit cardholders and participating merchants. The success or failure of a bank charge plan hinges on its ability to interpret and serve these two groups.

b. to present and analyze the financial performance of bank charge plans. An analysis of this type should help to explain why some banks prospered so well in the charge account business while other banks failed miserably in this endeavor.

In order to achieve these objectives most effectively, this

study is organized in the following manner:

Chapter I defines the concept of charge account banking and then describes this concept in terms of the basic relationships which exist between the sponsoring bank, the participating merchants, and the credit cardholders. The last portion of this chapter traces the historical development of charge account banking in this country.

Chapter II is a market analysis of credit cardholders. A questionnaire survey was used in order to ascertain the demographic characteristics, the attitudes, and the opinions of credit cardholders in two different cities. A total of 873 questionnaires was used in this survey. Data obtained from returned questionnaires serve as the bases for the statistical inferences made in this chapter.

Chapter III analyzes the merchants who participate in bank charge plans. Data used in this chapter were obtained by means of personal interviews with more than ninety merchants.

Chapters IV and V deal with the financial performance of thirty-six bank charge plans. For purposes of analysis, these thirty-six plans were segregated into two groups -- those which were successful and those which were discontinued. Financial data used in these two chapters were derived from the American Banker newspaper.

Chapter IV presents and compares the actual profit performance of these two groups of charge plans. Chapter V, then, breaks this profit performance into its component parts and analyzes these parts. In Chapter V, data pertaining to the volume, income, and expense

experience of the two groups of bank plans are presented, compared, and analyzed.

Major findings of the study include:

(a) Charge plans exert a tremendous influence on the sponsoring bank's public image. Membership in the plan is the sole contact that many people in the community have with the bank; they base their opinion of the bank on their experiences with the charge plan.

(b) Membership in a bank charge plan has the greatest appeal for merchants whose annual sales volume is between $100,000 and $330,000.

(c) The volume of credit sales which a member merchant runs through the bank plan is determined, primarily, by the type of product which he sells. Certain products are better suited for bank plan financing than others.

(d) Income from sources other than merchant discount is growing in importance in charge account banking.

(e) Charge plans have a high break-even point and a high degree of operating leverage. Volume is essential for financial success in charge account banking.

(f) Chances for success are small for bank plans which operate in trading areas having a population under 150,000.

A STUDY OF CHARGE ACCOUNT BANKING AND ITS FINANCIAL PERFORMANCE

By

Harlan R. Patterson

A THESIS

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

DOCTOR OF PHILOSOPHY

Department of Accounting and Financial Administration

1963

ACKNOWLEDGMENTS

A large portion of this dissertation was completed during the year in which I held a Harold Stonier Fellowship in Banking. Accordingly, I wish to express my gratitude to the American Bankers Association whose financial aid made it possible for me to complete this final stage of my graduate education.

The chairman of my dissertation committee was Professor Robert W. Johnson to whom I am indebted not only for his suggestions and encouragement during the preparation of this thesis, but also for his advice and helpfulness throughout the past several years. I also want to thank Professor James Don Edwards and Professor Edward M. Barnet who offered numerous helpful comments and generously served as members of my dissertation committee.

Many of the "pioneers" of charge account banking in the United States contributed to the preparation of this dissertation. Especially helpful among this group were Mr. Richard D. Klein, Assistant Vice-President of the First National Bank and Trust Company of Kalamazoo, Michigan and Mr. Charles L. Kilgore, Jr., Vice-President of the Economy Finance Corporation of Indianapolis, Indiana.

Finally, I deeply appreciate the assistance of my wife, Jessica, who spent many tedious hours in proofreading the preliminary and final drafts of this dissertation.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF APPENDICES

APPENDIX A

APPENDIX B

CHAPTER I

CHARGE ACCOUNT BANKING: THE CONCEPT AND ITS GROWTH

Objectives and Organization of this Study

This study deals with charge account banking -- one of many innovations which took place in the area of consumer credit during the 1950's. A number of commercial banks have now been in the charge account business for more than eleven years, yet surprisingly few people in this country have ever heard of charge account banking.

Relatively little has been written about this type of consumer credit service. Even less has been written about certain specialized aspects of charge account banking. The focus of attention in this study is on two of the least understood facets of charge account banking -- namely, the markets which bank plans serve, and the financial performance of bank charge plans.

The objectives of this study are two-fold:

a. to identify and analyze the two basic markets which a bank charge plan must serve -- i.e., the credit card holders and the participating merchants. The success or failure of a charge service often hinges on the ability of the bank to correctly interpret these two markets.

b. to present and analyze the financial performance of bank charge plans. An analysis of this type should help to clear up some of the conflicting news reports regarding the profitability of bank charge plans.

In order to achieve these objectives most effectively, this study is organized in the following manner:

This chapter defines the concept of charge account banking and then describes this concept in terms of the basic relationships which exist between the sponsoring bank, the participating merchants, and the credit card holders. The last portion of this chapter traces the historical development of charge account banking in this country.

Both Chapters II and III are market analyses. The material presented in these two chapters is designed to afford a better understanding of participating merchants and credit card holders.

Chapter II deals with credit card holders. A questionnaire survey was used in order to ascertain the demographic characteristics, the attitudes, and the opinions of credit card holders in two different cities. A total of 873 questionnaires was used in this survey. The data obtained from returned questionnaires serve as the bases for the statistical inferences made in this chapter.

The focus of attention in Chapter III is on the merchants who participate in bank charge plans. The data used in this chapter were obtained by means of personal interviews with more than ninety merchants.

Chapters IV and V are devoted to the financial performance of bank charge plans. Chapter IV shows the actual profit performance of a selected group of bank charge plans. Chapter V, then, breaks this profit performance into its component parts and analyzes these parts.

This study is not intended to be a defense of nor a condemnation of charge account banking. The author has no "axe to grind."

What is Charge Account Banking?

The idea of charge accounts is not new. Retail merchants have made use of this type of credit extension for years. In fact, department stores had charge plans in operation before 1910.[1] However, the concept of charge account banking is relatively new.

In charge account banking it is a commercial bank, rather than a retail merchant, which grants the credit. Functions such as risk evaluation, credit granting, and collection of accounts are shifted from the merchant to the bank. This is certainly a logical application of the "principle of specialization". The bank handles all the details of credit, thus leaving the merchant more time to concentrate on those functions in which he is more adept -- namely, selling and merchandising.

Whereas the exact details of the various bank charge plans throughout the country differ somewhat, the basic mechanics are the same. The consumer first fills out a credit application which

---

[1]Frederic L. Vesperman, The Practicality of Charge Account Banking, Written in partial fulfillment of the requirements for graduation at the School of Consumer Banking, University of Virginia, 1960, p. 1.

he receives from the bank or from a merchant member of the charge plan. He then sends this application to the sponsoring bank which, in turn, evaluates him as a credit risk. If his credit application is approved, he is given a credit card by the bank. He may use this credit card at any of the member stores in the area. Normally, credit approval is automatic upon presentation of the credit card at any member store if the amount of the purchase is below a certain maximum set by the bank.[2] If the amount of the credit purchase exceeds this ceiling, the merchant must call the sponsoring bank for special authorization.

At the end of each working day, the merchant takes all of his credit sales tickets to the sponsoring bank. The bank gives him immediate credit[3] for a certain specified percentage of these sales tickets. The difference between the total value of the sales tickets and the amount which the bank credits to the merchants account is called the "discount". A recent questionnaire sent to one hundred and three banks revealed that the rate of this discount ranged from 5% to 7%.[4] The discount represents the <u>gross</u> revenue that the bank receives from the merchant for handling the

---

[2]This maximum or "floor ceiling" usually ranges between $20.00 and $40.00 per purchase.

[3]This credit is made to a deposit account which the merchant is required to maintain with the sponsoring bank.

[4]Frederic L. Vesperman, <u>op</u>. <u>cit</u>., p. 34.

credit functions.[5]

Once a month the sponsoring bank bills the customer for all credit purchases made during the month at the stores of member merchants. The customer makes his remittance directly to the bank, even though his purchases may have been made at a dozen or more individual stores.

In general, if the consumer pays his bill within ten days, he pays no charge whatsoever to the bank for the bank service.[6] Banks normally levy a service charge on the unpaid balance if the consumer fails to pay his bill within thirty days after he receives it. The aforementioned questionnaire[7] to charge account bankers indicated that this service charge normally ranged between 1% and 1-1/2% per month on the unpaid balance at the beginning of the month.[8]

---

[5]It should be noted here that typical bank-merchant agreements (See Appendix A , page 145) do not contain "hold-back" provisions such as found in automobile financing agreements. The only time that the sponsoring bank ever asks for a "hold-back" over and above the specified rate of discount is when it buys the existing accounts of a new merchant applicant. Since the bank played no role in granting credit to these existing accounts, it normally demands a "hold-back" or reserve to protect itself against the possibility of extraordinary bad debt losses.

[6]Some merchants are able to adjust the price of their merchandise upward in order to pass some or all of the cost of the discount on to the consumer. When this is the case, the consumer pays indirectly for the bank service.

[7]Frederic L. Vesperman, op. cit., p. 34.

[8]Quite often state law sets a maximum rate which banks may levy on consumers in transactions of this type. This legal maximum varies from state to state, and is subject to sudden change. For example, in 1961, the Attorney-General of the state of Pennsylvania ruled that a bank could not charge more than nine-tenths of 1% per month on balances of this type. There is little doubt that this ruling

Now that the basic mechanics of bank charge plans have been discussed it would be helpful to consider some of the variations which exist among these plans. Variations exist in both bank-merchant and bank-card holder relationships.

Variations in Bank-Merchant Relationships

A typical bank-merchant agreement can be seen on page 145 of Appendix A. The basic bank-merchant relationships are defined in this agreement, but certain variations do exist in these relationships.

Sponsoring banks are not uniform in their handling of discounts. Not only does the stated rate of the discount vary among plans,[9] but so also does the effective rate of the discount. Many banks follow the practice of giving rebates (often of a sliding scale type) to merchants at the end of some specified period of time such as a month or a year. These rebates are usually based on:

(a) the average size of sales ticket for the period (see

---

has had an adverse effect on bank-operated charge plans in Pennsylvania. In a personal letter (May 14, 1962) to the author, Mr. G. L. Toole, Vice President, Delaware County Division, Girard Trust Corn Exchange Bank, Upper Darby, Pennsylvania stated that to the best of his knowledge there are only two banks presently operating charge plans in the state of Pennsylvania. These two banks are his own and the People's National Bank of Norristown, Pennsylvania.

[9]The stated rate is normally from 4% to 7% of sales volume. The effective rate can go much lower.

page 148 of Appendix A for a typical schedule).[10]

(b) the total dollar volume of sales which the merchant has discounted during the period (see page 149 of Appendix A for a typical schedule).

(c) or some combination of (a) and (b) -- (see page 150 of Appendix A for a typical schedule).

In many ways the practice of basing merchant rebates on total dollar volume for the period is preferable for the bank. This method encourages every size of sale and not just the sale of large ticket items. Then, too, rebates based on sales volume make the bank plan more attractive to large volume merchants in the area.[11] If the bank does not offer a fairly liberal rebate schedule, these large volume operators will handle their own credit operations. It is quite conceivable that the stated rate of the discount could be 6% of credit sales volume, whereas the effective rate (rate after all rebates) for high volume operators could be as low as 2-1/2% to 3%.

The discount is seldom the sole source of income which the sponsoring bank derives from its merchant members. Many banks assess each new merchant an entrance fee which ranges from $20.00 to $50.00 in amount. While, at times, the primary purpose of this

---

[10]Rebates based on the average size of sales ticket are a recognition of the fact that it costs just as much to process a sales ticket for $1.00 as it costs to process one for $1,000.00. Processing a great volume of low dollar amount sales tickets can be a losing proposition for the bank.

[11]Chapter III (pages 75-79) offers additional insight into the costs of conducting a credit operation.

entrance fee is to discourage less desirable merchants; nonetheless, the income possibilities of this entrance fee can not be overlooked. A few banks return the entrance fee to the merchant after he has discounted some specified volume of sales at the sponsoring bank.

Some banks earn additional income from their merchant members by selling mailing lists of approved credit card holders to these merchants. Since these lists contain the names of potential customers of good credit standing, they are invaluable to the merchant for his direct mail advertising campaigns. A few banks will (for a nominal fee) perform addressograph service for member merchants.

Needless to say, other variations do exist in relationships between sponsoring banks and their participating merchants. The preceding analysis has treated only the more important variations.

Variations in Bank-Card Holder Relationships

The bank-merchant agreement outlines most of the pertinent relationships which exist between the bank and its member merchants. The primary relationships between the bank and its credit card holders are normally outlined in one of the following places:

a. in a retail installment credit agreement such as the one on page 152 of Appendix A. This document is mandatory in some states -- e.g., New York.

b. or on the application form used to open new charge accounts. A sample of this type application form can be seen on page 154 of Appendix A.

One of the most important variations in the area of bank-card holder relationships is the manner in which banks acquire consumer participation. Banks want to get their credit cards into the hands of good credit prospects as quickly as possible. The philosophy involved here is "if you have the card holder, the merchant will come readily". One source[12] lists four different methods which are now being used or have been used by banks to get consumer credit card holders. These four methods are:

a. mass issue

b. select mass issue

c. buying of accounts receivable and

d. active solicitation of accounts.

Under the mass issue method, the bank sends credit cards to all potential shoppers in the shopping area. It gets the names of these shoppers from sources such as the city directory or the telephone directory. Needless to say, a high percentage of marginal and sub-marginal card holders are obtained when this method is used. The "weeding-out" process is usually quite costly.[13] Loss experience is very high when the bank operates on the philosophy that a "man is a good credit risk until he proves himself otherwise". Too many accounts prove to be "otherwise".

---

[12]Frederick L. Vesperman, op. cit. pp. 17-18.

[13]This is especially true in light of the fact that the bank normally operates on a gross margin of only 5% to 7%.

Under the select mass issue of credit cards, a somewhat higher grade of credit risk is obtained. Cards are sent to individuals who have already proven their credit worthiness in one way or another. For example, the bank might send cards to its own customers who have exhibited good credit practices in past transactions. This method would also include the practice of sending cards to all people who are in certain professions -- e.g.,to all doctors, lawyers, chemists, etc. Another variation of the select mass issue method of distribution of credit cards is that of sending cards to all people whose homes are located in the more exclusive residential areas of the city. Since cards are mailed only to pre-selected groups, collection experience is almost certain to be more favorable than under the mass issue method.

A third method consists of purchasing the accounts receivable of merchants in the community. The bank normally pre-screens accounts of this type, and then buys only those accounts which are current. Seldom, if ever, would the bank purchase an account which was more than thirty days overdue. The eligible accounts are usually purchased on a recourse basis -- i.e., the merchant agrees to repurchase all accounts which have not been collected after a stated period of time. Under this method, both the merchant and the sponsoring bank benefit. The merchant adds to his working capital by converting his existing receivables to cash, and the bank, in effect, gets a pre-selected group of credit card holders.

Active solicitation of credit card holders takes many forms. Some banks employ an outside agency to canvass the community and sign up new accounts. Other banks solicit new accounts by means of newspaper advertisements or direct mail. Still other banks follow the practice of paying retail clerks in the city a stated amount (such as 25¢ or 50¢) for each new account they sign up.[14]

The above methods of gaining consumer participation are definitely not mutually exclusive. A single bank might conceivably be using all of the basic methods at the same time. The exact method or combination of methods employed is determined by many considerations; the most important of these considerations being cost and coverage.

During the early years of charge account banking, all charge accounts were for either thirty, sixty, or ninety days.[15] Today, more than 80% of the banks in the charge account business offer some form of revolving credit.[16] Under these revolving credit arrangements, credit is extended for periods up to twelve months. The credit card holder is normally billed monthly. His monthly bill consists of two parts:

---

[14] In order to get coverage of new families in the area, a few banks work through "Welcome Wagon" personnel. The bank contributes some stated amount of money for each new family that the Welcome Wagon group signs up.

[15] Edward A. Gover, Charge Account Banking, School of Consumer Banking, University of Virginia, Charlottesville, Virginia, August, 1960, p. 10.

[16] Ibid.

a. a minimum monthly payment based on the balance of his account, plus

b. a service charge of from 1% to 1-1/2% of the unpaid balance of his account.

Of course, if the card holder so desires, he may pay the balance of his account in full and thus avoid the service charge.

Events Leading Up to Bank Charge Plans

The Dilemma of the Retailer

The role of credit in our economy has expanded greatly in the past fifty years. It has been estimated that over 90% of all business in the United States is transacted by means of bank credit.[17] The growth in the volume of credit at the consumer level has been especially great.

In most lines of business, there has been a tremendous competitive force exerted on retailers to extend credit to consumers. Consumers clamored for credit and each merchant knew that if he did not offer a credit service, some of his competitors would.

Some retailers were financially strong enough to underwrite their entire credit operation; other retailers were not. In general, it was the small and medium sized retailer who could not supply funds for credit internally. These retailers had to look outside their own organization for a source of credit funds. Since they were not

---

[17] The Universal Standard Encyclopedia (Standard Reference Works Publishing Company, Inc., New York, N. Y., 1958), Vol. 6, p. 2099.

able to finance the credit directly, they had to find some indirect method of doing it. But even the job of finding a suitable indirect method was not easy for small and medium sized retailers. Their access to the money and capital markets has, traditionally, been severely limited. In order to obtain external funds to supply the credit themselves, they had to pledge inventory, pledge accounts receivable, or borrow directly from a financial institution -- e.g., a commercial bank or a special finance company. All of these methods, even if available, were relatively expensive.

A logical solution to the retailer's dilemma would be to let commercial banks supply the credit demanded by the consumer. But, traditional banking practice would not allow this.

The Attitude of the Bankers

It was 1910 before commercial banks made loans to individuals on a personal basis.[18] Up to this time, most bank lending had been confined to seasonal loans to farmers or to business enterprises.

It was in the year 1910 that the Fidelity Savings and Trust Company of Norfolk, Virginia made the first major break-through; not only did they make loans to individuals on a personal basis, but they also added installment features to these personal loans.[19] The

---

[18] Frederick L. Vesperman, *op. cit.*, p. 1.

[19] W. D. Robbins, *Consumer Installment Loans: An Analysis of Loans by Principal Types of Lending Institutions and by Types of Borrowers*, published by The Bureau of Business Research, College of Commerce and Administration, The Ohio State University, Columbus, Ohio, 1955, p. 5.

practice of making personal loans on an installment basis did not truly take hold until it was implemented by the National City Bank of New York in May of 1928.[20]

It took the Depression of 1929-32 to convince commercial bankers that personal loans were a "safe" form of lending. Losses to banks on loans to individuals were negligible during this period.

Even in the 1930's and 1940's, banks confined the bulk of their personal lending to installment loans. Revolving credit offered by commercial banks to consumers was practically unheard of until the early 1950's when charge account plans and check credit plans popularized the concept.

The Origin of Bank-Operated Charge Plans

The bank charge plans in operation today most closely resemble the plan which was initiated in 1951 by the Franklin National Bank of Rockville Center, New York. But, Franklin National was not the first bank to try to operate a retail charge plan.

In 1939, R. A. Dousseau along with a few of his associates established a charge plan in the New York City area which was actually a forerunner of today's charge plans.[21] They called their program the "Buy-O-Matic Plan". By 1941, the Buy-O-Matic Plan was used in

---

[20] "Finance: Banks Take on the Consumer," Business Week, March 7, 1959, p. 55.

[21] Personal letter from Mr. R. A. Dousseau, President of Check Master Inc., New York, N. Y., to Mr. James H. C. Duncan of the First National Bank and Trust Company of Kalamazoo, Michigan, December 5, 1957.

twenty-one banks, and it had a membership of close to 7,000 merchants. This plan did rather well until the advent of the Federal Reserve Board's Regulation "W" of 1941 which was designed to restrict the flow of credit to the consumer segment of the economy. Regulation "W" coupled with the entry in 1941 of the United States into World War II brought the Buy-O-Matic Plan to a sudden halt.

The next major advance for bank charge plans came in 1946. In that year, John C. Biggins, an officer of the Flatbush National Bank of Brooklyn, N. Y., devised the "Charg-It Plan" to help retail merchants who needed credit facilities but who did <u>not</u> have the funds or experience necessary to offer them. The Charg-It Plan was largely a form of revolving credit granted by the bank to the consumer. The bank thoroughly investigated the credit background of the consumer and then issued script drafts to him in the full amount dictated by the credit investigation. The consumer was then free to spend his script drafts in the store of any merchant member of the Charg-It Plan. As soon as the consumer made his monthly remittance (usually one sixth of the total line of credit) to the bank, the bank sent him additional script equivalent to the amount of the remittance. The bank purchased all script from member stores at a discount rate of 8%. In addition to this, the bank received a little additional income from credit users by charging them one-half of 1% each month on outstanding credit balances. Although this plan was rather expensive for the merchant, it did allow the merchant to offer credit terms to his customers, and it did transfer most of his credit headaches to the bank. The relatively high costs of the plan and the inconveniences of using script caused almost all of these plans to be discontinued.[22]

As already mentioned, the Franklin National Bank Plan of 1951 has been the model for most of the present day bank charge plans. This plan makes use of sales slips rather than script drafts. The merchant takes his sales slips to the bank at the end of each working day, and gets immediate deposit credit for the total value of the sales slips less the specified discount. The sales slip thus serves as the legal "draft" to back up the accounts receivable asset of the bank.

The Franklin National Plan caught on rather quickly. Other banks throughout the country became interested in setting up their own charge plans.[23] In fact, the number of banks interested in starting a charge plan became so great that the Franklin National Bank set up a subsidiary, called the Franklin Charge Plan Corporation,

---

[22]Personal letter to the author from Mr. John C. Biggins, President, The Franklin Bank, Paterson, New Jersey, March 19, 1962. Mr. Biggins states that he knows of only one such plan still in operation -- the Community Charge Plan of Hackensack, New Jersey.

[23]It should be noted that some retail charge plans are sponsored by independent groups rather than by banks. The Boyd System, Inc., of Bristol, Pennsylvania was a privately owned plan of discounting retail charge account transactions which operated successfully in Pennsylvania for over seven years. Wolly, Inc., also privately owned and operated, has operated a credit buying service in New York City since the mid-1940's. The Central Charge Service of Washington, D. C. is sponsored by an independent group, and <u>not</u> by a commercial bank. Thus, charge plans are <u>not</u> the exclusive property of banks.

to franchise banks or other financial institutions desiring to set up retail charge account services. Banks adopting the Franklin model paid a franchise fee to the Franklin Charge Plan Corporation.[24]

This trend toward charge account banking was not restricted to the Eastern part of the United States. Plans sprang up quickly in the South and in the Midwest.[25]

Trends in Charge Account Banking Since 1951

The success of the Franklin Plan in New York can not be given all of the credit for the rapid growth of bank charge plans in the early 1950's. Manufacturers of office machinery (e.g.,-- calculators, billing machines, etc.) were great proponents of charge plans. Since they knew that increases in the number of charge plans would mean more business for them, they strongly advocated (and, at times, "over-advocated") the future potentialities of this new banking service.

By early 1953, there were over sixty known bank charge plans in operation in the United States.[26] In March of 1954,[27] the Charge

---

[24]This fee was designed to cover not only the value of the franchise, but also any help and guidance received from the Franklin Charge Plan Corporation.

[25]The first franchise was issued to the First National Bank and Trust Company of Kalamazoo, Michigan.

[26]"Marketing: Bankers Move In On Charge Credit," Business Week, April 11, 1953, p. 43.

[27]Charge Account Bankers Association Directory for Fiscal Year 7/1/56 -- 6/30/57, page 1.

Account Bankers Association (C.A.B.A.) was formed in Chicago in order to gain some measure of centralization of information and some uniformity of operation. All member banks agreed to submit quarterly financial data to the C.A.B.A.; this information was then to be published in the American Banker. In this manner, each bank offering a charge service could compare its performance with the performance of approximately forty other charge plans of member banks.

The actual growth of charge account banking depended on two factors:

(a) changes in the number of bank plans in operation, and

(b) changes in the dollar volume of business done by each existing plan.

Unfortunately, the number of bank plans in existence at any given time is always an approximation. Many banks which operate charge plans never become a member of the C.A.B.A. It is entirely possible for a small volume plan to come and go and never once be officially accounted for.

Since the total number of bank plans in existence at a given time is unknown, little can be said about the turnover rate among bank charge plans. All that can be said with certainty is that the attrition rate has been rather high for banks which belong to the C.A.B.A. Many plans have been started, but not all have survived.[28]

---

[28]The author has in his possession a list of forty-one bank plans which have been discontinued for one reason or another. There is no reason to believe that this list takes into account all banks which tried and dropped charge plans during the past eleven years.

The average dollar volume of business done by existing banks increased steadily over the period from 1954 to 1960. Table 1(page 20) illustrates this growth. The average volume of sales discounted per bank (Column E) almost trebled during this period.

According to this same table, the average dollar value of outstandings (Column D) expanded more than eight-fold (from $178,640.00 to $1,513,707.00) during this period. The phenomenal increase (from $520,522.00 to $1,513,707.00) made in this item between the years 1959 and 1960 can be largely attributed to two major causes:

(a) the entry into full scale charge account operations of the Chase Manhattan Bank of New York and the Citizens and Southern National Bank of Georgia.[29] Neither of these banks reported their financial data in 1959, but both did in 1960. The total value of outstandings of these two banks totaled close to $15 million as of December 31, 1960. The entry of these two banks exerted a strong force pushing upward on the average dollar value of outstandings per charge plan.

(b) the movement toward a greater use of revolving credit. Some banks started revolving credit plans for the first time during 1960. Other banks which were already offering revolving credit expanded the terms of this credit. For

---

[29] It was at this same time that the Bank of America (California) first achieved full scale operations, but this fact does not enter into the figures appearing in Table 1. The Bank of America's financial data is not included in the quarterly data reports of the American Banker.

Table 1. Trends in the Growth of Bank Charge Plans
For the Period; January 1, 1954 - December 31, 1960

Year (As of 12/31)	Number of Banks Reporting	Total Outstandings	Total Volume	Average Value of Outstandings per Reporting Bank	Average Volume per Reporting Bank
	(A)	(B)	(C)	(D)	(E)
1954	41	$ 7,324,300	$ 9,133,600	$ 178,641	$222,771
1955	41	10,953,200	12,821,800	267,151	312,727
1956	40	12,058,800	13,463,700	301,470	336,593
1957	34	12,495,500	13,195,400	416,517	388,100
1958	32	12,785,300	13,507,100	399,541	422,097
1959	37	19,259,300	18,732,600	520,522	506,286
1960	41	62,062,000	26,373,000	1,513,707	643,244

Source: The American Banker (1954-1960)

example, the Indianapolis Morris Plan Corporation of Indiana, the Security Bank of Lincoln Park, Michigan, and the Citizens Commercial and Savings Bank of Flint, Michigan expanded their terms from five or six months to ten months.[30] An expansion of revolving credit increases the average dollar value of outstandings per charge plan.

The Present Status of Bank Charge Plans

The growth of charge account banking was greatly stimulated on December 1, 1958, when the Chase Manhattan Bank of New York started a charge plan of its own. This event was a signal to the rest of the banking world that bank charge plans had finally become an "accepted" function of commercial banks. Prior to this, most banks had been reluctant to try charge account financing because the credit risks involved could not be evaluated by means of traditional methods. The entry of Chase Manhattan destroyed much of this reluctance.

If any further doubts remained in the minds of bankers, they were alleviated in late 1958 and early 1959 when the Bank of America extended the scope of its charge account operation from the Fresno area to the entire San Joaquin and lower Sacramento Valleys of California. Charge account banking had finally earned its seal of approval.

---

[30] Personal letter to the author from Mr. Richard D. Klein, Assistant Vice President, The First National Bank and Trust Company of Kalamazoo, Michigan, March 22, 1962.

Early 1959 brought a great increase in the number of bank plans in operation. While it would be pure folly to attribute this increase solely to the entry of Chase Manhattan and the expansionary action of the Bank of America, nonetheless, the tremendous influence of these two events can not be overlooked.

Approximately sixty banks held membership in the Charge Account Banker's Association as of April, 1959. At its annual meeting in May of 1959, the Association had to consider thirty-eight new bids for membership.[31] It appears to be more than just a coincidence that membership in the C.A.B.A. increased by more than 60% only five months after Chase Manhattan put its charge plan into operation.

But all has not gone well. In January, 1962, the Chase Manhattan Bank of New York announced that it was selling its credit card business because it had failed to produce a profit during its three years of operation.[32] The full effect of Chase Manhattan's exit from the charge account business is not yet known. But, already a few trends are indicated. Just as many smaller banks followed Chase Manhattan into this type of credit operation, many will follow it out. Even banks which are operating highly successful plans will stop and take a "second look" at this form of consumer financing. Charge account banking is in a period of critical review.

---

[31] The American Banker, April 18, 1959, p. 3.

[32] The Wall Street Journal, January 25, 1962, p. 1.

The Future Prospects for Charge Account Banking

Bankers have now had more than eleven years of experience with retail charge plans. To a large extent, the future of this type of financing depends on the ability of bankers to analyze and profit from these eleven years of experience.

Much can be learned from a study of the experiences of others. There are two prime lessons to be learned from an analysis of the first eleven years of charge account banking.

First, know your market. There is no substitute for a business-like analysis of the specific market to be served. Alert bankers must analyze the demographic characteristics, the attitudes, and the wants of the people who are to be served by the bank plan.

A large number of the banks which entered the charge account business during the 1950's had absolutely no knowledge of the markets they would be facing. These banks learned their lesson the hard way. Chapters II and III of this study illustrate the type of information that is available and is crucial to the success of a bank charge plan.

Second, charge account banking is not a device for quick profits. If it were a device of this type, it should not be operated by commercial banks.

Early advocates of charge account banking claimed that banks could expect to gross 40% and net 20% on all funds invested in this type of credit. Claims such as this contributed to the high attrition rate among bank charge plans. Chapters IV and V of this study present and analyze the actual profit performance of bank charge plans.

CHAPTER II

A MARKET ANALYSIS; THE CREDIT CARDHOLDER

Any bank which operates a retail charge service has two basic markets to serve -- namely, the credit cardholders and the participating merchants. The success of the bank plan depends to a large extent on the ability of the bank to analyze these two markets correctly.

A general knowledge of these two groups is not enough. The bank must thoroughly understand both the qualitative and the quantitative aspects of these markets.

This chapter analyzes only the credit cardholders. It shows the type of information that is available and is essential to the continued success of a bank charge plan. The basic data used in this chapter were derived from an extensive questionnaire survey conducted during the months of June, July, and August of 1961.

Background Information on the Bank Plans Studied

Questionnaires were mailed to randomly selected samples of credit cardholders from two separate bank plans. The names of these bank plans have been omitted at the request of the two banks involved. For purposes of identification in this study, these plans will be referred to as Bank Plan (A) in City (A) and Bank Plan (B) in City (B).

Bank Plan (A) has been in operation since 1952, whereas Bank Plan (B) did not commence operations until 1957. Both of these plans are considered to be successful operations.[1]

As of the date of the questionnaire survey, Bank Plan (A) had issued 33,100 credit cards; of this number, about 18,700 were deemed to be active accounts.[2] Bank Plan (B) had 11,400 credit cards outstanding of which 6,400 could be classed as active accounts.

Events Preceding the Mailing of Questionnaires

A great amount of preparatory work had to be done before questionnaires could be mailed to cardholders from the two bank plans. The major events which preceded the actual mailing of questionnaires were:

a. Random samples were drawn from three classifications of credit cardholders:[3]

Group I - Active credit cardholders -- Bank Plan (A)

Group II - Inactive credit cardholders -- Bank Plan (A)

Group III - Active credit cardholders -- Bank Plan (B)

It was felt that information derived from these three

---

[1]Specific data are available which will attest to the financial and operating success of these plans, but a disclosure of such data might work against the best interests of these banks. Suffice it to say that the operating results achieved by these two banks compare favorably with the operating results of the approximately forty bank plans which report quarterly data to the American Banker.

[2]An account is deemed to be active if the cardholder has used his bank credit card at least one time during the preceding six month period.

[3]An analysis of every member of these classifications was not feasible due to the fact that these three classifications encompassed approximately 40,000 credit cardholders.

samples would serve as an ample base on which to make inferences regarding the cardholders of Bank Plan (A) and Bank Plan (B).

Randomness of these samples of credit cardholders was insured in the following manner. Each of the banks maintained a personal history card (See page 155 of Appendix A.) on every one of its credit cardholders. In each bank, these personal history cards were filed in numerical order. A table of random digits[4] was used to determine which of the personal history cards would be pulled for the samples.

b. The questionnaires were designed and pre-tested. A preliminary questionnaire was mailed to thirty-five credit cardholders in City (A) in order to get some indication of:

i. the clarity and effectiveness of the questions, and

ii. the percentage of return which could be expected.

Of the thirty-five preliminary questionnaires mailed out, seventeen were returned in usable form.

c. A newspaper article outlining the details of the survey (See page 156 of Appendix A for a copy of this article.) was placed in the local newspapers of both Cities (A) and (B). The purpose of this newspaper article was to "pave the way" for the questionnaires which were to follow. It was felt that an article of this type would stimulate local interest in the

---

[4]The Table of 150,000 Random Decimal Digits, Interstate Commerce Commission's Bureau of Transportation Economics and Statistics, Washington, D. C., May, 1949.

survey and thus increase the number of usable questionnaires returned. This article was released for publication on the same day that the questionnaires were mailed.

The Mailing of Questionnaires

Questionnaires were mailed to all members of the three randomly selected samples of cardholders mentioned on page 25 of this chapter. In City (A) questionnaires were mailed to samples of both active and inactive credit cardholders. (See pages 157-162 of Appendix A for copies of these questionnaires.) This was done in order to discover what, if any, significant differences existed between the characteristics and attitudes of these two groups.

In City (B), questionnaires were mailed only to active cardholders. (See page 160 of Appendix A for a copy of this questionnaire.) The questionnaire sent to this group was identical[5] to the one sent to the active cardholders in City (A). This was done in order that the responses given in City (B) could be compared with the responses given in City (A).

The letter which was mailed to the members of the aforementioned samples contained three items:

a. the cover letter itself. (See page 163 of Appendix A for a copy of this letter.)

b. the appropriate questionnaire.

c. a stamped, return-addressed envelope. A code number was

---

[5]Only the name of the bank plan and the name of the city were changed.

placed on the inside of each of these envelopes.[6] This code number in the return envelope made it possible for the author to determine precisely which members of each sample responded to the questionnaire and which members did not. The full significance of the coding procedure will become apparent when the tests for homogeneity of the response and the non-response groups are made.

The Return of Questionnaires

Table 2 (below) shows the total population of each of the three groups to whom questionnaires were sent, the size of the sample drawn from each group, the number of usable[7] questionnaires returned

Table 2. Pertinent Details of the Questionnaire Survey Conducted in Cities (A) and (B)

	Group I Bank Plan (A) Active Card Holders	Group II Bank Plan (A) Inactive Card Holders	Group III Bank Plan (B) Active Card Holders
1. Total Population of Each Group	18,700	14,400	6,400
2. Size of Sample Drawn From Each Group	355	310	228
3. Number of Usable Questionnaires Returned by the Members of Each Sample	172	51	106
4. Percentage of Questionnaires Returned $\frac{(\text{Line } 3)}{(\text{Line } 2)}$	48.5%	16.5%	46.5%

[6]For obvious reasons, extreme care was exercised in coding these return envelopes. A very light grade pencil was used to insert a code number inside each envelope.

[7]Active questionnaires were deemed to be "usable" if ten or more of the seventeen questions had been answered. Inactive questionnaires were considered "usable" if eight or more of the fourteen questions had been answered.

by the members of each of the three samples, and the percentage of usable questionnaires returned by the members of each of these samples.

As can be seen in Table 2, 48.5% of the active cardholder sample in City (A) and 46.5% of the active cardholder sample in City (B) returned their questionnaires in usable form. A percentage return of this size is rather gratifying when one considers:

a. the length of the questionnaire. This questionnaire contained a total of seventeen questions; some of these questions were "open-end" in nature.

b. the fact that no follow-up letters or telephone calls were used to increase the number of questionnaires returned. Financial and time limitations ruled out follow-up measures of this type.

Only 51 of the 310 questionnaires mailed to inactive cardholders in City (A) were returned in usable form. This represents a return of only 16.5% of the questionnaires mailed to this group. At least two good reasons can be given to account for the low percentage return of questionnaires from this group:

a. The fact that individuals in this group are inactive cardholders suggests that they are not overly interested in the charge service. It was expected that the return from this inactive group would be somewhat lower than the return from the active cardholders.

b. Banks seldom (if ever) keep the addresses of inactive cardholders up to date. In this survey, 96 of the questionnaires mailed to inactive cardholders were returned "UNDELIVERED". This means that only 214 of the 310 questionnaires mailed to inactive cardholders were delivered; of this number 51 were returned in usable form. So, actually, 23.8% of those questionnaires delivered to inactive cardholders were returned in usable form.

The Need For Tests For Homogeneity of the Response and Non-Response Groups

In a questionnaire survey of this type, a bias is introduced into the results if the response group and the non-response group are not homogeneous -- i.e., do not possess identical characteristics. Of course, this type of bias would not exist if every member of the sample responded to every question; but, it is rare, indeed, when a mail questionnaire such as used in this study evokes a 100% response. This type of bias becomes a possibility the moment that one member of a sample fails to respond to one or more questions on the questionnaire.

The influence which this type bias could have on the results of the survey is inversely related to the rate of response received from members of the sample. When this response rate is low, a great amount of care should be taken to insure that there are no significant differences between the members of the sample who responded and those who did not.

The highest rate of response to any of the questions on the three questionnaires was received on Questions (1) and (9) of the questionnaire sent to the sample of active cardholders in City (A). On these two questions, 48.5% of the sample members responded and 51.5% of the sample members did <u>not</u> respond. The response rate for all other questions was somewhat lower than for these two questions. This means that in every single instance the non-response group was larger than the response group. For this reason, it was felt that tests for homogeneity of the response and non-response groups were definitely needed.

<u>Details of the Tests for Homogeneity of the Response and Non-Response Groups</u>

The tests for homogeneity were built around the information asked for in the following three questions:

a. What is your age?

b. Where do you live?

c. How did you first acquire your Bank A (or Bank B) credit card?

These questions appeared on the questionnaires which were mailed to the members of all three sample groups.

Returned questionnaires revealed the following information about the members of the three <u>response</u> groups:

	Age (Arithmetic Mean)	Proportion of Respondents who Live in the City Proper	Proportion of Respondents who Made Application for a Bank Credit Card
Bank Plan (A) Active Card Holders	43.3 years	75.0%	40.8%
Bank Plan (A) Inactive Card Holders	49.1 years	54.9%	32.7%
Bank Plan (B) Active Card Holders	42.0 years	70.8%	43.8%

The next step was to obtain comparable data from those members of the three samples who did not return a questionnaire -- i.e., the three non-response groups. The sizes of the three non-response groups were as follows:

	Number of Non-Respondents
Bank Plan (A) Active Card Holders	183
Bank Plan (A) Inactive Card Holders	259
Bank Plan (B) Active Card Holders	122

The sizes of these three groups made an analysis of all non-respondents highly unfeasible; therefore sampling methods were used to derive the desired information.

A sample of card holders was drawn randomly from each of the three non-response groups.[8] The sizes of these three samples were

[8] Since all return envelopes had been coded, there was no problem involved in making a list of the names of the non-respondents from each group. A number was assigned to each member of the three non-response groups. A table of random digits (see footnote 4 of this chapter) was then used to determine which numbers (names) would be pulled for the three samples.

as follows:

	Size of the Sample
Bank Plan (A) Active Card Holders	34 members
Bank Plan (A) Inactive Card Holders	34 members
Bank Plan (B) Active Card Holders	32 members

Both Bank Plan (A) and Bank Plan (B) maintain personal history cards (See page 155 of Appendix A.) on all credit cardholders. These cards show (among other things) the age of the cardholder, his address, and the manner in which he acquired his credit card. The following information concerning the samples drawn from the three non-response groups was derived from personal history cards:

	Age (Arithmetic Mean)	Proportion of Respondents who Live in the City Proper	Proportion of Respondents who Made Application for a Bank Credit Card
Bank Plan (A) Active Card Holders	43.6 years	79.4%	38.2%
Bank Plan (A) Inactive Card Holders	44.1 years	58.3%	16.7%
Bank Plan (B) Active Card Holders	41.0 years	75.0%	46.9%

This information was then compared with the corresponding information derived from the three response groups (See page 32 of this chapter.) in rder to determine whether or not the response groups and the non-response groups could be considered "homogeneous".

Table 3 (on next page) shows the results of the statistical tests used to evaluate the significance of the differences which

Table 3. Results of the Statistical Tests for Homogeneity of the Response and Non-Response Groups

	Characteristics of the Response and Non-Response Groups			
	Age (Arithmetic Mean)			
	Size of Observed Difference Between Mean Ages	Size of Standard Error of the Difference Between Mean Ages	Observed Difference Divided by Standard Error of the Difference $\frac{\text{Col. (A)}}{\text{Col. (B)}}$	Probability that Observed Difference of this Size (Col. A) or Greater Could Be Due to Chance
	(A)	(B)	(C)	(D)
Bank Plan (A) Active Card Holders	0.3 years	2.1 years	0.14	0.889
Bank Plan (A) Inactive Card Holders	5.0 years	3.1 years	1.60	*0.110
Bank Plan (B) Active Card Holders	1.0 years	2.3 years	0.44	0.660

Table 3--Continued

Characteristics of the Response and Non-Response Groups	Proportion of Group Who Live in the City Proper (Either City A or City B)			
	Size of Observed Difference Between the Proportions (E)	Size of Standard Error of the Difference Between Proportions (F)	Observed Difference Divided by Standard Error of the Difference $\frac{\text{Col. (E)}}{\text{Col. (F)}}$ (G)	Probability that Observed Difference of this Size (Col. E) or Greater Could Be Due to Chance (H)
Bank Plan (A) Active Card Holders	4.4%	8.1%	0.54	0.591
Bank Plan (A) Inactive Card Holders	3.4%	15.5%	0.21	0.834
Bank Plan (B) Active Card Holders	4.2%	9.1%	0.46	0.646

Table 3--Continued

Characteristics of the Response and Non-Response Groups

	Proportion of Group Who Made Application for a Credit Card (From Either Bank A or Bank B)			
	Size of Observed Difference Between the Proportions (I)	Size of Standard Error of the Difference Between Proportions (J)	Observed Difference Divided by Standard Error of the Difference $\frac{\text{Col. (I)}}{\text{Col. (J)}}$ (K)	Probability that Observed Difference of this Size (Col. I) or Greater Could Be Due to Chance (L)
Bank Plan (A) Active Card Holders	2.6%	9.2%	0.28	0.780
Bank Plan (A) Inactive Card Holders	16.0%	14.7%	1.08	* 0.280
Bank Plan (B) Active Card Holders	3.0%	10.1%	0.30	0.764

existed between the response and the non-response groups. Columns A, E, and I of Table 3 show the size of the observed differences (in certain characteristics) which exist between the questionnaire respondents and a sample drawn from questionnaire non-respondents. The big question is whether observed differences of the magnitude of those found in Columns A, E, and I are significant or due solely to chance. If these observed differences are due solely to chance variations, the response group and the non-response group can be considered to be "homogeneous".

Columns C, G, and K show the relationship between the observed differences in the response and non-response groups and the standard error of the difference (Columns B, F, and I) for these groups. As the numerical value of the ratio (found in Columns C, G, and K) increases, the probability that the observed difference is due solely to chance decreases.

Columns D, H, and L show the probability that the observed differences are chance differences due to sampling rather than significant differences which exist between the response and non-response groups. In only two instances (See the asterisks in Columns D and L) do the differences between the response and non-response groups appear to be significant. Both of these instances involve the <u>inactive</u> cardholders of Bank Plan (A).

The probability values shown in Columns D, H, and L of Table 3 strongly suggest that the observed differences between the response and non-response groups of <u>active</u> cardholders are chance variations due to sampling. In all instances involving active cardholders (in both City A and City B), there is compelling evidence to indicate that the response and non-response groups are homogeneous with respect to the three characteristics being tested -- i.e.,age, proportion who live in the city proper, and proportion who made application for a credit card.

The Method Used to Present Survey Data

Data from the questionnaire survey will be presented in the following manner:

a. A question will be stated exactly as it appeared on the questionnaire.

b. The responses received from active cardholders in City (A) and City (B) will be shown. These responses will appear as percentages rather than as absolute numbers. Statistical averages and measures of disperson will be shown wherever applicable.

c. These responses from active cardholders will be reviewed and analyzed. Whenever possible, existing knowledge on the particular topic under consideration will be brought into the analysis.

d. The responses received from inactive cardholders will not be shown as such; they will be commented on only if they differ significantly from the responses of the active cardholders. The results of the tests for homogeneity (See Table 3 on pages 34-6 should explain why the responses of <u>inactive</u> cardholders are given such light treatment in this chapter. The results of these tests afford strong evidence to support the contention that this response group is not "representative" of the inactive cardholders in City (A). Little confidence can be placed in statistical inferences which are made on the basis of "non-representative" samples.

A thorough understanding of credit cardholders requires both objective and subjective types of information. Some of the questions included in this survey deal only with the objective characteristics of respondents -- e.g., age, income class, etc., other questions are subjective in nature; they are designed to bring to light the opinions and attitudes of credit cardholders.

<u>An Analysis of Responses</u>

<u>The Demographic Characteristics of Credit Card Holders</u>

<u>Question</u> 1 -- Where do you live?

	Responses -- 172 Non responses -- 183		Responses -- 106 Non-responses -- 122	
	Active Card Holders Bank Plan(A)	Standard Error of the Percentage	Active Card Holders Bank Plan(B)	Standard Error of the Percentage
a. in City A (or City B) proper	75.0%	(3.3%)	70.8%	(4.4%)
b. in a small city	9.9%	(2.3%)	7.5%	(2.6%)
c. in the country	15.1%	(2.7%)	21.7%	(4.0%)

In each of these two cases, over 70% of the active cardholders live in the city proper. This would not always be the case, however, because much depends on the structure of the specific trading area involved.

There appears to be a close relationship between proximity to the trading area and credit card usage. It was found that 45.1% of the inactive credit cardholders lived outside of City (A) whereas only 25.0% of the active cardholders lived outside of this city.

Question 2 -- What is your age?

	Responses -- 165	Responses -- 101
	Non-responses -- 190	Non-responses -- 127
	Arithmetic Mean of Sample -- 43.3 years	Arithmetic Mean of Sample -- 42.0 years
	Standard Deviation -- 11.8 years	Standard Deviation -- 11.8 years
	Standard Error of the Mean -- 0.91 years	Standard Error of the Mean -- 1.13 years

Age Group	Active Card Holders Bank Plan (A)	Active Card Holders Bank Plan (B)
20 - 29	9.1%	14.9%
30 - 39	33.3%	29.7%
40 - 49	26.7%	27.7%
50 - 59	21.1%	18.8%
60 - 69	7.3%	6.9%
70 and over	2.4%	2.0%
	100.0%	100.0%

fro

th

Th

---

the
pop

the

par
inf
the
car
the

Years

The age of respondent cardholders in these two cities ranged from twenty years to seventy-four years. The mean age of respondents in City (A) was 43.30 years, while in City (B) it was 42.04 years.[9] This might be partially explained[10] by the fact that the plan in

---

[9]It should be made clear at this point that 43.30 years is the mean age of a sample and not of a population. The mean age of a population (in this case, all of the active cardholders of Bank Plan A) can be determined only by an accurate survey of every member of that population.

A statistical analysis of sample responses will not tell us the parameters of a population, but it will allow us to make logical inferences about the parameters of that population. On the basis of the information received from the sample of Bank Plan (A) active cardholders, we are able to make the following inferences regarding the mean age of all the active cardholders of Bank Plan (A):

Confidence Coefficients	Confidence Intervals
68.26	42.39 to 44.21 years
95.26	41.48 to 45.12 years
99.73	40.57 to 46.03 years

This means that in 68.26 out of 100 cases, we can be confident that the mean age of the population (all active cardholders -- Bank Plan A) lies somewhere between 42.39 years and 44.21 years. This confidence interval (42.39 to 44.21 years) represents the mean of the sample (43.30 years) plus or minus one standard error of the mean which in this case works out to be 0.91 years. Likewise, we can be certain that in 99.73 cases out of 100 the mean age of the population lies somewhere between 40.57 years and 46.03 years.

Applying the same statistical tools to the responses received in City (B), the following inferences can be made regarding the mean age of all the active cardholders of Bank Plan (B):

Confidence Coefficients	Confidence Intervals
68.26	40.87 to 43.13 years
95.46	39.74 to 44.26 years
99.73	38.61 to 45.39 years

[10]It is possible, of course, that this observed difference (1.26 years) is due entirely to chance variation caused by sampling.

City (A) has been in operation five years longer than the plan in City (B). In all probability, a credit service of this type "catches on" first with the younger set and then spreads to older groups.

The above figures show the age distribution of the active credit cardholders of Bank Plan (A) and Bank Plan (B). Some of these card holders live inside the city proper; others live in the shopping area surrounding the city. In order to make the above data comparable to available U. S. Census data, the following adjustment was made. Question (1) of the questionnaire asked the cardholder to state whether he lived in the city proper, in a small town, or in the country. Only responses received from cardholder residents of the city proper are included in the following table:

Table 4. Age Distribution of Active Card Holder Respondents Living Inside the Corporate Limits of Cities (A) and (B) -- Twenty Years of Age or More

Age Group	Active Card Holders Bank Plan (A)	Active Card Holders Bank Plan (B)
20 - 29	7.3%	18.3%
30 - 39	36.6%	29.6%
40 - 49	24.4%	23.9%
50 - 59	22.0%	19.7%
60 - 69	8.1%	5.6%
70 and over	1.6%	2.8%
	100.0%	100.0%

Source: Adjusted Questionnaire Responses

Table 4 shows the (estimated) age distribution of active credit cardholders who live within the corporate limits of City (A) and City (B). In order to discover whether or not bank charge plans attract more than their proportionate share of certain age groups, it is necessary to compare the data in Table 4 with age distribution data for the total population of these two cities. The following table (derived from 1960 Census data) shows the age distribution of the population (twenty years of age or more) of Cities (A) and (B):

Table 5. Total Population -- Twenty Years of Age or More (Age Distribution for City Only)

Age Group	City (A)	City (B)
20 - 29	17.3%[11]	18.6%
30 - 39	20.2%	20.0%
40 - 49	19.2%	18.8%
50 - 59	17.5%	16.8%
60 - 69	13.7%	13.6%
70 and over	12.0%	12.3%
	99.9%	100.1%

Source: U. S. Bureau of the Census, U. S. Census of Population: 1960, General Population Characteristics, Michigan, Final report PC (1) -- 24B, U. S. Government Printing Office, Washington, D. C., 1961.

[11]The original U. S. Census figures indicated that 24.6% of the city population (20 years of age or more) of City (A) fell into age bracket "20 - 29". A closer check revealed that this figure included the college population of City (A). Bank Plan (A) does not issue its credit cards to college students. In order to make the U. S. Census data comparable to the data obtained from card holder questionnaires, the Census data had to be adjusted so as to eliminate all college students. It was found that neither of the two colleges in City (A) had its enrollment figure broken down by age. For this reason, the adjustment had to be made in the following manner:

It can be seen by comparing Table 4 and Table 5 that neither of these bank plans is getting its "share" of the population in age group "20 - 29". For example, 17.3% of the population (20 years of age or more) of City (A) falls into age class "20 - 29", whereas only 7.3% of the active card holders of Bank Plan (A) are in this age class. It seems logical that such should be the case. Many individuals in this age class have not yet "settled down"; they are in a stage in the life cycle in which they have little or no need (and thus demand) for a credit service of this type.

Both charge plans get the bulk of their card holders from age classes "30 - 39" and "40 - 49". It can be seen by looking at Table 5 that 39.4% of the individuals (20 years of age or more) in City (A) are between the ages of 30 and 49. Yet, 60.0% of the active card holders of Bank Plan (A) fall into this age range.

As might be expected, these bank plans get less than their "share" of the population of sixty years of age or more. Many

---

a. A 1960 breakdown by classes (i.e., -- freshmen, sophomores, juniors, seniors, and graduate students) was obtained from each of the two colleges.

b. The assumption was made that a college student becomes twenty years of age during the period between his sophomore and junior years in college.

c. The total number of juniors, seniors, and graduate students in City (A) was computed.

d. This figure was then deducted from the figure representing the 1960 population of City (A) in age class "20 - 29".

individuals in this age group no longer qualify for credit. Many of those who do qualify for credit no longer need credit facilities as much as they once did.

Question 3 -- Into what income class does your family fall?[12]

Responses -- 165	Responses -- 102
Non-responses -- 190	Non-responses -- 126
Approximate[13] Mean of Sample - $8370	Approximate[13] Mean of Sample - $8550
Approximate Standard Error of the Mean $323	Approximate Standard Error of the Mean $402

---

[12]People often shirk when asked to state their incomes. For this reason, Question 3 did not ask the respondent to specify the exact amount of his family's income; it asked only that he indicate the approximate amount of this income. It is most probable that the use of income ranges (e.g. -- $3000 to $3999) increased the number of responses evoked by this question.

[13]The use of income ranges greatly reduces the reliability of statistical inferences made on the basis of the responses to this question. Some crude estimations regarding the mean incomes of all the active cardholders of Bank Plan (A) and all the active cardholders of Bank Plan (B) can be made if the reader is willing to accept two assumptions:

a. that all respondents in a given income range (e.g. - $7,000 to $9,999) have an income equal to the midpoint value of that income range (in this case, $8,500), and

b. that all respondents who checked the income range "25,000 and over" have an annual family income of $25,000.

Given these two assumptions, the mean income of the sample of active cardholders of Bank Plan (A) is $8,370, while the mean income of the sample from Bank Plan (B) is $8,550. These same two assumptions underlie the following inferences made about the mean incomes of the two populations under study:

Family Income Per Year	Active Card Holders Bank Plan (A)	Active Card Holders Bank Plan (B)
\$3,000 - \$3,999	4.8%	7.8%
\$4,000 - \$4,999	12.7%	7.8%
\$5,000 - \$6,999	29.7%	26.5%
\$7,000 - \$9,999	31.5%	35.3%
\$10,000 -\$14,999	15.2%	15.7%
\$15,000 -\$24,999	4.8%	6.9%
\$25,000 and over	1.2%	0
	99.9%	100.0%

The responses to this question show the breakdown of active cardholder respondents by income class for each of the two bank plans. The above figures include both respondents who live within the corporate limits of the city and respondents who live in the shopping area surrounding the city. In order to make the above data comparable to <u>available</u> U. S. Census data, the following adjustment was made. Question (1) of the questionnaire asked the cardholder to state whether he lived in the city proper, in a small town, or in the country. Only responses received from residents of the city proper were included in compiling the following table:

All Active Credit Card Holders - Bank Plan (A)		All Active Credit Card Holders - Bank Plan (B)	
Confidence Coefficients	Confidence Intervals	Confidence Coefficients	Confidence Intervals
68.26	\$8,047 to \$8,693	68.26	\$8,148 to \$8,952
95.46	\$7,742 to \$9,016	95.46	\$7,746 to \$9,354
99.73	\$7,401 to \$9,339	99.73	\$7,344 to \$9,756

Table 6. Income Distribution (By Family) of Active Card Holder Respondents Living Inside the Corporate Limits of Cities (A) and (B)

Family Income Per Year	Bank Plan (A)	Bank Plan (B)
\$ 3,000 - \$ 3,999	3.3%	8.5%
\$ 4,000 - \$ 4,999	11.5%	9.9%
\$ 5,000 - \$ 6,999	32.8%	31.0%
\$ 7,000 - \$ 9,999	27.0%	25.4%
\$10,000 - \$14,999	17.2%	18.3%
\$15,000 - \$24,999	6.6%	7.0%
\$25,000 and over	1.6%	0
	100.0%	100.1%

Source: Adjusted Questionnaire Responses

Table 6 shows the income distribution (by family) of active credit card holders who live within the corporate limits of City (A) and City (B). In order to discover whether or not bank plans attract more or less than their proportionate "share" of certain income groups, it is necessary to compare the data in Table 6 with income distribution data for the total population of these two cities. The following table (derived from 1960 U. S. Census data) shows the income distribution of the total population of Cities (A) and (B).

A comparison of the percentages found in Tables 6 and 7 indicates that neither Bank Plan (A) nor Bank Plan (B) is getting its share of the city population in family income group \$3,000 - \$3,999. This should be expected. Many families in this low income bracket do not qualify for credit extension.

Table 7. Family Income Distribution -- $3,000 Per Year or More (City Population Only)

Family Income Per Year	City (A)	City (B)
$ 3,000 - $ 3,999	7.9%	9.9%
$ 4,000 - $ 4,999	12.4%	13.4%
$ 5,000 - $ 6,999	30.6%	29.6%
$ 7,000 - $ 9,999	28.6%	28.8%
$10,000 - $14,999	13.5%	14.1%
$15,000 - $24,999	4.6%	3.4%
$25,000 and over	2.4%	0.8%
	100.0%	100.0%

Source: U. S. Bureau of the Census, U. S. Census of Population: 1960, General Social and Economic Characteristics, Michigan. Final Report PC (1) -- 24C, U. S. Government Printing Office, Washington, D. C., 1962.

Families with incomes of $5,000 to $15,000 are the big users of bank charge credit. Table 7 shows that 72.7% of the families in City A (who earn $3,000 per year or more) fall into this income range. A look at Table 6 indicates that the family income of 77.0% of the active cardholders of Bank Plan (A) is between $5,000 and $15,000 per year.

It does not follow from the preceding analysis that bank charge plan usage increases "pari passu" with increases in income. In fact, a comparison of the highest income brackets ($25,000 and over) of Table 6 and Table 7 indicates that families in the very high income brackets are not greatly attracted to bank charge plans. To be more specific, 2.4% of the families (with income of $3,000 or more) in City (A) have incomes of $25,000 or over; whereas, only 1.6% of the families of active credit card holders fall into this income category. Write-in comments and personal interviews with merchants revealed the following possible reasons for this attitude on the part of high income groups:

a. One reason appears to be largely psychological in nature; people in high income brackets feel that their credit standing is above question. They resent the "red tape" and inconveniences associated with applying for credit; they feel that credit should be extended to them automatically.

b. People in high income brackets may <u>not</u> care to have their spending habits become public knowledge. They resent the fact that when they use the charge service bank personnel can gain some knowledge of these spending practices.

c. Some people (especially those in high income tax brackets) would prefer not to have a record of their spending entered in one place. A centralization of spending information makes it too easy for federal income tax authorities to reconstruct income. These high income groups would prefer to see the tax officials dig for any information they get.

Acquisition and Use of the Credit Card

Question 4 -- How did you first acquire your Bank Plan A (or Bank Plan B) credit card?

	Responses -- 169		Responses -- 105	
	Non-responses -- 186		Non-responses -- 123	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
a. I made application	40.8%	(3.8%)	43.8%	(4.8%)
b. Credit card was mailed to me by a store with no application on my part.	14.8%	(2.7%)	24.8%	(4.2%)
c. Credit card was mailed to me by the bank with no application on my part.	36.1%	(3.7%)	24.8%	(4.2%)
d. Other; Explain	8.3%	(2.1%)	6.7%	(2.4%)
	100.0%		100.1%	

The responses to this question are highly conditioned by the bank's policies regarding credit card distribution. The various policies which banks use were discussed in detail in Chapter I.

The respondents who checked Category (a) above made application for a bank credit card. This means that they wanted a bank credit card badly enough to take the initial action necessary to get one. For this reason, one would expect this group to be more active and loyal users of the credit service than other groups. Such seems to be the case. In City (A), 40.8% of the active users of the service had made application for a credit card. Only 25.3% of the inactive card users had taken this initial action.

Of course, not all people who make application are worthy credit risks. Many apply only because they can not get credit elsewhere. The sponsoring bank must carefully screen all applications for credit. The Chase Manhattan Bank of New York found that only about 40 out of every 100 applicants met the necessary credit standards.[14] The screening process is usually a costly situation.

Still other problems arise when a bank makes its application blanks freely available to the public. Applicants who are refused credit because they fail to meet the bank's credit requirements often become alienated from that bank. Thus the bank loses prospective customers for its other services.

Question 5 -- Which member of your family uses the Bank Plan A (or Bank Plan B) Charge Account Service most frequently?

	Responses -- 167		Responses -- 105	
	Non-responses -- 188		Non-responses -- 123	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
a. Husband	7.2%	(2.0%)	6.7%	(2.4%)
b. Wife	68.3%	(3.6%)	72.4%	(4.4%)
c. Son	0	(0)	0	(0)
d. Daughter	0.6%	(0.6%)	0	(0)
e. Self (if single, widow, or widower)	16.8%	(2.9%)	13.3%	(3.3%)

[14]Personal letter to the author from Mr. F. X. Kosch, Assistant Vice President, The Chase Manhattan Bank, New York, N. Y., April 9, 1962.

f. Husband and wife equally	4.2%	(1.6%)	6.7%	(2.4%)
g. Wife and daughter equally	3.0%	(1.3%)	1.0%	(1.0%)
	100.1%		100.1%	

The responses to this question leave no doubt as to the importance of the female member of the family when it comes to the use of bank credit cards. In approximately 70% of the cases, the wife was the major user of the charge service. In addition to this, many of the respondents who checked Category (e) underlined the word "widow". It should be kept in mind that this question is concerned only with the frequency of use of the credit service; nothing is said about the dollar size of each credit purchase.

It can be seen that the son and daughter play a negligible role in the use of a bank credit service. Some banks refuse to grant credit cards to any person under eighteen years of age; others, including the two under study, offer <u>restricted</u> credit privileges to approved teenagers.

The responses evoked by this question should help banks make a wiser allocation of promotion funds. If the purpose of these funds is to stimulate an increased use of bank credit cards, then, clearly, an advertising campaign which is geared to the lady of the house is likely to be more successful than a campaign which is not.

<u>Question</u> 6 -- What is your primary reason for using the Bank Plan A (or Bank Plan B) Charge Account Service?

Some respondents checked more than one category.

	(177) Check Marks		(106) Check Marks	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
a. Convenience	54.2%	(3.7%)	54.7%	(4.8%)
b. Prestige	0	(0)	0	(0)
c. Necessity	15.8%	(2.7%)	18.9%	(3.8%)
d. Easy return or exchange of merchandise	1.7%	(1.0%)	0.9%	(0.9%)
e. Easier to take advantage of sales	6.8%	(1.9%)	2.8%	(1.6%)
f. One check payment feature	16.9%	(2.8%)	17.9%	(3.7%)
g. Other; Explain	4.5%	(1.6%)	4.7%	(2.1%)
	99.9%		99.9%	

The replies to this question were quite consistent. In both cities, respondents agreed that convenience, necessity, and the one-check payment feature were their prime reasons for using the service.

No respondent in either city would admit that "prestige" was his primary reason for using the service. Holding a credit card is a form of prestige for some people, but few, if any, of these people would ever openly admit to the fact.

Question 7 -- Which of the following do you consider to be important advantages in shopping with your Bank Plan A (or Bank Plan B) credit card? (Check one or more.)

Some respondents checked more than one category.

	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
a. To get an itemized receipt for all purchases	11.3%	(1.9%)	8.7%	(2.3%)
b. To take advantage of sales	17.0%	(2.2%)	11.3%	(2.6%)
c. Build up bank credit rating	7.8%	(1.6%)	7.3%	(2.1%)
d. Need to carry less cash	25.8%	(2.6%)	32.7%	(3.8%)
e. Use credit at a variety of stores by using only one credit card	33.6%	(2.8%)	33.3%	(3.9%)
f. Other; Explain	4.6%	(1.3%)	6.7%	(2.0%)
	100.1%		100.0%	

This question supplements the preceding question which asked the respondent to list his prime reason for using the credit card. "Convenience" was the most frequently checked category in Question (6), but convenience can take many forms. This question lists some possible forms of convenience and asks the respondent to check the forms which he considers to be important advantages of shopping with the bank credit card. Those active cardholders who answered this question felt that "the ability to use credit at a variety of stores by using only one credit card" and the "need to carry less cash" were the major advantages associated with using the bank's credit card.

By means of write-in comments, it was found that many respondents considered the following additional items to be major advantages:

a. the ability to use the credit card in case of financial emergency, and

b. the ability to purchase large items without a separate loan application.

Question 8 -- What type of merchandise did you buy when you last made use of the Bank Plan A (or Bank Plan B) Charge Account Plan?

Some respondents checked more than one category.

	(175) Check Marks		(108) Check Marks	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
a. Drug	5.7%	(1.8%)	6.5%	(2.4%)
b. Hardware	4.0%	(1.5%)	2.8%	(1.6%)
c. Service station	1.7%	(1.0%)	0.9%	(0.9%)
d. Women's apparel	24.6%	(3.3%)	36.1%	(4.6%)

e. Men's apparel	7.4%	(2.0%)	4.6%	(2.0%)
f. Shoes	16.6%	(2.8%)	13.9%	(3.3%)
g. Furniture	5.7%	(1.8%)	4.6%	(2.0%)
h. Jewelry	1.1%	(0.8%)	0	(0)
i. Gifts	4.0%	(1.5%)	1.9%	(1.3%)
j. Children's wear	16.6%	(2.8%)	11.1%	(3.0%)
k. Appliances	1.7%	(1.0%)	0	(0)
l. Repair service	2.3%	(1.1%)	5.6%	(2.2%)
m. Other; Explain	8.6%	(2.1%)	12.0%	(3.1%)
	100.0%		100.0%	

In both cities, women's wear, shoes, and children's wear were the categories most frequently checked. This does not necessarily mean that the bank plans in these cities get their greatest dollar volume of business from these three categories of stores. The above data give only a measure of the frequency of sales; they say nothing about the dollar amount of each type of sale.

Appliances and service station were the least checked categories in both cities. Both of these categories of stores offer other types of credit; little of their business ever goes through a bank charge plan. Installment contracts are readily available for purchasers of appliances. Almost all of the major oil companies offer credit cards for their customers, e.g. -- the Gulf Oil credit card or the Standard Oil credit card.

Qest

"too

charg

credi

custo

that

dents

"over

that

credi

sider

thing

<u>Question</u> 9 -- Do you feel that the Bank Plan A (or Bank Plan B) Charge Account Service tempts you to buy more than you ordinarily would?

	Responses -- 172		Responses -- 103	
	Non-responses -- 183		Non-responses -- 125	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
Yes	36.0%	(3.6%)	29.1%	(4.5%)
No	64.0%	(3.6%)	70.9%	(4.5%)
	100.0%		100.0%	

Much has been written to the effect that credit makes purchasing "too easy". The argument is that credit opportunities (such as bank charge plans) tempt customers to buy more than they would if these credit opportunities did <u>not</u> exist.

The above mentioned argument may be valid, but charge account customers (card users) will <u>not</u> admit to it. The above data indicate that 64.0% of the respondents from City (A) and 70.9% of the respondents from City (B) do <u>not</u> feel that the bank plan caused them to "overbuy".

By means of write-in comments, these respondents made it clear that they felt that their friends could be "taken in" by "easy" credit, but that they, themselves, could <u>not</u>. They seemed to consider themselves too skilled in the art of buying to let such a thing happen.

Card I

Quest

only

seems

citie

chan

bette

When

probl

types

Quest

Card Holder -- Merchant Relationships

Question 10 -- Do you feel that you receive better service from merchants because you hold a Bank Plan A (or Bank Plan B) credit card?

	Responses -- 165		Responses -- 103	
	Non-responses -- 190		Non-responses -- 125	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
Yes	24.8%	(3.4%)	20.4%	(4.0%)
No (or Not Necessarily)	75.1%	(3.4%)	79.6%	(4.0%)
	99.9%		100.0%	

This question does not ask for factual information; it asks only for the personal opinion of the individual respondent. It seems that some 20% to 25% of the active cardholders in these two cities actually believe that they receive better service from merchants because they hold a bank credit card.

It is conceivable that cardholders do, in fact, receive somewhat better service than do non-cardholders who make credit purchases. When dealing with credit cardholders, the merchant has no credit problems to worry about; he can concentrate his efforts on other types of service to the customers.

Question 11 -- Do you prefer to do your shopping in stores which are members of Bank Plan A (or Bank Plan B)?

	Responses -- 168 Non-responses -- 187		Responses -- 102 Non-responses -- 126	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
Yes	47.0%	(3.9%)	37.3%	(4.8%)
No (or Not Necessarily)	53.0%	(3.9%)	62.7%	(4.8%)
	100.0%		100.0%	

The responses to this question depend to a large extent on which stores belong to the bank plan. Quite often, the large, "prestige" stores in a city do not belong to the bank charge plan. These stores, due to the large volume of their sales, may be able to administer their own credit operation more economically than the bank could. The topic of comparative costs of conducting a credit operation is expanded much more fully in Chapter III. (See pages 75-79 of that chapter.)

It can be seen that 47.0% of the active card users in City (A) who responded preferred to shop in member stores, whereas only 37.3% of the active groups in City (B) who responded shared this preference. Much of this difference can be explained by the fact that Bank Plan (A) has been in operation much longer than Bank Plan (B). For this reason, relatively more of the "popular" stores belong to Bank Plan (A).

Ques

felt

Actu

subm

deni

it i

reli

Ques

Cate
cour

Question 12 -- Do you feel that a Bank Plan A (or Bank Plan B) Charge Account merchant is more reliable than a merchant who is not a member?

	Responses -- 162		Responses -- 95	
	Non-responses -- 193		Non-responses -- 133	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
Yes	16.0%	(2.9%)	9.5%	(3.0%)
No (or Not Necessarily)	83.9%	(2.9%)	90.5%	(3.0%)
	99.9%		100.0%	

Only a small percentage of the active card users in either plan felt that member merchants were more reliable than non-members. Actually, banks carefully screen all applications for membership submitted by merchants. Marginal or "fly-by-night" merchants are denied membership. Since banks do carefully screen their merchants, it is highly probable that, on the whole, member merchants are more reliable than non-member merchants.

Question 13 -- To what extent do merchants encourage your using the Charge Account Service?[15]

---

[15] If this questionnaire were used again in some other city, Category (c) would be revised to read "neither encourage nor discourage" rather than "undecided".

	Responses -- 159 Non-responses -- 196		Responses -- 98 Non-responses -- 130	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
a. Strongly encourage	4.4%	(1.6%)	6.4%	(2.5%)
b. Encourage	45.9%	(4.0%)	43.6%	(5.1%)
c. Undecided	49.7%	(4.0%)	48.9%	(5.1%)
d. Discourage	0	(0)	1.1%	(1.1%)
	100.0%		100.0%	

This question was designed to discover just how aggressively merchants promoted the charge plans. Approximately one-half of the merchants in each of the cities involved gave some active promotion to the plan. The other half neither encouraged nor discouraged use of this credit device.

Instances in which merchants discouraged use of the charge plan were few in number. Write-in comments indicated that use of the service is sometimes discouraged by merchants when the amount of the charge is small.

Card Holder -- Bank Relationships

Question 14 -- Have you used any other services of Bank A (or Bank B) since opening your Bank Plan A (or Bank Plan B) Charge

Account?[16]

	Responses -- 166		Responses -- 103	
	Non-responses -- 189		Non-responses -- 125	
	Active Card Holders Bank Plan (A)	Standard Error of the Percentage	Active Card Holders Bank Plan (B)	Standard Error of the Percentage
Yes	53.0%	(3.9%)	35.0%	(4.7%)
No	47.0%	(3.9%)	65.0%	(4.7%)
	100.0%		100.0%	

Banks hope that credit cardholders will make use of other services which the bank offers -- e.g., checking accounts, savings accounts, personal loans, or trust department services. Credit cardholders are, of course, in no way obligated to use these other bank services, but a satisfied customer of the charge service often becomes a "full-line" customer of the bank.

Question 15 -- Which of the following descriptions do you feel best fits Bank A (or Bank B)?

Responses -- 162	Responses -- 98
Non-responses -- 193	Non-responses -- 130

[16] In retrospect, it can be seen that a better approach to this issue would have been to ask two questions rather than just one. These questions would have been:

a. Did you make use of other services offered by Bank A (or Bank B) before you acquired your credit card?

b. Have you made use of other services of this bank since you acquired your credit card?

	Bank (A)	Standard Error of the Percentage	Bank (B)	Standard Error of the Percentage
a. A highly progressive bank	50.6%	(3.9%)	23.5%	(4.3%)
b. A moderately progressive bank	30.9%	(3.6%)	34.7%	(4.8%)
c. An "average" bank	12.3%	(2.6%)	21.4%	(4.1%)
d. A conservative bank	6.2%	(1.9%)	15.3%	(3.6%)
e. An overly conservative bank -- too slow in making changes	0	(0)	5.1%	(2.2%)
	100.0%		100.0%	

Charge plans exert a sizeable influence on the bank's corporate image. Membership in the charge plan is the sole contact that many people in the community have with the bank; they base their opinion of the bank on their experiences with the charge plan.

The responses to this particular question reveal that the bank in City (A) generates a more pronounced image of "progressiveness" than does the bank in City (B). This can be partly explained by the following facts:

a. The bank in City (A) carries on a well organized public relations program, whereas the bank in City B (like so many smaller banks) has no formal public relations program.

b. The bank and the bank charge plan in City (A) have been in operation much longer than their respective counterparts in City (B). For this reason, it is quite probable that the bank plan in City (B) may need more refinement.

The image that credit cardholders have of the bank need not correspond to the image that other groups have. This point was brought out quite clearly during the merchant interviews in City (A).[17]

A large majority[18] of the credit cardholders in each of these cities felt that their respective banks should be described as moderately or highly progressive. The merchants interviewed in City (A) were of an entirely different opinion. A full 16.5% of the ninety-one merchants interviewed in City (A) were of the opinion that the bank in City (A) was "non-progressive". Quite often, the primary contact which merchants have with the bank is with the commercial loan department rather than with the retail charge account department. These merchants base their opinion of the bank, to a large extent, on the experiences which they have had in dealing with the commercial loan group.

In write-in comments and in personal interviews, both merchants and credit cardholders agreed that the charge account plan was a prime example of the "progressiveness" of the bank. A well-run bank plan can be a great boon to the public relations program of the bank. But, by the same token, a poorly managed or a discontinued charge plan operation can cause irreparable damage to the bank's public image.

[17]Chapter III outlines all the particulars of these merchant interviews.

[18]To be more specific, 81.5% of the respondents in City (A) and 58.2% of the respondents in City (B) felt that their respective banks should be described as being moderately or highly progressive.

CHAPTER III

A MARKET ANALYSIS - THE PARTICIPATING MERCHANT

Customer demand for a bank charge service is a necessary, but not a sufficient condition for the success of the service. In order for a bank charge plan to be successful, participating merchants must also give it their whole-hearted support.

The merchant is in a position where he can "make or break" a charge plan. It is he (and not the bank) who has face-to-face contact with the credit card user. The merchant must promote the charge service, or it is doomed to failure.

Before the merchant will "sell" the plan to his customers, he must be sold on the plan himself. He must be convinced that the benefits that he receives from the plan outweigh the costs associated with his membership in the plan.

This chapter deals with the merchant members of Bank Plan (A) in City (A). The purpose of this chapter is to analyze these merchants in an attempt to better understand their characteristics, their problems, and their relationships with Bank Plan (A). In order to accomplish this purpose, this chapter is broken down into two basic sections:

a. The first section - <u>The Composition of Merchant Membership</u> - analyzes the entire merchant membership of Bank Plan (A) in order to discern what characteristics (if any) these merchants have in common. Practically all of the data used in this section were derived from the business records of Bank (A); only the sales volume figures presented in this section came from another source. These figures were derived from the personal interviews which are mentioned below, but described in detail on page 74 of this chapter.

b. The second section - An Analysis of Selected Merchant-Bank Issues - analyzes a number of the more important merchant-bank relationships. The success or failure of a bank charge plan often hinges on the relationships discussed in this section.

Personal interviews with ninety-one of the merchant members of Bank Plan (A) provided the basic data used in this section. The relevant details of these interviews are outlined on page 74 of this chapter.

The Composition of Merchant Membership

Type of Business

Table 8 (on page 67) breaks down the 390 merchant members of Bank Plan (A) by "Type of Business" and by the "Number of Member Establishments in this Type of Business." It should be obvious from this table that the type of business that a retail merchant is in has little to do with whether or not he participates in a bank charge plan. Merchants in fifty-seven different types of business belonged to this bank charge plan.

It should be noted that the column "Number of Member Establishments in this Type of Business" has been arranged in a descending order of frequency. A look at this column reveals that in City (A)

Table 8. Breakdown of the Merchant Membership

of Bank Plan (A)

By Type of Business and by Number of Member Establishments in Each Type of Business
(As of July 1, 1961)

Type of Business	Number of Member Establishments in this Type of Business*
	Over (40) Establishments
1. Gifts	47
2. Auto Accessories, Repairs, and Service	44
	(30) to (39) Establishments
3. Ladies Apparel and Accessories	30
	(20) to (29) Establishments
4. Hardware, Housewares, and Tools	23
5. Drugs	22
6. Gasoline, Tires, and Accessories	20
	(10) to 19) Establishments
7. Paint and Wallpaper	18
8. Television, Radio, and Hi Fi Sales and Service	17
9. Children's and Infant's Wear	17
10. Men's and Boy's Wear	15
11. Shoes	14
12. Sporting Goods and Boats	14
13. Jewelers and Jewelry	13
14. Beauty Shops	12
15. Toys and Wheel Goods	12
16. Variety Stores	10
	(6) to (10) Establishments
17. Dry Goods	9
18. Department Stores	9
19. Furniture and Floor Coverings	8
20. Appliances	7
21. Lamps and Lamp Shades	6
22. Nursery and Garden Supplies	6
23. Photography; Studios, and Finishers	6

Table 8 -- Continued

Type of Business	Number of Member Establishments in this Type of Business
	(1) to (5) Establishments
24. Water Softeners	5
25. Records, Recording, and Music Supplies	5
26. Decorating Services, Fabrics	5
27. Millinery	4
28. Office Supplies, Equipment, and Stationery	4
29. Optometrists	4
30. Upholsterers	4
31. China and Glassware	4
32. Aluminum Awnings, Doors, and Windows	3
33. Florists	3
34. Glass and Mirrors	3
35. Juvenile Furniture	3
36. Reducing Service and Equipment	3
37. Western Wear	3
38. Miscellaneous Service and Merchandise	3
39. Pest and Weed Control	2
40. Septic Tank Service	2
41. Cameras and Photographic Supplies	2
42. Dry Cleaners	2
43. Food Services and Catering	2
44. Formal Wear	2
45. Foundations and Surgical Garments	2
46. Lawn Mower Sales and Repairs	2
47. Leather Goods and Luggage	2
48. Lumber and Building Supplies	2
49. Maternity Wear	2
50. Opticians	1
51. Veterinary	1
52. Roofing and Siding	1
53. Rugs and Carpets	1
54. Rug and Carpet Cleaners	1
55. Sewing Machines	1
56. Vacuum Cleaners	1
57. Venetian Blinds	1

* Since some member establishments are involved in more than one type of business, the total of this column does not equal the total number of merchant members belonging to Bank Plan (A).

Source: Bank (A) Charge Account Service Shoppers Guide (1961) the

ces

str

Sin

sal

nin

The

sal

$5,

sal

in

vol

With

Plan

Ques
Ques
Inte
of r

the most frequently found types of business are "gifts,""auto accessories, repairs, and service", and "ladies apparel and accessories."

Size of Business

Each merchant interviewed in City (A) was asked what his total sales volume had been for the year 1960. Only thirty-five of the ninety-one merchants interviewed were willing to reveal this figure.[1] The first three columns of Table 9 on pages 70-72 show:

a. a code number for each of these thirty-five merchants,

b. the type of business each of these merchants is in, and

c. the 1960 sales volume for each of these thirty-five merchants.

A look at Column (C) of this table indicates that the 1960 sales volume for these thirty-five merchants ranged from $30,000 to $5,000,000. The automobile sales and repair company with an annual sales volume of $5,000,000 is the exception rather than the rule; in eighteen of the thirty-five (51.4%) instances, the annual sales volume of these merchant members was between $100,000 and $330,000. With a few exceptions, these thirty-five merchant members of Bank Plan (A) could be classed as small-to medium-sized retail merchants.

---

[1]This was the last of the sixteen questions on the merchant questionnaire form. (See pages 164-6 of Appendix A.) This particular question brought a response from only 38.6% (35/91) of the merchants interviewed. Not one of the other fifteen questions evoked a rate of response which was less than 90%.

Table 9. Relationship Between Merchant Sales Volume and Volume of Sales Discounted Through Bank Charge Plan

The Experience of Bank Plan (A) - For the Year 1960

Merchant Code Number	Type of Business	Merchant's Total Sales Volume (approximately)	Gross Dollar Volume of Sales Discounted Through Bank Plan (A)	Percentage of Total Annual Sales Volume Discounted Through Bank Plan (A)
(A)	(B)	(C)	(D)	(E)
		Annual Sales Volume of $500,000 or More		
1.	Automobile Sales and Repair Company	$5,000,000	$15,451	0.30%
2.	Wholesale Meat Sales Company	1,500,000	98,820	6.58%
3.	Automobile Sales and Repair Company	900,000	8,612	0.95%
4.	Ladies Apparel	750,000	132,266	17.63%
5.	Automobile Sales and Repair Company	600,000	2,620	0.43%
6.	Bowling Center	500,000	695	0.13%
		Annual Sales Volume of $200,000 to $499,999		
7.	Drug Store	330,000	3,157	0.95%
8.	Interior Decorator Material Sales	300,000	96,764	32.25%
9.	Hardware Store	300,000	61,726	20.57%
10.	Toy and Hobby Shop	270,000	50,752	18.79%
11.	Garden Center	220,000	24,714	11.23%
12.	Sporting Goods Store	200,000	20,334	10.16%
13.	Drug Store	200,000	10,835	5.41%
14.	Shoe Store	200,000	16,705	8.35%

Table 9 -- Continued

Merchant Code Number	Type of Business	Merchant's Total Sales Volume (approximately)	Gross Dollar Volume of Sales Discounted Through Bank Plan (A)	Percentage of Total Annual Sales Volume Discounted Through Bank Plan (A)
(A)	(B)	(C)	(D)	(E)
		Annual Sales Volume of $100,000 to $199,999		
15.	Rug Company	175,000	23,185	13.24%
16.	Shoe Store	175,000	17,210	9.80%
17.	Drug Store	160,000	1,883	1.17%
18.	Drug Store	130,000	7,235	5.56%
19.	Drug Store	130,000	9,906	7.62%
20.	Toy Shop	125,000	29,255	23.40%
21.	Men's Clothing Store	120,000	21,742	18.11%
22.	Ladies Apparel	110,000	41,846	38.04%
23.	Ladies Apparel	110,000	37,638	34.21%
24.	Furniture Sales	100,000	17,638	17.63%
		Annual Sales Volume of 0 to $99,999		
25.	5¢ to $1.00 Variety Store	98,000	6,874	7.01%
26.	Drug Store	80,000	2,893	3.61%
27.	Septic Tank Service	75,000	6,061	8.08%
28.	Men's & Boy's Apparel	75,000	5,921	7.89%
29.	Lamps and Lighting Supplies	70,000	18,140	25.91%

Table 9 -- Continued

Merchant Code Number	Type of Business	Merchant's Total Sales Volume (approximately)	Gross Dollar Volume of Sales Discounted Through Bank Plan (A)	Percentage of Total Annual Sales Volume Discounted Through Bank Plan (A)
(A)	(B)	(C)	(D)	(E)
		Annual Sales Volume of 0 to $99,999		
30.	Septic Tank Service	60,000	6,149	10.24%
31.	Furniture Sales	60,000	2,055	3.42%
32.	Beauty Academy	55,000	2,595	4.71%
33.	Camera Shop	50,000	7,095	14.19%
34.	Sewing Machine Sales	40,000	9,404	23.51%
35.	Optometrist	30,000	3,968	13.22%

Source: Personal interviews with thirty-five merchants in City (A) and financial records of Bank Plan (A).

Volume of Sales Discounted Through the Charge Plan

Column (D) of Table 9 shows the gross dollar amount of sales which each of these thirty-five merchants discounted through Bank Plan (A) in 1960. It should be apparent from a comparison of Columns (C) and (D) that very little relationship exists between the total annual sales volume of a merchant and the amount of sales that he discounts through the bank plan. Column (E) presents a measure of this relationship. A look at this column shows that Merchant Number (1) discounted only 0.30% of his 1960 sales through Bank Plan (A); whereas Merchant Number (22) discounted 38.04% of his sales through the plan.

It appears that the volume of sales which a merchant discounts through the bank plan (Column D) is determined, for the most part, by the type of product which that merchant sells (and thus the type of business he is in - Column B). Some products are suited to bank plan financing; other products are not.

Some merchants who belong to the charge plan derive the bulk of their sales volume from the sale of goods (and/or services) which are not suited to bank plan financing. Merchants (1), (3), and (5) are a good example of the case in point. These three merchants obtain the greatest portion of their sales volume from the sale of new and used automobiles. Bank plans are not designed to finance sales of this type.

By comparing Columns (B) and (E) of Table 9, one is able to ascertain the products (and thus the types of business) which are most conducive to bank plan financing. Merchants who sell ladies' apparel, toys, and materials for interior decoration run a much larger percentage of their sales through the bank plan than do merchants who sell other products.

An Analysis of Selected Merchant-Bank Issues

The data used in this section were derived from personal interviews with a randomly-selected sample of merchants drawn from the total merchant membership of Bank Plan (A).[2] This sample consisted of 91 of the 390 merchants who were participating in the charge plan as of July 1, 1961.

These merchants were asked a total of sixteen questions. (See pages 164-6 of Appendix A for a copy of the questionnaire form used for the merchant interviews.) Although only six of the sixteen questions from the merchant questionnaire are analyzed in this section, these six questions are concerned with some of the most crucial issues in charge account banking.

The rate of merchant response to these six questions was so great that it was not deemed necessary to test for homogeneity of the response and non-response groups. The lowest rate of response was received on Question (5), but even this question evoked responses from eighty-five of the ninety-one (93.4%) merchants

[2] Randomness of the sample was assured in the following manner. Each of the 390 merchant members of Bank Plan (A) was given a number; these numbers ranged from 1 through 390. A table of random digits was then used to determine which numbers (merchants) would be included in the sample.

interviewed.

This section employs the same method of presenting data that was used in Chapter II. The basic issues to be discussed are introduced by means of a question from the merchant questionnaire.

Question (1) - Do you consider the cost of the service fair in relation to the amount of service rendered?

Responses - 89

Non-responses - 2

	Bank Plan (A)
Yes	85.4%
No	14.6%
	100.0%

This question can be misleading. It asks the merchant for a value judgment concerning the "fairness" of the cost of the charge service. Only 14.6% of the respondents were of the opinion that the bank's rate was too high. This means only that these merchants feel that the bank could perform the same service for a lower discount rate; it does not mean that these merchants feel that they, themselves, can perform the credit functions more cheaply than the bank does. If they felt this way, these merchants would probably be performing the services themselves.[3] In fact, during the merchant

[3]Bank (A) has never changed its discount rate to merchants, and so the bank knows little about the elasticity of demand for the charge service. It would be interesting to know just how many new merchants would join the plan and just how much additional volume would be obtained from existing merchants if the present discount rate were reduced.

in

co

An

th

ba

to

me

Di

st

de

th

di

de

tj

to

sa

ay

Cr
Ap
Un
Of
Ms

pp

interviews four of the larger volume merchants commented, "if I could do my own credit work more cheaply, I would be doing it." And most of these merchants were correct . . . it is quite probable that they can not perform the credit functions as cheaply as the bank can.

At present, there are no comprehensive statistics available to show (with any degree of precision) how much it costs a retail merchant to handle his own credit operation. The Credit Management Division of the National Retail Merchants Association compiles statistics on the direct costs involved in the operation of a credit department; these statistics are severely limited, however, because they completely ignore the problem of indirect costs.[4]

By means of a series of rough approximations, one author[5] did come up with an estimate of the cost of credit operations for department and specialty stores. He estimated that stores of this type which handled total sales (cash and credit) of from $500,000 to $2,000,000 a year would expend about 4.1% of the amount of credit sales on credit department operations. However, this particular author went on to qualify this estimate by stating that the cost

[4] Personal letter to the author from Mr. A. L. Trotta, Manager, Credit Management Division, National Retail Merchants Association, April 6, 1962. In this letter, Mr. Trotta states that Harvard University is presently considering making a comprehensive study of the total costs (direct and indirect) of retail credit departments.

[5] William H. Herrman, Charge Account Banking, New York, 1960, pp. 27-28.

figures he worked with may have excluded the following cost items -- depreciation, audits, imputed or actual rent, management salaries, heat and power, and insurance. If his cost figures do exclude these items, his estimate of 4.1% of credit sales is, of course, greatly understated.

Table 10 (on page 78) is a checklist of items which a merchant should consider if he wants to determine the total cost of conducting his own credit operation. This checklist purports only to call attention to possible items of cost (both direct and indirect) associated with the operation of a retail credit department. Needless to say, this checklist would not be equally suited to all merchants. Some merchants would encounter cost items which do not appear on this list; other merchants would find that this checklist includes many cost items which do not apply to their particular credit operation.

For all practical purposes, the discount charge (normally 5% to 7% of credit sales) which the merchant pays to the bank represents the total cost of the credit operation if the merchant lets the bank handle all of his credit business.[6] As already mentioned in Chapter I, the effective rate (rate after rebates) of this discount can go as low as 3% of credit sales. It is very doubtful that a small-to

[6]Merchants who run all of their credit sales through a bank plan may occasionally incur a few minor credit operation expenses in addition to the bank discount charge. Generally speaking, these expense items would not significantly alter the total cost of the credit operation.

Table 10. Checklist of Possible Cost Items Associated With Conducting A Retail Credit Operation

1. Rent - actual and imputed
2. Light, Heat, and Power
3. Telephone and Telegraph
4. Payroll (audit, cashier, accounts receivable, bill adjustment, credit, collection, and promotion personnel)
    a. Regular time
    b. Overtime
5. Supplies
    a. Statements
    b. Ledger Cards
    c. Stationery
    d. Envelopes
    e. Authorizing Index
    f. Collection Forms
    g. Saleschecks
    h. Credit Applications
    i. Addresso-Plates
    j. Receipt Forms
6. Postage (for statements, collections, and credit correspondence)
7. Credit Reports
8. Bad Debts
9. Professional Services
    a. Legal
    b. Collection Agency
10. Interest
    a. Accounts Receivable
    b. Capital Equipment
11. Insurance (fire, water damage, etc.)
12. Credit Plate
13. Depreciation Expense
14. Taxes
15. Maintenance
16. Miscellaneous Indirect Costs

Source: Personal Interviews with Ninety-one Merchants.

medium-sized merchant can handle his own credit operation at a cost of 3% to 7% of credit sales.

Question (2) - Do you feel that the credit granting policies of the Bank (A) Charge Plan recognize your need to make sales?

Responses - 86

Non-responses - 5

	Bank Plan (A)
Yes	90.7%
No	9.3%
	100.0%

Conflict over credit policies often develops between the sponsoring bank and member merchants. Merchants feel that they lose sales because the credit standards of the bank are far too stringent. But banks realize that they have to draw the line somewhere; if they accepted every credit applicant that merchants wanted them to, they would soon be out of business. The credit policy in use normally involves some compromise on each side.

The responses to this question indicate that Bank (A) is doing a good job of selling its credit policy to merchants. The charge account personnel of this bank follow the practice of periodically calling on merchants. This bank has found that there is no substitute for personal contact in achieving harmonious bank-merchant relations.

Question (3) - Do you carry some of your own accounts? Why?

	Responses - 91 Non-responses - 0 Bank Plan (A)
Yes	76.9%
No	23.1%
	100.0%

This question introduces one of the most serious problems facing charge account bankers today -- i.e., the problem of merchants carrying some accounts on their own books. The temptation always exists for merchants to carry accounts which they know are "good" on their own books, and let the bank handle all other accounts. In this manner, the merchant avoids paying the discount charge (usually 5% to 7% of sales) to the sponsoring bank. But when this happens, the bank not only loses the discount, it also becomes the victim of adverse selection. Since the merchant has already "skimmed off" the better accounts, the bank is left with relatively less desirable accounts.

The crucial issue is not whether or not a merchant is carrying accounts on his own books, but why he is doing so. Most banks which operate a retail charge plan are willing to let their merchants carry accounts on their own books under certain circumstances such as:

a. When the sale is "commercial" rather than "retail" in nature. Sales which a merchant makes to large industrial firms, contractors, churches, schools, or governmental units would normally

qualify as being "commercial" in nature.

b. When the customer demands longer credit terms than the charge service offers. This case often occurs when the customer wants to purchase relatively expensive items -- e.g.,jewelry.

c. When the customer absolutely refuses to use the bank service for one reason or another. The various reasons which customers give for refusing to use the charge service are discussed in detail on pages 82-83 of this chapter.

It is one thing for banks to establish policies governing the carrying of accounts by member merchants, but it is quite another thing for banks to <u>successfully</u> enforce these policies. The enforcement job is greatly complicated by the fact that banks do not have access to the financial records of their participating merchants.

Merchants who want to profit at the expense of the charge plan soon discover that it is quite easy to conceal the true reason that they are carrying accounts. More than three-fourths (76.9%) of the merchants interviewed in City (A) admitted that they carried some of their own accounts, but the reasons which these merchants gave for carrying accounts would all be considered "acceptable" by the bank. Officials of the bank have no way to ascertain whether or not the reasons given are the "true" reasons.

Some merchants make little or no attempt to conceal the fact that they are following unacceptable practices in the carrying of accounts. The bank should rid itself of this type of merchant immediately. He sets a bad example which other merchants will follow if he is not disciplined at once. Expulsion of this type of merchant shows other merchants that the bank fully intends to enforce its policies concerning the carrying of accounts. Other merchants who are satisfied with their membership in the bank plan usually "shape up" and adhere more closely to the bank's policies in this area.

Question (4) - Do some of your customers refuse to use the bank service? What reasons do they give?

Responses - 91

Non-responses - 0

	Bank Plan (A)
Yes	74.7%
No	25.3%
	100.0%

Approximately three-quarters of the ninety-one merchants surveyed had run into situations in which the customer absolutely refused to make use of the bank's charge service. Two of the reasons which customers give for refusing to use the service were discussed in Chapter II; these reasons were:

a. The charge service makes it too easy to overbuy. (See page 57 of Chapter II.)

b. When a person uses the charge service, bank personnel and others may gain knowledge of his spending practices (See page 49 of Chapter II.)

The merchant interviews in City (A) brought to light the fol

use

se

ty

ar

ou

se

th

se

re

ar

"c

ar

th

ch

ca

po

ea

of

no

following additional reasons which customers give for refusing to use the service:

a. There is too much "red tape" involved in using the charge service. Merchants commented that this reason is frequently used by customers who are known to be poor credit risks. The "red tape" argument makes a good rationalization device for marginal credit customers.

b. The service charge is too high. Bank Plan (A) levies a service charge of only 1% per month on balances unpaid after thirty days. In most cases, this service charge is less than the service charge levied on competing types of credit. For this reason, it is probable that customers often use the "service charge" argument just as they used the "red tape" argument -- i.e., as a "cover-up" for their own lack of credit worthiness.

c. Some customers have an aversion to the use of credit of any type. These customers, who are often of foreign descent, feel that it is a sin to use credit for any purpose other than the purchase of a home.

d. A number of wives claim that their husbands' objections cause them to refrain from using the bank service. It is quite possible that the husbands are afraid that their wives are too easily tempted to overbuy; if so, this is no more than a variation of the "too easy to overbuy" argument.

e. Some customers refuse to use the service because they do not care for the bank and/or the charge plan.

Question (5) - Do you feel that your sales have shown any significant increase as a result of your using the Bank (A) Charge Service?

Responses - 85

Non-responses - 6

	Bank Plan (A)
Yes	71.8%
No	28.2%
	100.0%

During the merchant interviews, it was learned that some merchants had offered absolutely no credit before they joined the bank plan. Other merchants had offered only a minimum amount of credit. Membership in the Bank (A) Charge Plan opened up new sales avenues for these merchants. In fact, a vast majority (71.8%) of the merchants who responded to this question felt that their membership in the bank charge plan had brought them significant increases in sales volume.

It may seem strange to some that a group of merchants (28.2% of those who responded) remained in the plan even though they felt that their membership had had no appreciable effect on their sales. But it should be remembered that membership in a bank charge plan offers distinct benefits to merchants even though their level of sales remains unchanged. The bank handles all credit functions for the merchant thus allowing him to devote full time to his merchandising duties. In addition to this, the bank converts the accounts receivable of the merchant into cash. The value of these two benefits to the merchant may easily outweigh the costs involved in belonging to the bank plan.

Merchants should never interpret membership in a bank-operated charge plan as being an automatic guarantee of increased sales. Merchants must "sell" the bank plan, it will never "sell" itself.

Question (6) (A) - Do you presently make use of other services offered by Bank (A)? (e.g. - loans, checking, etc.)

Responses - 89

Non-responses - 2

	Bank Plan (A)
Yes	67.4%
No	32.6%
	100.0%

(B) - Did you make use of these services before you became a member of the Charge Account Service?

Responses - 88

Non-responses - 3

	Bank Plan (A)
Yes	60.2%
No	39.8%
	100.0%

A profit from operation is only one of the benefits which a bank hopes to derive from the operation of a retail charge service. Merchants (and credit cardholders, as well) frequently become users of other services offered by the bank. The responses to this question indicate that 67.4% of the participating merchants presently make use of other services of the bank. Only 60.2% of these merchants used these other services before they joined the bank's charge plan. Membership in the plan may not have been the sole cause of this change, but it was definitely an influential factor.

Perhaps the greatest collateral benefit which the bank derives from the operation of a charge plan is an increase in demand deposits. Merchants are required to open a checking account as a prerequisite of membership. The bank credits the value of all charge sales (less discount) to this account. Quite often, the merchant maintains a sizeable average balance in this account. It is not uncommon for the total amount of these merchant deposit accounts to exceed the total amount of funds that the bank has invested in the charge plan. Table 11 (on page 87), which is based on the experience of fourteen bank plans, illustrates this point quite vividly. This table shows the relationship between the total demand deposits of merchant members and the total amount of charge account receivables outstanding as of March 31, 1957.

In twelve of the fourteen instances, the total amount of merchant deposits exceeded the bank's total investment in outstandings.[7]

---

[7]Many charge account bankers argue that their department should not be charged for the cost of money -- i.e., for the cost of funds invested in receivables outstanding. Their argument is that the amount of money which they have tied up in receivables is more than offset by the demand deposits which the charge plan brings into the bank. Table 11 indicates that this argument may have a great amount of validity.

Table 11. Relationship Between Total Demand Deposits of Merchant Members and Total Charge Account Receivables Outstanding

The Experience of Fourteen Bank Charge Plans
(As of March 31, 1957)

Bank Code Number	Total Demand Deposits of Merchant Members	Total Charge Account Receivables Outstanding	Times Investment in Outstandings Covered by Demand Deposits of Merchants Column (A) / Column (B)
	(A)	(B)	(C)
1	$424,917	$197,848	2.15
2	516,000	448,747	1.15
3	1,087,000	501,704	2.17
4	140,705	325,308	0.43
5	450,000	108,328	4.15
6	193,716	211,402	0.92
7	310,558	102,911	3.02
8	644,000	205,200	3.14
9	183,886	73,664	2.50
10	121,269	33,627	3.61
11	336,926	38,107	8.84
12	155,568	35,585	4.37
13	1,248,756	194,406	6.42
14	190,274	30,363	6.27
Totals	$6,003,575	$2,507,290	

Source: Charge Account Banking by E. A. Gover, Submitted to the School of Consumer Banking, University of Virginia, Charlottesville, Virginia, August, 1960, p. 26.

As far as the bank is concerned, this is a case of "having your cake and eating it too."

Table 11 was compiled from data collected in 1957. If a similar table were constructed today, it would probably be found that the relationship between the total demand deposits of merchants and the total amount of receivables outstanding had changed somewhat. The rapid growth of revolving credit has, doubtlessly, driven up the bank's investment in receivables outstanding relative to the total amount of merchant deposits.

As of December 31, 1961, Bank Plan (A) had a total investment in outstandings of $826,269. This investment was more than offset by $996,094 of merchant member deposits.

The preceding analyses have dealt only with merchant deposits. It should be remembered that bank charge plans also attract new deposit accounts from credit cardholders.

CHAPTER IV

THE PROFIT PERFORMANCE OF CHARGE ACCOUNT BANK PLANS

Charge account bank plans, as we know them today, were first started in late 1951. Since that time there have been many news releases concerning the profit performance of bank charge plans. Some of these news reports paint glowing tales of the "big profits" which are being earned by bank charge plans. Other news releases would lead one to believe that the profit performance of bank charge plans has been far from satisfactory. It would be extremely difficult for one to make generalizations about the profit performance of bank plans on the basis of these conflicting reports.

It is hoped that the material in this chapter and in Chapter V will resolve some of the conflicting reports regarding the financial performance of bank charge plans. This chapter presents the actual profit performance of a selected group of bank plans. Chapter V, then, breaks this profit performance into its component parts and analyzes these parts.

The Criterion of Profit Performance

The net return on invested funds concept appears to be the most appropriate one to use in order to present and evaluate the profit performance of bank charge plans. This concept takes into account the dollar volume of sales discounted by the bank plan during a given period, the net margin of profit made on these discounted sales, and the bank's average investment for the period.[1]

The Major Source of Data

A number of banks which operate charge plans report their quarterly financial experience for publication in the *American Banker*. These reports are the primary source of the financial data used in this chapter and in Chapter V.

Table 12 (on page 91) illustrates the type of information contained in these reports. It should be noted that these *American Banker* reports do not reveal the names of the bank plans involved. Instead, each reporting bank is represented by a code number. In Table 12, the code numbers range from 1 through 41. The code numbers assigned to the reporting bank plans do not change. Should one of the bank plans be discontinued, the code number assigned to that plan is never used again.

Selection of the Bank Plans to be Studied

This chapter and the following chapter present and analyze the financial performance of thirty-six bank plans. Since the names of the banks operating these thirty-six plans are not known, these bank plans will have to be referred to by their *American Banker Code Numbers*. The bank plans studied are those which have

---

[1]The bank's average investment for the period is, in effect, the average number of dollars that it has tied up in receivables outstanding. With the increased use of revolving credit, this average investment in receivables has grown to sizeable proportions.

Table 12. Income, Volume, Outstandings, and Expense Data

Charge Account Banking -- 3 Months, January 1 to March 31, 1954

BANK			INCOME Percent of Volume			EXPENSES, Percent of Volume												NET
No.	Total Volume (000)	Total Outstandings (000)	Discount	Other	Total Income	Payroll	Stat'ry & Supplies	Rent	Tel. & Tel.	Postage	Misc., L.H. & Pr.	Gen'l Adm. Overh'd	Depr. Amort. E.&Eg.	Credit & Coll'n	Bad Debt Net Loss	Advt'g & Promotion	Total Expenses	Profit(+) or Loss
								Outstandings $200,000 and over										
(1)	$717.2	$559.3	4.83%	0.11%	4.94%	1.26%	0.29%	0.11%	0.10%	0.15%	0.13%	0.15%	0.25%	0.22%	0.42%	0.46%	3.58%	+ 1.36%
(2)	365.7	280.2	5.19		5.19	3.01	1.08		0.29	0.23				0.44	0.92	0.61	6.58	- 1.39
(3)	236.3	257.0	4.71	1.09	5.80	4 30	0.54	0.51	0.40	0.54	0.07	0.38	0.60	1.26	1.28	1.42	11.30	- 5.50
(4)	240.8	224.0	5.48	0.02	5.50													
								Outstandings $100,000 to $199,999										
(5)	137.5	183.7																
(6)	226.5	152.0	4.98	0.82	5.80												8.82	- 3.02
(7)	110.1	139.3	8.42	0.36	8.78	4.46	0.27	0.20	0.09	0.51	0.09	1.80	0.38	0.12	0.65	0.21	8.78	0.00
(8)	94.5	133.9	4.97		4.97	5.76	0.42	0.76	0.61	0.40			0.11	0.20	0.51	0.64	9.41	- 4.44
(9)	172.6	133.0	4.92		4.92	4.35	0.17	0.17	0.09	0.26		0.20	0.41	0.46		0.17	6.28	- 1.36
(10)	211.2	124.7	4.56		4.56	3.07	0.25	0.33	0.17	0.35	0.40		0.16	0.36	0.03	0.21	5.33	- 0.77
(11)	122.3	124.7	5.00		5.00													
(12)	105.4	123.3	5.75		5.75	6.94	0.69		0.66	0.41	0.75		0.45	0.78	1.09	2.02	13.79	- 8.04
(13)	102.1	121.1	5.28		5.28	4.42	0.72	0.39	0.41	0.35	0.45		0.16	0.41		0.31	7.62	- 2.34
(14)	101.2	107.3	5.00	0.44	5.44	2.46	0.57	0.22	0.33	0.36	0.09	0.49	0.13	0.80	0.18	0.35	5.98	- 0.54
								Outstandings $50,000 to $99,999										
(15)	136.2	89.0	5.06		5.06	3.52	0.17	0.11	0.05	0.44	0.45		0.20		0.02	1.34	6.30	- 1.24
(16)	71.7	80.0	6.10	0.16	6.26	4.65	0.42	0.42	0.29	0.11	0.06		0.30	0.16		0.89	7.30	- 1.04
(17)	128.0	77.5	4.32		4.32	2.25	0.92	0.18	0.27	0.35	0.02		0.19	0.24	0.89	0.06	5.37	- 1.05
(18)	66.7	72.0	5.00		5.00													
(19)	75.2	68.5	5.63		5.63	5.06	0.73			0.33				1.71	2.00		9.83	- 4.20
(20)	85.6	67.8	4.42		4.42													
(21)	52.6	67.6	5.13	0.17	5.30	6.16	1.54	1.13	0.81	0.60	1.59		0.75		0.44	3.98	17.00	-11.70
(22)	42.6	64.9	6.63		6.63	3.76	1.58		0.07	0.03				0.43		0.03	5.90	+ 0.73
(23)	60.6	60.5	4.76		4.76	6.15	2.32	0.40	0.58	0.34	0.76		0.71	0.21		1.82	13.29	- 8.73
(24)	100.7	56.1	4.20		4.20	4.14	0.50	0.16	0.05	0.13	0.03		0.39	0.41		0.24	6.05	- 1.85
(25)	45.5	52.5	4.75		4.75	7.68	1.26	0.77	0.52	0.17			0.44	1.28		1.93	14.05	- 9.30
(26)	93.5	51.0	4.17		4.17	3.64	1.87	0.16	0.10	0.18			0.12	0.42	1.31	2.71	10.51	- 6.34

Table 12 -- Continued

BANK No.	Total Volume (000)	Total Outstandings (000)	INCOME, Percent of Volume: Discount	Other	Total Income	EXPENSES, Percent of Volume: Payroll	Stat'ry & Supplies	Rent	Tel. & Tel.	Postage	Misc., L.H. & Pr.	Gen'l Adm. Overh'd	Depr. Amort. E.&Eg.	Credit & Coll'n	Bad Debt Net Loss	Advt'g & Promotion	Total Expenses	NET Profit(+) or Loss
									Outstandings Under $50,000									
(27)	$85.9	49.1%	4.75%		4.75%													
(28)	43.9	42.5	5.27		5.27	8.63%	0.27%	0.34%	0.31%	0.29%	0.17%		0.51%			1.63%	12.15%	- 6.88%
(29)	44.0	42.2	4.65		4.64	4.98	0.27		0.17	0.17	0.09	0.60	0.26	0.03	0.64	0.41	7.62	- 2.99
(30)	59.1	33.8	5.71		5.71												11.62	- 5.91
(31)	45.4	32.8	5.45	0.23	5.68	4.83	0.32	1.79	0.87	0.34	0.28			0.37		0.30	9.10	- 3.42
(32)	38.2	32.1	5.56	0.64	6.20	6.58	1.74		0.31	0.78	0.20		0.51	0.85		1.19	12.16	- 5.96
(33)	19.8	26.6	7.15		7.15	9.34	0.66	0.91	0.97	0.62		1.51	0.85	0.07	0.84	1.54	17.31	-10.16
(34)	36.6	26.1	5.51		5.51	1.64		0.27	0.10	0.14	0.07					0.34	2.56	+ 2.95
(35)	25.9	19.4	5.81		5.81	13.60	1.09	0.38	0.75	1.38	4.10	5.76	0.23	0.56(cr)	0.37	4.62	32.10	-26.29
(36)	28.4	19.4	4.10		4.10	8.54	1.47			0.54					0.49	8.06	19.10	-15.00
(37)	35.8	19.3	4.67		4.67	4.47	0.10	0.33	0.33	0.36	0.13		0.67		0.25	1.34	7.99	- 3.32
(38)	22.7	16.4	5.45	1.76	7.21	6.34	0.81	0.66	0.41	0.42	0.37		0.11	0.33	1.16	1.98	12.59	- 5.38
(39)	109.4	15.5	5.60		5.60	6.94	1.25		1.00		2.16					1.37	12.72	- 7.12
(40)	11.6	12.3	5.45		5.45													
(41)	4.5	3.3	4.98	1.35	6.33													

Source: <u>The American Banker</u> (April 29, 1954) the following American Banker Code Numbers - 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 14, 15, 16, 18, 20, 21, 22, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 36, 37, 38, 39, 40, and 41.

The original intent of the author was to include in the study all forty-one of the bank plans which reported data to the American Banker for the first quarter of 1954 - namely those plans with Code Numbers 1 through 41 (see Table 12 on page 91). For a reason which will become apparent later, Bank Plans 10, 17, 19, 23, and 35 had to be omitted from the study. (See the footnote 5 on page 95).

These bank plans were selected because:

a. A great body of financial information pertaining to these plans was available in the quarterly reports of the American Banker. In fact, far more data were available from this source than the author could have ever hoped to obtain by means of mail questionnaires to or personal interviews with the banks involved. Most banks are extremely reluctant to divulge financial information of this type to "outsiders".

b. It would be reasonable to assume that the financial experience of these thirty-six bank plans is representative of the financial experience of all bank plans in this country. All of these plans were in operation and reported quarterly financial data to the American Banker for the first quarter of 1954.[2] Since that

---

[2]The American Banker Directory of Charge Account Banks indicates that there were sixty-two commercial banks in the charge account business as of January, 1954. Thus this study encompasses 58.1% (36/62) of the charge plans which were in operation at the beginning of 1954.

time, some of these bank plans have turned out to be highly successful; others have failed. No one knew in January of 1954 which of these plans would succeed and which ones would fail; only with the passage of time did this become known.

Period of Time Covered By the Study

The *American Banker* published the quarterly financial reports of bank charge plans from January 1, 1954 through June 30, 1961. The data used in this chapter and the following chapter represent the financial experience of the selected bank plans for a seven year period of time -- from January 1, 1954 through December 31, 1960.

Data pertaining to the first two quarters of 1961 are not included in this study. To have used such data would have greatly increased the possibility of bias in the study.[3]

The Grouping of Bank Plans

As of December 31, 1960, only twenty-two of the bank plans under study were still in operation. This means that fourteen of the plans were discontinued during the period under study.[4]

When a bank plan is discontinued the first presumption is that it was discontinued because it was a financial failure -- i.e., it

---

[3]Seldom would data for the first two quarters of a given year afford a fair representation of a bank's financial performance for that year.

[4]Since the identity of the fourteen bank plans which were discontinued is not known, there is no direct way to determine the reason or reasons for the discontinuance of these plans.

failed to produce a "suitable" profit. More times than not, this would be a correct presumption, but, instances can be found in which bank plans were discontinued for the following reasons:

a. The bank offering the service merged with a larger bank which did not offer a charge service. The management philosophy of the larger bank would normally prevail in mergers of this type.

b. The manager of the charge department died. A dynamic manager can make the difference between a successful and a mediocre charge plan.

c. New and more profitable investment outlets suddenly opened up for the bank.

d. A change in certain state laws made bank charge plans far less attractive. For example, many bank plans were discontinued in Pennsylvania when the legislature of that state passed a law which lowered the maximum allowable rate which can be levied on consumers for revolving credit purchases.

For purposes of analysis in this chapter and in Chapter V, the thirty-six bank plans under study have been divided into two separate groups:[5]

---

[5]The fact that a bank charge plan has stopped reporting its quarterly financial data to the American Banker does not necessarily mean that that bank plan has been discontinued. The above grouping of bank plans was made possible by information supplied by Mr. Charles L. Kilgore, President of the Charge Account Bankers' Association in a personal letter to the author dated June 13, 1962. In this letter, Mr. Kilgore listed the code numbers of the bank plans that he knew were still in operation and the code numbers of the bank plans that he knew had been discontinued.

Mr. Kilgore also stated in this letter that he did not know

Group One Bank Plans - This group consists of the twenty-two bank plans which were still in operation as of June 30, 1961. To be specific, this group includes Bank Plans 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 14, 16, 21, 22, 24, 25, 32, 33, 37, and 40.

Group Two Bank Plans - This group consists of the fourteen bank plans which had been discontinued by June 30, 1961. Included in this group are Bank Plans 15, 18, 20, 26, 27, 28, 29, 30, 31, 34, 36, 38, 39, and 41.

It was felt that analyses based on a breakdown of this type would provide much more insight into the performance of charge account bank plans than would analyses which did not use such a breakdown. After all, the Group One plans are still in operation; the Group Two plans are not. It would be reasonable to assume that the financial performance of these two groups differed.

Limitations of the Data

Before proceeding with the presentation and analyses of profit performance data, it would be wise to call two facts to the reader's attention:

a. The tables and the analyses in this chapter and in Chapter V are based on "reported" income and expense figures. The validity of

---

for certain whether Bank Plans 10, 17, 19, 23, and 35 were still in operation or not. Other attempts made to determine the present status of these five bank plans were unsuccessful. For this reason, the performance of these five plans is not included in this study.

analyses derived from "reported" data can be no greater than the validity of the data itself.

Uniform accounting procedures are imperative when using data of this type. The validity of the data is severely limited if the bank plans do not follow uniform procedures in computing and reporting their financial performance. Since the American Banker furnishes each reporting bank with standard accounting instructions and with standard forms to be used for the submission of quarterly reports, it would be reasonable to assume that the bank plans under study followed uniform procedures in computing and reporting their financial performance.[6]

b. Many of the analyses in Chapters IV and V are based on "averages". A number of people overlook the limitations of "averages". The reader is reminded that "averages" are designed to show the central tendency of a group of values; they should not be expected to perform a job for which they were not designed.

The Presentation of Profit Performance Data

Table 13 and Table 14 on pages 98 and 99 were constructed using information derived from twenty-six of the twenty-eight

[6]It can not be assumed, however, that all bank plans allocate indirect expenses in the same manner. Since policies regarding the allocation of "overhead" expenses within a bank are normally formulated by the executive officers of that bank, the manager of the charge account department has little control over the amount of indirect expenses that his department must bear. Differences in cost allocation policies do exist, and the use of "reported" expense figures does not adjust for these differences.

Table 13. Net Return on Invested Funds

Group One Bank Plans
For the Period, January 1, 1954 - December 31, 1960

Bank Plan Number	1954	1955	1956	1957	1958	1959	1960
	Ratio of Net Profit to Average Investment						
1	+ 6.29	+ 5.53	+ 5.37	+ 2.95	+ 4.72	+ 4.94	+ 6.06
2	+ 0.74	+ 4.70	+ 5.79	+10.16	+11.10	+10.75	+ 7.52
3	(-2.86)	+ 0.60	+ 5.57	+ 6.99	+ 6.62	+ 7.57	+ 2.09
4	+ 3.21	+ 6.94	+ 5.26	+ 9.02	+ 6.88	+11.48	+ 9.50
5	+ 0.15	*	*	*	*	+ 4.24	+ 2.88
6	+ 4.16	+ 5.51	+ 7.29	+ 9.18	+11.05	+10.78	+ 7.37
7	(- 6.24)	+ 3.28	+ 3.75	+ 8.80	+ 6.73	+ 8.70	*
8	(- 2.38)	+ 5.69	+ 4.50	+12.14	+16.53	+ 3.72	+ 1.25
9	(- 1.99)	+ 3.42	+ 5.27	+15.08	+13.14	+10.45	+ 8.04
11	(- 5.46)	+ 0.92	+ 7.06	+ 8.12	+ 0.90	+13.43	+ 4.84
12	(- 2.73)	+ 6.84	+ 6.50	+ 9.73	+ 9.00	+ 7.75	+ 5.87
13	(- 6.02)	*	*	*	*	*	*
14	+ 4.30	+13.85	(- 0.46)	+ 4.20	+ 5.25	+ 8.19	+ 7.51
16	+ 1.24	+ 8.90	+ 6.53	+10.63	+ 9.40	+10.89	+ 5.71
21	*	*	*	*	+ 3.66	(- 9.27)	(- 1.61)
22	(- 0.38)	+ 5.16	+ 5.44	+10.94	+ 4.97	+12.58	+ 7.64
24	*	*	*	*	*	*	*
25	(-12.66)	+ 2.29	+ 5.62	+ 8.95	+11.61	+12.34	+ 9.52
32	(3.75)	(- 2.59)	+ 1.94	+ 8.30	+13.11	+13.78	+11.29
33	(- 5.24)	+ 2.30	+ 2.96	+ 6.21	+ 8.12	+14.07	+ 9.95
37	*	*	*	*	+ 4.69	+ 8.68	+ 5.49
40	*	(-25.05)	+ 3.06	(- 1.42)	+ 1.24	+ 7.78	+ 5.36

* Not computed because of insufficient data.

Source: The American Banker

Table 14. Net Return on Invested Funds

Group Two Bank Plans
For the Period; January 1, 1954 - December 31, 1959

Bank Plan Number	1954	1955	1956	1957	1958	1959
	Ratio of Net Profit to Average Investment					
15	*	+ 6.48	+5.72	+1.59	+ 0.26	(-2.62)
18	(-11.72)	(- 4.32)	+2.37	*	*	*
20	(- 0.99)	(- 4.41)	-7.93	*	*	*
26	*	*	*	*	*	*
27	(- 0.06)	*	*	*	*	*
28	(-13.20)	*	*	*	*	*
29	(-12.16)	+ 3.62	+3.30	*	*	*
30	(- 9.18)	(-31.01)	*	*	*	*
34	+ 1.49	+ 2.54	(-0.62)	*	*	*
36	(-22.13)	(- 1.27)	*	*	*	*
38	(-11.30)	(- 3.96)	(-6.38)	(-1.16)	+ 0.85	+3.24
39	(-26.41)	+ 3.55	+4.56	+11.68	+12.23	+5.20
41	*	(-50.66)	*	*	*	*

* Not computed because of insufficient data or because bank plan had been discontinued.

Source: <u>The American Banker</u>

quarterly financial reports which appeared in the *American Banker* during the period January 1, 1954 through December 31, 1960.[7] Table 13 shows the net return on invested funds for Group One Bank plans while Table 14 shows this same information for Group Two bank plans.

It should be noted that the data in Table 14 extend only through December 31, 1959. By the end of 1959, only three Group Two bank plans were still in operation. As of August, 1960, none of the Group Two plans were operating.[8]

A Comparison of the Average Profit Performance of the Two Groups of Bank Plans

Table 15 on page 101 shows the average profit performance of each of the two groups of bank plans. The figures in this table were derived by taking a simple average of the data appearing in Tables 13 and 14.

It should be noted that the net return on invested funds figure for both groups of bank plans was negative for the year 1954. The

---

[7] Financial data for the third quarter of 1956 (July 1 - September 30) and the first quarter of 1960 (January 1 - March 31) are not included in these tables. The author was *not* able to obtain *American Banker* reports for these two quarters.

[8] It would be interesting to know exactly what forces brought about the demise of Bank Plan 39. (See Table 14) This bank plan produced a net return on invested funds of more than 5% per year during each of its last three years of operation. It would be reasonable to speculate that this particular bank plan was discontinued because of one of the reasons mentioned on page 95 of this chapter.

Table 15. Net Return on Invested Funds

Average of Composite Experience for Group One and Group Two Bank Plans
For the Period; January 1, 1954 - December 31, 1960

	Year						
	1954	1955	1956	1957	1958	1959	1960
Group One Bank Plans							
Number of Group One Bank Plans Reporting	18	16	17	17	19	20	19
Net Return on Invested Funds - Average for Group One Bank Plans	(-1.64)	4.58	4.79	8.23	7.83	8.64	6.12
Group Two Bank Plans							
Number of Group Two Bank Plans Reporting	10	8	7	3	3	3	
Net Return on Invested Funds - Average for Group Two Bank Plans	(-10.57)	0.28	0.15	4.04	4.45	1.94	

Source: Table 13 and Table 14

Group One bank plans, on the average, showed a net loss to invested funds ratio of 1.64% for 1954, while the Group Two plans showed a net loss to invested funds ratio of 10.57% for this same year.

The year 1954 was the first full year of operation for many of the bank plans included in this study; none of them had been in operation for more than two years.[9] It stands to reason that many bank plans would operate "in the red" during the first year or two of their operations. In fact, the results of a questionnaire sent to one hundred and three bank plan managers in September of 1960 showed that approximately 40% of these bank plans had been in operation more than two years before they showed a profit.[10]

An examination of Tables 13, 14, and 15 makes it possible to understand how there could be so many conflicting reports concerning the profit performance of bank charge plans. Collectively, the Group Two plans did not earn a net return on invested funds of more than 0.28% until 1957. And by 1957, only three of the Group Two plans were still in operation and still reporting quarterly data to the *American Banker*. Individually, only one of the Group Two plans (Bank Plan Number 39) exhibited a satisfactory profit performance during the period under study.

On the other hand, the Group One bank plans (taken together) produced a net return on invested funds for the years 1955 through

---

[9] It will be remembered that the first bank charge plan was started by the Franklin National Bank of Rockville Center, New York, in December of 1951.

[10] Frederic L. Vesperman, *op. cit.*, p. 35.

1960 that ranged from a low of 4.58% in 1955 to a high of 8.64% in 1959. (See Table 15.) With but one exception (Bank Plan Number 21), the profit performance of the individual Group One plans was also very commendable during these years (See Table 13). The data in Table 13 reveal that during 1960, ten of the nineteen Group One plans produced a net return on invested funds of 6% or more.[11]

---

[11] The following table is presented in order to help the reader view the figures in Tables 13, 14, and 15 in their proper perspective.

Table 16. Percentage of Net Current Operating Earnings to Total Assets for (F.D.I.C. Insured) Commercial Banks in the United States - (1954 - 1960)

	1954	1955	1956	Year 1957	1958	1959	1960
Percentage of Net Current Operating Earnings to Total Assets	1.10%	1.19%	1.32%	1.36%	1.26%	1.43%	1.54%

Source: Annual Report of the Federal Deposit Insurance Corporation - For the Year Ended December 31, 1961.

This table shows the rate of return which (F.D.I.C. insured) commercial banks realized on their total assets during the period under study. In every year except 1954, the Group One bank plans produced a rate of return on their charge plan investment (See Table 15) which was substantially larger than the rate of return earned by insured commercial banks on their total assets.

The Group Two bank plans did not fare so well. It was 1957 before the Group Two plans produced a rate of return on their charge account operations (see Table 15) which was larger than the rate of return which (insured) commercial banks produced on their total assets. A comparison of the data in the above table with the data in Table 14 helps to explain why eleven of the Group Two banks got out of the charge account business during the three year period - January 1, 1954 through December 31, 1956.

This chapter has presented data which show the actual profit performance of the bank charge plans under study. The figures which appear in Tables 13, 14, and 15 of this chapter show only the end results of business operations for a given period of time; they tell us nothing about the many forces which were at work to produce these results. The next chapter deals with a number of these forces.

CHAPTER V

AN ANALYSIS OF THE PROFIT PERFORMANCE OF CHARGE ACCOUNT BANKING

The net return on invested funds figures which were presented in the last chapter are a function of three factors -- volume, average investment, and the margin of profit on volume. The objectives of this chapter are as follows:

a. to present data which show the financial experience of Group One and Group Two bank plans with respect to these three factors.

b. to compare the composite experience of the Group One plans with the composite experience of the Group Two plans and to analyze any substantial differences. An analysis of the differences which exist in the experience of these two groups of bank plans should afford greater insight into the factors affecting the profitability of bank charge plans.

c. and, to use the above data to point out some of the underlying changes (or trends) taking place in the field of charge account banking.

Method Used to Organize the Data

The job of organizing data pertaining to the volume, average investment, and profit margin experience of the bank plans under study was complicated by the facts that:

a. The author was able to obtain only twenty-six of the twenty-eight quarterly reports which appeared in the American Banker between January 1, 1954 and December 31, 1960. As already mentioned, data covering the third quarter of 1956 and the first quarter of 1960 are not included in this study.[1]

b. The managers of the thirty-six bank plans under study were not equally diligent in submitting their quarterly reports to the American Banker. Most of them reported each and every quarter, but occasionally one of them would fail to make a quarterly report.

Thus the author was faced with the problem of devising a method by which the financial experience of these bank plans could be put on a comparable basis even though a few of the quarterly reports were missing. This problem was resolved by averaging the available data for a given year so as to arrive at an "average quarterly value" for each of the volume, outstandings, and profit margin items. To take a hypothetical example, assume that Bank Plan (X) reported the following information for the four quarters of the year 1954:

	Dollar Volume of Sales Discounted by the Bank Plan	Average Investment in Receivables	Net Profit
First Quarter	$200,000	$160,000	$10,000
Second Quarter	210,000	165,000	11,000
Third Quarter	150,000	155,000	10,000
Fourth Quarter	240,000	170,000	12,000
Total	$800,000	$650,000	$43,000

[1]See footnote 7 on page 100 of Chapter IV.

Since Bank Plan (X) made a report for each of the four quarters of the year 1954, the "average quarterly value" for the above volume, average investment, and profit items is found by dividing each of the values in the "Total" column by 4. In this case, the "average quarter" in 1954 for Bank Plan (X) was one in which:

Dollar Volume of Sales Discounted = \$200,000

Average Investment in Receivables = \$162,500

Net Profit (for the quarter) = \$ 10,750

Now assume that this same bank plan had failed to report its financial experience for the second quarter of 1954 to the <u>American Banker</u>. If this were the case, the "average quarterly value" for the volume, average investment, and profit items would be computed as follows:[2]

---

[2]Adjustments for seasonal variation among the quarters were not deemed necessary for the following reasons:

a. In general, bank plans do not experience strong seasonal variations in the level of their operations. A bank plan's average experience computed on the basis of any three quarters of a given year would differ very little from its average experience computed on the basis of all four quarters of that year. Crude methods of adjustment for quarterly variations would contribute little (or nothing) to the precision of the performance data.

b. The purpose of this chapter is to compare the <u>composite</u> performance of two groups of bank plans. The focus of attention is on the relative performance of these two groups of plans and not on the absolute performance of any individual plan (or plans). Even if there were strong seasonal movements among the quarters, the two quarterly reports which are missing (the third quarter of 1956 and the first quarter of 1960) would affect the quarterly performance figures of both the Group One bank plans and the Group Two bank plans in exactly the same manner. The relative performance of these two groups of plans would not be changed. The performance data are to be used for a purpose which neither necessitates nor warrants the use of elaborate methods of adjustment.

	Dollar Volume of Sales Discounted by the Bank Plan	Average Investment in Receivables	Net Profit
First Quarter	$200,000	$160,000	$10,000
Second Quarter	No Report	No Report	No Report
Third Quarter	150,000	155,000	10,000
Fourth Quarter	240,000	170,000	12,000
Total	$590,000	$485,000	$32,000

In this case, the items appearing in the "Total" column would be divided by 3 rather than by 4 and the "average quarter" of 1954 for Bank Plan (X) would be shown as one in which:

Dollar Volume of Sales Discounted = $196,600

Average Investment in Receivables = $161,600

Net Profit (for the quarter) = $ 10,600

An ideal situation would have existed if the author had been able to obtain reports for all twenty-eight of the quarters between January 1, 1954 and December 31, 1960, and if the managers of the thirty-six bank plans had made their reports to the American Banker for each and every quarter during this period. But such was not the case. Given the circumstances, the conversion of all data to "average quarter" figures appears to be the best available method of putting the financial experience of these thirty-six bank plans on a comparable basis.[3]

---

[3]This method has an added advantage in that it makes it possible to use one set of values to represent three or four quarters of volume, average investment, and profit margin experience. In so doing, it helps to reduce (or abstract) a voluminous amount of information into usable form.

Table 17 (on page 110) and Appendix Tables 1-12 show the volume-average investment-profit margin experience (on an "average quarter" basis) of the thirty-six bank plans under study. Table 17 is presented in order that the reader may see the form and content of these tables. The other tables (Appendix Tables 1-12) appear on pages 168-179 of Appendix B.

It should be noted that Table 17 and Appendix Tables 1-6 present the volume-average investment-profit margin experience of Group One bank plans for the years 1954 through 1960, whereas Appendix Tables 7-12 present the experience of Group Two plans for the years 1954 through 1959.[4]

It should also be noted that the item "Net Profit or Loss" (which appears in Column 3 in all thirteen of these tables) has been broken down into its component parts. These component parts -- Income from Merchant Discount, Income from Other Sources, Total Income, Bad Debt Losses, and Total Expenses -- are dealt with in Columns 4 through 8 of Table 17 and Appendix Tables 1-12.[5]

The figures which appear in the last <u>horizontal</u> rows of Table 17

---

[4]All of the Group Two plans had been discontinued by August of 1960. For this reason, no table was constructed to show the volume-average investment-profit margin performance of Group Two bank plans for the year 1960.

[5]All of the figures which appear in Columns 3 through 8 of these tables have been converted to percentage form. They show the relationship between the income or expense item involved and the volume of sales discounted by the bank plan.

Table 17. Volume-Average Investment-Profit Margin Experience for the Year 1954
Group One Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	In Dollars: Volume of Sales Discounted (1)	In Dollars: Average Investment in Receivables (2)	Shown As A Percentage of Volume of Sales Discounted: Net Profit or Loss (3)	Income From Merchant Discount (4)	Income From Other Sources (5)	Total Income (6)	Bad Debt Losses (7)	Total Expenses (8)
1	$721,400	$606,700	+ 1.27	5.04	0.15	5.19	0.47	3.45
2	412,000	303,200	+ 0.03	5.28	--	5.28	0.72	4.54
3	359,000	325,500	(- 1.18)	5.22	0.79	6.01	0.46	6.73
4	337,900	285,200	+ 1.19	5.04	--	5.04	0.03	3.82
5	274,700	239,500	+ 0.08	4.72	--	4.72	0.29	4.35
6	280,400	169,300	+ 0.59	5.18	0.03	5.20	CR0.17	4.78
7	235,300	190,600	(- 1.29)	5.97	0.33	6.30	0.22	7.36
8	219,700	174,600	(- 1.15)	5.28	0.05	5.32	0.13	6.34
9	221,700	196,000	(- 0.43)	5.95	0.28	6.24	0.23	6.44
11	193,000	170,400	(- 2.37)	5.35	0.17	5.52	1.00	6.88
12	183,300	183,300	(- 2.43)	5.60	0.32	5.92	0.36	7.99
13	192,300	149,500	(- 1.44)	5.16	--	5.16	0.53	6.07
14	155,000	114,900	+ 0.59	5.17	0.21	5.38	0.28	4.51
16	129,700	93,400	(- 0.20)	4.92	0.80	5.00	0.13	5.06
21	109,900	103,600	(- 9.34)	5.62	0.06	5.68	3.28	11.74
22	106,300	94,200	(- 0.12)	5.30	0.06	5.36	0.36	5.11
24	109,200	73,400	(- 0.92)	4.08	--	4.08	0.03	4.97
25	89,500	71,800	(- 4.23)	5.24	0.04	5.28	0.12	9.39
32	59,400	53,400	(- 1.11)	5.93	0.53	6.46	0.19	7.38
33	50,300	48,000	(- 2.72)	6.21	0.18	6.39	0.50	8.61
37	38,600	32,000	(-13.84)	7.91	0.12	8.03	2.56	19.31
40	25,400	22,700	+ 0.46	5.50	0.18	5.68	1.22	4.00
Average of Composite Experience - Group One Bank Plans - 1954								
	$204,700	$168,200	(- 1.75)	5.44	0.19	5.60	0.59	6.76

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1954)

and Appendix Tables 1-6 are averages. These averages represent the composite experience of Group One bank plans for the years 1954-1960. Similarly, the figures in the last rows of Appendix Tables 7-12 are averages computed to represent the composite experience of Group Two bank plans for the years 1954-1959. It is these figures which serve as the bases for the tables and for the analyses which follow.

The Presentation and Analysis of Data

The remainder of this chapter is divided into eight subsections -- one for each of the volume, average investment, and profit margin items which appear in Table 17 and Appendix Tables 1-12. The organization of each of these eight subsections is as follows:

a. A table is used to present the 1954-60 composite experience of Group One and Group Two bank plans for the volume-average investment-profit margin item in question.[6]

b. The data in this table are analyzed. An attempt is made to uncover and explain underlying trends in each of volume-average investment-profit margin items. Special attention is given to any differences which exist between the composite experience of Group One and Group Two bank plans.

Volume of Sales Discounted

Table 18 (on page 112) indicates that the average volume of sales discounted by Group One bank plans increased in all but one of

[6]The reader should keep in mind the fact that the figures which appear in these tables are still on an "average quarter" basis.

Table 18. Volume of Sales Discounted
Average of Composite Experience -- For Group One and Group Two Bank Plans
For the Period; January 1, 1954 - December 31, 1960

(All data are presented on quarterly average bases)

	Year						
	1954	1955	1956	1957	1958	1959	1960
Number of Group One Bank Plans Reporting	22	22	22	22	22	22	21
Group One Bank Plans	$204,700	$296,500	$356,600	$350,300	$369,000	$442,400	$508,900
Number of Group Two Bank Plans Reporting	14	14	9	5	4	3	0
Group Two Bank Plans	$ 78,800	$103,800	$162,900	$153,100	$187,700	$107,000	---

Source: Table 17 and Appendix Tables 1-12.

the years under study.[7] In 1956, the average volume of sales discounted by the twenty-two Group One bank plans was $356,000. In 1957, the average volume figure for this group of bank plans fell to $350,300. It is quite probable that the Recession of 1957 was one of the major factors causing this decline.

The average volume of sales discounted by the Group Two plans rose over the period 1954 through 1956, and then dropped slightly in 1957. Here again it appears that the Recession of 1957 exerted a downward pressure on volume. The average volume figure for Group Two plans rose again in 1958 and then dropped in 1959.[8]

---

[7]Averages are misleading if they are influenced by a few extreme values, but such does not appear to be the case here. Median values computed from the individual volume experience of the thirty-six bank plans under study correspond rather closely to and thus attest to the representativeness of the average volume figures in Table 18. The median values for the volume experience of these two groups of bank plans are as follows:

	Median Volume - Group One Bank Plans	Median Volume - Group Two Bank Plans
1954	$192,650	$ 78,700
1955	$297,600	$ 87,100
1956	$360,700	$127,300
1957	$353,300	$ 78,600
1958	$396,400	Not computed
1959	$487,600	Not computed
1960	$508,100	Not computed

The median volume experience for Group Two plans was not computed for the years 1958, 1959, and 1960 due to the small number of Group Two plans reporting during these years.

[8]The volume - cost - profit relationships found in charge account banking are discussed in detail in a later section of this chapter. (See pages 128-36.) A break-even analysis presented in that section points out the importance of volume to success in charge account banking.

There is no simple explanation as to why the volume of sales discounted by the average Group One bank plan is (in every year under study) much greater than the volume of sales discounted by the average Group Two plan. A great number of factors influence the volume of sales discounted by a bank charge plan. Among the more important of these factors are:

a. the population of the trading area,

b. the attitude of the community toward charge account purchases,

c. the number, size, and type of retail businesses in the trading area, and

d. the existence of (or the non-existence of) competitive credit facilities in the trading area.

The data contained in the following table (Table 19) attest to the importance of trading area population as a determinant of volume. In this table, the Group One and Group Two bank plans are classified according to population of trading area.

Table 19. Distribution of Bank Plans Under Study by Population of Trading Area

Population of Trading Area	Number of Group One Bank Plans in This Category	Number of Group Two Bank Plans in This Category
1,000,000 or more	2	2
750,000 to 999,999	2	None
500,000 to 749,999	5	None
250,000 to 499,999	5	2
150,000 to 249,999	5	1
Less than 150,000	3	8
Total Number of Bank Plans	22	13*

* The author was unable to obtain the population of the trading area figure for Bank Plan Number 41.

Source: The American Banker

Nine of the twenty-two (40.9%) Group One plans operate in trading areas which have a population of 500,000 or more; only two (Bank Plans Number 15 and 18) of the thirteen (15.4%) Group Two plans operated in trading areas of this size.[9] Only three of the twenty-two (13.6%) Group One bank plans operate in a trading area which has a population of less than 150,000, whereas eight of the thirteen (61.5%) Group Two plans operated in a trading area of this size.

The data in Table 19 indicate that chances for success are rather slim for bank plans which operate in trading areas having a population of less than 150,000. A total of eleven of the thirty-six (30.6%) bank plans under study attempted to operate in trading areas of less than 150,000; by the end of 1960, only three of these eleven plans were still in operation.

<u>Average Investment in Receivables</u>

Table 20 (on page 116) shows that the average investment in receivables figure for Group One bank plans increased during each and every year from 1954 through 1960. The most rapid growth came in 1959 and 1960. As already mentioned (See pages 19-21 of Chapter I.) it was during these two years that many charge plans in this country expanded their use of revolving credit.

The average investment in receivables figure for Group Two bank plans increased each year from 1954 through 1958, but then dropped

---

[9]For the Group One bank plans, the median trading area population is 381,500; for Group Two plans, the median is 100,000.

Table 20. Average Investment in Receivables
Average of Composite Experience -- For Group One and Group Two Bank Plans
For the Period; January 1, 1954 - December 31, 1960

(All data are presented on quarterly average bases)

	Year						
	1954	1955	1956	1957	1958	1959	1960
Number of Group One Bank Plans Reporting	22	22	22	22	22	22	21
Group One Bank Plans	$168,200	$248,400	$319,100	$328,100	$366,300	$449,800	$615,800
Number of Group Two Bank Plans Reporting	14	14	9	5	4	3	0
Group Two Bank Plans	$ 58,100	$ 89,600	$146,600	$153,000	$190,000	$ 87,800	---

Source: Table 17 and Appendix Tables 1-12.

substantially in 1959. At first sight, it seems rather strange that this figure should fall from $190,000 in 1958 to only $87,800 in 1959. The precipitous decrease in this figure becomes understandable when one looks at Appendix Tables 11 and 12. (See pages 178-9 of Appendix B) and discovers that:

a. Bank Plan Number 15 exhibited an average investment in receivables of $408,900 for the year 1958. For the year 1959, the average investment in receivables of this same bank plan was only $158,100.[10]

b. Bank Plan Number 26 reported an average investment in receivables of $262,600 for the year 1958. This bank plan did not report its financial experience for the year 1959.

The Relationship of Net Profit (or Loss) to Volume

A look at Table 21 (on page 118) reveals that both the Group One and the Group Two bank plans incurred operating losses for the year 1954. The Group One plans incurred a net loss which was equal to 1.75% of the volume of sales discounted, while the Group Two plans incurred a net loss equal to 3.95% of volume. On pages 100-102 of Chapter IV, attention was called to the fact that many bank plans operate "in the red" during their first year or two in the charge account business.

The Group One plans produced a profit each year during the period 1955 through 1960. In fact, the percentage of net profit to

---

[10] Bank Plan Number 15 was discontinued at the end of 1959.

Table 21. Percentage of Net Profit or Loss to Volume of Sales Discounted Average of Composite Experience - For Group One and Group Two Bank Plans For the Period; January 1, 1954 - December 31, 1960

(All data are presented on quarterly average bases)

	Year						
	1954	1955	1956	1957	1958	1959	1960
Number of Group One Bank Plans Reporting	22	22	19	19	19	21	21
Group One Bank Plans	(-1.75)	+0.37	+1.15	+1.57	+1.88	+2.15	+2.57
Number of Group Two Bank Plans Reporting	14	14	8	3	3	3	--
Group Two Bank Plans	(-3.95)	(-4.72)	(-0.74)	+0.58	+0.79	+0.55	--

Source: Table 17 and Appendix Tables 1-12.

volume increased steadily throughout this period. In 1960, the Group One plans produced a net profit equal to 2.58% of volume.

The Group Two plans did not fare so well. They showed net losses for 1954, 1955, and 1956. While this group of bank plans did produce a net profit during 1957, 1958, and 1959, the size of this profit was small. These plans showed their best return on volume during the year 1958 when they netted a profit equal to 0.79% of volume.

The remainder of this chapter is devoted to an analysis of the individual income and expense items which lie behind the net profit (or loss) to volume values presented in the above table. A look at the income and expense experience of these two groups of bank plans should help to explain why the profit performance of the Group One bank plans was so much more satisfactory than the profit performance of the Group Two plans.

The Relationship of Income from Merchant Discount to Volume[11]

In general, the percentage of Income from Merchant Discount to Volume (See Table 22 on page 120.) for Group One bank plans declined during the period 1954 through 1960.[12] Only once during this

---

[11]The word - "discount" - means different things to different people. In case the reader has forgotten the specialized meaning which this word has among charge account bankers, he may refer to page 4 of Chapter I.

[12]Although the computations are not shown here, it was found that this percentage had a smaller value in 1961 than it had in 1960. It fell from 5.13% in 1960 to 5.07% in 1961.

Table 22. Percentage of Income From Merchant Discount to Volume of Sales Discounted Average of Composite Experience - For Group One and Group Two Bank Plans For the Period; January 1, 1954 - December 31, 1960

(All data are presented on quarterly average bases)

	Year						
	1954	1955	1956	1957	1958	1959	1960
Number of Group One Bank Plans Reporting	22	22	19	19	19	21	21
Group One Bank Plans	5.44	5.62	5.38	5.27	5.28	5.19	5.13
Number of Group Two Bank Plans Reporting	14	14	8	3	3	3	--
Group Two Bank Plans	5.04	5.17	5.31	4.86	5.25	5.95	--

Source: Table 17 and Appendix Tables 1-12.

period of time did the size of this percentage increase from one year to the next; it increased from 5.44% in 1954 to 5.62% in 1955.

Needless to say, it was an interplay of many factors which caused this percentage to decline during the period under study. It is hypothesized that the following factors played major roles[13] in causing income from merchant discount to decline as a percentage of the volume of sales discounted:

a. During the early years of charge account banking, little was known about the costs associated with the operation of a bank charge plan. For this reason, the managers of many bank plans overpriced their service for the first few years or, at least, until they better understood the cost situation. It is much easier to overprice a service of this type at first and later reduce the price than it is to set the initial price too low and then be forced to raise the price later.

b. It soon became evident to the managers of many bank plans that a generous schedule of rebates based on volume was needed in order to attract large volume merchants into the service. Rebate schedules of this type exert a downward pressure on the percentage of Income from Merchant Discount to Volume.

There appears to be little or no systematic pattern to the movement of the percentage of Income from Merchant Discount to Volume figure for Group Two bank plans. Any interpretation of changes in

---

[13]To isolate and analyze all of the influential factors is beyond the scope and purpose of this study.

this relationship has to be tempered by the fact that only three Group Two bank plans reported this information in 1957, 1958, and 1959.

<u>The Relationship of Income From Other Sources to Volume</u>

As was mentioned in Chapter I (see pages 7 and 8), income from merchant discounts is seldom the sole source of income for banks in the charge account business. Other sources include:

a. a service charge of from 1% to 1-1/2% on the unpaid balance of all revolving credit accounts.

b. entrance fees assessed against new merchants.

c. fees received from merchants for addressograph services.

d. fees received from the sale of mailing lists to member merchants.

The significance of "other income" as a source of income increased for both Group One and Group Two Bank plans during the period under study. With but one exception, each successive year during this period brought relatively large increases in the percentage of Income from Other Sources to Volume figure. (See Table 23)

The upward trend in this ratio reflects, among other things, the movement toward an increased use of revolving credit. It has been said that the service charge paid by cardholders on revolving credit accounts has meant the difference between a profitable and an unprofitable operation for many charge account bank plans. The data in Table 17 and Appendix Tables 1-12 indicate that such may very

Table 23. Percentage of Income From Other Sources to Volume of Sales Discounted Average of Composite Experience - For Group One and Group Two Bank Plans For the Period; January 1, 1954 - December 31, 1960

(All data are presented on quarterly average bases)

	Year						
	1954	1955	1956	1957	1958	1959	1960
Number of Group One Bank Plans Reporting	22	22	19	19	19	21	21
Group One Bank Plans	0.19	0.47	1.09	1.82	2.32	2.47	3.24
Number of Group Two Bank Plans Reporting	14	14	8	3	3	3	--
Group Two Bank Plans	0.17	0.19	0.50	0.39	0.53	0.54	--

Source: Table 17 and Appendix Tables 1-12.

well have been the case.

During the years 1958 and 1959, Bank Plan Number 8 realized more income from "other income" sources than it did from merchant discounts (See Appendix Tables 4 and 5 on pages 171-2 of Appendix B). For many other Group One plans, the amount of income derived from "other income" sources was almost equal in size to the income from merchant discounts.

While the percentage of Other Income to Sales Volume increased for both groups of bank plans, it increased much more rapidly for Group One bank plans than it did for Group Two plans. For Group Two bank plans, it may have been just another case of "too little and too late." The great growth in the use of revolving credit did not start until late-1958. By that time, eleven of the Group Two plans had already been discontinued.

The Relationship of Total Income to Volume

Since the components of total income have already been analyzed, only two comments will be made concerning the data in Table 24 (on page 125):

a. The percentage of Total Income to Volume increased rather steadily for both groups of bank plans during the period 1954-1960.

b. During each year of this period, the size of this percentage figure was greater for the Group One bank plans than it was for the Group Two plans. A look at Table 22 shows that during 1954 and 1955 the percentage of Income from Merchant Discount to Volume was

Table 24. Percentage of Total Income to Volume of Sales Discounted
Average of Composite Experience - For Group One and Group Two Bank Plans
For the Period; January 1, 1954 - December 31, 1960

(All data are presented on quarterly average bases)

	Year						
	1954	1955	1956	1957	1958	1959	1960
Number of Group One Bank Plans Reporting	22	22	19	19	19	21	21
Group One Bank Plans	5.60	6.09	6.48	7.09	7.60	7.67	8.37
Number of Group Two Bank Plans Reporting	14	14	8	3	3	3	--
Group Two Bank Plans	5.20	5.36	5.81	5.25	5.78	6.49	--

Source: Table 17 and Appendix Tables 1-12.

considerably higher for Group One plans than it was for Group Two plans. It is quite possible that the Group Two plans underpriced their service to merchants during these two years. A comparison of the data in Tables 22, 23, and 24 indicates that after 1955 it was differences in the Income from O+her Sources to Volume relationship which caused the percentage of Total Income to Volume to be larger for Group One plans than for Group Two plans.

The Relationship of Bad Debt Losses to Volume

Table 25 (on page 127) indicates that during the period 1954-1960, the Group One bank plans experienced bad debt losses which ranged from 0.30% to 0.59% of sales discounted. This is certainly a remarkable performance when one considers the fact that revolving credit offered by commercial banks was practically unheard of until the early 1950's. One of the main reasons that bankers had been reluctant to enter the charge account business was because they were afraid that they would not be able to control bad debt losses in revolving credit loans to consumers.

The Group Two bank plans also kept bad debt losses to a minimum.[14]

---

[14]The author does not intend to convey the impression that a bank plan is "optimizing" its performance when it holds its bad debt losses to a minimum. The ratio of bad debt losses to sales volume measures only one aspect of a bank plan's over-all performance.

It is possible for maximum performance in one area to be achieved at the expense of sub-marginal performance in other areas. Bank plans which are minimizing their bad debt losses may be doing sc at the expense of (foregone) sales volume.

Table 25. Percentage of Bad Debt Losses to Volume of Sales Discounted Average of Composite Experience - For Group One and Group Two Bank Plans For the Period; January 1, 1954 - December 31, 1960

(All data are presented on quarterly average bases)

	Year						
	1954	1955	1956	1957	1958	1959	1960
Number of Group One Bank Plans Reporting	22	22	19	19	19	21	21
Group One Bank Plans	0.59	0.39	0.30	0.36	0.58	0.40	0.37
Number of Group Two Bank Plans Reporting	14	14	8	3	3	3	--
Group Two Bank Plans	0.59	0.71 *	0.64	0.15	0.22	0.29	--

Source: Table 17 and Appendix Tables 1-12.

* This figure does not include the bad debt loss experience of Bank Plan Number 27. In 1955, this bank plan suffered bad debt losses which were equal to 32.30% of sales volume. To have included the experience of this bank plan would have greatly biased the (average of) composite experience figure for Group Two bank plans for the year 1955.

The percentage of bad debt losses to volume discounted for this group of plans ranged from 0.15% to 0.71% during the period 1954 through 1959.

The Relationship of Total Expenses to Volume

For the following reasons, one would expect the percentage of Total Expenses to Volume (See Table 26 on page 129.) to increase during the period under study:

a. The years 1954 through 1960 were a period in which labor and material costs were steadily rising.

b. Rising operating costs exert an upward pressure on the percentage of Total Expenses to Volume. But the size of this percentage did not increase during this period. In fact, it declined during most of the years under study. Apparently, these charge plans encountered some rather sizeable economies of scale as they expanded the size of their operations.

During each of the first three years under study, the percentage of Total Expenses to Volume of Sales Discounted was much larger for the Group Two plans than it was for the Group One plans. Since it was during this three year period that eleven out of the original fourteen Group Two plans were discontinued, it would be wise to delve more deeply into the factors affecting this percentage.

A break-even analysis would help clarify some of the volume-cost-profit relationships found in charge account banking. The following computations were made in order to estimate the "break-even

Table 26. Percentage of Total Expenses to Volume of Sales Discounted Average of Composite Experience - For Group One and Group Two Bank Plans For the Period; January 1, 1954 - December 31, 1960*

(All data are presented on quarterly average bases)

	1954	1955	1956	Year 1957	1958	1959	1960
Number of Group One Bank Plan Reporting	22	22	19	19	19	21	21
Group One Bank Plans	6.76	5.33	5.03	5.16	5.14	5.12	5.42
Number of Group Two Bank Plans Reporting	14	14	8	3	3	3	--
Group Two Bank Plans	8.57	7.11	5.92	4.53	4.77	5.65	--

Source: Table 17 and Appendix Tables 1-12.

* These figures do not include bad debt losses.

point" (level of volume) for bank charge plans:

a. Data from the tables in this chapter show that during 1955, the "average quarter" for the twenty-two Group One bank plans was one in which:

Volume of Sales Discounted -	$296,500	(Table 18)
Percentage of Total Income to Volume of Sales Discounted -	6.09%	(Table 24)
Percentage of Total Expenses (including Bad Debt Losses) to Volume of Sales Discounted -	5.72%	(Tables 25 and 26)
Percentage of Fixed Expenses to Volume of Sales Discounted[15] -	2.61%	(Table 27 on page 135)
Percentage of Variable Expenses to Volume of Sales Discounted -	3.11%	(Table 27)
Percentage of Net Profit to Volume of Sales Discounted -	+0.37%	(Table 21)

b. The following income statement was constructed after converting the above percentages into money magnitudes:

---

[15]The following expenses are assumed to be fixed - Rent; Miscellaneous Heat, Light, and Power; General Administrative Overhead; and Depreciation and Amortization. It is further assumed that the Payroll expenses and the Advertising and Promotion expenses are 50% fixed and 50% variable.

Income Statement
Group One Bank Plans
For An Average Quarter - 1955

Total Income			$18,057 (100%)
Total Expenses:			
Fixed Expenses	- $7,739.	(42.8%)	
Variable Expenses	- 9,221.	(51.1%)	16,960 (93.9%)
Net Profit			$1,097 (6.1%)

c. All of the items in the above income statement were expressed as a percentage of Total Income. (Total Income = 100.0%) These percentages appear in the parentheses to the right of the money items in the above income statement.

d. The above income statement shows fixed expenses to be $7,739. Since fixed expenses do not vary with changes in the level of income, they would also be $7,739. at the break-even level of income. The above statement also shows Variable Expenses to be 51.1% of Total Income. Since variable expenses change in direct proportion to changes in the level of income, the percentage of variable expenses to total income would also be 51.1% at the break-even level of income.

At the break-even level of income, there is no profit (or loss) - total income just equals total expenses. If variable expenses are 51.1% of total income, and there is no profit (or loss), then fixed expenses must equal 48.9% of total income at the break-even level of income. (100.0% - 51.1%).

If fixed expenses ($7,739) equal 48.9% of the break-even level of income, then the break-even level of income can be computed:

Let X = the break-even level of income

$$(.489)X = \$\ 7{,}739$$

$$X = \$15{,}826$$ [16]

e. In 1955, the percentage of Total Income to Volume of Sales Discounted was 6.09%. (See Table 24.) If the assumption is made that this same relationship exists at the break-even point,[17] then the break-even level of volume for the Group One bank plans would be $259,870. ($\frac{\$15{,}826}{.0609}$ - break-even level of income)[18]

This is, of course, an estimated break-even point. Its validity depends on the validity of the assumptions upon which it is based. Since it was computed on the basis of the composite experience of twenty-two bank plans, it does not necessarily represent the break-

---

[16]The following income statement was constructed in order to check the above computations:
(Assume $15,826 to be the level of income)

Total Income		$15,826. (100.0%)
Total Expenses:		
Fixed Expenses	$7,739 (48.9%)	
Variable Expenses	8,087 (51.1%)	15,826. (100.0%)
Net Profit		- 0 -

[17]This assumption is not unrealistic. In 1954, the percentage of Total Income to Volume of Sales Discounted was 5.60%; in 1956, it was 6.48%.

[18]This figure represents the break-even point on a quarterly basis. The break-even level of volume on an annual basis would be $1,039,480.

even point of any one particular bank plan. It could be called the average break-even point for Group One bank plans for the year 1955. The analyses in the remainder of this chapter are based on the assumption that this computed break-even point also represents a close approximation of the break-even point for all bank charge plans.

The above computations indicate that volume is of the utmost importance in charge account banking. The break-even point ($259,870) was too high for most of the Group Two bank plans. Taken collectively, this group of plans never did achieve a quarterly volume of this size. (See Table 18)[19]

The above computations also indicate that there is a high degree of operating leverage associated with the operation of a bank charge plan; at the break-even level of volume ($259,870), fixed expenses were 48.9% of total income. (See footnote 16 on page 132.) A high degree of operating leverage imposes a stiff penalty on those bank plans which are not able to generate volume equal to (or greater than) the break-even level of volume. The total dollar amount of fixed expenses does not change with variations in the level of operations, but the fixed expense per dollar of income (and

---

[19]Taken individually, only two of the Group Two plans achieved an average quarterly volume of this size (or greater) during the period under study. The average quarterly volume of Bank Plan Number 15 exceeded the computed break-even point in 1955, 1956, 1957, and 1958; the average quarterly volume of Bank Plan Number 18 did so only in 1956. (See Appendix Tables 7-12 on pages 174-179 of Appendix B).

thus per dollar of volume) does.[20] Bank plans which operate at a volume below the break-even point would find that fixed expenses absorb more than 48.9% of each dollar of their income from sales.[21]

Table 27 on page 135 affords a good illustration of the manner in which volume (or lack thereof) affects the various items of expense involved in the operation of a bank charge plan. In this table, the 1954 and 1955 percentages of Total Expenses to Volume of Sales Discounted (Table 26) are broken down into their component parts.

The data in this table show that the largest differences in the expense experience of the two groups of bank plans occurred in the following categories of expense - Payroll; Miscellaneous Heat, Light, and Power; Depreciation and Amortization of Equipment; and Advertising and Promotion. For all practical purposes, these four items are fixed expenses.[22]

During the year 1954, the Group One bank plans expended only 4.85% of each dollar of volume on these four expense items; during

---

[20]The implicit assumption here is that the relationship between total income and the volume of sales discounted does not change. (see Subsection "e" on page 132).

[21]A bank plan suffers an operating loss when it operates below the break-even level of volume. A high degree of operating leverage magnifies the size of this loss.

[22]For purposes of computing the break-even point, it was assumed (footnote 15 on page 130) that both the Payroll expenses and the Advertising and Promotion expenses were 50% fixed and 50% variable. It is possible that this assumption understates the degree of fixity of these two expense items. If such is the case, both the break-even level of volume and the degree of operating leverage would be higher than originally computed, and the acquisition of volume would become even more essential to financial success in charge account banking.

Table 27. Breakdown of Total Expenses
Average of Composite Experience - For Group One and Group Two Bank Plans
For the Years 1954 and 1955

(All data are presented on quarterly average bases)

Number of Bank Plans Reporting the Composition of Expenses	Payroll	Stationery and Supplies	Rent	Telephone and Telegraph	Postage	Miscellaneous Heat, Light and Power	General Administrative Overhead	Depreciation and Amortization of Equipment	Credit and Collections	Advertising and Promotion
(All data are expressed as a percentage of Volume of Sales Discounted)										
Year - 1954										
21 - Group One Bank Plans	3.58	0.48	0.26	0.28	0.33	0.39	0.35	0.28	0.34	0.60
13 - Group Two Bank Plans	4.60	0.47	0.26	0.27	0.37	0.49	0.51	0.42	0.26	0.98
Year - 1955										
21 - Group One Bank Plans	2.99	0.44	0.15	0.19	0.29	0.26	0.35	0.25	0.37	0.22
13 - Group Two Bank Plans	4.60	0.45	0.25	0.27	0.31	0.43	0.37	0.39	0.25	0.27

Source: American Banker (1954 and 1955)

that same year, the Group Two plans expended 6.49% of volume on these items. In 1955, the Group One plans expended only 3.72% of volume on these items, while the Group Two plans expended 5.69% of volume on them. A look at Table 18 reveals the prime reason that the percentage of these four expense items to volume was so much larger for Group Two plans than it was for Group One plans. The Group Two plans, on the average, produced quarterly volumes of $78,800 and $103,800 in 1954 and 1955 respectively. Both of these volume figures fall substantially short of the computed break-even level of volume ($259,870).

CHAPTER VI

SUMMARY AND CONCLUSIONS

As stated in Chapter I, this study was designed to accomplish two objectives:

a. to identify and analyze the two basic markets which a bank plan must serve, and

b. to present and analyze the financial performance of bank charge plans.

Many of the banks which entered the charge account business during the 1950's never did fully understand these two facets of charge account banking. They rushed into a field about which they knew little or nothing. They could have saved themselves vast amounts of time, money, and embarrassment if they had only taken the time to analyze carefully the concept of charge account banking and the experiences which other banks had had with this form of credit service.

Findings of the Market Analyses

Before a bank can effectively serve its two basic markets, it must thoroughly understand these markets. A large number of the banks which entered the charge account business during the 1950's acquired an understanding of the characteristics and the needs of their markets the "hard" way. Chapters II and III of this study illustrate the types of useful information that can be derived by means of market surveys. Managers of bank charge plans need information such as this in order to tailor their services to the needs of their credit cardholders and participating merchants.

The managers of bank charge plans can make a much better allocation of their time and money if they know the precise characteristics of their markets. Expenditures of resources aimed at the "core" of a market would normally be more productive than expenditures aimed at an undefined market. When it comes to the allocation of resources, the "rifle" approach is usually far more effective than the "shotgun" approach.

Credit Card Holders

The responses to the questionnaires used in this study indicate that bank charge plans obtain the bulk of their credit card holders from the age group "30-49". Less than 40% of the total population (twenty years of age or more) of each of the two cities surveyed fell into age groups "30-49", yet approximately 60% of the active card holders in these two cities fell into this age group.

Returned questionnaires also indicate that families with incomes of $5,000 to $15,000 per year are the biggest users of bank charge account credit. Interestingly enough, however, charge plan usage does not increase "pari passu" with increases in family income. It was found that families in the very high income brackets (over $25,000 per year) are not normally frequent users of bank plan credit.

There appears to be a close relationship between a card holder's physical proximity to the trading area and his credit card usage. Card holders who live in the trading area proper make a much greater use of their credit cards than do card holders who reside outside the trading area. This fact suggests that bank plans which operate in sparsely-populated trading areas might find it much more difficult to produce volume than do bank plans which operate in more densely-populated areas. When the financial performance of bank plans was analyzed (in Chapter V), it was found that very few of the successful charge plans in this country operate in trading areas which have a population of less than 150,000.

Responses to the questionnaire survey leave no doubt as to the importance of the female member of the family when it comes to the use of bank credit cards. In well over 75% of the families surveyed, the lady of the house was the major user of the charge service. This fact would suggest that promotion and advertising campaigns which are geared to the lady of the house are much more likely to be successful than campaigns which are not.

The survey of credit card holders indicatesthat card holders consider the "ability to use credit at a variety of stores by using only one credit card" and the "need to carry less cash" to be the two biggest advantages associated with the use of a bank credit card. When banks attempt to sell potential card holders on the use of bank credit, they would do well to emphasize these two advantages.

Participating Merchants

Merchant interviews indicated that bank charge plans have the greatest appeal to merchants whose annual sales volume is between \$100,000 and \$330,000. In most lines of business, there is a tremendous competitive force exerted on retailers to extend credit to consumers. Most retailers whose annual sales volume is between \$100,000 and \$330,000 are not strong enough financially to underwrite their own credit operation; they find membership in a bank charge plan to be better suited to their needs than alternative methods of financing accounts receivable.

It was found that the volume of sales which a merchant runs through a charge plan is determined, for the most part, by the type of product which he sells. Merchants who sold ladies' and men's apparel, shoes, toys, and interior decoration materials ran a much greater percentage of their total sales through the bank plan than did merchants who sold other products. This finding suggests that not all products are equally suited to bank plan financing.

Both the questionnaire survey of card holders and the merchant interviews afforded evidence to support the contention that a bank charge plan exerts a tremendous influence on the sponsoring bank's public image. Membership in the charge plan is the sole contact that many people in the community have with the bank, and thus they base their opinion of the bank on their experiences with the charge plan. A well-run charge plan can be a great boon to the public relations program of a bank. But, by the same token, a poorly managed or a discontinued charge plan operation can cause irreparable harm to the bank's public image.

Findings of the Financial Performance Analyses

The first successful bank charge plan was started in the United States in late-1951. Since that time, more than 200 commercial banks have tried charge account banking; some found it to their liking, others discontinued their charge service soon after its inception. It is estimated that over 40% of the bank plans started in the United States since 1951 are no longer in operation.

It is not by chance that some banks prosper in the charge account business while other banks flounder and fail in this very same endeavor. The financial data presented in Chapters IV and V of this study point out some of the reasons that banks which tried charge account banking met with such varying degrees of success.

It was found that volume is an absolute necessity for financial success in charge account banking. Bank charge plans have a high break-even point. Computations based on the financial experiences of twenty-two bank plans revealed that a bank charge plan would have to discount approximately $1,000,000. of credit sales per year in order to break-even.

These computations also indicated that there is a high degree of operating leverage associated with the operation of a bank charge plan; at the break-even level of volume, fixed expenses were approximately 48% of total income. A high degree of operating leverage imposes a severe penalty on bank plans which are not able to produce volume equal to (or greater than) the break-even level of volume. A bank plan suffers an operating loss when it operates below the break-even level of volume; a high degree of operating leverage magnifies the size of this loss.

The population of trading area was found to be the major determinant of volume. Data presented in Chapter V indicate that chances for financial success are rather slim for bank plans which operate in trading areas having a population of less than 150,000. Eleven of the thirty-six (30.6%) bank plans under study attempted to operate in trading areas of less than 150,000; only three of these eleven plans were still in operation by the end of 1960.

The financial performance analyses also indicated that income from sources other than merchant discount is growing in importance for bank charge plans. The service charge (from 1% to 1-1/2% per month) levied on the unpaid balances of credit card users has been the difference between a profitable and an unprofitable operation for a number of bank plans.

The financial performance data presented in Chapters IV and V suggest that the attrition rate among bank charge plans during the 1950's was unnecessarily high. Many of the bank plans which were established during this period were doomed to financial failure before they even got started.

Concluding Remarks

Bankers have now had more than eleven years of experience with retail charge plans. To a large extent, the future of this type of financing depends on the ability of bankers to analyze and profit from these eleven years of experience.

This study is, in effect, an analysis of charge account banking and its first eleven years of operation. It is hoped that the material presented in this study will be useful not only to banks presently operating charge plans but also to banks which are trying to decide whether or not to enter the charge account business.

The market analyses in Chapters II and III should enable charge account bankers to better understand and thus better serve their two basic markets. The financial performance analyses in Chapters IV and V should clarify many of the volume-cost-profit relationships associated with the operation of bank charge plans.

It has been said that those who ignore history are condemned to repeat it. The high attrition rate among bank charge plans during the 1950's attests to the fact that ignoring history can be costly. If charge account bankers are willing to profit from their first eleven years of experience, they can greatly improve on their overall performance of the 1950's.

APPENDIX A

Illustration 1. Copy of Bank-Merchant Agreement

THE FIRST NATIONAL BANK AND TRUST COMPANY OF KALAMAZOO

MERCHANT MEMBER'S AGREEMENT

Date____________________19____

The First National Bank and
Trust Company of Kalamazoo
108 East Michigan Avenue
Kalamazoo, Michigan

Gentlemen:

The undersigned, hereinafter called the Company, desires to finance sales of merchandise and services and will, from time to time, offer you such sales drafts for purchase as may be acceptable to you. In order to induce you to make such purchases, the Company makes the following representations, covenants, and agreements:

(1) The Company will finance all of its credit sales of merchandise and services, which qualify hereunder, exclusively through you. All sales drafts submitted shall represent obligations for the amounts therein set forth, not subject to any disputes, offsets or counter claims, and shall be drawn on bona fide purchasers whose credit has been approved by you, to whom the company will have sold and delivered merchandise. The Company represents that all credit applications submitted by it are personally signed by the applicant, and that all statements are fact within the knowledge of the Company contained in the sales draft and in the credit statements are true; and that the Company has no knowledge or notice that would impair the validity of any sales draft, or its collectibility.

(2) The Company agrees to establish a fair policy for the exchange and return of merchandise and for that purpose will give a credit or refund upon such return, and will issue credit slips therefor. If merchandise is returned to the Company and an appropriate charge is made against the account of the Company, you will refund the service charge thereon to the Company.

(3) The Company agrees to fulfill completely all obligations on its part to be performed under the sales of merchandise and service represented by said sales drafts.

(4) The Company agrees to open a commercial checking account with you. All transactions under your Plan must be conducted on forms approved by you and all forms will be completed, before delivery, by duly authorized persons. All sales drafts shall be deposited in our account with you, and any credit slips shall be delivered to you, not later than the business day following the date of sale, or the date

of issuance of such credit slips. The Company agrees that in the case of any inaccuracies on its special deposit slips in connection with sales drafts or credit slips, you shall have the right to charge its account, without notice, for any deficiencies. The execution of any sales draft and the endorsement thereof, whether by rubber stamp or otherwise, may be fully relied upon by you as indicating the authenticity of the sale and delivery of the merchandise, the validity of the execution of the sales draft, and the endorsement thereof. Sales drafts shall be drawn by the Company and shall be endorsed without recourse. Should the Company fail to endorse any sales draft, you or your representative may place the necessary endorsement thereon and on any remittances. The Company waives notice of default or non-payment, protest or notice of protest, demand for payment and any other demands or notices in connection with this Agreement or any sales drafts. The Company hereby consents to any extensions of time granted, or compromise made, with any customer owing such sales draft without affecting the Company's obligation thereunder.

(5) You shall have the sole right to make collections on the sales drafts, and the Company agrees not to solicit or make any collections thereunder. You shall have the right to verify all sales and services.

(6) As to all transactions you shall credit our account with the face amount of each sales draft, less five percent (5%) service charge. No transactions involving title retaining contracts may be financed under this Agreement.

(7) Notwithstanding the fact that all such sales drafts are to be endorsed "without recourse", the Company agrees that it will pay you the net amount of any sales draft or part thereof, and that you shall have the additional right to charge its account therefor in any of the following situations relating to any such sales draft: for returns of merchandise whether reported to you or not; for non-delivery of merchandise; whether the credit of the drawee of the sales draft has not been approved by you; where the sales draft is executed or endorsed improperly or without authority, or where the credit application or sales draft is executed or accepted fraudulently; where the customer disputes the sales or delivery of merchandise or the performance of services covered by the sales draft, or disputes the execution or acceptance of the sales draft; and where the extension of credit for merchandise sold or services performed was in violation of law or the rules or regulations of any governmental agency; Federal, State, or local.

(8) This Agreement shall become effective when accepted by you and shall remain in full force and effect until terminated by written notice as hereinafter set forth. In case of default by the Company in any of the terms hereof you may terminate this Agreement immediately

thereafter by giving notice to the Company. In case that the Company is not in default in any of the terms hereof, you may terminate this Agreement by giving the Company 60-days' notice thereof, and the Company may terminate by giving you 10-days' notice thereof. Any such notice may be delivered in person or by registered mail. The obligation of the Company shall survive any such termination as to any sales drafts acquired by you prior to such termination date, and also as to any sales drafts upon which there has been any extension or modification of terms prior to such termination date. This Agreement shall bind the parties hereto, their respective successors, legal representatives or assigns.

Accepted:

THE FIRST NATIONAL BANK AND
TRUST COMPANY OF KALAMAZOO

____
Name of Dealer

BY____________________________ BY____________________________

Its____________________________ Address________________________

Illustration 2. Copy of Rebate Schedule Based on Average Size of Sales Ticket

CITIZENS AND SOUTHERN NATIONAL BANK

Atlanta, Georgia

MERCHANTS' CHARGE SCHEDULE

QUARTERLY AVERAGE TICKET AMOUNT	PER CENT
$ 0.00 - $ 9.99	6.0
10.00 - 14.99	5.0
15.00 - 19.99	4.5
20.00 - 24.99	4.0
25.00 - 29.99	3.75
30.00 - 34.99	3.5
35.00 - 39.99	3.0
40.00 - 44.99	2.75
45.00 - 49.99	2.70
50.00 - 59.99	2.45
60.00 - 69.99	2.23
70.00 - 79.99	2.0
80.00 - 89.99	1.94
90.00 AND ABOVE	1.75

Illustration 3. Copy of Rebate Schedule Based on Volume of Sales Discounted

THE FIRST NATIONAL BANK AND TRUST COMPANY

OF KALAMAZOO

Kalamazoo, Michigan

SCHEDULE OF SERVICE CHARGES

The cost of operating the Charge Account Service is in direct relation to the volume of charge sales handled. The charge to each merchant is based upon the volume of his monthly charge sales. The following is a schedule of the percent of service charge to be rebated. Rebates are calculated on monthly volume and are paid on a quarterly basis at the end of March, June, September and December.

Monthly Charge Sales	% of Service Charge Rebated	Actual Service Charge
$ 1 - 2,500	0	5% (Base Rate)
2,500 - 5,000	10% Rebate	4-1/2%
5,000 - 8,000	15% "	4-1/4%
8,000 - 10,000	20% "	4%
10,000 - 15,000	25% "	3-3/4%
15,000 - 25,000	30% "	3-1/2%
25,000 - 50,000	35% "	3-1/4%
50,000 - 100,000	40% "	3%

Illustration 4. Copy of Rebate Schedule Based on Both Average Size of Sales Ticket and Volume of Sales Discounted

THE CHASE MANHATTAN BANK CHARGE PLAN

REFUND AND SERVICE CHARGE SCHEDULE
FOR MERCHANTS

Merchant members of CMCP whose net CMCP sales total $1,000 or more in a calendar quarter may receive a partial refund of service charges based on the average dollar amount of transactions and/or the volume of sales activity.

The number and amounts of sales slips and credit slips delivered to the Bank by the Merchant during each quarterly period will be analyzed to determine the Average Transaction Refund and the Volume Refund of service charges for the quarterly period, as follows:

AVERAGE TRANSACTION REFUND

The Average Transaction will be calculated by dividing the total number of sales slips less the total number of credit slips into the net dollar amount for the quarterly period (i.e., total amount of sales slips less total amount of credit slips). The resulting average sale, when applied to Schedule I, will indicate the allowable refund.

SCHEDULE I

AVERAGE TRANSACTION REFUND

Average Transaction	Original Service Charge	Allowable Refund	Effective Charge
Under $10.00	5%	None	5%
10.00-14.99	5%	1/2%	4-1/2%
15.00-24.99	5%	1%	4%
25.00-34.99	5%	1-1/2%	3-1/2%
35.00 and over	5%	2%	3%

VOLUME REFUND

In addition a refund will be made based on the total number of CMCP sales slips less total number of credit slips delivered during each quarterly period. The amount of this refund may be determined from Schedule II.

SCHEDULE II

VOLUME REFUND

	Net Number of Sales Slips	Refund Per Slip
1st	1,000	no refund
Next	9,000	1¢ per sales slip
Next	10,000	1-1/2¢ per sales slip
Over	20,000	2¢ per sales slip

No volume refund will be made if Average Transaction during quarterly period is less than $3.00.

Illustration 5. Copy of Retail Installment Credit Agreement

RETAIL INSTALLMENT CREDIT AGREEMENT

I certify that the credit information given is true and correct and I hereby apply for a Credit Card or Cards in your Central Charge Service under the terms of the Retail Installment Credit Agreement.

The undersigned buyer agrees to be bound by the following terms and conditions on any and all purchases made by buyer from members of THE COUNTY TRUST CENTRAL CHARGE PLAN, who shall be denominated the SELLER and whose place of business is as shown on each sales slip:

1. On signing the sales slip, buyer is obligated to pay the total amount shown thereon. It may be paid within twenty days from the date thereof, without service charge, at THE COUNTY TRUST COMPANY, 235 Main Street, White Plains, New York.

2. If buyer signs more than one sales slip on Central Charge, all sales slips shall be regarded as one in the aggregate total of all.

3. If said total amount is not paid as in #1 above, buyer agrees to pay said total amount in ten consecutive monthly installments, none of which shall be less than $10.00, to become due monthly, beginning thirty days after date of sales slip.

4. If the buyer exercises the option in #3 above, a monthly service charge of 1-1/2% per month will be made on all balances up to $500., if 1% on the portion of the balance over $500., but in no event less than $.70 per month.

5. BUYER MAY AT ANY TIME PAY HIS TOTAL INDEBTEDNESS UNDER THIS AGREEMENT, or may pay amounts greater than the specified monthly installments, thus reducing service charge costs.

6. If buyer defaults, and this agreement is referred to an attorney, not a salaried employee of the holder, buyer will pay fees of such attorney, not to exceed 20% of the amount due and payable.

NOTICE TO BUYER:

1. DO NOT SIGN THIS CREDIT AGREEMENT BEFORE YOU READ IT OR IF IT CONTAINS ANY BLANK SPACE.

2. YOU ARE ENTITLED TO A COMPLETELY FILLED IN COPY OF THIS CREDIT AGREEMENT.

I HAVE RECEIVED A COPY OF THIS RETAIL INSTALLMENT CREDIT AGREEMENT

BUYER'S NAME______________________

STREET ADDRESS____________________

DATE______________________ BUYER'S SIGNATURE__________________

Illustration 6. Copy of Application Form to Open New Charge Account

APPLICATION FOR

FIRST NATIONAL CHARGE ACCOUNT

Mr.
Mrs.
Miss

Last Name	First Name	Initial	Wife's first name

Address ________ City ________

How long at present Address ________ Rent( ) Own( ) Phone No. ________ Age ________

Employed by ________ Position ________ How long ________

Former Address ________ Former Employer ________

Nearest Relative ________ Address ________

Accounts at other Stores
Past or Present (List 3) ________

Bank Name ________ Checking ________ Saving ________ Loan ________

In making application, I agree that all purchases are due and payable within 30 days from statement date, or, I may elect to make payment of at least 1/6 of the statement balance owing. (minimum of $10.00 on balance of $60.00 or less). I agree to pay a 1% service charge per month on balances not paid within 30 days from statement date. I further agree that default in the payment of any monthly installment will render the entire balance due and payable.

Signed ____________________

Illustration 7. Copy of Personal Credit History Card

			Charge Limit
			Budget Limit
		Date Opened	Source
		Card Issued	Approved
Name		Husband's or Wife's Name	
Address		Age	Phone No.
City	Zone	State	How long at address
Former Addresses (1)		(2)	
Occupation Mr. or Miss		Employed by	
Business Address		How long employed	
Former Occupation		Employed by	
Wife's Occupation		Employed by	
Bank	Branch	Loan R. E. Mtg.	Checking Savings
Charge Accounts			
Personal Reference			
Nearest relative not living with customer			
Own Real Estate	Rent	Room	
Folio No.	Mr. / Mrs.	Letters	First National Chargeplan Kalamazoo, Mich.

Illustration 8. Copy of Newspaper Article Outlining Details of Survey

A banking research group from Michigan State University has selected the City (A) area to conduct a study of the charge account service of Bank (A). This group plans to begin its study during the month of August. The findings of the study will become part of a national study of charge account banking.

At the present, over 150 banks in this country offer a charge account banking service. The Michigan State group has singled out the Bank (A) Plan for special attention because this bank's plan has been used as a model by many other banks throughout the United States.

To obtain the data for the study, questionnaires will be sent to over 800 randomly-selected residents of City (A).

Illustration 9. Copy of Questionnaire Mailed to Inactive Card Holders in City (A)

M. S. U. Research Project
Bank (A) Charge Account Service

Please check ✓

1. Where do you live?
____a. in City (A) proper
____b. in a small town
____c. in the country

2. Within the past year, have you made use of any of the following types of credit? (Please check all which apply.)
____a. credit cards
____b. open book accounts in merchant's stores
____c. installment credit (for example-for automobile or appliance purchases)
____d. I do not make use of credit

3. How did you first acquire your Bank (A) credit card?
____a. I made application for it.
____b. Credit card was mailed to me by a store with no application on my part.
____c. Credit card was mailed to me by the Bank with no application on my part.
____d. Other; Explain: ____________________

4. Into which income class does your family fall?

Income Class	Income per week	Income per year
____A	\$60 to \$79	\$3000 to \$3999
____Z	\$80 to \$99	\$4000 to \$4999
____B	\$100 to \$139	\$5000 to \$6999
____Y	\$140 to \$199	\$7000 to \$9999
____C	\$200 to \$299	\$10000 to \$14999
____X	\$300 to \$499	\$15000 to \$24999
____D	\$500 and over	\$25000 and over

5. When you used your Bank (A) Charge Account Service did you feel that you were tempted to buy more than you ordinarily would?
____a. Yes
____b. No

6. Did you feel that you received better service from merchants when you used a Bank (A) credit card?
_____a. Yes
_____b. No

7. Do you make use of other services offered by Bank (A)?
_____a. Yes
_____b. No
If Yes-please specify what other services____________________
____

8. Which of the following descriptions do you feel best fits Bank (A) in City (A)?
_____a. a highly progressive bank
_____b. a moderately progressive bank
_____c. an average bank
_____d. a conservative bank
_____e. an overly conservative bank-too slow in making changes

9. Which of the following do you consider to be the most important advantage of shopping with a Bank (A) credit card? (check only one please)
_____a. to get an itemized receipt for all purchases
_____b. to take advantage of sales
_____c. to build up a bank credit rating
_____d. need to carry less cash
_____e. ability to use credit at a variety of stores by using only (1) credit card
_____f. other; Specify_____________________________________

10. Which of the following do you consider to be the major weakness of the Bank (A) Charge Account Plan? (Please check only one)
_____a. slow and careless in sending out monthly bills
_____b. bank employees are not as courteous and considerate as they should be
_____c. some very important stores in City (A) are not members of the Plan
_____d. too much red tape involved when making purchases
_____e. other; Explain:__________________________________
____

12. During the period that you made active use of your charge account credit card, did you ever have occasion to contact the charge account personnel of Bank (A)?
_____a. Yes
_____b. No
If yes, how would you rate the treatment and service which you received from these personnel?

_____a. Courteous treatment and efficient service
_____b. Courteous treatment but poor service
_____c. Average service and treatment
_____d. Efficient service but discourteous treatment
_____e. Poor service and discourteous treatment
_____f. Other; Explain:______________________________
____

13. What is your age?_______

14. What is your overall appraisal of the Charge Account Service offered by Bank (A)? Please feel free to comment on any aspect of this service.______________________________
____
____

PLEASE DO NOT SIGN THIS QUESTIONNAIRE

Illustration 10. Copy of Questionnaire Mailed to Active Card Holders in City (A) and City (B)

M. S. U. Research Project
Bank (A) Charge Account Service

Please check ✓

1. Where do you live?

_____a. in City (A) proper
_____b. in a small town
_____c. in the country

2. How did you first acquire your Bank (A) credit card?

_____a. I made application
_____b. Credit card was mailed to me by a store with no application on my part.
_____c. Credit card was mailed to me by the Bank with no application on my part.
_____d. Other; Explain:____

3. Which member of your family uses the Bank (A) Charge Account Service most frequently?

_____a. husband
_____b. wife
_____c. son
_____d. daughter
_____e. self (if single, widow, or widower)

4. Into which income class does your family fall?

Income Class	Income per week	or	Income per year
_____A	\$60 to \$79		\$3000 to \$3999
_____Z	\$80 to \$99		\$4000 to \$4999
_____B	\$100 to \$139		\$5000 to \$6999
_____Y	\$140 to \$199		\$7000 to \$9999
_____C	\$200 to \$299		\$10000 to \$14999
_____X	\$300 to \$499		\$15000 to \$24999
_____D	\$500 and over		\$25000 and over

5. Do you feel that you receive better service from merchants because you hold a Bank (A) credit card?

Yes_____ No_____

6. Do you prefer to do your shopping in stores which are members of Bank (A)'s Charge Account Plan?

Yes_____ No_____

7. Do you feel that a Bank (A) Charge Account merchant is more reliable than a merchant who is <u>not</u> a member?

Yes____ No____

8. Do you feel that Bank (A)'s Charge Account Service tempts you to buy more than you ordinarily would?

Yes____ No____

9. What is your primary reason for using the Bank (A) Charge Account Service? (Please check <u>one only</u>)

____a. convenience
____b. prestige
____c. necessity
____d. easy return or exchange of merchandise
____e. easier to take advantage of sales
____f. one-check payment feature
____g. other____

10. What type merchandise did you buy when you <u>last</u> made use of Bank (A)'s Charge Account Plan? (Please check <u>one only</u>)

____a. drug
____b. hardware
____c. service station
____d. women's apparel
____e. men's apparel
____f. shoes
____g. gifts
____h. jewelry
____i. furniture
____j. children's wear
____k. appliances
____l. repair service
____m. other-specify____________

11. Which of the following do you consider to be important advantages in shopping with your Bank (A) credit card? (Check <u>one or more</u>)

____a. to get an itemized receipt for all purchases
____b. to take advantage of sales
____c. to build up bank credit rating
____d. need to carry <u>less</u> cash
____e. to use credit at a variety of stores by using only (1) credit card
____f. other - specify________________________________

12. To what extent do merchants encourage your using the Charge Account Service?

____a. strongly encourage
____b. encourage
____c. undecided
____d. discourage

13. Which of the following descriptions do you feel best fits Bank (A) in City (A)?

_____a. a highly progressive bank
_____b. a moderately progressive bank
_____c. an average bank
_____d. a conservative bank
_____e. an overly conservative bank--too slow in making changes

14. Have you used any other services of Bank (A) since opening your Bank (A) Charge Account?

Yes_____ No_____

If yes, what other services?_____

15. What is your age?_____

16. What do you consider to be the biggest weakness of Bank (A)'s Charge Account Plan?_____

_____

_____

17. Please mention any new services that you feel banks should perform?_____

_____

_____

PLEASE DO NOT SIGN THIS QUESTIONNAIRE

Illustration 11. Copy of Cover Letter Which Accompanied All Questionnaires

MICHIGAN STATE UNIVERSITY East Lansing

College of Business and Public Service

Department of Accounting & Financial Administration

August 1, 1961

Did you read the article in this week's City (A) Gazette concerning the survey now being conducted in the City (A) area? I represent the banking research group from Michigan State University which is studying charge account banking in the United States. You are one of over 1,000 randomly-selected City (A) residents who will receive a questionnaire concerning the charge account service offered by Bank (A) in City (A). We are very interested in your frank appraisal of this service. Any answers you give will be held in strictest confidence and will appear only as averages in our final report. You need not identify yourself.

Since much of our research will be done in the City (A) area, I have established an office in City (A). If you should have any questions regarding either the attached questionnaire or the findings of our study, please feel free to call me at Fireside 2-4749.

Sincerely,

Harlan R. Patterson
Research Director

P.S. A stamped, return-addressed envelope is enclosed for your convenience in replying. In order that this information can be made available as soon as possible, we would like to have the questionnaire returned by Friday, August the 11th.

Illustration 12. Copy of Questionnaire Form Used During Merchant Interviews

CONFIDENTIAL

M. S. U. Research Project
Bank (A) Charge Account Service

1. Do you consider the cost of the service fair in relation to the amount of service rendered?

   Yes ____ Comments:
   No ____

2. Is the service you receive under the Charge Account Plan normally good?

   Yes ____ Comments:
   No ____

   Are the Charge Account personnel courteous and anxious to help you?

   Yes ____ Comments:
   No ____

3. Do you feel that the credit granting of the Bank (A) Charge Plan recognizes your need to make sales?

   Yes ____ Comments:
   No ____

4. Do you carry some of your own accounts? Why?

   Yes ____ Comments:
   No ____

5. What percentage of your Accounts Receivable are actually lay-away payments?

6. Do some of your customers refuse to use the service?

   Yes ____
   No ____
   If yes, what reasons do they give?

7. What complaints, if any, do you receive from customers about the Bank (A) Charge Account Service?

8. Do you feel that your own sales have shown any significant increase as a result of your using the Charge Account Service?

Yes ____ Comments:
No ____

9. What percentage of your customers would you estimate fail to carry their charge tag when purchasing on Charge Account?

10. Do you feel that the 1/6 Extended Payment Plan has helped your business?

Yes ____
No ____

Can you sell "larger ticket" items because of this plan?

Yes ____
No ____

Do you encounter any resistance to the 1/6 Extended Payment?

Yes ____ Comments:
No ____

11. Do you feel that there are any additional retailing services that the bank could render you as a retailer? If so, what services would you suggest?

12. Which of the following descriptions do you feel best fits Bank (A) in City (A)?

(a) a highly progressive bank ____
(b) a moderately progressive bank ____
(c) an "average" bank ____
(d) a conservative bank ____
(e) an overly conservative bank-too slow in making changes ____

Comments:

13. What do you consider to be the major weakness of the Charge Account Service as it is presently being operated?

14. Do you presently make use of other services offered by Bank (A)? (e.g. -- loans - checking)

    Yes ____
    No ____

    Did you make use of these services <u>before</u> you became a member of the Charge Account Service?

    Yes ____
    No ____

15. What are the most commonly used terms of trade credit in your line of business?

16. What is your annual sales volume?

APPENDIX B

Appendix Table 1. Volume - Average Investment - Profit Margin Experience for the Year 1955
Group One Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	In Dollars: Volume of Sales Discounted (1)	In Dollars: Average Investment in Receivables (2)	Shown As A Percentage of Volume of Sales Discounted: Net Profit or Loss (3)	Income From Merchant Discount (4)	Income From Other Sources (5)	Total Income (6)	Bad Debt Losses (7)	Total Expenses (8)
1	$812,400	$688,100	+ 1.08	5.01	0.19	5.20	0.40	3.72
2	487,500	410,200	+ 1.11	5.47	0.22	5.69	0.78	3.80
3	444,600	347,800	(- 0.12)	5.12	0.79	5.90	0.01	6.02
4	461,500	350,400	+ 1.12	5.33	--	5.33	0.18	4.04
5	552,700	633,200	+ 0.21	5.36	--	5.36	--	5.15
6	356,500	230,400	+ 0.74	4.78	0.28	5.06	0.05	4.27
7	332,800	236,800	+ 0.30	5.71	0.23	5.94	0.48	5.15
8	360,900	355,900	+ 1.34	5.69	1.79	7.48	0.37	5.77
9	587,300	401,600	+ 0.18	5.23	0.55	5.78	--	5.60
11	275,800	253,000	+ 0.09	5.42	0.15	5.57	1.10	4.39
12	297,600	306,000	+ 2.40	5.80	1.69	7.49	0.47	4.63
13	341,000	322,000	+ 1.84	9.07	0.26	9.33	1.07	6.42
14	218,400	130,600	+ 1.47	5.48	--	5.48	0.05	3.96
16	185,300	138,500	+ 1.59	5.58	0.01	5.59	0.20	3.80
21	106,100	85,100	(- 4.39)	5.03	--	5.02	0.44	8.98
22	166,700	136,800	+ 0.62	4.92	0.34	5.26	--	4.64
24	172,300	131,600	+ 1.98	7.32	--	7.32	0.38	4.96
25	112,500	95,700	+ 0.80	5.47	0.66	6.13	0.49	4.84
32	78,600	60,100	(- 0.69)	5.17	0.27	5.44	0.18	5.94
33	77,700	68,400	+ 0.27	5.50	--	5.50	0.31	4.92
37	56,800	53,600	+ 1.80	6.41	2.95	9.36	0.74	6.82
40	38,200	28,700	(- 5.53)	4.72	0.01	4.73	0.83	9.43
Average of Composite Experience - Group One Bank Plans - 1955								
	$296,500	$248,400	+ 0.37	5.62	0.47	6.09	0.39	5.33

Source: "Quarterly Survey Reports - Charge Account Banking", <u>The American Banker</u> (1955)

Appendix Table 2. Volume - Average Investment - Profit Margin Experience for the Year 1956
Group One Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	In Dollars: Volume of Sales Discounted	Average Investment in Receivables	Shown As A Percentage of Volume of Sales Discounted: Net Profit or Loss	Income From Merchant Discount	Income From Other Sources	Total Income	Bad Debt Losses	Total Expenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	$951,100	$808,700	+ 1.52	5.23	0.10	5.33	0.48	3.33
2	525,500	404,500	+ 1.45	5.41	0.46	5.87	0.84	3.57
3	469,600	470,500	+ 1.40	5.51	1.85	7.36	0.47	5.49
4	533,300	383,300	+ 1.16	5.31	--	5.31	--	4.15
5	791,400	1002,900	--	--	--	--	--	--
6	448,600	253,300	+ 1.26	4.48	--	4.48	0.15	3.07
7	465,800	375,400	+ 0.95	5.57	0.36	5.93	0.68	4.30
8	360,700	439,000	+ 1.89	6.02	3.86	9.87	1.13	6.85
9	646,100	441,800	+ 1.14	5.20	0.17	5.37	--	4.23
11	344,700	352,400	+ 2.35	5.32	1.34	6.67	CR0.29	4.61
12	415,900	486,500	+ 2.53	4.94	2.85	7.80	0.40	4.86
13	417,900	437,100	--	--	--	--	--	--
14	297,800	200,000	(- 0.25)	5.22	--	5.22	--	5.47
16	212,500	139,700	+ 1.19	4.75	0.01	4.76	0.28	3.29
21	118,800	111,100	(- 0.87)	6.33	0.54	6.88	--	7.74
22	217,000	192,700	+ 1.33	5.12	0.54	5.66	0.19	4.13
24	210,800	149,500	--	--	--	--	--	--
25	132,400	125,400	+ 1.51	4.91	1.77	6.68	0.02	5.15
32	87,700	77,100	+ 0.25	5.12	1.78	6.89	--	6.64
33	86,100	73,700	+ 1.16	5.59	--	5.60	0.14	4.30
37	48,700	53,800	+ 0.92	5.98	4.14	10.12	0.92	8.28
40	42,900	41,100	+ 0.91	6.22	1.03	7.25	0.19	6.15
	Average of Composite Experience - Group One Bank Plans - 1956							
	$356,600	$319,100	+ 1.15	5.38	1.09	6.48	0.30	5.03

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1956)

Appendix Table 3. Vclume - Average Investment - Profit Margin Experience for the Year 1957
Group One Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

	In Dollars		Shown As A Percentage of Volume of Sales Discounted					
Bank Plan Number	Volume of Sales Discounted	Average Investment in Receivables	Net Profit or Loss	Income From Merchant Discount	Income From Other Sources	Total Income	Bad Debt Losses	Total Expenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	$765,700	$647,800	+ 0.58	5.15	0.21	5.36	0.16	4.62
2	527,300	433,200	+ 2.03	5.43	0.66	6.09	0.47	3.59
3	522,700	586,000	+ 1.76	5.16	4.19	9.35	0.93	6.66
4	581,500	409,000	+ 1.37	5.35	--	5.35	--	3.99
5	649,400	812,800	--	--	--	--	--	--
6	489,300	273,600	+ 1.21	4.48	--	4.48	0.13	3.15
7	548,400	577,400	+ 2.29	4.67	1.55	6.22	0.37	3.56
8	310,600	364,900	+ 3.30	6.02	5.38	11.40	0.52	7.58
9	645,800	422,200	+ 2.30	6.28	0.09	6.37	--	4.06
11	380,800	454,100	+ 2.41	5.96	1.64	7.60	0.10	5.09
12	579,100	708,300	+ 2.59	5.22	2.98	8.20	0.21	5.40
13	114,500	155,900	--	--	--	--	--	--
14	353,400	249,200	+ 0.64	5.27	0.09	5.37	--	4.72
16	236,100	192,800	+ 2.00	4.73	0.73	5.46	0.19	3.27
21	112,900	123,200	(- 1.87)	4.84	2.54	7.38	0.13	9.13
22	225,800	234,400	+ 2.73	5.82	2.11	7.93	1.15	4.04
24	241,700	167,200	--	--	--	--	--	--
25	142,800	141,500	+ 2.15	4.89	2.77	7.67	0.72	4.80
32	102,600	92,800	+ 1.64	5.08	2.28	7.36	0.21	5.51
33	95,300	83,200	+ 1.65	4.90	--	4.90	0.10	3.15
37	43,600	47,800	+ 1.66	5.94	4.32	10.26	1.02	7.58
40	38,100	41,600	(- 0.53)	4.98	3.04	8.02	0.49	8.06
	Average of Composite Experience - Group One Bank Plans - 1957							
	$350,300	$328,100	+ 1.57	5.27	1.82	7.09	0.36	5.16

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1957)

Appendix Table 4. Volume - Average Investment - Profit Margin Experience for the Year 1958
Group One Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	Volume of Sales Discounted (1)	Average Investment in Receivables (2)	Net Profit or Loss (3)	Income From Merchant Discount (4)	Income From Other Sources (5)	Total Income (6)	Bad Debt Losses (7)	Total Expenses (8)
1	$970,400	$826,400	+ 0.87	4.99	0.17	5.16	CR0.03	4.31
2	558,100	472,600	+ 2.30	5.42	0.90	6.31	0.53	3.49
3	521,000	644,900	+ 1.98	5.68	4.73	10.40	1.00	7.42
4	608,800	433,300	+ 1.49	5.32	--	5.32	--	3.82
5	412,100	682,400	--	-	--	--	--	--
6	552,100	317,700	+ 1.52	4.55	--	4.55	0.04	2.99
7	515,900	668,200	+ 2.09	4.92	2.58	7.50	1.14	4.27
8	396,400	484,300	+ 5.08	5.96	6.03	12.00	0.76	6.16
9	689,500	467,100	+ 2.16	6.67	0.11	6.77	--	4.61
11	405,100	477,200	+ 0.17	5.15	2.63	7.78	2.17	5.45
12	670,600	928,200	+ 3.22	4.88	3.89	8.76	0.49	5.06
13	94,300	111,400	--	--	--	--	--	--
14	416,400	309,100	+ 0.85	5.44	0.31	5.74	--	4.89
16	187,000	186,700	+ 2.30	5.21	2.17	7.38	0.29	4.79
21	135,000	136,500	+ 0.93	4.66	2.71	7.37	0.08	6.37
22	225,100	215,600	+ 1.15	5.82	1.88	7.70	1.56	4.98
24	318,000	241,300	--	--	--	--	--	--
25	154,400	159,200	+ 3.05	4.70	3.63	8.33	0.74	4.55
32	102,700	109,100	+ 3.34	5.27	3.35	8.61	0.49	4.79
33	108,600	103,000	+ 1.54	4.68	0.27	4.95	0.03	3.39
37	35,700	38,900	+ 1.34	5.95	4.44	10.39	1.09	7.97
40	40,400	46,100	+ 0.32	5.02	4.33	9.36	0.61	8.43
	Average of Composite Experience - Group One Bank Plans - 1958							
	$369,000	$366,300	+ 1.88	5.28	2.32	7.60	0.58	5.14

Source: "Quarterly Survey Reports - Charge Account Banking", <u>The American Banker</u> (1958)

Appendix Table 5. Volume - Average Investment - Profit Margin Experience for the Year 1959
Group One Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	Volume of Sales Discounted (1)	Average Investment in Receivables (2)	Net Profit or Loss (3)	Income From Merchant Discount (4)	Income From Other Sources (5)	Total Income (6)	Bad Debt Losses (7)	Total Expenses (8)
1	$1089,500	$980,600	+ 1.06	4.77	0.32	5.09	0.42	3.61
2	509,200	507,200	+ 2.29	5.01	0.99	6.00	0.28	3.43
3	566,700	697,500	+ 2.33	6.35	5.91	12.26	0.32	9.61
4	684,500	517,800	+ 2.00	5.40	0.16	5.56	--	3.60
5	631,800	5[illegible]1,000	+ 0.96	5.92	1.26	7.18	0.61	5.61
6	667,800	404,000	+ 1.61	4.50	--	4.50	0.18	2.72
7	621,100	831,900	+ 2.99	4.77	2.99	7.76	0.50	4.28
8	551,500	808,700	+ 1.26	6.00	6.54	12.54	1.15	10.13
9	766,400	661,400	+ 2.22	5.33	0.92	6.25	--	4.03
11	423,700	510,100	+ 4.03	5.14	2.68	7.82	CR1.11	4.90
12	881,100	1282,700	+ 2.90	4.76	3.76	8.51	0.45	5.16
13	98,600	106,000	--	--	--	--	--	--
14	551,100	425,100	+ 1.50	5.41	0.28	5.69	--	4.19
16	245,100	273,200	+ 2.98	4.86	2.59	7.45	0.16	4.31
21	143,800	168,200	(2.66)	4.96	3.95	8.90	2.08	9.49
22	252,800	225,100	+ 2.79	5.86	1.82	7.69	0.84	4.06
24	417,500	322,600	+ 1.54	5.12	0.43	5.55	--	4.01
25	173,100	185,500	+ 3.27	4.91	3.94	8.85	1.28	4.30
32	130,700	128,100	+ 3.35	4.45	2.76	7.22	0.54	3.32
33	139,300	158,000	+ 4.04	4.76	2.21	6.97	--	2.93
37	36,100	39,200	+ 2.31	5.96	4.35	10.31	0.49	7.52
40	61,400	72,600	+ 2.43	4.81	4.10	8.92	0.15	6.34
	Average of Composite Experience - Group One Bank Plans - 1959							
	$442,400	$449,800	+ 2.15	5.19	2.47	7.67	0.40	5.12

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1959)

Appendix Table 6. Volume - Average Investment - Profit Margin Experience for the Year 1960
Group One Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	In Dollars: Volume of Sales Discounted	In Dollars: Average Investment in Receivables	Shown As A Percentage of Volume of Sales Discounted: Net Profit or Loss	Income From Merchant Discount	Income From Other Sources	Total Income	Bad Debt Losses	Total Expenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	$1173,300	$1320,000	+ 2.26	4.85	1.66	6.51	0.30	3.95
2	620,000	510,900	+ 2.06	4.97	0.93	5.90	0.37	3.47
3	585,900	791,200	+ 0.88	5.73	4.20	9.93	0.51	8.55
4	722,900	755,100	+ 3.30	5.49	1.98	7.47	--	4.17
5	719,100	792,300	+ 0.98	5.76	2.25	8.01	0.82	6.21
6	1014,500	750,300	+ 1.78	4.27	0.55	4.82	0.20	2.84
7	647,200	898,200	+ 3.78	4.46	3.26	7.72	0.36	3.58
8	490,300	876,300	+ 1.06	5.98	9.31	15.28	1.29	12.93
9	733,800	790,200	+ 2.88	4.96	2.09	7.05	--	4.17
11	508.100	622,800	+ 2.98	4.96	2.63	7.59	0.22	4.39
12	1301,700	2223,300	+ 3.42	4.61	4.38	8.98	0.55	5.01
13	127,700	137,300	--	--	--	--	--	--
14	651,600	768,200	+ 2.92	4.61	2.80	7.41	--	4.49
16	337,200	464,400	+ 3.90	4.78	3.50	8.27	0.22	4.15
21	138,000	196,900	(- 0.78)	5.15	4.59	9.74	0.20	10.13
22	270,300	257,400	+ 2.39	5.46	1.44	6.90	0.32	4.19
24	--	-	+ 1.61	5.99	2.42	8.41	--	6.80
25	239,200	274,200	+ 4.92	4.93	4.11	9.04	0.56	3.56
32	118,800	170,600	+ 5.42	5.41	4.52	9.93	0.72	3.79
33	168,600	193,700	+ 3.81	4.68	2.40	7.08	--	3.26
37	33,900	37,200	+ 1.99	5.97	4.50	10.48	0.51	7.98
40	84,600	101,000	+ 2.52	4.65	4.59	9.24	0.67	6.05
Average of Composite Experience - Group One Bank Plans - 1960								
	$508,900	$615,800	+ 2.57	5.13	3.24	8.37	0.37	5.42

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1960)

Appendix Table 7. Volume - Average Investment - Profit Margin Experience for the Year 1954
Group Two Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	Volume of Sales Discounted (1)	Average Investment in Receivables (2)	Net Profit or Loss (3)	Income From Merchant Discount (4)	Income From Other Sources (5)	Total Income (6)	Bad Debt Losses (7)	Total Expenses (8)
15	$152,100	$ 89,000	(- 1.24)	5.06	--	5.06	0.02	6.28
18	125,200	107,900	(- 2.66)	4.71	--	4.71	1.07	6.30
20	125,800	110,600	(- 0.72)	5.43	0.05	5.48	0.89	5.31
26	98,800	92,400	(- 6.34)	4.17	--	4.17	1.31	9.20
27	92,500	63,400	(- 0.01)	4.42	0.01	4.43	0.32	4.12
28	78,700	61,800	(- 3.97)	5.13	0.12	5.24	--	9.22
29	74,700	55,500	(- 2.65)	5.05	0.12	5.16	0.70	7.12
30	70,500	54,400	(- 4.57)	5.18	--	5.18	0.85	8.91
31	63,800	33,100	+ 0.50	5.13	0.13	5.25	0.12	4.64
34	49,000	44,200	+ 0.26	5.61	0.81	6.42	0.42	5.74
36	40,700	33,300	(- 5.78)	4.68	--	4.68	0.34	10.12
38	27,700	22,500	(- 4.52)	4.92	0.59	5.50	0.57	9.45
39	82,700	28,300	(- 3.27)	5.46	0.50	5.96	0.52	8.71
41	21,500	17,200	(-20.40)	5.60	--	5.60	1.11	24.89
Average of Composite Experience - Group Two Bank Plans - 1954								
	$ 78,800	$ 58,100	(- 3.95)	5.04	0.17	5.20	0.59	8.57

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1954)

Appendix Table 8. Volume - Average Investment - Profit Margin Experience for the Year 1955
Group Two Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	In Dollars: Volume of Sales Discounted (1)	In Dollars: Average Investment in Receivables (2)	Shown As A Percentage of Volume of Sales Discounted: Net Profit or Loss (3)	Income From Merchant Discount (4)	Income From Other Sources (5)	Total Income (6)	Bad Debt Losses (7)	Total Expenses (8)
15	$259,900	$191,800	+0.99	4.65	0.53	5.18	CR0.03	4.22
18	217,200	174,100	(- 1.27)	5.27	--	5.27	--	6.54
20	126,700	140,900	(- 1.67)	6.01	0.06	6.07	0.52	7.21
26	113,500	113,600	(- 0.03)	4.32	--	4.32	0.70	3.65
27	80,700	71,300	(44.33)	5.67	--	5.67	32.28	17.72
28	93,500	80,300	(- 1.00)	6.45	0.01	6.46	--	7.46
29	171,700	148,200	+ 0.61	4.30	0.50	4.80	--	4.19
30	53,300	43,000	(- 6.53)	5.23	0.04	5.27	4.63	7.16
31	76,100	46,000	(- 0.28)	4.31	--	4.31	0.43	4.15
34	69,700	88,400	+ 0.62	5.98	0.75	6.73	0.20	5.91
36	66,500	56,300	(- 0.68)	4.06	--	4.06	0.40	4.34
38	50,700	44,800	(- 1.00)	4.78	0.16	4.94	0.77	5.17
39	43,800	32,700	+ 0.50	5.97	0.68	6.65	0.87	5.28
41	29,700	22,600	(-11.96)	5.31	--	5.31	0.73	16.54
Average of Composite Experience - Group Two Bank Plans - 1955								
	$103,800	$ 89,600	(- 4.72)	5.17	0.19	5.36	0.71	7.11

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1955)

Appendix Table 9. Volume - Average Investment - Profit Margin Experience for the Year 1956
Group Two Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	Volume of Sales Discounted	Average Investment in Receivables	Net Profit or Loss	Income From Merchant Discount	Income From Other Sources	Total Income	Bad Debt Losses	Total Expenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
15	$390,700	$326,700	+ 1.56	4.68	0.49	5.16	--	3.60
18	318,800	255,500	+ 0.38	5.42	0.17	5.59	0.07	5.14
20	111,800	93,300	(- 2.55)	6.05	0.45	6.50	0.27	8.78
26	142,800	168,600	--	--	--	--	--	--
28	99,500	94,300	--	--	--	--	--	--
29	209,700	184,200	+ 0.97	4.32	1.23	5.55	--	4.57
30	--	--	(- 5.10)	5.55	--	5.55	--	10.65
34	71,600	102,300	(- 0.32)	5.77	1.21	6.98	2.36	4.95
38	59,700	54,100	(- 1.64)	5.39	--	5.39	2.40	4.63
39	61,600	40,500	+ 0.78	5.30	0.48	5.78	CR0.01	5.01
	Average of Composite Experience - Group Two Bank Plans - 1956							
	$162,900	$146,600	(- 0.74)	5.31	0.50	5.81	0.64	5.92

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1956)

Appendix Table 10. Volume - Average Investment - Profit Margin Experience for the Year 1957
Group Two Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	In Dollars		Shown As A Percentage of Volume of Sales Discounted					
	Volume of Sales Discounted	Average Investment in Receivables	Net Profit or Loss	Income From Merchant Discount	Income From Other Sources	Total Income	Bad Debt Losses	Total Expenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
15	$365,100	$342,500	+ 0.26	4.61	0.55	5.15	--	4.90
26	205,400	252,900	--	--	--	--	--	--
28	78,600	85,100	--	--	--	--	--	--
38	47,800	39,900	(- 0.32)	4.66	0.04	4.70	--	5.02
39	68,500	44,400	+ 1.79	5.31	0.60	5.91	0.44	3.68
Average of Composite Experience - Group Two Bank Plans - 1957								
	$153,100	$153,000	+ 0.58	4.86	0.39	5.25	0.15	4.53

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1957)

Appendix Table 11. Volume - Average Investment - Profit Margin Experience for the Year 1958
Group Two Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

Bank Plan Number	Volume of Sales Discounted	Average Investment in Receivables	Net Profit or Loss	Income From Merchant Discount	Income From Other Sources	Total Income	Bad Debt Losses	Total Expenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
15	$410,400	$408,900	(- 0.03)	4.87	0.63	5.50	--	5.53
26	219,900	262,600	--	--	--	--	--	--
38	50,400	40,000	+ 0.42	5.46	--	5.46	0.15	4.89
39	69,900	48,100	+ 1.99	5.43	0.97	6.40	0.51	3.90
Average of Composite Experience - Group Two Bank Plans - 1958								
	$187,700	$190,000	+ 0.79	5.25	0.53	5.78	0.22	4.77

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1958)

Appendix Table 12. Volume - Average Investment - Profit Margin Experience for the Year 1959
Group Two Bank Plans
(All Data Have Been Converted to Average Quarter Bases)

	In Dollars		Shown As A Percentage of Volume of Sales Discounted					
Bank Plan Number	Volume of Sales Discounted	Average Investment in Receivables	Net Profit or Loss	Income From Merchant Discount	Income From Other Sources	Total Income	Bad Debt Losses	Total Expenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
15	$187,400	$158,100	(- 0.49)	6.38	0.75	7.13	0.50	7.12
38	60,700	48,700	+ 1.16	5.97	--	5.97	CR0.15	4.86
39	72,800	56,500	+ 0.98	5.51	0.87	6.38	0.42	4.98
	Average of Composite Experience - Group Two Bank Plans - 1959							
	$107,000	$ 87,800	+ 0.55	5.95	0.54	6.49	0.29	5.65

Source: "Quarterly Survey Reports - Charge Account Banking", The American Banker (1959)

BIBLIOGRAPHY

BIBLIOGRAPHY

Books

Cole, R. H. Financing Retail Credit Sales Through Charge Account Bank Plans. Bureau of Business Management, University of Illinois, Urbana, Illinois, 1955.

Davis, C. R. Credit Administration. American Institute of Banking, New York, 1956.

Herrman, W. H. Charge Account Banking. New York, 1960.

Kelley, T. F. The Practicality of Bank Retail Charge Account Financing. K. & M. Publishing Company, Columbia, South Carolina, 1959.

Moran, E. B. The Credit Side of Selling. The Dartnell Company, Chicago, 1947.

Robbins, W. D. Consumer Installment Loans: An Analysis of Loans by Principal Types of Lending Institutions and By Types of Borrowers. Bureau of Business Research, College of Commerce and Administration, The Ohio State University, Columbus, Ohio, 1955.

Smith, L. Money, Credit and Public Policy. Houghton Mifflin Company, Boston, 1959.

Trotta, A. L. Credit Management Year Book 1953-1954, Vol. XX. New York, Credit Management Division, National Retail Dry Goods Association, 1953.

Articles and Periodicals

"A Bank's Retail Charge Account Service," Banking, June, 1952, p. 122.

"Bank Charge Accounts," Burroughs Clearing House, June, 1952, pp. 13-15.

"Bank Credit Cards, Borrowing By Check, Are Growing Rapidly," Wall Street Journal, November 4, 1959, p. 1ff.

"Bankers Move In On Charge Credit," Business Week, April 11, 1953, p. 43.

"Charge Plan Trends," Burroughs Clearing House, December, 1953, pp. 27-28.

"Charge It With The Bank," Business Week, September 23, 1950, pp. 58-60.

"Charg-It Plan Variations," Burroughs Clearing House, June, 1953, pp. 13-15.

"Charg-It Retail Credit Plan Puts Bank Funds to Work With Charge Plates, Scrip," American Banker, December 21, 1952, p. 9.

"Community Charge Account: Charge It At The Store; Pay For It At The Bank," Banking, October, 1950, p. 84.

Duncan, J. H. and Sikes, A. B. Jr. "Charge Account Banking Has Made The Grade," Bankers Monthly, November 15, 1957, pp. 42-46.

"Earnings Rate Of Nine Charge Account Banks Tops 10%; Income of Nine Others 6% or More," American Banker, August 21, 1957, p. 11.

"Finance: Banks Take On The Consumer." Business Week, March 7, 1959, p. 55.

Gilliland, J. C. "Bank Charge Account Plans," Credit World, November 1953, pp. 14-15.

Kircher, K. J. "Current Review of Sales Financing Legislation," Personal Finance Law Quarterly Report, Fall, 1959, pp. 136-139.

Kircher, K. J. "Review of 1959 Sales Finance Legislation," Personal Finance Law Quarterly Report, Summer, 1959, pp. 99-102.

Lorenz, O. C. "Charge Account Banking Goes Over The Top," American Banker, February 26, 1957, p. 7.

Lorenz, O. C. "Charge Account Bankers Boost Volume 10% Over 1957; Net Profit Up 332%; Average Yield Rate Almost 8% P.A.," American Banker, May 21, 1958, p. 11.

Lorenz, O. C. "Twenty-six Charge Account Banks Wind Up 1957 With Net Profits; Fifteen Report Yearly Yields Over 6%; One Runs Almost 12%," American Banker, February 25, 1958, p. 7.

Lorenz, O. C. "Twenty-One Charge Account Bankers Show Net Profits for Twelve Month Period," American Banker, February 27, 1956, p. 6.

Lorenz, O. C. "Charge Account Bankers Create Surplus Demand Deposits In Tight Money Market," American Banker, June 26, 1957, p. 10.

Lorenz, O. C. "Charge Account 1955 Volume $36.3 Million: Average Net Yield 3-1/2% P.A. for Twenty-one Banks," American Banker February 27, 1956, pp. 6-7.

Lorenz, O. C. "Twenty-seven Charge Account Banks Show Profit After All Expenses and Charge-Offs for Second Quarter," American Banker, August 28, 1956, p. 8.

Lorenz, O. C. "Five More Banks Enter Charge Account Profit Column in Second Quarter--Net Yield After All Expenses of Over Ten Percent P.A. Recorded by Fifteen Banks," American Banker, August 25, 1959, p. 10.

Lorenz, O. C. "Revolving Check Credit Survey Covers Wide Range, Good Yard Sticks Attainable As Operations Progress," American Banker, September 29, 1959, pp. 10-11.

"Marketing: Bankers Move In On Charge Credit." Business Week, April 11, 1953, p. 43.

"Store Credit Accounts Payable At The Banks Catch On In a Hurry," Wall Street Journal, May 4, 1953, p. 1.

"Suburban Bank Runs Charge Accounts for Neighborhood Stores," Wall Street Journal, May 1, 1952, p. 1.

Trotta, A. L. "Bank Charge Account Plans," Stores, March, 1953, p. 19.

"Twenty-two Charge Account Bankers Show Net Profits For 1956 First Quarter," American Banker, May 29, 1956, p. 8.

Wright, C. E. "Charge Account Banking Meets A Multiple Test," Bankers Monthly, November 15, 1958, p. 13.

Reports and Pamphlets

Arnold, R. V. A Method By Which A Small or Medium Size Bank Can Offer a Competitive Card Service, Independent Bankers Association, Pleasanton, California.

Belcher, D. W. "The How and Why of Retail Credit." Bureau of Business Management Bulletin No. 404, University of Illinois, 1954.

Charge Account Bankers Association Directory for Fiscal Year July 1, 1956 - June 30, 1957.

Charge It, ACB of A Management Analysis of Bank and Central Charge Plans for Financing Consumer Charge Accounts. Compiled by the Research and Education Department of ACB of A, 1953.

Cook, W. W. Charge-It Plan -- Where Does It Stand Today? Presented to the Extension Committee of the Financial Public Relations Association at Richmond, Virginia, April 4 5, 1954.

Fox, J. F. The Public Relations Aspect of Charge-Credit Plans. Financial Public Relations Association, Chicago, 1960.

Gover, E. A. Charge Account Banking. School of Consumer Banking, University of Virginia, August, 1960.

"New Horizons In Consumer Credit: Charge Account Credit Plans" Proceedings of The National Installment Credit Conference 1953, (New York: Installment Credit Committee, American Bankers Association, 1953).

The Table of 150,000 Random Decimal Digits. Interstate Commerce Commission's Bureau of Transportation Economics and Statistics, Washington, D. C., May, 1949.

Toole, G. L. Development And Progress of a Bank Charge Account Service. Address given to the Consumer Credit Class, University of Pennsylvania, March 1, 1955.

Warren, K. E. Charge Account Financing Versus Check Credit Plans. Address delivered at Installment Lending Conference, Illinois Bankers Association, October 1959, Peoria, Illinois.

Theses

Hofmann, W. F., The Experience of Industrial Trust and Savings Bank in The Field of Charge Account Banking. Unpublished thesis, Ball State Teachers College, Muncie, Indiana, 1959.

Vesperman, F. L. The Practicality of Charge Account Banking. Written in partial fulfillment of the requirements for graduation at the School of Consumer Banking, University of Virginia, 1960.

Wood, J. Revolving Check Credit and Charge Account Banking in the Consumer Bankers Portfolio. School of Consumer Banking, 1960.

Other Sources

Charge Account Bankers Association, Indianapolis, Indiana. Personal letters from Charles L. Kilgore, President. June 13, 1962; July 10, 1962; January 7, 1963; April 4, 1963.

Citizens Commercial & Savings Bank, Flint, Michigan. Personal letter from Charles E. Groover, Vice President. July 23, 1962.

Diebold Incorporated, Canton, Ohio. Personal letter from J. J. Gutheinz, National Marketing Director, Bank and Retail Division. April 18, 1962.

The Chase Manhattan Bank, New York, New York. Personal letter from Francis X. Kosch, Assistant Vice President. April 9, 1962.

The Eastern National Bank of Long Island, Huntington Station, New York. Personal letter from William J. Boyle, President. March 2, 1962.

The Franklin National Bank, Rockville Centre, New York. Personal letter from W. J. Grimmond, Charge Account Manager. March 2, 1962.

Shoppers Charge Service, Indianapolis, Indiana. Personal letter from James F. Ackerman, Vice President. February 28, 1962.

"Quarterly Reports of Charge Account Banks," American Banker.