Charge Account Banking: A Study of Financial Innovation in the 1950s

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In the early 1950s, a cohort of small banks across the United States began to experiment with a novel form of consumer credit, the charge account credit plan. These plans allowed consumers to shop at a variety of local merchants using a single, bank charge card. Bankers, though, developed charge account plans not as a conduit for consumer lending, but as a business service, which enabled their small merchant customers to compete with the credit plans offered by expanding department stores. In this way, charge account banking conformed with the political and regulatory environment of the 1950s, where commercial bankers primarily lent to businesses and were still wary of consumer credit. Although they operated differently than the credit cards we know today, charge account banking plans were still a necessary first step toward this later financial technology. The history of charge account banking compels scholars to rethink the narrative of postwar financial innovation, looking at how the regulatory politics of the early postwar era set the stage for the more dramatic financial changes that would follow.

Introduction

In the spring of 1955, G. L. Toole, cashier for the Upper Darby National Bank in suburban Philadelphia, published a pair of articles in the American Banker newspaper detailing his bank’s successful experience developing and operating a charge account credit service—forerunner to our modern credit card. The program allowed consumers to shop at a variety of local merchants using a single, bank-sponsored credit plan, which they repaid at the end of each month. The plan was called Charge-Rite. “Sure, the name can be called corny,” Toole conceded, “but it refers to the service it represents, is short, phonetic, and kind of easy to remember.” Toole’s bank began Charge-Rite in 1953, and by early 1955 the bank had processed more than $750,000 in local credit transactions. After enduring high start-up costs, Charge-Rite was

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1 This essay is derived from the second chapter of my dissertation, “Making Credit Convenient: Credit Cards and the Political Economy of Modern America.” I am currently trying to rework it into a stand-alone article for submission to Enterprise & Society, so any thoughts on framing, structure, and historiography would be very welcome. Of course, I look forward to all comments and feedback, and appreciate your taking the time to read this work-in-progress.
generating modest profits, and the future looked bright. “At my bank,” Toole explained, “We believe charge account banking will develop into one of the most successful of our services.”

Toole was not alone. After detailing the success of charge account banking plans across the country, *American Banker* associate editor Otto C. Lorenz gushed in November, “where else could the banker invest...and get such handsome returns in dollars, not to mention good will?”

The charge account plans described by Toole and praised by Lorenz were, at first glance, an unlikely innovation for bankers to pursue during the early-postwar decades. In the wake of the Great Depression and the New Deal-era banking reforms that followed, the American commercial banking industry was structurally and culturally predisposed toward a custodial obsession with safety, not an entrepreneurial spirit of risk-taking. Most commercial bankers, whose primary function was meeting the financial needs of businesses, were deeply suspicious of direct consumer lending. When bankers did lend to consumers in the 1950s, they did so for purchases with concrete collateral, like autos and appliances; for those with firm government guarantees, like Federal Housing Administration Title I loans; or, in the best circumstances, both. They did not finance casual shopping. The cautious conservatism exhibited by most commercial bankers has, in turn, come to define their industry in the view of later scholars, who either lament the fall from this idyll of postwar stability or mock postwar bankers for drumming up consumer accounts with free toasters and steak knives.

Yet, for a small cohort of bankers, the industry’s marble-pillared traditionalism was too confining. Consumption was self-evidently the pulsing heart of the postwar economy. Financial

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institutions that catered to consumers, like credit unions and savings and loans, were growing quickly at commercial banking’s expense. If commercial banks wanted a part of this future, self-described “progressive” bankers like Toole believed, they would need to shake the industry’s stodginess and find innovative ways to serve consumer markets.

Scholars need to better understand this history of early-postwar financial innovation. Historians and other scholars focus too much attention on the 1970s as a moment of rupture, when the forces of untamed inflation, technological innovation, and political deregulation combined to rapidly undermine the long financial stability of the postwar decades. Instead, as this essay demonstrates, from the beginning of the postwar years, bankers were trying to find ways to profitably serve customers beyond the strict confines of the New Deal’s financial-regulatory system. This is not to say that Toole and his peers were bent on the destruction of that system. Just the opposite: Even as bankers pursued financial innovation in the early postwar years, they remained constrained by the era’s regulatory barriers and by the habits of thought these barriers encouraged.

Specifically, although bankers were eager to facilitate consumption, they could not yet imagine marketing their new credit products directly to consumers. The postwar political and regulatory structure instead led charge account bankers toward a set of business strategies focused on retailers not consumers, and toward an inherent politics of small-business antimonopoly not of pro-consumerism. Indeed, charge account

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7 Another unstudied innovation was check-credit, which built on existing check-clearing infrastructure. By the mid-1960s, many more banks offered check credit than credit card plans, because check credit plans required less capital investment. “FNB Boston Launches Check-Credit Plan: Personal Credit Via Punch-Card Checks,” AB 15 Feb. 1955; Board of Governors of the Federal Reserve System, Bank Credit-Card and Check-Credit Plans (Washington D.C., 1968).

8 My emphasis on postwar antimonopoly politics runs counter to Richard Hofstadter (“What Happened to the Antitrust Movement?,” in The Paranoid Style in American Politics and Other Essays [New York: Alfred A. Knopf,
banking was primarily a business service, designed to help small retailers compete with the credit practices—and overcome the market power—of expanding department stores. To promote their plans, bankers consciously wrapped charge accounts in antimonopoly rhetoric that resonated with both the retail and banking industries. In turn, bankers used the plans to deepen their business relationships with merchants, who bore the costs of charge account plans, while keeping the primarily female consumers who used the plans at arms-length. The political economy of banking, which sharply limited individual banks’ geographic markets, also allowed charge account bankers to form networks of innovation to coordinate best practices, since their plans do not directly compete. As these firms worked together to achieve profitability through the 1950s, they adopted many of the features that would later define our modern credit card systems, while their successes were widely broadcast in the banking industry press.

Still, scholars of postwar financial innovation have largely dismissed charge account banking plans as unsuccessful, and have instead looked elsewhere for the origins of our modern credit card systems. With their merchant—rather than consumer—focus, charge account banking plans certainly looked different than the programs that later firms, like Bank of America, would successfully develop. Nevertheless, charge account banking was a first step toward the unsecured, direct consumer lending that would define the economy’s later drift toward unbridled finance, even if, in the 1950s, charge account bankers could not have imagined they were on that path.

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9 There are probably some other classic business history texts that explore more fully the point that small, nimble firms are usually leading edge of technological innovation (Louis Galambos and Joseph Pratt, The Rise of the Corporate Commonwealth: US Business and Public Policy in the Twentieth Century [New York: Basic Books, 1988], 175-176).

Retail Credit and Banking Markets

To understand the territory charge account bankers would claim within the larger landscape of postwar retail credit, we have to take a few steps backward, to the turn-of-the-twentieth-century. Then, the application of mass-production techniques to consumer goods manufacturing and of efficient management techniques to retail marketing laid the groundwork for new credit technologies that would facilitate mass-purchasing. In this period, the country underwent what contemporaries and scholars have termed a “credit revolution,” when firms developed new forms of retail credit to sell the bounty of goods to working- and middle-class consumers. The first was installment lending, where, for a reasonable down payment and a series of equal weekly or monthly payments over a fixed period thereafter, consumers could buy relatively expensive goods without paying the full cost upfront. Installment lending was aimed at working-class borrowers, enabling them to borrow-to-buy durable consumer goods, such as radios and sewing machines. The second credit innovation was the charge account, through which mostly elite consumers enjoyed a fixed line of credit that they repaid at the end of each month. Charge accounts were a high-status evolution of traditional retail book credit, scaled up and systematized in the nation’s bustling department stores. Both forms of credit helped ensure steady consumer demand, allowing, as historian Louis Hyman argues, “consumers to buy more, retailers to sell more, and manufacturers to make more, all at lower prices.”

Credit was one aspect of the wider application of industrial production and managerial efficiency to retailing, which in the 1910s and 1920s began to force policymakers to reconcile the economic value these advances conferred with their social costs. For instance, new high-volume, low-price retailers might offer consumers lower prices, but they also threatened to run their smaller, less efficient rivals out of business. Many of the country’s millions of small-town

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shopkeepers and corner merchants began to organize politically to combat such “destructive competition.” As Laura Phillips Sawyer and Marc Levinson have shown, small retailers won political allies with calls for “fair competition” in the 1920s and 1930s, culminating in New Deal legislation, like the Robinson-Patman Act (1936) and the Miller-Tydings Act (1937), designed to curtail the market power of large retail firms. After the war, anti-monopolism persisted as a powerful political and cultural force in the retail industry, as firms continued to negotiate the appropriate boundaries of market competition through the political process.\textsuperscript{12}

Similar antimonopoly impulses had long structured the American commercial banking industry, based not on the consequences of industrial production and managerial efficiency, but on older distrust of financial concentration. Before the Great Depression, most states enforced unit banking laws that restricted banks to a single banking office. By limiting the industry’s geographic scope, unit banking was meant to ensure that individual financial institutions were deeply tied to the communities they served and that credit was widely available for small proprietors. But this feature of the system was also its profound flaw. As the banking failures of the 1920s and 1930s clearly demonstrated, unit banking, wholly dependent on local economies, was systematically unstable. Instead of remaking this system, however, during the New Deal Congress preserved unit banking, backstopping the industry with federal deposit insurance and through new limits on financial industry competition. Continued geographic restrictions, new price controls, and new limitations on services all worked in theoretical harmony to preserve a marketplace of small competitors by constraining destructive market forces.\textsuperscript{13}

New Deal reformers, however, were not unremitting enemies of financial innovation. To facilitate economic recovery, policymakers, notably Rolf Nugent and Leon Henderson,  


developed the Federal Housing Administration Title I loan program, which used federal
insurance to incentivize bankers to make loans for home improvements, convincing many banks
to finally adopt instalment lending. This ounce of innovation was soon balanced by a pound of
conservatism, however. World War II, and the huge government debt it generated, allowed
bankers to profitably buy government bonds on their own account. Reconversion, in turn,
assured safe opportunities in business investment. By the postwar era, conservatism reigned.14

While the war helped entrench bankers’ cautious business practices, government
intervention in retail credit markets during the war pressured retailers to innovate. Wartime
federal credit controls required retailers to closely monitor their customers’ credit spending.
Payment card technology—embossed metal plates that were part of integrated accounting and
billing systems—made it easier for large retailers to comply. Retailers also experimented with
new modes of granting credit to circumvent controls. The federal government restricted the
prevailing forms of retail credit, both charge accounts, which consumers paid off every month,
and installment lending, which consumers paid in fixed installments over time. To skirt
controls, retailers developed revolving credit, which gave consumers a fixed credit limit, like a
charge account, but allowed them to pay over time, like installment credit. For many retailers,
wartime credit controls linked revolving credit and credit card technologies, while charge
accounts, which remained more widespread, also increasingly relied on card-based accounting
and billing systems.

After the war, large retailers gradually transitioned from fixed charge accounts to
flexible revolving credit, a transition often reflected in practice but not terminology. Many
retailer and bank “charge account” plans featured revolving credit, while some remained strictly
charge accounts that had to be repaid monthly. Likewise, although the term “credit card” would
come to be associated with revolving credit, in the 1950s its use was ambiguous (as in Figure 5).

14 Hyman, Debtor Nation, 100, 103; Commission on Money and Credit, Money and Credit, TK. Harold van B.
What ultimately held these types of credit together was the status attached to them. “Charge accounts” were for respectable people; they were not the installment credit of the working-class.

With federal credit controls still in effect at the end of the war, credit quickly moved to the center of postwar retail politics. Retail trade groups, like the National Retail Dry Goods Association (NRDGA), fought federal policymakers’ efforts to make credit controls a permanent feature of postwar economic management. Instead, retail and financial industry groups portrayed consumer credit as a private path to prosperity in direct opposition to the statism of the New Deal. But as it forged a united front with other trade groups and beat back direct economic controls, the NRGDA also had to diffuse the tensions credit was threatening to create within its own industry. For the large retailers that had invested in efficient but expensive credit systems during the war, the best way to maximize their investments was to promote credit heavily afterward. To forestall new political agitation against such destructive competition, throughout the late 1940s and early 1950s, the retail trade press urged small merchants to likewise adopt charge accounts to drive sales volume. By doing so, small retailers could also counter the renewed growth of chain retailers, who sold goods at a discount and did not offer credit, and department stores, which made credit central to their postwar expansion.15

Small retailers, however, recognized that prioritizing credit simply introduced one more business challenge that complicated their position vis-à-vis their larger, more efficient competitors. Credit was a strain on small merchants’ already limited capital, which was often stretched between financing inventory, making lease or mortgage payments, and meeting payroll. Moreover, small retailers could not turn to secondary markets or government lending programs to mitigate their credit risks. Unlike installment sales contracts, which could be resold to finance companies, charge account credit and its revolving cousin were indeterminate and

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thus not resalable. For small merchants, the convenient credit offered by their larger competitors and promoted by their trade association smacked of unfair competition and excessive market power, and came as many of these small retailers struggled to gain space in the nation's new shopping centers and to compete against department stores' new branch units. Small retailers continued to mobilize politically to address these perceived injustices, fueling an ongoing political critique, from both conservative and liberal antimonopoly tradition, of the dominance of big business in the postwar era.¹⁶

Some small bankers, closely attuned to the business challenges facing their small merchant customers, were trying to puzzle out possible business solutions to their credit-granting problem. Small firms in both industries recognized that retail credit was a permanent feature of the marketplace, and bankers who counted struggling small merchants among their customers saw an opportunity to help these firms meet the new pressures of postwar retailing. “As far back as 1946,” G. L. Toole recalled, “our top men were seeking a way to assist the many local merchants who sought help...to meet the competition of credit buying offered by center city merchants.”¹⁷ The solution, for Upper Darby's “top men” and other bankers, was not immediately obvious. Bankers had pursued limited consumer lending before World War II, and with the prodding of New Deal credit programs taken up more in the years after, primarily in the form of home improvement loans and auto and durable goods financing.¹⁸ But these forms of lending were usually mediated by auto dealers or appliance retailers, and most commercial bankers had little experience in direct retailing beyond making business loans to retailers. Most of bankers, in any case, was focused on buying government bonds and making early tee times.

¹⁸ By December 31, 1955, 97 percent of commercial banks engaged in consumer lending, but these loans made up only 14 percent of their loan portfolios. Federal Reserve, Consumer Installment Credit, Pt. 1, Vol.1, 37.
The Origins of Charge Account Banking

As bankers and their small retail customers wrestled with the question of how to meet the credit competition of center city merchants and other large credit-granting firms in their local markets, two banks initiated charge account plans in the expanding suburbs of New York City, which would serve as the impetus and inspiration for charge account banking’s nascent expansion. The first was the brainchild of John C. Biggins, an executive at the Flatbush National Bank of Brooklyn. After the war, New York City’s downtown department stores began to build branches in Brooklyn, where they would offer charge accounts and compete directly with the Flatbush Bank’s merchant customers. To remain competitive, Biggins’s retail customers needed to offer convenient credit too, but doing so was expensive and risky. “The number of merchants who have been knocked out of business by supplying their own credit is enormous,” Biggins explained. Biggins began developing a plan, which he eventually called “Charg-It,” for “providing the small storekeeper with a credit arrangement that wasn’t a losing proposition for everyone concerned.” In essence, Biggins hoped to consolidate the lending activities of small merchants within the bank, so that a customer could shop at a variety of local retailers using bank credit, while the bank would pay the merchants for the goods purchased and assume the bookkeeping costs and credit risk.

Biggins’s plan got its first trial, not in Brooklyn, but in Bay Shore, New York, a growing bedroom community linked to New York City by the Long Island Rail Road. While Biggins was working out the details of “Charg-It,” Flatbush National Bank was acquired by the larger Manufacturer’s Trust. Manufacturer’s executives considered implementing Biggins’s plan

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19 The first bankcard plan I have found was begun in Buffalo in November 1945. Unlike the plans discussed here, it was meant to facilitate the purchase of durable goods, including “automobiles, electric and gas appliances, furniture, boats, motors, and airplanes.” The plan does not seem to have succeeded. “Buffalo Bank Initiates Plan for Buying on Time,” New York Times, November 15, 1945; “New Bank Plan On Installment Buying Started,” New York Herald Tribune, November 15, 1945; John Winters Fleming, “New Way to Buy on Credit,” Nation’s Business, June 1946.


21 Prior scholarly accounts of Biggins’s plan claim it operated within a four-block radius of the Flatbush bank, but I have found no contemporary evidence to substantiate these claims.

22 Eventually Manufacturers Hannover, now part of J.P. Morgan Chase.
across New York City, but ultimately chose not to, perhaps because Charg-It would have competed with the charge account plans of the larger bank’s department store customers.

Instead, Biggins tested his plan in the suburbs in partnership with the First National Bank and Trust of Bay Shore. The program was small; a 1946 ad listed 11 participating merchants clustered on Bay Shore’s Main Street. “Charg-It will give you the advantages of a department store charge account in your favorite local stores,” one ad promised, offering new suburban residents an incentive to do their shopping in town, instead of downtown.

Biggins and the First National initiated what would become a common strategy for banks instituting charge account plans, uniting local merchants to keep consumers’ shopping dollars within the community. When Biggins relocated to the Paterson Savings and Trust Company in suburban New Jersey, he brought Charg-It with him. Paterson merchants also faced competition from New York department stores, as well as new suburban shopping centers like the Paramus mall. In Paterson, Charg-It offered retailers a “vital community service” by keeping business local. “You can shop in your own neighborhood,” a Paterson Savings ad promised. “Charg-It [at] stores and receive the same credit courtesy available [at] the biggest stores in the city.”

While Biggins designed Charg-It to help small retailers compete with department stores, the plan had a critical weakness: ultimately it was less convenient than department store charge accounts. By the late 1940s, most department stores had adopted charge-plates, embossed metal cards, which, as part of integrated accounting and billing systems, enabled department stores to monitor and control individuals’ credit purchases at their stores. For consumers, the card was a means of identification and the medium of credit. On the contrary, Charg-It combined a card, which identified the consumer, and credit scrip, paper certificates equal to the consumers’ pre-

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23 First National had a long-standing correspondent relationship with Manufacturer’s Trust (though Biggins may also have licensed the program independently of his position with the bank).
established credit limit. Scrip was a powerful control device, because consumers could never use more credit that they had been granted and only received new scrip when they paid off their outstanding Charg-It balances. But scrip, which was only issued in denominations of $1 or more, was a source of considerable consumer annoyance, since purchases inevitably did not come out in round figures. And, as G. L. Toole, whose bank consciously chose not to adopt a scrip-based plan observed, “there is a certain stigma attached to the carrying of scrip.” Charge accounts were a marker of class status, and scrip was just not classy.26

Biggins is widely credited with leading the banking industry’s early shift into retail credit, but his scrip solution was quickly rejected by the banking industry. To make charge account banking viable, bankers instead looked to more closely emulate the credit practices of department stores. One alternative was the similarly named “Charge-It” plan, announced in May 1952 by Franklin National Bank, also of suburban Long Island. Charge-It, Franklin National executive Edward Donohue claimed, developed out of a conference bank executives hosted to consider how the firm’s merchant customers could better promote their businesses. There, community merchants argued that their most pressing need was to offer charge account services. As they contemplated how to help these firms, Franklin executives decided that if department stores were the threat, they should also be the model. Donohue made this connection explicit: “In order to make this program completely acceptable to the ultimate consumer we could not change habits; we would have to emulate exactly the technique and methods of department stores.” To do so, Franklin National made the card the identification and credit medium, so that consumers would experience charge account purchasing at their local merchant exactly as they would at a department store.27

In a model that would be widely adopted by later charge account programs, Franklin executives built their Charge-It plan on established relationships between the bank’s idealized customer, “Mrs. Housewife,” and the merchants she patronized. Under the plan, Mrs. Housewife applied for a bank charge card through a participating merchant with which she already had a credit relationship. The bank performed its own credit check later, but by relying on its merchant partners to sign-up customers, the bank embedded its plan within existing relationships between merchants and consumers, relying on these established bonds of trust to anchor their plan. Assuming everything went well, Mrs. Housewife was issued a charge card by the bank, a metal plate embossed with her husband’s name and their account number. When wishing to make a purchase, she handed the retailer her card, and if the advertisements are any indication, proudly exclaimed, “Please Charge It!” The retailer, duly impressed, completed a sales slip with the details of the purchase and imprinted the embossed card on the slip, which Mrs. Housewife signed. If the purchase was above $10, or some similar pre-determined limit, the merchant also called the bank to confirm Mrs. Housewife’s account was in good standing. As far as Mrs. Housewife was concerned, the transaction ended there, and she could simply take her goods. Every month the bank consolidated Mrs. Housewife’s account, and mailed her a bill containing carbon copies of all her sales slips. She would pay her bill in full each month, without paying interest.

Behind Mrs. Housewife’s transaction was a second series of transfers between the merchant and the bank, which hid the mechanisms—and more importantly—costs of her charge account from view. At the end of the business day, the Franklin National’s merchant-customers consolidated all their charge account sales slips and transferred them to the bank. The bank then credited each merchant’s account for the full value of all these purchases, less a merchant

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discount, which was a percentage of the purchase price. For the Franklin National, the discount was 5 percent. So, if Mrs. Housewife bought a $10 pair of shoes, the bank paid the merchant $9.50, with the remaining 50 cents accruing to the bank to cover the costs of issuing the credit and carrying the risk of lending to Mrs. Housewife.\(^\text{30}\) Merchants also often paid fees to join the charge account plan, to rent the imprinter that recorded the customer’s information on the sales slip, and to participate in advertising tie-ins with the bank.

We will examine these relationships more closely later, but as Donohue’s invocation of “Mrs. Housewife” suggests, bankers designed their charge account plans to facilitate female-led, family consumption. Charge account bankers imagined their market as exclusively white, female, and married. Toole’s customer was Mrs. John Shopper; for other bankers just Mrs. Shopper. Charge accounts made wifely tasks like family shopping and budgeting more convenient, consolidating small purchases into one monthly bill. They also emphasized safety. In the First National Bank of Kalamazoo as below, Mrs. Smith does “not like carrying all that cash around with me,” and feels that “a charge account...would be more convenient and a great deal safer.” Her husband approves, a necessary step since ultimately the family’s credit would be in his name (as in John L. Customer in Figure 5). In this way, charge account bankers promoted the wholesome abundance and familial safety that Elaine Tyler May argues was central to family life in the Cold War era, while their charge account products operated in distinct contrast to modes of credit that relied on male purchasing, like auto loans and durable goods purchases.\(^\text{31}\)

\(^\text{30}\) This example assumes a 5% merchant discount ($10-[$10*.05%]=9.50).

Figure 1: First National Bank and Trust of Kalamazoo included this cartoon in its directory of participating merchants.


Building a Community of Innovation

When Charg-It and Charge-It emerged in the early 1950s, the plans gained significant attention in the business and banking press as forerunners of an important new banking trend that promised to help small retailers in their struggle against department store competition.
Charge account banking was hailed as a product with a politics, reflecting the small-business anti-monopolism that animated contemporary political efforts to protect independent community banks from giant holding companies and combat large chain retailers in defense of local merchants. Franklin National’s “Charge-It” plan could, according to breathless news reports, “support private enterprise at the small retailer level” and even “stem the disappearance of the small store which finds it difficult to compete with the large units opening branches in suburban areas.” Bankers held tightly to these narratives. As banks from Florida to Philadelphia adopted charge account banking over the next few years, and shared their own origin stories at industry conferences and in the banking trade press, they repeated the politically-coded founding narrative articulated by Franklin National’s Edward Donohue: Bankers invariably started charge account plans to help their small merchant customers compete with department store credit plans. One Florida banker even compared his bank’s plan to the federal Small Business Investment Act (1958), because both provided direct aid to small retailers competing against the market power of larger firms.  

The attention heaped on Charg-It and Charge-It convinced many bankers to initiate charge account banking plans, not only out of political conviction and community altruism, but also in pursuit of profits. While charge account banking enabled bankers to offer a “vital community service to local merchants and to the shopping public,” as one banking journal declared in November 1950, these plans also seemed to offer new opportunities for significant revenues. In October 1952, the American Banker estimated that banks could earn an astounding 20% returns on charge account plans. Whether to aid their communities or chase these high returns, banks rapidly entered the field in 1952 and 1953. First National Bank & Trust Co. of

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Kalamazoo began its program in 1952, the Pullman Trust and Savings Bank of Chicago announced its plan in January 1953; the First National Bank of Omaha, Nebraska, announced its charge account service in February; these joined plans operated by banks in Binghamton, New York, Santa Ana, California, and Dallas, Texas, as well as the somewhat less promising markets of Arkadelphia, Arkansas and Oelwein, Iowa. In all, at least 91 banks entered the charge account banking field by the end of 1953, many of which would play important roles shaping the bank credit card industry over subsequent decades. By June 1953, Edward Donohue could confidently declare that “charge accounts for banks,” is here to stay.33

Hidden by Donohue’s optimism were the impending difficulties each individual bank would face as they brought their new charge account plans to market. High equipment and supplies costs, difficulty enrolling merchants and consumers, inexperience managing retail credit accounts, and regulatory interference would all challenge firms as they sought to tailor charge account banking to the needs of their specific communities. Rather than confront these challenges alone, after 1953 the bank executives heading new charge account plans joined together to make Donohue’s vision a reality, not just in their local markets, but across the nation. Charge account banking, its advocates believed, was a service that could elevate the reputation of the entire banking industry, shifting its image from forbidding to friendly, puritanical to progressive. As ambitious bankers watched consumer-oriented firms, whether retailers or thrift institutions, take the lead on lending for consumption, they urged their fellows to embrace this new service, which offered both profits and goodwill. Enthusiastic charge account banks quickly formed networks of cooperation and information exchange to coordinate

best practices and share successful strategies. Their efforts were aided by the fact that, within the geographically segmented financial system, they did not directly compete.\(^{34}\)

Interfirm cooperation began informally, as bankers drew on their personal networks to get a look at the new charge account plans in action. After the First National Bank & Trust of Kalamazoo, Michigan, began its charge account program in 1952, for instance, bankers flocked there to examine the bank’s innovative service. “They’ve come from New York, California, Michigan, of course; Indiana, Ohio, Nebraska, Illinois, Iowa and Wisconsin,” James H. Duncan, who headed the bank’s charge account program, told the *Kalamazoo Gazette* in November 1952. First National quickly became a showcase for charge-account methods and credit-card technology. In April 1953, Diebold, the firm that manufactured Kalamazoo’s card processing equipment, produced a 44-page brochure, “A New Avenue of REVENUE for Your Bank,” offering “a complete, illustrated presentation of bank retail sales charge serve plans,” including replicas of the sales slips and other forms used by the bank. Because none of the bankers who visited the bank or perused Diebold’s brochure could operate a competing service within First National’s market, Duncan and his staff were happy to share their experience with all comers.\(^{35}\)

These networks of information exchange were formalized through the banking trade press and industry trade associations. Charge account banking was heavily promoted by *American Banker* associate editor Otto Lorenz, a veteran of the industry’s adoption of installment lending in the 1930s, who viewed charge account banking as the postwar generation’s next big innovation. Lorenz championed the new plans, providing detailed reports of industry best practices and overall trends in sales volume, expenses, and profits. The sample budget below (Figure 1) is typical of the kind of material bankers could expect from Lorenz’s

\(^{34}\) The one instance where this did not happen—where in March 1953 Franklin National sued former employee William J. Boyle after Boyle established a competing card plan and attempted to license it to banks in the Philadelphia area—was exceptional. “Charge Account Firm Sues Bank, Company Selling Like Services: Both Hint They’ll Fight Suit; Chargeplan Corp. Asks Injunction, Unspecified Damages,” *Wall Street Journal*, March 20, 1953; “LI Bank Says Ex-VP Stole Charge Plan; His Reply: ‘All False’,” *Newsday, Nassau Ed.*, March 24, 1953.

columns. Lorenz also sought to promote charge account banking by explaining the plans in terms bankers could understand, relying on established banking concepts, like letters of credit and accounts receivable factoring, to link unfamiliar consumer credit with familiar banking practices. This was necessary, in part, because the methods and measures of charge account banking were entirely fluid. In the early 1950s, Lorenz and his readers worked to define what activities and expenses bankers needed to account for, and through these measures determine what factors would lead the new programs toward success. As Lorenz constructed the industry through his quarterly *American Banker* reports, he also fostered friendly competition among charge account banking’s early “pioneers.”

Still, some skeptical bankers pushed back against *American Banker*’s glowing coverage of charge account programs. Lorenz, though, would not be dissuaded. “We are also accused of ‘selling’ charge account banking. Perhaps we are,” he admitted. Yet “we believe,” he continued, “that this new banking service serves a community need—that is it is a powerful goodwill instrument for the bank and that it brings a great flow of collateral benefits when well and profitably operated.”

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Suggested First Year Expense Budget
For Bank Charge Account Operation

The following budget for the initial 12 months of a bank charge account operation was drafted and presented in an address by Otto C. Lorenz to the Pennsylvania Bankers Association on October 6, on the “Four Fundamental Costs of Charge Account Banking.”

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<tr>
<th>Budget Item</th>
<th>First 12 Months</th>
<th>% of $30,000 Volume per Month</th>
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<tr>
<td>Stationery and forms for a customer list of 3,000</td>
<td>$1,871</td>
<td>0.52</td>
</tr>
<tr>
<td>Advertising</td>
<td>2,965</td>
<td>0.83</td>
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<tr>
<td>Telephone</td>
<td>144</td>
<td>0.04</td>
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<tr>
<td>Professional services</td>
<td>100</td>
<td>0.03</td>
</tr>
<tr>
<td>3,000 Charg-It plates, stencils and frames</td>
<td>279</td>
<td>0.07</td>
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<tr>
<td>Salaries for outside man and full time clerk, total</td>
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<tr>
<td>Franchise fee, first year</td>
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<td>0.14</td>
</tr>
<tr>
<td>Capital Investment, to be amortized over 10 years:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trays and filing equipment</td>
<td>$362</td>
<td></td>
</tr>
<tr>
<td>Addressograph</td>
<td>1,273</td>
<td></td>
</tr>
<tr>
<td>Cabinet for plates</td>
<td>133</td>
<td></td>
</tr>
<tr>
<td>Billing machine</td>
<td>3,200</td>
<td></td>
</tr>
<tr>
<td>Sales recorders, net investment</td>
<td>850</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$5,758 or 576 p.a.</td>
<td>0.16</td>
</tr>
<tr>
<td>Typewriter, to be amortized over 5 years</td>
<td>185 or 37 p.a.</td>
<td></td>
</tr>
<tr>
<td>Total first year estimated expenses</td>
<td>$13,863</td>
<td>3.84</td>
</tr>
<tr>
<td>Add 10% for expenses not estimated</td>
<td>1,386</td>
<td></td>
</tr>
<tr>
<td>and another 10% for cost errors</td>
<td>1,385</td>
<td></td>
</tr>
<tr>
<td>TOTAL FIRST YEAR BUDGET FIGURE*</td>
<td>$16,534</td>
<td>4.60</td>
</tr>
</tbody>
</table>

*Does not include a Graphotype to cut reverse plates. If desired, the machine could be bought and amortized over 10 years at the rate of $130 a year.

Note: This budget, said Mr. Lorenz, is based on the John C. Biggins “Charg-It” plan of operation, first introduced by the County Bank & Trust Co., Paterson, N. J., in 1950.

Figure 2: Suggested First Year Charge Account Budget based on Biggins’s “Charg-It” plan.


The practitioners of charge account banking also organized a national trade association to “promote generally the interest of charge account banking.” At the March 1954 American Bankers Association’s National Installment Credit Conference in Chicago, 24 banks from 13 states formed the Charge Account Bankers Association (CABA) under the leadership of J. C. Gilliland, a former Macy’s employee and manager of the charge account program at Pullman
Trust and Savings Bank of Chicago. Kalamazoo’s James Duncan was CABA’s first secretary-treasurer and would later serve as president, while G. L. Toole would take a turn as a Director. The association, like Lorenz’s *American Banker* columns, functioned as a clearinghouse of information about bank card plans. Through “cooperation and comradeship,” and frequent interbank communication, over the next few years charge account banking cohered around a common set of features and practices, more closely resembling Franklin National’s attempts to emulate department store practices than Biggins’s scrip plan (Biggins did not join CABA). Bankers worked together to solidify innovation within their banks and spread their innovative practices to the industry as a whole.

As Lorenz and CABA members tried to encourage their peers by assuring them that charge account banking was simply an extension of existing industry practices, they simultaneously sought to convince regulators that the plans did not conform to the rigid rules of traditional banking. Rather, bankers argued that their novel service should be judged by the standards of the retail firms they were emulating, which were not subject to the strict accounting and oversight imposed on banks. These arguments were most pressing when it came to charge-offs—the mandated delinquency period after which banks had to write non-performing loans off their books—and state interest rate limits—which strictly curtailed rates on bank loans but usually did not extend to retail credit. “We have been examined four times—once by F.D.I.C., twice by State, and once by Clearing House,” one banker complained. Expressing frustration at prevailing banking standards, he continued, “we believe 90 day charge off is impractical on retail charge accounts. I know of no retailer who acts so soon.” To help educate bank

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supervisors, who continued to enforce exacting standards throughout the 1950s, Lorenz urged CABA to create uniform standards for charge account write-offs that supervisors could then apply. CABA published rules for delinquency in 1959, which some examiners agreed to follow, while others retained more stringent installment lending standards. “Some banks,” Lorenz reported, “had unhappy management” as a result. 40

As retailers shifted from charge accounts to revolving credit through the 1950s, bankers wanted to match this transition and with it the interest charges retailers were permitted to assess on their revolving accounts. States, however, uniformly restricted the rates banks could charge on loans of money, often to between 6 and 12 percent, while allowing slightly higher rates on installment loans, like those for automobiles. On the contrary, retailers’ revolving credit plans fell under a legal exemption to usury laws called the time-price doctrine and were largely unregulated. Even when states specifically regulated time sales, they carried higher rates than were otherwise allowed for money loans. In New York, for instance, the state’s Retail Sales Act (1960) permitted retailers to charge 1.5 percent a month (18 percent annualized) on unpaid revolving credit balances. On the contrary, the Personal Loan Clause of the New York Banking Act restricted interest to 6 percent per year. 41

Over the long term, state interest rate restrictions would be the most important and contested regulatory barrier bankers faced, and an important site for political conflict over bank credit card plans. But in the 1950s, regulatory and supervisory negotiations largely happened out of sight, without public pronouncements or political conflict. The one exception was the Division of Banks of the Department of Commerce of the State of Ohio, which made it clear that it would not allow bank charge account programs. “This office does not look with favor on this


type of financing by banks,” the state’s Superintendent of Banks wrote on April 24, 1959, perhaps because the five banks in the state that had begun charge account plans in 1953 discontinued them soon after.42

Ohio notwithstanding, many charge account banking plans grew significantly in the 1950s, though the service remained under a heavy cloud of uncertainty. About half of the firms that jumped into the field in 1953 just as quickly withdrew, and for the next several years the charge account banking “fraternity” endured a slow attrition. Few new banks entered the field, likely as much a consequence of the booming business climate that prevailed from 1954 to 1957, which ensured safe, profitable outlets for bank funds, as of the jaundiced eye most bankers still cast on direct consumer lending.43 Still, the “pioneers” who remained committed to their path were able to work together and advance their individual businesses, making gains in accounts, credit volume, and over-all profits. More importantly perhaps, through Lorenz’s columns and Charge Account Bankers Association gatherings, early practitioners committed to a model rooted in meeting the credit-granting needs of community merchants as a counterweight to department store competition.

**Two-Sided Market: The Merchant Approach**

While Mrs. Housewife’s bank card transactions were technologically and experientially similar to department store charge card transactions, there was one critical difference: In bank card transactions there were three parties—the merchant, the consumer, and the bank—instead of just two—the department store and the consumer (Figure 3). Economists and business scholars now call this a two-sided market, in which charge account banks needed to recruit enough merchants and consumers to make participation in the plan worthwhile to each group.44

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42 Herrman, “Charge Account Banking,” 30, 58.
The way bankers defined the so-called “two-sided market problem” structured the strategies they adopted to make their plans successful. Early bank card plans focused on building card networks through merchants, not through consumers as would later plans. Merchants needed help competing with department stores, and through merchants, banks could recruit consumers and thereby embed their card programs in existing relationships between merchants and these consumers. By conceiving of their plans as merchant-centered, bankers also allocated costs to merchants, sparking resistance and limiting opportunities to expand programs beyond a confined range of high-markup firms. But merchant-focused plans were also successful, undermining later banker claims—largely accepted by scholars—that aggressively marketing credit cards to consumers was the only way to build a bank card business.

Charge account plans, bankers were eager to point out, offered a host of benefits to participating merchants. By now, the first should be obvious: As the Pan American Bank of Miami, Florida, explained in a brochure, “Mr. Merchant: Here’s a New Avenue of Revenue!,” its Pan American Bank Charge Plan “enables the local merchant to offer his customers a charge-account service comparable to that of a large department store...and actually costs the consumer less!” In case Miami merchants were unclear on the full advantages of such a service, Pan American went on to explain how its plan would increase the number of their potential customers and increase sales, ultimately generating higher net profits. Meanwhile, merchants received immediate cash for all their charge account sales and did not risk any credit losses. Charge account plans also decreased bookkeeping, personnel, postage, and supply costs, while allowing merchants to focus on what they did best—merchandising. Summing up these advantages, the Florida National Bank of Orlando explained that its “F.N.B. Charge Plan Acts as

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Economics of Two-Sided Payment Card Markets: Pricing, Adoption and Usage,” WP 12-06, Federal Reserve Bank of Richmond Working Paper Series (September 2012). Economists think of this problem in terms of balancing the prices both sides pay. Contemporary bankers were more concerned with generating a critical mass of participants. Ronald Roy Horcher, “Charge Account Banking and Check Credit Systems” (Ohio State University, 1960), 22.
the Credit, Accounting, Bookkeeping, and Collection Departments, And Actually costs participating merchants and professional men, and their customers less.”

Figure 3 (someone else’s Figure 2): Basic diagram of the Two-Sided Market. Note that in this later illustration, the “customer” is still female.


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The most tangible element of charge account bankers’ merchant focus was the fact that, at first, merchants paid for charge accounts, not consumers. They did so through an assessment called the merchant discount. Discounts are effectively interest in reverse, paid upfront instead of over time. Bankers initially thought of charge accounts as they did their other installment credit arrangements: They were purchasing a debt contracted between the merchant and the consumer, discounting the debt to cover the bank’s costs and provide the bank's profit. The discount, in this way, compensated the bank for the time it took to collect the balance, the cost of administering the account, and the risk associated with the transaction. Importantly, bankers purchased these contracts on a non-recourse basis, meaning if the customer failed to pay their debts, the bank could not pass the losses back to the retailer. Put another way: Bank charge account plans saved Mrs. Housewife the hassle of writing small checks for her monthly purchases, and the bank assumed the risk that the big check she wrote at the end of the month wouldn’t bounce. Assuming this risk, and with it the cost of tying up capital in outstanding consumer loans, was the core of charge account bankers’ larger effort to help merchants competitively offer credit.

The initial merchant discounts were high: While John C. Biggins claimed his Charg-It plan “doesn’t cost” consumers “a penny more” than purchasing with cash, merchants handed over 8% of their Charg-It sales. Franklin National’s plan was less expensive, charging merchants 5% on 30-day charge purchases and 6% on 60-day charges. Indeed, as plans later allowed consumers to spread their charge account payments over 30, 60, or 90 days, many banks raised the merchant discount on longer charges instead of assessing the consumer an interest charge. In the early years of charge account banking, Lorenz tried to convince banks to push these discounts even higher, arguing that merchants needed to pay the full cost of this helpful credit service. Eventually banks would reduce their merchant discounts, in the 1950s by rebating merchants if they met certain sales volume targets, and later across the board as banks relied
more on consumer interest payments for revenues. Still, with many of these early plans, consumers borrowed and retailers paid the interest.46

On its surface, this system seemed to promise a bonanza for banks. If a bank could appropriate 5% of the purchase price, and roll the account over every month, they hypothetically stood to make quite a bit of money. If a consumer spent $100 every month, the bank would collect $5 from the merchant, creating $60 in gross revenues on the $100 investment over the course of a year. Rapid turnover, Lorenz emphasized, was the key to profitability. Further, new merchant deposits seemed to provide free funds to finance charge account lending. To become a member of a bank’s charge account system, a merchant had to open a checking account with the bank, where the bank deposited the merchant’s daily sales. Checking accounts, by law, paid no interest, and bankers consistently reported that new merchant deposits more than covered their outstanding charge account loans. Consequently, Lorenz urged bankers not to account for the cost of money when calculating the profitability of their charge account programs, arguably making the plans appear more profitable than they were. In any case, by generating new merchant accounts, charge account banking created opportunities to promote other banking services to their new merchant customers, a feature particularly important for smaller banks eager to win local market share.47

This unbridled optimism, however, was misplaced, and bankers’ merchant-focused strategies were not the guaranteed winners Lorenz predicted—at least not right away. The banks that rushed into the field tended to lose money for several years before turning modest profits.48


Much of banks’ early losses stemmed from inexperience developing, staffing, and promoting retail-related services. Some bankers, sold on the merits of charge account banking by aggressive equipment salesmen, bought more processing equipment, carbon forms, and card imprinters than was appropriate for their markets. But bankers were also surprised to find retailers undecided about the merits of charge account banking and not always eager to support the banks’ profit ambitions. Bankers tried to convince merchants that offering credit would increase their average sales over-and-above the cost of the discount, but many merchants were still not interested. “Strange as it may seem,” Franklin Square’s Donohue remarked, “the merchant requires a good deal of education in this program.”

One problem for banks was that the merchant was getting a good deal of education from their trade publications, but not of a character favorable to banks. “Granting credit on credit cards issued by others is a mistake,” Credit World editor L. S. Crowder bluntly warned his readers in September 1953, as banks rushed into the charge account field. A.L. Trotta, manager of the National Retail Dry Goods Association’s Credit Management Division, was more ambivalent, but emphasized in the Association’s magazine, Stores, that the fees charged by banks were significantly higher than the cost of managing an in-house credit department, which for efficient department stores cost about 2 percent of charge volume versus the banks’ 5 percent discount. Bankers, of course, disputed these figures. For merchants without existing credit departments, a bank’s charge plan might be an appealing alternative to the initial investment in equipment and personnel. But the merchant would need to promote charge sales, Trotta warned, turning a cash sale into a 5 percent markup.

High merchant discounts also tended to restrict the types of retailers banks could target for charge account services to those who in turn charged a high markup on their merchandise that could absorb the cost of credit. Men and women’s clothing and shoe stores, which competed

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49 Donohue, “Charge Account Financing by Banks.”
directly against expanding department stores, were obvious targets. Drug stores and hardware stores also often joined charge account plans, as well as gas and service stations. Florists and photographers too were often represented, as well as optometrists and dentists. In some small towns, local department stores also joined charge account plans, but they often negotiated much lower merchant discounts, giving the bank high sales volume but little added revenue.  

More often, department stores, with their own established credit plans, were unlikely prospects for charge account banking, as were discount stores that offered low prices and no credit. Grocers, especially supermarkets that also sold on low margins, were also unlikely to adopt bank card plans in the 1950s. An in-depth analysis performed by the Department of Agriculture in 1960 suggested that the first grocery store to join a bank plan in a city might increase its profit if the store pulled sufficient business away from its competitors. This opportunity for profit, however, would likely pull in all the city’s other grocers. The benefits of gaining new customers would be eliminated, and all the grocers would be stuck paying high merchant discounts to banks, costs that would either subtract from profits or lead to higher consumer prices. This was exactly the kind of credit trap retailers were eager to avoid.

High costs were just one reason retailers resisted charge account programs: They also worried about banks intervening in their relationships with their customers. Instead of returning to the store each month to settle their accounts, and perhaps make more purchases, customers paid off their charge accounts at the bank or by mail, costing the smaller store valuable foot traffic. Merchants also feared that by sending their accounts to the bank, they would lose their customers to competitors who also adopted the bank’s charge plan. Some banks, like Marine Midland, a banking group in upstate New York, tried to counter this fear by

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initially enrolling only one type of retailer in a particular location, like a new shopping plaza. Some merchants took matters into their own hands, sending their more troublesome credit accounts to the bank, while keeping their prompt-paying customers for themselves.\(^{53}\)

Throughout the 1950s, the retail trade press remained suspicious of bankers’ retail credit plans, and many of the concerns expressed when banks rushed into the field in 1953 continued to be repeated throughout the decade. The same spirit of independent proprietorship that fueled retailers’ impulse toward anti-monopoly also led them to resist what one writer in the retail publication *Women’s Wear Daily* called banks’ “long-range...campaign to establish themselves as the principal source for all types of credit.”\(^{54}\)

In spite of these on-going tensions, banks were nevertheless successful at convincing merchants to join their plans. According to Otto Lorenz’s *American Banker* reports, between June 1953 and November 1958, the number of merchants accepting bank charge plans rose from 5,000 to 12,000, or from about 170 to about 360 merchants for each reporting bank. Merchants wanted to be able to offer credit, and although charge account banking had drawbacks, these plans allowed merchants to participate in the expansion of the private credit economy without investing heavily in the infrastructure necessary to do so on their own. The plans also made good on their promises to unite merchants into local shopping communities, a process often manifested in the spatial strategies banks adopted to serve their specific local markets.\(^{55}\)

Some charge account plans were geared toward preserving and revitalizing downtown shopping. As we saw with the early Bayshore plan, many banks sought to unify Main-Street merchants into a “hometown department store” linked by the bank’s credit plan. Of the 74 merchants listed in the directory of the Industrial Savings and Trust or Muncie, Indiana with


\(^{55}\) *American Banker* Charge Account Banking Index.
identifiable locations, 54 were clustered within four blocks of the main downtown intersection, where the bank too had its offices. At the same time, other banks adopted a suburban strategy for their charge account plans. Merchants who moved into the nation's gleaming new shopping centers were often short on capital, and funding consumer credit was an unwelcome burden. Bank charge plans allowed these merchants to band together and create shopping center-wide credit services for their customers. Charge account plans that emphasized suburban shopping, however, threatened downtown merchants, as one *Credit World* author frantically warned: “banks all over the country are sponsoring new consolidated ‘charge account’ services, the single purpose of which is to *get people to buy in the neighborhood* instead of going ‘downtown.’” In September 1954, Otto Lorenz found that 56 percent of charge account programs were primarily downtown, 30 percent were in suburban shopping communities, and only 14 percent were divided between the two. We cannot draw extensive conclusions from this limited sample—only 36 banks in all—and it is likely that this geographic division broke down over time as the programs grew to include more merchants. Still, it suggests that charge account banking was flexible and could be adapted to different retail environments, even as, like the banking industry more broadly, the service was geographically confined by regulation.56

And geography was not an insurmountable barrier. In a preview of later networking strategies adopted by banks in the 1960s, some charge account bankers experimented with *interchange*, where banks in communities separated by geographic regulations participated in the same card plan. The first interchange system originated in 1955 when five small banks in

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56 William F. Hoffman, “The Experience of Industrial Trust and Savings Bank in the Field of Charge Account Banking,” (MA Thesis, Ball State Teachers College, 1959), 105-107; A. J. Wood, “A Charge Customer Is Worth Nearly Four Times as Much as a Cash Customer,” *Credit World*, (December 1953). In FPRA 1959 Yearbook, Robert H. Wilson of Girard Trust and Corn Exchange Bank of Philadelphia, in “Charge Account Banking – Advantages and Disadvantages,” writes: In Developing our Charge-Rite business we have not tried to promote it aggressively in the central downtown shopping and business district. For the most part we have concentrated this promotion among selected retail merchants in the outlying neighborhoods of the city and in the suburbs (98).” In FRRA 1966, Clarence Mead (Security Bank, Lincoln Park, MI) (203), in “Credit Cards on Main Street,” discusses his bank’s experience (dating to 1953) expanding their program beyond their perceived territory (MI only allows banks to branch in a 25 mile radium) with the expansion of shopping centers (204-205); “Almost 1,000 New Stores Join Charge Account Bank Plans Since June 1954 – Total Now 8,905,” *American Banker*, 29 October 1954, p. 10.
rural Michigan approached the larger Citizens Commercial & Savings Bank of Flint, which operated a charge account plan called “Charge-O-Matic.” As a Citizens executive explained to *American Banker* in May 1966, the smaller banks wanted to offer charge account plans in their towns, but feared they would not be able to generate the necessary volume to make the plans profitable. Citizens Commercial had long-standing correspondent banking relationships with the banks, and its executives, sensing an opportunity to profitably deepen these ties, devised a cooperative interchange system that would enable them to offer charge accounts in their communities. First, the small banks recruited merchants in their towns, and the merchants in turn recommend consumers to participate in the plan. The small correspondent banks—later called agent banks—then handled the merchant side of the business, collecting charge slips each day, taking floor limit calls, and crediting merchant accounts for consumer purchases. Merchants, in turn, opened checking accounts with their local agent bank, and the agent bank also earned a portion of the merchant discount on each local charge account transaction. Citizens Commercial handled the consumer side, collecting the consolidated merchant slips from each small bank, billing the consumers, and retaining the interest they paid on their accounts. “Will it work?” the Citizens Commercial executive asked rhetorically. In May 1956, “it [was] a little too soon to know.”

The banks that experimented with “correspondent charge account plans” in the 1950s did so to capitalize on their investments in managerial expertise and credit processing equipment and to expand the geographic reach of their plans beyond their immediate markets. For instance, both Citizens Commercial and the First National Bank and Trust of Kalamazoo, which began the second such plan in 1957, were located in Michigan, a state that limited branch banking to within a 25 mile radius of a bank’s primary office. Correspondent plans incorporated

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57 Charles E. Groover, “Citizens Commercial, Flint, Mich., Offers New Service To Correspondent Banks; Based on Charge Account Banking,” *American Banker*, May 29, 1956, p. 7. It is probably not a coincidence that this narrative structure matches the origin story told by Franklin National, which started its charge account program when it was approached by merchants who wanted to offer charge account services.
merchants and consumers from outside the card-issuing banks’ geographically restricted market areas, increasing transaction volume and lowering individual transaction costs. Still, bankers were careful to root their correspondent plans within their agent banks’ communities, relying on cross-branding to ensure that the agent bank was the prominent local face of the plan in their markets. While Citizens Commercial claimed its plan covered a 100-mile radius, in the small towns serviced by Charge-O-Matic, the program’s emblem carried the agent bank’s name in bold letters. Cardholders also received their Charge-O-Matic cards in a letter from the agent bank. The small community banks thus maintained local relationships with merchants and consumers, and added income as well.⁵⁸

Figure 4: Note the co-branding, where both First Security Bank, the smaller firm, and Citizens Commercial, the larger, are listed on the decal.


⁵⁸ “Second Correspondent Charge Account Plan Successful, First NB&T, Kalamazoo, States.” AB, May 1, 1959.
The Consumer Question

Although bankers had a strong sense of the spatial dimensions of their markets and how they would serve the need of merchants, they were slow to grapple with and understand the place of consumers within their charge account plans. We now think of card-issuing banks as intermediating between cardholders and merchants, in the same way they intermediate between depositors and borrowers: They help connect one to the other. In the 1950s, banks did not yet see the credit-card relationship this way. Instead, charge account plans ran directly through merchants. Banks relied on their merchant partners to promote charge account banking to their customers. Enrolling consumers was the first step, illustrated above by a cartoon promoting the First National Bank and Trust of Kalamazoo’s Charge Account Service (Figure 2). Mrs. Smith, who feels a charge account would be “more convenient” than cash, approaches a shopkeeper who mediates the entire process of enrolling in the bank’s charge account program. And banks’ reliance on merchants did not end there: At every subsequent transaction when the consumer chose between cash, check, or credit, bankers needed merchants to promote their plans.59

Merchant discretion was an enduring problem for charge account bankers. Marine Midland Bank group executive Douglas A. Freeth, in a lengthy memo, “What’s Wrong with Midland Charge Plan?,” confronted it directly. Five of Marine Midland’s subsidiary banks had adopted charge account banking in the 1950s, and all were losing money. For Freeth, “the heart of the whole problem” was “the host of merchants, of all sizes, who do not realize the value of credit selling or know how to accomplish it.” Without sufficient merchant buy-in, the Midland banks could not generate enough sales volume to cover their fixed costs. To increase charge volume, bank personnel had to sell merchants on the virtues of the Midland Charge plan and convince merchants to sell charge accounts to consumers. “We need to stimulate, through

merchants, more card holders and increased card usage," Freeth concluded. “Such a result will not just happen. It must be **made** to happen—by selling—hard!” This sentiment was echoed by other charge account bankers, who throughout the 1950s uniformly argued that bankers needed to convince merchants to sell on credit, not convince consumers to buy. One New Jersey bank even hosted a sales training seminar for its charge plan merchants.60

Bankers’ understanding of the role of merchants was a direct reflection of how banks understood consumers. First, because bankers crafted their charge account plans to help merchants in their communities, they were often unable to see consumers as individuals they could sell to directly. While they imagined using charge account plans to gain new merchant customers, in the 1950s bankers seldom discussed how charge accounts could lead to new consumer deposits or generate new consumer loans. This blind spot is not surprising, since in their other lines of consumer credit, most banks tended to work through intermediaries, such as car dealers for auto loans, instead of selling credit directly to consumers. In a larger sense, most 1950s bankers did not feel that they could make an all-out direct pitch to consumers. As Freeth concluded in his report, “an individual’s attitude toward debt and his paying habits are not easily predetermined or readily changed.” Other bank card promoters agreed. Recall Edward Donohue’s exhortation that “we could not change habits.” Instead bankers needed to build their charge account plan on the relationships that already existed between consumers and merchants, and merchants and the bank.61

Bankers were trying not to interfere with their merchants’ relationships with consumers, but the constructed identity of their ideal charge account customers—Mrs. Housewife—also influenced bankers’ approach to customer solicitation. Bank offices were largely male spaces and

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61 D. A. Freeth, “What’s Wrong with Midland Charge Plan;” Donohue, “Charge Account Financing by Banks;”
charge account banking was self-consciously a “fraternity.” Bank executives worked within a hierarchy of social and gender divisions that made men comfortable, where merchants and bank tellers served female customers, while bankers dealt with other men.62

Still, just because bankers did not feel they could solicit consumer participation directly did not mean that consumers were not active agents in the growth of charge account banking. After all, it was the desire by small merchants to meet the demands of their customers for credit facilities that drove the development of charge account banking in the first place. And so long as consumers were borrowing while the retailer paid the interest—so long as the costs of the system remained hidden from consumers through a pricing mechanism that weighed heavily on merchants—consumers continued to pressure retailers to take their new bank cards. For Pan American Bank in Miami, “each customer [was] an ambassador of good will and usually demand[ed] new merchants...inquire and join this service.” Merchants, though, did not always appreciate this consumer arm-twisting. As Raymond Alm, a Marine Midland executive working independently of D. A. Freeth discovered after surveying his bank’s merchant partners, “Most of these merchants did not need (or desire) this bank service, but joined the plan in order to retain present customers who might wish to use the bank charge card in their stores.” 63

Bankers did increasingly rely on consumer interest payments to produce revenue, slowly adopting revolving credit features that allowed consumers to carry their purchases over time by paying an interest charge on their outstanding monthly balances. In October 1953, Lorenz reported that only a fifth of charge account bank plans incorporated revolving credit, “surely an omission of major magnitude.” As charge account bankers gained more experience, and reported this experience to Lorenz, he urged bankers that were not matching their peers in

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62 Dorothy Crook, “The Value of a Woman’s Department: Changed Conditions of the ‘30s Types of Departments Future of the Women’s Department Public Relations Value,” Bankers’ Magazine (1896-1943) 140, no. 6 (June 1940): 490. TK stats on male/female executives.
terms of income and profits to adopt revolving credit “both as a means of increasing volume and as another source of valuable income.” His advice was often very direct: “We would recommend a careful study of No. (17),” a bank employing revolving credit, “to Bank No. (19),” a bank which did not, “where additional income is obviously very much needed.” By August 1958, nearly 60 percent of charge account banking plans would incorporate revolving credit.

Bankers, though, were not sure how to talk about or promote this credit feature, because, as Raymond Alm found, consumers still had significant reservations about retail credit. In addition to surveying Marine Midland’s merchant customers, Alm also surveyed the bank’s inactive cardholders “to determine their reaction to the charge plan and their reasons for not using this service more often.” Alm was struck by a paradox. He found that 31.2 percent of inactive cardholders claimed they did not like to use credit, while only 9.8 percent reported they did not use charge accounts. Alm considered this “an obvious inconsistency.” Was it? Perhaps, consumers in the throes of postwar abundance chafed at the insecurities caused by credit use and attendant indebtedness, or were still culturally predisposed to abhor what in practice was a typical feature of modern economic life. For Alm and his Marine Midland Bank, the solution to this consumer resistance was simply to not talk about credit. “The economy and convenience of only one bill a month should be emphasized,” Alm wrote, “Thus creating the image that the bank is performing a billing service, not a credit service.” To affect this image, Marine Midland renamed their Midland Shopper Credit Service the Midland Charge Plan. Other Charge Account Banks had long been doing the same thing.64

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Figure 5: This dense Ad for the Midland Shoppers Charge Plan has it all.

Conclusion: An Accounting

In 1958, Bank of America and Chase Manhattan Bank, the first and second largest banks in the United States, entered the charge account business. Chase pursued a merchant-focused strategy in New York City. Bank of America, which operated a state-wide branch network in California and had long pursued consumer-focused banking, instead bypassed merchants and mailed millions of unsolicited credit cards to its current customers. As Timothy Wolters observed in his study of Bank of America and Chase Manhattan’s card plans, while Bank of America and Chase both suffered large and unexpected losses, Bank of America allocated many program expenses to other divisions of the firm, making the plan appear profitable after only a few years. On the other hand, Chase Manhattan’s rigorous accounting convinced its executives that early losses would only get worse. They quickly fled the business. Wolters concluded that for Bank of America, concealing costs likely allowed cards time to find their market and succeed. By the mid-1960s, the banking industry was eager to follow Bank of America’s lead. In doing so, bankers adopted their framing of the two-sided market problem, shifting the emphasis from merchants to consumers.65

When Chase and Bank of America started their plans in 1958, Otto Lorenz was deluged by eager bankers asking if they, too, should go into charge account banking; and, more importantly, why so many banks had dropped out of the business over the past few years. A narrative of failure was developing, and Lorenz set out to quash it. Early charge account programs had certainly encountered pitfalls, Lorenz conceded. Some failed to promote their plans or promoted them too lavishly, others overbought equipment and supplies or recruited the wrong personnel. “Charge account banking isn’t a job for a namby-pamby weak sister,” Lorenz explained, but a “battle” that “takes guts” and “courage.” And the results were there for all to see. Over the half-decade that banks had reported their charge account statistics to American

Banker, total cardholders increased from 227,000 in June 1953 to 716,600 in November 1958. Quarterly charge volume rose from $4,482,000 for the first quarter of 1954 (the first for which these statistics are available), to $13,507,900 for the fourth quarter in 1958. These figures were still small in the scheme of the postwar credit economy, but for the banks involved, most of which were relatively small, they represented significant gains. More importantly, while most plans had reported losses in 1953 and 1954, by November 1958, 25 of the 30 banks reported profits. “Charge account banking stands on its own feet,” Lorenz concluded. “It is profitable.”

Of course we cannot accept Lorenz’s emphatic assertion at face value. To take one counter example, when Douglas Freeth surveyed Midland’s Shoppers Charge Plan in 1962, it was gushing losses. But, true to Lorenz’s combative spirit, instead of abandoning the business, Midland executives doubled down. Although we do not know what specific corrective measures the bank took, by 1966, Freeth led the consortium of bankers who formed the Interbank Card Association, the nationwide rival to Bank of America’s BankAmericard which, eventually issued cards under the brand Master Charge (not, of course, Master Credit).

In the 1950s, a cohort of bankers developed charge account banking to help their small merchant customers compete with expanding department stores and to chart a path for the banking industry to the heart of retail credit. They did so within the confines of a political economy designed to constrain their firms’ geographic reach, which ultimately enabled them to cooperate and innovate together. Grasping the longer history of charge account banking helps us better understand how the postwar political structure shaped bankers’ business strategies as they sought new ways to profitably underwrite consumer abundance.

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After all, the same postwar political economy also constrained Bank of America, in so far as the bank still could not build branches outside California. When the firm sought to build on its statewide success and develop a national card network in the mid-1960s, its executives adopted the interchange agreements first developed by Citizens Commercial to cross state lines. Even when the BankAmericard went national, however, geographic regulatory restrictions meant that banks who joined the system signed up merchants and issued cards in their communities. Local embeddedness remained an essential feature of bank credit card plans into the 1970s. And bankers continued to judge the success of their plans by the consumer and merchant relationships they generated, not simply by the interest they produced.

Finally, the banks who rushed into the credit card market in the mid-1960s endured losses far beyond anything the charge account bankers experienced. But by the 1960s most bankers believed retail credit was the future of the industry, and card-issuers persevered to profitability (though it would take significant regulatory restructuring to make profits permanent). That future—our present—would have been unrecognizable to G. L. Toole, Otto Lorenz, and Edward Donahue. But they were instrumental to its creation.

<table>
<thead>
<tr>
<th>Banks Reporting</th>
<th>Volume (000)</th>
<th>Outstandings (000)</th>
<th>Number of Stores</th>
<th>Number of Card-Holders (000)</th>
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<tbody>
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Source: *American Banker* Quarterly Charge Account Banking Reports. All figures as reported (no adjustment for inflation).

[With the data in these reports, I can also compile the quarterly figures for individual banks, including a wide variety of figures, from the number of clerks employed by the charge account plan to the percentage they spent on postage. While I am reluctant, for instance, to rewrite this essay focused on one bank (which would be difficult because the individual bank statistics are anonymized—though I have been able to un-anonymize a few), I would like to find ways to utilize this data. Any thoughts?]
Appendix B: Growth of Charge Account Banking, Individual Bank Average (Mean)

<table>
<thead>
<tr>
<th></th>
<th>Annual Charge Volume</th>
<th>Quarterly Charge Volume</th>
<th>Outstandings</th>
<th>Number of Stores</th>
<th>Number of Card-Holders</th>
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</table>

Source: *American Banker* Quarterly Charge Account Banking Reports. All figures as reported (no adjustment for inflation).