

However, the Bank of America started making a profit on its credit cards in 1961; in 1962, its first full year of in-the-black operations, it's believed the bank earned about \$8 million from credit-card business. In 1963 Marine Midland Trust of Western New York got its credit-card plan into the profit column.

When the Bank of America's credit-card plan began to pay off, it was the signal for a number of other banks to enter the field. "I think we all waited to see how the Bank of America would turn out," says a Mellon Bank spokesman here. "When it turned the corner we could see what a well-run program could do." Mellon started its credit-card plan this past summer.

The key to a successful credit card operation appears to be a happy balance that excludes dubious risks but still gets the maximum number of card holders, and most banks make their cards available to any applicant who can pass a credit check, regardless of his income level. In contrast to most national credit cards there is no initial fee.

"We look at the man's credit record and then we make a decision," says P. M. Welch, vice president in charge of consumer credit at Atlanta's Citizens & Southern National Bank, which has issued cards since 1959. "This means we're dipping pretty well into the middle and even some low-income groups."

Holders of bank credit cards are billed once a month. They have the option of paying the whole amount at one time or dividing it into installments.

Besides using bank credit cards to pay bills, holders can use their cards to borrow money up to a specified limit—Pittsburgh's Mellon bank, for example, will automatically lend holders of its cards up to \$350. "It wouldn't pay to lend \$100 or \$200 as a conventional instalment loan, but it works real well with a card," says one bank official.

ATTRACTING NEW ACCOUNTS

Banks charge merchants and others who honor their credit cards discounts ranging from 2% or less to as much as 5%, on each sale. They pay participating businesses over-night for charged sales by crediting an account the business must keep with them; a side benefit of credit-card plans for banks, note bank officials, is that they draw new accounts from businesses, some of whom eventually begin to make use of the banks' other services.

Instalment charges to card holders on unpaid balances average about 1.5% a month, or 18% a year. Bankers estimate that total net earnings on a successful credit-card program work out to over 5% a year on investment; by way of comparison, instalment loans generally net about 3.5% annually on investment.

Banks that issue their own credit cards and the firms that issue national cards maintain they don't seriously compete with each other. But as bank cards catch on it seems inevitable that they will cause trouble for the national cards. United Air Lines now accepts the cards of Mellon National Bank, the Bank of America, Citizens & Southern and Bank of Hawaii, a development that puts the banks' cards into direct competition with national cards for travel business. Moreover, bank and national cards are likely to compete increasingly in restaurant and specialty shop fields.

CUTTING DISCOUNTS

In some areas where banks have aggressively promoted their credit-card plans, national cards already have been forced by the competition to cut their discounts. In California, where the Bank of America has over 1,250,000 cards holders, the national cards were charging discounts of 7% to 10% before the bank's plan started going strong. But they had to drop their discounts to 4% and 5% in order to bring them more in line with the Bank of America's rates. In Phoenix, national cards reduced their discount to 4% from 6% at one large restaurant shortly before Valley National started its credit-card program this year, according to T. L. Larsen, manager of the operation.

Despite the absence of minimum income requirements for holders of their credit cards, most banks say they now have little difficulty with customers' failing to pay up. Banks with credit-card plans usually allow for bad debts equal to 1% of volume on charge cards, but some are hitting well below this figure. Citizens & Southern of Atlanta, for example, says its bad debts on credit cards are running at 0.35% of volume.

For many of the new credit-card holders, the big attraction is convenience. R. J. Klein, a 28-year-old airline clerk in Buffalo, recently bought rubber boots and shotgun shells for a hunting trip, a purchase totaling only \$7.50. "I had the