

September 2009

Dear Clients and Friends:

Here's a trivia question about large public banks. You know, the ones scrambling like mad to pay back their TARP loans, but the government doesn't really want them to. What area of their business operations has historically produced the highest profit margin? You may have guessed the answer, which is "credit cards."

I'm old enough to remember my parents using a Diner's Club card in the 1950's. Before that some department stores and gas stations issued charge cards, but there wasn't any method of payment you could use at a variety of vendors.

The inventor of the credit card was Frank X. McNamara. He came up with the idea in 1949, and over the next year was able to round up 14 restaurants in New York who were willing to accept the paper (not plastic) cards and pay a 7% fee on each transaction. Frank handed out 200 cards, mostly to friends and acquaintances, and by the end of 1950 about 20,000 people were using the Diners Club credit card.

Poor Frank. He thought the whole concept was just a fad, and gladly sold his shares in the company for \$200,000 in 1952. Diners Club continued as the one and only credit card until 1958, when American Express and Bank Americard, now known as VISA, came on the scene.

And today? According to the Federal Reserve's website, as of June 2009 the amount of revolving credit in this country added up to \$917 billion. Yikes! A lot of that is rolling over at interest rates of 18% or more. Frank X. McNamara should have a statue in the Plastic Hall of Fame. Or would a bust be more appropriate?

Regards,



Charles M. Shackelford