

Credit Card History

Credit Learning Center



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The concept of purchasing something on credit isn't a modern concept. People have been doing it for thousands of years. But the way that we do it today with our credit cards is still a very new process. Modern credit cards were not widely issues until about 50 years ago. Way back in the 1890's you can find small traces of the credit card in Europe, but the process didn't take off until decades later in the US.

So which credit card was the first? Was it the American Express or the Discover? Actually it was called a Diner's club card and it began rolling down hill in the 1950's. Technically it was a charge card since the members of the club had to pay their balance in full every month, but it allowed the first wide spread use of credit.

This process was developed in the 1940's by a business man by the name of Frank McNamara. The idea hit him when he realized that after eating his meal he had forgotten his wallet. He decided that there should be another way to pay for something when cash wasn't available. Later he managed to meet up with his Lawyer and proposed the idea of a group of dinners signing up so that members could eat there and then settle up with the bill later.

By the year 1950 McNamara had signed up over 27 dinners in this pact and enrolled 200 of his friends into the program. The program was such a huge success that it took the country by storm. By the end of 1950 there were over 20,000 members of the Dinner Club. The concept was so revolutionary that by 1952 franchises were popping up in other countries. And then in 1955 Western Airlines became the first air carrier to sign on to the pact and accept the card as a form of payment.

And then American Express redefined into the game. Now that is company everyone has heard of and arguably it is one of the oldest lenders in the business. Amex began issuing cards in 1958 for travel and entertainment expenses. American Express held true to the charge card mentality until 1987 when it finally issued a card that allowed members to pay over time, however even today you can find at least half of their cards that hold true to their origins of *payment due in full*.

As this process and idea became more popular other banks began to jump on the bandwagon. In 1959 BankAmericard was brought to life by the Bank of America. This was the first card that allowed the principal to be paid off over a longer amount of time and to be accepted in a much broader area of locations. Then in 1966 Bank of America began forming licensing agreements with other banks that allowed people who belonged to their card the opportunity to charge in other states as well. In 1967 four California banks formed the Western States Bankcard Association and established the MasterCharge program to compete with the new credit program. Eventually this program was renamed MasterCard and the BankAmericard was renamed Visa.

As the trend grew even more popular more and more banks began to sign on, making it possible for even small financial associations to be eligible for the card. Then later laws were passed that allowed banks to belong to not only one but both of the credit associations if they wished. This gave them the opportunity to issue out both cards.

Now that the credit cards were becoming such a popular thing Visa and MasterCard began to design rules and a standardized process that cut down on the fraud and misuse of the cards. Then they developed more systems so that they could track lending between their banks and they created a system of arbiters to



settle debt between disputing members.

In 1981 the Diners Club was bought by Citicorp and a few years later in 1985 Discover surfaced. Discover was originally part of the Sears corporation and they set out to create a brand with its own merchant network. In a heartbeat Discover created the largest independent credit network in the US and they were the first to use promotions like "no annual fees" and "cash back" programs.

Things remained extremely competitive over the years, but Visa and MasterCard had the upper hand considering they practically had a monopoly over the banks. In 2004 American Express, Discover and Wal-Mart initiated a court case against the two giants. After the ruling the banks were allowed to issue any of the cards and it really leveled the playing field.

Through out the decades the credit card industries have continually evolved. Since the market has evened out credit card companies have come out with hundreds of special features and incentives to attract customers. At the rate of evolution there is no way to predict where the credit card companies are going to go next.